



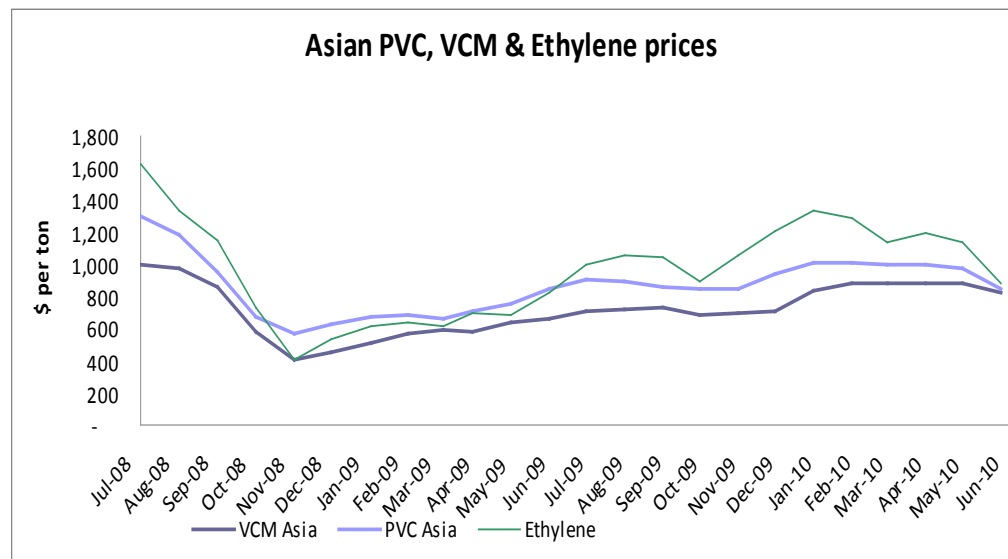
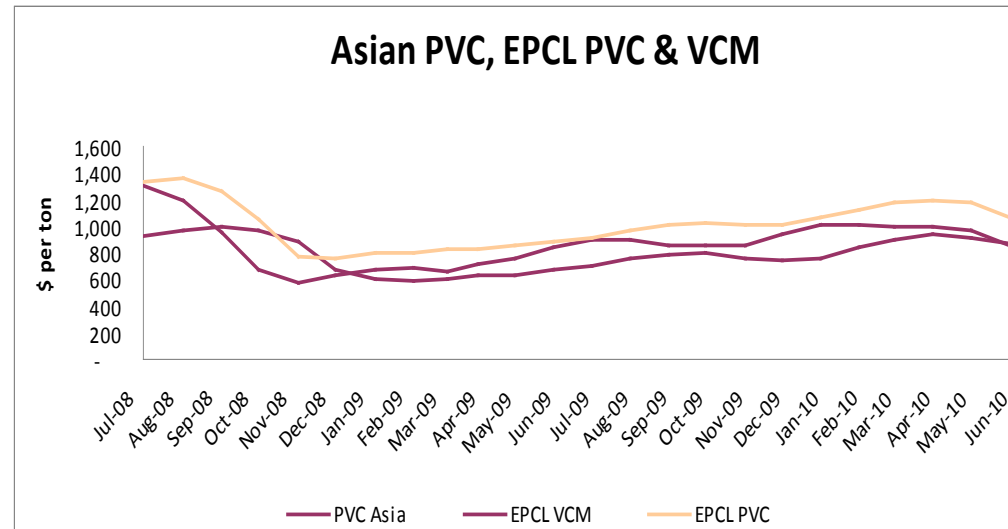
Engro Polymer & Chemicals Limited

