engro fertilizers

Analyst Briefing
Full Year 2014
Business Results

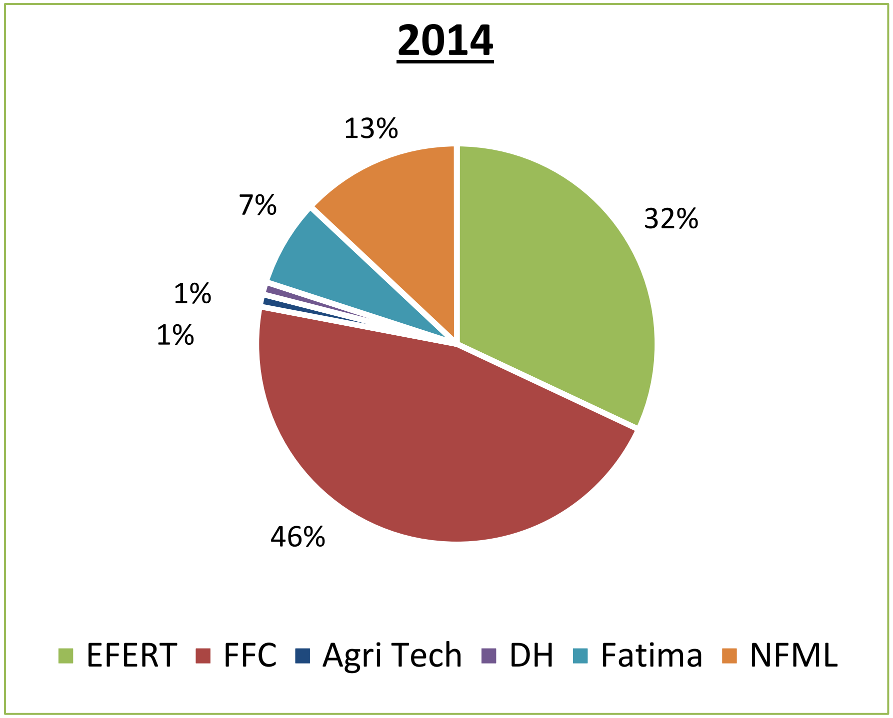
Urea Market Environment

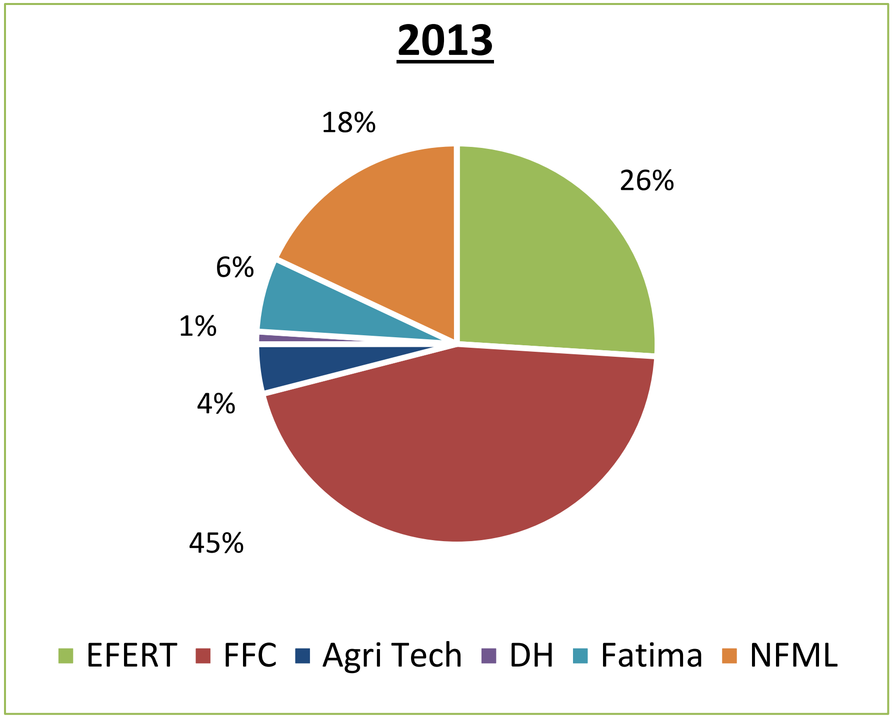
- Domestic urea production rose by 1.3% on a YoY basis in 2014; led by better gas supply
- Overall urea sales slipped by 4.5% YoY in 2014. This was primarily due to lower sales in 2Q and 4Q
  - 2Q sales primarily affected by the price enforcement issue leading to dealer uncertainty on margins
  - 4Q sales down due to poor cotton and rice economics (carryover stock from 3Q) and late sowing of wheat creating a timing difference
- Expected tight supply situation in 4Q was ameliorated by continued diversion of Guddu gas to Engro Fertilizer and timely arrival of imports
- With slightly higher domestic production and lower demand, overall imports remained significantly lower than the preceding year
  - So far 0.3 M tons additional import in the pipeline over the next 3-4 months

