



# **Engro Polymer and Chemicals Limited**

## **2009 Business Results**

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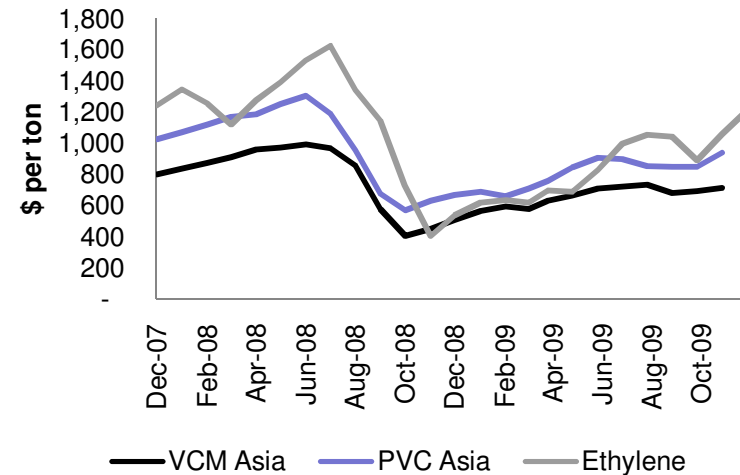
**February 10<sup>th</sup>, 2010**

# Market Environment in 2009

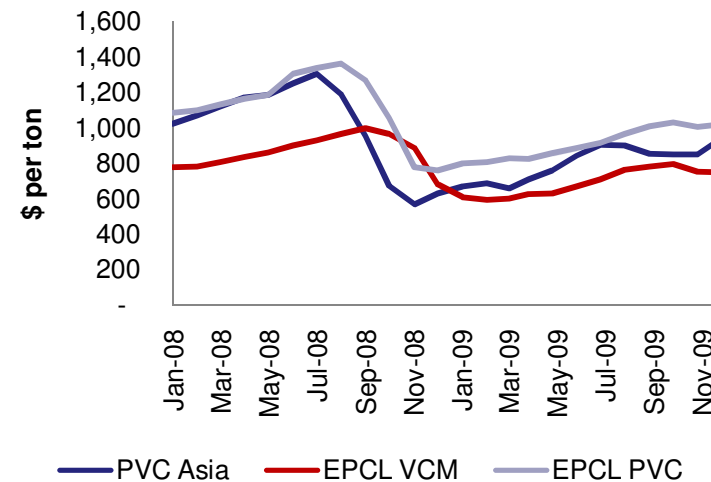
## PVC

- International PVC and VCM prices continued their recovery in 2H09 pushed mainly by higher ethylene prices.
- Ethylene prices have soared recently on account of tight supply demand balance in the international market.
- EPCL continued to increase domestic prices in line with international prices.

Asian PVC, VCM & Ethylene prices



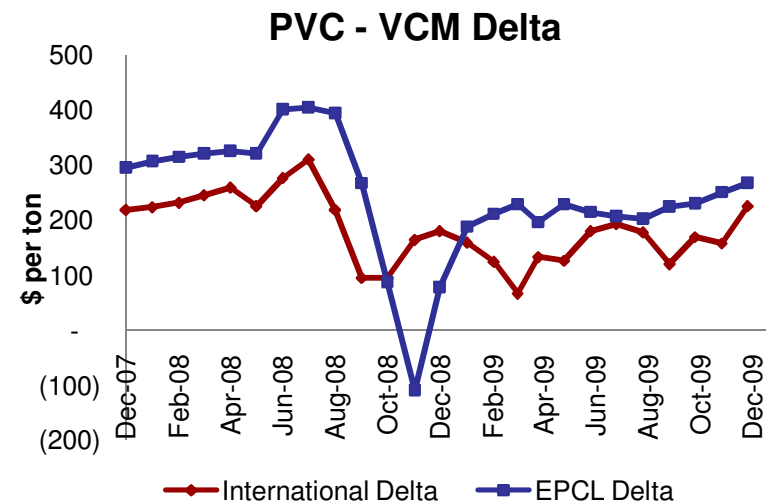
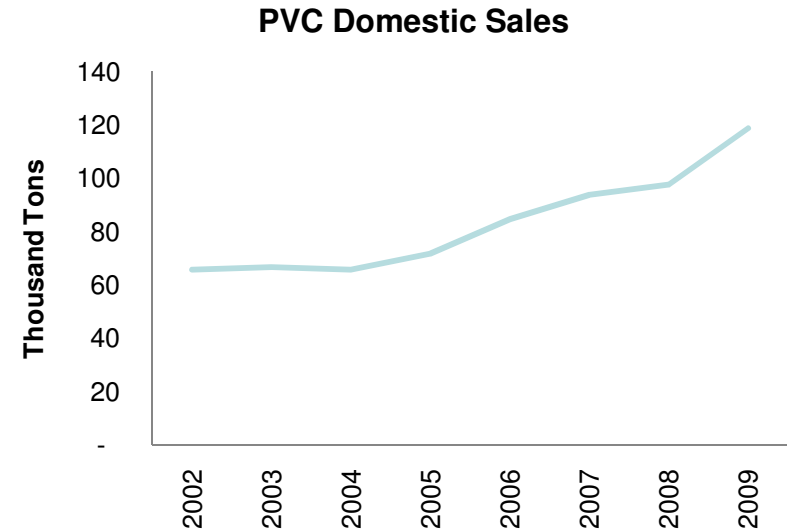
Asian PVC, EPCL PVC & VCM



# Market Environment in 2009

## PVC

- PVC domestic demand showed growth after being sluggish in 4Q 2008
- Recorded highest ever domestic sales showing growth of more than 20% due to:
  - Strong demand from Government projects,
  - Increased usage of PVC pipes in agricultural sector, and
  - Export of pipes and fittings to Afghanistan
- EPCL PVC – VCM margin improved during the second half of 2009 due to improvement in international PVC prices.
- GoP announced restrictions on the imports of PVC scrap.



# Market Environment in 2009

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## Caustic Soda

- Successful launch of caustic soda. 32kt of caustic sold in domestic market.
- Company demonstrated ability to sell whatever is produced
- EPCL's focus remained on the Southern region due to competitive advantage (logistics, price, distribution network)
- There has not been any price war in South
- EPCL sold surplus product in the North
- 2kt exported to India in early December
- EPCL changed payment terms of the sector