2Q & 1H 2010 Business Results

July 29, 2010

Market Environment – 2Q 2010

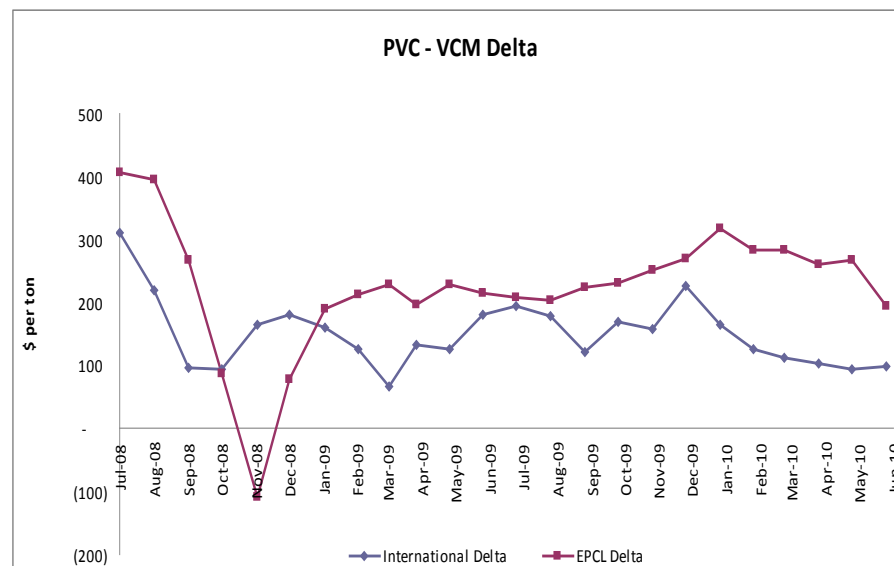
- International PVC prices declined mainly due to falling feedstock prices and global demand and supply situation.
- Ethylene prices dipped as new capacities came online in South East Asia and Middle East. Furthermore, there were unplanned outages in downstream derivative plants during the period.
- EPCL PVC prices remained in line with international price trend



PVC Highlights

- PVC production in 2Q was 30 K tons (KT). It was constrained due to lower VCM availability (-1KT) and production loss due to unexpected operational upsets (-4KT) which were subsequently resolved.
- PVC domestic demand increased as compared to 1Q 2010 (38.4KT in 1Q to 43.2KT in 2Q). PVC domestic demand increased from 77KT in 1H 2009 to 81KT in 1H 2010.
- EPCL sales were affected in 2Q 2010 due to lower PVC production.
- PVC Resin was mainly imported to fill up the supply demand gap created due to lower EPCL PVC production.
- VCM production commenced in April. In addition to in-house VCM, imported VCM was also used to meet production targets. During 2Q 12KT VCM was produced in-house whereas 19KT was imported.
- EPCL PVC – VCM margin reduced compared to 1Q 2010 due to decline in international PVC prices.

K Tons	1H 2010	1H 2009
EPCL Sales	46.50	64.42
Resin imports	13.84	1.96
Scrap Imports	20.75	10.70
Total Demand	81.09	77.08



Caustic Soda & EDC Highlights

Caustic Soda

- Caustic Soda production in 2Q was 25 K tons which is 94% of production capacity.
- Caustic Soda sales for 2Q were 21 K tons of which 81% were in the South region.
- In south, approximately 80% of caustic soda sales volume switched to EPCL.
- Market demand for caustic soda remained high due to sustained demand from soap and textile industry, both of which are major consumers of caustic soda.
- During 1H 2010 56% of Caustic Soda sales were to Textile industry, 24% to Soap Manufacturers, 9% to water treatment plants and 11% in other consumers.

Sodium Hypo Chlorite

- Sodium Hypo Chlorite production during 2Q was 5 K tons.
- 5 KT of Sodium Hypo Chlorite was sold during 2Q.
- EPCL captured 100% market share in south region at the end of 2Q.

EDC

- 26 KT of EDC was produced during 2Q which is 83% of production capacity.
- 9 KT of EDC was exported during 2Q.

