



Engro Polymer & Chemicals Limited

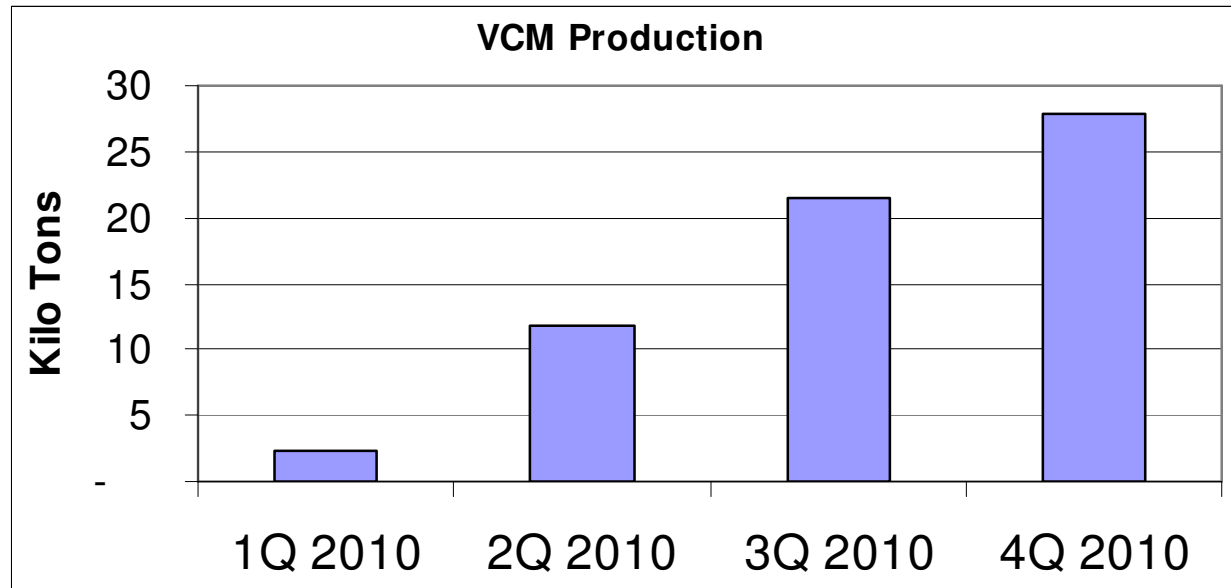
Analyst Briefing

4Q & YTD December 2010 Business Results

February 14, 2011

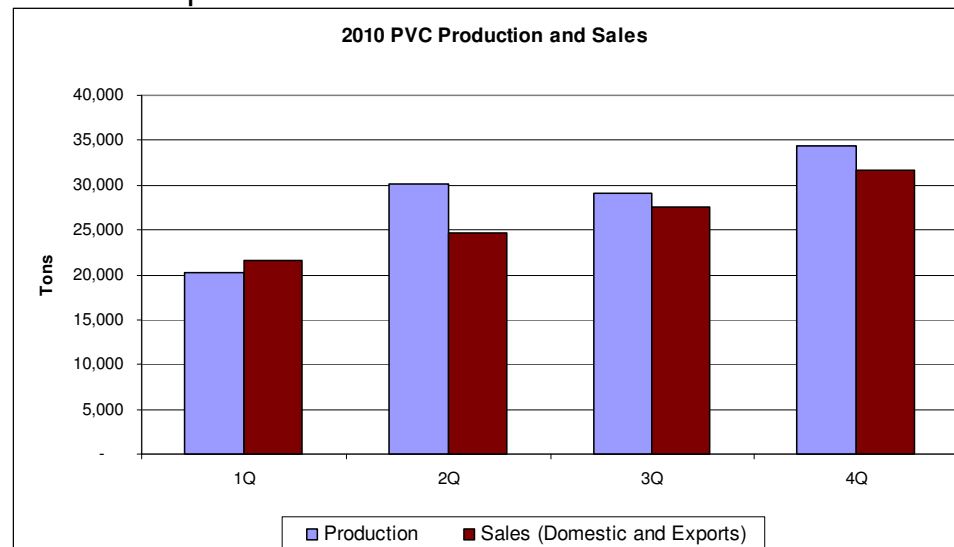
VCM Plant Highlights

- Commercial operations achieved on September 30, 2010.
- Thereafter, the Plant operated continuously till January 3, 2011 when a planned maintenance outage was taken.
- 28 KT VCM produced in 4Q 2010 as compared to 36 KT YTD September 2010.
- Operating rate of 75% in 4Q as compared to 32% YTD September 2010.
- The Plant was restarted on January 18, 2011 and is operating since then at a rate lower than capacity.
- Another turnaround planned in 1H 2011 after which operating rate is expected to reach full capacity.