## EDC

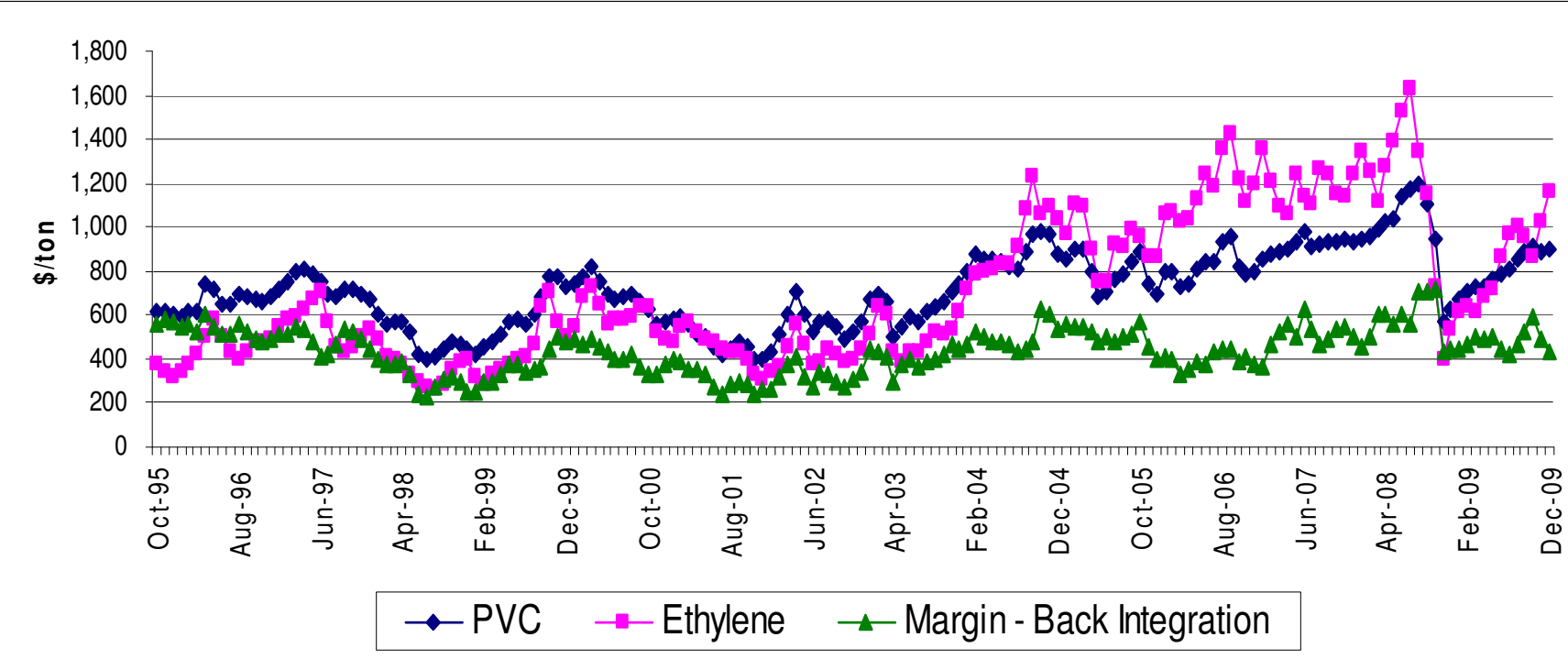
- 32kt of EDC exported in 2009 due to delay in VCM plant commissioning.
- Major export destination was China and South East Asia

# Business Model

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- Integrated margins remain close to margins assumed in feasibility study.
- All plants except VCM came in commercial production in 2009.
- Surplus EDC exported in 2009 due to delay in VCM plant commissioning
- VCM continued to be imported due to unavailability of inhouse VCM
- PVC domestic sales in 2009 were the highest ever in company's history
- Caustic soda was successfully launched in mid 2009.
- Surplus power sold to KESC from end of August 2009. 9 MW sold during 2009.

# Back Integration & Historical PVC-Ethylene Delta



Moving Averages	Project Assumptions	5 yr	3 yr	1 yr	Nov-09	Dec-09
(\$/ton)						
PVC	750	863	899	803	889	900
Ethylene	800	1,053	1,057	739	1,027	1,161
NaOH CIF	246	334	362	360	347	340
Domestic Margin	468	493	521	481	487	430