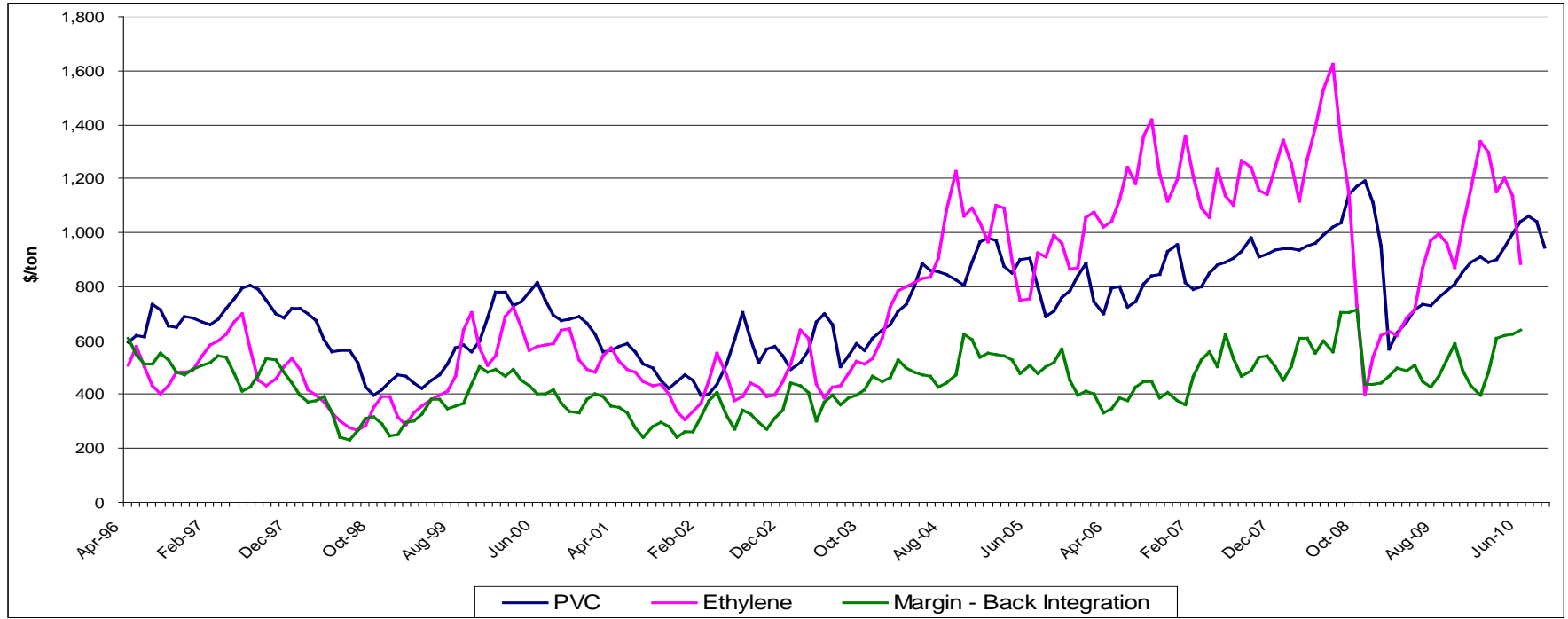
VCM Plant Highlights

- VCM plant was started up on April 24 and continued to operate till June 9 with total production of 12 K tons during the period.
- A planned shutdown was taken from June 9 to July 2 for preventive maintenance.
- The VCM plant was restarted on July 3, 2010 and is operating continuously since then.
- VCM plant Operations Expert with a total experience of 21 years in petrochemicals and polymer industry was hired during 2Q.
- VCM plant scrubbers damaged during fire incident have been refurbished and are under mechanical commissioning.

Other Highlights

- Measures were put in place in order to prevent power sales disruption.
- KESC power sales resumed from July 20, 2010.
- Right shares issue of Rs.1.43 billion was successfully completed.
- Repayment of loans started from June 2010.

Back Integration & Historical PVC-Ethylene Delta



Moving Averages (\$/ton)	Project Assumptions	5 yr	3 yr	1 yr	Apr-10	May-10	Jun-10
PVC	750	883	916	940	1,061	1,039	943
Ethylene	800	1,077	1,054	1,082	1,199	1,136	883
NaOH C&F	246	341	373	364	389	391	389
Domestic Margin	468	497	531	525	618	625	640

Operating Highlights – 2Q 2010

		2Q 2010	2Q 2009
Production:			
PVC	KT	30	35
VCM	KT	12	-
EDC	KT	26	-
Caustic Soda	KT	25	-
Sales:			
PVC Domestic	KT	25	36
PVC Export	KT	-	-
Caustic Domestic	KT	21	-
EDC Export	KT	9	-
KESC	MW	0	-
EPCL PVC-VCM Margin	\$/ton	234	213
International PVC-VCM Margin	\$/ton	100	146

Operating Highlights – 1H 2010

		1H 2010	1H 2009
Production:			
PVC	KT	50	61
VCM	KT	14	-
EDC	KT	46	-
Caustic Soda	KT	44	-
Sales:			
PVC Domestic	KT	46	64
PVC Export	KT	-	9
Caustic Domestic	KT	38	-
EDC Export	KT	23	-
KESC	MW	3	-
EPCL PVC-VCM Margin	\$/ton	263	212
International PVC-VCM Margin	\$/ton	119	141