PVC Highlights

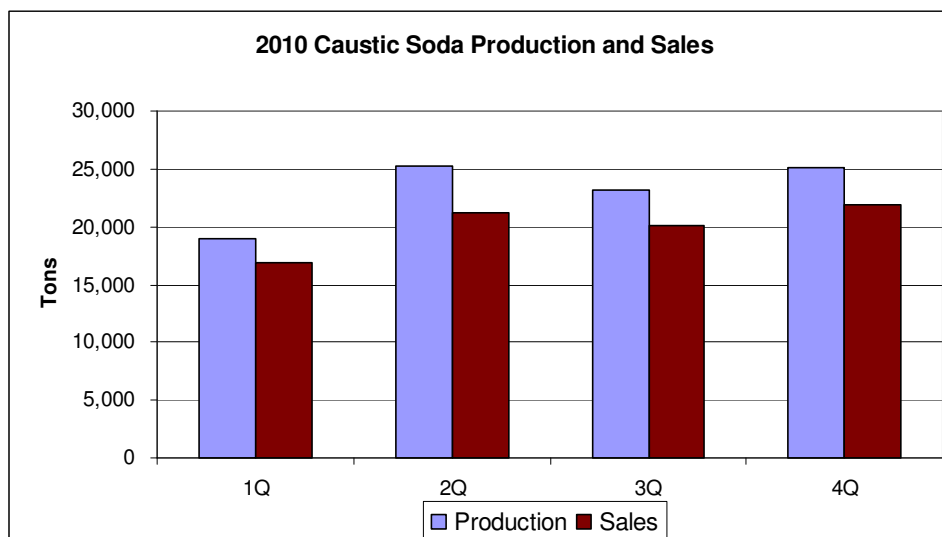
- 34 KT PVC produced in 4Q 2010 (Operating rate of 91% vis-à-vis 71% YTD September 2010).
- PVC domestic market grew by 8% in 2010.
- PVC domestic demand in 4Q 2010 slowed down due to:
 - Reduced Government Sector spending, and
 - Liquidity crunch due to Floods
- 9 KT PVC was exported during 4Q at a netback of \$240/ton in the wake of lower domestic demand.
- PVC Resin and Scrap imports took place due to lower EPCL PVC production in 1H 2010.
- EPCL's PVC – VCM margin increased to \$438/ton in 4Q 2010 vis-à-vis \$277/ton YTD September 2010 due to higher in-house VCM production.



Caustic Soda & EDC Highlights

Caustic Soda

- 25 KT Caustic Soda produced in 4Q 2010 (Operating rate of 94% vis-à-vis 86% YTD September 2010).
- EPCL continued to be the major player in the South market.
- All production (net of in-house consumption) was sold.
- Major customers for EPCL Caustic Soda (by sales volume) in 2010 were:
 - Textile sector (56%)
 - Soap and Detergents Sector (22%)
 - Water Treatment and other Sector (22%)