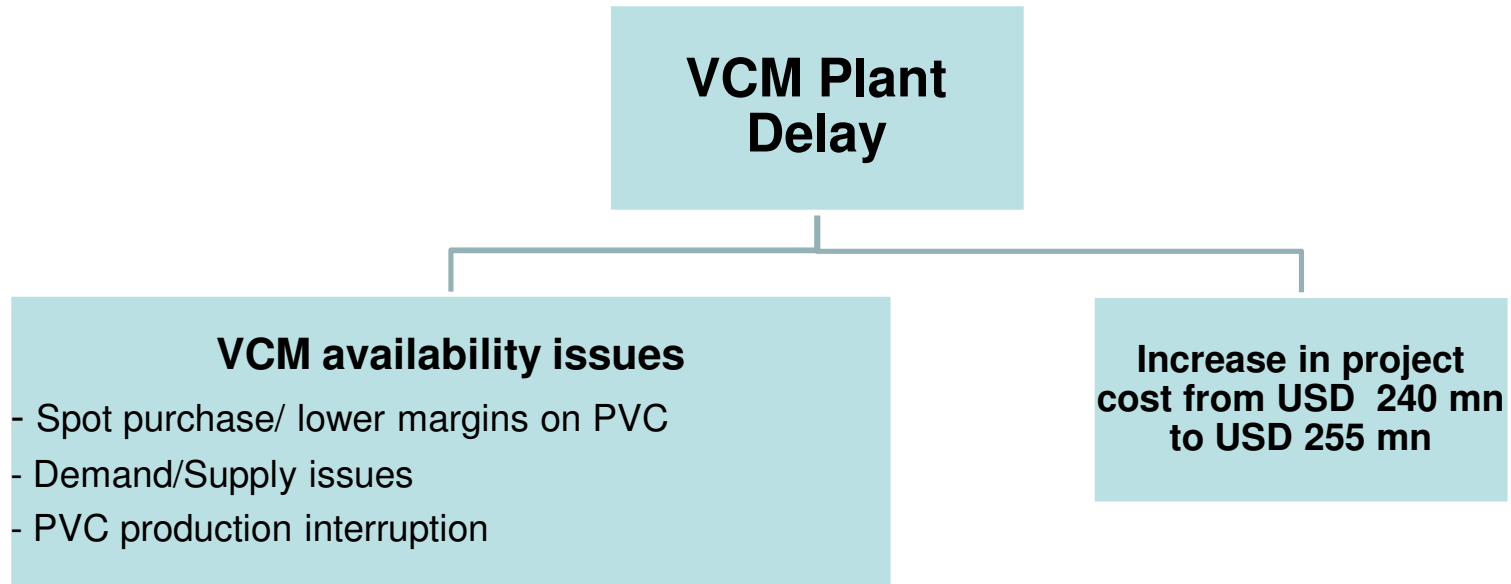
# VCM Plant Highlights

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- In November, VCM plant produced 5,004 tons after being started in late October
- On Nov 26, the plant was shutdown to attend to the problems with the HCl column fouling
- It was restarted on December 6, 2009 and operated till Dec 9, 2009, when a fire broke out in the VCL scrubbers area
- The incident resulted in shutdown of EDC & associated Caustic Soda unit. EDC/Caustic Soda plants were restarted in the third week of December.
- VCM scrubbers will be replaced by March 2010. In the meantime, VCM plant is running intermittently based on a makeshift arrangement.

# Impact of VCM Plant Delay

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## Steps being taken

- Right share issue of PKR 1.43 billion
- Additional loan of upto PKR 1 billion

# Project Financing

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<b><u>Costs</u></b>	<b>\$k</b>
Project cost	236,700
IDC	18,054
	<b>254,754</b>
Previous funding	
Equity	(71,000)
IFC	(60,000)
Local	(101,750)
Total Financing	(232,750)
<b>Shortfall</b>	<b>22,004</b>
<b><u>Revised Funding</u></b>	
Equity	(87,835)
IFC	(60,000)
Local syndicate	(101,750)
New financing	(11,765)
<b>Total Financing</b>	<b>(261,350)</b>
<b>Financing surplus for operating cost due to delay in VCM plant commissioning</b>	<b>(6,596)</b>

# Operating Highlights – 2009

		2009	2008
<b>Production:</b>			
PVC	KT	116	103
VCM	KT	6	-
EDC	KT	42	-
Caustic Soda	KT	39	-
<b>Sales:</b>			
PVC Domestic	KT	119	98
PVC Export	KT	10	1
Caustic Domestic	KT	32	-
Caustic Export	KT	2	-
EDC Export	KT	32	-
KESC	MW	9	
<b>EPCL PVC-VCM Margin</b>	<b>\$/ton</b>	222	265
<b>International PVC-VCM Margin</b>	<b>\$/ton</b>	162	186

