



# **Engro Polymer and Chemicals Limited**

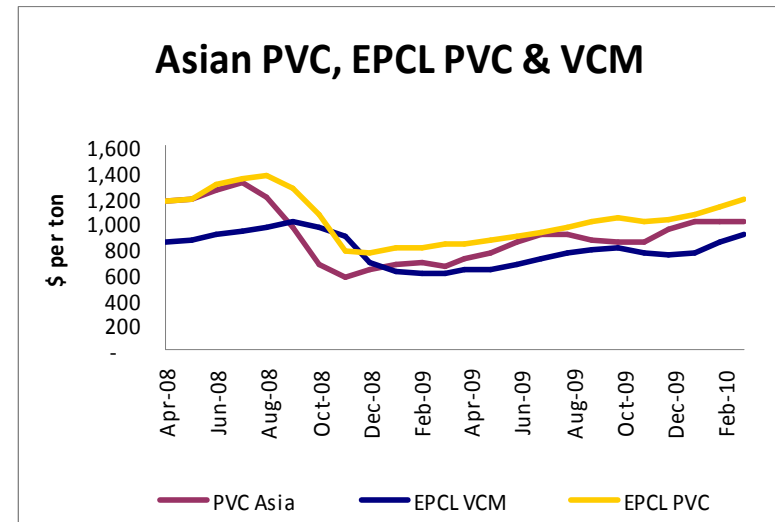
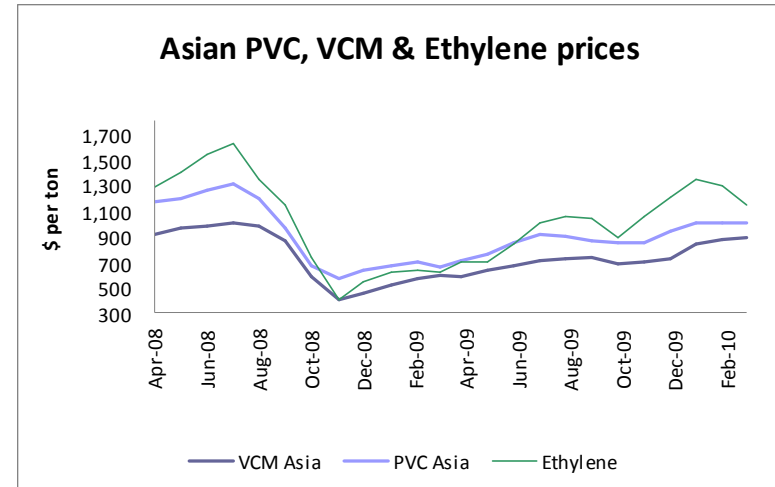
## **First Quarter 2010 Business Results**

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**May 6<sup>th</sup>, 2010**

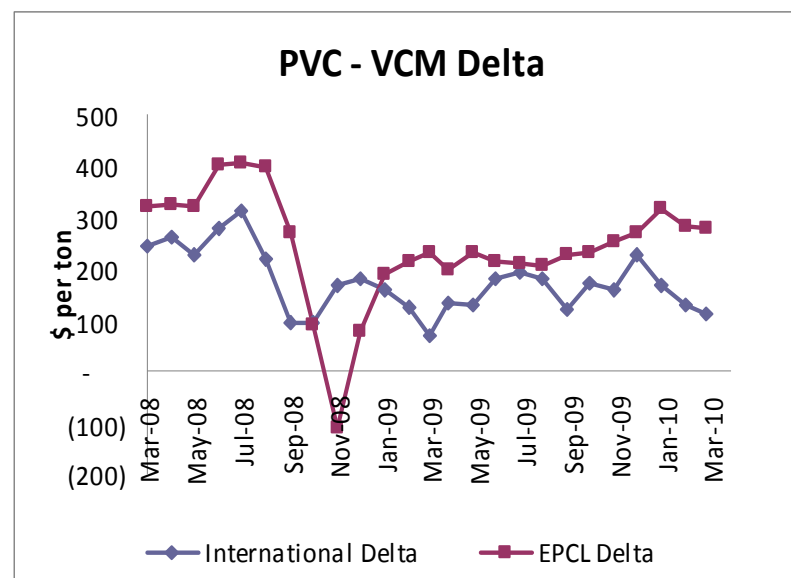
# Market Environment

- International PVC remained firm during the quarter while VCM prices continued the upward trend due to rising ethylene prices
- Ethylene prices dipped in Feb and March due to imbalance between demand and supply
- EPCL PVC prices remained in line with international prices trend



# PVC Highlights

- PVC domestic demand showed growth as compared to 1Q 2009
- Demand growth due to:
  - Demand for tube wells due to water scarcity
  - Demand from government projects
  - Exports of pipes to Afghanistan
- Decline in EPCL sales due to production constraints caused by limited VCM availability
- VCM continued to be imported on spot basis due to unavailability of inhouse VCM
- EPCL PVC – VCM margin improved due to improvement in international PVC prices as compared to 4Q 09.