Urea Industry (MT)	2014	2013
Opening Inventory	0.3	0.4
Production	4.9	4.8
Imports	0.7	1.0
Sales	5.6	5.9
Closing Inventory	0.2	0.3

Urea Industry (MT)	4Q 2014	4Q 2013
Opening Inventory	0.2	0.2
Production	1.3	1.3
Imports	0.3	0.5
Sales	1.5	1.7
Closing Inventory	0.2	0.3

UREA MARKET ENVIRONMENT

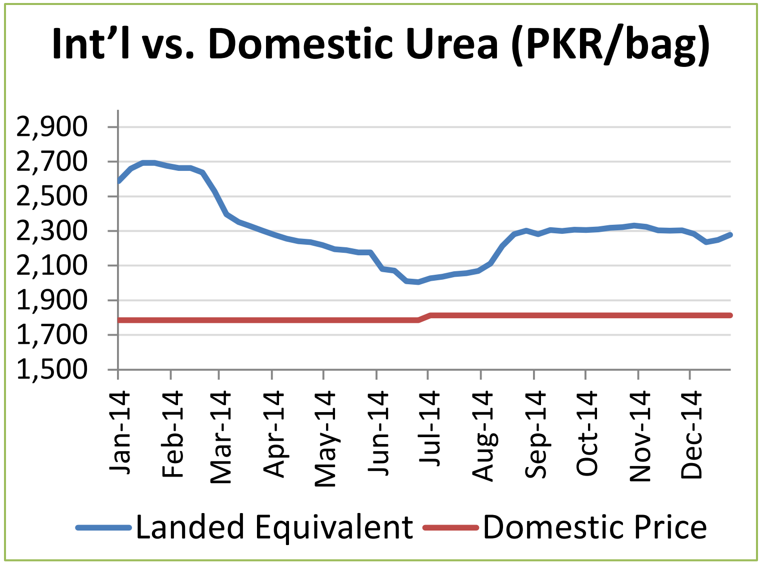


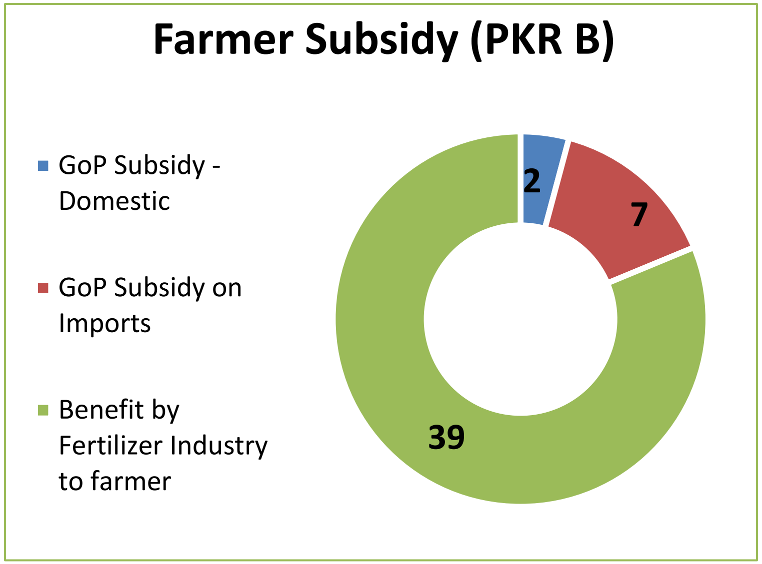


- Market share of imported urea fell amid higher domestic production and farmer / dealer preference for branded urea – branded urea market share at 87% in 2014
- With branded urea inventories nearly depleted, change in market shares mirror changing gas supplies to different players

