



Press Release

Engro Plant Contractually and Legally Obligated to Get Gas at Concessionary Prices

Karachi, December 13: Engro Fertilizers Limited is contractually obligated to receive uninterrupted gas for 20 years and at concessionary prices for 10 years as per the Gas Sales Agreement (GSA) it signed with the Government of Pakistan for setting up the world's largest urea train plant.

In December 2006 under "Fertilizer policy 2001" the Government invited bids for allocation of 100mmscfd gas to enhance local urea production and to reduce reliance on imports. This was the first time that gas was allocated through an international competitive bid and Engro Fertilizers was awarded this gas in a transparent and competitive bidding process involving four local and international parties.

Engro Fertilizers invested **\$1.1 billion**, the largest private investment ever in the history of Pakistan, on the commitment of the Government of Pakistan for guaranteed gas on an uninterrupted basis for Engro Enven, its state-of-the-art plant which was established in 2010 and is the world's largest single train urea plant. The terms of GSA were agreed upon prior to the bidding process and have not been changed in any way since. Under the GSA, the obligation to provide 100mmscfd is absolute.

However, in April 2010 the country started facing gas shortages which resulted in gas curtailment to the fertilizer industry. Due to low priority given to the fertilizer sector in this gas deficit scenario, Engro Enven only received gas for 189 days in 2011 and 45 days in 2012. Engro Fertilizers suffered severely with a combined margin loss of Rs.45 billion in 2011-12 and also reported a pre-tax loss of Rs.3.9 billion during 2012. The company was forced to approach its lenders to re-profile its long term obligations, as the company was in danger of facing bankruptcy. Engro Fertilizers has filed a claim of Rs53.63 billion as of April 2013 against Sui Northern Gas Pipelines Limited (SNGPL) due to losses from gas curtailment, and this claim increases by Rs2.5-3.0 billion for each month till gas is restored.

In October 2011, the Sindh High Court ordered the immediate restoration of gas to Engro Fertilizers under the contract upholding the sovereign guarantee and the GSA but this decision was not implemented.

Because the supply of gas by SNGPL was intermittent, the benefit of concessionary priced gas was unable to be passed onto Engro. Hence, a proposal was made that would allow Engro's new plant to get the concessionary price by using the company's old plant's gas, which SNGPL would buy from Mari Gas and supply to Engro. Engro Fertilizers benefit under this scheme is lower than that stipulated in the GSA, as the concessionary gas volume is lower than in the original contract.



It must be noted that being allocated gas on concessionary prices is not unique to Engro Fertilizers and such contracts have been honored five times in Pakistan's fertilizer industry, with Fatima Fertilizers currently being provided with gas for 20 years and for 10 years on a concessionary basis.

Contrary to what is being portrayed in certain sections of the media, the pricing of gas for Mari Gas is the domain of the Ministry of Petroleum as per OGRA rules. If the current proposed scheme of pricing is followed the revenue lost to the government through Mari would be made up through the revenue increase to SNGPL (through lower gas purchase price).

Using Enven as a production site is beneficial for the entire country as Enven is the most energy efficient plant of its size and capacity, with the lowest gas consumption per ton of urea in Pakistan. If production capacity runs at 1.3 million tons and prices remaining at current levels, the GOP will save around Rs. 20 billion in the form of subsidy and around Rs. 43 billion in the form of foreign exchange outflows every year. With an outflow of massive foreign exchange in the form of imports of plant and machinery during construction, the benefit of the plant being functional is not being realized in the form of reduced subsidy savings on imported urea and savings in foreign exchange.

Engro Corporation's goal has always been the betterment of Pakistan and remains committed to developing and improving Pakistan's agricultural sector.

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About Engro Fertilizers Limited: Engro Fertilizers Limited is a wholly owned subsidiary of Engro Corporation and a renowned name in Pakistan's fertilizer industry. Engro holds a vast, nationwide production and marketing infrastructure and produces leading fertilizer brands optimized for local cultivation needs and demand. Engro is also a leading importer and seller of Phosphate products, which are marketed extensively across Pakistan as phosphatic fertilizers