	2009	1Q 2010
Resin imports	5.25	7.44
Scrap Imports	21.2	9.42

# Caustic Soda & EDC Highlights

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## Caustic Soda

- EPCL's focus remained on the Southern region due to competitive advantage (logistics, price, distribution network)
- 16kt caustic soda sold during the quarter
- Gas & energy prices increased by 18% & 12% respectively
- Caustic soda prices increased in early Jan 2010
- 87% caustic soda was sold in South region
- Low caustic soda production due to low EDC production

## EDC

- 14kt of EDC exported due to delay in VCM plant commissioning.
- Export destinations were India and South East Asia
- Low EDC production due to process/operational issues and power failure at EDC plant

# **VCM Plant Highlights**

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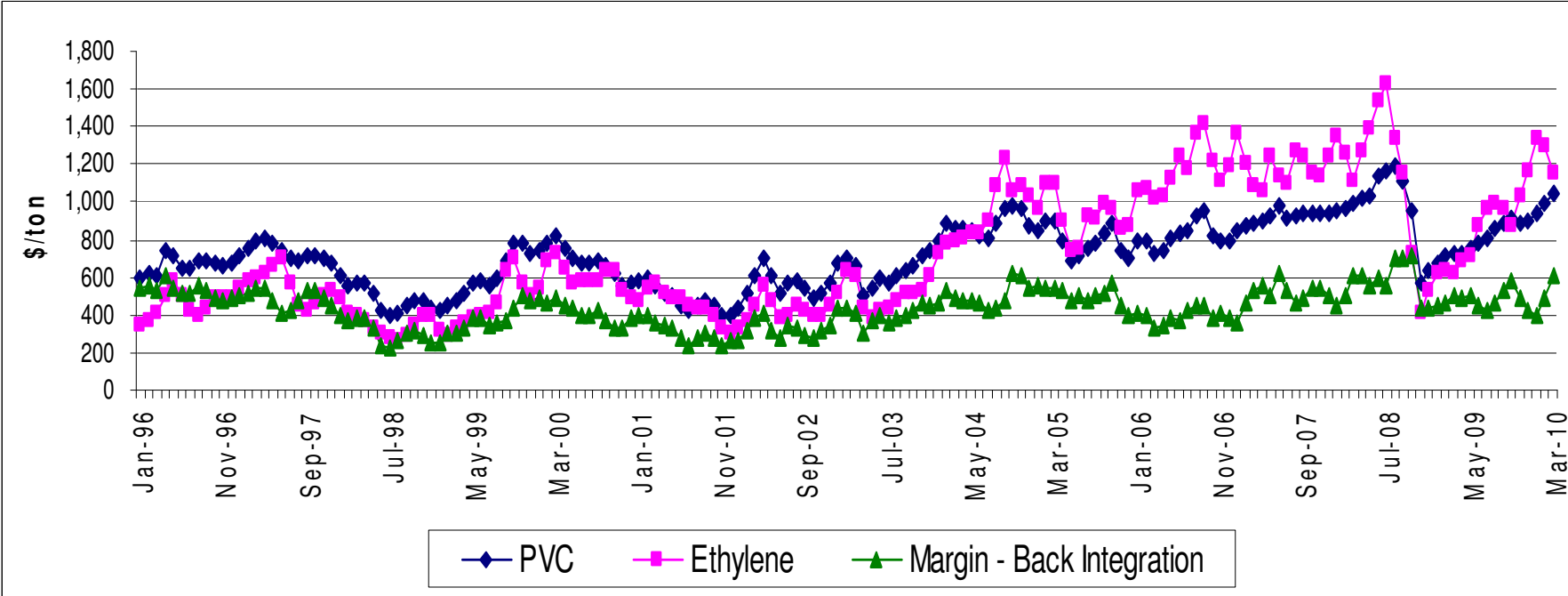
- VCM plant was started up in March & 2K tons of VCM was produced
- Production was ramped up to 350 tons/day
- However, plant had to be shutdown due to power tripping caused by frequency fluctuation at KESC grid.
- Plant was restarted in April and has been running continuously since then.
- Outlook for commercial production is 2Q 2010
- VCM plant technical support from internationally recognized experts being arranged
- Additional resources having VCM operations experience to work at the plant site being engaged
- PVC plant scrubbers being utilized as an alternate arrangement. Refurbished scrubbers expected to be installed May/June 2010.