Urea Market Environment

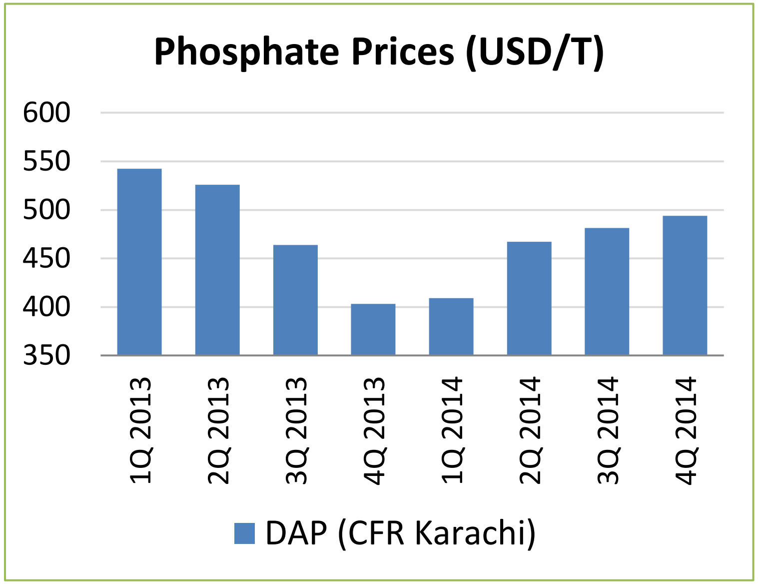
- Int'l urea prices (benchmark China) averaged USD 322/ton (CFR Karachi) in 2014, equivalent to local cost of PKR 2,264/bag vs average local price of PKR 1,793/bag (21% discount)
- Current China price, CFR Karachi stands at USD 322/ton vs a low of USD 282/ton in Jun 2014
- Despite turmoil in the international oil market, the urea market has remained largely unaffected and is stable since August 2014
  - The swing factor for global urea price is China coal-based producers and is expected to remain so
- Local prices remained stable at PKR 1,813/bag in 2H 2014 given stable domestic gas prices
- Benefit passed on by local urea producers to the farmers in 2014 is around PKR 39 B

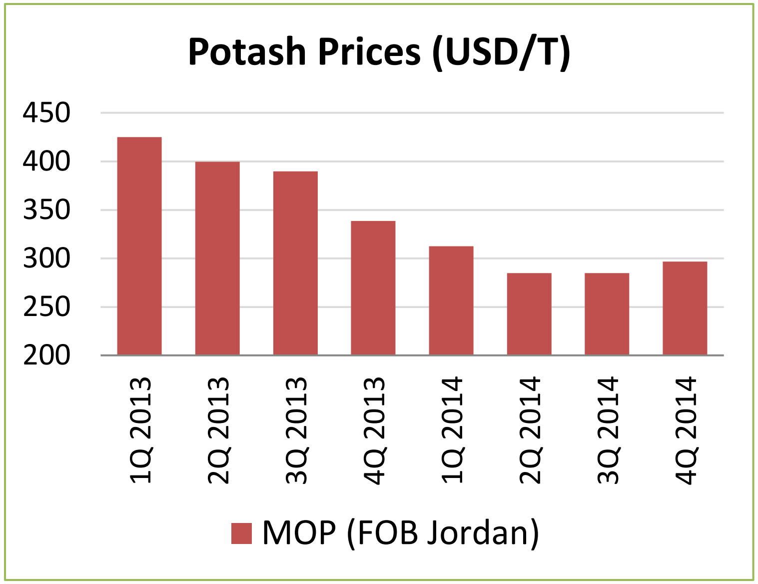




ZARKHEZ MARKET ENVIRONMENT

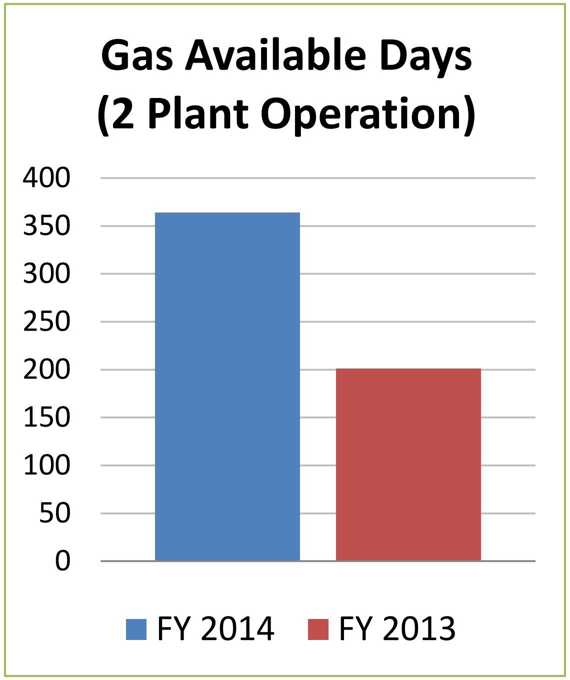
- In 2014 international DAP prices averaged USD 463/Ton (CFR), 4% lower YoY
- MOP prices averaged USD 295/ton (FOB), 24% lower YoY (USD 388/Ton for 2013)
- The domestic DAP market increased by 5% in 2014
- The Potash market grew by 49% YoY due to significantly lower prices
- PKR 14 B subsidy on phosphate and potash fertilizers has not yet materialized and there is little expectation of an early decision
- Given peak season and subdued dealer purchases earlier in the year, the potash industry witnessed accelerated growth in 4Q 2014
- Zarkhez volumes grew by 21% YoY in 2014 while Engro NP volumes grew by 50% YoY in 2014
- Engro Fertilizer launched a new grade of NP 18:18 which has gotten an encouraging response. Annual NP 18:18 sales were 10.9 KT





