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WANHUA CHEMICAL GROUP CO.,LTD.

万华化学集团股份有限公司

Wanhua Globalization Report

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2017·9·21

Contents

一

- **Why Globalization**

二

- “Go-Global” Footprints

三

- Experiences For Merger

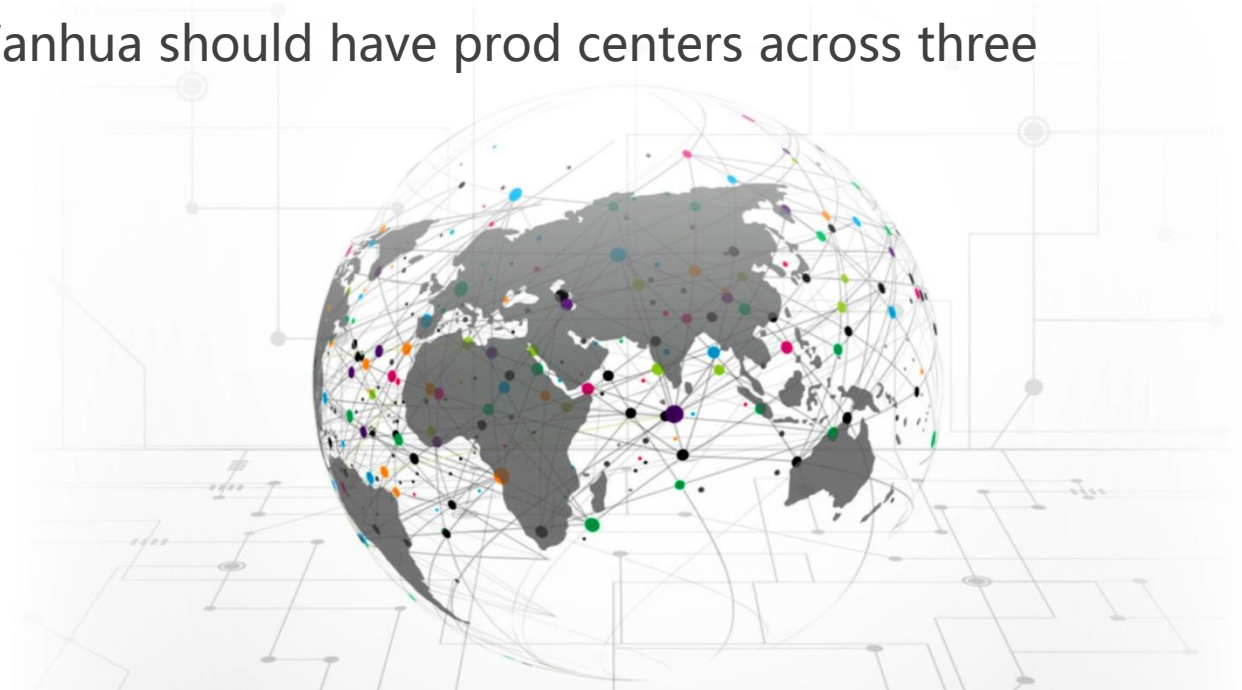
Why Globalization?

- Globalization of chemical industry: Europe, America and Asia markets are independent, dominated with intra-region trades(roughly two thirds)
- Leading chemical companies have their sales network and prod. centers across these regions.
- Wanhua' s strong desire of globalization strategy after achieving leading position in domestic market.
- Wanhua can not exert influence in Europe and American market only with domestic production, also is the Forex risk exposure.
- Active in a dominating industry with only few players, Wanhua choose to maintain its leading position in Chinese market by carrying out globalization strategy.
- Lessons of Japan PU enterprises failure to entry to Europe and American market.

To become a top player, globalization is the only path forward.

Principles

- Globalization vision, thinking and strategy.
- Global resource balance and distribution, esp. talents reserve.
- Global competiveness in each segment
- Priority on building up sales network across the globe
- First market-wise then plant investment, to avoid risk and uncertainties. Wanhua should have prod centers across three regions.



