

Date: 04th September 2006

Nagarjuna Fertilizers and Chemicals Limited
Nagarjuna Road,
Kakinada - 533 003,
India.

Attn: Mr. R.D. Mall, Vice President (Operations)

Sub: Engagement Letter - Climate Change Advisory Services

Dear Sir,

This letter will confirm Ernst & Young Pvt Ltd's ("E&Y") engagement to act as advisor to Nagarjuna Fertilizers and Chemicals Limited regarding matters related to Kyoto Protocol under United Nations Framework Convention on Climate Change (UNFCCC). This letter shall constitute an engagement agreement ("*the Agreement*") between Nagarjuna Fertilizers and Chemicals Limited ("*the Company*") and E&Y and sets out our understanding of the services you require us to provide. The Supplemental Terms and Conditions (Annexure-1) and Dispute Resolution Procedures (Annexure 2), provide further details of our respective responsibilities and form part of this engagement letter.

1.0 Introduction

The Company has informed E&Y that they propose to undertake a greenhouse gas abatement project through efficiency improvement of gas turbine cycle of the existing frame V gas turbine by steam injection and change of drive (from steam to electricity) of cooling water pumps. The project is expected to be commissioned in May 2007.

The Company hereby appoints E&Y to assist the Company in getting the potential benefits of the GHG abatement project under the Clean Development Mechanism (CDM) of the Kyoto Protocol.

2.0 Scope of Services

Scope of services of E&Y is detailed below in this section.

2.1 Preparation of Project Idea Note (PIN)

The PIN document will test in brief suitability of the project as a CDM project. E&Y will assist in preparation of the PIN document which will be delivered to the Company.

2.2 Preparation of PDD

E&Y would assist the Company to prepare Project Design Document (PDD) based on the guidelines of the United Nations Framework Convention on Climate Change (UNFCCC). The Company would provide E&Y all the technical information/data required for preparing the PDD. Following documents would be prepared:

2.2.1 Baseline Study

E&Y would assist the Company in preparing baseline document as per the requirements of UNFCCC. The baseline study will cover issues like additionality, leakage and MS Excel based calculation for the emission reductions. The company will provide all supporting information to determine the project activity is additional through investment analysis and/or barrier analysis.