GAS UPDATE

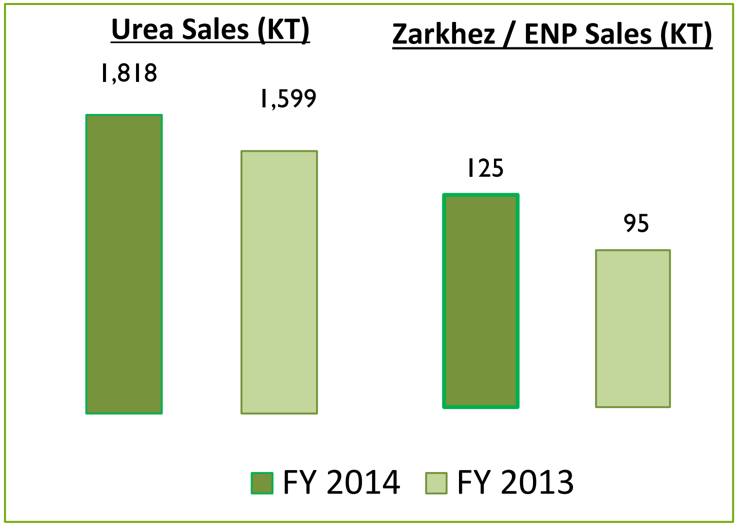
- Both plants operating since July 2013 due to availability of temporary gas from Mari Shallow / Guddu. 2014 was first full year of 2 plant operation
- Engro Fertilizers entered into an agreement with GENCO-II (endorsed by ECC) to install gas compressors for Guddu Power Plant at its own cost
- In lieu of this, it is understood that 60 MMSCFD of Guddu allocation will flow to the company till December 2015
- As of now, implementation of concessionary pricing is pending endorsement by OGRA. Commercial agreements between Engro, Mari and SNPGL complete
- The company maintains stay orders against GIDC with a final decision pending at the courts
- There has been no progress on KPD allocation to fertilizer sector



Business Highlights

- TRIR remained at a low of 0.10
- Engro Fertilizer Ltd 2014 PAT stood at **PKR 8,208 M** vs PKR 5,497 M in 2013
- In 4Q 2014, PAT rose to **PKR 2,697 M** vs PKR 2,136 M in 3Q 2014 and PKR 2,264 M in the corresponding quarter last year
- The company announced its first cash dividend of PKR 3/share alongside 2014 full year results
- Profitability led by higher production/sales and lower financial cost, partly offset by higher gas cost
- 2014 urea production was 1,819 KT (+16% YoY) due to continuous operation of both urea plants
- 2014 urea sales were 14% higher on a YoY basis at 1,818 KT which increased the company's urea market share to 32% (from 26% a year prior)

Engro Fertilizers	2014	2013
Revenue (PKR B)	61.4	50.1
Gross Profit (PKR B)	22.6	22.1
PAT (PKR B)	8.2	5.5
EPS (PKR)	6.29	4.66