Objectives

Vision

- To become an innovative, world-class chemical company, admired by our employees and respected by the community.

Two Shifts

- From Wanhua PU to Wanhua Chemical
- From a regional player to a global corporation

Strategies

- A top global PU company
- Key supplier of global C3/C4 derivatives
- Key supplier of coating industry

Paths to Strategy

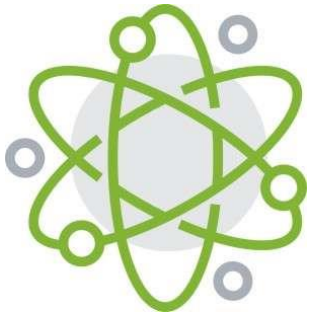
Two Shifts

Wanhua PU ⟶ Wanhua Chemical

Yantai Industrial Park is a landmark for Wanhua to shift to a versatile chemical company. The park cover 10.6km^2 with total investment of 70 bil ¥, Wanhua integrates PU, petrochemicals, fine chemical and new material segments and creates a chemical compound with great competitiveness and risk-hedging capacity.

Regional Player ⟶ Global Corporation

- Sales network across the global
- Prod centers in Europe and America
  - Milestone for Wanhua : Merger with BorsodChem
  - MDI plant in US in planning



Why Europe First?

Site selection in Europe

- A crucial and profitable regional market for chemical giants like BASF, Bayer, Huntsman and Dow.
- Local Consumption and geographical coverage and quick response to EMEA emerging market.

Why M&A?

- **To Wanhua**: Acquiring Existing prod. center, sales channel and experienced staff.
- **To BorsodChem**: Avoiding bankruptcy with Wanhua strategic investment; injection of capital, technology and operational synergy from Wanhua group.
- **To Global PU industry**: market integration& merger, cause no disruptive effect to global PU market.

Contents

一

- Why Globalization

二

- **“Go-Global” Footprints**

三

- Experiences For Merger

“Go-Global” Footprints

WANHUA

1998

Before WHPU, the old factory can only produce MDI with poor quality and failed to meet overseas clients’ RQMT

2002

3I strategy alongside with Ningbo MDI project.

International Standard

International Operation

International Competitiveness

Wanhua started to build up its global sales channel and network spread over Europe, Mideast, the United States and etc.

2002-til now

Not laying on domestic robust development, Wanhua insist on building and optimization of global sales network buildup.

2005

Go-Global strategy: Starting site selection in Europe, Russia and Mideast. Decision was made that Netherland and Belgium was optimal choice and we lodged the acre with upfront payment.

“Go-Global” Footprints

WANHUA

2009-2011

Global crisis brought new chance for industrial acquisition.
Wanhua took over BorsodChem in early 2011.