Financial Highlights – 2Q 2010 vs. 2Q 2009

	Quarter ended June 30, 2010	Quarter ended June 30, 2009 (Restated)	Remarks
Net Sales	3,570,817	2,574,139	(1.) DOMESTIC PVC SALES: 25 KT of PVC sold at \$1,136/ton as compared to 36 KT at \$855 tons last year. (2.) PVC EXPORTS: No exports of PVC were made in 2Q 2010 nor in 2Q 2009 (3.) EDC EXPORTS: 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, 9 KT of EDC was exported through EPTL (at a weighted average price FOB price of \$443/ton). (4.) DOMESTIC CAUSTIC SALES: 21 KT of Caustic Soda sales (at Rs. 30,737/ton) were also sold in domestic market in 2Q 2010 (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.) Devaluation of the Rupee against the US Dollar contributed to the higher revenues. The weighted average exchange rate increased from Rs. 81.48/\$ in Q2 2009 to Rs. 85.31/\$ in Q2 2010 contributing further to the growth in revenue.
Cost of goods sold	(3,303,021)	(2,235,216)	PVC production during 2Q 2010 was 30 KT vs. 35 KT in 2Q 2009. Wtd avg VCM cost increased to \$902/ton vs \$642/ton in 2Q 2009. VCM cost increase impact was magnified by an increase in exchange rate from Rs. 81/\$ in Q2 2009 to Rs. 84.91/\$ during Q2 2010. Besides this, 25 KT of caustic & 26 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 while depreciation cost increased as additional plants have come online as compared to same period last year.
Gross Profit	267,796	338,923	
Distribution & marketing expenses	(162,114)	(102,259)	
Administrative expenses	(81,584)	(50,634)	
Other operating expenses	(141,548)	(39,500)	Due to higher foreign exchange loss in 2Q 2010 as compared to 2Q 2009.
Other operating income	10,140	33,358	
Operating profit / (loss)	(107,310)	179,888	
Finance Costs	(374,665)	(60,653)	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.7.2 Billion loan from local syndicate of banks. While the project was being constructed in 2009, the related interest was being capitalized.
Loss before taxation	(481,975)	119,235	
Taxation	186,968	(37,162)	
Loss after taxation	(295,007)	82,073	

* VCM plant related fixed costs and financial charges were capitalized.

Financial Highlights – 1H 2010 vs. 1H 2009

	Half Year ended June 30, 2010	Half Year ended June 30, 2009 (Restated)	Remarks
Net Sales	6,854,571	4,982,691	(1.) DOMESTIC PVC SALES: 46 KT of PVC sold at \$1,132/ton as compared to 64 KT at \$835 tons last year. (2.) PVC EXPORTS: No exports of PVC were made as compared to 9 KT of exports (at FOB price of \$626/ton) last year. (3.) EDC EXPORTS: 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, 23 KT of EDC was exported through EPTL (at a weighted average price FOB price of \$414/ton). (4.) DOMESTIC CAUSTIC SALES: 38 KT of Caustic Soda sales (at Rs. 29,949/ton) were also sold in domestic market in 2Q 2010 (5.) POWER SUPPLY: Surplus electricity (3MW) was sold to KESC during the period in addition to supply to Engro Fertilizer's Zarkhez Plant. (6.) Devaluation of the Rupee against the US Dollar contributed to the higher revenues. The weighted average exchange rate increased from Rs. 80.79/\$ in the comparative period to Rs. 85.37/\$.
Cost of goods sold	(6,377,854)	(4,530,009)	PVC production during 1H 2010 was 50 KT vs. 61 KT in 1H 2009. Wtd avg VCM cost increased to \$869/ton vs \$623/ton. This was magnified by an increase in exchange rate from Rs. 80.15/\$ last year to Rs. 84.85/\$. Besides this, 44 KT of caustic and 46 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 while depreciation cost increased as additional plants have come online as compared to same period last year.
Gross Profit	476,717	452,682	
Distribution & marketing expenses	(282,827)	(194,754)	
Administrative expenses	(142,363)	(78,138)	
Other operating expenses	(141,211)	(87,614)	Due to higher Foreign Exchange loss during 1H 2010
Other operating income	16,461	43,437	
Operating profit / (loss)	(73,223)	135,613	
Finance Costs	(657,040)	(120,963)	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.7.2 Billion loan from local syndicate of banks. While the project was being constructed in 2009, the related interest was being capitalized.
Loss before taxation	(730,263)	14,650	
Taxation	280,879	(1,399)	
Loss after taxation	(449,384)	13,251	

* VCM plant related fixed costs and financial charges were capitalized.

Outlook

- Demand for PVC and Caustic Soda is expected to continue to be strong during coming quarters.
- International prices are seen to be stable at current levels due to global demand supply situation.
- VCM plant capacity is being ramped up. Stable operations of the VCM plant remains key for improved margins.
- Profitability projections given at the time of announcement of Rights Issue for the year 2010 will be affected due to 1H 2010 actual results due to delay in VCM plant startup, however, there is no material change in outlook for 2H 2010 and next two years.