# Other Highlights

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- Surplus power sold to KESC. 7 MW sold in 1Q 2010.
- Export of power was discontinued from March 15, 2010 on account of high frequency fluctuation

# Back Integration & Historical PVC-Ethylene Delta



Moving Averages	Project Assumptions	5 yr	3 yr	1 yr	1Q 2010
(\$/ton)					
<b>PVC</b>	750	869	909	875	996
<b>Ethylene</b>	800	1,063	1,060	1,003	1,261
<b>NaOH C&amp;F</b>	246	337	366	358	368
<b>Domestic Margin</b>	468	491	525	488	500

# Operating Highlights – 1Q 2010

		1Q 2010	1Q 2009
<b>Production:</b>			
PVC	KT	20	26
VCM	KT	2	-
EDC	KT	20	-
Caustic Soda	KT	19	-
<b>Sales:</b>			
PVC Domestic	KT	22	29
PVC Export	KT	-	9
Caustic Domestic	KT	17	-
EDC Export	KT	14	-
KESC	MW	7	
<b>EPCL PVC-VCM Margin</b>	<b>\$/ton</b>	292	211
<b>International PVC-VCM Margin</b>	<b>\$/ton</b>	138	136



# Financial Highlights – 1Q 2010 vs. 1Q 2009

	Quarter ended March 31, 2010	Quarter ended March 31, 2009	Remarks
Net Sales	3,283,754	2,408,782	<p>(1.) <b>DOMESTIC PVC SALES: 22 KT</b> of PVC sold at <b>\$1,127/ton</b> as compared to <b>29 KT</b> at <b>\$810 tons last year</b>.</p> <p>(2.) <b>PVC EXPORTS:</b> No exports of PVC were made as compared to <b>9.122 KT</b> of exports (at FOB price of <b>\$632/ton</b>) last year.</p> <p>(3.) <b>EDC EXPORTS:</b> VCM Plant commercial production was delayed and EDC was being produced to utilize the chlorine that was being transferred from the Chlor-alkali Unit. Since there are no other manufacturers of PVC in the country, <b>14.13 KT</b> of EDC was exported through EPTL (at a weighted average price FOB price of <b>\$396/ton</b>).</p> <p>(4.) <b>DOMESTIC CAUSTIC SALES: 16,945 tons</b> of Caustic Soda sales (at <b>Rs. 28,963/ton</b>) were also sold in domestic market in 1Q 2010</p> <p>(5.) <b>POWER SUPPLY:</b> Surplus electricity (7MW) was sold to KESC during the period in addition to supply to Engro Fertilizer's Zarkhez Plant.</p> <p>(6.) Devaluation of the Rupee against the US Dollar contributed to the higher revenues. The weighted average exchange rate increased from Rs. 80/\$ in the comparative period to Rs. 84.74/\$.</p>
Cost of goods sold	(3,074,833)	(2,294,853)	PVC production during 1Q 2010 was 20.324 KT vs. 26.305 KT last year. Wtd avg VCM cost increased to \$835/ton vs \$599/ton. This was magnified by an increase in exchange rate from Rs. 80/\$ last year to Rs. 85.43/\$. Besides this, 19 KT of caustic & 19.65 KT 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. 339.54/mmbtu last year. Increase in storage & handling cost due to handling charges of Ethylene attributed to EDC plant while depreciation cost increased as additional plants have come online as compared to same period last year.
<b>Gross Profit</b>	<b>208,921</b>	<b>113,929</b>	
Distribution & marketing expenses	(120,713)	(92,507)	
Administrative expenses	(60,779)	(27,675)	
Other operating expenses	(7,313)	(44,585)	Lower due to no exchange loss this year.
Other operating income	13,971	6,563	
<b>Operating profit / (loss)</b>	<b>34,087</b>	<b>(44,275)</b>	
Finance Costs	(282,375)	(60,310)	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. Upon declaration of commercial production of all plants during 2009 (except VCM) the related interest is now being charged to Profit and Loss Account while in 1Q09 only costs pertaining to new PVC plant were charged to P&L.
<b>Loss before taxation</b>	<b>(248,288)</b>	<b>(104,585)</b>	
Taxation	93,911	35,763	
<b>Loss after taxation</b>	<b>(154,377)</b>	<b>(68,822)</b>	

\* VCM plant related fixed costs and financial charges were capitalised.

# Right Shares Issue

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- 27.5% rights issue (i.e. 27.5 shares for every 100 shares) announced on Jan 21
- Total amount of the issue is Rs. 1.43 billion
- Last day of payment was April 27<sup>th</sup>
- Rights issue is fully underwritten

# Outlook

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- PVC and Caustic soda demand to remain strong during 2Q
- EPCL to continue to strengthen its relationship with customers through product quality, competitive pricing and effective distribution network
- International PVC prices expected to remain stable based on raw material prices and supply demand situation.
- VCM supply to remain tight due to VCM plant turnarounds in the region.
- Beyond 2Q 2010, ethylene supply expected to ease out on account of additional crackers coming online in Middle East.
- Power supply to KESC expected to resume once frequency issues are addressed.
- Delay in VCM plant commissioning resulted in non compliance of a couple of the loan agreement covenants.
- In order to rectify the breach, company has arranged PKR 1.43 billion through rights issue.
- Emphasis to remain on VCM plant stabilization with scrubber replacement expected in June and commercial production outlook 2Q.
- Based on current outlook, the medium term projections issued at the time of announcement of Right issue are expected to remain within reasonable range.