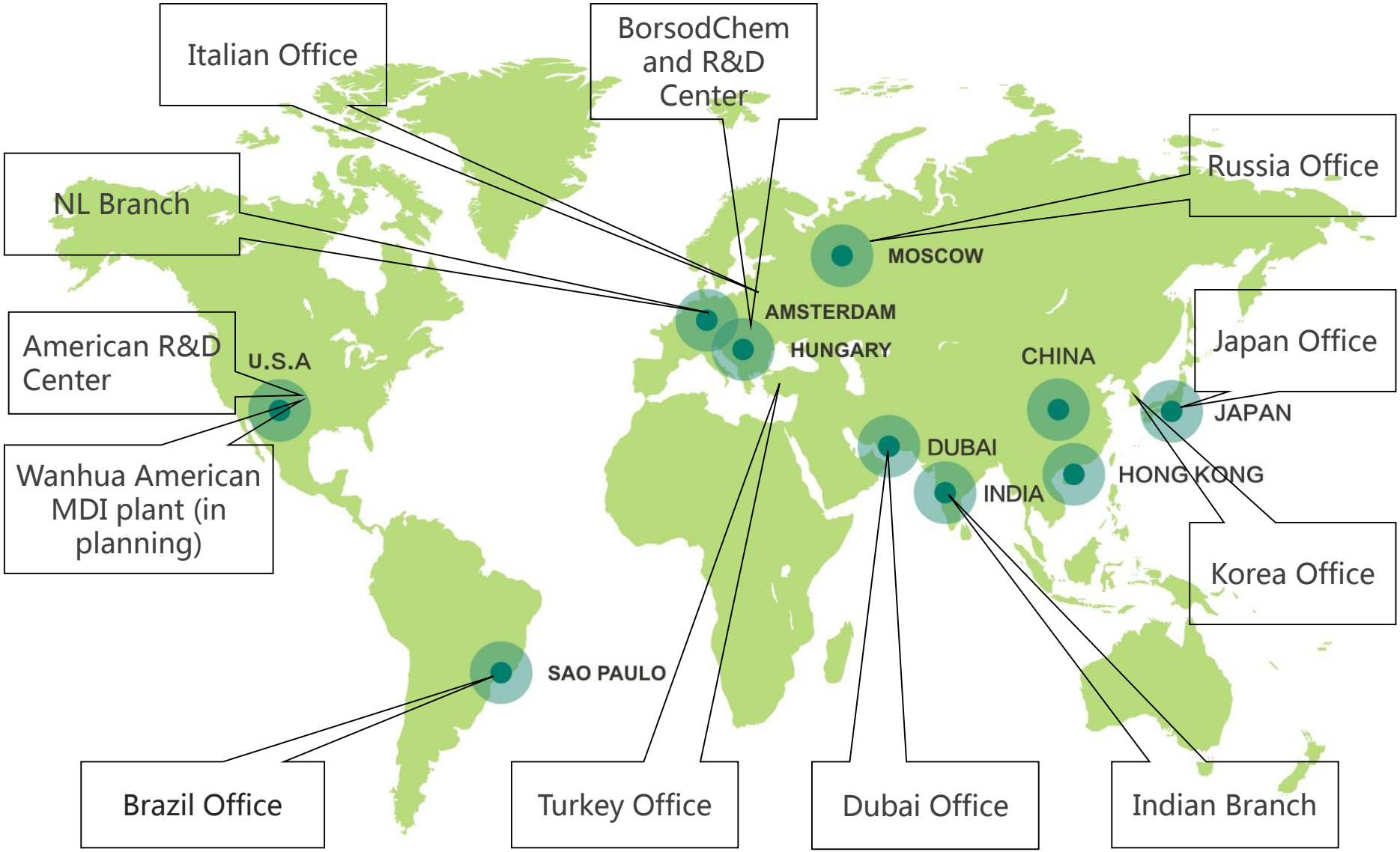
2014

Three years’ fully integration, Borsodchem improved its financial performance and brought forward “Sino-Hungarian Cooperation Zone” concept in accordance with national “One Belt One Road” and the “Oriented Strategy” initiated by Hungarian Government.

Ongoing

Finished Planning of prod. hub selection and chain integration in the States, and American research center was open in 2017.