# Financial Highlights – 2009 vs. 2008

	Year ended Dec-09	Year ended Dec-08	Remarks
Net Sales	11,632,775	7,868,449	<p>(1) <b>Domestic PVC sales:</b> 118.5 KT of PVC sold at a price of \$905/ton in 2009 vs. 95.93 KT at a price of \$1,135 tons in 2008.</p> <p>(2) <b>Caustic sales:</b> 27.45 tons of Caustic Soda sales (at Rs. 29,204/ton) were also reflected on P&amp;L in 2009.</p> <p>(3) <b>EDC exports:</b> As the production of the VCM Plant was delayed as compared to the planned date, 30.47 KT of EDC was exported (at a wtd avg price of \$357/ton). The major markets were Thailand and China.</p> <p>(4) Devaluation of Rupee against the US Dollar contributed to higher revenues. Avg exchange rate increased from Rs. 69.1/\$ last year to Rs. 82.1/\$.</p> <p>(5) <b>PVC exports:</b> 10.33 KT of PVC exported (at a C&amp;F price of \$637/ton) vs. 1.23 KT (at FOB price of \$1,012/ton) last year.</p> <p>(6) <b>Power Supply:</b> The Company commenced sale of surplus electricity to the KESC towards the end of August 2009. Total revenue from Sale of Electricity to KESC and NPK was Rs.184 M.</p>
Cost of goods sold	(10,418,592)	(6,735,658)	PVC production in 2009 was 115.62 KT vs. 98.66 KT the previous year. Wtd avg VCM cost decreased to \$683/ton vs. \$869/ton last year. Decrease was offset by an increase in avg exchange rate from Rs. 68/\$ last year to Rs. 81.2/\$ in 2009. Cost of production of 32.78 KT of caustic and 34.95 KT of EDC were also reflected on P&L in 2009. Wtd avg gas cost for the year was Rs. 328.6/mmbtu vs. 263.9/mmbtu last year. Gas consumption also increased due to the operation of 60 MW power plant. Other increases during the year include depreciation expense (higher due to additions in plant & equipment), storage & handling cost (due to handling charges of Ethylene) and increase in Manufacturing Salaries, Wages & Benefits (which was previously capitalized in the balance sheet).
<b>Gross Profit</b>	<b>1,214,183</b>	<b>1,132,791</b>	
Distribution & marketing expense:	(483,814)	(311,640)	
Administrative expenses	(205,742)	(163,182)	
Other operating expenses	(232,011)	(293,787)	Decrease due to no provision for WWF/WPPF in 2009 vs. Rs. 35 M in 2008, provision against custom-duty refundable amounting to Rs. 18 M in 2008 and foreign exchange loss lower by Rs.16M owing to the stable Pak Rupee/ US Dollar parity.
Other operating income	116,422	124,945	
<b>Operating profit</b>	<b>409,038</b>	<b>489,127</b>	
Finance Costs	(606,175)	(33,531)	Increase is due to interest on loans obtained to finance project cost. This consists of a \$60 M loan from IFC and a Rs.7.2 Billion loan from local syndicate of banks. While the project was being constructed, the related interest was being capitalized as part of Project Cost. Upon declaration of commercial production of all plants during the year except VCM) the related interest is now being charged to Profit and Loss Account.
<b>Profit before taxation</b>	<b>(197,137)</b>	<b>455,596</b>	
Taxation	3,441	(105,243)	
<b>Profit for the year</b>	<b>(193,696)</b>	<b>350,353</b>	

# **Production Outlook**

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## **PVC units**

- Operating well in line with capacity

## **EDC and Caustic Plant**

- Caustic plant is fully operational with demonstrated ability to achieve full capacity
- Has not been operating at full load since January due to EDC plant issues
- EDC plant has two reactors LTC A and LTC B which had some leakage issues which have been by and large rectified
- Both EDC and Caustic plants are running at optimal capacity now

## **VCM plant**

- Has been restarted in the first week of Feb at low operating rate
- Likely to achieve full capacity of 450t/day in 2-3 month time frame

## **Power plant**

- Plan to keep exports at 16-18 MW

# Outlook

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- PVC demand in domestic market is expected to remain robust in 2010 due to increased scrap conversion & continuation of government sponsored projects.
  - Pending orders at the end of January > 9,000 tons
- PVC-VCM margin also seen to improve once VCM plant comes into commercial operation in 1Q10.
- Caustic Soda demand expected to be strong in 2010
- Sale of surplus power to KESC to continue in 2010
- Strategy would continue to focus on domestic market and export any surplus product.
- Ethylene prices to remain high in the short term due to regional supply issues. However, in the longer term supply to remain balanced.