



Engro Polymer & Chemicals Limited
3Q & YTD September 2010 Business Results

October 27, 2010

Market Environment – 3Q and YTD September 2010

Ethylene

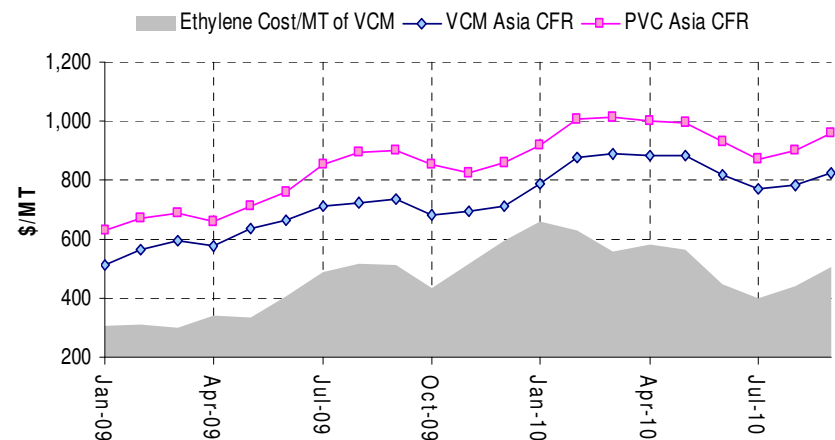
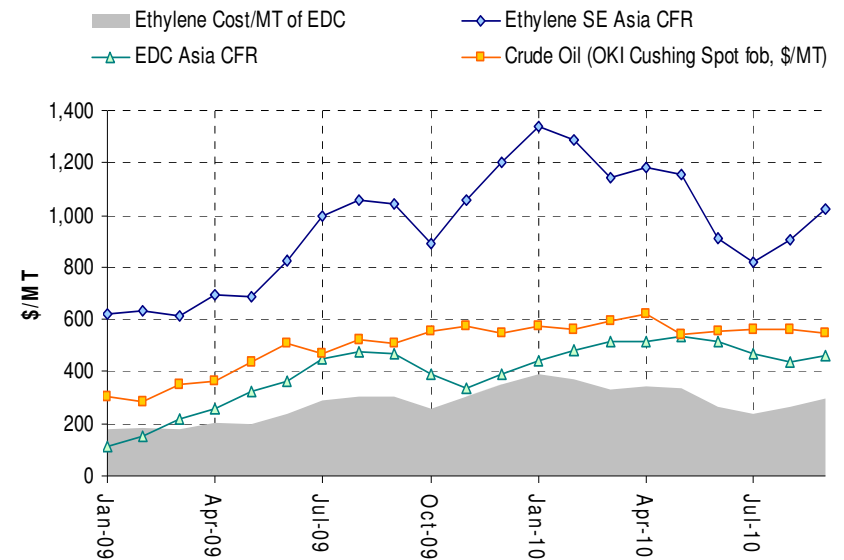
- Tight Asian spot supply due to Higher European netbacks and unplanned outages in NEA in 3Q 2010.
- Ethylene prices started on a higher note in October due to tight supply from Middle East and Asia.
- Present trend of high Ethylene prices is dependent on supply condition along with turnaround status of Ethylene crackers in Asia.

VCM

- VCM prices kept low during initial part of 3Q due to lower PVC prices and buyer resistance due to tight profit margins.
- However, VCM prices started to rebound during the later part of 3Q due to higher PVC prices and tighter demand supply situation.
- VCM prices are expected to remain high during 4Q 2010 due to cost push from rising Ethylene and PVC prices and tightening of VCM supply due to planned turnarounds.

PVC

- Prices recovered in 3Q 2010 due to Seasonal lift in demand and Chinese supply shortage.
- PVC prices are expected to remain high mainly due to lower production in China due to power rationing and energy conservation initiatives by Chinese Government.



PVC Highlights

- PVC production in 3Q 2010 was 29 K tons (KT) which is 78% of production capacity.
- Production shortfall was mainly because of low VCM availability (i.e. 13% of production capacity) whereas remaining variance was due to operational issues at the PVC plant which were subsequently resolved.
- PVC domestic market grew by 9% in YTD September 2010 compared to YTD September 2009.
- PVC sales remained in line with PVC production.
- PVC Resin and Scrap imports continued to fill EPCL PVC supply shortfall despite Government regulations on PVC Scrap imports. However, going forward EPCL PVC sales will eliminate demand for PVC scrap imports.
- EPCL PVC–VCM margin increased to \$301/ton in 3Q 2010 compared to \$234/ton in 2Q 2010 due to lower VCM cost as in-house VCM production increased in 3Q.

Caustic Soda & EDC Highlights

Caustic Soda

- Caustic Soda production in 3Q was 23 K tons (KT) which is 88% of production capacity.
- EPCL continued to be the major player in the South region market.
- Major customers for EPCL Caustic Soda (by sales volume) were:
 - Textile sector (58%)
 - Soap and Detergents Sector (24%)
 - Water Treatment and other Sector (18%)

Sodium Hypo Chlorite

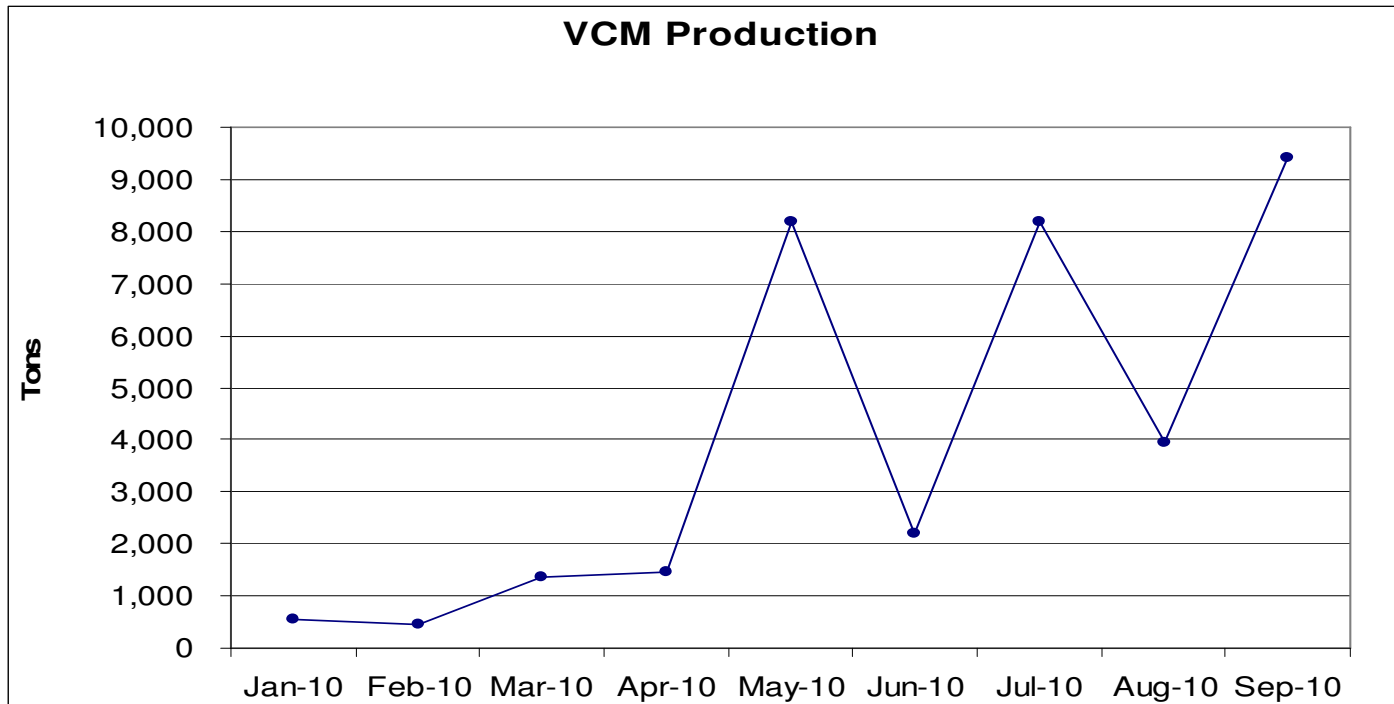
- Sodium Hypo Chlorite production during 3Q was 5 KT.
- 5 KT of Sodium Hypo Chlorite was sold during 3Q.

EDC

- 24 KT of EDC was produced during 3Q which is 75% of production capacity.
- 10 KT of EDC was exported during 3Q.

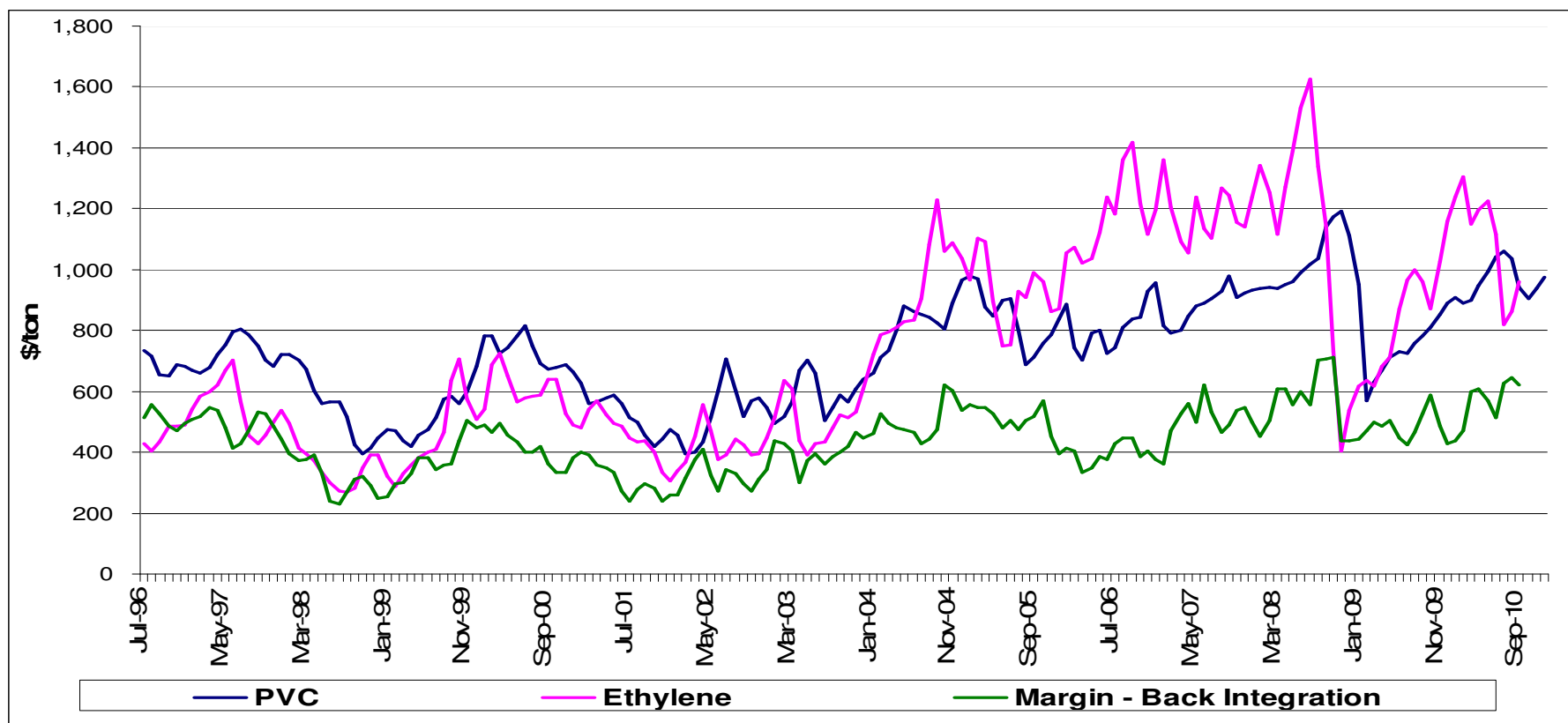
VCM Plant Highlights

- VCM scrubbers damaged during December 2009 fire incident were commissioned on August 3, 2010.
- VCM Plant Commercial production was declared on September 30, 2010.



VCM Production was low in August 2010 due to Plant maintenance activities.

Back Integration & Historical PVC-Ethylene Delta



Moving Averages (\$/ton)	Project Assumptions	5 yr	3 yr	1 yr	Jul-10	Aug-10	Sep-10
PVC	750	890	917	962	907	940	974
Ethylene	800	1,078	1,034	1,077	818	860	960
NaOH C&F	246	345	375	373	394	394	378
Domestic Margin	468	501	537	550	627	644	622

Operating Highlights – 3Q

		3Q 2010	3Q 2009
Production:			
PVC	KT	29	31
VCM	KT	22	-
EDC	KT	24	16
Caustic Soda	KT	23	14
Sales:			
PVC Domestic	KT	27	29
PVC Export	KT	-	-
Caustic Domestic	KT	20	10
EDC Export	KT	10	16
KESC	MW	0	2
EPCL PVC-VCM Margin	\$/ton	301	207
International PVC-VCM Margin	\$/ton	133	201

Operating Highlights – YTD September

		YTD September 2010	YTD September 2009
Production:			
PVC	KT	80	91
VCM	KT	36	-
EDC	KT	70	16
Caustic Soda	KT	67	14
Sales:			
PVC Domestic	KT	74	93
PVC Export	KT	-	9
Caustic Domestic	KT	58	10
EDC Export	KT	33	16
KESC	MW	2	1
EPCL PVC-VCM Margin	\$/ton	277	210
International PVC-VCM Margin	\$/ton	124	160

Financial Highlights – 3Q 2010 vs. 3Q 2009

	Quarter ended Sept. 30, 2010	Quarter ended Sept. 30, 2009 (Restated)	Remarks
Net Sales	3,702,943	3,219,957	(1.) DOMESTIC PVC SALES: 27 KT of PVC sold at \$1,055/ton as compared to 29 KT at \$958/ton last year. (2.) PVC EXPORTS: No exports of PVC were made in 3Q 2010 nor in 3Q 2009 (3.) EDC EXPORTS: 10KT of EDC was exported in 3Q 2010 as compared to 16KT in 3Q 2009. (4.) DOMESTIC CAUSTIC SALES: 20KT of Caustic Soda was sold at Rs.30,979/ton as compared to 10KT at Rs.29,528/ton in 3Q 2009. (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. 83.2/\$ in 3Q 2009 to Rs. 86.5/\$ in 3Q 2010 contributing further to the growth in revenue.
Cost of goods sold	(3,496,872)	(2,858,145)	PVC production during 3Q 2010 was 29KT vs. 30KT in 2Q 2010. Wtd. avg. VCM cost was \$754/ton in 3Q 2010 vs. \$750/ton in 3Q 2009. VCM cost increase impact was magnified by an increase in exchange rate from Rs. 82.46/\$ in Q3 2009 to Rs. 85.79/\$ during Q3 2010. Besides this, 23 KT of caustic and 24KT of EDC was also produced. Wtd. avg gas cost increased to Rs.382.37/mmbtu vs. Rs.324.30/mmbtu last year.
Gross Profit	206,071	361,812	
Distribution & marketing expenses	(171,535)	(141,714)	
Administrative expenses	(87,361)	(55,085)	
Other operating expenses	(57,239)	(60,537)	
Other operating income	4,551	64,449	
Operating profit / (loss)	(105,513)	168,925	
Finance Costs	(378,037)	(223,665)	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.8.2 Billion loan from local syndicate of banks. While the project was being constructed in 2009, the related interest was being capitalized.
Loss before taxation	(483,550)	(54,740)	
Taxation	170,690	22,868	
Loss after taxation	(312,860)	(31,872)	

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

	9 Months ended Sept. 30, 2010	9 Months ended Sept. 30, 2009 (Restated)	Remarks
Net Sales	10,557,514	8,185,429	(1.) DOMESTIC PVC SALES: 74KT of PVC sold at \$1,103/ton as compared to 93KT at \$873/tons last year. (2.) PVC EXPORTS: No exports of PVC were made as compared to 9KT (at FOB price of \$626/ton) last year. (3.) EDC EXPORTS: 33KT of EDC was exported in YTD September 2010 as compared to 16KT in comparable period last year. (4.) DOMESTIC CAUSTIC SALES: 58KT of Caustic Soda was sold at Rs.30,305/ton compared to 10KT at Rs.29,528/ton in comparable period last year. (5.) POWER SUPPLY: 2MW of power was sold to KESC during the period in addition to supply to Engro Fertilizer's Zarkhez Plant. (6.) The weighted average exchange rate increased from Rs. 81.54/\$ in 2009 to Rs. 85.79/\$ in 2010 contributing further to the growth in revenue.
Cost of goods sold	(9,874,726)	(7,388,154)	PVC production was 80 KT vs. 91 KT in comparable period in 2009. Wtd avg VCM cost increased to \$826/ton vs \$662/ton in last year. This was magnified by an increase in exchange rate from Rs. 81.5/\$ last year to Rs.85.79/\$. Besides this, 67KT of Caustic and 70KT 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. 334.5/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	682,788	797,275	
Distribution & marketing expenses	(454,362)	(336,468)	
Administrative expenses	(229,724)	(133,223)	
Other operating expenses	(198,450)	(148,151)	Due to higher Foreign Exchange loss during 1H 2010
Other operating income	21,012	125,105	
Operating profit / (loss)	(178,736)	304,538	
Finance Costs	(1,035,077)	(344,628)	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.8.2 Billion loan from local syndicate of banks. While the project was being constructed in 2009, the related interest was being capitalized.
Loss before taxation	(1,213,813)	(40,090)	
Taxation	451,569	21,469	
Loss after taxation	(762,244)	(18,621)	

* VCM plant related fixed costs and financial charges were capitalized till June 2010 and March 2010, respectively. No costs were capitalized in 3Q 2010.

Business Outlook

- International Chlor Vinyl margins are improving due to global supply demand.
- PVC prices have also moved higher and are expected to remain at these levels.
- International Caustic soda prices have already started to firm up and are likely to increase during 4Q 2010.
- Domestic demand for PVC is expected to be slow due to the liquidity crunch in the market and reduced government spending.
- Based on the improved PVC supply situation, the Company has initiated exports of PVC, which provides good margins at the current time.
- Caustic Soda sales of the Company are expected to remain in line with company's production.
- Profit margins are expected to improve as the integrated facility operations smooth out, however the profitability would depend on the productivity of the entire complex.
- Delayed commissioning of the VCM plant resulted in a cumulative loss of Rs. 762 million during the first nine months and therefore the profitability projections (Rights Issue) for the year 2010 will not be met and the financials of the Company would show a net loss at the end of 2010.

Thank You

 **Engro Polymer & Chemicals Limited**
3Q & YTD September 2010 Business Results
October 27, 2010