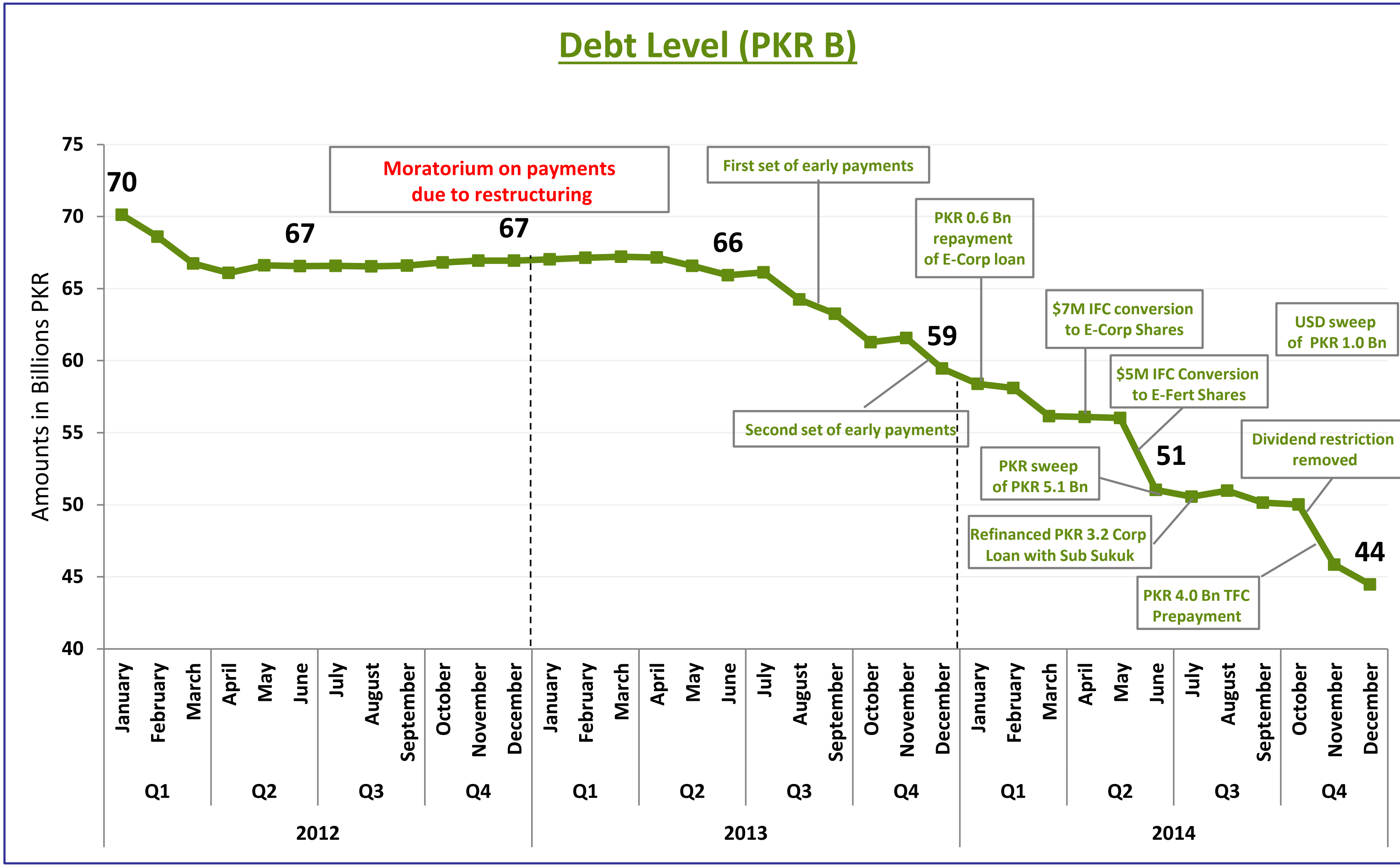


FINANCIAL HIGHLIGHTS

Financials (PKR M)	2014	2013
Sales (KT)	1,818	1,599
Revenue	61,425	50,129
COGS	(38,822)	(28,008)
Gross Profit	22,603	22,121
SG&A	(5,213)	(4,112)
Financial/Other Charges	(7,943)	(10,776)
Other Income	2,449	1,151
Profit Before Tax	11,895	8,384
Income Tax	(3,687)	(2,887)
Profit After Tax	8,208	5,497
EPS (PKR)	6.29	4.66

- 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 and lower interest rates
- Higher Other Income due to improved liquidity

DELEVERAGING



OUTLOOK

- 2015 global urea demand likely to remain steady; supply expected to trend higher, with (1) new capacity coming up in Algeria and Egypt and (2) change in China's export regime
- Global urea prices expected to remain stable in 1H 2015 and could dip somewhat in 2H 2015 as supply additions ramp up
- Local urea demand for 2015 expected to remain stable, even though farmer income on rice and cotton has taken a dip in 2014. Gas curtailment issues likely to continue in 2015; hence fertilizer industry will continue to face challenges due to intermittent supply
- Given limitation on domestic production, local urea producers should be able to sell all they produce. Imports needed to meet the gap between local production and demand
- The Company is pursuing implementation of the ECC's approval (Jan 2014) for provision of Mari gas at the concessionary rate. Implementation of this decision is expected shortly
- In lieu of installing compressors for Guddu Power Plant, ECC has communicated that the temporary gas allocation of 60 MMSCFD will remain will EFERT till year end 2015


Q & A
Thank You