

SUMMARY OF PROPOSED INVESTMENT (SPI)

Disclaimer

This Summary of Proposed Investment is prepared and distributed to the public in advance of the IFC Board of Directors' consideration of the proposed transaction. Its purpose is to enhance the transparency of IFC's activities, and this document should not be construed as presuming the outcome of the Board decision. Board dates are estimates only.

Project Identification:

<i>Country:</i> Pakistan	<i>Project Name:</i> Engro Asahi Polymer and Chemicals Limited	<i>Project No.:</i> 25582
<i>Region:</i> MENA		<i>Environment Category:</i> B - Limited
<i>Company Name:</i> Engro Asahi (51087)		
<i>Project Business Sector:</i> G-CA - Plastics Material and Resin		<i>Project Status:</i> Active

Parent Project Identification:

Parent ID:	
Parent Short Name:	
Parent Relationship:	No Relationship

Document Status:

Date Disclosed	
Date Revised SPI Disclosed (if appropriate)	
Enter Projected Board Date [or internal management date]	
Date of Clearance by client for factual accuracy	

Description of the Project:

Engro Asahi Polymer & Chemicals Limited ("EAPCL" or "the Company") is a joint venture between Engro Chemical Pakistan Ltd. (ECPL), an IFC client company who is Pakistan's second largest fertilizer company and Mitsubishi Corporation (Japan), each with an 80% and 20% shareholding, respectively. EAPCL is the only PVC manufacturer in Pakistan with a capacity of 100,000 tons per annum (tpa) and its operations are located at Port Qasim in Karachi. Its plant was commissioned in November 14, 1999 and IFC assisted in the financing of this plant.

The Project consists of a production capacity increase and backward integration for EAPCL. Specifically, this entails (i) construction of a new, second plant to produce an additional 50,000 tons per annum (tpa) of PVC, increasing EAPCL'S capacity to 150,000 tpa; (ii) the dismantling, shipping and re-construction of a second-hand plant from the US to produce ethylene dichloride (EDC) (capacity of 230,000 tpa) and vinyl chloride monomer (VCM) (capacity of 204,000 tpa), the primary raw

materials for the PVC plants, (iii) the construction of a new chlor-alkali plant which will produce caustic soda (capacity of 106,000 tpa) and chlorine (capacity of 94,200 tpa), the latter being a primary raw material for the VCM production; and (iv) utilities infrastructure. This facility's primary role will be to provide the chlorine necessary for EAPCL's VCM production, a primary raw material for PVC; caustic soda will also be produced as a saleable product as part of the manufacturing process. The Project, is estimated to cost US\$221 million.

Project Sponsor and Major Shareholders of Project Company:

EAPCL's largest shareholder, Engro Chemical Pakistan Limited ("Engro"), is a leading, widely held, publicly traded company in Pakistan, long considered one of the country's "blue chip" equities. Engro is the country's second largest producer of fertilizers with a capacity of 850,000 tons per annum of urea. The company was incorporated in 1965 and was formerly Exxon Chemical Pakistan Limited until 1991 when Exxon decided to divest their fertilizer business on a global basis and sold off its equity of 75% shares in the company. The employees of Engro, in partnership with leading international and local financial institutions, including IFC, bought out Exxon's equity and the company was renamed as Engro Chemical Pakistan Limited. In addition to its core fertilizer business and interests in EAPCL, Engro also has a 50:50 joint venture company named "Engro Vopak Terminal Limited", between Engro and Royal Vopak (formerly Royal Pakhoed). IFC has a long history with Engro involving the original buyout of Exxon's shares and an expansion increase in 1991 and a subsequent capacity increase in 1995. In addition to supporting Engro's original investment in EAPCL, IFC also provided funding for Engro's investment in Engro Vopak. Engro has been profitable since the company became public in 1991, and earnings have grown steadily thereafter. Net profit in 2005 was US\$38 million on assets of US\$240 million.

Mitsubishi Corporation (MC) is Japan's largest general trading company (*sogo shosha*) with over 200 bases of operations in approximately 80 countries worldwide. Together with its over 500 group companies, MC employs a multinational workforce of approximately 48,000 people. MC's total capital, as of September 2006, amounted to US\$1.8 billion. In 2005, its total assets amounted to US\$86 million.