Wanhua Globalization



Contents

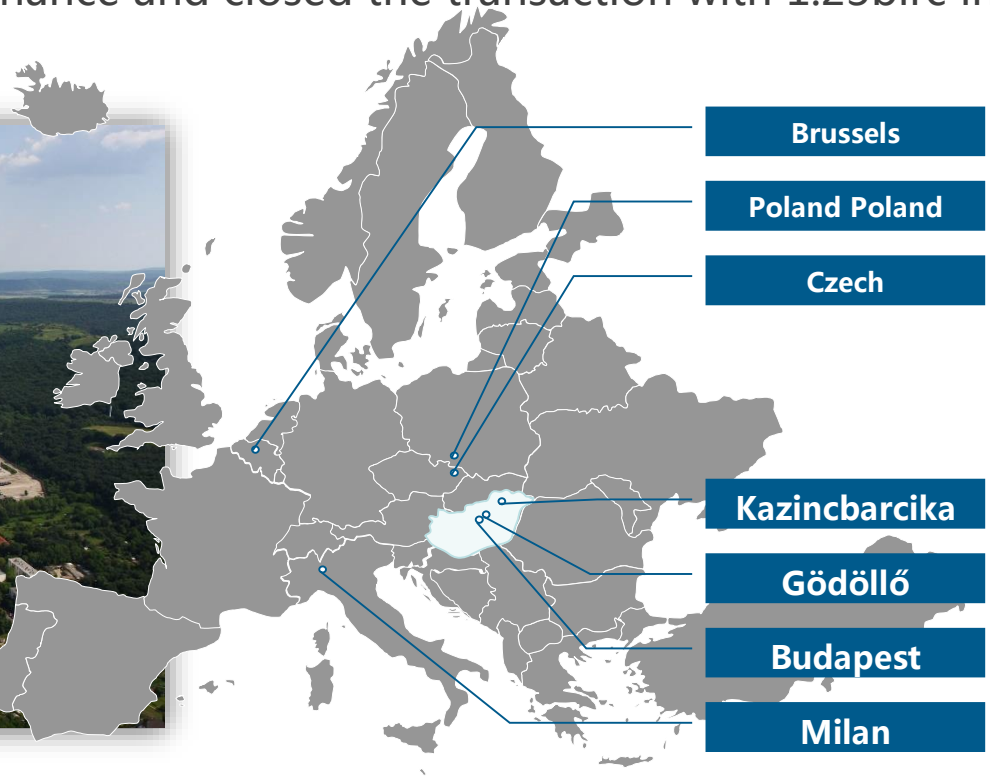
Ⅰ
- Why Globalization

Ⅱ
- “Go-Global” Footprints

Ⅲ
- **Experiences For Merger**

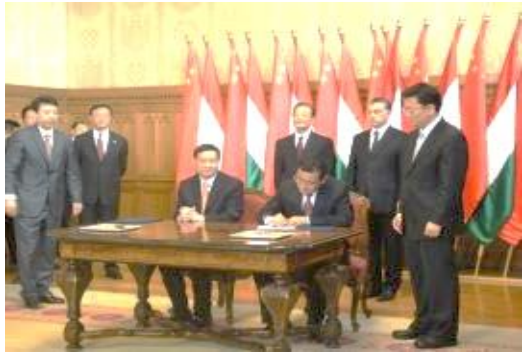
BorsodChem Overview

- Originally a fertilizer factory, BorsodChem started PVC production in the 60s, introduced MDI/TDI technology from Japanese Mitsui Chemicals in the 90s. Before acquisition, BorsodChem had 3200 employees, with 160kta MDI and 90kta TDI capacity.
- In 2009 impacted by global crisis, BorsodChem was struggling on the verge of bankruptcy, Wanhua took the chance and closed the transaction with 1.23bil€ in Jan. 2011.



Meaning& Comments

- A big step towards global operation and strategic risk- offset mechanism, ensuring Wanhua leading position in domestic PU market.
- Wanhua was awarded with "Best Restructure Award in EMEA region in 2010" out of complexity, impact and marketization nature of this transaction.



Highly commented by global media. Financial Times: Wanhua's acquisition cast a beacon effect on global chemical industry .

Fully Integration

Teamwork& Synergies

Severe Situation

- Continuous financial losses, faint hope for turnaround, low morale, huge leakage, waste& inefficiencies at site operation.

Strengthen Faith

- Reiterate Wanhua global strategy, and BorsoChem is an indispensable part of it. Wanhua aims to make BorsodChem a competitive and sustainable player in EMEA regions through technology& capital injection.
- Reference of Wanhua history- Starting from a humble foothold and grows into a global chemical corporation.
- Wanhua& BorsodChem SWOT analysis, with synergy yields 1+1>2

Fully Integration

Mgt Restructure

- Sacked two underperformed Mgt members, rotating positions within the Mgt team, optimizing organization and sales channel structure.
- Mgt Tool Introduction: GBC, budget oriented, KPI& CPM system, lean Mgt, Global comp& coop, global chain integration, logistics optimization.