Sodium Hypo Chlorite

- 5 KT Sodium Hypo Chlorite was produced and sold in 4Q 2010

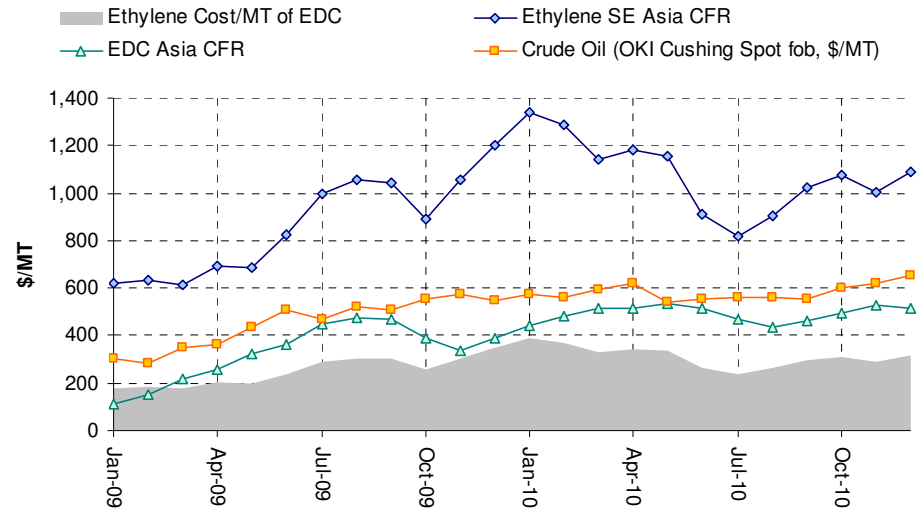
EDC

- 26 KT EDC was produced during 4Q (Operating rate of 82% vis-à-vis 74% YTD September 2010)
- 4 KT EDC was exported at a netback of \$90/ton during 4Q (Rest was used for in-house VCM production)

International Prices – 2010 Overview

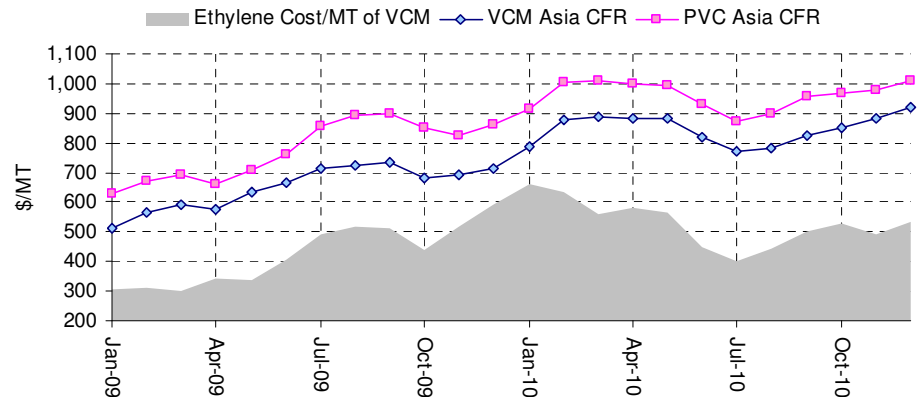
Ethylene

- 1H'10, new capacities & unplanned downstream outages in SEA and Middle East
- 2H'10, prices rise
 - Better ethylene netbacks in Europe
 - Unplanned FPC outage in Taiwan
 - China's naphtha shortage



VCM

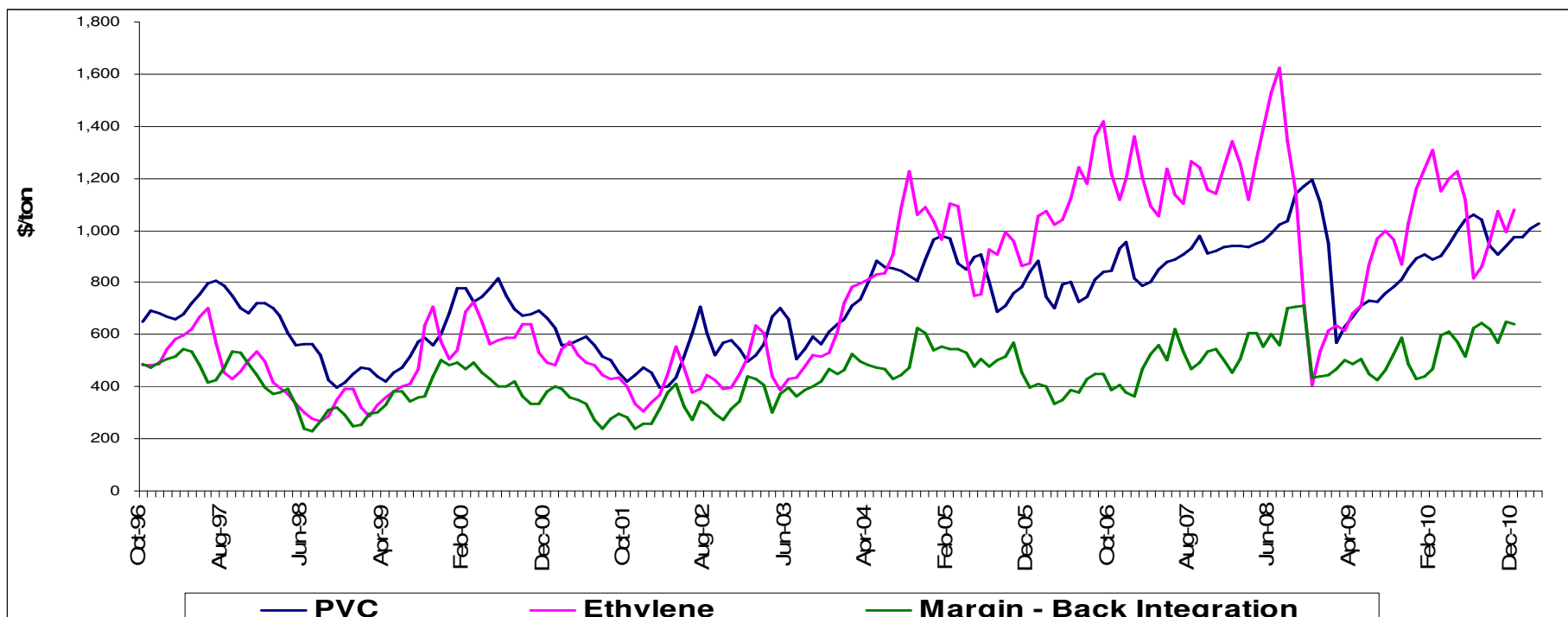
- PVC-VCM price differential below \$100 in Nov-Dec
 - VCM became more cost-effective than carbide