Total Project Cost and Amount and Nature of IFC's Investment:

The total Project cost is estimated at US\$221 million. The proposed IFC investment includes an A Loan for IFC's own account of up to US\$30 million, a B Loan for the account of participants of up to US\$30 million and an IFC equity investment of up to US\$20 million.

Location of Project and Description of Site:

EAPCL is located inside the 4,500 ha industry park, managed by Port Qasim Authority, which is approximately 30 km east of Karachi, Pakistan. The Port Qasim Authority industry park was set up in early 1970s and there is no residential community inside the industry park.

The Project will be installed adjacent to EAPCL's existing PVC plant in industrial estate at the Port Qasim in the Bin Qasim town. Bin Qasim is the easternmost town of the 18 constituent towns of the greater metropolitan Karachi. The Port Qasim was built in the 1970s to relieve pressure on the Karachi Port and is today the second largest port of Pakistan handling about 35% of the nation's cargo imported by sea. A large industrial area, built over an area of 4,500 hectare (11,000 acres) surrounds the port.

Anticipated Development Impact of the Project:



The developmental impact of the existing operations would be enhanced by this investment. This backward integration will enhance the long-term viability and competitiveness of an important Pakistani company in the cyclical petrochemical industry allowing it to better compete against imported PVC. EAPCL is the only producer of PVC in Pakistan and since its inception has had a significant catalytic effect on investment in smaller scale, downstream processing capacity, notably for piping and construction applications. The country has since seen an increased use of PVC in agriculture, particularly for drainage purposes which has made substantial contribution to agricultural productivity and introduction of micro-irrigation, resource saving and reversing long run declines in water quality and agricultural land management. Given the impact of the existing operations, the PVC expansion and strengthening of the Company's position, through its backward integration, will serve to continue these positive impacts on the market.

The longer tenor of the IFC loan will help improve EAPCL's cash flow during the trough periods, while allowing it to make the investments required to maintain efficient and competitive operations. This same factor proved critical to the Company for the first IFC investment, particularly during the down cycle years of 2001-2002 where the Company had experience shrinking margins.

Lastly, the Project will help generate additional employment as the new facility is expected to employ an additional 200 direct hire manpower. Moreover, the new caustic soda facility is expected to generate substantial employment in the salt industry, a key raw material for the production of caustic soda and chlorine. As the salt industry is quite labor intensive, this new plant is expected to generate the need for an additional 100 direct employees in the salt business.

IFC's Expected Development Contribution:

IFC's role is focused on four major areas:

- **Mobilization of capital:** As there has been limited activity in the syndicated market in Pakistan recent years, IFC's providing offshore funding through both the A and B Loans will provide a key element in reversing this trend.
- **Provision of long term loan:** IFC will be providing a 10 year loan to the Company, as well as helping to increase the tenor of the B loan beyond what the Company could otherwise obtain.
- **Project structuring:** The Sponsor considers IFC's involvement important because it recognizes IFC's extensive experience in the petrochemical sector and its familiarity with the Company's business design, as well as IFC's support for EAPCL's initial construction. The Sponsor relies on IFC's support in conducting a technical and economic assessment of the overall viability of the Project.
- **Environmental performance:** The Sponsor has demonstrated that it values IFC's advice and expertise in sustainable development. It is envisaged that with IFC's involvement, emphasis in this critical area will be continued.

Environmental and Social Issues B - Limited :

IFC's review of this investment has covered the following environmental, social, health and safety aspects: corporate environmental and social management, waste water treatment and discharge, air emissions from processes and utilities, hazardous material management, solid/hazardous waste management, labor issues, occupational health and safety programs, fire prevention and emergency response, and community safety/ relationship/ development.

Performance standards (PS) that are expected to be applicable for this investment may therefore include:

- PS1: Social and Environmental Assessment and Management Systems
- PS2: Labor and Working Conditions
- PS3: Pollution Prevention and Abatement
- PS4: Community Health, Safety and Security
- PS6: Biodiversity Conservation and Sustainable Natural Resource Management

This is a Category B project according to IFC's Environmental and Social Review procedures because a limited number of

specific environmental and social impacts may result which can be avoided or mitigated by adhering to generally recognized performance standards, guidelines or design criteria.

For inquiries and comments about the project contact:

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Comment:

Approval Status: