



engro corp

May 7, 2014

Mr. Muhammad Ghufraan
Deputy General Manager
Karachi Stock Exchange Limited
Karachi

RE: Further Issue of Ordinary Capital without Right Offer

Dear Sir,

Refer to your letter KSE/C-297-2933 dated April 29, 2014 seeking clarification on issuance of Company's shares to International Finance Corporation (IFC), whereas the IFC loan was transferred to Engro Fertilizers Limited as a consequence of de-merger.

We wish to draw your attention to the Notice of Extraordinary General Meeting of the Company held on November 27, 2009 (copy enclosed) whereby the shareholders' approval for the option granted to IFC to convert Tranche A of its loan to the Company amounting to USD 15 million into ordinary shares of the Company was taken. As per the statement u/s 160 of the Companies Ordinance, 1984 annexed to the notice, the reason for the grant of the conversion option was that it was one of the main conditions for the grant of the loan by IFC. The loan amount was required by the Company for funding its and its group companies' needs for their businesses, including for imports of machinery and other equipment. Due to the many expansion projects undertaken by the Company and its group companies and the financing facilities already availed for such projects, further borrowing needs of the Company were constrained as senior lenders have first ranking security over the Company's assets and limits have been placed by them on further debt that can be taken and which would be entitled to share the security pari passu with the senior lenders. Consequently the offer by IFC of a subordinated loan was attractive as it enabled the Company to obtain further funds and as the loan was subordinated in terms of payment and security to the other debt obligations of the Company, the other lenders' interests in terms of security were not being diluted. The quid pro quo was the grant of the conversion option for Tranche A of the loan amount.

Tranche A for USD 15 million and Tranche B for USD 35 million were fully disbursed as at December 31, 2009 and were transferred to Engro Fertilizers Limited under the Scheme of Demerger effective January 01, 2010. However, the option given to convert the Tranche A loan amount of USD 15 million remained upon the Company owing to the reason mentioned in preceding paragraph. The said arrangement has been fully disclosed in detail in the Company's annual audited financial statements for FY 2010, 2011, 2012 and 2013.

We hope that the above clarifies the matter.

X
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