PVC

- 1H'10, initial seasonal pick in demand followed by falling feedstock costs and influx of US product
- 2H'10, prices recover
 - Seasonal lift in demand
 - Chinese supply shortage; power rationing
 - Rising ethylene feedstock costs

Back Integration & Historical PVC-Ethylene Delta



Moving Averages (\$/ton)	Project Assumptions	5 yr	3 yr	1 yr	Oct-10	Nov-10	Dec-10
PVC	750	901	922	988	976	1,008	1,028
Ethylene	800	1,085	1,023	1,085	1,075	995	1,080
NaOH C&F	246	350	377	383	378	385	399
Domestic Margin	468	508	545	579	567	648	638

Operating Highlights 2010

		2010			2009	
		YTD September	4Q	YTD December	4Q	YTD December
Production:						
PVC	KT	80	34	114	24	116
VCM	KT	36	28	64	6	6
EDC	KT	70	26	96	19	35
Caustic Soda	KT	68	25	93	19	33
Sales:						
PVC Domestic	KT	74	23	97	26	119
PVC Export	KT	-	9	9	1	10
Caustic Domestic	KT	58	22	80	17	27
EDC Export	KT	33	4	37	14	30
EPCL PVC-VCM Margin	\$/ton	277	438	315	251	219
International PVC-VCM Margin	\$/ton	124	106	119	164	161
Contribution Margin	Rs. M	2,164	1,243	3,407	535	1,954
PAT	Rs. M	(762)	(8)	(770)	(175)	(194)

Financial Highlights – 4Q 2010 vs. 4Q 2009

	Quarter ended Dec. 31, 2010	Quarter ended Dec. 31, 2009 (Restated)	Remarks
Net Sales	4,061,080	3,418,185	(1.) DOMESTIC PVC SALES: 23 KT of PVC sold at \$1,134/ton as compared to 26 KT at \$1,016/ton last year. (2.) PVC EXPORTS: 9 KT of PVC exports were made in as compared to 1 KT last year (3.) EDC EXPORTS: 4KT of EDC was exported as compared to 14KT last year (4.) DOMESTIC CAUSTIC SALES: 22KT of Caustic Soda was sold at Rs.30,811/ton as compared to 17KT at Rs.26,224/ton last year. (5.) POWER SUPPLY: There were no power sales to KESC whereas 0.6MW of power was sold to Engro's Fertilizer's Zarkhez Plant. (6.) The weighted average exchange rate increased from Rs. 84.3/\$ last year to Rs. 86.7/\$ contributing further to the growth in revenue.
Cost of goods sold	<u>(3,439,878)</u>	<u>(3,030,438)</u>	PVC production during 4Q 2010 was 34KT vs. 24KT in 4Q 2009. Wtd. avg. VCM cost was \$696/ton in 4Q 2010 vs. \$764/ton in 4Q 2009. Besides this, 25 KT of caustic and 26KT of EDC was also produced. Wtd. avg gas cost increased to Rs.382.37/mmbtu vs. Rs.324.30/mmbtu last year.
Gross Profit	621,202	387,747	
Distribution & marketing expenses	(188,421)	(147,346)	
Administrative expenses	(82,802)	(72,519)	
Other operating Income / (Expense)	<u>43,281</u>	<u>(63,382)</u>	
Operating profit / (loss)	393,260	104,500	
Finance Costs	<u>(403,911)</u>	<u>(261,547)</u>	Increase is due to interest being charged on P&L for loans obtained to finance project cost. This consists of a \$60 M loan from IFC and a Rs.8.95 Billion loan from local syndicate of banks. While the project was being constructed in 2009, the related interest was being capitalized.
Loss before taxation	(10,651)	(157,047)	
Taxation	2,771	(18,028)	
Loss after taxation	<u>(7,880)</u>	<u>(175,075)</u>	

Financial Highlights – YTD Dec. 2010 vs. YTD Dec. 2009


Rs. Thousand	Year ended Dec. 31, 2010	Year ended Dec. 31, 2009 (Restated)	Remarks
Net Sales	14,618,594	11,632,775	<p>(1.) DOMESTIC PVC SALES: 97KT of PVC sold at \$1,110/ton as compared to 119KT at \$903/tons last year.</p> <p>(2.) PVC EXPORTS: 9 KT of PVC were made at FOB price of \$997/ton as compared to 10KT at FOB price of \$631/ton last year.</p> <p>(3.) EDC EXPORTS: 37KT of EDC was exported in YTD December 2010 as compared to 30KT last year.</p> <p>(4.) DOMESTIC CAUSTIC SALES: 80KT of Caustic Soda was sold at Rs.30,443/ton compared to 27KT at Rs.26,379/ton in comparable period last year.</p> <p>(5.) POWER SUPPLY: 2MW of power was sold to KESC during the period in addition to supply to Engro Fertilizer's Zarkhez Plant.</p> <p>(6.) The weighted average exchange rate increased from Rs. 82.14/\$ in 2009 to Rs. 85.99/\$ in 2010 contributing further to the growth in revenue.</p>
Cost of goods sold	(13,314,604)	(10,418,592)	PVC production was 114 KT vs. 116 KT in 2009. Wtd avg VCM cost increased to \$795/ton vs. \$684/ton last year. 93KT of Caustic and 96KT of EDC was also produced. Fuel & power cost increased due to higher gas consumption as Company's 60 MW Power Plant commenced commercial operations from Aug 1, 2009. Additionally, wtd avg gas cost increased to Rs. 382.37/mmbtu vs. 324.3/mmbtu last year. There was an increase in storage & handling cost due to handling charges of Ethylene while depreciation cost increased as additional plants have come online as compared to same period last year.
Gross Profit	1,303,990	1,214,183	
Distribution & marketing expenses	(642,782)	(483,814)	
Administrative expenses	(312,526)	(205,742)	
Other operating Income / (Expense)	<u>(134,315)</u>	<u>(115,589)</u>	
Operating profit / (loss)	214,367	409,038	
Finance Costs	<u>(1,438,988)</u>	<u>(606,175)</u>	Increase is due to interest being charged on P&L for loans obtained to finance project cost. This consists of a \$60 M loan from IFC and a Rs.8.95 Billion loan from local syndicate of banks. While the project was being constructed in 2009, the related interest was being capitalized.
Loss before taxation	(1,224,621)	(197,137)	
Taxation	454,340	3,441	
Loss after taxation	<u>(770,281)</u>	<u>(193,696)</u>	

Note: VCM plant related fixed costs and financial charges were capitalized till June 2010 and March 2010, respectively. No costs were capitalized in 2H 2010.

Business Outlook

- PVC domestic demand is expected to be stable to strong in 2011 due to:
 - + Reconstruction activities in flood affected areas
 - + Demand from agricultural sector
 - + Pipe exports to Afghanistan.
 - Limited Government spending in other areas
 - Power load shedding and gas supply curtailment
- Caustic Soda demand is expected to remain strong and the Company is expected to sell capacity (net of in – house Caustic consumption)
- PVC prices are currently in the range of \$1,050 per ton and the margins are better than last year. However, high oil prices and new capacity buildups will continue to affect PVC and Ethylene prices.
- EPCL's profitability is expected to benefit from the improved VCM plant operations, however, full benefits of the integrated complex will depend on achieving design production from the VCM plant.

Thank You

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