Tech Injection& Revamp

- **Capacity expansion:** MDI from 140 to 300kta, TDI from 90 to 250kta. **Value Creation:** Better products quality, lower consumption, double commodity output, and high value derivatives volume increased by four folds.

Fully Integration

Better Assets& Debts optimization

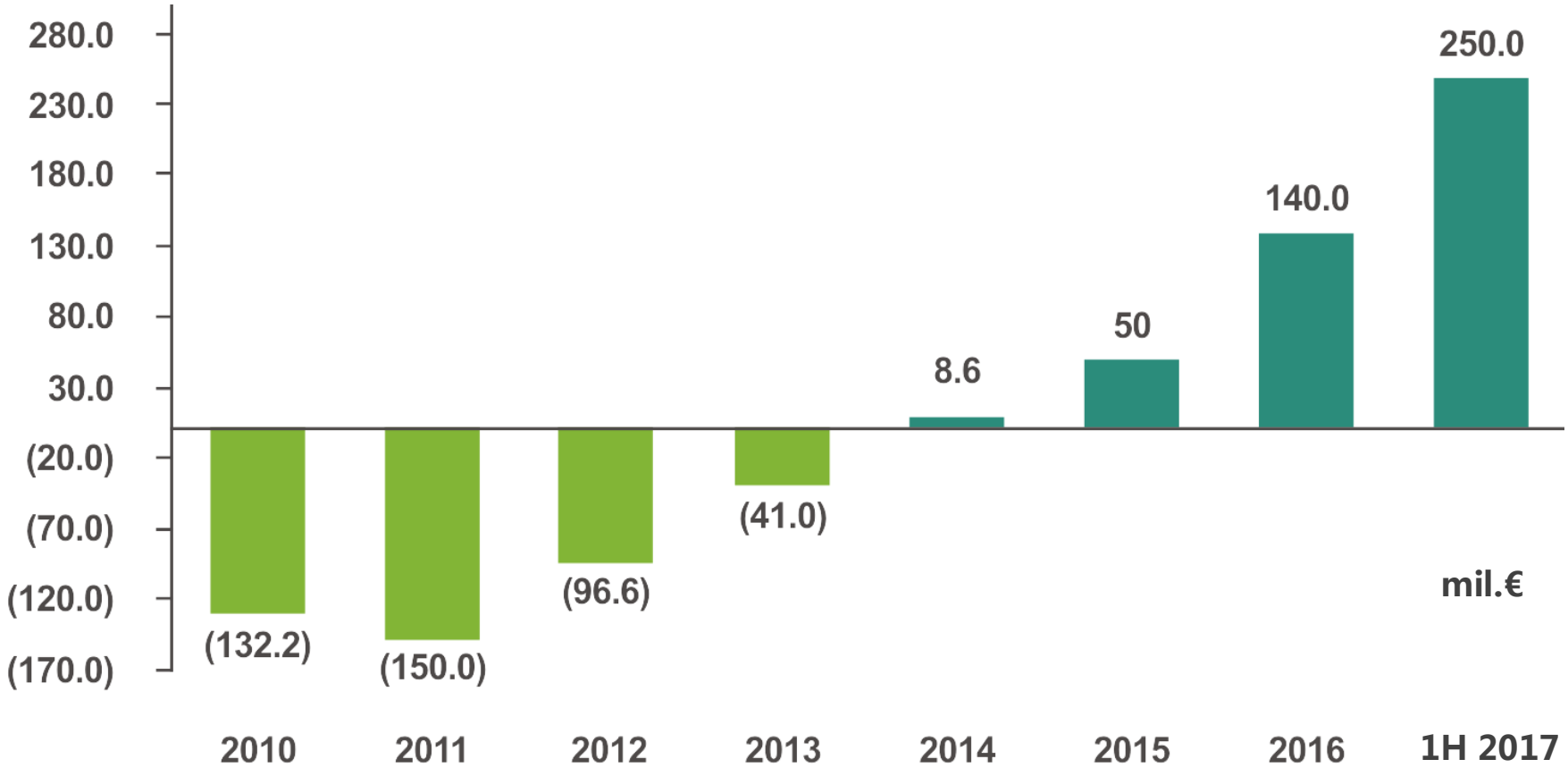
- Restart idle plants, lower cost and spin-off unprofitable business.
- Lower the financial cost by EU quantitative easing policy and low-interest loan from Chinese banking syndicate, replaced the old and expensive debts.

Culture Merger

- Based on Wanhua corporate value, combined with BorsodChem specific conditions, Wanhua and BorsodChem work out the core business value that enhance the team cohesion and recognition.

Improved Financial Performance

- Net profit rapid growth based on stable revenue development. BorsodChem shows its global competitiveness with its EBITDA ratio top among other Europe rivals.



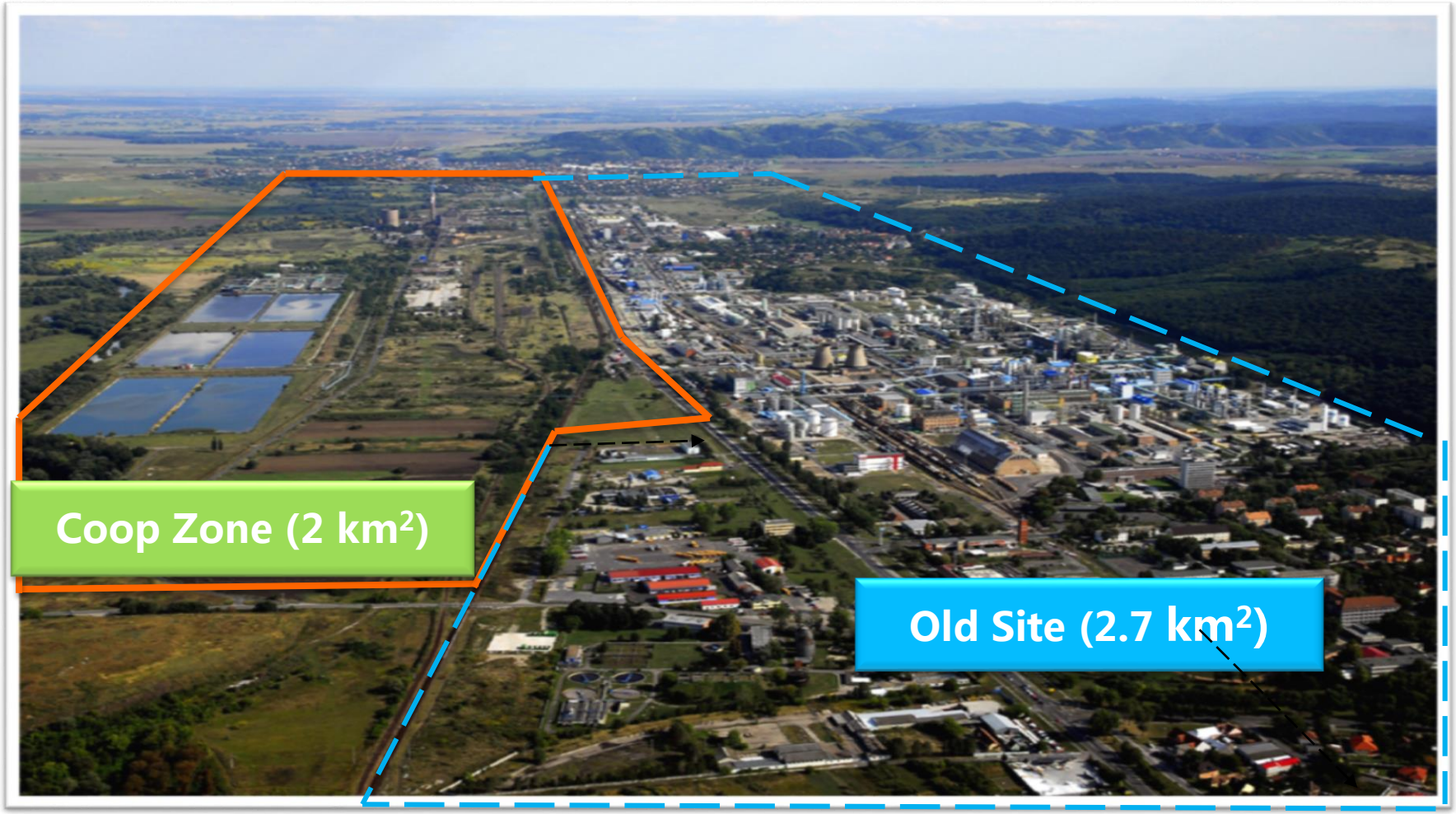
Experiences for Merger

- Rapid growth of China's economics is prerequisite conditions for Chinese companies "Go Global" strategy.
- We should attach importance to acquisition as it can bring financial contribution to shareholders and provide momentum when global slowdown.
- A leading domestic company have better chance to success in overseas strategic investment, as they can rely on their existing team and have easy access to financial tools.
- Senior leaders have to take the CEO position and have fully control of the acquired company.
- Fully integration, esp. culture merger.
- Positive media image buildup by taking social& community responsibility, and create sound environ for sustainable development.
- State priority on collaboration with authorities and key business partners.
- Winning recognition of local employees, their morale is also crucial to corporate success. (More and more BorsodChem staff and local residents are learning Chinese)

“Sino-Hungarian Industrial Cooperation Zone

- Response to Chinese “One Belt and One Road” and Hungarian Oriented Strategy nationwide, We bring forward the “Sino-Hungarian Cooperation Zone” proposal based on our BorsodChem territory and resource. We offer great investment conditions and minimize the globalization risk through strong Chinese partnership.
- The proposal was formally approved by National Department of Commerce in Aug. 2016, and Financial Ministry has granted us the identity of overseas cooperation zone on national level, and will provide necessary assist and support to facilitate the Cooperation Zone as a modeling project for successful overseas investment.

Seat of Our Industrial Coop Zone



Note: Our BorsodChem park a spacious area of cover 4.7km², with 1.2 km² industrial land reserve within surroundings.

Integrated Chain Portfolio within Our Park

Backboned with chemical and biochemical business, facilitated with light industry and mechanical processing, energy-saving and environmental segment, we aim to create a processing and manufacture center by collaboration with potential partners.

Upstream Material	Middle Product	Terminal Application
Petrochemical Benzene/Toluene/ Ethylene	MDI	Construction
Sodium Chloride	TDI	Light Industry
Gas	TPU	Transportation
Energy	PVC	Household Appliances
Crop Resources	Chlor-alkali	Electronics
	……	Packing Material
		Textiles
		Machinery
		Nutrition
		Personal Care
		Energy
		Aviation

Preferential Conditions- Facilities and Feedstock

- **NG:** We are qualified to source NG directly from global market, EU standardized NG pipeline can supply 1bil.Nm^3 /a NG for BorsodChem, currently we only use 400mil. Nm^3 /a.
- **Power:** With captive-used power house of 50MWh capacity and national grid providing additional 480MWh, we have sufficient power resource for future development.
- **Water**: Taken from Danube branch, local authority grant us quota up to 10mil. Nm^3 /a, only 50% is be used now.
- **Basic feedstock**: BorsodChem Park can offer complete basic chemicals for potential partners.
- **Logistics**: On-site railway system available

Preferential Conditions- Local Policy

- Best bilateral relations with China among EU members, political and social stable, the ruling party now dominating over two thirds of parliament seats.
- Geometric center of Europe, ideal location for coverage of EU market. Strong interest from local government to act as a bridgehead and DIST center for Chinese investors.
- Local talents with low labor cost among EU members.
- Leading transparency ranking in Mid& East Europe according to 2012 global statistics.
- Competitive tax preference initiated by Hungarian government, and up to 50% investment off by direct local subsidies and tax return.
- Favorable policy from Chinese government if investment landed in our Coop Zone.
- Wanhua industrial experience will provide one-stop service and minimize uncertainty and contingencies for our partners.

Thank you !