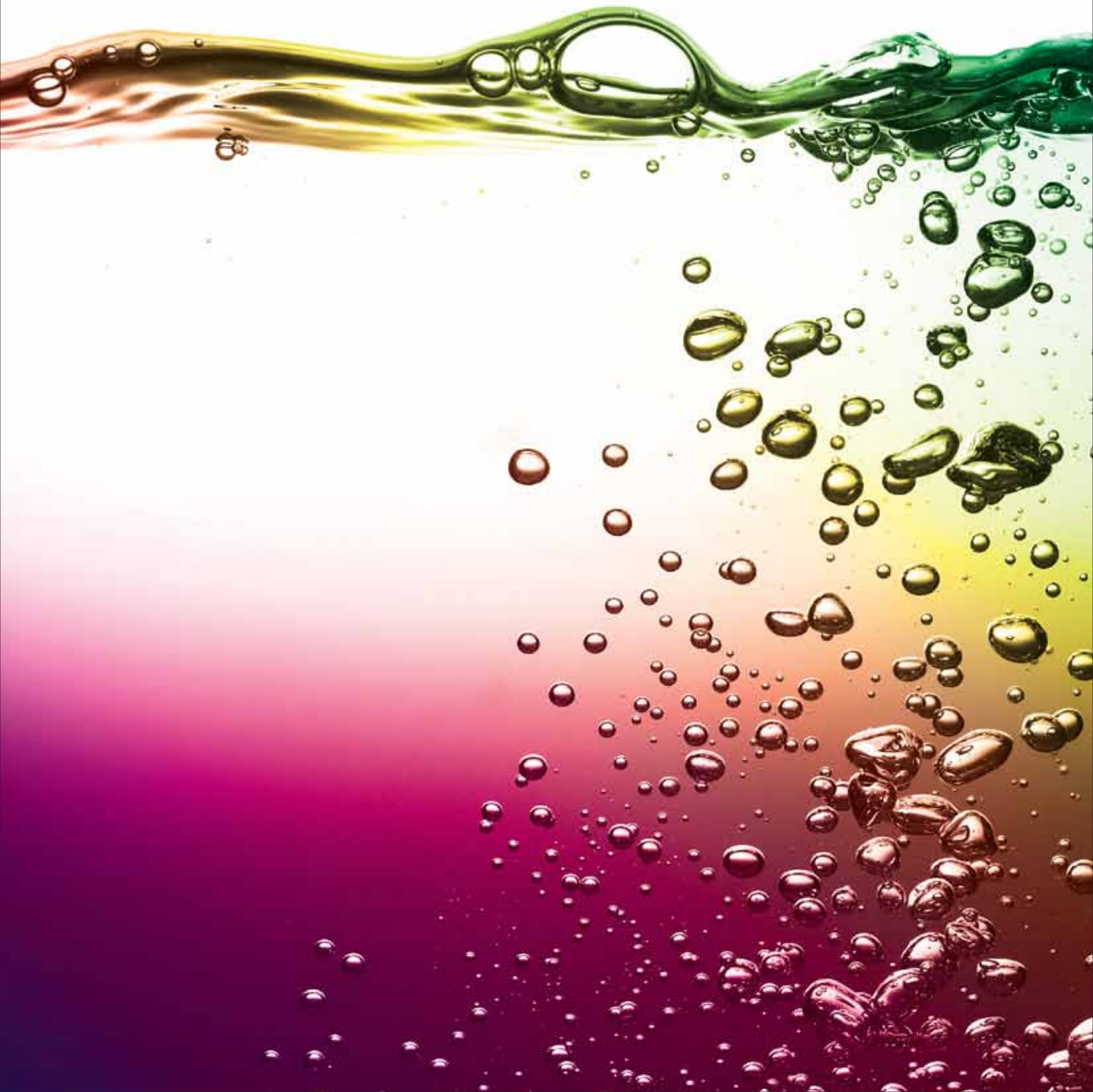




engro polymer & chemicals

Creating
Ripples
through time

ANNUAL REPORT 2013





Engro Polymer & Chemicals Limited is proud to present its Annual Report for the year 2013. This report focuses on stakeholder information, corporate governance, the directors report and financial statements for the year ended December 31st, 2013.

For any feedback, suggestions or queries kindly contact the following:

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This report is also available on our website:
www.engropolymer.com



creating ripples through time

Water is the essence of life and Engro Polymer & Chemicals Limited is committed to efficient utilization of water through its products. We will continue to direct our efforts towards sustainable water management.

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our mission

Our mission is to achieve innovative growth which creates value for our stakeholders, customers and employees. Our commitment is to maintain the highest standards of ethics, safety and environmental responsibility.

corporate objectives

- ▶ Maintain highest workplace safety standards as per DuPont framework
- ▶ Continue to benchmark performance against acclaimed environmental practices as per British Safety Council standards
- ▶ Ensure stable production
- ▶ Improve raw material consumption ratios
- ▶ Expand domestic market for vinyls
- ▶ New product development
- ▶ Develop and retain talent
- ▶ Improve employee engagement



our statement of best practices

Overall, work towards creating an environment which promotes the realization of our Vision and Values, by focusing on behavioral modification and systematic changes.

Challenge the status quo by, experimenting and taking reasonable and calculated risk.

Think EPCL, by placing Company interest above individual, sectional, departmental and achieving these before implementing.

Collectively develop clear, concise and realistic goals, also agreeing on the process of achieving these before implementing.

Balance task, team and individual needs, by keeping the helicopter view.

Work through teams, by valuing all ideas and effectively committing people through consensus building and active involvement.

Remind each other on the importance of using participatory processes, just as much as emphasizing attention on safety, quality and continuous improvement.

Recognize individual needs and help fulfill them.

Trust each other by delegating authority and decision making to the lowest possible level.

Encourage sharing a clear, consistent and timely feedback for learning and growth.

Give everyone a chance by listening patiently and thinking before speaking.

Recognize team and individual efforts to change by celebrating both lessons and successes.



our core values

Our core values define every aspect of our way of doing business.



ethics & integrity

We do care how results are achieved and will demonstrate honest and ethical behavior in all of our activities. Choosing the course of highest integrity is our intent and we will establish and maintain the highest professional and personal standards. A well founded reputation for scrupulous dealing is itself a priceless asset.



health, safety & environment

We will manage and utilize resources and operations in such a way that the safety and health of our people, neighbors, customers and visitors is ensured. We believe our safety, health and environmental responsibilities extend beyond protection and enhancement of our own facilities.



innovation & risk taking

Success requires us to continually strive to produce breakthrough ideas that result in improved solutions and services. We encourage challenges to the status quo and seek organizational environments in which ideas are generated, nurtured and developed. Engro appreciates employees for well thought out risks taken in all realms of business and for the results achieved due to them, acknowledging the fact that not all risks will result in success.



our people

We strongly believe in the dignity and value of people. We must consistently treat each other with respect and strive to create an organizational environment in which individuals are fairly treated, encouraged and empowered to contribute, and can grow and develop themselves and help to develop each other. We do not tolerate any form of harassment or discrimination.



community & society

We believe that a successful business creates much bigger economic impact and value in the community, which dwarfs any philanthropic contribution. Hence, at Engro, sustainable business development is to be anchored in the commitment to engage with key stakeholders in the community and society.

our statement of business ethics

The policy of EPCL is one of the strict observance of all laws applicable to its business.

Our policy does not stop there. Even where the law is permissive, EPCL chooses the course of highest integrity. Local customs, traditions and mores differ from place to place, and this must be recognized. But honesty is not subject to criticism in any culture. Shades of dishonesty simply invite demoralizing and reprehensible judgments. A well-founded reputation for scrupulous dealing is itself a priceless Company asset.

An overly-ambitious employee might have the mistaken idea that we do not care how results are obtained, as long as he gets results. He might think it best not to tell higher management all that he is doing, not to record all transactions accurately in his books and records, and to deceive the Company's internal and external auditors. He would be wrong on all counts.

We do care how we get results. We expect compliance with our standards of integrity throughout the organization. We will not tolerate an employee who achieves results at the cost of violation of laws or unscrupulous dealing. By the same token, we support and we expect you to support, an employee who passes up an opportunity or advantage which can only be secured at the sacrifice of principle.

Equally important, we expect candor from managers at all levels, and compliance with accounting rules and controls. We don't want employees to misrepresent facts, whether they are misrepresenting in a mistaken effort to protect us or to make themselves look good. One of the kinds of harm which results when a manager conceals information from higher management and the auditors is that subordinates within his organization think they are being given a signal that Company policies and rules, including accounting and control rules, can be ignored whenever inconvenient. This can result in corruption and demoralization of an organization. Our system of management will not work without honesty, including honest book-keeping, honest budget proposals, and honest economic evaluation of projects.

It has been and continues to be EPCL's policy that all transactions shall be accurately reflected in its books and records. This, of course, means that falsification of its books and records and any off-the-record bank accounts are strictly prohibited.

our approach towards creating meaningful value

Our Board of Directors is representative of our shareholders' interests and works with the President & CEO in deciding the overall strategic vision and direction of the Company.

Two principal Board Committees assist the Board in making decisions related to business management and compensation. Furthermore, there are numerous Functional Committees acting at the operational level in an advisory capacity to the President & CEO, providing suggestions and recommendations related to business, environment and employee matters.

Functional Heads provide advice and recommendations in their own capacities, and concerning their respective business areas. These include health and safety, technical matters relating to the Plants, marketing and sales, finance, employee matters, supply chain, information technology and logistics.

The senior management of the Company considers feedback a significant contributor for the review of objectives and for the development of future plans and strategies. The Company gathers information through various stakeholders, including the government, shareholders and community, which ensure an efficient flow of information both in and out of the Company.

engaging stakeholders

Engro Polymer & Chemicals Limited understands the importance of stakeholder engagement and recognizes that there is no better way to ensure that our Company remains a responsible corporate citizen, having a positive impact on all of our stakeholders.

We engage with our stakeholders both formally and informally, periodically and regularly.

EPCLs stakeholders include:

Media

Our engagement with print & visual media takes place through regular press releases on key achievements and activities as well as through informal conversations on Company news and updates throughout the year.

Investors, lenders and shareholders

Investors and shareholders look forward to our Annual General Meeting as well as Corporate Reports (Annual and Sustainability Reports), which include comprehensive information on both financial and non-financial matters related to the organization. Further, analyst briefings are conducted on quarterly basis, while disclosures to the stock exchanges on strategic events are made as and when required.

Suppliers and customers

Our suppliers and customers are engaged through periodic formal and informal meetings / conferences. We regularly provide them with technical assistance related to their businesses, to benefit both the industry and the economy in which we operate.

Host communities (local to our facilities and throughout Pakistan)

We consider ourselves responsible for our host communities and hold regular interaction in order to understand how we can improve our relation. The Company is extremely active in health, education, livelihood and environmental projects for the betterment of these communities.

Employees

EPCL concentrates on employee engagement as it is key to performance. A survey is carried out every year to assess the levels of engagement and motivation at the workplace, and based on feedback areas of weakness are improved and strengths held stable.

Regulators

The Company complies with all regulatory requirements and in this regard maintains close coordination with relevant regulators including the stock exchanges, tax authorities and Securities and Exchange Commission of Pakistan (SECP).

stakeholder information



company information

Board of Directors

Muhammad Aliuddin Ansari – Chairman
Khalid Siraj Subhani – Chief Executive
Abdul Samad Khan
Kimihide Ando
Naz Khan
Shabbir Hashmi
Shahzada Dawood
Takashi Yoshida
Waqar Malik
Isar Ahmed*

Chief Financial Officer

Mohsin Ali Mangi

Company Secretary

Muneeza Iftikar

Corporate Audit Manager

Muneeza Kassim

Auditors

A.F. Ferguson & Company
Chartered Accountants
State Life Building No. 1-C, I.I. Chundrigar Road
Karachi-74000, Pakistan
Tel: +92(21) 32426682-6 / 32426711-5
Fax +92(21) 32415007 / 32427938

Share Registrar

FAMCO Associates (Private) Limited
1st Floor, State Life Building 1-A,
I.I. Chundrigar Road
Karachi - 74000
Tel: +92(21) 32427012, 32426597, 32425467

Bankers / Lenders

Allied Bank Ltd.
Askari Bank Ltd.
Bank Al Falah Ltd.
Bank Al Habib Ltd.
Barclays Bank PLC., Pakistan
Burj Bank Ltd.
Citibank N.A.
Deutsche Bank AG
Faysal Bank Ltd.
Habib Bank Ltd.
HSBC Bank Middle East Ltd. – Pakistan
Industrial and Commercial Bank of China Ltd.
International Finance Corporation
MCB Bank Ltd.
Meezan Bank Ltd.
National Bank of Pakistan
Pak Oman Investment Co. Ltd.
Soneri Bank Ltd.
Standard Chartered Bank (Pakistan) Ltd.
Summit Bank Ltd.
The Bank of Punjab
United Bank Ltd.

Registered Office

16th Floor, The Harbour Front Building,
HC-3, Marine Drive, Block 4, Clifton,
Karachi-75600

Plant

EZ/1/P-II-1, Eastern Zone, Bin Qasim, Karachi

Website

www.engropolymer.com



business at a glance

Engro Polymer & Chemicals Limited (EPCL) was established in 1997 and is the only fully integrated Chlor Vinyl Chemical Complex in Pakistan. It is involved in the manufacturing, marketing and distribution of PVC and Chlor Vinyl allied products

poly vinyl chloride (pvc)



SUPPLYING COUNTRIES

- ETHYLENE
- ETHYLENE DI CHLORIDE (EDC)

EXPORT MARKETS

- POLY VINYL CHLORIDE (PVC)
- VINYL CHLORIDE MONOMER (VCM)



PVC

The Company manufactures and markets four grades of PVC under the brand name 'SABZ'; echoing its commitment to environment and in line with its core values

PVC PLANT INFORMATION

Capacities:

- 156 KTA PVC
- 230 KTA EDC
- 204 KTA VCM



PVC



AU 67 S: Soft sheet, garden hose



AU 72: Artificial leather, wire coating, garden hose, geo-membrane

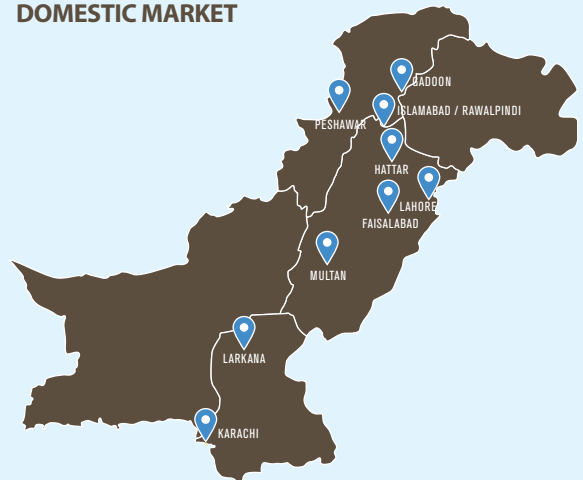


AU 67 R: Pipe, soft sheet, window profiles



AU 60: Rigid sheet, pipe fittings

DOMESTIC MARKET



PVC

- KARACHI
- LARKANA
- MULTAN
- FAISALABAD
- LAHORE
- ISLAMABAD / RAWALPINDI
- PESHAWAR
- GADOON
- HATTAR

caustic & allied chemicals



RAW MATERIAL

Salt is our primary raw material for Caustic and allied chemicals

CAUSTIC PLANT INFORMATION

Capacities:

- 107 KTA Caustic Soda
- 20 KTA Sodium Hypochlorite
- 60 KTA Hydrochloric Acid
- 3 KTA Hydrogen



- Caustic Soda
- Sodium Hypochlorite
- Hydrochloric Acid (HCl)
- Hydrogen

CAUSTIC & ALLIED CHEMICALS



Caustic Soda : Dyeing and mercerizing in textile, FFA removal from edible oil & ghee, soap, water purification



Sodium Hypochlorite : Water treatment, detergents, denim bleaching, paper bleaching

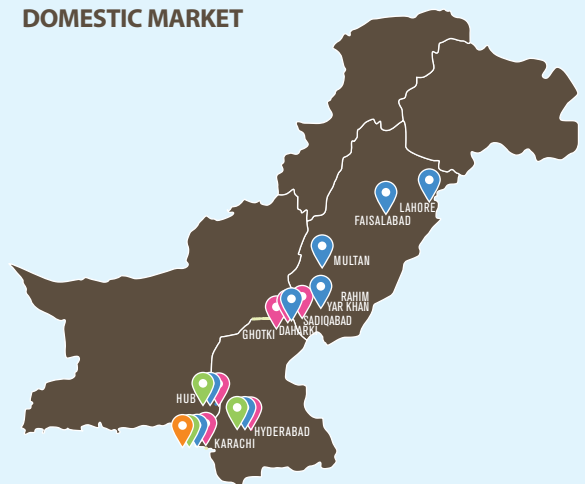


Hydrochloric Acid : Water treatment, detergents, denim bleaching, paper bleaching



Hydrogen : Used in the manufacturing of terephthalic acid

DOMESTIC MARKET



Caustic Soda

- KARACHI
- HUB
- HYDERABAD
- MULTAN
- RAHIM YAR KHAN
- FAISALABAD
- LAHORE
- DAHARKI

Sodium Hypochlorite

- KARACHI
- HYDERABAD
- HUB
- GHOTKI
- SADIQABAD
- DAHARKI

Hydrochloric Acid

- KARACHI
- HUB
- HYDERABAD

Hydrogen

- KARACHI

swot analysis

Strengths

- Integrated production facility
- Established brand name
- Strong human resource base
- Country wide sales presence
- Strategic alliance with global Ethylene trader



Weaknesses

- Limited pricing power
- Dependence on international raw material



Opportunities

- Low per capita PVC consumption of Pakistan
- Strong growth in infrastructure and textile
- Growing awareness about PVC compound



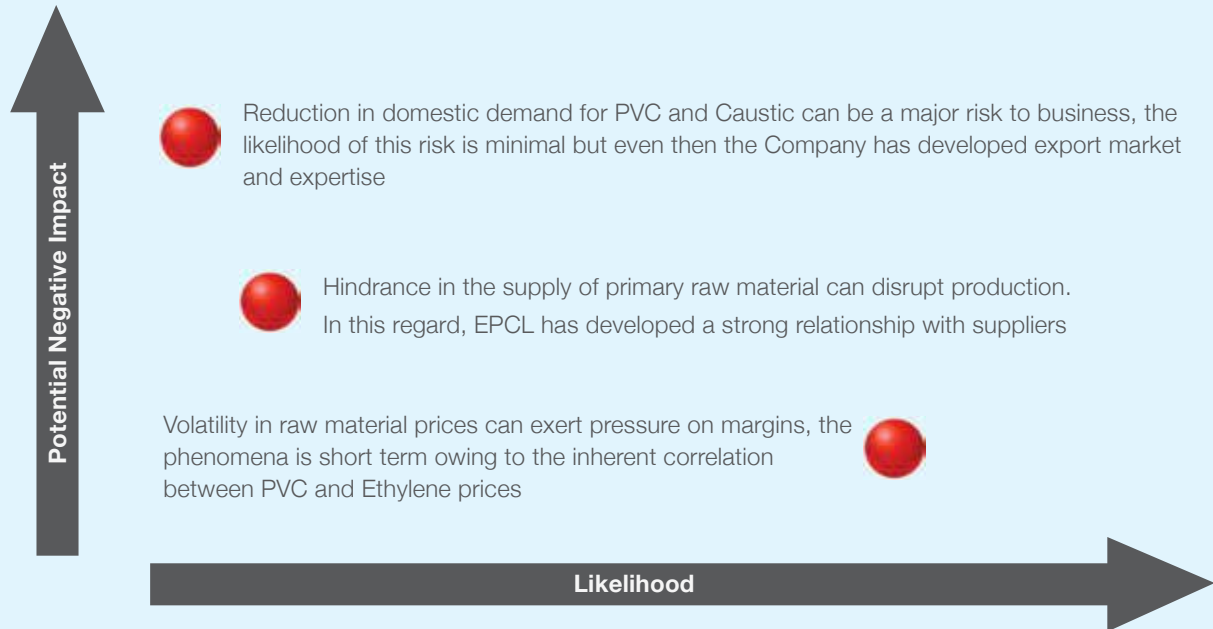
Threats

- Raw material price volatility
- Rising energy prices
- Currency volatility
- Interest rate hike

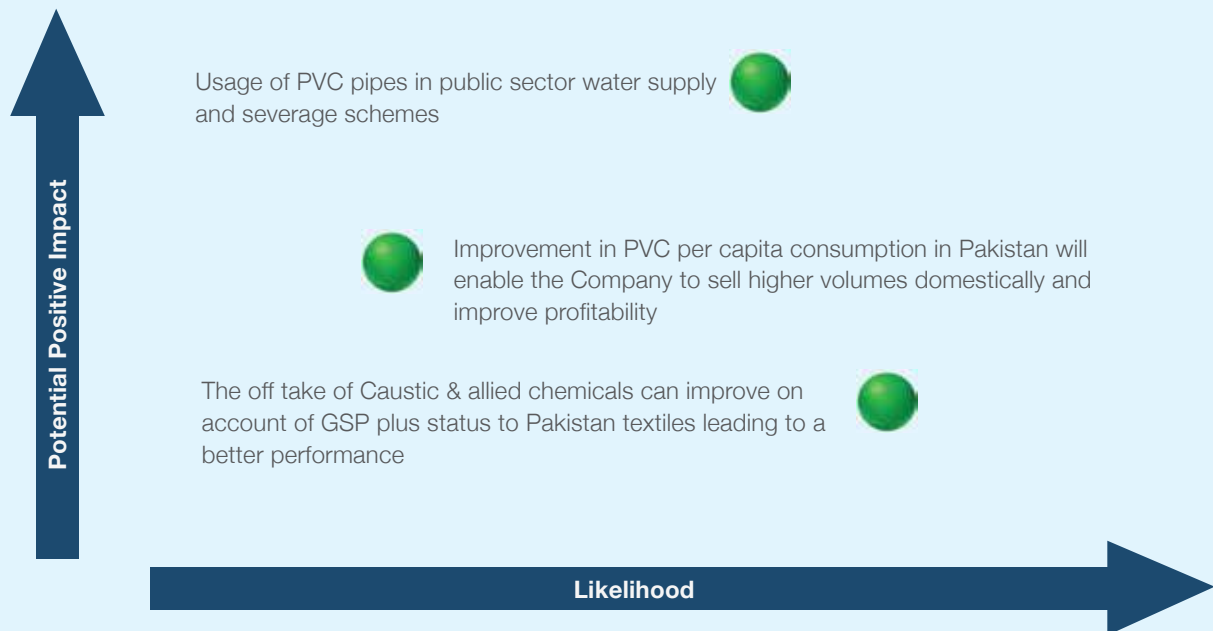


risk and opportunity matrix

Risk



Opportunity



key figures

Sales Revenue (Rs. in thousands)

2013 **24,780,581**

2012 **20,605,601**

Earnings Per Share (in Rs.)

2013 **1.07**

2012 **0.12**

Profit After Tax (Rs. in thousands)

2013 **706,707**

2012 **77,009**

Capital Expenditure (Rs. in thousands)

2013 **638,543**

2012 **364,229**



Total Assets (Rs. in thousands)

2013 **25,368,363**

2012 25,091,364

Market Capitalization (share price)

2013 **8,897,119 (13.41)**

2012 6,714,306 (10.12)

Total Equity (Rs. in thousands)

2013 **7,052,953**

2012 6,322,891

EBITDA (Rs. in thousands)

2013 **3,906,505**

2012 3,050,399

key highlights & major achievements

Highest ever profitability Rs. **707** million

Safe man-hours
13.6 million
and Total Recordable Injury Rate (TRIR) **0.12**

Began commercial sales of **Hydrochloric Acid**

Highest ever production
levels on all products except PVC

Hot Water Charging project on PVC improved PVC-1 plant capacity by

6,000 MT

Signing of MOU with TCF

to set up school in Ghagar Phatak by 2015

SAP and Siemens Award

for 'Running More Efficiently with SAP'

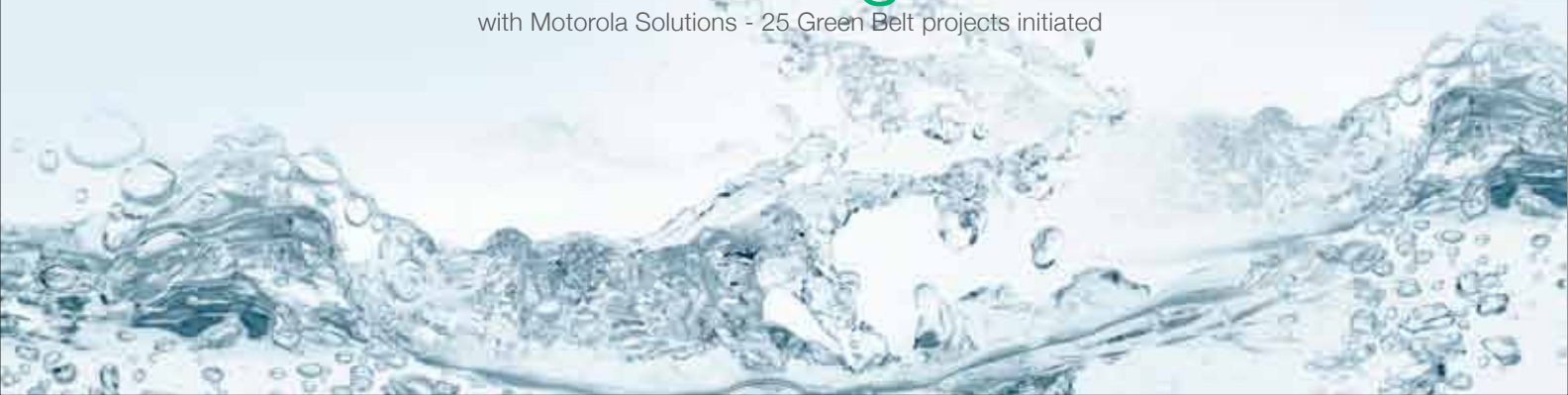
WWF Green Office certification

for Plant, Port Qasim

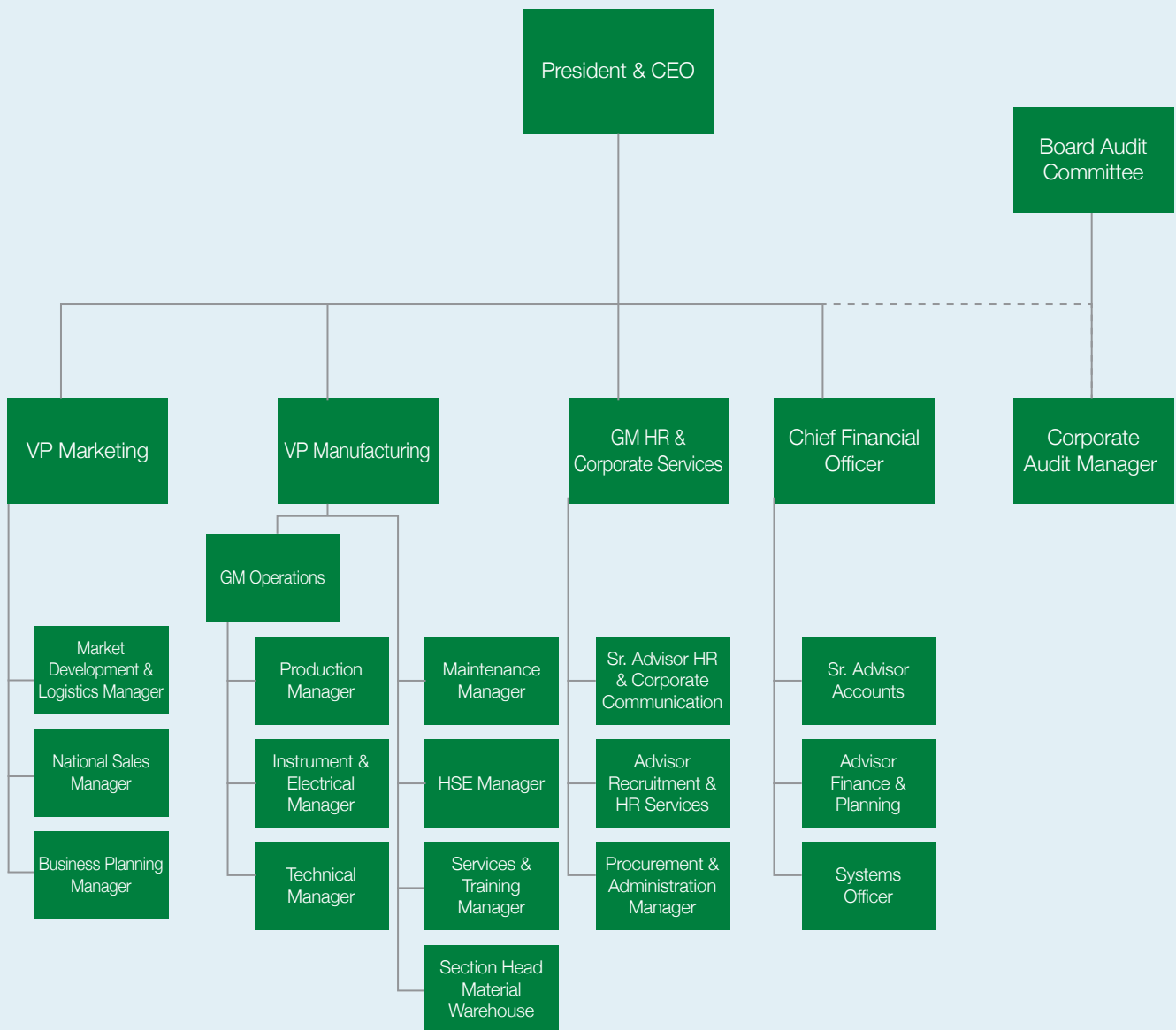
Launch of

Lean Six Sigma

with Motorola Solutions - 25 Green Belt projects initiated



organizational structure





awards achievements accreditations &

Certifications

DuPont Certification

DuPont's Process Safety system has been acknowledged as one of the top safety management systems worldwide. In 2011, the Company attained a DuPont rating of 3.2 in the Personnel Safety Management (PSM) systems audit and above 3 rating in Process Safety and Risk Management (PSRM).

This scheme covers the personnel as well as process safety management systems. It thoroughly outlines every aspect of safety systems and procedures, safe work procedures, risk management and driving safety of highly hazardous chemicals in a way that is in accordance with Occupational Safety & Health Administration (OSHA) standards.

In 2013, the Company took a major step with the implementation of the Occupational Health & Industrial Hygiene program, based on Dupont's best practices.

EMS-ISO 14001 Certification

The Company is ISO 14001 certified. Accordingly, the organization has amplified its focus on health, safety and environmental policies.

QMS-ISO 9001-2000 Certification

The Company has been ISO 9001-2000 certified since 1999, which meant increased customer satisfaction via documented systems and procedures. In 2013, the Company was able to get ISO 9001-2008 re-certification on revised standards for PVC Manufacturing and Marketing. During the surveillance audit, no major non-conformity was reported.

GRI Certification

Global Reporting Initiative (GRI) is a network-based organization pioneering in the sustainability field. It promotes the use of sustainability reporting through a GRI framework and is devoted to its continuous advancement and use worldwide. This certification will aid the Company to put the reporting framework in a standardized pattern and to plan, report and assess sustainability reports in an improved manner. In 2009 and 2010, the evaluation was done by a third party and the Company secured an A+. Subsequently, in 2012 & 2013 the evaluation was carried out on self-evaluation basis and the Company secured an A+.

Green Office Certification

The Administration Building at the Plant has been certified by WWF as a Green Office. The audit was carried out in December 2013 and 3 indicators were audited: paper reduction, energy conservation and waste reduction, which were all found to be satisfactory by WWF. The Head Office has been WWF Green Office certified since 2012.

Credibility

Best Corporate Report Awards

For three consecutive years from 2009 to 2011, EPCL was nominated for the 'Best Corporate Report' award. The Company secured second position for its 2009 and 2010 reports and was awarded fourth position for its 2011 report by the Joint Evaluation Committee of ICAP-ICMAP. In 2012, EPCL won fifth position for its sustainability report. These awards represent the Company's commitment and transparency in financial and sustainability reporting for the benefit of all stakeholders of the Company. The evaluation committee's criterion was based on the transparent disclosure of information regarding financial statements, directors' report and corporate governance.

SAP & Siemens Award

In the beginning of 2013, HR team launched SAP for which the Company received a SAP & Siemens Award for 'running more efficiently with SAP'. The module was implemented to streamline data, reduce processing time and eliminate computation errors.

UN Global Compact

The Company signed the United Nations Global Compact (UNGC) in 2010. This initiative meant that it is committed to following the ten values stated in the Compact. The organization entered the contract to achieve

highly-regarded worldwide standards of sustainable and socially responsible policies. Moreover, the Company reported its first communication on progress in 2012 from the time when it had become a signatory of the UNGC, and this was renewed in 2013.

The Company works within the principle-based structure of the UNGC that unites the hard work of other UN agencies, civil societies and local labor groups opposing human rights abuse, deterioration of the environment as well as corporate dishonesty.



corporate governance



governance framework

Our governance framework is designed to ensure that the Company embodies its core values and principles, institutionalizing excellence in everything that we do. Driven by the highest standards of integrity, transparency and zeal to protect stakeholders' value, EPCL has ordained its governance framework on the industry's best practices. The board of directors and senior management place a significant emphasis on internal controls, which trickles down to each and every employee in the Company.

Our Corporate Governance is grounded on the basis of proper management policies and the organization conforms to accepted guidelines of all the stock exchanges of Pakistan as well as the Securities and Exchange Commission of Pakistan (SECP). The Board of Directors is committed to honest, ethical, knowledgeable and comprehensive management and to implement good Corporate Governance as a means of accomplishing maximum success and effectiveness.

For the Company, Corporate Governance is a tool for enhancing and reinforcing our values and sustainable growth. Developing good Corporate Governance is an iterative process and aims to incorporate standards that are universally practiced and appreciated.

The Internal Environment

The organization is structured in a way that corresponds well to its business plan and responsibilities are clearly assigned to each department. High quality personnel are hired and given continuous opportunities to develop knowledge and competencies, and represent the Company's commitment to ethical, professional business standards. The organization also encourages employees to participate in as well as understand their work, while instilling in them the responsibility of reducing risk. Work is consistently being upgraded, improved and fashioned in such a way that internal controls form an integral part of operations. Various operating manuals have been produced to ensure efficiency of operations and avoid the duplication of effort.

Internal Control Framework

Responsibility

The Board is ultimately responsible for EPCL's system of

internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure in achieving business objectives and provides reasonable assurance against material misstatements or losses that the Company could possibly face.

The Board, whilst maintaining its overall responsibility for managing risk within the Company, has delegated the detailed design and operation of the system of internal controls to the Chief Executive.

Framework

An established control framework is maintained by the organization, constituting clear structures, authority limits and accountabilities. All policies and Standard Operating Procedures are properly documented in operating manuals. Both corporate strategy and the Company's business objectives are established by the Board, after which they are integrated by Divisional Management into business strategies with supporting financial objectives.

Risk Assessment

EPCL conducts its operations with a constant view of the risks involved, and has instituted measures to control risk and ensure that it remains manageable. In this way, damage due to risk is minimized and stability is ensured.

Long-term and annual plans are designed ensuring that concrete measures of success can be obtained. Auditing operations and insurance measures are also continuously improved with the help of various tools in the effort to reduce risk.

Control Activities

The Company has determined a number of control activities that are in accordance with the nature of business operations, and has assigned responsibilities in such a way that mutual supervision is in effect.

Information Systems' Governance Framework and Safety of Accounting Records

Technology supports all business processes performed across the organization and is fundamental to Engro's continued growth and success. Technology is therefore

considered a principal risk, requiring an appropriate level of control across the Company to ensure that it is effectively managed. The Information Systems governance framework sets minimum control requirements for Information Systems that must be met by all businesses across EPCL. It also lays down the various policies related to the management, usage and protection of EPCL's Information Systems provisions. The framework is aligned to the industry standard Control Objectives for Information and Related Technology (COBIT), ISO 27001 and ITIL v3.

EPCL maintains a robust system for the maintenance of its books of accounts, including detailed contingency plans for their safekeeping and recovery in the event of a disaster. The Company fully complies with the regulatory requirements envisaged in the Companies Ordinance 1984, the listing regulations and the relevant pronouncements thereunder.

Conflict of Interest Policy

EPCL's policy with respect to conflict of interest requires that employees avoid any conflict between their own interest and the interests of the Company in dealing with suppliers, customers and all other organizations/individuals doing or seeking to do business with the Company or any affiliate. Moreover, the conflict of interest policy requires that all such persons should avoid any conflict between their own interests and the interests of the Company in the conduct of their personal affairs, including transactions in securities of the Company, of any affiliate, or of any unaffiliated company having a business relationship with Company interests.

Whistleblower Policy

All EPCL stakeholders are encouraged to abide by the Company's code of conduct and also speak-out if they have any concerns or problems related to business ethics, safety, health and environment, harassment or other Company practices related matters. The responsibility of reporting any breach in the compliance of these codes is instilled in the employees, contractors and suppliers of the Company and everyone is encouraged to take it up with Company authorities, namely line managers, Audit department heads as well as the Board Audit Committee.

Review

The Board meets at least once every quarter to consider the organization's financial performance, financial and operating budgets and forecasts, business growth and development plans, capital expenditure proposals and other key performance indicators. Post completion reviews are performed on all material investment expenditures.

Audit

The Head of Internal Audit functionally reports to the Board Audit Committee and administratively to the CEO. The Internal Audit function carries out reviews on financial, operational and compliance controls, and reports all findings to the Board Audit Committee, Chief Executive and the concerned Divisional Management on a quarterly basis.

The Office of Internal Audit provides assurance to the Audit Committee concerning the adequacy of disclosure, transparency of data, internal controls, and risk management. Greater emphasis is placed on preventive, creative investigation and auditing that conforms to international standards, good Corporate Governance and best auditing practices. This facilitates continuous development and a greater awareness of the need for preventive measures within the Company. Reports on the system of internal controls from internal and external auditors are regularly received by the Board Audit Committee and the process is adequately reviewed for monitoring the effectiveness of controls.

Salient features of Internal Audit Charter

The internal audit department assesses, as part of its evaluation, whether the Company's network of control, risk management, and compliance processes, as designed, formulated and represented by management, are adequate and properly functioning in a manner to ensure that:

- Significant financial, managerial and operating information is accurate, reliable and timely
- Significant statutory or regulatory issues impacting the Company are recognized and addressed appropriately
- Resources are acquired economically, used efficiently and adequately protected
- Quality and continuous improvement are fostered in the Company's control process
- Risks are appropriately identified and managed
- Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations

Directors

The Board comprises of one executive, two independent & seven non-executive Directors, two of whom are executives in other Engro companies. They are responsible for ensuring that the affairs of the Company are managed competently and with integrity.

Mr. Muhammad Aliuddin Ansari, a non-executive Director, chairs the Board and Mr. Khalid S. Subhani is the President & Chief Executive. Profiles of the Directors are given in the section Board of Directors.

A Board of Directors' meeting calendar is issued annually and includes matters reserved for discussion and approval. The full Board met five times in 2013 including meetings for long term planning, giving consideration to both the opportunities and risks of future strategy.

All Board members are given appropriate documentation in advance of each Board meeting. This normally includes a

detailed analysis on the business and full papers on matters where the Board will be required to make a decision or give its approval.

Board Activities in 2013

In 2013, the Board's activities were characterized by prospective issues of central importance. Significant attention was paid to strategic planning, financing strategy and foreign exchange management. In November, the Board also approved the Corporate Plan for 2014.

Director's Name	Committee Members		Attendance		
	Board Audit Committee	Board Compensation Committee	Board Meetings	Board Audit Committee	Board Compensation Committee
Mr. Abdul Samad Khan *			2/5		
Mr. Afnan Ahsan **			2/5		
Mr. Isar Ahmed ***			3/5	5/5	4/4
Mr. Khalid S. Subhani			5/5		
Mr. Kimihide Ando			3/5	3/5	2/4
Mr. Muhammad Aliuddin Ansari			5/5		4/4
Ms. Naz Khan ****			5/5	5/5	
Mr. Shabbir Hashmi			5/5	5/5	
Mr. Shahzada Dawood			2/5		
Mr. Takashi Yoshida			5/5		
Mr. Waqar Ahmed Malik			4/5		4/4

*Abdul Samad Khan Joined as a Director on 20.8.2013

**Afnan Ahsan Resigned as a Director 01.07.2013

***Isar Ahmed resigned as a Director on 17.01.2014

****Naz Khan Joined as a Director on 04.02.2013

governance performance

Enterprise Risk Management

Engro Polymer & Chemicals Limited launched the Lean Enterprise Risk Management (ERM) in 2011. It is the policy of Engro Polymer & Chemicals Limited to view risk management as integral to the creation, protection and enhancement of shareholder value by managing the uncertainties and risks that could possibly influence the achievement of our corporate goals and objectives.

Operating in a highly dynamic environment mandates assessment of the organization's strategy and quantum of risk that the entity is willing to accept by adequately assigning responsibilities throughout the organization. It is a continuous cycle led by the Chief Risk Officer (CRO) endorsed by the Board of Directors and Management, with the objective of proactively managing risks across the Company over the years.

Business Risks and Challenges

Risk	Impact and Strategy
Reduction in domestic demand of PVC and Caustic Soda	<p>EPCL's annual production capacity of PVC reached 156 KT in 2013, which is slightly above the present domestic market demand. Considering that Pakistan has one of the lowest Per Capita consumption of PVC in the world, the Company has initiated several market development and PVC awareness initiatives to trigger growth. As a result of this initiative the Company expects that PVC demand will grow at a steady pace in the future.</p> <p>EPCL has also developed an export market for its product in case of any surplus.</p> <p>Caustic Soda was launched in 2009. Within 4 years of operation the Company gained 37% market share (Company estimates) and market leadership in the South along with strong foothold in the mid country and Northern region as well.</p>
Risk of availability of raw material	<p>The Company has gained command over upstream production till the level of EDC. In this regard, the Company is still dependent on Ethylene for stable production. EPCL has a strategic relationship with Mitsubishi Corporation of Japan for the supply of Ethylene. Apart from Mitsubishi, the Company has expanded its sourcing base to several other traders and Ethylene suppliers in the region.</p>
Increase in crude oil prices resulting in increase in Ethylene prices	<p>The Company's profitability is affected by PVC-Ethylene margins and a surge in Ethylene prices can compress the margins. However, since both Ethylene and PVC are part of the Vinyl chain, PVC prices gradually catch up helping the Company to manage margins within a reasonable band. However, this phenomenon of margin compression may limit profitability in a particular period but is not likely to sustain over the long term.</p>
Low VCM production	<p>Stable VCM operations ensure stable PVC production; in 2013 the VCM plant operated at optimum levels and reported record production of 170 KT. VCM production during the year was not only adequate to meet the entire PVC production but also resulted in surplus which was exported.</p> <p>In case of any VCM shortfall, the Company also has the ability to import VCM and maintain PVC production</p>

Treasury Management

Liquidity Risk Management

Liquidity management is a crucial aspect of our treasury operations; it is tailored to address our dynamic business environment. The operation caters to the Company's import of raw material, management of foreign currency denominated liabilities and frequent import of stores and spares. Peak cash cycles are mitigated using approved lines of credit. In occasions of excessive cash, investments in short term securities are made to earn the best possible returns. Overall liquidity situation of the Company remains fairly comfortable as our sales are mostly based on cash while we enjoy credit from our raw material suppliers.

Foreign Exchange Risk Management

The Company deals in international commodities; and the price of primary raw materials are based in USD but prices of the final product are also based in USD hence hedging the Company against rupee devaluation to the extent of revenue and gross profits. EPCL has further restricted its downside of currency fluctuations by booking forward contracts on import LCs. However, the Company has sizeable foreign currency loans on its books which are subject to revaluation based on the prevailing currency rate.

Interest Rate Management

The Company's capital structure involves sizeable leverage exposing EPCL to interest rate risk. As of December 31, 2013 EPCL's outstanding borrowings stood at Rs. 9,738 Million out of which Rs. 2,930 Million (USD 28 Million) is a LIBOR based foreign currency loan. The Company has hedged a proportion of its interest rate risk by entering into floating to fixed rate interest swaps on its foreign currency borrowings and cross currency interest rate swaps on its local borrowings.

Credit Risk Management

The Company's exposure to credit risk is minimal as unsecured credit is only provided to customers with strong credit history. Moreover, the majority of trade debt is further secured by bank guarantees and letters of credit. Credit risk with regard to investments is limited; the Company places its idle funds with Financial Institutions possessing high credit ratings only. The Company monitors credit quality of its financial assets at regular intervals and tailors its policies accordingly.

Audit Report Ratings

During the year, EPCL had 8% (compared to 27% in 2012) of its Internal Audit Reports rated as Management Attention Required (MARs) against a restrictive threshold of 10% set for all Engro group companies. There were no 'unsatisfactory' rated reports in 2013.

Report of the Audit Committee

The Board Audit Committee is one of the most critical governing bodies and its purpose is to ensure adequacy of the financial reporting process, maintain the integrity of the internal audit function, assess the effectiveness of risk management strategies as well as monitor compliance with Securities & Exchange Commission of Pakistan (SECP) and listing regulations. As the Company continues to operate in a dynamic and challenging environment, the Committee focused on ensuring that EPCL's systems and internal control framework were functioning effectively as intended, and evolving in line with the Company's growth.

The Audit Committee met five times during the year. Regular attendees at the Committee meetings include the Chief Financial Officer and the Head of Internal Audit. The heads of departments are invited for relevant items of the agenda, as and when required. The Committee also met external auditors and the internal audit department once in the year, independently.

During the year, the Audit Committee ensured that following key responsibilities were carried out satisfactorily:

- Compliance with the Code of Corporate Governance
- Review of quarterly, half-yearly and annual financial statements of the Company prior to their approval by the Board of Directors, focusing on major judgmental areas, compliance of accounting standards, local regulations and other statutory / regulatory requirements
- Review of Related Party Transactions, confirming that the pricing methods used were on terms equivalent to those that prevail on arm's length basis
- Monitor management's compliance with all Company's policies including complaints received through the Speakout – Whistleblower Policy
- Approve the annual internal audit plan and monitor its progress to ensure enhancement of overall control environment of the organization
- Recommend the appointment of the external auditors to the Board to be confirmed by the Company's shareholders in the Annual General Meeting

Board Evaluation

Code of Corporate Governance 2012 mandatorily requires evaluation of the Board of Directors as a whole, its Committees and the contribution of each Director to the strategic direction and steerage of the Company. In this regard, a comprehensive range of self-evaluation surveys were conducted in EPCL with respect to the performance of its Boards of Directors and Principal Board Committees. Purposive feedback from all Board members was solicited on areas of strategic clarity & beliefs, direction of business plan and functional adequacy of its role.

Equally emphasized, the individual contribution of each Director was assessed and evaluated during the year by both Chairman of the Board and CEOs of the respective companies - highlighting significant areas of development for them.

board of directors





profile of directors

Muhammad Aliuddin Ansari

Chairman

Muhammad Aliuddin Ansari is the President & Chief Executive of Engro Corporation since May 2012. He is a graduate of Business Administration with a specialization in Finance & Investments. Ali started his career as an Investment Manager at Bank of America in London which later became Worldinvest after a management buyout. He worked as CEO Pakistan and later as COO Emerging Europe for Credit Lyonnais Securities Asia (CLSA). He has also worked as CEO AKD Securities and was instrumental in launching Online Trading, Venture Capital and Private Equity investments in Pakistan. In 2006 he partnered with an Oil & Gas company to form Dewan Drilling, Pakistan's first independent Drilling company which he led as its CEO before joining Engro.

Ali is a member of the Board of Directors of Engro Corporation Limited, Engro Fertilizers Limited, Engro Eximp (Private) Limited, Engro Eximp AgriProducts (Private) Limited, Sindh Engro Coal Mining Company, Dawood Hercules Corporation Limited, Dewan Drilling Limited, Dewan Petroleum (Private) Limited, Pakistan Chemical & Energy Sector Skill Development Company and Pakistan Business Council. He has chaired a number of SECP committees and also served on the Boards of the Karachi Stock Exchange, NCCPL, Lucky Cement, Hub Power Company Ltd. and Al Meezan Investment Management amongst others. He joined the Engro Corporation Board in 2009.



Khalid Siraj Subhani

President & Chief Executive

Khalid Siraj Subhani is the President and Chief Executive for Engro Polymer & Chemicals Limited, and Senior Vice President for Engro Corporation Limited.

He is a Director on the Boards of Engro Corporation Limited, Engro Fertilizers Limited, Engro EXIMP Private Limited, Engro Polymer & Chemicals Limited, The Hub Power Company Limited, Laraib Energy Limited, and Pakistan Japan Business Forum. He is Chairman of the Board of Engro Polymer Trading (Private) Limited. He has also served as Chairman of the Board of Avanceon in the past.

Khalid began his career in the Manufacturing Division at Exxon Chemical Pakistan Limited in 1983 and has held a variety of leadership roles within the Company, including long term assignment with Esso Chemical Canada. He has served as Manager for New Projects, General Manager for Operations, Vice President for Manufacturing, Senior Vice President for Manufacturing and New Ventures and as President & Chief Executive Officer for Engro Fertilizers Limited.

He is a member of the Pakistan Engineering Council, Business Advisory Council of the Society for Human Resource Management (SHRM) Forum Pakistan, Academic Council of Institute of Business Administration – Sukkur, Faculty Selection Board of Institute of Business Administration - Sukkur, and Standing Committee on Environment of Federation of Pakistan Chambers of Commerce & Industry. Recently, he was elected a member of the Management Committee of Overseas Investors Chamber of Commerce & Industry (OICCI).

He graduated from NED University of Engineering and Technology, Pakistan with a degree in Chemical Engineering and has completed programs on advanced management from MIT and Hass School of Business Management, University of Berkeley, USA.



Abdul Samad Khan

Director

Abdul Samad Khan is the Chief Executive Officer of Engro EXIMP (Private) Limited and Engro EXIMP Agri-Products Limited. He has held the position of CEO since 2009 and has been actively involved in driving initiatives in commodity trading for Engro. He is a Director on the Boards of Engro EXIMP Private Limited, Engro EXIMP Agri-Products Limited and Engro Polymer & Chemicals Limited. He is also a Senior Vice President for Engro Corporation. Samad began his career at Engro in 1988. He has worked in various functions with the Company, including Sales and Marketing of fertilizers to rural customers at regional and national levels. He has been involved in international trade for the last nine years, focusing mainly on Fertilizer trade and driving growth initiatives in Agriculture commodities. Samad has an MBA from the Institute of Business Administration at Karachi.



Naz Khan

Director



Naz Khan is the Chief Financial Officer of Engro Corporation Limited. Prior to her current position, she also worked as Chief Executive Officer of KASB Funds Limited. Her association with Pakistan's capital markets spans over 19 years during which she has been actively involved in primary as well as secondary markets for both debt and equity securities. She has also held key positions of Executive Director, Head of Money Market and Fixed Income, Head of Investment Advisory Division and Co-Head of Investment Banking Division at KASB Securities Limited, where she led major capital market transactions on the debt and equity side. Naz has also worked as a consultant for the Asian Development Bank on Mortgage Backed Securities. She is a graduate from Mount Holyoke College, MA, USA.

Waqar Ahmed Malik

Director

Waqar has had a distinguished career spanning over 27 years in the chemical industry with the ICI Plc Group, UK and later with AkzoNobel, Netherlands. His management and work experience spans over three continents, Asia Europe and the Americas in strategy, corporate finance and management. In the last 15 years he has held senior leadership positions including Chief Executive of ICI Pakistan Limited, Chief Executive and Chairman Pakistan PTA Limited (now Lotte Pakistan Limited).

His other current engagements are Non-Executive Director of IGI Insurance Limited and trustee i-Care Foundation. He has also served as Non-Executive Director on the Board of State Bank of Pakistan, Non-Executive Director of Oil & Gas Development Company Limited, President of the Overseas Investors Chamber of Commerce & Industry and President of Management Association of Pakistan.

An Alumnus of Harvard Business School and INSEAD, Waqar is a Fellow of the Institute of Chartered Accountants in England & Wales.

He joined the Board in 2007.



Shahzada Dawood

Director



Shahzada Dawood serves as a Director on the Boards of Dawood Hercules Corporation Limited, Engro Corporation Limited, DH Fertilizers Limited, Engro Foods Limited, Engro Power Gen Qadirpur Limited, Engro Vopak Terminal Limited, Engro Polymer & Chemicals Limited, Engro Eximp Limited, Agri Products, Tenaga Generasi Limited and Dawood Lawrencepur Limited. He is a Trustee of The Dawood Foundation, which is one of the largest public charitable trusts in Pakistan, supporting education and health initiatives. He serves as a Member of the Board of Governors of the National Management Foundation, the sponsoring body of Lahore University of Management Sciences (LUMS). He is a M.Sc. in Global Textile Marketing from Philadelphia University, USA, an LLB from Buckingham University, UK and a Certified Director of Corporate Governance from the Pakistan Institute of Corporate Governance.

Takashi Yoshida

Director

Takashi Yoshida has been associated with Mitsubishi Corporation for 28 years and has held several positions during this time. He is currently the General Manager for Mitsubishi Corporation's Chlor Alkali Unit and has a degree in Economics from the Keio University Japan. He joined the Board in 2010.



Kimihide Ando

Director



Kimihide Ando was posted as General Manager for Mitsubishi Corporation, Pakistan in April 2010. This is his second assignment to Pakistan, the first of which was during 1998 – 2003. He has a Bachelor's degree in Liberal Arts from the International Christian University, Tokyo and joined Mitsubishi Corporation, Japan in 1982. He has spent most of his career in the Chemical Group. During his tenure, other than Pakistan he was assigned to Egypt, Iraq, Saudi Arabia, Malaysia and Indonesia, and has diverse experience in Marketing, Chemicals, HRD and Manufacturing. He joined the Board of Engro Polymer & Chemicals Limited in 2010. He is also Director of Tri-Pack Films Limited. Moreover he is Vice Chairman of PJBF (Pakistan Japan Business Forum) and is also the President of OICCI (Overseas Investors Chamber of Commerce and Industry) and Trustee of FDSK (Foundation for Diffusion of Scientific Knowledge).

Shabbir Hashmi

Director

Shabbir Hashmi has more than 30 years of project finance and private equity experience. At Actis Capital, one of the largest private equity investors in the emerging market, he had led the Pakistan operations. Prior to Actis, he was responsible for a large regional portfolio of CDC Group Plc for Pakistan and Bangladesh. He also had a long stint with USAID and later briefly with the World Bank in Pakistan, specializing in planning and development of energy sector of the country. Apart from holding more than 24 board directorships as a nominee of CDC/Actis in the past, he is currently serving as an independent director on several companies from manufacturing to financial services. He is also on the board of governors of The HelpCare Society which is operating K-12 schools in Lahore for underprivileged children. He is an engineer from Dawood College of Engineering & Technology, Pakistan and holds an MBA from J.F. Kennedy University, USA.



Isar Ahmed

Director



Isar Ahmad holds a Masters Degree in Economics and is a Chartered Accountant from the Institute of Chartered Accountants in England & Wales. Isar has a diversified experience of working in senior management positions in multinational and large Pakistani Organizations, having served as Finance Director, Supply Chain Director and Head of Business Unit at Reckitt Benckiser (previously Reckitt & Colman), Managing Director, Haleeb Foods Limited, (previously CDL Foods Limited), as well as having been the Financial Advisor at Indus Motor Company Limited. He is on the Boards of Engro Polymer & Chemicals Limited, Cyan Limited (formerly Central Insurance Company Limited) and Dawood Hercules Corporation Limited (formerly Dawood Hercules Chemicals Limited), where he was the Chief Executive till recently. He joined the Board in 2006.

*Isar Ahmed resigned from the Board effective January 17, 2014.

principal board committees

The Board has established two committees to oversee essential aspects of the organization

Board Audit Committee (BAC)

The Board Audit Committee meets at minimum once every quarter and assists the Board in fulfilling its oversight responsibilities, primarily in reviewing and reporting financial and non-financial information to shareholders, systems of internal control, risk management and the audit processes. The BAC has the power to call for information from the management and to consult directly with external auditors or their advisors as considered appropriate.

The Chief Financial Officer and the Head of Internal Audit regularly attend BAC meetings by invitation to discuss matters relating to financial statements and audits. The Committee also frequently meets with external auditors independently. The Committee met 5 times during 2013.

Members

Isar Ahmed (Chairman)*
Kimihide Ando (Director)
Naz Khan (Director)
Shabbir Hashmi (Director)

*Isar Ahmed resigned from the Board effective January 17, 2014.

Secretary

Muneeza Kassim

Board Compensation Committee (BCC)

The Board Compensation Committee meets with the aim of reviewing and recommending all elements of the compensation system, as well as the organization and employee development policies relating to senior executives including members of the Management Committee. It reviews the key human resource initiatives and the organizational structure of the Company.

The President attends BAC meetings by invitation, and the Committee met 4 times during 2013. The members of the Committee are as follows:

Members

Muhammad Aliuddin Ansari (Chairman)
Kimihide Ando (Director)
Waqar Malik (Director)
Isar Ahmed (Director)*

Secretary

Jahangir Piracha

*Isar Ahmed resigned from the Board effective January 17, 2014.

management committee



From Left to Right: Jahangir Waheed, Asif Tajik, Arshaduddin Ahmed, Khalid Siraj Subhani, Jahangir Piracha, Mohsin Ali Mangi and Syed Nayyar Iqbal Raza.

Khalid Siraj Subhani

President & CEO

Please refer the profile of Board of Directors' on page 31.

Arshaduddin Ahmed

Vice President Marketing

Arshaduddin Ahmed is an Associate member of the Institute of Chartered Accountants of Pakistan. He holds a Bachelor's degree in Civil Engineering and is also a qualified Cost & Management Accountant. He started his professional career as Finance Manager with a Belgian conglomerate, ARTAL, which was involved in food business in Pakistan. Having worked in Finance for two years, he was transferred to one of the affiliates as Business Unit Head to look after the bottled water operation. From 2001 to 2005, Arshad worked for Nestle Pakistan, as the Head of Operations for Water Business in the south region. In September 2005, he joined Engro Polymer & Chemicals Ltd. and served as Chief Financial Officer for seven years before taking up the responsibility as Vice President Marketing from February 2012.

Asif Tajik

Vice President Manufacturing

Asif Tajik is the Vice President Manufacturing of Engro Polymer & Chemicals Ltd., with over 29 years of experience out of which 23 years of services were spent with Exxon/Engro Pakistan. Asif Tajik is known for his administrative qualities due to his prior 4.5 years of experience with the Armed Forces.

He became Shop Section Head in 1994 and was promoted to Field Maintenance Manager in 1997. Since then, due to his commitment and consistency in work performance, he was promoted to senior positions several times as Planning/Project Unit Manager in 1998, Engineering Manager in 2001, Maintenance Manager in 2003, I&E Manager in 2005, General Manager Manufacturing in 2007, General Manager New Venture Division in 2011 and then took charge as VP Manufacturing.

He did his Bachelors in Mechanical Engineering and also attained a Post Graduate Degree in Business Administration. In addition to that, he is equipped with a diverse range of experience in Fertilizers Industry including the handling of Administrative and Technical jobs. He has always been fascinated by people management, which has always inspired him to do more.

Jahangir Piracha

General Manager HR & Corporate Services

Jahangir Piracha is working as General Manager Human Resource & Corporate Services since January 2011. Before moving to EPCL, he worked as Production Manager and HSE Manager at Engro Fertilizer Limited. He has extensive experience in various aspects of operations management, process engineering, HSE and HR.

He holds a Bachelors' degree in Chemical Engineering from the University of Engineering and Technology, Lahore, Pakistan.

Jahangir Waheed

General Manager Operations

Jahangir Waheed is the General Manager Operations at Engro Polymer & Chemicals since July, 2013. He has been working at Engro Fertilizer, Powergen and Polymer in different challenging capacities for over seventeen years, before which he worked at SAFCO KSA. He has a cumulative experience of almost 30 years.

Jahangir completed his Masters in Chemical Engineering with Research in Industrial Computerized Control from King Fahad University, KSA in 1987.

Mohsin Ali Mangi

Chief Financial Officer

Mohsin Ali Mangi joined Engro Polymer & Chemicals Ltd. as Chief Financial Officer in October, 2013. Before joining EPCL, his previous assignments included Chief Financial Officer in Engro Fertilizers Ltd. and Engro Powergen Ltd. His past assignments include Equity Analyst at Credit Suisse Singapore covering Oil & Gas, Energy and Petrochemicals and Head Advisory (Investment Banking Group) at Global Securities/NIB Bank. He has 13 years of experience working in business development, project finance, consultancy, investment banking and equity research.

He received his MBA degree from the Lahore University of Management Sciences in June, 2000.

Syed Nayyar Iqbal Raza

Manager Market Development & Logistics

Nayyar holds a Bachelors' degree in Mechanical Engineering. He started his professional career in 1980 with Unilever Pakistan Limited in the Soap & Edible Oil factory in Rahim Yar Khan. After three years, he began working at Jalal Engineering in Karachi and in 1986 he joined Exxon Chemicals in Daharki where he worked in different capacities for 12 years. He was seconded to EVTl as Project Manager where he remained for two years. Moving back to Engro, he worked on the NPK fertilizer project and after its completion joined Engro Polymer and Chemicals in the Maintenance department in 2001. He was made Technical Manager in 2003 and then moved as Market Development and Logistics Manager. Nayyar has been with Exxon/Engro for the last 28 years.

functional committees

These committees act at an operational level in an advisory capacity to the Chief Executive Officer, providing recommendations relating to business and employee matters

Management Committee (MC)

The Management Committee reviews and endorses long term strategic plans, capital and expense budgets, as well as the development and stewardship of business plans. It also reviews the effectiveness of risk management processes and internal control.

Members

Mr. Khalid S. Subhani (Chairman)
Mr. Arshaduddin Ahmed
Mr. Asif Tajik
Mr. Jahangir Piracha
Mr. Mohsin Ali Mangi
Mr. Jahangir Waheed

The **Secretary of the Committee** is Mr. Nayyar Iqbal Raza.

Corporate HSE Committee

The committee meets quarterly to review and promote HSE standards, monitor HSE performance, personnel safety as well as process safety. The overall Company strategic thinking, planning & direction setting in the field of HSE are the main mandates of the committee.

The Committee ensures that all are in line with the Company's HSE policy and objectives.

Members

Mr. Khalid S. Subhani (Chairman)
Mr. Arshaduddin Ahmed
Mr. Asif Tajik
Mr. Jahangir Piracha
Mr. Jahangir Waheed
Mr. Mohsin Ali Mangi

The **Secretary of the Committee** is Mr. Rameez Ahmed Faraz.

Committee for Organization & Employee Development (COED)

The committee is responsible for the review of compensation, organization, and training and development of all employees of the Company, as well as for reviewing the organization's structure.

Members

Mr. Khalid S. Subhani (Chairman)
Mr. Arshaduddin Ahmed
Mr. Asif Tajik
Mr. Jahangir Piracha
Mr. Jahangir Waheed
Mr. Mohsin Ali Mangi

The **Secretary of the Committee** is Mr. Jahangir Piracha.

president's review

Engro Polymer & Chemicals Limited has seen significant progress realized during the year 2013 in every function of the organization. The combined effort and capability of our employees enabled us to overcome many issues faced during 2012 and we reported highest ever profitability of Rs. 707 million for the year ended December 31st, 2013. This milestone was achieved by aligning production to its potential, strengthening our sales mix, exploring new areas of product application and by achieving operational excellence.

The year 2013 was a challenging one for Pakistan; the political transition, energy crisis, fiscal and external imbalances, low foreign exchange reserves and weakening rupee remained key concerns for the country. However, EPCL steered through these difficult times by implementing business acumen and effective risk hedging policies.

EPCL continued to regard HSE as one of its top priorities, being one of our core values. Our HSE performance remained good and we clocked the highest ever safe man-hours without Lost Work Injury (13.6 million). As always, our ethics and integrity remained uncompromised and innovation & risk-taking helped us solve many of the problems we faced.

To further improve efficiency of our plant operations and work processes, an initiative of Lean Six Sigma was launched throughout the Company in early 2013. It is now well ingrained and as a result, 25 Green Belt Projects are in progress which will be completed during the first half of 2014. HR carried out many activities including trainings and communication sessions in 2013 which led to higher motivation and satisfaction among employees. A significant improvement in the employee engagement index was recorded again this year, measured through a third party Employee Engagement Survey conducted annually.



On the manufacturing front, EPCL saw relatively stable operations resulting in the highest production levels for all products except PVC. The Hot Water Charging project on PVC debottlenecked the PVC-1 plant, increasing its capacity by 6000 MT, and the entire PVC production requirement was met through in-house VCM production. The VCM plant operated at the highest capacity resulting in record production of 170 KT, greater than its design capacity. In terms of Caustic and allied products, 115 KT of Caustic Soda and 21 KT of Sodium Hypochlorite were produced in 2013.

Our Marketing team successfully launched Hydrochloric Acid (HCl) which was received well by the market and, despite intense competition; the Company positioned itself as a leader in the Southern region. EPCL also initiated Hydrogen sales in 2013. In addition to this, many initiatives and projects were carried out including the installation of local PVC pipes in 5 government schemes, commissioning of quality control labs and most recently the first time ever installation of a 30 inch diameter pipe, produced by a local company.

Finance was able to arrange long term loans of Rs. 1.96 billion for financing new projects and restructuring of the balance sheet. Aside from this, the foreign exchange risk management strategy was re-aligned to overcome potential adverse impacts on profitability. Concerning taxation, the Company was able to get the refund of Rs. 485 million and new exemptions/tax credits were obtained conserving cash outflow of around Rs. 300 million.

2013 was also a busy year in CSR – aside from participating in volunteer and mentorship programs, the organization sponsored 24 youths from Ghagar Phatak (a community near Port Qasim) for City & Guilds standard technical training at Hunar Foundation, in order to increase their employability and chances to succeed in life. EPCL also signed a MOU with the Citizens Foundation in December 2013 to set up a school in the same community.

Moving forward, the management will continue to focus on safe and stable plant operations, coupled with improvements in operational efficiencies across all aspects of the business so as to achieve the objective of reaping optimal economic benefits.

I would like to thank our shareholders, customers, employees and business partners for standing by us in times of need and putting your trust in us. I look forward to our valuable business partnership in 2014.

This report shows our commitment to transparency as well as to the engagement that we have promised our stakeholders. It is also one of the main methods through which we solicit feedback on our efforts, both successful and failed, during the year.



Khalid Siraj Subhani
President & Chief Executive

directors' report



directors' report

The Directors of Engro Polymer & Chemicals Limited are pleased to submit the annual report and audited accounts for the year ended December 31, 2013. The year under review sets a new trajectory for the Company as it achieved highest ever production of Vinyl Chloride Monomer (VCM), Caustic Soda, Hypo and Ethylene Di Chloride (EDC) coupled with strong sales and required financing to steer through the dynamic business environment.

Principal Activities

Engro Polymer & Chemicals Limited ("EPCL" or "The Company") is a subsidiary of Engro Corporation and was incorporated in 1997 as a Public Limited Company under the Companies' Ordinance 1984 and commenced commercial operations in 1997. Shares of the Company are listed on Karachi, Lahore and Islamabad Stock Exchanges. The principal activity of the Company is to produce and market Chlor-Vinyl products which include Poly Vinyl Chloride (PVC), Vinyl Chloride Monomer (VCM), Caustic Soda and Hydrochloric Acid. The Company's flagship brand 'SABZ' has become synonymous to quality PVC in the country. EPCL strongly endorses its triple bottom line philosophy in true essence – People, Planet and Profit.

Nature of Business & Business Model

Engro Polymer & Chemicals Limited operates in the Chlor-Vinyl segment; its growth is determined by the overall macro-economic scenario of the country while profitability is determined by growth in domestic demand, by product margins, operational efficiencies and currency fluctuations. The Company has implemented a multi-tier strategy focusing on expansion of domestic PVC market, enhanced plant capacity, improved operating efficiencies and to hedge foreign exchange exposure.

Organizational Review

The Company continued its journey towards consolidation and the year under review proved to be a turning point for the Company. The Company reported highest ever profitability of Rs.707million translating into an Earning Per Share of Rs. 1.07 in 2013 as compared to Rs. 77 million and Earning Per Share of Rs. 0.12 in 2012. This milestone was achieved by aligning production to its potential, strengthening sales mix, exploring new arenas for product application and by continuing its journey towards operational excellence.

Objectives & Strategy

In 2013, the Company was able to meet its corporate objectives and improved its performance on all fronts. Going forward, the broad objectives of the Company remain intact and the Company will continue to foster revenue and profitability growth. In 2014, the Company plans to consolidate its position. In this regard, the objectives have been set and a detailed strategy has been crafted by the management to ensure that objectives are met.

		Critical Performance Indicators	Impact
Health, Safety & Environment Objectives	Maintain highest safety standards	Measured against Total Recordable Incident Rate (TRIR), Fatality Analysis Reporting System (FAFR) targets and DuPont best practices ratings	Health, Safety & Environment (HSE) is our core value, we take pride in our practices and will ensure that we run safe operations and are not a source of environmental degradation
	Further reduce environmental impact	Performance is measured against several benchmarks	
Manufacturing Objectives	Ensure stable production	Production targets have been set along with defined benchmarks for quality	It will enable the Company to optimize its production, reduce its cost of production resulting in improved margins and profitability
	Improve raw material consumption ratios	Consumption ratios for major raw materials are set as benchmarks	
Marketing Objectives	Expand domestic market for vinyls	Product wise sales volume target has been set as benchmark	This measure will ensure that the Company operates at its full potential and sells majority of its output in the markets offering optimal margins
	New product development	Evaluate number of new avenues for PVC application and its contribution to sales volume	
Human Resource Objectives	Develop and retain talent	Benchmarked against industry and prevailing attrition rate	Motivated employees deliver superior results; it will enhance productivity and efficiency
	Improve employee engagement	Independent employee engagement survey to be conducted and compared against earlier years	
Finance Objectives	Optimize capital structure	Measured against financial ratios	Strengthening of financial discipline will reduce financial stress and optimize cash flow utilization
	Develop robust treasury strategy	Monitored through cash availability and Spread	

Performance Measurement

In order to assess performance against targets and objectives, the Company has a comprehensive measurement system in place which acts as a barometer for the Company's performance. Business results are carefully monitored against benchmarks on a monthly basis in business review meetings and tactical strategies are devised. Every quarter, the Company also hosts company wide stewardship meetings to monitor progress on annual objectives. The Company also engages external bodies like DuPont Safety Management Systems, British Safety Council, ISO-14001 Environment Management System and ISO-9001 Quality Management System to measure performance.

Macro-Economic Environment

In 2012-2013, as per the Economic Survey of Pakistan, the domestic economy registered a GDP growth rate of 3.6%. Agricultural sector posted a growth of 3.3%, Services sector recorded a growth of 3.7% and Large Scale Manufacturing sector grew by 2.8%. The industrial sector was supported by notable growth in construction activity and capacity enhancement in a few subsectors.

Political transition, energy crisis, fiscal and external imbalances, low foreign exchange reserves and weakening rupee remained key concerns for the country. Going forward we expect that Extended Fund Facility (US \$ 6.64 billion) agreement with the IMF, grant of General Scheme of Preference (GSP) Plus, and planned reorganizing of public sector is expected to foster economic growth and stability.

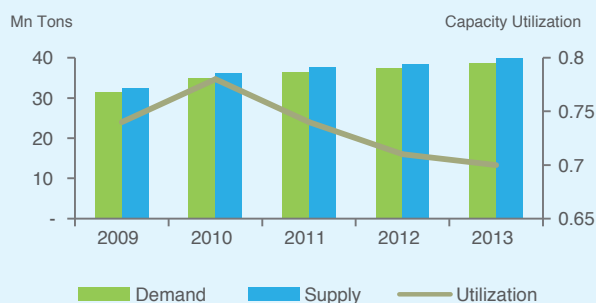
Business Overview

The global business environment for Chlor Vinyl industry remained challenging in 2013. Ethylene prices remained volatile due to political uncertainty and turnaround in some of the major plants. However, the resulting cost pressure was not entirely reflected in PVC prices because of slow economic growth that muted demand. On the Caustic front, uncertainty with regard to economic revival strained textile growth and hence demand in Asia. Despite a challenging macro-economic environment, the Company demonstrated strong performance and expanded its market presence through successful business strategy.

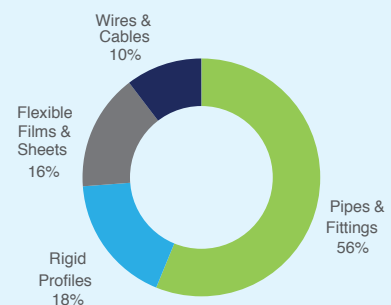
PVC & Allied Products

Global PVC downstream demand crossed 38 million Metric Tons in 2013, growing at 5 year Compound Annual Growth Rate (CAGR) of 5.3%. In 2013, demand remained relatively frail due to subdued demand from China. Overall supply situation remained consistent throughout the year and was adequate to meet demand and industries operated at a capacity utilization of 70% in 2013. In terms of application, pipes and fittings accounted for more than half of the global demand while rigid profiles were a distant second in terms of demand.

Global PVC Demand Supply Scenario



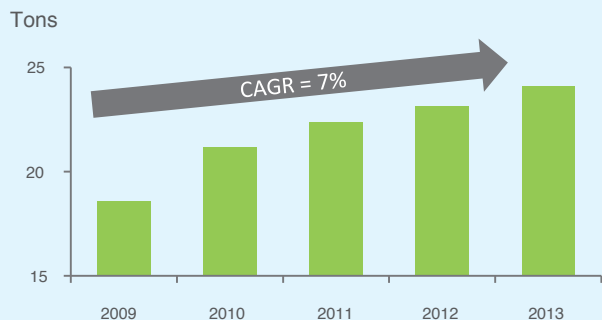
Product Wise Application



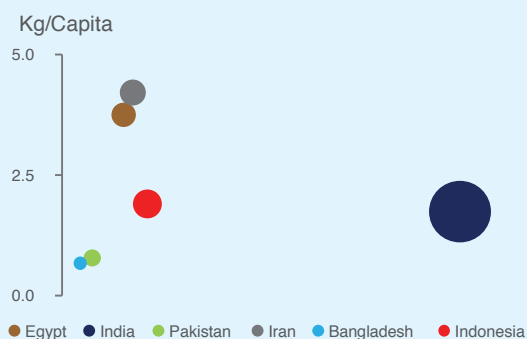
In terms of consumption, Asia alone accounted for approximately two thirds of the global PVC demand and the continent demand witnessed a growth of 7% per annum surpassing the global growth trend. China was the prime driver of global PVC demand and the trend is likely to continue.

According to Global Markets Direct report, China's demand will remain upbeat till 2020 on account of downstream capacity additions and rapid construction in the country. China will continue to add to its supply of VCM/PVC, mostly via the acetylene-carbide route, and as such, will be less reliant on imported PVC.

Demand in Asia



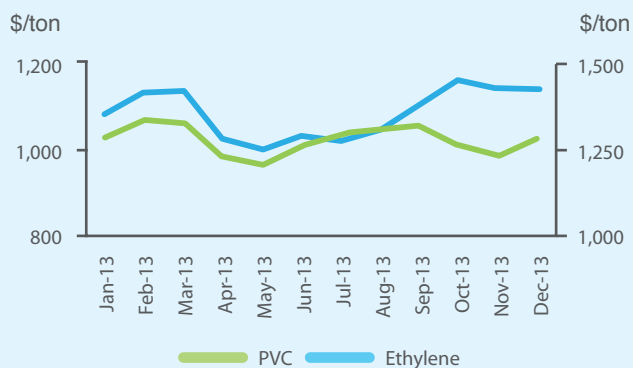
Consumption Pattern - Peer Group



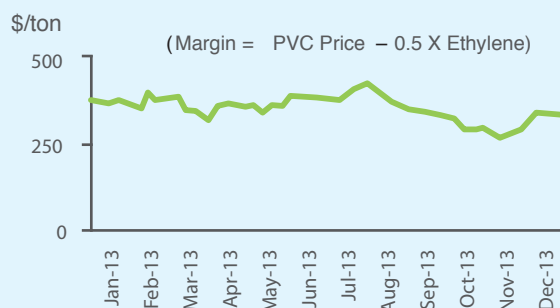
In terms of consumption, Pakistan has one of the lowest PVC consumption per capita of 0.8 kg/capita in the region. With strong Public Sector Development Program allocation in the budget, the government's initiative of low cost housing projects, announcement of large and small water dams and picking up of private construction activity, PVC consumption outlook appears to be favorable.

In 2013, international PVC prices ranged between \$ 950/ton to \$ 1090/ton. Prices were largely influenced by feedstock Ethylene cost which moved in line with rising crude oil prices.

International PVC & Ethylene Price Trend 2013



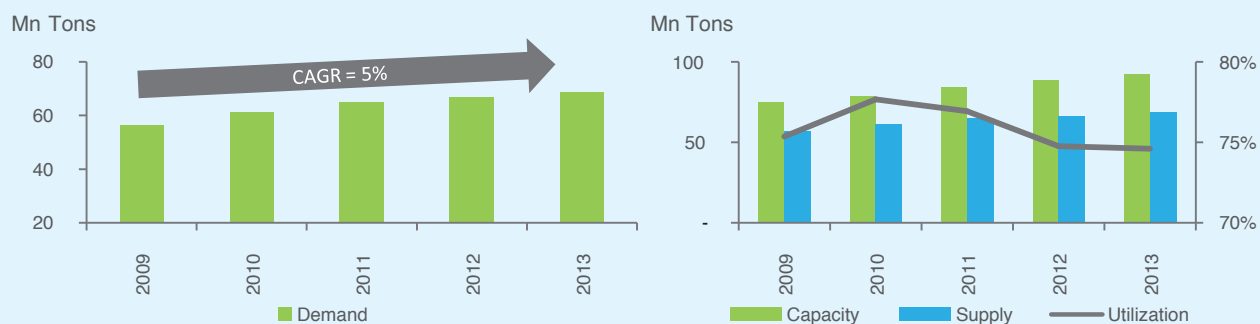
International PVC Margins



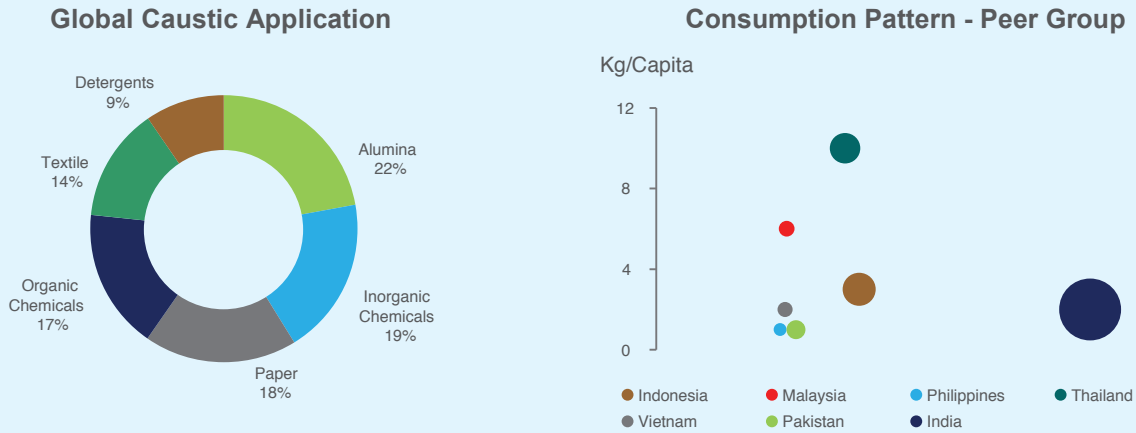
Caustic & Allied Products

In 2013, Global Caustic demand reached 69 million tons, growing at a 5 year CAGR of 5%. Asia leads the world demand, accounting for approximately 56% of the global Caustic Soda consumption. Supply remained robust and several new capacities came online namely LG in South Korea, SAMAPCO in Saudi Arabia and Asahimas in Indonesia.

Global Caustic Demand Supply Scenario

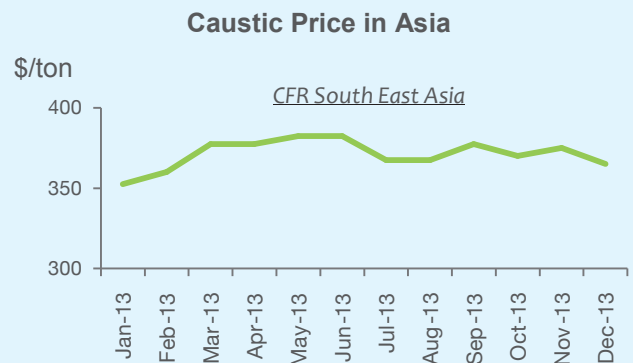
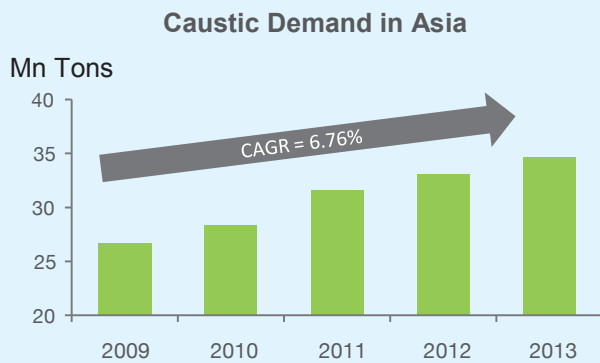


Majority of Caustic Soda production was consumed in Alumina, Inorganic Chemicals, Pulp & Paper, Organic Chemicals, Textile and Detergents. The global Caustic Soda consumption per capita in 2013 was estimated to be 10 kg; highest per capita consumption was reported by Australia (101 kg/Capita).



Amongst regional peers, Pakistan has one of the lowest per capita Caustic consumption. Prime reason for which is that majority of the application is predominantly concentrated in textile and soap & detergent segments. With improving economic conditions, rising farm income levels and increasing household spending, Caustic consumption is likely to improve.

Global Caustic Soda prices remained volatile during 2013, after the fire incident in Tosoh plant, Japan, a major surge was witnessed which was stabilized when new capacities materialized.



Global Caustic demand is expected to continue the growth trend mainly driven by the growing economies of developing countries like India and China. In addition to this, the increasing demand in the application industries like organic and inorganic chemicals is expected to support the market.

Domestic Market Overview

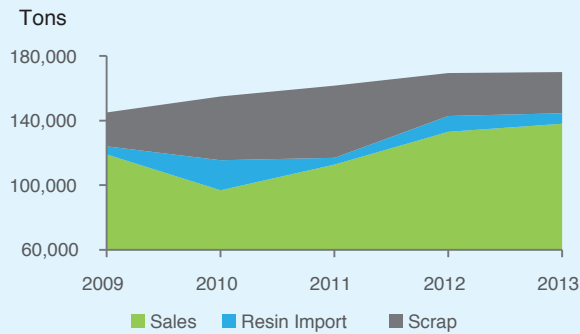
PVC & Allied Products

Domestic PVC market size stood at 170 KT in 2013. The market has grown at a CAGR of 6.8% in the last 5 years; major components of the market are domestic PVC, imported PVC and Scrap Imports. Domestic PVC is manufactured solely by Engro Polymer & Chemicals which sells under the brand name of "SABZ". In 2013, the overall market expanded by less than 1% however the Company managed to post a growth of 4% enabling it to achieve an estimated market share of 81% as against 79% in 2012.

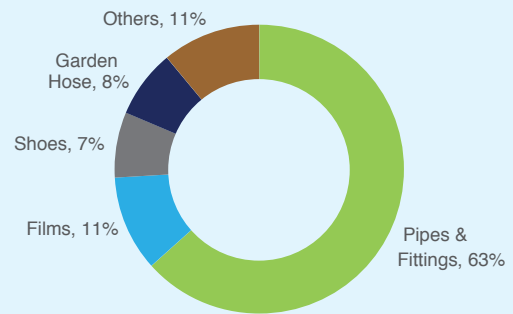
In the domestic market, pipes and fittings accounted for major sales volume; although to date, several infrastructure projects consider cement pipes. Company will continue to direct its efforts towards development of this sector and create awareness about advantages of PVC application over competing materials.

Construction activities are expected to support PVC demand in the domestic market, however, the overall performance of PVC domestic market will be dependent on the economic growth.

PVC Market Growth & Market Share*



PVC Application



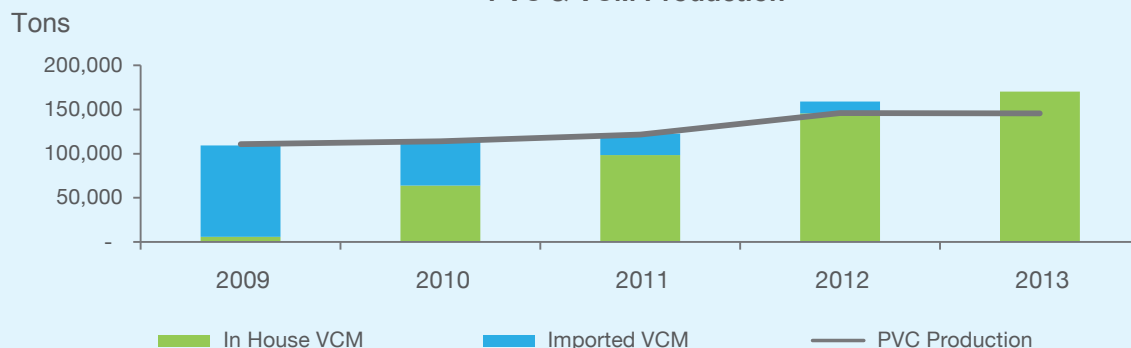
* Market Share and product application have not been verified by an independent source and is based on Company's estimate

Scrap imports were reported to be approximately 25.5 KT in 2013 in Pakistan, which is marginally lower than 26.6 KT in 2012. In March 2013, strategic import policy was announced by the Government of Pakistan which restricted import of plastic scrap only to industrial consumers with proper recycling facilities. Also, a ban was imposed on import of hazardous material including clinical waste, sewerage pipes and used chemical containers. This Government initiative will help in ensuring safer and better quality application, which will be mutually beneficial to plastic and PVC industry.

In 2013, EPCL achieved PVC sales of 139 KT. Considering PVC market potential, the Company successfully completed debottlenecking of one of its PVC plants. The debottlenecking has resulted in an additional capacity of 6,000 MT which came online in August 2013. Recent capacity enhancement will warrant higher product availability in the domestic market.

The increase in sales volume was supported by a strong production profile. In 2013, the Company achieved production of 146 KT of PVC. It is of utmost importance to note that the Company met its entire PVC production requirement through in house VCM. VCM plant achieved highest ever capacity utilization resulting in a record production of 170 KT during 2013 compared to last year's production of 146 KT.

PVC & VCM Production

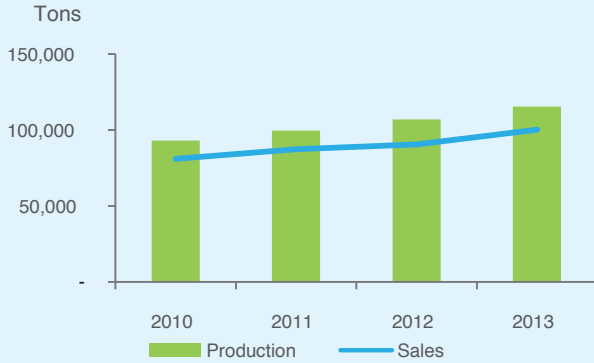


The Company is pursuing an aggressive marketing strategy and is working extensively with end users and manufacturers for market development to ensure that additional production translates into domestic sales. The Company is hopeful that these efforts will continue to bear fruit for the stakeholders in times to come.

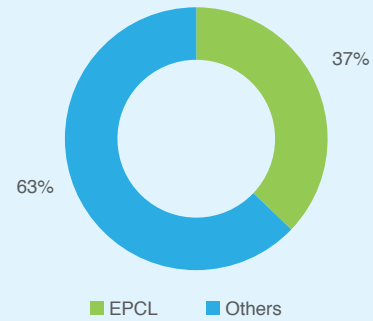
Caustic & Allied Products

The Caustic Soda market size stood at approximately 280 KT in 2013. EPCL emerged as a strong player and sold 100 KT, posting a 4 year CAGR of 7.33%. In 2013, the Company secured a country wide estimated market share of 37% and maintained its leadership position in the South. EPCL has widespread geographic presence, talented sales force and an extensive dealer network.

Caustic Sales and Production



Caustic Market Share in 2013*

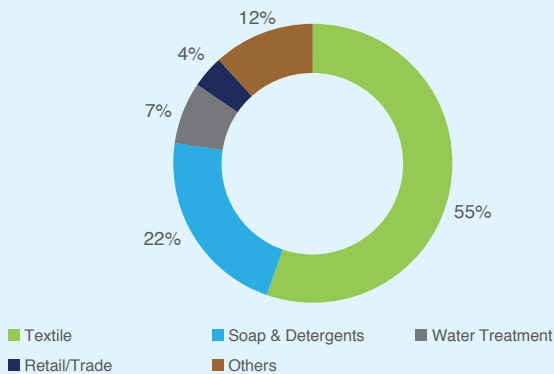


* Market Share and product application have not been verified by an independent source and is based on company's estimate

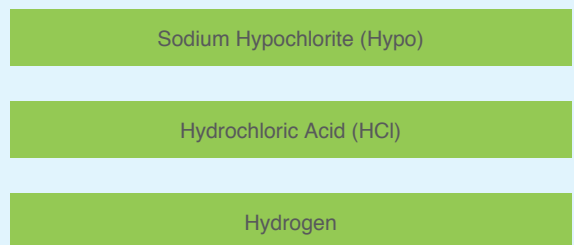
Textile, Soap & Detergent and Water Treatment Sectors were primary users of Caustic in 2013. During the year, the Company optimized its logistic operations and realized significant savings.

EPCL continued to explore new avenues and in this regard added Hydrochloric Acid (HCl) to its product portfolio. HCl was received well by the market and the Company emerged as a dominant player in the South. Other products in the 'Caustic and allied chemicals' portfolio continue to have a positive impact on the Company's performance. In 2013, EPCL sold 20.8 KT of Sodium Hypochlorite, 18.65 KT of Hydrochloric Acid and 1.73 million Nm³ of Hydrogen.

Sector Wise Sales of Caustic



Other allied products



Financial Overview & Management

During 2013, the Company posted profit after tax of Rs. 707 million as compared to Rs. 77 million in 2012 which was primarily driven by core operations. Revenue witnessed a hefty growth of 20.4% while gross profit margins also improved from 17.2% in 2012 to 20.5% in 2013. The Company's performance in 2013 is an indication that it successfully steered through challenging times; this strong performance has revived the confidence of lenders and financial institutions.

Cash Flow, Liquidity and Financing

During the year, the Company posted strong operational performance and profitability which resulted in stronger cash flows which enabled it to meet operational expenditure, carry out planned CAPEX and comfortably meet its debt obligations. During the year, the Company repaid its debt obligation of Rs. 2.05 billion while raising new debt of Rs. 1.96 billion which will be utilized for future CAPEX. Despite new long term facilities, the overall debt profile of the Company is reducing and the Company is gradually deleveraging. The new debt will enable the Company to incur additional CAPEX which will result in volumetric growth, improved plant reliability and operational efficiency.

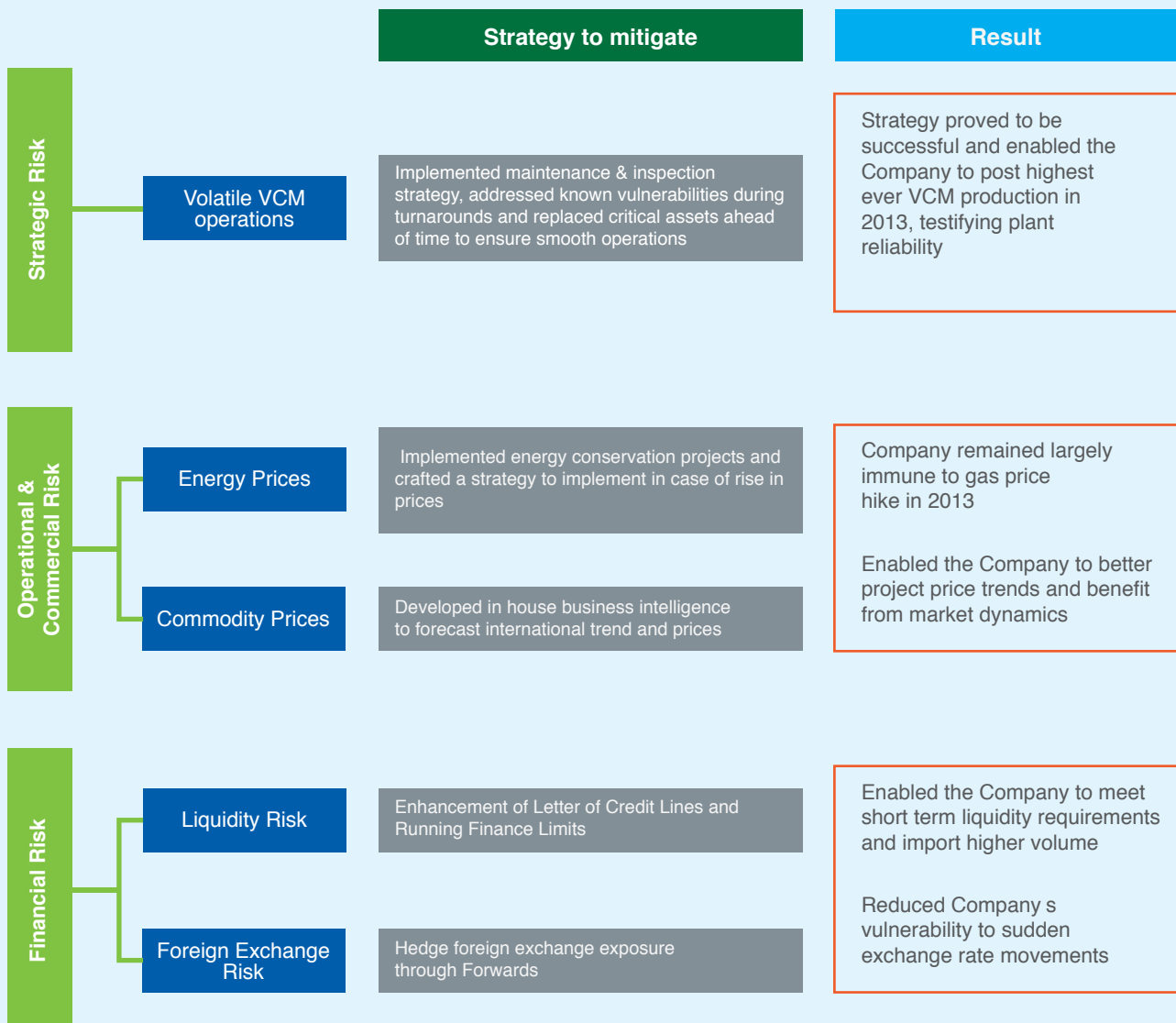
Capital Structure

The assets of the Company are financed by debt and equity in the ratio of 52:48 as compared to 54:46 in 2012, while interest cover was 1.98 times in 2013 as compared to 1.13 times in 2012.

Risk Management Framework

Engro Polymer & Chemicals Limited launched the lean Enterprise Risk Management (ERM) in 2011. It is the policy of Engro Polymer & Chemicals Limited to view risk management as integral to the creation, protection and enhancement of shareholder value by managing the uncertainties and risks that could possibly influence the achievement of our corporate goals and objectives.

Operating in a dynamic environment mandates assessment of organization's strategy and quantum of risk that the entity is willing to accept by adequately assigning responsibilities throughout the organization. It is a continuous cycle led by the Chief Risk Officer (CRO) endorsed by the Board of Directors and Management, with the objective of proactively managing risks across the Company over the years.



Business Continuity Plan

During the year 2013, development of the Company's Business Continuity Plan was initiated to ensure smooth functioning of critical business processes in the event of an unforeseen disaster. Dedicated efforts with active assistance of professional consultants were made to formulate the Plan which was approved by the Management Committee.

A comprehensive strategy was devised that recognizes all the threats and significant risks facing EPCL keeping in view our aim to safeguard and protect our people and assets whilst strengthening our ability to operate effectively in case a disaster strikes. The plan encompasses EPCL's response strategy, minimum operating requirements, BCP team organization, damage assessment and primary site restoration activities. From a risk perspective, it ensures smooth functioning of business operations and preservation of critical data by mapping out fine details of the process of disaster recovery.

Responsible Citizenship

Engro Polymer & Chemicals Limited recognizes its responsibility towards the environment and society; in this regard we ensure that our actions are in line with best practices.

Treatment of Effluents and Chemical Discharge

Our plant uses chemically active substances and leakages can be a source of environmental threat. As a responsible corporate citizen, we want to ensure that that our presence is not a reason for environmental degradation, in this regard we have installed a state of the art incineration plant and evaporation pond which enables safe handling of emissions and effluents. Environmental performance and parameters are voluntarily reported to Environment Protection Agency (EPA), Sindh on a monthly basis in spite of the regulatory requirement of only quarterly reporting.

Quality Assurance & Testing

The Company is not only concerned about selling its product to its immediate customers but also aims at delivering quality final products to the end consumer. Since inception, the Company had a well-equipped laboratory to test quality of raw materials used and final product produced. In 2013, the Company reaffirmed its commitment to quality by introducing mobile testing units which can conduct tests on site. Mobile testing will not only ensure that quality pipes and fittings are used in infrastructure development but will also keep a check on manufacturers involved in malpractices and adulteration.

Business Ethics & Anti-Corruption

By complying with our business values and ethics we ensure that all our business dealings are undertaken in the best interest of our stakeholders whilst maintaining highest standards of business practices in our relationships. Range of assurance procedures are effectively designed and implemented in a way that proscribes all sorts of unethical practices and to highlight matters causing concern in respect of business conduct. Our approach towards corporate governance is comprehensive and begins with a system of audits and reporting that is designed to catch irregularities in time. This system is reinforced through nurturing culture of voluntary reporting which ensures irregularities are timely checked. Due emphasis on transparency and ethical practices by the management has played a pivotal role in developing our employees as responsible professionals and citizens.

Established on the basis of open and candid communication we have a well-defined whistleblower policy. The policy encourages all the stakeholders to speak out when they encounter any violation of the code of corporate governance or deviation from professional standards of ethics. Each complaint is taken up by the Board Audit Committee and thoroughly reviewed.

Energy Management

The Company operates in an energy intensive business. In this regard, the Company is equipped with 2 gas turbines having a cumulative power generating capacity of 58.4 MW. At present, the Company is self-sustainable in terms of electricity but is dependent on gas for electricity production and is exposed to fluctuations in gas price. In response to rising energy prices, EPCL is undertaking energy efficiency projects and is closely monitoring energy consumption. The Company is simultaneously studying multiple energy options and will conceive a strategy document to analyze and respond to rising energy prices.

Environmental Protection

We remain a champion of the cause of preserving and enhancing mangrove coverage in the coastal zones of Pakistan. In this endeavor, the Company is engaged in the 'Mangroves for the Future' (MFF) program launched by the International Union of Conservation of Nature (IUCN). The main theme is the conservation of coastal ecosystems. Under the program, a proposal was submitted by EPCL related to forming a mutual assistance forum and sharing of best environmental practices amongst stakeholders to reduce the environmental pollution impact due to industrial discharge in the Port Qasim area ecosystem. The project will be funded by the IUCN subject to approval from the MFF secretariat of IUCN Thailand.

Our Company's head office has been certified by WWF as a Green Office. The aim alongside conservation of energy is to reduce waste generation and ultimately reduce environmental footprint. In 2013, the WWF Green Office assessment was successfully carried out at the Plant as well.

Corporate Social Responsibility

In 2013, Engro Polymer & Chemicals Limited shifted their CSR operations to Engro Foundation, which is the singular front for all CSR activities of Engro companies. This will facilitate working at a larger scale than in the past and will have a more significant impact on society.

An employee volunteer program by the name of Envision was launched in 2013. The Karachi chapter volunteered in many activities including career counseling / mentorship of children at The Citizens Foundation and by giving entrepreneurship advice to the young through Injaz Pakistan, an initiative of the Aman Foundation. Volunteers spent precious time helping people with mental illnesses through Karwan-e-Hayat and were also an integral part of the Fatmid Blood Drive.

Community Investments and Support Program



An initiative was launched in 2013 to train plumbers on the installation of PVC pipes. This was done with the aim to elevate their technical skills and provide them with insights from a leading plumber consultant of Pakistan. A total of 1,000 plumbers from Karachi, Lahore, Gujrat, Peshawar, Rawalpindi and Faisalabad were trained during the year and this is only the beginning, the Company plans to expand this initiative in the coming years.

Education and skill learning are rudimentary requirements for underprivileged people of local communities. Keeping this in view, the organization sponsored 24 youth from Ghagar Phatak, a community near Port Qasim, for City & Guilds standard technical training at Hunar Foundation. The first batch, which started on January 1st 2013, has just graduated. This skill enhancement program will significantly increase employability of youth from this community in the nearby industrial area of Port Qasim.

Rural Development and Donations

The Company signed a MOU with The Citizens Foundation in December 2013 to set up a school in Ghagar Phatak. Construction will begin in 2014 and the school will be operational by April 2015.

Envision Port Qasim chapter was equally active and carried out sessions on home safety for women and children of Ghagar Pathak and a project on the rehabilitation of a water treatment plant in Haji Jungi Khan. Aside from this, a pilot project was conducted whereby 5 solar lights were set up in the local community park of Haj Jungi Khan and Mosque of Haji Ibrahim Goth, keeping in view the importance of energy conservation.

Health Safety & Environment



Health, safety and environment is one of the core values of the Company and as a world class organization we must lead by example, continually striving to create engaged employees and contractors who will work alongside the management to maintain and improve safety audits, investigation of incidents as well as emergency planning and response.

The Company conducts all of its business keeping as a top priority the health and safety of employees, contractors, the community in which we function and all others involved in our operations. The Company does not discriminate between the HSE performance of employees and contractors. As per HSE policy, both are given equal importance and HSE performance is evaluated in a combined fashion, reflecting both the parties. Our employees achieve our business goals and we place great importance on ensuring their continued health, safety and environment, minimizing the distress and disruption caused by any work related injuries or illnesses.

In 2013, the total recordable injury rate (TRIR) of the overall Company remained at 0.12 (the same as the previous year) with 02 recordable injuries, showing that our performance continues to be consistent. However, a mega HSE campaign by the name 'Zero Makes You A Hero' was launched during the year. The focus was on targeting behavioral safety, and the theme surrounded 'Zero' as our goal: zero safety incidents, zero environmental risks and zero health issues due to operations.

Additionally, EPCL has a fleet of vehicles that transport products to different locations within the country and a comprehensive Fleet Safety Program is in place. The performance of this Fleet Safety is gauged through the Fleet Accident Frequency Rate (FAFR). In 2013, our Logistics operations fleet showed remarkable performance by attaining a FAFR of 1.11 against our target of 1.35. There were no injuries in our corporate services and logistics operations during the year and TRIR remained zero.

The Company's health and safety management is aligned with DuPont's best practices and aims to comply with Occupational Safety and Health Administration (OSHA) standards.

The Company has shown significant progress through the implementation of the Occupational Health and Industrial Hygiene program. Extensive trainings as well as refresher courses have been carried out to align employees with DuPont's best practices on health and hygiene management. In this regard, a second party audit was also carried out to identify gaps in the system. A third party assessment on OHIH was also conducted by a local expert, assessment helped to increase awareness on the subject. The Company is now ready for an external assessment by DuPont on OHIH.

EPCL has also retained its membership with CCPS (Centre for Chemical Process Safety), NSC (National Safety Council) and BSC (British Safety Council). Through them, the Company gets evergreen information on the best HSE practices.

Moving forward, an external assessment on Occupational Health and Industrial Hygiene Management by DuPont will be conducted across the Company. Manufacturing operations will be implementing elevated standards of Process Safety and Risk Management (PSRM) to be audited by DuPont. New heights will be explored in order to enhance the process safety of manufacturing operations.

The Company will soon be embarking on to Integrated Management System (IMS) to integrate the Quality Management System (QMS) and Environmental Management System (EMS). We will also embark on attaining OSHAS-18001 (Occupational Safety & Health Assessment Series) certification as the basic platform to launch this is available in the form of DuPont best practices.

Information Systems

In view of the changing needs of the organization, the management has devised a comprehensive IT strategy. The strategy focuses on centralization of the IT infrastructure at the group level and a shift to SAP as the preferred ERP system. This will enable the organization to overcome existing issues and gaps if any on the software systems front and also ensure that economies of scale are achieved.

In 2013, the Information Systems department supported many initiatives taken in the Company. It played an essential role in the implementation of the SAP module and Factory Talk Historian, which has been deployed at the Plant's Honeywell DCS system and will facilitate the process engineers in timely DCS data collection, manipulation and visualization on their desktops. This will assist in an efficient and insightful analysis of EDC/VCM Plant performance.

In 2013, other major developments included Systems deployment at Engro Polymer and Chemicals Limited. In line with synergizing the systems across the group, Lotus Notes was replaced with Microsoft Outlook and Sharepoint as the preferred e-mail and office collaboration suite respectively. This will result in more efficient and effective communication between the Company's key interfaces. It will also provide a centralized management of the infrastructure thus eliminating unnecessary duplication of hardware and IT workforce. Microsoft Lync has also been introduced in order to provide client based video conference and web sharing tools which facilitate in connecting people at various locations for key meetings and decision making.

Human Resources

The year 2013 was one where HR focused on two key areas: improving productivity/efficiency in the Company and enhancing the quality of our workforce. In this regard, several major initiatives were launched.

Productivity & Efficiency Improvements

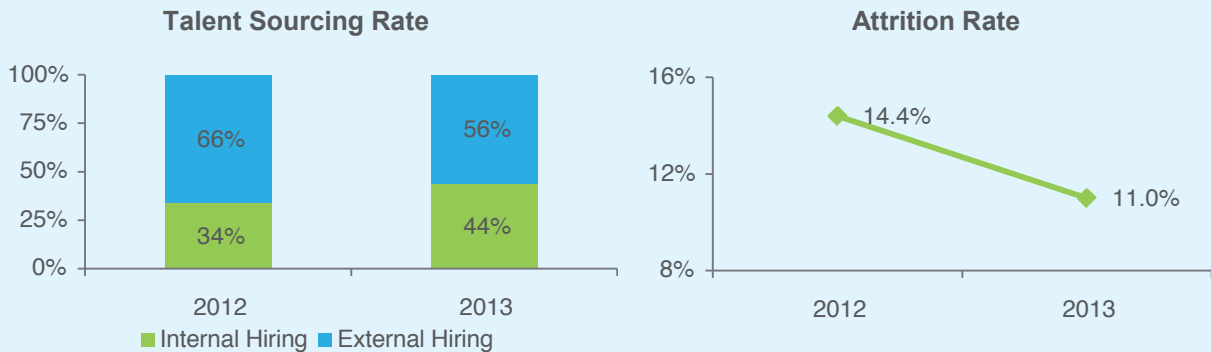
On the productivity improvements front, the most significant initiative was the launch of the Lean Six Sigma program, a cutting edge methodology that reduces waste by improving the efficiency of processes. 25 employees were chosen to go through a training designed by the originators of Lean Six Sigma, Motorola Solutions, and currently 25 Green Belt projects are in progress. Additionally, SAP HR module was implemented which has streamlined data, reduced processing time and eliminated computation errors. EPCL also won a SAP and Siemens Excellence Award for implementing and efficiently running this module. Another monumental initiative introduced during the year was the manpower optimization study with the aim of identifying inefficiencies in the system and rectifying them.

HR Metrics were also launched in order to analyze HR data in a more quantifiable manner and to make our KPIs more attuned to the business.

Quality Enhancements in Human Resource

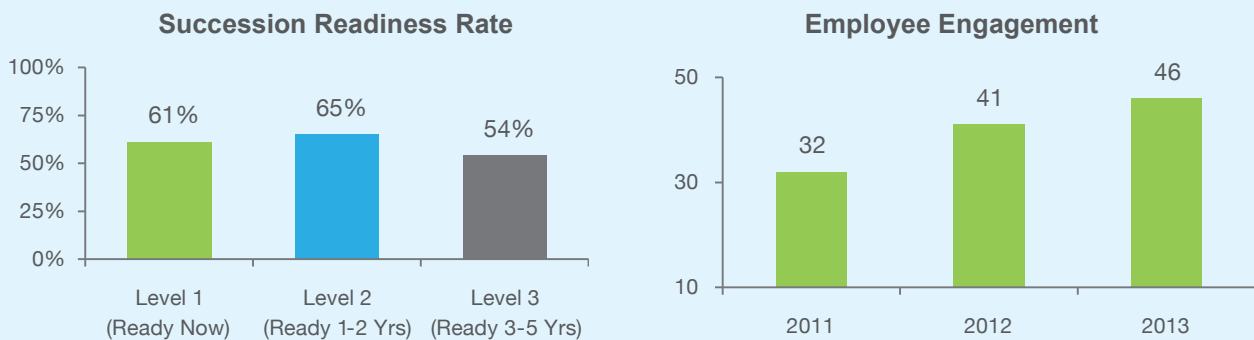
In our endeavor to ensure induction of quality talent, a new assessment tool by the name 'Professional Learning Indicator' replaced our conventional paper-based IQ test for hiring. Further, 60 trainees were employed specifically to address long term needs on the technical side of the organization.

Overall, the focus remains on providing opportunities to home-grown talent. As a result, out of the total hiring done during the year, 44% were from within the Company, primarily from the trainee programs. The number may also be attributed to the upward and horizontal mobility provided to the employee as part of our promise for career growth and talent retention.



Aside from induction, retention of our skilled workforce is critical for smooth business continuity and long term growth of the enterprise. Attrition rate has financial implications on account of rehiring, retraining and foregone revenue. In 2013, the attrition rate of the workforce reduced to 11% comparing to 14.4% in 2012, resulting in substantial savings to the Company.

Ensuring that our supply of skilled talent remains uninterrupted is equally important. It protects the organization from being vulnerable to any unplanned loss of talent. Furthermore, an extensive training framework was developed and implemented for the growth and personal development of employees. Senior management was re-tuned and re-trained on roles and responsibilities through the 'Leadership Challenge' program which aimed to improve collaboration between leaders and their teams. In EPCL, the overall succession readiness for supervisory role is as follows:



Lastly, in continuation of our aim to enhance employee engagement, activities such as communication sessions were carried out, including sessions with the senior management and CEO to address employee queries. Aside from that, our HR Policy Handbook was also introduced which has drastically improved understanding of policies at the grass root level. Both of these initiatives have improved the flow of information in the organization. Many events and sessions also took place to boost the morale of employees, the most important being the Corporate Excellence Awards. Due to these initiatives, Employee Engagement Index in 2013 improved by 12%.

Stakeholder Engagement & Relations

The Company believes in engaging with stakeholders at all levels, during the year we used press releases securities analyst briefings on quarterly and annual results, disclosures to the stock exchanges on strategic events, plant visits and informal conversations with relevant stakeholders.

EPCL has hundreds of vendors and customers and we seek to engage them from time to time through formal and informal meetings and conferences. We have engaged with our customers regularly to provide them with technical assistance related to their businesses for the benefit of the industry.

The Company considers employees as an integral driver of growth, we measure employee motivation and satisfaction through various benchmarks and findings and results are shared by the respective managers and HR strategy is tailored to address the highlighted areas.

Performance Review & Future Outlook

Global economic growth outlook remains lackluster in the near future. Modest improvement is largely due to the Eurozone which is expected to resume after a two year recession. The United States is expected to continue its positive but flattish growth trajectory while GDP growth in emerging and developing economies is projected to slow down mainly because of structural and policy challenges of China's economic transformation.

PVC demand is likely to move with the global economic growth trend. On the supply front, North America will continue to maintain its dominance in exports. In the context of Ethylene, supply tightening is expected in 2014 as the downstream capacity increase is outpacing upstream expansions. Oil price volatility driven by geo political uncertainty can exert pressure on Ethylene prices.

The PVC market size is expected to grow on account of high allocation of government budget to Public Sector Development Program and growth in private sector construction. The Company will be able to encash the domestic market opportunity through its debottlenecking efforts which will ensure high product availability. On the Caustic Soda front, growth in demand is expected on account of GSP plus status granted to Pakistan.

Going forward, EPCL will continue to consolidate its position on all fronts and will strive to achieve its goal of triple bottom line. The Company has implemented an effective mechanism of monitoring results and making tactical decisions in response to the dynamic business environment.

Corporate Review

Shareholding in the Company

The shareholding in the Company as at December 31, 2013 is as follow:

Shareholders' Category	No. of Shareholders	No. of Shares Held	Percentage of Holding
Directors, Chief Executive Officer, and their spouse and minor children.	10	200,010	0.03
Associated Companies, undertaking and related parties.	4	539,103,127	81.26
Banks Development Financial Institutions, Non Banking Financial Institutions.	5	3,657,971	0.55
Insurance Companies	3	1,695,000	0.26
Modarabas and Mutual Funds	2	488,500	0.07
Share holders holding 10%	3	537,914,987	81.08
General Public (Individuals):			
a. Local	34,269	82,853,935	12.49
b. Foreign	-	-	-
Others	97	35,470,245	5.35

Category of Shareholding

Information of Shareholding required under the reporting framework is as follows:

1. Associated Companies, Undertakings and Related Parties

Names of holders	No. of Shares Held
Engro Corporation Limited	372,809,989
International Finance Corporation	97,155,000
Mitsubishi Corporation	67,949,998
EPCL Employees' Trust	1,188,140
Total	539,103,127

2. Mutual Funds

Names of holders	No. of Shares Held
CDC - Trustee AKD Opportunity Fund	56,500
Golden Arrow Selected Stocks Fund Limited	432,000
Total	488,500

3. Directors and their spouse and minor children

Names of holders	No. of Shares Held
Abdul Samad Khan	1
Isar Ahmad	1
Khalid Siraj Subhani	1
Kimihide Ando	1
Muhammad Aliuddin Ansari	1
Shabbir Hashmi	200,001
Shahzada Dawood	1
Takashi Yoshida	1
Waqar Ahmed Malik	1
Naz Khan	1
Total	200,010

4. Executives 2,129,032

5. Public sector companies and corporations NIL

6. Banks, Development Finance Institutions, Non Banking Finance Companies, Insurance, Takaful, Modarbas & Pension Funds 5,352,971

7. Shareholders holding five percent or more voting interest in the Company

Names of holders	No. of Shares Held	Percentage of Holding
Engro Corporation Limited	372,809,989	56.19
International Finance Corporation	97,155,000	14.64
Mitsubishi Corporation	67,949,998	10.24
Total	537,914,987	81.08

8. Details of purchases / sales of shares by Directors, Executives and their spouse/minor children.

Names of holders	Date of Purchase / Sale	Shares Purchased	Shares Sold	Rate
Zafar Ali	January 7, 2013	-	60,000	9.26
Zafar Ali	January 8, 2013	-	20,000	9.47
Zafar Ali	January 9, 2013	-	5,000	9.25
Zafar Ali	January 10, 2013	-	66,598	9.20
Khalid Shahzad	January 23, 2013	-	7,500	9.80
Muhammad Ali Ansari	February 6, 2013	-	106,000	10.40
Khalid Shahzad	February 6, 2013	-	15,000	10.50
Khalid Shahzad	February 7, 2013	-	5,000	10.75
Mohammad Zohaib Sufyan	February 13, 2013	-	20,000	10.17
Khalid Shahzad	February 15, 2013	-	15,000	10.50
Khalid Shahzad	February 18, 2013	-	5,000	10.65
Fareeha Jahangir	February 21, 2013	-	50,000	10.04
Syed Tilal Hassan	February 28, 2013	-	10,000	10.35
Muzaffar Islam	March 13, 2013	20,000	-	9.77
Aqeel Riaz	March 18, 2013	-	20,000	9.26
Rahim Khan	April 4, 2013	-	10,000	11.06
Aneeq Ahmad	April 5, 2013	-	21,500	11.80
Syed Wajahat Hussain	April 5, 2013	-	44,500	12.09
Khawaja Ibaduddin	April 9, 2013	-	33,000	11.54
Aqeel Riaz	April 9, 2013	-	15,000	11.40
Jahanzeb Dal	May 6, 2013	-	25,000	11.52
Abdul Qayoom	May 10, 2013	-	63,000	11.30
Syed Ali Akbar	May 31, 2013	-	4,000	14.20
Syed Kashif Ali	June 6, 2013	-	15,000	14.25
Muzaffar Islam	July 10, 2013	-	5,000	13.56
Muhammad Bilal Ahmed	August 12, 2013	500	-	12.7
Abdul Qayoom	August 13, 2013	-	50,000	13.05
Abdul Qayoom	August 23, 2013	-	5,000	13.40
Abdul Qayoom	August 26, 2013	-	2,000	14.30
Abdul Qayoom	August 26, 2013	-	13,000	14.41
Abdul Qayoom	August 27, 2013	10,000	-	13.45
Muzaffar Islam	September 18, 2013	-	95,098	12.82
Muzaffar Islam	September 19, 2013	15,500	-	12.88
Muhammad Bilal Ahmed	September 25, 2013	5,000	-	13.85
Abdul Qayoom	September 25, 2013	-	10,000	13.90
Muzaffar Islam	September 26, 2013	30,000	-	14.03
Muzaffar Islam	October 1, 2013	10,233	-	13.38
Muzaffar Islam / Adila M. Islam	October 9, 2013	4,000	-	12.75
Abdul Qayoom	November 19, 2013	-	5,000	12.60
Najam Saeed	November 26, 2013	-	18,000	12.25
Abdul Qayoom	November 27, 2013	-	5,000	12.55
Abdul Qayoom	November 29, 2013	-	15,000	12.80
Syed Muhammad Farooq Ahmed	December 6, 2013	16,500	-	12.45
Abdul Qayoom	December 12, 2013	-	15,000	12.66
Faisal Ahmed	December 13, 2013	48,000	-	12.80
Abdul Qayoom	December 13, 2013	-	25,000	12.92
Abdul Qayoom	December 17, 2013	-	15,000	13.33

9. Pattern of holding of the shares held by the shareholders as at December 31, 2013.

Number of Shareholders	Shareholding			Total Shares Held
	From	-	To	
391	1	-	100	13,037
22,013	101	-	500	10,649,956
7,350	501	-	1,000	5,207,527
3,043	1,001	-	5,000	7,388,434
621	5,001	-	10,000	4,857,900
269	10,001	-	15,000	3,469,706
158	15,001	-	20,000	2,925,187
95	20,001	-	25,000	2,259,699
63	25,001	-	30,000	1,791,869
36	30,001	-	35,000	1,166,467
30	35,001	-	40,000	1,148,496
32	40,001	-	45,000	1,397,370
47	45,001	-	50,000	2,323,334
18	50,001	-	55,000	935,891
13	55,001	-	60,000	766,515
10	60,001	-	65,000	634,802
9	65,001	-	70,000	620,000
8	70,001	-	75,000	589,204
6	75,001	-	80,000	476,000
5	80,001	-	85,000	413,050
4	85,001	-	90,000	359,500
6	90,001	-	95,000	558,811
28	95,001	-	100,000	2,790,637
7	100,001	-	105,000	723,973
5	105,001	-	110,000	530,317
3	110,001	-	115,000	338,310
2	115,001	-	120,000	235,997
6	120,001	-	125,000	749,750
3	125,001	-	130,000	387,481
1	130,001	-	135,000	134,000
1	135,001	-	140,000	138,422
1	140,001	-	145,000	145,000
7	145,001	-	150,000	1,049,500
4	150,001	-	155,000	609,100
1	155,001	-	160,000	158,850
2	160,001	-	165,000	327,646
5	165,001	-	170,000	844,000
1	170,001	-	175,000	175,000
2	175,001	-	180,000	352,777
2	180,001	-	185,000	368,500
2	185,001	-	190,000	374,575
17	195,001	-	200,000	3,397,625
3	200,001	-	205,000	607,350
1	210,001	-	215,000	210,900
1	225,001	-	230,000	226,000
1	235,001	-	240,000	239,000

Number of Shareholders	Shareholding		Total Shares Held
	From	To	
5	245,001	- 250,000	1,250,000
1	250,001	- 255,000	252,000
2	260,001	- 265,000	525,000
2	270,001	- 275,000	549,000
1	285,001	- 290,000	285,270
3	295,001	- 300,000	900,000
1	300,001	- 305,000	303,449
2	305,001	- 310,000	618,000
1	310,001	- 315,000	312,500
1	315,001	- 320,000	316,869
1	325,001	- 330,000	330,000
2	335,001	- 340,000	678,000
1	345,001	- 350,000	350,000
1	355,001	- 360,000	360,000
1	360,001	- 365,000	364,425
1	385,001	- 390,000	390,000
1	390,001	- 395,000	393,699
1	395,001	- 400,000	399,500
1	420,001	- 425,000	424,500
1	430,001	- 435,000	432,000
1	445,001	- 450,000	446,250
1	565,001	- 570,000	569,925
1	590,001	- 595,000	595,000
1	605,001	- 610,000	608,199
1	680,001	- 685,000	683,000
1	695,001	- 700,000	700,000
1	820,001	- 825,000	825,000
1	905,001	- 910,000	910,000
1	990,001	- 995,000	993,942
2	995,001	- 1,000,000	2,000,000
1	1,045,001	- 1,050,000	1,049,061
1	1,185,001	- 1,190,000	1,188,140
1	1,295,001	- 1,300,000	1,296,500
1	1,345,001	- 1,350,000	1,349,000
1	1,370,001	- 1,375,000	1,375,000
2	1,395,001	- 1,400,000	2,800,000
1	2,365,001	- 2,370,000	2,366,000
1	2,545,001	- 2,550,000	2,550,000
1	2,645,001	- 2,650,000	2,645,333
1	2,795,001	- 2,800,000	2,800,000
1	2,840,001	- 2,845,000	2,843,677
1	3,595,001	- 3,600,000	3,600,000
1	16,855,001	- 16,860,000	16,858,097
1	67,945,001	- 67,950,000	67,949,998
1	97,150,001	- 97,155,000	97,155,000
1	372,805,001	- 372,810,000	372,809,989
34,391			663,468,788

Major Judgment Areas

Main areas related to Income Taxes, Derivative Financial Instruments, Deferred Tax Assets, Retirement Benefit Obligations, etc are detailed in Notes to the accounts.

Accounting Standards

The accounting policies of the Company fully reflect the requirements of the Companies Ordinance 1984 and such approved International Accounting Standards and International Financial Reporting Standards as have been notified under this Ordinance as well as through directives issued by the Securities and Exchange Commission of Pakistan.

Pension, Gratuity and Provident Fund

Statement of value of investments as at last audited statement date

Rs. '000	Provident	Pension	Gratuity
As at June 30, 2013			
Government Securities	112,946	72,506	27,123
Mutual Funds	62,166	58,190	17,870
Equity & TFC Investments	40,442	27,944	11,095
Receivables	18,174	14,558	4,854
Cash at bank	10,104	505	279
Payables	(126)	(3,515)	(1,218)
Net Assets as per last audited financial statement	243,706	170,188	60,003

During the year, the Company developed plans that provide post-employment and retirement benefits to its employees. These included a defined benefit pension scheme, a funded defined benefit gratuity scheme and a defined contribution provident fund.

The above mentioned plans are recognized by the tax authorities. The latest actuarial valuations of defined benefit plans were carried out at September 30, 2013. Financial statements have been audited by external auditors up to June 30, 2013.

During the year, the Company has substantially merged all its staff retirement benefit funds with Engro Corporation's funds after re-measuring its plan assets and defined benefit obligation as at September 30, 2013. Consequently, the defined benefit plans have been converted to defined contribution plans.

Compliance with Corporate Governance

The Board of Directors reviews all significant matters of the Company. These include Company's strategic direction, annual business plans and targets, decision on long term investment and borrowings. The Board of Directors is committed to maintain high standards of Corporate Governance.

The Board of Directors is pleased to report that:

- The financial statements prepared by the management present fairly its state of affairs, the results of its operations, changes in equity and cash flows
- Proper books of accounts have been maintained
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment

- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed
- The system of internal control is sound in design and has been effectively implemented and monitored
- There are no significant doubts upon the ability of the Company to continue as a going concern
- There have been no departures from the best practices of corporate governance, as detailed in the listing regulations

Shares traded and average prices

During the year 496.5 million shares of the Company were traded on the Karachi Stock Exchange. The average price of the Company's share based on daily closing rates was Rs. 11.98. The 52 week low high during 2013 was Rs. 8.68 – 14.2 per share respectively.

Dividends

Accumulated losses of the Company on a consolidated basis stands at Rs. 493 million therefore the Board has not recommended any dividend during the year.

Auditors

The present auditors, M/s A.F. Ferguson & Co. retire, and offer themselves for reappointment. The Board Audit Committee and the Board of Directors have endorsed the recommendation.



Khalid Siraj Subhani
President & Chief Executive



Waqar Ahmed Malik
Director

financial summary

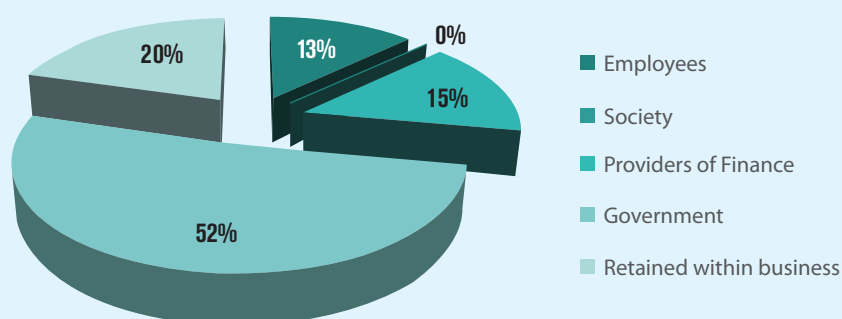


statement of value addition

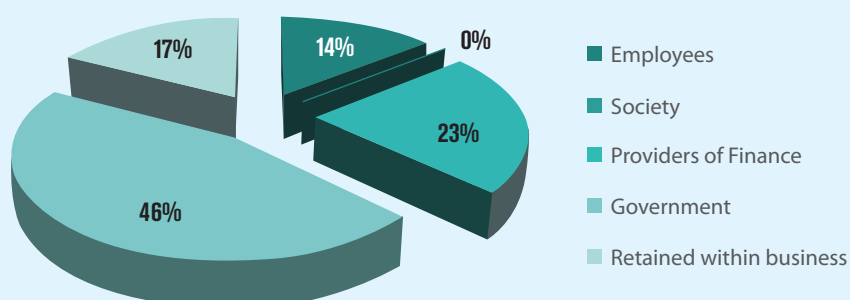
For the year ended December 31st, 2013

	2013		2012	
	Rs. in '000	%	Rs. in '000	%
Wealth Generated				
Gross Sales and Other Income	28,495,524		24,262,306	
Materials and Services Purchased	(19,237,308)		(17,025,571)	
	<u>9,258,216</u>	100%	<u>7,236,735</u>	100%
Wealth Distributed				
Employees Salaries, wages and other benefits	1,202,284	13%	1,022,453	14%
Society Donations and other CSR activities	4,719	0%	2,296	0%
Providers of Finance Finance costs	1,369,849	15%	1,659,061	23%
Government Income tax, Sales Tax, Duties, WWF and WPPF	4,781,299	52%	3,296,479	46%
Retained within business Retained earnings, Depreciation and amortization	1,900,065	20%	1,256,446	17%
	<u>9,258,216</u>	100%	<u>7,236,735</u>	100%

Distribution of value added - 2013



Distribution of value added - 2012



quarterly analysis

Q1

Revenue Rs. 5,787 Mn
Gross Profit Rs. 1,121 Mn
Operating Profit Rs. 568 Mn
Profit After Tax Rs. 166 Mn

- VCM plant demonstrated stable production (40 KT vs. 33 KT last year)
- 3 KT VCM exports in vs. 3 KT VCM imports in 2012
- HCl project successfully completed for domestic sales
- Lower PVC margins due to strong Ethylene prices
- Stable volumes for both PVC and Caustic segments, coupled with strong prices for Caustic

Q2

Revenue Rs. 6,055 Mn
Gross Profit Rs. 960 Mn
Operating Profit Rs. 447 Mn
Profit After Tax Rs. 73 Mn

- 44 KT VCM was produced vs. 34 KT in 2012, higher production was mainly due to stable plant operations and shorter maintenance shutdown
- PVC sales grew by 28% as compared to 2012, mainly due to market development initiatives and strict enforcement of PVC scrap import regulations
- Healthy PVC margins due to favorable prices
- Caustic margins remained higher due to the Company's sales strategy and better regional sales mix
- Strong volumetric growth was witnessed in the PVC segment

Q3

Revenue Rs. 6,105 Mn
Gross Profit Rs. 1,442 Mn
Operating Profit Rs. 1,066 Mn
Profit After Tax Rs. 385 Mn

- VCM production was marginally lower in Q3 as plant took a turnaround for decoking
- On the margins front, the Company enjoyed healthy margins on both PVC and Caustic
- PVC international prices maintained an upward trend
- Purchase contract signed with major PVC customer which resulted in reduction in PVC imports and helped EPCL gain market share
- Higher FX losses due to sharp PKR/USD decline

Q4

Revenue Rs. 6,643 Mn
Gross Profit Rs. 1,386 Mn
Operating Profit Rs. 696 Mn
Profit After Tax Rs. 93 Mn

- All the plants operated with excellent operational efficiency, resulting in highest ever productions of Caustic Soda, Hypo, EDC and VCM for the full year
- PVC margins remained subdued during the period owing to the weak PVC prices, coupled with upward pressure in the ethylene prices
- Sales volume remained stable and 3KT of VCM was exported
- FX losses declined in Q4, 2013 owing to the relative recovery in the FX rates

summary of profit & loss account and balance sheet

	2008	2009	2010	2011	Amounts in Rs. (M)	
					2012	2013
PROFIT AND LOSS						
Net sales	7,868	11,571	14,628	16,886	20,466	24,592
Gross profit	1,111	1,152	1,191	2,075	3,452	4,911
Operating profit	492	347	123	630	1,813	2,718
Profit / (loss) before tax	459	(249)	(1,289)	(1,117)	166	1,344
Profit / (loss) after Tax	353	(232)	(814)	(729)	50	717
BALANCE SHEET						
Property, plant and equipment	16,135	19,361	19,199	18,538	17,715	17,133
Intangibles, investments, deferred taxation and long term Loans & advances	167	109	434	1,021	1,015	608
Current assets	1,977	3,086	4,501	4,969	6,227	7,500
Current liabilities	2,705	4,681	6,163	9,550	11,030	10,668
Non current liabilities	9,008	11,515	11,064	8,840	7,728	7,741
Share capital	5,204	5,204	6,635	6,635	6,635	6,635
Shareholders equity	6,566	6,360	6,906	6,139	6,198	6,934

summary of cash flow statement

	2008	2009	2010	2011	Amounts in Rs. (M)	
					2012	2013
Cash generated from operations	665	1,490	105	4,724	2,852	4,217
Finance costs	(354)	(561)	(1,421)	(1,795)	(1,670)	(1,412)
Long term loans and advances	(10)	60	7	3	(12)	(3)
Retirement benefits paid	□	(11)	(12)	(41)	(69)	(56)
Income tax paid	(184)	(290)	(333)	(381)	(270)	62
Net cash flow from operating activities	117	688	(1,654)	2,509	831	2,807
Purchase of operating assets and intangibles	(11,165)	(3,746)	(880)	(533)	(364)	(639)
Retention money against Project payments	452	(553)	□	□	□	□
Proceeds from disposal of operating assets	4	6	15	18	18	8
Purchases of short term investments	□	□	□	(540)	(750)	(924)
Proceeds from sale of short term investments	2,915	35	□	546	754	928
Income on investments and bank deposits	117	62	14	6	8	26
Net cash flow from investing activities	(7,677)	(4,196)	(851)	(503)	(334)	(600)
Proceeds from long term borrowings	6,638	4,179	1,390	□	700	1,956
Proceeds from short term borrowings	□	□	□	□	1,250	620
Repayment of borrowings	□	(130)	(1,104)	(1,613)	(2,945)	(2,873)
Issue of share capital	229	□	1,414	□	□	□
Dividend	(253)	□	□	□	□	200
Net cash flow from financing activities	6,614	4,049	1,777	(1,613)	(995)	(97)
Net cash flow	(946)	541	(805)	393	(499)	2,109
Cash Generated from Operations-Direct Method						
Cash flows from customers	7,977	11,305	14,373	17,263	20,412	24,335
Cash payment to suppliers and others	(7,312)	(9,815)	(14,268)	(12,539)	(17,560)	(20,118)
Cash generated from operations	665	1,490	105	4,724	2,852	4,217

balance sheet vertical and horizontal analysis

Amounts in Rs. M

	2008	2009	2010	2011	2012	2013
ASSETS						
Non-Current Assets	16,302	19,470	19,633	19,559	18,730	17,740
Current Assets	1,977	3,086	4,501	4,969	6,227	7,500
Total Assets	18,279	22,556	24,134	24,528	24,957	25,240
EQUITY AND LIABILITIES						
Equity	6,566	6,360	6,906	6,139	6,199	6,934
Advance against issue of share capital	□	□	□	□	□	□
Non-Current Liabilities	9,008	11,515	11,064	8,839	7,729	7,638
Current Liabilities	2,705	4,681	6,164	9,550	11,029	10,668
Total Equity & Liabilities	18,279	22,556	24,134	24,528	24,957	25,240
Vertical Analysis						
% of Balance Sheet Total	2008	2009	2010	2011	2012	2013
ASSETS						
Non-Current Assets	89%	86%	81%	80%	75%	70%
Current Assets	11%	14%	19%	20%	25%	30%
Total Assets	100%	100%	100%	100%	100%	100%
EQUITY AND LIABILITIES						
Equity	36%	28%	29%	25%	25%	27%
Non-Current Liabilities	49%	51%	46%	36%	31%	30%
Current Liabilities	15%	21%	25%	39%	44%	42%
Total Equity & Liabilities	100%	100%	100%	100%	100%	100%
Horizontal Analysis						
Year on Year	2008	2009	2010	2011	2012	2013
	over	over	over	over	over	over
	2007	2008	2009	2010	2011	2012
ASSETS						
Non-Current Assets	236%	19%	1%	□	(5%)	(5%)
Current Assets	57%	56%	46%	10%	27%	20%
Total Assets	93%	23%	7%	2%	2%	1%
EQUITY AND LIABILITIES						
Equity	27%	(3%)	9%	(11%)	1%	12%
Advance against issue of share capital	(100%)	□	□	□	□	□
Non-Current Liabilities	393%	28%	(4%)	(20%)	(13%)	□
Current Liabilities	93%	73%	32%	55%	15%	(4%)
Total Equity & Liabilities	93%	23%	7%	2%	2%	1%

profit and loss account vertical and horizontal analysis

	Amounts in Rs. M					
	2008	2009	2010	2011	2012	2013
Net Sales	7,868	11,571	14,628	16,886	20,466	24,592
Cost of Sales	(6,736)	(10,419)	(13,437)	(14,811)	(17,014)	(19,681)
Gross Profit	1,132	1,152	1,191	2,075	3,452	4,911
Distribution and marketing expenses	(312)	(469)	(609)	(854)	(1,134)	(1,344)
Administrative expenses	(163)	(205)	(311)	(386)	(478)	(606)
Other operating expenses	(289)	(231)	(171)	(226)	(528)	(521)
Other operating income	124	100	22	21	501	278
Operating profit	492	347	122	630	1,813	2,718
Finance costs	(33)	(596)	(1,412)	(1,747)	(1,647)	(1,374)
Profit / (Loss) before taxation	459	(249)	(1,290)	(1,117)	166	1,344
Taxation	(106)	17	476	388	(116)	(627)
Profit / (Loss) after taxation	353	(232)	(814)	(729)	50	717

Vertical Analysis

% of Sales	2008	2009	2010	2011	2012	2013
Net Sales	100%	100%	100%	100%	100%	100%
Cost of sales	(86%)	(90%)	(92%)	(88%)	(83%)	(80%)
Gross profit	14%	10%	8%	12%	17%	20%
Distribution and marketing expenses	(4%)	(4%)	(4%)	(5%)	(6%)	(6%)
Administrative expenses	(2%)	(2%)	(2%)	(2%)	(2%)	(2%)
Other operating expenses	(4%)	(2%)	(1%)	(1%)	(3%)	(2%)
Other operating income	2%	1%	□	□	2%	1%
Operating profit	6%	3%	1%	4%	9%	11%
Finance costs		(5%)	(10%)	(10%)	(8%)	(6%)
Profit / (Loss) before taxation	6%	(2%)	(9%)	6%	1%	5%
Taxation	(1%)	□	3%	2%	(1%)	(3%)
Profit / (Loss) after taxation	4%	(2%)	(6%)	(4%)	0%	3%

Horizontal Analysis

Year on Year	2008	2009	2010	2011	2012	2013
	over	over	over	over	over	over
	2007	2008	2009	2010	2011	2012
Net Sales	30%	47%	26%	15%	21%	20%
Cost of sales	33%	55%	29%	10%	15%	16%
Gross Profit	15%	2%	3%	74%	66%	42%
Distribution and marketing expenses	21%	50%	30%	40%	33%	19%
Administrative expenses	24%	26%	51%	24%	24%	27%
Other operating expenses	313%	(20%)	(26%)	32%	134%	(1%)
Other operating income	41%	(19%)	(78%)	(5%)	2,286%	(45%)
Operating profit	(20%)	(29%)	(65%)	245%	188%	(50%)
Finance costs	(20%)	1,706%	137%	24%	(6%)	(17%)
Profit / (Loss) before taxation	(20%)	(154%)	418%	(13%)	115%	710%
Taxation	(31%)	(116%)	2,643%	(18%)	(130%)	441%
Profit / (Loss) after taxation	(16%)	(166%)	251%	(10%)	107%	1334%

key financial information

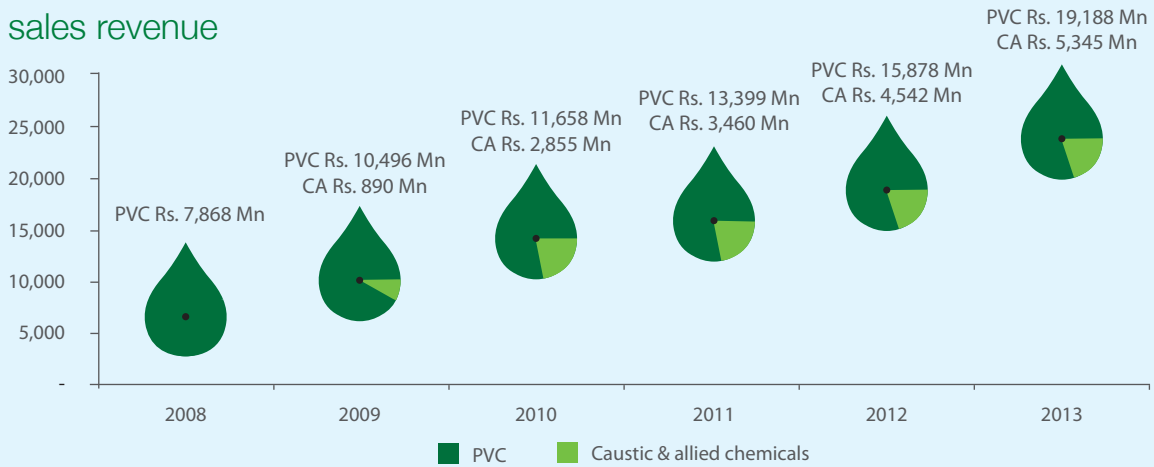
	Unit	2008	2009	2010	2011	2012	2013
Profitability ratios							
Gross profit ratio	%	14.39	9.96	8.15	12.29	16.87	19.97
Net profit / (loss) to sales	%	4.49	(2.01)	(5.56)	(4.32)	0.24	2.92
EBITDA	Rs. in M	670	860	1,144	1,793	2,992	3,897
EBITDA to sales	%	8.51	7.43	7.82	10.62	14.62	15.85
Operating leverage ratio	No. of Times	(0.58)	(0.65)	(2.58)	25.55	11.23	3.58
Return on equity	%	5.38	(3.65)	(11.79)	(11.87)	0.81	10.34
Return on capital employed	%	2.43	(1.33)	(4.57)	(4.94)	0.36	4.97
Liquidity ratios							
Cash flow from operations to sales	No. of Times	0.08	0.13	0.01	0.28	0.14	0.17
Cash to current liabilities	No. of Times	(0.28)	(0.04)	(0.16)	(0.06)	(0.10)	0.09
Current ratio	No. of Times	0.73	0.66	0.73	0.52	0.57	0.71
Quick ratio	No. of Times	0.26	0.28	0.29	0.15	0.16	0.27
Activity / turnover ratios							
Fixed assets turnover	No. of Times	0.49	0.60	0.76	0.91	1.16	1.44
Debtor turnover	No. of days	4.77	5.37	9.83	7.35	3.77	5.44
Inventory turnover	No. of days	56.32	48.43	49.73	55.77	59.23	58.45
Creditor turnover	No. of days	49.99	46.61	63.22	123.05	164.88	151.35
Operating cycle	No. of days	11.10	7.18	(3.65)	(59.93)	(101.93)	(87.47)
Capital structure ratios							
Interest cover ratio	No. of Times	14.50	0.58	0.09	0.36	1.1	1.98
Long term debt to equity ratio	No. of Times	1.21	1.75	1.58	1.40	1.22	1.08
Weighted average cost of debt	%	14.72	11.51	10.99	12.09	11.21	11.21
Financial leverage	%	258	372	358	333	309	260
Earning assets to total assets	%	91	90	86	81	77	76
Investment / market ratios							
Number of outstanding shares	No. in M	520	520	663	663	663	663
Earnings per share - basic and diluted	Rs.	0.68	(0.42)	(1.29)	(1.10)	0.07	0.07
Dividend per share	Rs.	0.54	□	□	□	□	□
Dividend payout ratio	%	79	□	□	□	□	□
Dividend cover ratio	No. of Times	1.26	□	□	□	□	□
Price earning ratio	No. of Times	4.66	(2.34)	(9.05)	(14.99)	0.69	0.52
Dividend yield ratio	%	4	□	□	□	□	□
Market value per share (year end)	Rs.	14.58	17.94	4.25	7.34	10.12	13.41
Market value per share (highest)	Rs.	28.31	27.00	18.80	15.87	13.82	14.55
Market value per share (lowest)	Rs.	12.66	12.11	9.57	7.15	8.20	8.50
Break up value per share	Rs.	12.63	12.23	10.42	9.26	9.35	10.46

comments on analysis

- The gross profit margins of the company improved significantly during the year owing to healthy growth in both PVC and Caustic segments, brought about by stable prices and continuous volumetric growth.
- Improved gross margins lead to stable EBITDA for the Company that improved by around 30% during the year, showing the strength of the business model of the Company.
- On the liquidity front, overall capital structuring efforts resulted in easing out pressure on the current ratio that improved from 0.57 in the last year to 0.71 in the current year.
- Cash flow from operations improved significantly during the year. Overall net cash inflow, after providing for fresh investment outflow of over Rs. 600 million, was around 2 billion for the year.
- On the back of stable operational performance, Interest coverage ratio improved to around 2 during the year, demonstrating the fundamental ability of the company to satisfactorily fulfill its commitments towards the lenders.
- Significantly improvement in profitability resulted in a healthy increase in the book value per share of the company from Rs. 9.35 per share to Rs. 10.46 as at December 31, 2013. This was reflected in the increase in share price of the Company, that appreciated by 34% on and year on year basis.

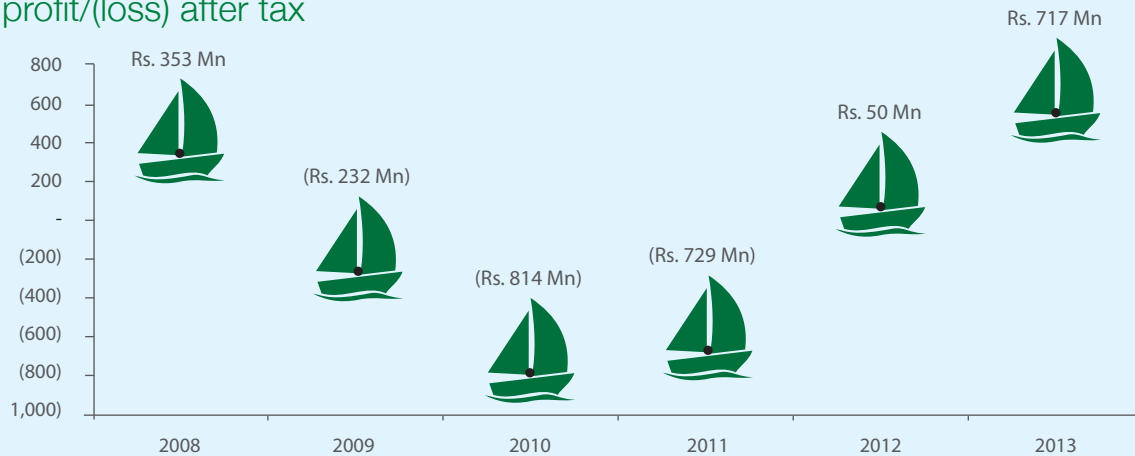
graphical presentation

sales revenue



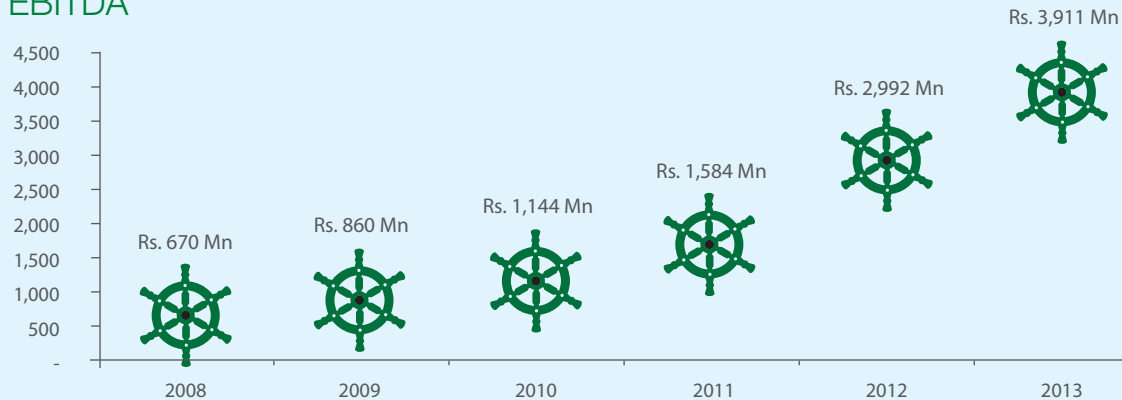
Revenue of the Company increased by a healthy 20% on an year on year basis. The growth in revenue is primarily attributable to increase in domestic sales of PVC and Caustic, coupled with strong prices and an uptick in the VCM exports volumes.

profit/(loss) after tax



The Company earned record profits of Rs. 717 million during the year. Increase in profits was a result of improvement in gross profit margins, rationalization of logistics cost and savings in the finance cost. Reduction in effective tax rate also had a positive impact on the bottom line of the Company.

EBITDA



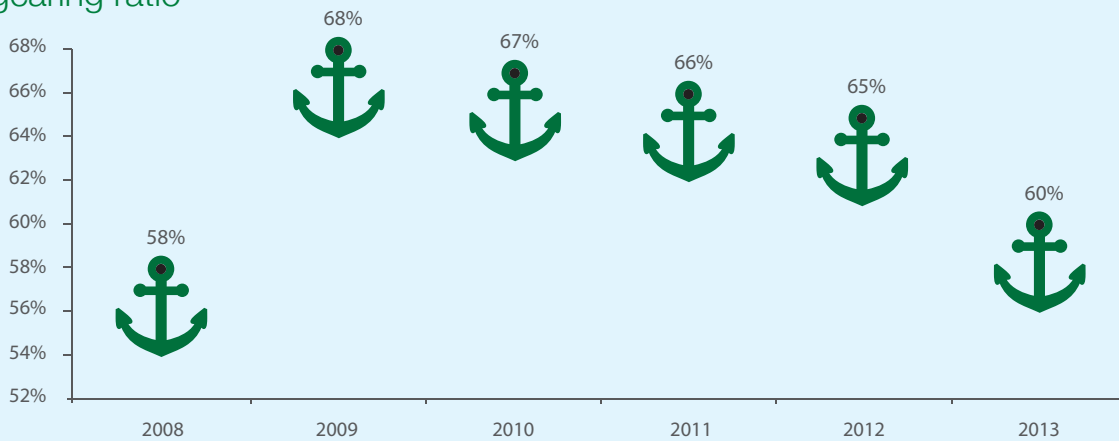
EBITDA of the Company increased by a healthy 31%, from Rs. 2.9 billion in 2012 to Rs. 3.9 billion in 2013. Increase in profitability from core operations was the primary reason for improvement in EBITDA.

property and plant equipment



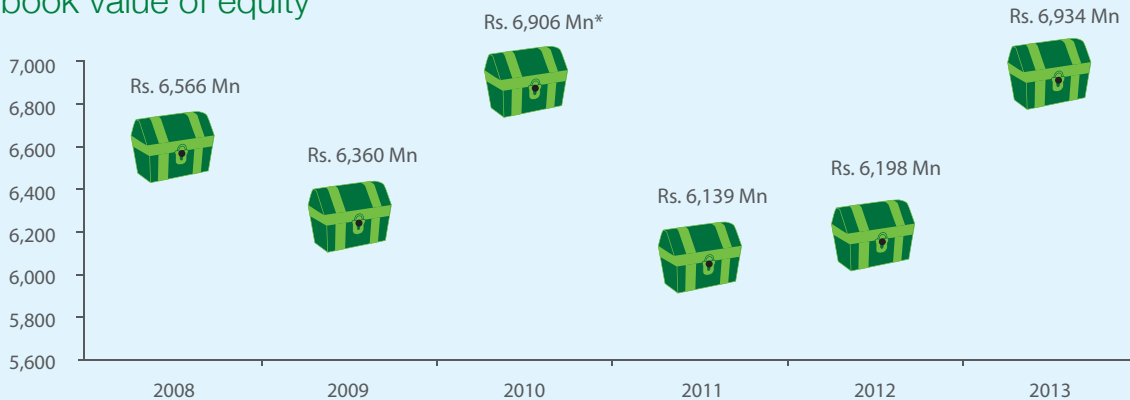
Fixed Assets declined by 3%, primarily on account of depreciation expense. The Company incurred capital expenditure of Rs. 638 million during the period, as against total capital expenditure of Rs. 364 million in the preceding year.

gearing ratio



The gearing ratio of the Company continued to decline on a year on year basis. This is in line with the continuous focus towards rationalization of the overall balance sheet structure of the Company.

book value of equity

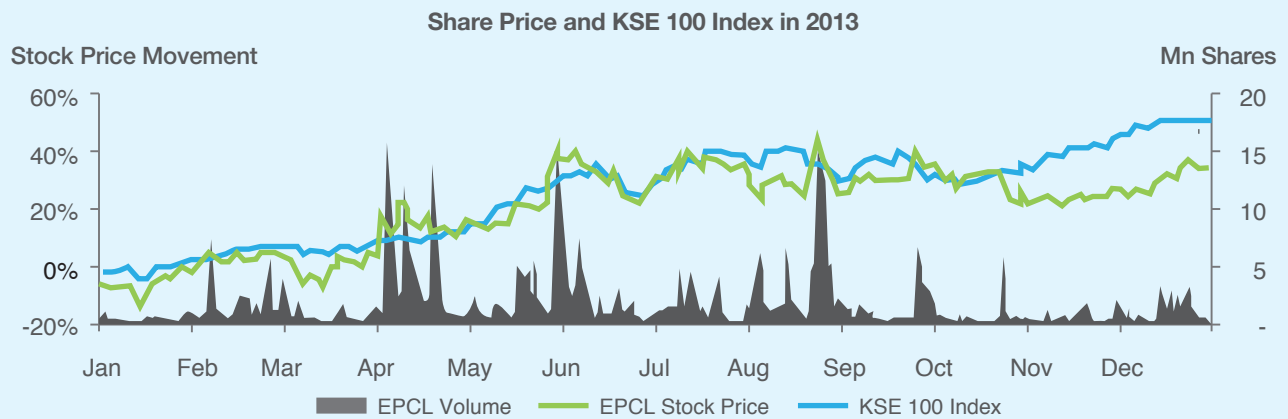


The increase in the book value is primarily attributable to the increase in overall profitability of the Company. As at December 31, 2013, the accumulated losses of the Company stood at Rs. 612 million, down from Rs. 1.31 billion as at December 31, 2012.

* During the year, the Company made a Rights issue amounting to Rs. 1.43 billion.

share price sensitivity analysis

During the year, the stock of Engro Polymer & Chemicals Limited witnessed strong activity and 496.5 million shares were traded at the Karachi Stock Exchange. The stock posted a gain of 34.2% during the year as against 50.4% gain of KSE 100 Index. The average price of the Company share based on daily closing rates was Rs. 11.98 while 52 week low-high during 2013 was Rs. 8.68 – 14.2 per share respectively.



PVC-Ethylene Margins

Ethylene is one of the key raw materials used by the Company and PVC-Ethylene margins are a major determinant of profitability. A surge in Ethylene prices can compress the margins but since both Ethylene and PVC are part of the Vinyl chain, PVC prices will generally follow the same trend.

Energy Prices

Energy prices can have an impact on the Company's profitability. In the case of a significant rise in gas price, the Chlor Alkali business will be affected as we might not be able to pass on the entire impact of the increase in gas price to our customers. Our PVC production is not likely to have a significant impact on the rise in energy prices.

Plant Operations

Stable plant operations lead to higher production and efficiency gains. Disruptions at production facilities negatively impact the Company's financial performance and have the potential of negatively impacting the share price.

Interest Rate

The Company has a sizeable debt on its books and is therefore dependent on interest rate movements. In the case of an upward movement in interest rates, profitability can be dented and can therefore have a negative impact on share price.

Currency Movement

The Company's profitability is sensitive to currency movements. The price of our primary raw material is based in USD and the Company also has dollar based liabilities. However, the Company has restricted its downside risk of currency fluctuation through forward contracts and other relevant derivatives.

financial statements



statement of compliance

with the code of corporate governance
for the year ended december 31,2013

This statement is being presented to comply with the Code of Corporate Governance (the CCG) contained in Regulation No. 35 of the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the CCG in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. As at December 31, 2013 the Board included the following members:

Category	Name
Independent Directors	Waqar Ahmed Malik Shabbir Hashmi
Executive Directors	Khalid S. Subhani
Non-Executive Directors	Isar Ahmad Kimihide Ando Shahzada Dawood Takashi Yoshida Naz Khan Muhammad Aliuddin Ansari Abdul Samad Khan

The independent directors meet the criteria of independence under clause i(b) of the CCG. Of the non-executive directors, Muhammad Aliuddin Ansari, Ms. Naz Khan and Abdul Samad Khan are executives in other Engro Companies.

2. The Directors have confirmed that none of them are serving as a Director on more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable.)
3. All the resident Directors of the Company are registered as tax payers and none of them have defaulted in payment of any loan to a banking company, a DFI or an NBFI, or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurred on the Board on July 01, 2013 which was filled up within 50 days.
5. The Company has prepared a "Code of Conduct" comprising of Ethics and Business Practices policies and has ensured that appropriate steps have been taken to disseminate it through the Company along with its supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and the meeting fees payable to the non-executive directors have been taken by the Board.
8. All meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, alongwith the agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. One of the directors has attended part of the directors' training course conducted by the Pakistan Institute of Corporate Governance and plans to complete the same during 2014, along with other directors who also plan to complete the same in 2014.

10. The Board has approved the appointment of the CFO and Company Secretary including their remuneration and terms and conditions of employment. There has been no change in Head of Internal Audit during the year.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee comprising of four members of whom three are non-executive directors and one is an independent director and the Chairman of the Committee is a non-executive director.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the CCG. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises of four members, of whom three are non-executive directors and one is an independent director and the Chairman of the Committee is a non-executive director.
18. The Board has set up an effective internal audit function manned by suitably qualified and experienced personnel that are involved in the internal audit activities on a full time basis.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The "closed period", prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.



Khalid Siraj Subhani
President & Chief Executive



Waqar Malik
Director

review report to the members on statement of compliance

with best practices of code of corporate governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Engro Polymer and Chemicals Limited (the Company) for the year ended December 31, 2013 to comply with Regulation No. 35 of Chapter XI contained in the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Code of Corporate Governance.

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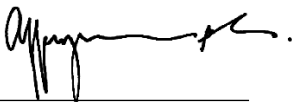
annual report 2013

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges require the Company to place before the Board of Directors, for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2013.

Further, we draw attention to Paragraph 9 of the Statement which states that during the year, only one director attended part of the Directors' Training Program, as required under clause (xi) of the Code.



Chartered Accountants

Karachi

Dated: March 6, 2014

Engagement Partner: Waqas A. Sheikh

A. F. Ferguson & Co., Chartered Accountants, a member firm of the PwC network
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan
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Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazi-ul-Haq Road, P.O.Box 3021, Islamabad-44000; Pakistan; Tel: +92 (51) 2273457-60; Fax: +92 (51) 2277924
Kabul: Apartment No. 3, 3rd Floor, Dost Tower, Haji Yaqub Square, Sher-Nau, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (779) 315320



auditors' report to the members

We have audited the annexed balance sheet of Engro Polymer and Chemicals Limited (the Company) as at December 31, 2013 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes resulted on initial application of standards, amendments or an interpretation to an existing standard, as stated in note 2.1.4 (a) to the financial statements, with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2013 and of the profit, total comprehensive loss, changes in equity and its cash flows for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).



Chartered Accountants

Karachi

Dated: February 22, 2014

Engagement Partner: Waqas A. Sheikh

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balance sheet

as at december 31, 2013

(Amounts in thousand)	Note	2013	(Restated) 2012
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	17,132,553	17,714,505
Intangible assets	5	50,098	30,864
Long term investment - at cost	6	50,000	50,000
Long term loans and advances	7	52,605	49,340
Deferred taxation	8	455,181	885,117
		<u>17,740,437</u>	<u>18,729,826</u>
Current Assets			
Stores, spares and loose tools	9	1,390,168	1,397,683
Stock-in-trade	10	3,250,590	3,052,402
Trade debts - considered good	11	525,017	267,868
Loans, advances, deposits, prepayments and other receivables	12	431,177	393,880
Taxes recoverable	13	742,454	1,025,700
Short term investments	14	300,000	-
Cash and bank balances	15	860,335	89,300
		<u>7,499,741</u>	<u>6,226,833</u>
TOTAL ASSETS		<u><u>25,240,178</u></u>	<u><u>24,956,659</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	16	6,634,688	6,634,688
Share premium		964,029	964,029
Hedging reserve		(52,804)	(92,077)
Accumulated loss		(612,103)	(1,308,239)
Remeasurement of post employment benefits - Actuarial loss		-	(5,113)
		<u>6,933,810</u>	<u>6,193,288</u>
Non-Current Liabilities			
Long term borrowings	17	7,494,818	7,531,866
Derivative financial instruments	18	80,006	141,656
Retirement and other service benefit obligations	19	63,662	59,647
		<u>7,638,486</u>	<u>7,733,169</u>
Current Liabilities			
Current portion of long term borrowings	17	2,242,800	2,052,981
Derivative financial instruments - at fair value through profit and loss	18	102,172	-
Short term borrowings	20	766,062	2,004,084
Trade and other payables	21	7,209,155	6,763,364
Accrued interest / mark-up	22	82,753	121,555
Provisions	23	264,940	88,218
		<u>10,667,882</u>	<u>11,030,202</u>
TOTAL EQUITY AND LIABILITIES		<u><u>25,240,178</u></u>	<u><u>24,956,659</u></u>
Commitments	24		

The annexed notes 1 to 45 form an integral part of these financial statements.



Khalid Siraj Subhani
President & Chief Executive



Waqar Malik
Director

profit and loss account

for the year ended december 31, 2013

(Amounts in thousand except for earnings per share)	Note	2013	2012
		Rupees	
Net revenue	25	24,591,905	20,466,332
Cost of sales	26	(19,681,106)	(17,013,767)
Gross profit		4,910,799	3,452,565
Distribution and marketing expenses	27	(1,343,872)	(1,134,662)
Administrative expenses	28	(606,409)	(478,361)
Other operating expenses	29	(520,816)	(527,744)
Other income	30	278,267	501,055
Operating profit		2,717,969	1,812,853
Finance costs	31	(1,373,541)	(1,647,137)
Profit before taxation		1,344,428	165,716
Taxation	32	(627,261)	(115,990)
Profit for the year		717,167	49,726
Earnings per share - basic and diluted	33	1.08	0.07

The annexed notes 1 to 45 form an integral part of these financial statements.



Khalid Siraj Subhani
President & Chief Executive



Waqar Malik
Director



statement of comprehensive income

for the year ended december 31, 2013

(Amounts in thousand)

Note	2013	(Restated) 2012
	Rupees	
Profit for the year	717,167	49,726
Other comprehensive income / (loss):		
Items that will not be reclassified to profit or loss		
Deferred tax charge relating to revaluation of equity related items	(1,648)	-
Remeasurement of post employment benefits obligation - Actuarial (loss) / gain	(14,270)	16,301
	(15,918)	16,301
Items that may be reclassified subsequently to profit or loss		
Hedging reserve		
Loss arising during the year	(5,601)	(34,987)
Reclassification adjustments for losses included in profit and loss	67,251	50,594
Income tax relating to hedging reserve	(22,377)	(5,463)
	39,273	10,144
Other comprehensive income for the year - net of tax	23,355	26,445
Total comprehensive income for the year	740,522	76,171

The annexed notes 1 to 45 form an integral part of these financial statements.

Khalid Siraj Subhani
President & Chief Executive

Waqar Malik
Director

statement of changes in equity

for the year ended december 31, 2013

(Amounts in thousand)

	RESERVES					Total
	Share Capital	CAPITAL			REVENUE	
		Share premium	Hedging reserve	Accumulated loss	Remeasurement of post employment benefits - Actuarial loss	
Rupees						
Balance as at January 1, 2012 - As previously reported	6,634,688	964,029	(102,221)	(1,357,965)	-	6,138,531
Effect of change in accounting policy due to application of IAS - 19 (Revised) - note 2.1.4	-	-	-	-	(21,414)	(21,414)
Balance as at January 1, 2012 - Restated	6,634,688	964,029	(102,221)	(1,357,965)	(21,414)	6,117,117
Total comprehensive income for the year ended December 31, 2012 - Restated	-	-	10,144	49,726	16,301	76,171
Balance as at December 31, 2012 - Restated	6,634,688	964,029	(92,077)	(1,308,239)	(5,113)	6,193,288
Total comprehensive income for the year ended December 31, 2013	-	-	39,273	715,519	(14,270)	740,522
Effect of curtailment and settlement of defined benefit plans	-	-	-	(19,383)	19,383	-
Balance as at December 31, 2013	<u>6,634,688</u>	<u>964,029</u>	<u>(52,804)</u>	<u>(612,103)</u>	<u>-</u>	<u>6,933,810</u>

The annexed notes 1 to 45 form an integral part of these financial statements.



Khalid Siraj Subhani
President & Chief Executive



Waqar Malik
Director

statement of cash flows

for the year ended december 31, 2013

(Amounts in thousand)	Note	2013	2012
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	36	4,215,639	2,851,911
Finance costs paid		(1,412,343)	(1,670,316)
Long term loans and advances		(3,265)	(11,537)
Retirement benefits paid		(55,537)	(69,054)
Income tax refunded / (paid) - net		61,896	(270,161)
Net cash generated from operating activities		2,806,390	830,843
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(608,672)	(354,002)
- intangible assets		(29,871)	(10,227)
Proceeds from disposal of property, plant and equipment		8,164	18,520
Purchase of short term investments		(924,000)	(750,000)
Proceeds from sale of short term investments		927,973	753,968
Income on bank deposits		26,299	7,722
Net cash utilized in investing activities		(600,107)	(334,019)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings		1,955,655	700,000
Repayments of long term borrowings		(2,052,881)	(2,495,496)
Proceeds from short term borrowings		620,000	1,250,000
Repayments of short term borrowings		(820,000)	(450,000)
Dividend from Subsidiary		200,000	-
Net cash utilized in financing activities		(97,226)	(995,496)
Net increase / (decrease) in cash and cash equivalents		2,109,057	(498,672)
Cash and cash equivalents at beginning of the year		(1,114,784)	(616,112)
Cash and cash equivalents at end of the year	37	994,273	(1,114,784)

The annexed notes 1 to 45 form an integral part of these financial statements.



Khalid Siraj Subhani
President & Chief Executive



Waqar Malik
Director

notes to the financial statements

for the year ended december 31, 2013

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

- 1.1 Engro Polymer and Chemicals Limited (the Company) was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984. The Company is listed on Karachi, Lahore and Islamabad Stock Exchanges.
- 1.2 The Company is a subsidiary of Engro Corporation Limited (the Holding Company). The address of its registered office is 16th Floor, The Harbor Front Building, HC-3 Marine Drive, Block 4 Clifton, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), Vinyl Chloride Monomer (VCM), Caustic soda and other related chemicals. The Company is also engaged in the supply of surplus power generated from its power plants to Engro Fertilizers Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

- 2.1.1 These financial statements have been prepared under the historical cost convention as modified by remeasurement of certain financial assets and financial liabilities (including derivative financial instruments) at fair value and recognition of certain staff retirement and other service benefits at present value.
- 2.1.2 These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.
- 2.1.3 The preparation of financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(Amounts in thousand)

2.1.4 Initial application of a Standard, Amendment or an Interpretation to an existing Standard

a) Standards, amendments to published standards and interpretations that are effective in 2013 and are relevant to the Company

The following standard and amendments to published standards are mandatory for the financial year beginning January 1, 2013:

- IAS 19 'Employee benefits' was revised in June 2011. The revised standard (i) requires past service cost to be recognized immediately in the profit or loss; (ii) replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year; and (iii) introduced a new term 'remeasurements' which is made up of actuarial gains and losses, the difference between actual investment returns and the return implied by the net interest cost. The revised standard eliminates the corridor approach and requires to recognize all remeasurement gains or losses / actuarial gains or losses in the Other Comprehensive Income (OCI) immediately as they occur. In accordance with the transitional provisions as set out in IAS 19 (Revised), the Company has applied the revised standard retrospectively and, consequently the earliest periods presented in the balance sheet, statement of comprehensive income and the statement of changes in equity have been restated. The impact of retrospective application of IAS 19 (Revised) is as follows:

	Retirement and other service benefit obligations	Other Comprehensive Income - Remeasurement of post employment benefits - Actuarial loss
Balance as at December 31, 2011 as previously reported	62,107	-
Restatement - Recognition of remeasurement loss in OCI	21,414	(21,414)
Balance as at December 31, 2011 - Restated	<u>83,521</u>	<u>(21,414)</u>
Balance as at December 31, 2012 as previously reported	54,534	-
Restatement - Recognition of remeasurement loss in OCI	5,113	(5,113)
Balance as at December 31, 2012 - Restated	<u>59,647</u>	<u>(5,113)</u>

The effect of change in accounting policy, due to adoption of IAS 19 (Revised), on the profit and loss account, earnings per share and statement of cash flows is immaterial. Consequently, the same and the related earlier periods presented have not been restated. Further, a third balance sheet (statement of financial position) as at the beginning of the preceding period has not been presented as the effect of retrospective application on that period is not material.

(Amounts in thousand)

- IAS 1 (Amendment) 'Financial statement presentation'. The main change resulting from these amendments is a requirement for entities to group items presented in 'Other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI. The amendment only affects the disclosures in the Company's financial statements.
- Amendments to following standards as a result of annual improvements to International Financial Reporting Standards 2011, issued by IASB in May 2012:
 - IAS 1 (Amendment) 'Financial statement presentation'. The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet as required by IAS 8, 'Accounting policies, changes in accounting estimates and errors'. When an entity produces an additional balance sheet as required by IAS 8, the balance sheet should be as at the date of the beginning of the preceding period, i.e. the opening position. No notes are required to support this balance sheet. As stated above, a third balance sheet as at the beginning of the preceding period has not been presented as the effect of the retrospective application is not material.
 - IAS 16 (Amendment) 'Property, plant and equipment'. The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than stores, spares and loose tools when they meet the definition of property, plant and equipment. The Company's accounting policy is already in line with the requirements of this amendment.
 - IAS 32 (Amendment) 'Financial instruments: Presentation'. The amendment clarifies that the treatment of income tax relating to distributions and transaction costs is in accordance with IAS 12. So, income tax related to distributions is to be recognized in the profit and loss account, and income tax related to the costs of equity transactions is to be recognized in equity. The Company's current accounting treatment is already in line with this amendment.
 - IAS 34 (Amendment) 'Interim financial reporting'. The amendment clarifies the disclosure requirements for segment assets and liabilities in interim information. The amendment brings IAS-34 in line with the requirements of IFRS 8, 'Operating segments' whereby a measure of total assets and liabilities is required for an operating segment in interim financial information if such information is regularly provided to the chief operating decision maker and there has been a material change in those measures since the last annual financial statements. The Company has already adopted the above amendment for its interim financial reporting.

b) Standards, amendments to published standards and interpretations that are effective in 2013 but not relevant

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2013 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

c) Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted by the Company.

The following new standards and amendments to published standards are not effective for the financial year beginning on January 1, 2013 and have not been early adopted by the Company.

- IAS 32 (Amendment), 'Financial instruments: Presentation' (effective for periods beginning on or after January 1, 2014). This amendment updates the application guidance in IAS 32 'Financial Instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet date. It is unlikely that the amendment will have any significant impact on the Company's financial statements.

(Amounts in thousand)

- IAS 36 (Amendment) 'Impairment of assets' (effective for the periods beginning on or after January 1, 2014). The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment will only affect disclosures in the Company's financial statements in the event of any impairment.
- IAS 39 (Amendment) 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting (effective for the periods beginning on or after January 1, 2014). These amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way. Similar relief will be included in IFRS 9, 'Financial instruments'. The Company is yet to assess the full impact of the amendment.
- IFRS 9 'Financial instruments' (effective for periods beginning on or after January 1, 2015). This standard is yet to be notified by the SECP. IFRS 9 replaces the parts of IAS 39, 'Financial instruments: recognition and measurement' that relate to classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, incase the fair value option is taken for financial liabilities, the part of a fair value change due to entity's own credit risk is recorded in other comprehensive income rather than the profit and loss account, unless this creates an accounting mismatch. The Company is yet to assess the full impact of the standard. The Company will also consider the impact of the remaining phases of IFRS when completed by IASB, however, the initial indications are that it may not affect the Company's financial statements significantly.
- IFRS 9 (Amendment) 'Financial instruments', regarding general hedge accounting (effective date yet to be determined). This standard is yet to be notified by the SECP. The amendment brings into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. The Company is yet to assess the full impact of the standard.
- IFRS 10, 'Consolidated financial statements'. This standard is yet to be notified by the SECP. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in determination of control where this is difficult to assess. It is unlikely that the standard will have any significant impact on the Company's financial statements.
- IFRS 12, 'Disclosures of interests in other entities'. This standard is yet to be notified by the SECP. The standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance-sheet vehicles. The Company is yet to assess the full impact of the standard.

(Amounts in thousand)

- IFRS 13 'Fair value measurement'. This standard is yet to be notified by the SECP. The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Company is yet to assess the full impact of the standard.
- Amendment to following standards as a result of annual improvements to International Financial Reporting Standards 2012 issued by IASB:
 - IFRS 8 'Operating segments' (effective for annual periods beginning on or after July 1, 2014). This amendment requires disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. The amendment will only affect the disclosures in the Company's financial statements.
 - IFRS 13 'Fair value measurement' (effective for annual periods beginning on or after July 1, 2014). IFRS 13 is yet to be notified by the SECP. When IFRS 13 was published, it led to a concern that entities no longer had the ability to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial. The amendment clarifies that it does not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases.

There are number of other standards, amendments and interpretations to the published standards that are not yet effective and are also not relevant to the Company and therefore, have not been presented here.

2.2 Property, plant and equipment

These are stated at cost less accumulated depreciation and impairment, if any, except capital work-in-progress. Cost in relation to fixed assets signifies historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Capital work-in-progress is stated at historical cost less impairment, if any.

Depreciation on assets is charged to income using the straight line method to allocate their cost to their residual values over their estimated useful lives at rates given in note 4.1. Depreciation on additions is charged from the month in which the asset is put to use and no depreciation is charged in the month of disposal.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to income during the year in which these are incurred.

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount and the resulting impairment loss is recognized in income. The recoverable amount is the higher of fair value less expected selling expenses and value in use. Reversal of impairment is effected in the case of indications of a change in recoverable amount and is recognized in income, however, is restricted to the original cost of the asset.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense in the period of disposal or retirement.

(Amounts in thousand)

2.3 Capital spares

Spare parts and servicing equipment are classified as property, plant and equipment rather than stores, spares and loose tools when they meet the definition of property, plant and equipment. Upon utilization, capital spares and servicing equipment are depreciated over their useful life, or the remaining life of principal asset, whichever is lower.

2.4 Intangible assets - Computer software

Costs associated with developing and maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly attributable to identifiable software and have probable economic benefits exceeding one year, are recognized as an intangible asset. Direct costs include the purchase cost of software and related overhead cost.

Expenditure, which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Computer software cost treated as intangible assets are amortized from the date the software is put to use on straight-line basis over a period of 5 to 10 years. The carrying amount of the intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount and is recognized in income. Reversal of impairment losses are also recognized in income, however, is restricted to the original cost of the asset.

2.5 Investments in subsidiaries

Investments in subsidiaries are stated at cost net of provision for impairment, if any. This investment is classified as long term investment.

2.6 Financial instruments

2.6.1 Financial assets

Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months otherwise, these are classified as non-current.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Company's loans and receivables comprise 'trade debts', 'loans and deposits', 'other receivables' and 'cash and cash equivalents' in the balance sheet.

(Amounts in thousand)

c) Held to maturity financial assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention to hold to maturity.

d) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. These are included in non-current assets unless the investment matures or management intends to dispose off the financial assets within twelve months of the balance sheet date.

Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity financial assets are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the profit and loss account within ‘other income / operating expenses’ in the period in which they arise. Dividend income from financial assets at ‘fair value through profit or loss’ is recognized in the profit and loss account as part of ‘other income’ when the Company’s right to receive payments is established. Gains or losses on sale of investments at ‘fair value through profit or loss’ are recognized in the profit and loss account as ‘gains and losses from investment securities’.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in other comprehensive income are included in the profit and loss account as ‘gains and losses from investment securities’. Interest on available for sale securities calculated using the effective interest method is recognized in the profit and loss account as part of ‘other income’. Dividends on available for sale equity instruments are recognized in the profit and loss account as part of ‘other income’ when the Company’s right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the profit and loss account. Impairment losses recognized in profit and loss on equity instruments are not reversed through profit and loss. Impairment testing of trade debts and other receivables are described in note 2.9.

(Amounts in thousand)

2.6.2 Financial liabilities

All financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the profit and loss account.

2.6.3 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.7 Stores, spares and loose tools

These are valued at weighted average cost except for items in transit which are stated at invoice value plus other charges paid thereon till the balance sheet date. Provision is made for slow moving items older than ten years, and is recognized in the profit and loss account.

2.8 Stock-in-trade

These are valued at the lower of cost and net realizable value. Cost in relation to raw materials represent the weighted average cost and in relation to finished goods and work-in-progress presents weighted average cost comprising direct materials, labour and related manufacturing overheads.

Cost of stock-in-transit represents the invoice value plus other charges incurred thereon till the balance sheet date.

Net realizable value signifies the estimated selling price in the ordinary course of business less cost of completion and costs necessarily to be incurred in order to make the sales. Provision is made for slow moving stocks, where considered necessary.

2.9 Trade debts and other receivables

Trade debts and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is charged to income. Trade debts and other receivables considered irrecoverable are written-off.

Exchange gains and losses arising on translation in respect of trade debts and other receivables in foreign currency are added to the carrying amount of the respective receivables.

(Amounts in thousand)

2.10 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows include cash in hand and in transit, balance with banks, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and short term finances. Short term finances on the balance sheet are shown as part of current liabilities.

2.11 Share capital

Ordinary shares are classified as equity and recognized at their face value. Incremental costs, if any, directly attributable to the issue of new shares or options are recognized in equity as a deduction, net of tax, from the proceeds.

2.12 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred, and are subsequently measured at amortized cost using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional / contractual right to defer settlement of the liability for atleast twelve months after the balance sheet date.

2.13 Retirement and other service benefits

2.13.1 Pension scheme

During the year, the Company replaced its defined benefit pension scheme with the defined contribution gratuity scheme operated and managed by Engro Corporation Limited - the Holding Company. In accordance with the funds' transition provisions, related assets and liabilities were transferred to the Holding Company's defined contribution gratuity scheme, based on their values as at September 30, 2013 as determined by the actuary.

2.13.2 Gratuity fund

During the year, the Company replaced its defined benefit gratuity scheme with the defined contribution gratuity scheme operated and managed by Engro Corporation Limited - the Holding Company. In accordance with the funds' transition provisions, related assets and liabilities were transferred to the Holding Company's defined contribution gratuity scheme based on their values as at September 30, 2013 as determined by the actuary. As per the terms of the defined contribution plan, the Company contributes to the fund at the rate of 8.33% of basic salary. Annual contribution by the Company is charged to income.

The aforementioned changes in the retirement benefit structures have been recognized as a settlement and curtailment in the profit and loss account.

2.13.3 Provident fund

During the year, the Company replaced its provident fund with the provident fund operated and managed by Engro Corporation Limited - the Holding Company. In accordance with the funds' transition provisions, related assets and liabilities were transferred to the Holding Company's defined contribution provident fund based on their values as at September 30, 2013. Equal monthly contributions at the rate of 10% of the basic salary are made both by the Company and the employees to the Holding Company's defined contribution fund. Annual contribution by the Company is charged to income.

(Amounts in thousand)

2.13.4 Compensated absences

Accrual is made for employees' compensated absences on the basis of accumulated leaves and the last drawn pay.

2.13.5 Other benefits

Provision is made under a service incentive plan for certain category of experienced employees to continue in the Company's employment. The provision is made on the basis of management's estimates of incentives to be paid to employees on fulfillment of criteria given in the incentive plan.

2.14 Trade and other payables

These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Exchange gains and losses arising on translation in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

2.15 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

2.16 Taxation

2.16.1 Current

Provision for current taxation is based on the taxable income for the year, determined in accordance with the prevailing law for taxation on income, using prevailing tax rates. The charge for current tax also includes tax credits and adjustments, where considered necessary, for prior years determined during the year or otherwise considered necessary for such years.

2.16.2 Deferred

Deferred income tax is provided using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax is charged or credited in the profit and loss account except to the extent that it relates to the items recognized directly in equity, in which case it is recognized in equity.

2.17 Foreign currency transactions and translation

These financial statements are presented in Pakistan Rupees, which is the Company's functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

(Amounts in thousand)

2.18 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or
- b) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

On an ongoing basis, the Company assesses whether each derivative continues to be highly effective in offsetting changes in the cash flows of hedged items. If and when a derivative is no longer expected to be highly effective, hedge accounting is discontinued.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the profit and loss account.

Amounts accumulated in comprehensive income are reclassified to the profit and loss account in the periods when the hedged item affects profit or loss account i.e. when the transaction occurs. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the profit and loss account or the cost of the related asset for which the borrowing is being utilized. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for e.g. stock-in-trade or property, plant and equipment) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of sales in case of stock-in-trade, or in depreciation in case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the profit and loss account or the cost of the related non-financial asset (for e.g. stock-in-trade or property, plant and equipment) as applicable. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 18. Movements on the hedging reserve are shown in statement of comprehensive income. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(Amounts in thousand)

2.19 Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, and is recognized on the following basis:

- sales are recognized when the product is dispatched to customers;
- revenue from the supply of electricity is recorded based upon the output delivered;
- dividend income is recognized when the Company's right to receive the payment is established; and
- return on deposits is recognized on accrual basis using the effective interest method.

2.20 Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset, in which case, such costs are capitalized as part of the cost of that asset. Borrowing costs include exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

2.21 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company that makes strategic decisions.

2.22 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognized in the financial statements in the period in which these are approved.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

3.1 Property, plant and equipment and intangible assets

The Company reviews appropriateness of the useful life and residual value, where applicable, used in the calculation of depreciation/amortization on an annual basis. Further, where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

(Amounts in thousand)

3.2 Derivative financial instruments designated as cash flow hedges

The Company reviews the changes in fair values of the derivative hedging financial instruments at each reporting date based on the valuations received from the contracting banks. These valuations represent estimated fluctuations in the relevant currencies / interest rates over the reporting period and other relevant variables signifying currency and interest rate risks.

3.3 Stock-in-trade

The Company reviews the net realizable value of stock-in-trade to assess any diminution in the respective carrying values. Net realizable value is determined with reference to estimated selling price less estimated expenditure to make the sales.

3.4 Income taxes

In making the estimates for income taxes payable by the Company, the management looks at the applicable law and the decisions of appellate authorities on certain issues in the past.

3.5 Deferred tax asset

In assessing the recognition of the deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences, become deductible. Management considers the scheduled reversal of deferred tax liabilities, projects future taxable income and tax planning strategies in making this assessment. The amount of deferred tax assets considered realizable, however, could change in the near term if future estimates of projected taxable income during the carry forward period are revised.

4. PROPERTY, PLANT AND EQUIPMENT

	2013	2012
	Rupees	
Operating assets, at net book value - note 4.1	16,833,072	17,476,546
Capital work-in-progress - note 4.4	211,833	156,980
Capital spares	87,648	80,979
	<u>17,132,553</u>	<u>17,714,505</u>

(Amounts in thousand)

4.1 Operating assets

	Leasehold land	Building on leasehold land	Plant and machinery	Pipelines				Furniture, fixtures and equipment	Vehicles	Total
				Water	VCM	Ethylene	Gas			
Rupees										
As at January 1, 2012										
Cost	194,127	437,724	21,093,064	398,968	26,122	50,315	33,849	133,853	130,310	22,498,332
Accumulated depreciation	(25,152)	(84,117)	(3,742,018)	(105,792)	(15,835)	(6,066)	(4,912)	(90,855)	(48,140)	(4,122,887)
Net book value	<u>168,975</u>	<u>353,607</u>	<u>17,351,046</u>	<u>293,176</u>	<u>10,287</u>	<u>44,249</u>	<u>28,937</u>	<u>42,998</u>	<u>82,170</u>	<u>18,375,445</u>
Year ended December 31, 2012										
Opening net book value	168,975	353,607	17,351,046	293,176	10,287	44,249	28,937	42,998	82,170	18,375,445
Additions - note 4.4	-	48,854	259,888	-	-	-	-	7,082	43,335	359,159
Disposals - note 4.3										
Cost	-	-	-	-	-	-	-	(650)	(30,400)	(31,050)
Accumulated depreciation	-	-	-	-	-	-	-	599	14,358	14,957
	-	-	-	-	-	-	-	(51)	(16,042)	(16,093)
Write offs - note 4.3										
Cost	-	-	(10,882)	-	-	-	-	(503)	-	(11,385)
Accumulated depreciation	-	-	3,861	-	-	-	-	415	-	4,276
	-	-	(7,021)	-	-	-	-	(88)	-	(7,109)
SFED Cost Adjustment										
Cost	-	-	(78,195)	-	-	-	-	-	-	(78,195)
Accumulated depreciation	-	-	12,309	-	-	-	-	-	-	12,309
	-	-	(65,886)	-	-	-	-	-	-	(65,886)
Depreciation charge - note 4.2	(3,934)	(11,581)	(1,093,290)	(19,948)	(1,306)	(1,692)	(2,516)	(13,901)	(20,802)	(1,168,970)
Net book value	<u>165,041</u>	<u>390,880</u>	<u>16,444,737</u>	<u>273,228</u>	<u>8,981</u>	<u>42,557</u>	<u>26,421</u>	<u>36,040</u>	<u>88,661</u>	<u>17,476,546</u>
As at January 1, 2013										
Cost	194,127	486,578	21,263,875	398,968	26,122	50,315	33,849	139,782	143,245	22,736,861
Accumulated depreciation	(29,086)	(95,698)	(4,819,138)	(125,740)	(17,141)	(7,758)	(7,428)	(103,742)	(54,584)	(5,260,315)
Net book value	<u>165,041</u>	<u>390,880</u>	<u>16,444,737</u>	<u>273,228</u>	<u>8,981</u>	<u>42,557</u>	<u>26,421</u>	<u>36,040</u>	<u>88,661</u>	<u>17,476,546</u>
Year ended December 31, 2013										
Opening net book value	165,041	390,880	16,444,737	273,228	8,981	42,557	26,421	36,040	88,661	17,476,546
Additions - note 4.4	-	13,493	512,939	-	-	-	-	20,904	6,483	553,819
Disposals - note 4.3										
Cost	-	-	-	-	-	-	-	(2,725)	(14,596)	(17,321)
Accumulated depreciation	-	-	-	-	-	-	-	2,330	9,940	12,270
	-	-	-	-	-	-	-	(395)	(4,656)	(5,051)
Write offs - note 4.3										
Cost	-	-	(72,227)	-	-	-	-	(196)	(1,638)	(74,061)
Accumulated depreciation	-	-	64,131	-	-	-	-	153	256	64,540
	-	-	(8,096)	-	-	-	-	(43)	(1,382)	(9,521)
Depreciation charge - note 4.2	(3,934)	(12,377)	(1,104,755)	(19,948)	(1,306)	(2,516)	(1,692)	(13,680)	(22,513)	(1,182,721)
Net book value	<u>161,107</u>	<u>391,996</u>	<u>15,844,825</u>	<u>253,280</u>	<u>7,675</u>	<u>40,041</u>	<u>24,729</u>	<u>42,826</u>	<u>66,593</u>	<u>16,833,072</u>
As at December 31, 2013										
Cost	194,127	500,071	21,704,587	398,968	26,122	50,315	33,849	157,765	133,494	23,199,298
Accumulated depreciation	(33,020)	(108,075)	(5,859,762)	(145,688)	(18,447)	(10,274)	(9,120)	(114,939)	(66,901)	(6,366,226)
Net book value	<u>161,107</u>	<u>391,996</u>	<u>15,844,825</u>	<u>253,280</u>	<u>7,675</u>	<u>40,041</u>	<u>24,729</u>	<u>42,826</u>	<u>66,593</u>	<u>16,833,072</u>
Annual rate of depreciation (%)	<u>2 to 2.14</u>	<u>2.5 to 10</u>	<u>5 to 16.67</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5 to 33</u>	<u>5 to 25</u>	

(Amounts in thousand)

	2013	2012
	Rupees	
4.2 Depreciation charge has been allocated as follows:		
Cost of sales - note 26	1,167,275	1,157,612
Distribution and marketing expenses - note 27	4,904	4,767
Administrative expenses - note 28	10,542	6,591
	<u>1,182,721</u>	<u>1,168,970</u>

4.3 The details of operating assets disposed / written-off during the year are as follows:

	Cost	Accumulated depreciation	Net book value	Sale Proceeds	Mode of disposal	Particulars of purchaser	
	Rupees						
Vehicle	2,953	2,953	-	951	} By auction	Zulfiqar Ahmed Khan	
"	886	886	-	632		Zulfiqar Ahmed Khan	
Furniture and Fixtures	109	39	70	4		Azfar Ali Khan	
Furniture and Fixtures	1,116	1,061	56	70		Nadir Sajid Syed	
Vehicle	1,269	872	397	317	} By Company policy to existing / separating employees	Faisal Ahmed	
"	1,399	372	1,027	896		Sameer Ameen	
"	1,930	694	1,236	1,176		Ziauddin	
"	1,399	590	809	809		Yaseer Abdullah	
"	1,810	1,358	452	429		Nasir Khalique Qureshi	
"	1,269	912	357	317		Rana Abdul Ghaffar	
"	1,269	912	357	317		Abdul Shakoor	
Vehicle	1,638	256	1,382	1,625	} Write-off / Insurance		
Plant and machinery	72,227	64,131	8,096	-		Write-off	Jubilee Insurance
Furniture and Fixtures	196	153	43	80		Write-off	Various
Aggregate amount of assets having net book value less than Rs. 50 each	1,912	1,621	291	541			
	<u>91,382</u>	<u>76,810</u>	<u>14,573</u>	<u>8,164</u>			
2012	<u>42,435</u>	<u>19,233</u>	<u>23,202</u>	<u>18,520</u>			

(Amounts in thousand)

4.4 Capital work-in-progress

	Plant and machinery	Building on leasehold land	Furniture, fixtures and equipments	Advances for vehicles & software	Total
	Rupees				
Year ended December 31, 2012					
Balance as at January 1, 2012	161,364	392	-	381	162,137
Additions during the year	245,947	53,264	7,494	57,524	364,229
Transferred to:					
- operating assets - note 4.1	(259,888)	(48,854)	(7,082)	(43,335)	(359,159)
- intangible assets - note 5	-	-	-	(10,227)	(10,227)
Balance as at December 31, 2012	<u>147,423</u>	<u>4,802</u>	<u>412</u>	<u>4,343</u>	<u>156,980</u>
Year ended December 31, 2013					
Balance as at January 1, 2013	147,423	4,802	412	4,343	156,980
Additions during the year	563,450	10,952	30,423	33,718	638,543
Transferred to:					
- operating assets - note 4.1	(512,939)	(13,493)	(20,904)	(6,483)	(553,819)
- intangible assets - note 5	-	-	-	(29,871)	(29,871)
Balance as at December 31, 2013	<u>197,934</u>	<u>2,261</u>	<u>9,931</u>	<u>1,707</u>	<u>211,833</u>

5. INTANGIBLE ASSETS - Computer software

As at January 1, 2012

Cost	52,445
Accumulated amortization	(21,341)
Net book value	<u>31,104</u>

Year ended December 31, 2012

Opening net book value	31,104
Additions at cost - note 4.4	10,227
Amortization charge - note 28	(10,467)
Closing net book value	<u>30,864</u>

As at January 1, 2013

Cost	62,672
Accumulated amortization	(31,808)
Net book value	<u>30,864</u>

Year ended December 31, 2013

Opening net book value	30,864
Additions at cost - note 4.4	29,871
Amortization charge - note 28	(10,637)
Closing net book value	<u>50,098</u>

As at December 31, 2013

Cost	92,543
Accumulated amortization	(42,445)
Net book value	<u>50,098</u>

5.1 The cost is being amortized over a period of 5 to 10 years.

(Amounts in thousand)

	2013	2012
	Rupees	
6. LONG TERM INVESTMENT		
Subsidiary - at cost		
Engro Polymer Trading (Private) Limited		
5,000,000 (2012: 5,000,000) ordinary shares		
of Rs. 10 each	50,000	50,000

7. LONG TERM LOANS AND ADVANCES
- Considered good

Executives - notes 7.1, 7.2, 7.4 and 7.5	88,146	74,752
Less: Current portion shown under current assets - note 12	(35,989)	(30,253)
	52,157	44,499
Employees - notes 7.3 and 7.5	952	14,423
Less: Current portion shown under current assets - note 12	(504)	(9,582)
	448	4,841
	52,605	49,340

7.1 No loans and advances were due from Chief Executive at the beginning or at end of the year. Reconciliation of the carrying amount of loans and advances to executives is as follows:

	2013	2012
	Rupees	
Balance at beginning of the year	74,752	53,502
Add: Disbursements	63,560	55,555
Less: Repayments / Amortizations	(50,166)	(34,305)
Balance at end of the year	88,146	74,752

7.2 These include interest free loans and advances to executives for house rent, vehicles, home appliances and investments given in accordance with the terms of employment. Loans for house rent and investments are repayable in 18 to 36 equal monthly installments. Loans for home appliances are repayable in 5 equal annual installments. Advances for vehicles are charged to profit and loss account over a period of 3 years.

7.3 These include interest free loans to employees for home appliances and investments, given in accordance with the terms of employment. Loans are repayable in accordance with the terms stated in note 7.2. Employee loans amounting to Rs. 69 (2012 : Nil) were written off during the year.

7.4 The maximum aggregate amount due from the executives at the end of any month during the year was Rs. 88,220 (2012: Rs. 91,519). These are secured by way of promissory notes.

7.5 The carrying values of these financial assets are neither past due nor impaired. The credit quality of these financial assets can be assessed with reference to no material defaults in recent history.

(Amounts in thousand)

	2013	2012
	Rupees	
8. DEFERRED TAXATION		
Credit balances arising due to:		
- accelerated tax depreciation	(3,979,859)	(4,149,265)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 8.1	3,745,640	4,412,854
- recoupable minimum turnover tax - note 8.3	419,806	420,691
- unpaid liabilities and provision for retirement and other service benefits	73,093	50,770
- provision against custom duty and SED refundable and GIDC	96,214	37,191
- provision for net realizable value and slow moving stores and spares	17,024	5,588
- fair value of hedging instrument	27,202	49,579
- share issuance cost, net to equity	56,061	57,709
	4,435,040	5,034,382
	<u>455,181</u>	<u>885,117</u>

8.1 Deferred income tax asset is recognized for tax losses available for carry-forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The aggregate tax losses available for carry-forward as at December 31, 2013 amount to Rs. 11,016,588 (2012: Rs. 12,608,153).

8.2 As at December 31, 2013, deferred tax asset / liability on the deductible / taxable temporary differences has been recognized at the rate of 34%, being the rate substantively enacted at the balance sheet date and is expected to apply to the periods when the asset is realized or the liability is settled.

8.3 During the year, the High Court of Sindh, in respect of another company, has overturned the interpretation of the Appellate Tribunal on Sec 113 (2) (c) of the Income Tax Ordinance, 2001 and has decided that the minimum turnover tax cannot be carried forward where there is no tax paid on account of loss for the year or carried forward losses. The Company's management is however of the view, duly supported by the legal advisor, that the above order is not correct and would not be maintained by the Supreme Court which the Company intends to approach, if required. Therefore, the Company has continued to carry forward the minimum turnover tax not yet recouped.

	2013	2012
	Rupees	
9. STORES, SPARES AND LOOSE TOOLS		
Consumable stores	80,515	102,008
Spares	1,330,549	1,311,641
	<u>1,411,064</u>	<u>1,413,649</u>
Less:		
Provision for slow moving stores and spares - note 9.1	20,896	15,966
	<u>1,390,168</u>	<u>1,397,683</u>

	2013	2012
	Rupees	
9.1 The movement in the provision for slow moving stores and spares is as follows:		
Balance at the beginning of the year	15,966	11,601
Add: Provided during the year - note 26	4,930	4,365
Balance at the end of the year	<u>20,896</u>	<u>15,966</u>

(Amounts in thousand)

	2013	2012
	Rupees	Rupees
10. STOCK-IN-TRADE		
Raw and packing materials - note 10.1	1,998,111	2,218,014
Work-in-progress	27,923	-
Finished goods - own manufactured product - notes 10.1 and 10.2	1,224,556	834,388
	<u>3,250,590</u>	<u>3,052,402</u>
10.1 This includes stocks held at the storage facilities of the following parties:		
Engro Vopak Terminal Limited, a related party	747,367	918,703
Dawood Hercules Corporation Limited, a related party	6,672	2,773
Al-Rahim Trading Company (Private) Limited	32,162	520,158
	<u>786,201</u>	<u>1,441,634</u>
10.2 This includes carrying value of PVC resin, net of realizable value reduction of Rs. 29,174 (2012: Rs. 20,822).		
	2013	2012
	Rupees	Rupees
11. TRADE DEBTS - considered good		
Secured - note 11.1	195,452	214,570
Unsecured - note 11.2	329,565	53,298
	<u>525,017</u>	<u>267,868</u>
11.1 These debts are secured by way of bank guarantees and letters of credit from customers.		
	2013	2012
	Rupees	Rupees
11.2 Include amounts due from the following related parties:		
- Engro Polymer Trading (Private) Limited	-	1,403
- Engro Foods Limited	1,671	2,788
- Mitsubishi Corporation	249,939	-
	<u>251,610</u>	<u>4,191</u>
11.3 The carrying values of these financial assets are neither past due nor impaired. The credit quality of these financial assets can be assessed with reference to no defaults in recent history.		

(Amounts in thousand)

	2013	2012
	Rupees	
12. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Considered good		
Current portion of long term loans and advances - note 7		
- executives	35,989	30,253
- employees	504	9,582
	36,493	39,835
Advances to employees - note 12.1	3,611	1,432
Advances to suppliers and others	94,097	69,209
Deposits	88,884	42,800
Prepayments	102,646	84,437
Receivable from Government of Pakistan		
- Sales tax and Federal excise duty refundable - note 12.2	83,018	101,693
- octroi/duty claims	152	152
	83,170	101,845
Due from related parties:		
Engro Vopak Terminal Limited	2,208	1,436
Engro Fertilizers Limited	5,918	3,658
Engro Eximp (Private) Limited	25	-
Engro Powergen Qadirpur Limited	21	-
	8,172	5,094
Salt penalty recoverable from suppliers	-	34,005
Other receivables	14,104	15,223
	431,177	393,880
Considered doubtful		
Custom duty claims refundable - note 12.3	18,043	18,043
Less: Provision for impairment - note 12.4	(18,043)	(18,043)
	-	-
Special Excise Duty (SED) refundable	36,687	36,687
Less: Provision for impairment - note 12.4	(36,687)	(36,687)
	-	-
	431,177	393,880

12.1 Employee receivables amounting to Rs. 389 (2012 : Nil) were written-off during the year.

12.2 Based on the injunction allowed by Honorable Sindh High Court (the Court) in response to Company's constitutional petition the receivable is net of adjustment of Rs. 116,368 relating to provincial input tax paid on services. The Court has allowed to continue this adjustment in VAT mode and directed the concerned authorities to continue accepting the Company's monthly sales tax return either electronically or manually. The management, based on the advice of its legal advisor, is confident that the aforementioned matter will ultimately be decided in its favour and no provision has been made for the amount adjusted.

(Amounts in thousand)

- 12.3 The Customs Appellate Tribunal, Karachi Bench, through its order dated October 31, 2011, disposed off the Company's appeal filed on April 11, 2008 against the order of Collector of Customs, Port Muhammad Bin Qasim, Karachi, for the refund of custom duty paid during the period June 16, 2006 to July 24, 2006 on imports of Vinyl Chloride Monomer (VCM). The Tribunal was informed that all aforementioned VCM consignments were released after the issuance of SRO 565(1)/2006 dated June 6, 2006 and the benefit of five percent duty reduction was also passed on to the customers. However, as the price of the Company's product was increased which is linked with international market, the Tribunal inadvertently presumed that the said benefit had not been transferred to the customers and passed an order against the Company.

The Company has filed an appeal with the High Court of Sindh against the aforesaid order of the Tribunal. However, based on prudence, the Company is maintaining full provision against the aforementioned custom duty refundable till such time that all available legal courses are exhausted.

- 12.4 As at December 31, 2013, receivables aggregating to Rs. 54,730 (2012: Rs. 54,730) were deemed to be impaired and have been provided for in full based on prudence. The remaining balances of loans, deposits, and other receivables are neither past due nor impaired.

13. TAXES RECOVERABLE

13.1 Tax year 2008

The Deputy Commissioner Inland Revenue (DCIR) through the order dated November 26, 2009 raised a tax demand of Rs. 213,172. The demand arose as a result of additions on account of trading liabilities of Rs. 47,582 under section 34(5) of the Income Tax Ordinance, 2001 (the Ordinance); disallowance of provision for retirement benefits of Rs. 5,899; adding imputed interest on loans to employees and executives of Rs. 16,069 to income; disallowing finance cost of Rs. 134,414 and not considering adjustment of minimum tax paid for tax years 2004 to 2007 against the above demand.

The Company filed an appeal against the aforesaid order before the Commissioner Inland Revenue Appeals [CIR(A)], but discharged the entire demand through adjustment against assessed refunds of Rs. 180,768 and paying the balance of Rs. 32,404 'under protest'.

During 2011, through appellate order, the CIR(A) maintained certain additions aggregating Rs. 189,810 including finance cost amounting to Rs. 134,414 and remanded back the issue of imputed interest on loans to employees and executives and directed the DCIR to allow credit of the minimum tax charged for the period of tax years 2004 to 2007. An appeal against the said appellate order was filed by the Company before the Appellate Tribunal Inland Revenue (ATIR). The department also filed an appeal against the said appellate order challenging the actions of the CIR(A).

During the year, the ATIR issued an order whereby the aforementioned appeal was disposed off by accepting Company's position except for additions on account of trading liabilities to the extent of Rs. 20,280 and minimum turnover tax for tax years 2004 and 2007 to the extent of Rs. 19,692 and Rs. 7,300 respectively, which were maintained.

The Company has filed a reference to the High Court of Sindh against the additions maintained by ATIR. The management of the Company, based on the advice of its tax consultant, is confident that the ultimate outcome of the aforementioned matters would be favorable and consequently has not recognized the effects for the same in these financial statements.

(Amounts in thousand)

13.2 Tax year 2009

The DCIR through his order dated November 30, 2010 raised a tax demand of Rs. 163,206. The demand arose as a result of disallowing finance cost of Rs. 457,282; additions to income of trading liabilities of Rs. 21,859 under section 34(5) of the Ordinance; disallowing provision for retirement benefits of Rs. 14,239; disallowing provision against Special Excise Duty refundable of Rs. 36,689; adding imputed interest on loans to employees and executives of Rs. 20,599 and not considering net loss.

The entire demand of Rs. 163,206 was adjusted against assessed tax refunds and an appeal was filed by the Company before the CIR(A).

In 2011, through an appellate order, the CIR(A) maintained certain additions aggregating to Rs. 493,971 including disallowance of finance cost amounting to Rs. 457,282 and remanded back the issue of imputed interest on loans to employees and executives. An appeal against the said appellate order was filed before the ATIR. The department also filed an appeal against the said appellate order challenging the action of CIR(A) deleting the addition on account of provision for the retirement benefits.

During the year, the ATIR issued an order whereby the aforementioned appeal was disposed off by accepting Company's position except for additions on account of SED provision of Rs. 36,689 and imputed interest on loans to employees and executives to the extent of Rs. 17,430, which were maintained.

The Company has filed a reference to the High Court of Sindh against the additions maintained by ATIR. The management of the Company, based on the advice of its tax consultant, is confident that the ultimate outcome of the aforementioned matters would be favorable and consequently has not recognized the effects for the same in these financial statements.

		2013	2012
		Rupees	
14.	SHORT TERM INVESTMENTS - At fair value through profit or loss		
	Treasury bills - note 14.1	<u>300,000</u>	<u>-</u>
14.1	These represent treasury bills having face value of Rs. 304,105 (2012: Nil) discounted using the market yield of 9.79%.		
		2013	2012
		Rupees	
15.	CASH AND BANK BALANCES		
	Cash in hand	286	755
	Cash at bank:		
	- current accounts	709,534	74,713
	- saving accounts	150,515	13,832
		<u>860,049</u>	<u>88,545</u>
		<u>860,335</u>	<u>89,300</u>

(Amounts in thousand)

	2013	2012
	Rupees	
16. SHARE CAPITAL		
Authorized capital 800,000,000 (2012: 800,000,000) ordinary shares of Rs. 10 each	<u>8,000,000</u>	<u>8,000,000</u>
Issued, subscribed and paid-up capital 663,468,788 (2012: 663,468,788) ordinary shares of Rs. 10 each, fully paid in cash - note 16.1	<u>6,634,688</u>	<u>6,634,688</u>

16.1 As at December 31, 2013, Engro Corporation Limited (the Holding Company) held 372,809,989 ordinary shares of Rs.10 each (2012: 372,809,989 ordinary shares of Rs. 10 each).

17. LONG TERM BORROWINGS, secured

Title	Mark-up rate per annum	Installments		2013	2012
		Number	Commencing from		
Syndicated term finance I (note 17.3)	6 months KIBOR + 2.25%	13 half yearly	November 2010	3,475,184	4,254,218
Syndicated term finance II (note 17.3)	6 months KIBOR + 3%	13 half yearly	June 2010	846,591	1,068,045
Syndicated term finance IV (note 17.4)	6 months KIBOR + 2.55%	6 half yearly	May 2013	330,181	490,764
Syndicated term finance V (note 17.1)	6 months KIBOR + 1.5%	8 half yearly	June 2015	1,315,170	-
Bilateral loan (note 17.2)	6 months KIBOR + 2%	6 half yearly	June 2016	540,554	-
Master Istisna I	6 months KIBOR + 1.5%	6 half yearly	May 2013	-	100,000
Master Istisna III	6 months KIBOR + 2%	6 half yearly	June 2015	200,000	200,000
Master Istisna IV (note 17.5)	6 months KIBOR + 2.6%	6 half yearly	April 2016	100,000	-
International Finance Corporation (IFC) (note 17.3)	6 months LIBOR + 2.6 to 3%	15 half yearly	June 2010	2,929,938	3,471,820
				<u>9,737,618</u>	<u>9,584,847</u>
Less: Current portion shown under current liabilities				<u>(2,242,800)</u>	<u>(2,052,981)</u>
				<u>7,494,818</u>	<u>7,531,866</u>

17.1 During the year, the Company entered into a Syndicate Term Finance Agreement with a consortium of local banks for Rs. 1,350,000. This facility is secured by:

- (i) a mortgage over leasehold land together with the building, plant and machinery and other equipment thereon; and
- (ii) a ranking charge by way of hypothecation over all present and future fixed assets of the Company excluding land and buildings.

(Amounts in thousand)

17.2 During the year, the Company entered into a bilateral loan agreement with a bank for a facility of Rs. 550,000 for a period of five years. Amount due under the agreement is payable in six monthly installments, due after an initial grace period of two years from the date of drawdown. The facility is secured by a ranking hypothecation charge over the present and future movable assets of the Company.

17.3 These finances are secured by:

(i) a first charge ranking pari passu with each other over leasehold land together with the buildings, plant, machinery and other equipment thereon; and

(ii) a first charge by way of hypothecation over:

- all Project Assets; and

- all present and future moveable fixed assets other than Project Assets.

17.4 These finances are secured by:

(i) a second charge over leasehold land together with the building, plant and machinery and other equipment thereon; and

(ii) a second charge by way of hypothecation over all present and future fixed assets of the Company.

17.5 During the year, the Company renewed the Istisna loan from Meezan Bank for a period of another three years. The facility is secured through a pari passu hypothecation charge on plant, machinery, stocks and receivables and a pari passu mortgage charge on land and building.

17.6 Under the terms of the agreements for long term borrowings from International Finance Corporation (IFC) and syndicates of banks, the Company is required to comply with certain debt covenants. As at December 31, 2013, all debt covenants have been complied with except for current ratio. Waiver for current ratio deviation has been obtained from IFC, whereas, the same has been applied for with local syndicates.

18. DERIVATIVE FINANCIAL INSTRUMENTS

18.1 As at December 31, 2013, the Company has outstanding interest rate swap agreements with banks for notional amounts aggregating US\$ 18,666 to hedge its interest rate exposure on floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, the Company would receive six month USD-LIBOR on respective notional amounts and will pay fix rates, which will be settled semi-annually.

18.2 As at December 31, 2013, the Company has outstanding cross-currency interest rate swap agreements with banks for notional amounts aggregating US\$ 4,498 to hedge its interest rate exposure on floating rate local currency borrowings from a consortium of local banks under a Syndicate Finance Agreement. Under the swap agreement, the Company would receive six month KIBOR plus margin, where applicable, on the relevant PKR notional amount and will pay six month USD-LIBOR plus margin on the relevant USD notional amount, which will be settled semi-annually.

(Amounts in thousand)

18.3 Details of the swap agreements as stated in notes 18.1 and 18.2 are as follows:

Notional Amounts US \$	Effective Date	Termination Date	Rate %	Fair Values as at	
				2013	2012
Interest Rate Swap Agreements				Rupees	
			Fixed rate		
7,000	December 15, 2008	June 15, 2017	3.385	38,654	60,061
2,333	June 15, 2009	June 15, 2017	3.005	11,059	17,240
7,000	June 15, 2009	June 15, 2017	2.795	29,912	47,110
2,333	June 15, 2009	June 15, 2017	2.800	10,006	15,701
18,666				89,631	140,112
			Floating rate		
Cross Currency Interest Rate Swap Agreements					
957	September 9, 2010	June 15, 2015	LIBOR + 0.95	(1,968)	(1,388)
1,599	January 18, 2011	January 19, 2016	LIBOR + 3.70	(5,161)	264
1,942	July 6, 2011	June 30, 2016	LIBOR + 1.83	(2,496)	2,668
4,498				(9,625)	1,544
23,164				80,006	141,656

18.4 As at December 31, 2013, the Company has outstanding Exchange Rate Forward agreements with banks for amounts aggregating US\$ 51,036 to manage exchange rate exposure on outstanding foreign currency payments under the terms of supplier credit. Under the aforementioned agreements, the Company would pay respective rate agreed at the initiation of the agreement on settlement dates. As at December 31, 2013, the fair value of these derivatives is Rs. 102,172.

	2013	(Restated) 2012
	Rupees	
19. RETIREMENT AND OTHER SERVICE BENEFIT OBLIGATIONS		
Service incentive plan	63,662	54,534
Pension and gratuity funds - notes 2.13, 19.1 and 34	-	5,113
	63,662	59,647

19.1 The Company has applied the requirements of IAS 19 (Revised) retrospectively by recognizing the remeasurement losses in Other Comprehensive Income. Consequently, the earliest period presented in Balance Sheet, Statement of Comprehensive Income and the Statement of Changes in Equity has been restated. The full policy disclosure and the related reclassifications have been more fully explained in note 2.1.4(a) to these financial statements.

(Amounts in thousand)

	2013	2012
	Rupees	
20. SHORT TERM BORROWINGS		
Running finance utilized under mark-up arrangements - note 20.1	166,062	1,204,084
Sub-ordinate loan from Engro Corporation Limited - note 20.2	600,000	800,000
	<u>766,062</u>	<u>2,004,084</u>

20.1 The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements amounts to Rs. 1,550,000 (2012: Rs. 1,700,000). The corresponding purchase price is payable on various dates during the ensuing year. Mark-up is chargeable at rates, net of prompt payment rebate, ranging from relevant period KIBOR plus 1.0% to 2.5% (2012: relevant period KIBOR plus 1.0% to 2.5%) per annum. During the year, the mark-up rates, net of prompt payment rebate, ranged from 10.19% to 12.02% (2012: 10.38% to 13.64%) per annum. The facilities are secured by a floating charge over stocks and book debts of the Company.

20.2 This represents short term loan from Engro Corporation Limited (the Holding Company) for meeting the working capital requirements. The loan is subordinated to the finances provided to the Company by its banking creditors and carries markup at the rate of 3 months KIBOR plus 3.5% per annum, payable quarterly.

20.3 The facility for opening letters of credit as at December 31, 2013 aggregates to Rs. 9,200,000 (2012: Rs. 6,683,000). The amount utilized as at December 31, 2013 was Rs. 6,818,000 (2012: Rs. 5,098,000). The facilities carry commission at the rate of 0.05% flat (2012: 0.05% flat).

	2013	2012
	Rupees	
21. TRADE AND OTHER PAYABLES		
Trade and other creditors - note 21.1	5,527,076	5,143,772
Accrued liabilities	1,294,625	836,383
Advances from customers - note 21.1	224,649	723,545
Retention money against project payments	8,335	19,280
Security deposits	16,772	8,470
Workers' profits participation fund - note 21.2	81,654	9,229
Workers' welfare fund	38,168	6,515
Withholding tax payable	6,971	4,313
Others	10,905	11,857
	<u>7,209,155</u>	<u>6,763,364</u>

(Amounts in thousand)

	2013	2012
	Rupees	
21.1 Includes amount due to following related parties:		
- Engro Corporation Limited	433	4,211
- Mitsubishi Corporation	3,977,089	5,008,730
- Engro Foods Limited	250	255
- Engro Fertilizers Limited	542	4,719
- Engro Vopak Terminal Limited	98,213	84,549
- Engro Powergen Limited	-	2,880
- Engro Powergen Qadirpur Limited	-	81
	<u>4,076,527</u>	<u>5,105,425</u>
21.2 Workers' profits participation fund		
Balance at beginning of the year	9,229	164
Add: Allocation for the year - note 29	72,425	9,065
Balance at end of the year	<u>81,654</u>	<u>9,229</u>
	2013	2012
	Rupees	
22. ACCRUED INTEREST / MARK-UP		
Finance cost accrued on:		
- long term borrowings	76,539	99,235
- short term running finance utilized under mark-up arrangements	6,214	22,320
	<u>82,753</u>	<u>121,555</u>
23. PROVISIONS		
Provision for Gas Infrastructure Development Cess - note 23.1	174,522	-
Provision for duty on import of raw materials - note 23.2	90,418	88,218
	<u>264,940</u>	<u>88,218</u>
23.1 Provision for Gas Infrastructure Development Cess (GIDC)		

Under the Gas Infrastructure Development Cess Act, 2011, the Government of Pakistan levied Gas Infrastructure Development Cess (GIDC) on gas bills at the rate of Rs.13 per MMBTU on all industrial consumers. The Federal Government then revised GIDC rate from Rs. 13 per MMBTU to Rs. 50 per MMBTU by issuing notification under OGRA Ordinance 2002. The Company therefore filed a Suit before the Honorable High Court of Sindh which granted an ad-interim stay on March 5, 2013 in the favor of the Company. The Stay Order restrained the Sui Southern Gas Company Limited from charging any amount of GIDC over and above Rs. 13 per MMBTU till the final decision of this matter.

The Company is confident that the aforementioned matter will be decided in its favor, however, based on prudence the Company has recorded a provision of Rs. 174,522 being the financial exposure of differential GIDC as at December 31, 2013.

(Amounts in thousand)

	2013	2012
	Rupees	
23.2 Provision for duty on import of raw materials		
Balance at beginning of the year	88,218	75,180
Recognized during the year - note 23.2.1	2,200	13,038
Balance at end of the year	<u>90,418</u>	<u>88,218</u>

23.2.1 In 2009, the Company received a letter from the Assistant Collector (Survey) Large Taxpayers Unit regarding the utilization of raw materials imported under SRO 565(I)/2006 on a concessionary basis from customs duty. The letter alleged that the Company had violated the provisions of the SRO by utilizing the concessionary imports in manufacturing and selling the intermediary product Ethylene Di Chloride (EDC) rather than its utilization in the production of the final product Poly Vinyl Chloride (PVC). The Company responded to the letter explaining its view that imports under the said SRO were allowable for 'PVC Manufacturing Industry' as a whole, which includes manufacturing of intermediary products. However, the tax department has shown its disagreement with the Company's view and has demanded further information, to which the Company has responded.

Although, no formal order creating a demand has yet been received by the Company, however, based on prudence, a provision amounting to Rs. 90,418 (2012: Rs. 88,218) in respect of customs duty on such raw materials has been recognized.

24. COMMITMENTS

24.1 The aggregate facility for performance guarantees to be issued by banks on behalf of the Company as at December 31, 2013 amounts to Rs. 1,165,000 (2012: Rs. 1,165,000). The amount utilized thereagainst as at December 31, 2013 was Rs. 946,859 (2012: Rs. 641,000).

24.2 The Company has entered into operating lease arrangements with Al-Rahim Trading Company (Private) Limited and Dawood Hercules Corporation Limited – a related party, for storage and handling of Ethylene Di Chloride and Caustic soda, respectively. The total lease rentals due under these lease arrangements are payable in periodic monthly installments till July 31, 2019. The future aggregate lease payments under these arrangements are as follows:

	2013	2012
	Rupees	
Not later than 1 year	15,675	50,780
Later than 1 year and no later than 5 years	57,600	57,600
Later than 5 years	8,400	19,200
	<u>81,675</u>	<u>127,580</u>

(Amounts in thousand)

	2013	2012
	Rupees	
25. NET REVENUE		
Gross local sales	26,605,283	23,348,044
Less:		
- Sales tax	3,623,205	3,144,510
- Discounts	36,936	81,132
	<u>3,660,141</u>	<u>3,225,642</u>
	22,945,142	20,122,402
Export sales	1,587,357	298,261
Supply of electricity - note 25.1	59,406	45,669
	<u>24,591,905</u>	<u>20,466,332</u>

25.1 Supply of electricity represents supply of surplus power to Engro Fertilizers limited - a related party.

	2013	2012
	Rupees	
26. COST OF SALES		
Opening stock of work-in-progress	-	24,258
Raw and packing materials consumed	12,866,502	10,626,249
Salaries, wages and staff welfare - note 26.1	798,404	714,149
Fuel, power and gas	3,422,889	2,821,702
Repairs and maintenance	306,313	340,047
Depreciation - note 4.2	1,167,275	1,157,612
Consumable stores	276,925	248,451
Purchased services	57,470	59,139
Storage and handling	1,042,942	981,658
Training and travelling	17,091	24,459
Communication, stationery and other office expenses	8,154	6,237
Insurance	101,284	70,251
Provision for slow moving stores and spares - note 9.1	4,930	4,365
Other expenses	29,018	19,265
	<u>20,099,197</u>	<u>17,073,584</u>
Closing stock of work-in-progress	(27,923)	-
	<u>20,071,274</u>	<u>17,097,842</u>
Cost of goods manufactured	20,071,274	17,097,842
Opening stock of finished goods	834,388	750,313
Closing stock of finished goods	(1,224,556)	(834,388)
	<u>(390,168)</u>	<u>(84,075)</u>
	<u>19,681,106</u>	<u>17,013,767</u>

26.1 Includes Rs. 25,529 (2012: Rs. 46,819) in respect of staff retirement and other service benefits, referred to in note 34.

(Amounts in thousand)

	2013	2012
	Rupees	
27. DISTRIBUTION AND MARKETING EXPENSES		
Salaries, wages and staff welfare - note 27.1	122,357	82,427
Advertising, sales promotion and entertainment	139,311	117,220
Product transportation and handling	1,030,559	860,740
Rent, rates and taxes	11,089	32,468
Purchased services	5,831	4,649
Insurance	1,054	1,058
Depreciation - note 4.2	4,904	4,767
Training and travelling	12,632	14,405
Communication, stationery and other office expenses	4,548	3,404
Others	11,587	13,524
	<u>1,343,872</u>	<u>1,134,662</u>

27.1 Includes Rs. 6,719 (2012: Rs. 6,437) in respect of staff retirement and other service benefits, referred to in note 34.

	2013	2012
	Rupees	
28. ADMINISTRATIVE EXPENSES		
Salaries, wages and staff welfare - note 28.1	281,523	225,877
Rent, rates and taxes	58,110	33,666
Purchased services	109,123	70,596
Insurance	1,632	1,568
Depreciation - note 4.2	10,542	6,591
Amortization - note 5	10,637	10,467
Training and travelling expenses	94,139	79,101
Communication, stationery and other office expenses	24,476	26,869
Others	16,227	23,626
	<u>606,409</u>	<u>478,361</u>

28.1 Includes Rs. 13,034 (2012: Rs. 16,290) in respect of staff retirement and other service benefits, referred to in note 34.

(Amounts in thousand)

	2013	2012
	Rupees	
29. OTHER OPERATING EXPENSES		
Legal and professional charges	24,972	19,434
Auditors' remuneration - note 29.1	2,689	2,483
Donations - notes 29.2 and 29.3	4,719	2,296
Workers' profits participation fund - note 21.2	72,425	9,065
Workers' welfare fund	31,653	6,515
Foreign exchange loss - net	376,542	480,842
Damaged items of operating assets written-off - note 4.3	7,816	7,109
	<u>520,816</u>	<u>527,744</u>
29.1 Auditors' remuneration		
Fee for:		
- Annual statutory audit	800	785
- Half yearly review	250	215
- Review of compliance with Code of Corporate Governance	50	50
	<u>1,100</u>	<u>1,050</u>
Taxation and other advisory services	1,461	1,328
Reimbursement of expenses	128	105
	<u>2,689</u>	<u>2,483</u>
29.2	Includes donation to Engro Foundation - a related party, amounting to Rs. 2,000 (2012: Rs. 2,010).	
29.3	The Directors including the Chief Executive and their spouses do not have any interest in any donees except for Mr. Muhammad Ali-ud-din Ansari who is the Chairman of the Board of trustees of Engro Foundation.	
	2013	2012
	Rupees	
30. OTHER INCOME		
On financial assets		
Income on bank deposits	26,299	7,722
Gain on investments in mutual funds held for trading	3,973	3,968
On non-financial assets		
Insurance claim - note 30.1	-	423,281
Reversal of provision for SED	-	31,940
Profit on disposal of operating assets	1,408	2,427
Scrap sales	31,610	26,255
Dividend from Subsidiary - note 30.2	200,000	-
Others	14,977	5,462
	<u>278,267</u>	<u>501,055</u>
30.1	This represents insurance claim received on account of loss of profit and property damage, incurred as a result of fire incident at the site of Plant in December 2009 amounting to Rs. 391,000 and Rs. 32,281 respectively.	
30.2	During the year, the wholly owned subsidiary of the Company, Engro Polymer Trading (Private) Limited, declared an interim dividend at the rate of Rs. 40 per share.	

(Amounts in thousand)

	2013	2012
	Rupees	
31. FINANCE COSTS		
Interest/mark-up on:		
- long term borrowings	893,338	1,142,303
- short term borrowing	145,207	63,194
- running finances	32,370	98,435
	<u>1,070,915</u>	<u>1,303,932</u>
Foreign exchange loss on borrowings	275,425	314,542
Guarantee commission	5,114	5,030
Bank charges and others	22,087	23,633
	<u>1,373,541</u>	<u>1,647,137</u>
32. TAXATION		
Current		
- for the year - note 32.1	246,235	103,955
- for prior years	(24,885)	477
	<u>221,350</u>	<u>104,432</u>
Deferred		
- for the year	384,487	11,558
- for prior years	21,424	-
	<u>405,911</u>	<u>11,558</u>
	<u>627,261</u>	<u>115,990</u>

32.1 Current year charge represents minimum turnover tax at the rate of 1% (2012: 0.5%) of the turnover, in accordance with section 113 of the Income Tax Ordinance, 2001.

32.2 Relationship between tax expense and accounting profit

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the Company's applicable tax rates as follows:

	2013	2012
	Rupees	
Profit before taxation	<u>1,344,428</u>	<u>165,716</u>
Tax calculated at applicable rate of 34% (2012: 35%)	457,106	58,001
Tax effect of presumptive tax regime and income subject to lower tax rates	(54,085)	(2,866)
Prior year tax charge, net	(3,461)	477
Permanant differences	7,572	2,181
Derecognition of deferred tax asset on minimum turnover tax	209,825	57,805
Impact of change in tax rate	10,204	-
Others	100	392
Tax expense for the year	<u>627,261</u>	<u>115,990</u>

(Amounts in thousand)

33. EARNINGS PER SHARE - Basic and diluted

There is no dilutive effect on the basic earnings per share of the Company, which is based on:

	2013	2012
	Rupees	
Profit for the year	<u>717,167</u>	<u>49,726</u>
	Number in thousands	
Weighted average number of ordinary shares	<u>663,469</u>	<u>663,469</u>

34. RETIREMENT AND OTHER SERVICE BENEFITS

The latest actuarial valuation of the defined benefit plans was carried out as at September 30, 2013 using the 'Projected Unit Credit Method'. Details of the defined benefit plans are as follows:

	Pension Fund		Gratuity Fund	
	2013	(Restated) 2012	2013	(Restated) 2012
	Rupees			
34.1 Balance sheet reconciliation				
Present value of defined benefit obligations	-	150,494	-	51,561
Fair value of plan assets	-	(149,406)	-	(47,578)
Deficit	-	1,088	-	3,983
Payable in respect of transfers	-	-	-	42
Net liability at the end of the year	<u>-</u>	<u>1,088</u>	<u>-</u>	<u>4,025</u>
34.2 Movement in net asset / liability				
Opening balance	1,088	15,365	4,025	6,049
Cost for the period charged to profit and loss	1,570	17,002	1,693	6,812
Net contributions and other adjustments	(16,811)	(17,002)	(5,835)	(6,812)
Total remeasurements charged to OCI	<u>14,153</u>	<u>(14,277)</u>	<u>117</u>	<u>(2,024)</u>
Closing balance	<u>-</u>	<u>1,088</u>	<u>-</u>	<u>4,025</u>
34.3 Movement in the defined benefit obligations				
Obligation as at January 1	150,494	132,499	51,561	42,778
Current service cost	10,546	13,441	4,318	5,263
Past service cost	(10,178)	-	(3,393)	-
Interest cost	13,631	17,659	4,719	5,791
Remeasurement of liability - OCI charge	9,923	(10,559)	4,767	(1,069)
Benefits paid	(6,018)	(2,546)	(1,901)	(1,160)
Liability recognized in respect of transfers	-	-	259	(42)
Effects of curtailment and settlement - note 2.13	<u>(168,398)</u>	<u>-</u>	<u>(60,330)</u>	<u>-</u>
Obligation as at December 31	<u>-</u>	<u>150,494</u>	<u>-</u>	<u>51,561</u>

(Amounts in thousand)

	Pension Fund		Gratuity Fund		
	2013	(Restated) 2012	2013	(Restated) 2012	
34.4	Rupees				
	Movement in the fair value of plan assets				
	Fair value as at January 1	149,406	117,134	47,578	36,729
	Expected return on plan assets	12,429	14,333	3,951	4,439
	Remeasurement of asset - OCI charge	(4,230)	3,483	4,650	758
	Employer contributions	16,366	17,002	8,584	6,812
	Benefits paid	(6,018)	(2,546)	(1,901)	(1,160)
	Effects of curtailment and settlement - note 2.13	(167,953)	-	(62,862)	-
	Fair value as at December 31	<u>-</u>	<u>149,406</u>	<u>-</u>	<u>47,578</u>
34.5	The amounts recognized in the profit and loss account are as follows:				
	Current service cost	10,546	13,441	4,318	5,263
	Past service cost	(10,178)	-	(3,393)	-
	Net interest cost	1,202	3,326	768	1,352
	Recognition of actuarial losses	-	235	-	197
	Expense	<u>1,570</u>	<u>17,002</u>	<u>1,693</u>	<u>6,812</u>
34.6	Remeasurements losses / (gains) recognized in Other Comprehensive Income				
	Remeasurement of defined benefit obligation				
	Loss / (gain) due to change in financial assumptions	446	(54)	82	(22)
	Loss / (gain) due to change in demographic assumptions	-	-	-	-
	Loss / (gain) due to change in retirement age assumptions	10,178	-	3,393	-
	Loss / (gain) due to experience	(3,269)	(7,936)	41	204
	Opening difference after audit	2,568	(2,804)	1,251	(1,448)
		<u>9,923</u>	<u>(10,794)</u>	<u>4,767</u>	<u>(1,266)</u>
	Remeasurement of fair value of plan assets				
	Loss / (gain) due to experience	(6,403)	(7,174)	(2,626)	(1,125)
	Opening difference after audit	10,633	3,691	(2,024)	367
	Remeasurement of fair value of plan assets	<u>4,230</u>	<u>(3,483)</u>	<u>(4,650)</u>	<u>(758)</u>
		<u>14,153</u>	<u>(14,277)</u>	<u>117</u>	<u>(2,024)</u>
34.7	Actual return on plan assets				
		<u>18,832</u>	<u>19,580</u>	<u>6,577</u>	<u>5,144</u>

(Amounts in thousand)

34.8 Principal assumptions used in the actuarial valuation:

	Pension Fund		Gratuity Fund	
	2013	2012	2013	2012
Discount rate per annum	11.0%	12.0%	11.0%	12.0%
Expected rate of increase per annum in future salaries	10.0%	11.0%	10.0%	11.0%
Mortality tables				
- During service	LIC (75-79)+1	LIC (75-79)+1	LIC (75-79)+1	LIC (75-79)+1
- Post employment	PA (90)-1	PA (90)-1	-	-
Withdrawals	Heavy	Heavy	Heavy	Heavy

34.9 Sensitivity analysis in actuarial assumptions - actuarial liability

	Pension Fund		Gratuity Fund	
	2013	2012	2013	2012
Discount rate +1%	-	128,407	-	46,894
Discount rate -1%	-	178,544	-	57,007
Long term salary increase +1%	-	163,628	-	57,007
Long term salary increase -1%	-	139,060	-	46,815
Pension Increases +1%	-	164,202	-	-
Pension Increases -1%	-	138,768	-	-
Weighted average duration - PBO	-	19.58	-	13.25

34.10 Plan assets comprise of following:

	Rupees			
Equity	-	35,857	-	11,419
Debt	-	113,549	-	36,159
	-	149,406	-	47,578

34.11 Historical information of staff retirement benefits:

	2013	2012	2011	2010	2009
	Rupees				
Pension Fund					
Present value of defined benefit obligation	-	150,494	132,499	110,835	78,994
Fair value of plan assets	-	(149,406)	(117,134)	(97,803)	(88,607)
Deficit / (Surplus)	-	1,088	15,365	13,032	(9,613)
Gratuity Fund					
Present value of defined benefit obligation	-	51,561	42,778	35,488	26,048
Fair value of plan assets	-	(47,578)	(36,729)	(30,903)	(27,618)
Deficit / (Surplus)	-	3,983	6,049	4,585	(1,570)

(Amounts in thousand)

34.12 As stated in note 2.13, during the year, the Company converted its staff retirement benefit funds from the defined benefit schemes to the defined contribution schemes maintained by Engro Corporation Limited - the Holding Company. Accordingly, funds assets and the related defined benefit liabilities were re-measured as at September 30, 2013 by the actuary and were substantially transferred to defined contribution fund as at December 31, 2013.

34.13 **Provident fund**

The following information is based on the latest audited financial statements of the Fund:

	June 30, 2013	June 30, 2012
Size of fund	243,832	178,375
Cost of investments made	179,977	146,950
Percentage of investments made	81%	82%
Fair value of investments	196,706	146,950

34.13.1 Break-up of investments in terms of amount and percentage of size of provident fund is as follows:

Description	June 30, 2013		June 30, 2012	
	Investments in Rupees	Percentage of investment made	Investments in Rupees	Percentage of investment made
Special Savings Certificates	7,955	3%	7,955	4%
Term Finance Certificates	11,771	5%	9,743	5%
Treasury Bills	22,952	9%	44,912	25%
Regular Income Certificates	8,550	4%	-	0%
National Savings Bonds	-	0%	12,000	7%
Pakistan Investment Bonds	54,641	22%	33,309	19%
Quoted Shares	28,671	12%	33,657	19%
Mutual Funds	62,166	26%	5,374	3%
	<u>196,706</u>		<u>146,950</u>	

34.13.2 The investments out of the provident fund have been made in accordance with the provisions of the section 227 of the Companies Ordinance, 1984 and the rules formulated for the purpose.

34.13.3 During the year, Rs. 50,241 (2012: Rs. 38,535) has been recognized in the profit and loss account in respect of defined contribution provident fund.

34.13.4 As stated in note 2.13, during the year, the Company transferred its provident fund from the defined contribution scheme to the defined contribution scheme maintained by Engro Corporation Limited - the Holding Company. Accordingly, fund's related assets and the liabilities were re-measured as at September 30, 2013 and were substantially transferred to defined contribution fund as at December 31, 2013.

(Amounts in thousand)

35. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The details of amounts charged in the financial statements for remuneration to the Chief Executive, Directors and executives are as follows:

	2013			2012		
	Director		Executives	Director		Executives
	Chief Executive	Others		Chief Executive	Others	
	Rupees					
Managerial remuneration	24,015	-	447,746	21,303	-	406,843
Retirement benefit funds	4,217	-	71,851	9,165	-	68,938
Bonus paid	9,662	-	63,303	3,801	-	67,856
Other benefits	3,486	-	73,947	2,863	-	40,786
Directors fee	-	2,400	-	-	2,900	-
Total	<u>41,380</u>	<u>2,400</u>	<u>656,847</u>	<u>37,132</u>	<u>2,900</u>	<u>584,423</u>
Number of persons at year end	<u>1</u>	<u>9</u>	<u>232</u>	<u>1</u>	<u>9</u>	<u>198</u>

35.1 The Company also provides household items and vehicles for the use of Chief Executive and certain executives.

35.2 Premium charged in the financial statements in respect of Directors' indemnity insurance policy, purchased by the Company amounts to Rs. 665 (2012: Rs. 620).

36. CASH GENERATED FROM OPERATIONS

	2013	2012
	Rupees	
Profit before taxation	1,344,428	165,716
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	45,282	61,481
Depreciation and amortization	1,193,358	1,179,437
Provision for slow moving stores and spares	4,930	4,365
Provision for net realizable value of stock-in-trade	29,174	20,822
Write-off of damaged items of property, plant and equipment	7,816	7,109
Income on bank deposits	(26,299)	(7,722)
Gain on investments in mutual funds held for trading	(3,973)	(3,968)
Unrealized foreign exchange loss on borrowings	229,225	259,200
Amortization of prepaid financial charges	20,772	9,120
Unrealized foreign exchange loss on imports and retention money and derivatives	150,151	120,002
Finance costs	1,373,541	1,647,137
Profit on disposal of operating assets	(1,408)	(2,427)
Reversal of provision against Special Excise Duty (SED)	-	(25,612)
Provisions against concessionary duty on import of raw materials and GIDC	176,722	13,038
Dividend from subsidiary	(200,000)	-
Working capital changes - note 36.1	(128,080)	(595,787)
	<u>4,215,639</u>	<u>2,851,911</u>

(Amounts in thousand)

36.1 WORKING CAPITAL CHANGES	2013	2012
	Rupees	
Increase in current assets		
Stores, spares and loose tools	(4,084)	(384,136)
Stock-in-trade	(227,362)	(603,661)
Trade debts	(257,149)	(54,194)
Loans, advances, deposits, prepayments and other receivables - net	(37,297)	(172,975)
	<u>(525,892)</u>	<u>(1,214,966)</u>
Increase in current liabilities		
Trade and other payables	397,812	619,179
	<u>(128,080)</u>	<u>(595,787)</u>
37. CASH AND CASH EQUIVALENTS		
Cash and bank balances - note 15	860,335	89,300
Short term investments - note 14	300,000	-
Running finance utilized under markup arrangements - note 20	(166,062)	(1,204,084)
	<u>994,273</u>	<u>(1,114,784)</u>
38. FINANCIAL INSTRUMENTS BY CATEGORY		
38.1 Financial assets as per balance sheet		
Fair value through profit or loss		
Short term investments	300,000	-
Loans and receivables at amortized cost		
Long term loans	37,752	32,358
Trade debts - considered good	525,017	267,868
Loans, deposits and other receivables	132,545	120,237
Cash and bank balances	860,335	89,300
	<u>1,555,649</u>	<u>509,763</u>
38.2 Financial liabilities as per balance sheet		
Financial liabilities measured at amortized cost		
Long term borrowings	9,737,618	9,584,847
Short term borrowings	766,062	2,004,084
Trade and other payables	6,857,713	6,019,762
Accrued interest/mark-up	82,753	121,555
	<u>17,444,146</u>	<u>17,730,248</u>
Derivatives		
Used for hedging purposes	80,006	141,656
At fair value through profit or loss	102,172	-
	<u>182,178</u>	<u>141,656</u>

(Amounts in thousand)

38.3 Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction.

The carrying values of all financial assets and liabilities reflected in these financial statements approximate their fair values.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

39.1 Financial risk factors

The Company's activities expose it to a variety of financial risks including market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk factors. Risk management is carried out by the Company's finance department under guidance of the Company's Board of Directors.

a) Market risk

i) Currency risk

Currency risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in foreign currency rates. The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to US Dollars. The risk arises from outstanding payments for imports, recognized assets and liabilities in foreign currency and future commercial transactions. In the current economic environment, the Company is significantly exposed to currency risk because of the expected volatility in exchange rates. The Company manages the currency risk through forward exchange contracts.

At December 31, 2013, the financial assets and liabilities exposed to foreign exchange risk amount to Rs. 326,408 (2012: Rs. 169,326) and Rs. 5,390,022 (2012: Rs. 6,599,557) respectively.

At December 31, 2013, if the Pakistan Rupee had weakened / strengthened by 5% against the US Dollar with all other variables held constant, post-tax profit for the year would have been lower / higher by Rs. 167,099 (2012: Rs. 208,982), mainly as a result of foreign exchange losses/gains on translation of uncovered US Dollar-denominated liabilities. However, this change in profits or losses would be partially offset by a corresponding change in margins as bulk of revenues is linked with movements in exchange rates.

ii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk arising from long and short term running finances utilized under mark-up arrangements. Borrowing at variable rates exposes the Company to cash flow interest rate risk, whereas, borrowing at fixed rate expose the Company to fair value interest rate risk.

To manage its cash flow interest rate risk, the Company has entered into floating to fixed rate interest swaps on its foreign currency borrowings and variable to variable cross currency interest rate swap on its local borrowings. Under the interest rate swap agreements, the Company has agreed with the banks to exchange, at half yearly intervals, the difference between contracted rates and the floating rate interest amounts calculated by reference to the agreed notional amounts.

(Amounts in thousand)

As at December 31, 2013, if interest rate on Company's unhedged borrowings had been 1% higher / lower with all other variables held constant, post-tax profit for the year would have been lower / higher by approximately Rs. 55,250 (2012: Rs. 53,150) mainly as a result of higher / lower interest exposure on variable rate borrowings.

iii) **Other price risk**

Price risk represents the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those change are caused by factors specific to the individual financial instruments or its issuer or factors affecting all similar financial instruments traded in the market. The Company is exposed to equity security price risk as the Company deals in securities. However, the Company is not exposed to equity securities price risk as at December 31, 2013 as the Company has no investments in listed securities.

b) **Credit risk**

Credit risk represents the risk of financial loss being caused if counter parties fail to discharge their obligations. Credit risk arises from deposits with banks and financial institutions, trade debts, loans, deposits and other receivables. The maximum exposure to credit risk is equal to the carrying amount of financial assets.

The Company is not materially exposed to credit risk as unsecured credit is provided to selected parties with no history of default. Moreover, major part of trade debts are secured by bank guarantees and letters of credit from customers. Further, credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings.

The Company monitors the credit quality of its financial assets with reference to historical performance of such assets and available external credit ratings. The carrying values of financial assets which are neither past due nor impaired are as follows:

	2013	2012
	Rupees	
Long term loan	37,752	32,358
Trade debts - considered good	525,017	267,868
Loan, deposits and other receivables	132,545	120,237
Bank balances	860,049	88,545
	<u>1,555,363</u>	<u>509,008</u>

(Amounts in thousand)

The credit quality of receivables can be assessed with reference to their historical performance with no defaults in recent history. The credit quality of the Company's liquid funds can be assessed with reference to external credit ratings of banks as follows:

Bank	Rating agency	Rating	
		Short term	Long term
Allied Bank Limited	PACRA	A1+	AA+
Askari Commercial Bank Limited	PACRA	A1+	AA
Bank AlFalah Limited	PACRA	A1+	AA
Bank AlHabib Limited	PACRA	A1+	AA+
Barclays Bank PLC, Pakistan	Moody's	P-1	A2
Burj Bank Limited	JCR-VIS	A1	A
Citibank N.A.	Moody's	P-2	A3
Deutsche Bank A.G	Moody's	P-1	A2
Faysal Bank Limited	PACRA	A1+	AA
Habib Bank Limited	JCR-VIS	A1+	AAA
HSBC Bank Middle East Limited	Moody's	P-1	A2
Industrial and Commercial Bank of China	Moody's	P-1	A1
MCB Bank Limited	PACRA	A1+	AAA
Meezan Bank Limited	JCR-VIS	A1+	AA
National Bank of Pakistan	JCR-VIS	A1+	AAA
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA
Summit Bank Limited	JCR-VIS	A3	A-
United Bank Limited	JCR-VIS	A1+	AA+

c) Liquidity risk

Liquidity risk represents the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company's liquidity management involves maintaining sufficient cash and marketable securities, the availability of funds through an adequate amount of credit facilities and through its ability to close out market positions. Due to the dynamic nature of the business, the Company aims at maintaining flexibility in funding by keeping committed credit lines available.

(Amounts in thousand)

The table below analyses how management monitors net liquidity based on details of the remaining contractual maturities of financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows:

	2013			2012		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
Rupees						
Financial liabilities						
Long term borrowings	2,242,800	7,494,818	9,737,618	2,052,981	7,531,866	9,584,847
Derivative financial instruments	102,172	80,006	182,178	-	141,656	141,656
Trade and other payables	6,857,713	-	6,857,713	6,019,762	-	6,019,762
Accrued interest / mark-up	82,753	-	82,753	121,555	-	121,555
Short term borrowings	766,062	-	766,062	2,004,084	-	2,004,084
	<u>10,051,500</u>	<u>7,574,824</u>	<u>17,626,324</u>	<u>10,198,382</u>	<u>7,673,522</u>	<u>17,871,904</u>

Net settled derivatives comprise interest rate swaps used by the Company to manage the Company's interest rate profile. The Company's net settled derivative financial instruments with a negative fair value have been included at their fair value of Rs.182,178 (2012: Rs.141,656) in the maturity analysis because the contractual maturities are essential for an understanding of the timing of the cash flows. These contracts are managed on a net-fair value basis as well as maturity date.

40. CAPITAL RISK MANAGEMENT

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern and to provide expected returns to its shareholders by maintaining optimum capital structure to minimize the cost of capital. To maintain or adjust the capital structure, the Company may issue new equity, manage dividend payouts to its shareholders or sell assets to reduce debt.

The Company manages capital by maintaining gearing ratio at certain levels. This ratio is calculated as long term borrowings, as disclosed in note 17, divided by total capital. Total capital is calculated as 'equity' as shown in the balance sheet plus long term borrowings.

The gearing ratio of the Company is as follows:

	2013	2012
	Rupees	
Long term borrowings - note 17	7,494,818	7,531,866
Total equity	6,933,810	6,193,288
Total capital	<u>14,428,628</u>	<u>13,725,154</u>
Gearing ratio	<u>0.519</u>	<u>0.549</u>

(Amounts in thousand)

41. SEGMENT INFORMATION

41.1 Based on the internal management reporting structure, the Company is organized into three business segments based on the products produced and sold as follows:

- Poly Vinyl Chloride (PVC) and allied chemicals;
- Caustic soda and allied chemicals; and
- Power supplies.

Management monitors the operating results of abovementioned segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in table below, is measured differently from profit or loss in the financial statements. Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Finance costs, other operating income and expenses, and taxation are managed at Company level. Further, unallocated assets include long term investment, long term loans and advances, loans, advances, prepayments and other receivables, taxes recoverable, and cash and bank balances.

41.2 The following table presents the profit or loss and total assets for the operating segments of the Company:

	Poly Vinyl Chloride (PVC) and allied chemicals		Caustic soda and allied chemicals		Power Supply		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	Rupees							
Segment profit and loss								
Revenue	19,187,692	15,878,624	5,344,807	4,542,039	59,406	45,669	24,591,905	20,466,332
Less:								
Cost of sales (excluding depreciation)	(15,849,826)	(13,571,513)	(2,652,823)	(2,278,696)	(11,182)	(5,946)	(18,513,831)	(15,856,155)
Distribution and marketing expenses (excluding depreciation)	(1,002,326)	(788,266)	(336,642)	(341,629)	-	-	(1,338,968)	(1,129,895)
Allocated depreciation	(886,521)	(846,332)	(257,751)	(288,463)	(27,907)	(27,584)	(1,172,179)	(1,162,379)
Profit before unallocated expenses	<u>1,449,019</u>	<u>672,513</u>	<u>2,097,591</u>	<u>1,633,251</u>	<u>20,317</u>	<u>12,139</u>	<u>3,566,927</u>	<u>2,317,903</u>
Unallocated expenses								
Administrative expenses							(606,409)	(478,361)
Other operating expenses							(520,816)	(527,744)
Other income							278,267	501,055
Finance costs							(1,373,541)	(1,647,137)
Taxation							(627,261)	(115,990)
Profit for the year							<u>717,167</u>	<u>49,726</u>
Segment assets								
Total segment assets	<u>14,062,022</u>	<u>14,642,414</u>	<u>6,572,720</u>	<u>6,297,304</u>	<u>31,620</u>	<u>59,527</u>	<u>20,666,362</u>	<u>20,999,245</u>
Unallocated assets							<u>4,573,816</u>	<u>3,957,414</u>
Total assets							<u>25,240,178</u>	<u>24,956,659</u>

41.3 Segment assets consist primarily of property, plant and equipment, stores, spares and loose tools, stock in trade and trade debts.

(Amounts in thousand)

42. TRANSACTIONS WITH RELATED PARTIES

42.1 Transactions with related parties other than those which have been disclosed elsewhere in these financial statements are as follows:

Nature of relationship	Nature of transactions	2013		2012	
		Rupees			
Holding Company					
- Engro Corporation Limited	Purchase of services	35,134		17,847	
	Purchase of goods	-		547	
	Use of operating assets	1,334		3,328	
	Markup on Subordinated Loan	138,844		62,508	
	Reimbursement made	5,520		6,400	
	Reimbursement received	3,941		1,323	
	Pension fund contribution	9,812		5,034	
	Provident fund contribution	6,038		8,581	
	Medical contribution	171		167	
	Gratuity fund contribution	2,227		1,749	
Subsidiary Company					
- Engro Polymer Trading (Private) Limited	Sale of goods	316,169		1,627,298	
	Sale of services	72		1,110	
	Reimbursement received	-		28	
	Reimbursement made	9		-	
	Mark-up on Working Capital Loan	6,635		686	
	Loan received and repaid	200,000		100,000	
Associated Company					
- Mitsubishi Corporation	Purchase of goods	9,234,746		9,942,467	
	Sale of goods	1,291,794		60,405	
	Purchase of services	309		58	
	Reimbursement made	-		8,677	
Related parties by virtue of common directorship					
- Engro Fertilizers Limited	Purchase of services	8,091		7,962	
	Purchase of goods	-		4,470	
	Sale of goods	25,376		19,399	
	Sale of services	504		4,814	
	Supply of electricity	74,241		57,476	
	Use of operating assets	7,755		8,198	
	Reimbursement made	10,199		8,458	
	Reimbursement received	2,374		10,775	
	Use of operating assets	6,953		802	
- Engro Vopak Terminal Limited	Purchase of services	973,207		849,582	
	Reimbursement made	19,091		19,439	
	Reimbursement received	10,394		15,529	
- Engro Foundation	Reimbursement received	-		760	
	Purchase of services	2,263		-	
	Donation	2,000		2,010	
- Engro PowerGen Qadirpur Limited	Reimbursement made	1,186		81	
	Reimbursement received	4,252		2,768	
- Engro PowerGen Limited	Reimbursement made	896		2,345	
	Reimbursement received	-		7	
	Use of operating assets	827		542	
- Engro Foods Limited	Sale of goods	47,023		53,927	
	Reimbursement received	909		-	
	Reimbursement made	1,101		167	
	Use of operating assets	429		196	
- Akzo Nobel (formerly ICI Pakistan Limited)	Purchase of goods	-		53,841	
- IGI Insurance Company Limited	Purchase of services	-		1,121	
- Dawood Hercules Corporation Limited	Sale of goods	-		234	
	Purchase of services	14,400		14,400	
- Lahore University of Management Sciences	Purchase of services	678		1,256	
- Pakistan Institute of Corporate Governance	Purchase of services	-		15	
- Institute of Business Administration	Purchase of services	2,186		-	
- Engro Eximp (Pvt) Ltd	Reimbursement received	2,035		-	
	Use of operating assets	217		-	
- Pakistan Japan Business Forum	Annual subscription	100		-	
- Overseas Investors Chamber of Commerce & Industries	Annual subscription	330		451	
- UBL Fund Managers	Purchase of units of UBL Liquidity Plus Fund	185,000		150,000	
	Sale of units of UBL Liquidity Plus Fund	185,710		150,759	
Other related party					
- Arabian Sea Country Club	Purchase of services	856		1,104	
	Annual Subscription	46		55	
Directors' fee		2,400		2,900	
Contribution to staff retirement benefits	Pension fund	23,104		17,002	
	Provident funds	40,127		38,535	
	Gratuity funds	15,380		6,812	
Key management personnel	Managerial remuneration	66,996		71,139	
	Retirement benefit funds	11,953		10,471	
	Bonus	26,318		23,677	
	Other benefits	15,379		13,314	

(Amounts in thousand)

42.2 The related party status of outstanding balances as at December 31, 2013 are disclosed in the respective notes.

43. GENERAL

43.1 Number of employees

Number of permanent employees as at December 31, 2013 was 435 (December 31, 2012: 441) and average number of employees during the year were 440 (2012: 445).

43.2 Production capacity	Designed Annual Capacity		Actual Production		Remarks
	2013	2012	2013	2012	
	Kilo tons				
PVC	156	150	146	146	Production planned as per market demand and in house consumption need
EDC	127	127	117	110	
Caustic soda	106	106	115	107	
VCM	220	220	170	146	
	Mega Watts				
Power	64	64	45	45	

44. CORRESPONDING FIGURES

During the year, for better presentation, the following reclassification has been made:

Description	Rupees	Head of account in financial statements for the year ended December 31, 2012	Head of account in financial statements for the year ended December 31, 2013
Capital spares	80,979	Stores, spares and loose tools	Property, plant and equipment

The effect of other reclassifications is not material.

45. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 3, 2014 by the Board of Directors of the Company.



Khalid Siraj Subhani
President & Chief Executive



Waqar Malik
Director



engropolymer & chemicals

consolidated financial statements

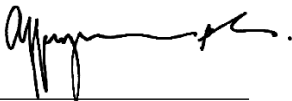
**A.F.FERGUSON & CO.**

auditors' report to the members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Engro Polymer and Chemicals Limited (the Holding Company) and its subsidiary company, Engro Polymer Trading (Private) Limited as at December 31, 2013 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of Engro Polymer and Chemicals Limited and Engro Polymer Trading (Private) Limited. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the consolidated financial statements present fairly the financial position of Engro Polymer and Chemicals Limited and its subsidiary company, Engro Polymer Trading (Private) Limited, as at December 31, 2013 and the results of their operations, changes in equity and cash flows for the year then ended.



Chartered Accountants

Karachi

Dated: February 22, 2014

Engagement Partner: Waqas A. Sheikh

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consolidated balance sheet

as at december 31, 2013

(Amounts in thousand)	Note	2013	(Restated) 2012
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	17,132,553	17,714,505
Intangible assets	5	50,098	30,864
Long term loans and advances	6	52,605	49,340
Deferred taxation	7	455,181	885,117
		<u>17,690,437</u>	<u>18,679,826</u>
Current Assets			
Stores, spares and loose tools	8	1,390,168	1,397,683
Stock-in-trade	9	3,250,590	3,052,436
Trade debts - considered good	10	525,017	266,465
Loans, advances, deposits, prepayments and other receivables	11	441,784	404,115
Taxes recoverable	12	740,205	1,026,562
Short term investments	13	465,122	169,545
Cash and bank balances	14	865,040	94,732
		<u>7,677,926</u>	<u>6,411,538</u>
TOTAL ASSETS		<u><u>25,368,363</u></u>	<u><u>25,091,364</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	15	6,634,688	6,634,688
Share premium		964,029	964,029
Hedging reserve		(52,804)	(92,077)
Accumulated loss		(492,960)	(1,178,636)
Remeasurement of post employment benefits - Actuarial loss		-	(5,113)
		<u>7,052,953</u>	<u>6,322,891</u>
Non-Current Liabilities			
Long term borrowings	16	7,494,818	7,531,866
Derivative financial instruments	17	80,006	141,656
Retirement and other service benefit obligations	18	63,662	59,647
		<u>7,638,486</u>	<u>7,733,169</u>
Current Liabilities			
Current portion of long term borrowings	16	2,242,800	2,052,981
Derivative financial instruments - at fair value through profit or loss	17	102,172	-
Short term borrowings	19	766,062	2,004,084
Trade and other payables	20	7,218,197	6,768,466
Accrued interest / mark-up	21	82,753	121,555
Provisions	22	264,940	88,218
		<u>10,676,924</u>	<u>11,035,304</u>
TOTAL EQUITY AND LIABILITIES		<u><u>25,368,363</u></u>	<u><u>25,091,364</u></u>
Commitments	23		

The annexed notes 1 to 44 form an integral part of these financial statements.



Khalid Siraj Subhani
President & Chief Executive



Waqar Malik
Director

consolidated profit and loss account

for the year ended december 31, 2013

(Amounts in thousand except for earnings per share)

	Note	2013	2012
		Rupees	
Net revenue	24	24,780,581	20,605,601
Cost of sales	25	(19,681,140)	(17,050,461)
Gross profit		5,099,441	3,555,140
Distribution and marketing expenses	26	(1,345,329)	(1,179,186)
Administrative expenses	27	(606,481)	(479,499)
Other operating expenses	28	(526,222)	(537,688)
Other income	29	91,738	512,195
Operating profit		2,713,147	1,870,962
Finance costs	30	(1,369,849)	(1,659,061)
Profit before taxation		1,343,298	211,901
Taxation	31	(636,591)	(134,892)
Profit for the year		706,707	77,009
Earnings per share - basic and diluted	32	1.07	0.12

The annexed notes 1 to 44 form an integral part of these financial statements.



Khalid Siraj Subhani
President & Chief Executive



Waqar Malik
Director

consolidated statement of comprehensive income

for the year ended december 31, 2013

(Amounts in thousand)

	Note	2013	(Restated) 2012
		Rupees	
Profit for the year		706,707	77,009
Other comprehensive income / (loss):			
Items that will not be reclassified to profit or loss			
Deferred tax charge relating to revaluation of equity related items		(1,648)	-
Remeasurement of post employment benefits obligation - Actuarial (loss) / gain		(14,270)	16,301
		(15,918)	16,301
Items that may be reclassified subsequently to profit or loss			
Hedging reserve			
Loss arising during the year		(5,601)	(34,987)
Reclassification adjustments for losses included in profit and loss		67,251	50,594
Income tax relating to hedging reserve		(22,377)	(5,463)
		39,273	10,144
Other comprehensive income for the year - net of tax		23,355	26,445
Total comprehensive income for the year		769,335	113,598

The annexed notes 1 to 44 form an integral part of these financial statements.



Khalid Siraj Subhani
President & Chief Executive



Waqar Malik
Director

consolidated statement of changes in equity

for the year ended december 31, 2013

(Amounts in thousand)

	RESERVES					Total
	Share Capital	CAPITAL			REVENUE	
		Share premium	Hedging reserve	Accumulated loss	Remeasurement of post employment benefits - Actuarial loss	
Rupees						
Balance as at January 1, 2012 - As previously reported	6,634,688	964,029	(102,221)	(1,255,645)	-	6,240,851
Effect of change in accounting policy due to application of IAS - 19 (Revised) - note 2.1.4	-	-	-	-	(21,414)	(21,414)
Balance as at January 1, 2012 - Restated	6,634,688	964,029	(102,221)	(1,255,645)	(21,414)	6,219,437
Total comprehensive income for the year ended December 31, 2012 - Restated	-	-	10,144	77,009	16,301	103,454
Balance as at December 31, 2012 - Restated	6,634,688	964,029	(92,077)	(1,178,636)	(5,113)	6,322,891
Total comprehensive income for the year ended December 31, 2013	-	-	39,273	705,059	(14,270)	730,062
Effect of curtailment and settlement of defined benefit plans	-	-	-	(19,383)	19,383	-
Balance as at December 31, 2013	<u>6,634,688</u>	<u>964,029</u>	<u>(52,804)</u>	<u>(492,960)</u>	<u>-</u>	<u>7,052,953</u>

The annexed notes 1 to 44 form an integral part of these financial statements.



Khalid Siraj Subhani
President & Chief Executive



Waqar Malik
Director

consolidated statement of cash flows

for the year ended december 31, 2013

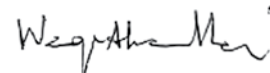
(Amounts in thousand)

	Note	2013	2012
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35	4,399,545	3,039,061
Finance costs paid		(1,408,651)	(1,682,587)
Long term loans and advances		(3,265)	(11,537)
Retirement benefits paid		(55,537)	(69,054)
Income tax paid		55,677	(289,410)
Net cash generated from operating activities		<u>2,987,769</u>	<u>986,473</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(608,672)	(354,002)
- intangible assets		(29,871)	(10,227)
Proceeds from disposal of property, plant and equipment		8,164	18,520
Purchase of short term investments		(1,109,000)	(1,079,000)
Proceeds from sale of short term investments		1,127,973	922,769
Income on bank deposits		29,193	9,517
Net cash utilized in investing activities		<u>(582,213)</u>	<u>(492,423)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings		1,955,655	700,000
Repayments of long term borrowings		(2,052,881)	(2,495,497)
Proceeds from short term borrowings		420,000	1,150,000
Repayments of short term borrowings		(620,000)	(350,000)
Net cash utilized in financing activities		<u>(297,226)</u>	<u>(995,497)</u>
Net increase / (decrease) in cash and cash equivalents		<u>2,108,330</u>	<u>(501,447)</u>
Cash and cash equivalents at beginning of the year		(1,109,352)	(607,905)
Cash and cash equivalents at end of the year	36	<u><u>998,978</u></u>	<u><u>(1,109,352)</u></u>

The annexed notes 1 to 44 form an integral part of these financial statements.



Khalid Siraj Subhani
President & Chief Executive



Waqar Malik
Director

consolidated notes to the financial statements

for the year ended december 31, 2013

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

- 1.1 The Group consists of Engro Polymer and Chemicals Limited (the Company) and it's wholly owned subsidiary company, Engro Polymer Trading (Private) Limited.
- 1.2 Engro Polymer and Chemicals Limited (the Company) was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984. The Company is listed on Karachi, Lahore and Islamabad Stock Exchanges.
- 1.3 The Company is a subsidiary of Engro Corporation Limited (the Holding Company). The address of its registered office is 16th Floor, The Harbor Front Building, HC-3 Marine Drive, Block 4 Clifton, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), Vinyl Chloride Monomer (VCM), Caustic soda and other related chemicals. The Company is also engaged in the supply of surplus power generated from its power plants to Engro Fertilizers Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

- 2.1.1 These financial statements have been prepared under the historical cost convention as modified by remeasurement of certain financial assets and financial liabilities (including derivative financial instruments) at fair value and recognition of certain staff retirement and other service benefits at present value.
- 2.1.2 These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.
- 2.1.3 The preparation of financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(Amounts in thousand)

2.1.4 Initial application of a Standard, Amendment or an Interpretation to an existing Standard

a) Standards, amendments to published standards and interpretations that are effective in 2013 and are relevant to the Company

The following standard and amendments to published standards are mandatory for the financial year beginning January 1, 2013:

- IAS-19 'Employee benefits' was revised in June 2011. The revised standard (i) requires past service cost to be recognized immediately in the profit or loss; (ii) replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year; and (iii) introduced a new term 'remeasurements' which is made up of actuarial gains and losses, the difference between actual investment returns and the return implied by the net interest cost. The revised standard eliminates the corridor approach and requires to recognize all remeasurement gains or losses / actuarial gains or losses in the Other Comprehensive Income (OCI) immediately as they occur. In accordance with the transitional provisions as set out in IAS-19 (Revised), the Company has applied the revised standard retrospectively and, consequently the earliest periods presented in the balance sheet, statement of comprehensive income and the statement of changes in equity have been restated. The impact of retrospective application of IAS-19 (Revised) is as follows:

	Retirement and other service benefit obligations	Other Comprehensive Income - Remeasurement of post employment benefits - Actuarial loss
Balance as at December 31, 2011 as previously reported	62,107	-
Restatement - Recognition of remeasurement loss in OCI	21,414	(21,414)
Balance as at December 31, 2011 - Restated	<u>83,521</u>	<u>(21,414)</u>
Balance as at December 31, 2012 as previously reported	54,534	-
Restatement - Recognition of remeasurement loss in OCI	5,113	(5,113)
Balance as at December 31, 2012 - Restated	<u>59,647</u>	<u>(5,113)</u>

The effect of change in accounting policy, due to adoption of IAS-19 (Revised), on the profit and loss account, earnings per share and statement of cash flows is immaterial. Consequently, the same and the related earlier periods presented have not been restated. Further, a third balance sheet (Statement of financial position) as at the beginning of the preceding period has not been presented as the effect of retrospective application on that period is not material.

(Amounts in thousand)

- IAS-1 (Amendment) 'Financial statement presentation'. The main change resulting from these amendments is a requirement for entities to group items presented in 'Other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI. The amendment only affects the disclosures in the Company's financial statements.
- Amendments to following standards as a result of annual improvements to International Financial Reporting Standards 2011, issued by IASB in May 2012:
 - IAS-1 (Amendment) 'Financial statement presentation'. The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet as required by IAS-8, 'Accounting policies, changes in accounting estimates and errors'. When an entity produces an additional balance sheet as required by IAS-8, the balance sheet should be as at the date of the beginning of the preceding period, i.e. the opening position. No notes are required to support this balance sheet. As stated above, a third balance sheet as at the beginning of the preceding period has not been presented as the effect of the retrospective application is not material.
 - IAS-16 (Amendment) 'Property, plant and equipment'. The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than stores, spares and loose tools when they meet the definition of property, plant and equipment. The Company's accounting policy is already in line with the requirements of this amendment.
 - IAS-32 (Amendment) 'Financial instruments: Presentation'. The amendment clarifies that the treatment of income tax relating to distributions and transaction costs is in accordance with IAS-12. So, income tax related to distributions is to be recognized in the profit and loss account, and income tax related to the costs of equity transactions is to be recognized in equity. The Company's current accounting treatment is already in line with this amendment.
 - IAS-34 (Amendment) 'Interim financial reporting'. The amendment clarifies the disclosure requirements for segment assets and liabilities in interim financial information. The amendment brings IAS-34 in line with the requirements of IFRS 8, 'Operating segments' whereby a measure of total assets and liabilities is required for an operating segment in interim financial information if such information is regularly provided to the chief operating decision maker and there has been a material change in those measures since the last annual financial statements. The Company has already adopted the above amendment for its interim financial reporting.

b) Standards, amendments to published standards and interpretations that are effective in 2013 but not relevant

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2013 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

c) Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted by the Company

The following new standards and amendments to published standards are not effective for the financial year beginning on January 1, 2013 and have not been early adopted by the Company.

- IAS-32 (Amendment), 'Financial instruments: Presentation' (effective for periods beginning on or after January 1, 2014). This amendment updates the application guidance in IAS-32 'Financial Instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet date. It is unlikely that the amendment will have any significant impact on the Company's financial statements.

(Amounts in thousand)

- IAS-36 (Amendment) 'Impairment of assets' (effective for the periods beginning on or after January 1, 2014). The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment will only affect disclosures in the Company's financial statements in the event of any impairment.
- IAS-39 (Amendment) 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting (effective for the periods beginning on or after January 1, 2014). These amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way. Similar relief will be included in IFRS 9, 'Financial instruments'. The Company is yet to assess the full impact of the amendment.
- IFRS 9 'Financial instruments' (effective for periods beginning on or after January 1, 2015). This standard is yet to be notified by the SECP. IFRS 9 replaces the parts of IAS-39, 'Financial instruments: recognition and measurement' that relate to classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the requirements of IAS-39. The main change is that, in case the fair value option is taken for financial liabilities, the part of a fair value change due to entity's own credit risk is recorded in other comprehensive income rather than the profit and loss account, unless this creates an accounting mismatch. The Company is yet to assess the full impact of the standard. The Company will also consider the impact of the remaining phases of IFRS when completed by IASB, however, the initial indications are that it may not affect the Company's financial statements significantly.
- IFRS 9 (Amendment) 'Financial instruments', regarding general hedge accounting (effective date yet to be determined). This standard is yet to be notified by the SECP. The amendment brings into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. The Company is yet to assess the full impact of the standard.
- IFRS 10, 'Consolidated financial statements'. This standard is yet to be notified by the SECP. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in determination of control where this is difficult to assess. It is unlikely that the standard will have any significant impact on the Company's financial statements.
- IFRS 12, 'Disclosures of interests in other entities'. This standard is yet to be notified by the SECP. The standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance-sheet vehicles. The Company is yet to assess the full impact of the standard.

(Amounts in thousand)

- IFRS 13 'Fair value measurement'. This standard is yet to be notified by the SECP. The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Company is yet to assess the full impact of the standard.

- Amendment to following standards as a result of annual improvements to International Financial Reporting Standards 2012 issued by IASB:
 - IFRS 8 'Operating segments' (effective for annual periods beginning on or after July 1, 2014). This amendment requires disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. The amendment will only affect the disclosures in the Company's financial statements.

 - IFRS 13 'Fair value measurement' (effective for annual periods beginning on or after July 1, 2014). IFRS 13 is yet to be notified by the SECP. When IFRS 13 was published, it led to a concern that entities no longer had the ability to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial. The amendment clarifies that it does not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases.

There are number of other standards, amendments and interpretations to the published standards that are not yet effective and are also not relevant to the Company and therefore, have not been presented here.

2.2 Property, plant and equipment

These are stated at cost less accumulated depreciation and impairment, if any, except capital work-in-progress. Cost in relation to fixed assets signifies historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Capital work-in-progress is stated at historical cost less impairment, if any.

Depreciation on assets is charged to income using the straight line method to allocate their cost to their residual values over their estimated useful lives at rates given in note 4.1. Depreciation on additions is charged from the month in which the asset is put to use and no depreciation is charged in the month of disposal.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to income during the year in which these are incurred.

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount and the resulting impairment loss is recognized in income. The recoverable amount is the higher of fair value less expected selling expenses and value in use. Reversal of impairment is effected in the case of indications of a change in recoverable amount and is recognized in income, however, is restricted to the original cost of the asset.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense in the period of disposal or retirement.

(Amounts in thousand)

2.3 Capital spares

Spare parts and servicing equipment are classified as property, plant and equipment rather than stores, spares and loose tools when they meet the definition of property, plant and equipment. Upon utilization, capital spares and servicing equipment are depreciated over their useful life, or the remaining life of principal asset, whichever is lower.

2.4 Intangible assets - Computer software

Costs associated with developing and maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly attributable to identifiable software and have probable economic benefits exceeding one year, are recognized as an intangible asset. Direct costs include the purchase cost of software and related overhead cost.

Expenditure, which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Computer software cost treated as intangible assets are amortized from the date the software is put to use on straight-line basis over a period of 5 to 10 years. The carrying amount of the intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount and is recognized in income. Reversal of impairment losses are also recognized in income, however, is restricted to the original cost of the asset.

2.5 Investments in subsidiaries

Investments in subsidiaries are stated at cost net of provision for impairment, if any. This investment is classified as long term investment.

2.6 Financial instruments

2.6.1 Financial assets

Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months otherwise, these are classified as non-current.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Company's loans and receivables comprise 'trade debts', 'loans and deposits', 'other receivables' and 'cash and cash equivalents' in the balance sheet.

(Amounts in thousand)

c) Held to maturity financial assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention to hold to maturity.

d) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. These are included in non-current assets unless the investment matures or management intends to dispose off the financial assets within twelve months of the balance sheet date.

Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are held to maturity financial assets are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the profit and loss account within ‘other income / operating expenses’ in the period in which they arise. Dividend income from financial assets at ‘fair value through profit or loss’ is recognized in the profit and loss account as part of ‘other income’ when the Company’s right to receive payments is established. Gains or losses on sale of investments at ‘fair value through profit or loss’ are recognized in the profit and loss account as ‘gains and losses from investment securities’.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in other comprehensive income are included in the profit and loss account as ‘gains and losses from investment securities’. Interest on available for sale securities calculated using the effective interest method is recognized in the profit and loss account as part of ‘other income’. Dividends on available for sale equity instruments are recognized in the profit and loss account as part of ‘other income’ when the Company’s right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the profit and loss account. Impairment losses recognized in profit and loss on equity instruments are not reversed through profit and loss. Impairment testing of trade debts and other receivables are described in note 2.9.

(Amounts in thousand)

2.6.2 Financial liabilities

All financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the profit and loss account.

2.6.3 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.7 Stores, spares and loose tools

These are valued at weighted average cost except for items in transit which are stated at invoice value plus other charges paid thereon till the balance sheet date. Provision is made for slow moving items older than ten years, and is recognized in the profit and loss account.

2.8 Stock-in-trade

These are valued at the lower of cost and net realizable value. Cost in relation to raw materials represent the weighted average cost and in relation to finished goods and work-in-progress represents weighted average cost comprising direct materials, labour and related manufacturing overheads.

Cost of stock-in-transit represents the invoice value plus other charges incurred thereon till the balance sheet date.

Net realizable value signifies the estimated selling price in the ordinary course of business less cost of completion and costs necessarily to be incurred in order to make the sales. Provision is made for slow moving stocks, where considered necessary.

2.9 Trade debts and other receivables

Trade debts and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is charged to income. Trade debts and other receivables considered irrecoverable are written-off.

Exchange gains and losses arising on translation in respect of trade debts and other receivables in foreign currency are added to the carrying amount of the respective receivables.

(Amounts in thousand)

2.10 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows include cash in hand and in transit, balance with banks, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and short term finances. Short term finances on the balance sheet are shown as part of current liabilities.

2.11 Share capital

Ordinary shares are classified as equity and recognized at their face value. Incremental costs, if any, directly attributable to the issue of new shares or options are recognized in equity as a deduction, net of tax, from the proceeds.

2.12 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred, and are subsequently measured at amortized cost using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional / contractual right to defer settlement of the liability for atleast twelve months after the balance sheet date.

2.13 Retirement and other service benefits

2.13.1 Pension scheme

During the year, the Company replaced its defined benefit pension scheme with the defined contribution gratuity scheme operated and managed by Engro Corporation Limited - the Holding Company. In accordance with the funds' transition provisions, related assets and liabilities were transferred to the Holding Company's defined contribution gratuity scheme, based on their values as at September 30, 2013, as determined by the actuary.

2.13.2 Gratuity fund

During the year, the Company replaced its defined benefit gratuity scheme with the defined contribution gratuity scheme operated and managed by Engro Corporation Limited - the Holding Company. In accordance with the funds' transition provisions, related assets and liabilities were transferred to the Holding Company's defined contribution gratuity scheme based on their values as at September 30, 2013 as determined by the actuary. As per the terms of the defined contribution plan, the Company contributes to the fund at the rate of 8.33% of basic salary. Annual contribution by the Company is charged to income.

The aforementioned changes in the retirement benefit structures have been recognized as a settlement and curtailment in the profit and loss account.

2.13.3 Provident fund

During the year, the Company replaced its provident fund with the provident fund operated and managed by Engro Corporation Limited - the Holding Company. In accordance with the funds' transition provisions, related assets and liabilities were transferred to the Holding Company's defined contribution provident fund based on their values as at September 30, 2013. Equal monthly contributions at the rate of 10% of the basic salary are made both by the Company and the employees to the Holding Company's defined contribution fund. Annual contribution by the Company is charged to income.

(Amounts in thousand)

2.13.4 Compensated absences

Accrual is made for employees' compensated absences on the basis of accumulated leaves and the last drawn pay.

2.13.5 Other benefits

Provision is made under a service incentive plan for certain category of experienced employees to continue in the Company's employment. The provision is made on the basis of management's estimates of incentives to be paid to employees on fulfillment of criteria given in the incentive plan.

2.14 Trade and other payables

These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Exchange gains and losses arising on translation in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

2.15 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

2.16 Taxation

2.16.1 Current

Provision for current taxation is based on the taxable income for the year, determined in accordance with the prevailing law for taxation on income, using prevailing tax rates. The charge for current tax also includes tax credits and adjustments, where considered necessary, for prior years determined during the year or otherwise considered necessary for such years.

2.16.2 Deferred

Deferred income tax is provided using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax is charged or credited in the profit and loss account except to the extent that it relates to the items recognized directly in equity, in which case it is recognized in equity.

2.17 Foreign currency transactions and translation

These financial statements are presented in Pakistan Rupees, which is the Company's functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

(Amounts in thousand)

2.18 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or
- b) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

On an ongoing basis, the Company assesses whether each derivative continues to be highly effective in offsetting changes in the cash flows of hedged items. If and when a derivative is no longer expected to be highly effective, hedge accounting is discontinued.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the profit and loss account.

Amounts accumulated in comprehensive income are reclassified to the profit and loss account in the periods when the hedged item affects profit or loss account i.e. when the transaction occurs. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the profit and loss account or the cost of the related asset for which the borrowing is being utilized. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for e.g. stock-in-trade or property, plant and equipment) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of sales in case of stock-in-trade, or in depreciation in case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the profit and loss account or the cost of the related non-financial asset (for e.g. stock-in-trade or property, plant and equipment) as applicable. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 17. Movements on the hedging reserve are shown in statement of comprehensive income. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(Amounts in thousand)

2.19 Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, and is recognized on the following basis:

- sales are recognized when the product is dispatched to customers;
- revenue from the supply of electricity is recorded based upon the output delivered;
- dividend income is recognized when the Company's right to receive the payment is established; and
- return on deposits is recognized on accrual basis using the effective interest method.

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2.20 Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset, in which case, such costs are capitalized as part of the cost of that asset. Borrowing costs include exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

2.21 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company that makes strategic decisions.

2.22 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognized in the financial statements in the period in which these are approved.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

3.1 Property, plant and equipment and intangible assets

The Company reviews appropriateness of the useful life and residual value, where applicable, used in the calculation of depreciation / amortization on an annual basis. Further, where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

(Amounts in thousand)

3.2 Derivative financial instruments designated as cash flow hedges

The Company reviews the changes in fair values of the derivative hedging financial instruments at each reporting date based on the valuations received from the contracting banks. These valuations represent estimated fluctuations in the relevant currencies / interest rates over the reporting period and other relevant variables signifying currency and interest rate risks.

3.3 Stock-in-trade

The Company reviews the net realizable value of stock-in-trade to assess any diminution in the respective carrying values. Net realizable value is determined with reference to estimated selling price less estimated expenditure to make the sales.

3.4 Income taxes

In making the estimates for income taxes payable by the Company, the management looks at the applicable law and the decisions of appellate authorities on certain issues in the past.

3.5 Deferred tax asset

In assessing the recognition of the deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences, become deductible. Management considers the scheduled reversal of deferred tax liabilities, projects future taxable income and tax planning strategies in making this assessment. The amount of deferred tax assets considered realizable, however, could change in the near term if future estimates of projected taxable income during the carry forward period are revised.

4. PROPERTY, PLANT AND EQUIPMENT

	2013	2012
	Rupees	
Operating assets, at net book value - note 4.1	16,833,072	17,476,546
Capital work-in-progress - note 4.4	211,833	156,980
Capital spares	87,648	80,979
	<u>17,132,553</u>	<u>17,714,505</u>

(Amounts in thousand)

4.1 Operating assets

	Leasehold land	Building on leasehold land	Plant and machinery	Pipelines				Furniture, fixtures and equipment	Vehicles	Total
				Water	VCM	Ethylene	Gas			
Rupees										
As at January 1, 2012										
Cost	194,127	437,724	21,093,064	398,968	26,122	50,315	33,849	133,853	130,310	22,498,332
Accumulated depreciation	(25,152)	(84,117)	(3,742,018)	(105,792)	(15,835)	(6,066)	(4,912)	(90,855)	(48,140)	(4,122,887)
Net book value	<u>168,975</u>	<u>353,607</u>	<u>17,351,046</u>	<u>293,176</u>	<u>10,287</u>	<u>44,249</u>	<u>28,937</u>	<u>42,998</u>	<u>82,170</u>	<u>18,375,445</u>
Year ended December 31, 2012										
Opening net book value	168,975	353,607	17,351,046	293,176	10,287	44,249	28,937	42,998	82,170	18,375,445
Additions - note 4.4	-	48,854	259,888	-	-	-	-	7,082	43,335	359,159
Disposals - note 4.3										
Cost	-	-	-	-	-	-	-	(650)	(30,400)	(31,050)
Accumulated depreciation	-	-	-	-	-	-	-	599	14,358	14,957
	-	-	-	-	-	-	-	(51)	(16,042)	(16,093)
Write offs - note 4.3										
Cost	-	-	(10,882)	-	-	-	-	(503)	-	(11,385)
Accumulated depreciation	-	-	3,861	-	-	-	-	415	-	4,276
	-	-	(7,021)	-	-	-	-	(88)	-	(7,109)
SFED Cost Adjustment										
Cost	-	-	(78,195)	-	-	-	-	-	-	(78,195)
Accumulated depreciation	-	-	12,309	-	-	-	-	-	-	12,309
	-	-	(65,886)	-	-	-	-	-	-	(65,886)
Depreciation charge - note 4.2	(3,934)	(11,581)	(1,093,290)	(19,948)	(1,306)	(1,692)	(2,516)	(13,901)	(20,802)	(1,168,970)
Net book value	<u>165,041</u>	<u>390,880</u>	<u>16,444,737</u>	<u>273,228</u>	<u>8,981</u>	<u>42,557</u>	<u>26,421</u>	<u>36,040</u>	<u>88,661</u>	<u>17,476,546</u>
As at January 1, 2013										
Cost	194,127	486,578	21,263,875	398,968	26,122	50,315	33,849	139,782	143,245	22,736,861
Accumulated depreciation	(29,086)	(95,698)	(4,819,138)	(125,740)	(17,141)	(7,758)	(7,428)	(103,742)	(54,584)	(5,260,315)
Net book value	<u>165,041</u>	<u>390,880</u>	<u>16,444,737</u>	<u>273,228</u>	<u>8,981</u>	<u>42,557</u>	<u>26,421</u>	<u>36,040</u>	<u>88,661</u>	<u>17,476,546</u>
Year ended December 31, 2013										
Opening net book value	165,041	390,880	16,444,737	273,228	8,981	42,557	26,421	36,040	88,661	17,476,546
Additions - note 4.4	-	13,493	512,939	-	-	-	-	20,904	6,483	553,819
Disposals - note 4.3										
Cost	-	-	-	-	-	-	-	(2,725)	(14,596)	(17,321)
Accumulated depreciation	-	-	-	-	-	-	-	2,330	9,940	12,270
	-	-	-	-	-	-	-	(395)	(4,656)	(5,051)
Write offs - note 4.3										
Cost	-	-	(72,227)	-	-	-	-	(196)	(1,638)	(74,061)
Accumulated depreciation	-	-	64,131	-	-	-	-	153	256	64,540
	-	-	(8,096)	-	-	-	-	(43)	(1,382)	(9,521)
Depreciation charge - note 4.2	(3,934)	(12,377)	(1,104,755)	(19,948)	(1,306)	(2,516)	(1,692)	(13,680)	(22,513)	(1,182,721)
Net book value	<u>161,107</u>	<u>391,996</u>	<u>15,844,825</u>	<u>253,280</u>	<u>7,675</u>	<u>40,041</u>	<u>24,729</u>	<u>42,826</u>	<u>66,593</u>	<u>16,833,072</u>
As at December 31, 2013										
Cost	194,127	500,071	21,704,587	398,968	26,122	50,315	33,849	157,765	133,494	23,199,298
Accumulated depreciation	(33,020)	(108,075)	(5,859,762)	(145,688)	(18,447)	(10,274)	(9,120)	(114,939)	(66,901)	(6,366,226)
Net book value	<u>161,107</u>	<u>391,996</u>	<u>15,844,825</u>	<u>253,280</u>	<u>7,675</u>	<u>40,041</u>	<u>24,729</u>	<u>42,826</u>	<u>66,593</u>	<u>16,833,072</u>
Annual rate of depreciation (%)	<u>2 to 2.14</u>	<u>2.5 to 10</u>	<u>5 to 16.67</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5 to 33</u>	<u>5 to 25</u>	

(Amounts in thousand)

	2013	2012
	Rupees	
4.2 Depreciation charge has been allocated as follows:		
Cost of sales - note 25	1,167,275	1,157,612
Distribution and marketing expenses - note 26	4,904	4,767
Administrative expenses - note 27	10,542	6,591
	<u>1,182,721</u>	<u>1,168,970</u>

4.3 The details of operating assets disposed / written-off during the year are as follows:

	Cost	Accumulated depreciation	Net book value	Sale Proceeds	Mode of disposal	Particulars of purchaser	
	Rupees						
Vehicle	2,953	2,953	-	951	} By auction	Zulfiqar Ahmed Khan	
"	886	886	-	632		Zulfiqar Ahmed Khan	
Furniture and Fixtures	109	39	70	4		Azfar Ali Khan	
Furniture and Fixtures	1,116	1,061	56	70		Nadir Sajid Syed	
Vehicle	1,269	872	397	317	} By Company policy to existing / separating employees	Faisal Ahmed	
"	1,399	372	1,027	896		Sameer Ameen	
"	1,930	694	1,236	1,176		Ziauddin	
"	1,399	590	809	809		Yaseer Abdullah	
"	1,810	1,358	452	429		Nasir Khalique Qureshi	
"	1,269	912	357	317		Rana Abdul Ghaffar	
"	1,269	912	357	317		Abdul Shakoor	
Vehicle	1,638	256	1,382	1,625	} Write-off / Insurance		
Plant and machinery	72,227	64,131	8,096	-		Write-off	Jubilee Insurance
Furniture and Fixtures	196	153	43	80		Write-off	Various
Aggregate amount of assets having net book value less than Rs. 50 each	1,912	1,621	291	541			
	<u>91,382</u>	<u>76,810</u>	<u>14,573</u>	<u>8,164</u>			
2012	<u>42,435</u>	<u>19,233</u>	<u>23,202</u>	<u>18,520</u>			

(Amounts in thousand)

4.4 Capital work-in-progress

	Plant and machinery	Building on leasehold land	Furniture, fixtures and equipments	Advances for vehicles & software	Total
	Rupees				
Year ended December 31, 2012					
Balance as at January 1, 2012	161,364	392	-	381	162,137
Additions during the year	245,947	53,264	7,494	57,524	364,229
Transferred to:					
- operating assets - note 4.1	(259,888)	(48,854)	(7,082)	(43,335)	(359,159)
- intangible assets - note 5	-	-	-	(10,227)	(10,227)
Balance as at December 31, 2012	<u>147,423</u>	<u>4,802</u>	<u>412</u>	<u>4,343</u>	<u>156,980</u>
Year ended December 31, 2013					
Balance as at January 1, 2013	147,423	4,802	412	4,343	156,980
Additions during the year	563,450	10,952	30,423	33,718	638,543
Transferred to:					
- operating assets - note 4.1	(512,939)	(13,493)	(20,904)	(6,483)	(553,819)
- intangible assets - note 5	-	-	-	(29,871)	(29,871)
Balance as at December 31, 2013	<u>197,934</u>	<u>2,261</u>	<u>9,931</u>	<u>1,707</u>	<u>211,833</u>

5. INTANGIBLE ASSETS - Computer software

As at January 1, 2012

Cost	52,445
Accumulated amortization	(21,341)
Net book value	<u>31,104</u>

Year ended December 31, 2012

Opening net book value	31,104
Additions at cost - note 4.4	10,227
Amortization charge - note 28	(10,467)
Closing net book value	<u>30,864</u>

As at January 1, 2013

Cost	62,672
Accumulated amortization	(31,808)
Net book value	<u>30,864</u>

Year ended December 31, 2013

Opening net book value	30,864
Additions at cost - note 4.4	29,871
Amortization charge - note 28	(10,637)
Closing net book value	<u>50,098</u>

As at December 31, 2013

Cost	92,543
Accumulated amortization	(42,445)
Net book value	<u>50,098</u>

5.1 The cost is being amortized over a period of 5 to 10 years.

(Amounts in thousand)

	2013	2012
	Rupees	
6. LONG TERM LOANS AND ADVANCES		
- Considered good		
Executives - notes 6.1, 6.2, 6.4 and 6.5	88,146	74,752
Less: Current portion shown under current assets - note 11	<u>(35,989)</u>	<u>(30,253)</u>
	52,157	44,499
Employees - notes 6.3 and 6.5	952	14,423
Less: Current portion shown under current assets - note 11	<u>(504)</u>	<u>(9,582)</u>
	448	4,841
	<u>52,605</u>	<u>49,340</u>

6.1 No loans and advances were due from Chief Executive at the beginning or at end of the year. Reconciliation of the carrying amount of loans and advances to executives is as follows:

	2013	2012
	Rupees	
Balance at beginning of the year	74,752	53,502
Add: Disbursements	63,560	55,555
Less: Repayments / Amortizations	<u>(50,166)</u>	<u>(34,305)</u>
Balance at end of the year	<u>88,146</u>	<u>74,752</u>

6.2 These include interest free loans and advances to executives for house rent, vehicles, home appliances and investments given in accordance with the terms of employment. Loans for house rent and investments are repayable in 18 to 36 equal monthly installments. Loans for home appliances are repayable in 5 equal annual installments. Advances for vehicles are charged to profit and loss account over a period of 3 years.

6.3 These include interest free loans to employees for home appliances and investments, given in accordance with the terms of employment. Loans are repayable in accordance with the terms stated in note 6.2. Employee loans amounting to Rs. 69 (2012 : Nil) were written off during the year.

6.4 The maximum aggregate amount due from the executives at the end of any month during the year was Rs. 88,220 (2012: Rs. 91,519). These are secured by way of promissory notes.

6.5 The carrying values of these financial assets are neither past due nor impaired. The credit quality of these financial assets can be assessed with reference to no material defaults in recent history.

(Amounts in thousand)

	2013	2012
	Rupees	
7. DEFERRED TAXATION		
Credit balances arising due to:		
- accelerated tax depreciation	(3,979,859)	(4,149,265)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 7.1	3,745,640	4,412,854
- recoupable minimum turnover tax - note 7.3	419,806	420,691
- unpaid liabilities and provision for retirement and other service benefits	73,093	50,770
- provision against custom duty and SED refundable and GIDC	96,214	37,191
- provision for net realizable value and slow moving stores and spares	17,024	5,588
- fair value of hedging instrument	27,202	49,579
- share issuance cost, net to equity	56,061	57,709
	4,435,040	5,034,382
	<u>455,181</u>	<u>885,117</u>

7.1 Deferred income tax asset is recognized for tax losses available for carry-forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The aggregate tax losses available for carry-forward as at December 31, 2013 amount to Rs. 11,016,588 (2012: Rs. 12,608,153).

7.2 As at December 31, 2013, deferred tax asset / liability on the deductible / taxable temporary differences has been recognized at the rate of 34%, being the rate substantively enacted at the balance sheet date and is expected to apply to the periods when the asset is realized or the liability is settled.

7.3 During the year, the High Court of Sindh, in respect of another company, has overturned the interpretation of the Appellate Tribunal on Sec 113 (2) (c) of the Income Tax Ordinance, 2001 and has decided that the minimum turnover tax cannot be carried forward where there is no tax paid on account of loss for the year or carried forward losses. The Company's management is however of the view, duly supported by the legal advisor, that the above order is not correct and would not be maintained by the Supreme Court which the Company intends to approach, if required. Therefore, the Company has continued to carry forward the minimum turnover tax not yet recouped.

	2013	2012
	Rupees	
8. STORES, SPARES AND LOOSE TOOLS		
Consumable stores	80,515	102,008
Spares	1,330,549	1,311,641
	<u>1,411,064</u>	<u>1,413,649</u>
Less:		
Provision for slow moving stores and spares - note 8.1	20,896	15,966
	<u>1,390,168</u>	<u>1,397,683</u>

8.1 The movement in the provision for slow moving stores and spares is as follows:

	2013	2012
	Rupees	
Balance at the beginning of the year	15,966	11,601
Add: Provided during the year - note 25	4,930	4,365
Balance at the end of the year	<u>20,896</u>	<u>15,966</u>

(Amounts in thousand)

		2013	2012
		Rupees	Rupees
9.	STOCK-IN-TRADE		
	Raw and packing materials - note 9.1	1,998,111	2,218,014
	Work-in-progress	27,923	-
	Finished goods - own manufactured product - notes 9.1 and 9.2	<u>1,224,556</u>	<u>834,422</u>
		<u><u>3,250,590</u></u>	<u><u>3,052,436</u></u>
9.1	This includes stocks held at the storage facilities of the following parties:		
	Engro Vopak Terminal Limited, a related party	747,367	918,703
	Dawood Hercules Corporation Limited, a related party	6,672	2,773
	Al-Rahim Trading Company (Private) Limited	<u>32,162</u>	<u>520,158</u>
		<u><u>786,201</u></u>	<u><u>1,441,634</u></u>
9.2	This includes carrying value of PVC resin, net of realizable value reduction of Rs. 29,174 (2012: Rs. 20,822).		
		2013	2012
		Rupees	Rupees
10.	TRADE DEBTS - considered good		
	Secured - note 10.1	195,452	214,570
	Unsecured - note 10.2	<u>329,565</u>	<u>51,895</u>
		<u><u>525,017</u></u>	<u><u>266,465</u></u>
10.1	These debts are secured by way of bank guarantees and letters of credit from customers.		
		2013	2012
		Rupees	Rupees
10.2	Include amounts due from the following related parties:		
	- Engro Foods Limited	1,671	2,788
	- Mitsubishi Corporation	249,939	-
		<u>251,610</u>	<u>2,788</u>
10.3	The carrying values of these financial assets are neither past due nor impaired. The credit quality of these financial assets can be assessed with reference to no defaults in recent history.		

(Amounts in thousand)

	2013	2012
	Rupees	
11. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Considered good		
Current portion of long term loans and advances - note 6		
- executives	35,989	30,253
- employees	504	9,582
	36,493	39,835
Advances to employees - note 11.1	3,611	1,432
Advances to suppliers and others	94,097	69,209
Deposits	88,884	42,800
Prepayments	102,646	84,489
Receivable from Government of Pakistan		
- Sales tax and Federal excise duty refundable - note 11.2	93,625	111,876
- octroi/duty claims	152	152
	93,777	112,028
Due from related parties:		
Engro Vopak Terminal Limited	2,208	1,436
Engro Fertilizers Limited	5,918	3,658
Engro Eximp (Private) Limited	25	-
Engro Powergen Qadirpur Limited	21	-
	8,172	5,094
Salt penalty recoverable from suppliers	-	34,005
Other receivables	14,104	15,223
	441,784	404,115
Considered doubtful		
Custom duty claims refundable - note 11.3	18,043	18,043
Less: Provision for impairment - note 11.4	(18,043)	(18,043)
	-	-
Special Excise Duty (SED) refundable	36,687	36,687
Less: Provision for impairment - note 11.4	(36,687)	(36,687)
	-	-
Sales tax refundable	140	140
Less: Provision for impairment - note 11.4	(140)	(140)
	-	-
Export rebate claim	-	646
Less: Provision for impairment - note 11.5	-	(646)
	-	-
	441,784	404,115

11.1 Employee receivables amounting to Rs. 389 (2012 : Nil) were written-off during the year.

11.2 Based on the injunction allowed by Honorable Sindh High Court (the Court) in response to Company's constitutional petition the receivable is net of adjustment of Rs. 116,368 relating to provincial input tax paid on services. The Court has allowed to continue this adjustment in VAT mode and directed the concerned authorities to continue accepting the Company's monthly sales tax return either electronically or manually. The management, based on the advice of its legal advisor, is confident that the aforementioned matter will ultimately be decided in its favor and no provision has been made for the amount adjusted.

(Amounts in thousand)

- 11.3 The Customs Appellate Tribunal, Karachi Bench, through its order dated October 31, 2011, disposed off the Company's appeal filed on April 11, 2008 against the order of Collector of Customs, Port Muhammad Bin Qasim, Karachi, for the refund of custom duty paid during the period June 16, 2006 to July 24, 2006 on imports of Vinyl Chloride Monomer (VCM). The Tribunal was informed that all aforementioned VCM consignments were released after the issuance of SRO 565(1)/2006 dated June 6, 2006 and the benefit of five percent duty reduction was also passed on to the customers. However, as the price of the Company's product was increased which is linked with international market, the Tribunal inadvertently presumed that the said benefit had not been transferred to the customers and passed an order against the Company.

The Company has filed an appeal with the High Court of Sindh against the aforesaid order of the Tribunal. However, based on prudence, the Company is maintaining full provision against the aforementioned custom duty refundable till such time that all available legal courses are exhausted.

- 11.4 As at December 31, 2013, receivables aggregating to Rs. 54,870 (2012: Rs. 55,516) were deemed to be impaired and have been provided for in full based on prudence. The remaining balances of loans, deposits, and other receivables are neither past due nor impaired.
- 11.5 During the year, export rebate claim amounting to Rs. 646 (2012: Nil), fully provided in prior years, has been written off.

12. TAXES RECOVERABLE

12.1 Tax year 2008

The Deputy Commissioner Inland Revenue (DCIR) through the order dated November 26, 2009 raised a tax demand of Rs. 213,172. The demand arose as a result of additions on account of trading liabilities of Rs. 47,582 under section 34(5) of the Income Tax Ordinance, 2001 (the Ordinance); disallowance of provision for retirement benefits of Rs. 5,899; adding imputed interest on loans to employees and executives of Rs. 16,069 to income; disallowing finance cost of Rs. 134,414 and not considering adjustment of minimum tax paid for tax years 2004 to 2007 against the above demand.

The Company filed an appeal against the aforesaid order before the Commissioner Inland Revenue Appeals [CIR(A)], but discharged the entire demand through adjustment against assessed refunds of Rs. 180,768 and paying the balance of Rs. 32,404 'under protest'.

During 2011, through appellate order, the CIR(A) maintained certain additions aggregating Rs. 189,810 including finance cost amounting to Rs. 134,414 and remanded back the issue of imputed interest on loans to employees and executives and directed the DCIR to allow credit of the minimum tax charged for the period of tax years 2004 to 2007. An appeal against the said appellate order was filed by the Company before the Appellate Tribunal Inland Revenue (ATIR). The department also filed an appeal against the said appellate order challenging the actions of the CIR(A).

During the year, the ATIR issued an order whereby the aforementioned appeal was disposed off by accepting Company's position except for additions on account of trading liabilities to the extent of Rs. 20,280 and minimum turnover tax for tax years 2004 and 2007 to the extent of Rs. 19,692 and Rs. 7,300 respectively, which were maintained.

The Company has filed a reference to the High Court of Sindh against the additions maintained by ATIR. The management of the Company, based on the advice of its tax consultant, is confident that the ultimate outcome of the aforementioned matters would be favorable and consequently has not recognized the effects for the same in these financial statements.

(Amounts in thousand)

12.2 Tax year 2009

The DCIR through his order dated November 30, 2010 raised a tax demand of Rs. 163,206. The demand arose as a result of disallowing finance cost of Rs. 457,282; additions to income of trading liabilities of Rs. 21,859 under section 34(5) of the Ordinance; disallowing provision for retirement benefits of Rs. 14,239; disallowing provision against Special Excise Duty refundable of Rs. 36,689; adding imputed interest on loans to employees and executives of Rs. 20,599 and not considering net loss.

The entire demand of Rs. 163,206 was adjusted against assessed tax refunds and an appeal was filed by the Company before the CIR(A).

In 2011, through an appellate order, the CIR(A) maintained certain additions aggregating to Rs. 493,971 including disallowance of finance cost amounting to Rs. 457,282 and remanded back the issue of imputed interest on loans to employees and executives. An appeal against the said appellate order was filed before the ATIR. The department also filed an appeal against the said appellate order challenging the action of CIR(A) deleting the addition on account of provision for the retirement benefits.

During the year, the ATIR issued an order whereby the aforementioned appeal was disposed off by accepting Company's position except for additions on account of SED provision of Rs. 36,689 and imputed interest on loans to employees and executives to the extent of Rs. 17,430, which were maintained.

The Company has filed a reference to the High Court of Sindh against the additions maintained by ATIR. The management of the Company, based on the advice of its tax consultant, is confident that the ultimate outcome of the aforementioned matters would be favorable and consequently has not recognized the effects for the same in these financial statements.

		2013	2012
		Rupees	
13.	SHORT TERM INVESTMENTS - At fair value through profit or loss		
	Treasury bills - note 13.1	300,000	-
	Mutual funds - note 13.2	<u>165,122</u>	<u>169,545</u>
		<u>465,122</u>	<u>169,545</u>
13.1	These represent treasury bills having face value of Rs. 304,105 (2012: Nil) discounted using the market yield of 9.79%.		
13.2	These represent investments in various money market funds which are valued at their respective net asset values at the balance sheet date.		
		2013	2012
		Rupees	
14.	CASH AND BANK BALANCES		
	Cash in hand	286	755
	Cash at bank:		
	- current accounts	710,505	75,363
	- saving accounts	154,249	18,614
		<u>864,754</u>	<u>93,977</u>
		<u>865,040</u>	<u>94,732</u>

(Amounts in thousand)

		2013	2012
		Rupees	
15.	SHARE CAPITAL		
	Authorized capital 800,000,000 (2012: 800,000,000) ordinary shares of Rs. 10 each	<u>8,000,000</u>	<u>8,000,000</u>
	Issued, subscribed and paid-up capital 663,468,788 (2012: 663,468,788) ordinary shares of Rs. 10 each, fully paid in cash - note 15.1	<u>6,634,688</u>	<u>6,634,688</u>

15.1 As at December 31, 2013, Engro Corporation Limited (the Holding Company) held 372,809,989 ordinary shares of Rs.10 each (2012: 372,809,989 ordinary shares of Rs. 10 each).

16. **LONG TERM BORROWINGS, secured**

Title	Mark-up rate per annum	Installments		2013	2012
		Number	Commencing from		
Syndicated term finance I (note 16.3)	6 months KIBOR + 2.25%	13 half yearly	November 2010	3,475,184	4,254,218
Syndicated term finance II (note 16.3)	6 months KIBOR + 3%	13 half yearly	June 2010	846,591	1,068,045
Syndicated term finance IV (note 16.4)	6 months KIBOR + 2.55%	6 half yearly	May 2013	330,181	490,764
Syndicated term finance V (note 16.1)	6 months KIBOR + 1.5%	8 half yearly	June 2015	1,315,170	-
Bilateral loan (note 16.2)	6 months KIBOR + 2%	6 half yearly	June 2016	540,554	-
Master Istisna I	6 months KIBOR + 1.5%	6 half yearly	May 2013	-	100,000
Master Istisna III	6 months KIBOR + 2%	6 half yearly	June 2015	200,000	200,000
Master Istisna IV (note 16.5)	6 months KIBOR + 2.6%	6 half yearly	April 2016	100,000	-
International Finance Corporation (IFC) (note 16.3)	6 months LIBOR + 2.6 to 3%	15 half yearly	June 2010	2,929,938	3,471,820
				<u>9,737,618</u>	<u>9,584,847</u>
Less: Current portion shown under current liabilities				<u>(2,242,800)</u>	<u>(2,052,981)</u>
				<u>7,494,818</u>	<u>7,531,866</u>

16.1 During the year, the Company entered into a Syndicate Term Finance Agreement with a consortium of local banks for Rs. 1,350,000. This facility is secured by:

- (i) a mortgage over leasehold land together with the building, plant and machinery and other equipment thereon; and
- (ii) a ranking charge by way of hypothecation over all present and future fixed assets of the Company excluding land and buildings.

(Amounts in thousand)

16.2 During the year, the Company entered into a bilateral loan agreement with a bank for a facility of Rs. 550,000 for a period of five years. Amount due under the agreement is payable in six monthly installments, due after an initial grace period of two years from the date of drawdown. The facility is secured by a ranking hypothecation charge over the present and future movable assets of the Company.

16.3 These finances are secured by:

(i) a first charge ranking pari passu with each other over leasehold land together with the buildings, plant, machinery and other equipment thereon; and

(ii) a first charge by way of hypothecation over:

- all Project Assets; and

- all present and future moveable fixed assets other than Project Assets.

16.4 These finances are secured by:

(i) a second charge over leasehold land together with the building, plant and machinery and other equipment thereon; and

(ii) a second charge by way of hypothecation over all present and future fixed assets of the Company.

16.5 During the year, the Company renewed the Istisna loan from Meezan Bank for a period of another three years. The facility is secured through a pari passu hypothecation charge on plant, machinery, stocks and receivables and a pari passu mortgage charge on land and building.

16.6 Under the terms of the agreements for long term borrowings from International Finance Corporation (IFC) and syndicates of banks, the Company is required to comply with certain debt covenants. As at December 31, 2013, all debt covenants have been complied with except for current ratio. Waiver for current ratio deviation has been obtained from IFC, whereas, the same has been applied for with local syndicate.

17. DERIVATIVE FINANCIAL INSTRUMENTS

17.1 As at December 31, 2013, the Company has outstanding interest rate swap agreements with banks for notional amounts aggregating US\$ 18,666 to hedge its interest rate exposure on floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, the Company would receive six month USD-LIBOR on respective notional amounts and will pay fix rates, which will be settled semi-annually.

17.2 As at December 31, 2013, the Company has outstanding cross-currency interest rate swap agreements with banks for notional amounts aggregating US\$ 4,498 to hedge its interest rate exposure on floating rate local currency borrowings from a consortium of local banks under a Syndicate Finance Agreement. Under the swap agreement, the Company would receive six month KIBOR plus margin, where applicable, on the relevant PKR notional amount and will pay six month USD-LIBOR plus margin on the relevant USD notional amount, which will be settled semi-annually.

(Amounts in thousand)

17.3 Details of the swap agreements as stated in notes 17.1 and 17.2 are as follows:

Notional Amounts US \$	Effective Date	Termination Date	Rate %	Fair Values as at	
				2013	2012
				Rupees	
Interest Rate Swap Agreements			Fixed rate		
7,000	December 15, 2008	June 15, 2017	3.385	38,654	60,061
2,333	June 15, 2009	June 15, 2017	3.005	11,059	17,240
7,000	June 15, 2009	June 15, 2017	2.795	29,912	47,110
2,333	June 15, 2009	June 15, 2017	2.800	10,006	15,701
18,666				89,631	140,112
Cross Currency Interest Rate Swap Agreements			Floating rate		
957	September 9, 2010	June 15, 2015	LIBOR + 0.95	(1,968)	(1,388)
1,599	January 18, 2011	January 19, 2016	LIBOR + 3.70	(5,161)	264
1,942	July 6, 2011	June 30, 2016	LIBOR + 1.83	(2,496)	2,668
4,498				(9,625)	1,544
23,164				80,006	141,656

17.4 As at December 31, 2013, the Company has outstanding Exchange Rate Forward agreements with banks for amounts aggregating US\$ 51,036 to manage exchange rate exposure on outstanding foreign currency payments under the terms of supplier credit. Under the aforementioned agreements, the Company would pay respective rate agreed at the initiation of the agreement on settlement dates. As at December 31, 2013 the fair value of these derivatives is Rs. 102,172.

18. RETIREMENT AND OTHER SERVICE BENEFIT OBLIGATIONS	2013	(Restated) 2012
	Rupees	
Service incentive plan	63,662	54,534
Pension and gratuity funds - notes 2.13, 18.1 and 33	-	5,113
	63,662	59,647

18.1 The Company has applied the requirements of IAS-19 (Revised) retrospectively by recognizing the remeasurement losses in the Other Comprehensive Income. Consequently, the earliest period presented in Balance Sheet, Statement of Comprehensive Income and the Statement of Changes in Equity have been restated. The full policy disclosure and the related reclassifications has been more fully explained in note 2.1.4(a) to these financial statements.

(Amounts in thousand)

	2013	2012
	Rupees	
19. SHORT TERM BORROWINGS		
Running finance utilized under mark-up arrangements - note 19.1	166,062	1,204,084
Sub-ordinate loan from Engro Corporation Limited - note 19.2	600,000	800,000
	<u>766,062</u>	<u>2,004,084</u>

19.1 The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements amounts to Rs. 1,550,000 (2012: Rs. 1,700,000). The corresponding purchase price is payable on various dates during the ensuing year. Mark-up is chargeable at rates, net of prompt payment rebate, ranging from relevant period KIBOR plus 1.0% to 2.5% (2012: relevant period KIBOR plus 1.0% to 2.5%) per annum. During the year, the mark-up rates, net of prompt payment rebate, ranged from 10.19% to 12.02% (2012: 10.38% to 13.64%) per annum. The facilities are secured by a floating charge over stocks and book debts of the Company.

19.2 This represents short term loan from Engro Corporation Limited (the Holding Company) for meeting the working capital requirements. The loan is subordinated to the finances provided to the Company by its banking creditors and carries markup at the rate of 3 months KIBOR plus 3.5% per annum, payable quarterly.

19.3 The facility for opening letters of credit as at December 31, 2013 aggregates to Rs. 9,200,000 (2012: Rs. 6,683,000). The amount utilized as at December 31, 2013 was Rs. 6,818,000 (2012: Rs. 5,098,000). The facilities carry commission at the rate of 0.05% flat (2012: 0.05% flat).

	2013	2012
	Rupees	
20. TRADE AND OTHER PAYABLES		
Trade and other creditors - note 20.1	5,527,076	5,143,772
Accrued liabilities	1,295,198	836,994
Advances from customers - note 20.1	224,649	723,545
Retention money against project payments	8,335	19,280
Security deposits	16,772	8,470
Workers' profits participation fund - note 20.2	81,654	9,229
Workers' welfare fund	46,636	11,006
Withholding tax payable	6,971	4,313
Others	10,906	11,857
	<u>7,218,197</u>	<u>6,768,466</u>

(Amounts in thousand)

	2013	2012
	Rupees	
20.1 Includes amount due to following related parties:		
- Engro Corporation Limited	433	4,211
- Mitsubishi Corporation	3,977,089	5,008,730
- Engro Foods Limited	250	255
- Engro Fertilizers Limited	542	4,719
- Engro Vopak Terminal Limited	98,213	84,549
- Engro Powergen Limited	-	2,880
- Engro Powergen Qadirpur Limited	-	81
	<u>4,076,527</u>	<u>5,105,425</u>
20.2 Workers' profits participation fund		
Balance at beginning of the year	9,229	164
Add: Allocation for the year - note 28	72,425	9,065
Balance at end of the year	<u>81,654</u>	<u>9,229</u>
21. ACCRUED INTEREST / MARK-UP		
Finance cost accrued on:		
- long term borrowings	76,539	99,235
- short term running finance utilized under mark-up arrangements	6,214	22,320
	<u>82,753</u>	<u>121,555</u>
22. PROVISIONS	2013	2012
	Rupees	
Provision for Gas Infrastructure Development Cess - note 22.1	174,522	-
Provision for duty on import of raw materials - note 22.2	90,418	88,218
	<u>264,940</u>	<u>88,218</u>
22.1 Provision for Gas Infrastructure Development Cess (GIDC)		

Under the Gas Infrastructure Development Cess Act, 2011, the Government of Pakistan levied Gas Infrastructure Development Cess (GIDC) on gas bills at the rate of Rs.13 per MMBTU on all industrial consumers. The Federal Government then revised GIDC rate from Rs. 13 per MMBTU to Rs. 50 per MMBTU by issuing notification under OGRA Ordinance 2002. The Company therefore filed a Suit before the Honorable High Court of Sindh which granted an ad-interim stay on March 5, 2013 in the favor of the Company. The Stay Order restrained the Sui Southern Gas Company Limited from charging any amount of GIDC over and above Rs. 13 per MMBTU till the final decision of this matter.

The Company is confident that the aforementioned matter will be decided in its favor, however, based on prudence the Company has recorded a provision of Rs. 174,522 being the financial exposure of differential GIDC as at December 31, 2013.

(Amounts in thousand)

Pending clarification, the Company based on prudence had made a provision for the amount adjusted of Rs. 57,924 and also for the remaining balance of Rs. 36,687 included in other receivables (note 12). However, in 2009, the Company received show cause notices from the Additional Collector (Adjudication) – Federal Board of Revenue, stating that the Company, by adjusting the SED, has violated the provisions of the Federal Excise Act, 2005 and the Federal Excise Rules, 2005 read with SRO 655(1)/2007 and that the amount adjusted was recoverable from the Company under the Federal Excise Act, 2005 alongwith default surcharge and penalty. Accordingly, a further provision for surcharge and penalty thereon amounting to Rs. 39,902 (2012: Rs. 39,907) was also recognized.

The Company, however, continued to contest this matter with the tax department at the prescribed appellate forums. On June 15, 2012, this matter was decided in favor of the Company by the Appellate Tribunal Inland Revenue (ATIR). As no further appeal was filed by the tax department against the aforementioned order of ATIR, the provisions relating to the adjustment of SED against the sales tax, and the related default surcharge and penalty amounts have been reversed.

The above reversal has been accounted for by adjusting the written down value of operating assets to the extent of capitalization in respective Plant and Machinery items amounting Rs. 65,886 (note 4.1). Further Rs. 31,940, representing default surcharge of Rs. 19,631 and the related depreciation of Rs. 12,309 which was charged to income till the reversal of provision, has been credited to other operating income (note 29).

		2013	2012
		Rupees	
22.2	Provision for duty on import of raw materials		
	Balance at beginning of the year	88,218	75,180
	Recognized during the year - note 22.2.1	2,200	13,038
	Balance at end of the year	90,418	88,218

22.2.1 In 2009, the Company received a letter from the Assistant Collector (Survey) Large Taxpayers Unit regarding the utilization of raw materials imported under SRO 565(1)/2006 on a concessionary basis for customs duty. The letter alleged that the Company had violated the provisions of the SRO by utilizing the concessionary imports in manufacturing and selling the intermediary product Ethylene Di Chloride (EDC) rather than its utilization in the production of the final product Poly Vinyl Chloride (PVC). The Company responded to the letter explaining its view that imports under the said SRO were allowable for 'PVC Manufacturing Industry' as a whole, which includes manufacturing of intermediary products. However, the tax department has shown its disagreement with the Company's view and has demanded further information, to which the Company has responded.

Although, no formal order creating a demand has yet been received by the Company, however, based on prudence, provision amounting to Rs. 90,418 (2012: Rs. 88,218) in respect of customs duty on such raw materials has been recognized.

23. COMMITMENTS

23.1 The aggregate facility for performance guarantees to be issued by banks on behalf of the Company as at December 31, 2013 amounts to Rs. 1,598,000 (2012: Rs. 1,598,000). The amount utilized thereagainst as at December 31, 2013 was Rs. 946,859 (2012: Rs. 641,000).

23.2 The Company has entered into operating lease arrangements with Al-Rahim Trading Company (Private) Limited and Dawood Hercules Corporation Limited – a related party, for storage and handling of Ethylene Di Chloride and Caustic soda, respectively. The total lease rentals due under these lease arrangements are payable in periodic monthly installments till July 31, 2019. The future aggregate lease payments under these arrangements are as follows:

		2013	2012
		Rupees	
	Not later than 1 year	15,675	50,780
	Later than 1 year and no later than 5 years	57,600	57,600
	Later than 5 years	8,400	19,200
		81,675	127,580

(Amounts in thousand)

	2013	2012
	Rupees	
24. NET REVENUE		
Gross local sales	26,289,114	21,720,746
Less:		
- Sales tax	3,623,205	3,144,510
- Discounts	36,936	81,132
	3,660,141	3,225,642
Export sales	22,628,973	18,495,104
Supply of electricity - note 24.1	2,092,202	2,064,828
	59,406	45,669
	<u>24,780,581</u>	<u>20,605,601</u>

24.1 Supply of electricity represents supply of surplus power to Engro Fertilizers Limited - a related party.

	2013	2012
	Rupees	
25. COST OF SALES		
Opening stock of work-in-progress	-	24,258
Raw and packing materials consumed	12,866,502	10,626,249
Salaries, wages and staff welfare - note 25.1	798,404	714,149
Fuel, power and gas	3,422,889	2,821,702
Repairs and maintenance	306,313	340,047
Depreciation - note 4.2	1,167,275	1,157,612
Consumable stores	276,925	248,451
Purchased services	57,470	59,139
Storage and handling	1,042,942	981,658
Training and travelling	17,091	24,459
Communication, stationery and other office expenses	8,154	6,237
Insurance	101,284	70,251
Provision for slow moving stores and spares - note 8.1	4,930	4,365
Other expenses	29,018	16,977
	20,099,197	17,071,296
Closing stock of work-in-progress	(27,923)	-
Cost of goods manufactured	<u>20,071,274</u>	<u>17,095,554</u>
Opening stock of finished goods	834,422	789,329
Closing stock of finished goods	(1,224,556)	(834,422)
	(390,134)	(45,093)
	<u>19,681,140</u>	<u>17,050,461</u>

25.1 Includes Rs. 25,529 (2012: Rs. 46,819) in respect of staff retirement and other service benefits, referred to in note 33.

(Amounts in thousand)

	2013	2012
	Rupees	
26. DISTRIBUTION AND MARKETING EXPENSES		
Salaries, wages and staff welfare - note 26.1	122,357	82,427
Advertising, sales promotion and entertainment	139,311	117,220
Product transportation and handling	1,032,016	905,264
Rent, rates and taxes	11,089	32,468
Purchased services	5,831	4,649
Insurance	1,054	1,058
Depreciation - note 4.2	4,904	4,767
Training and travelling	12,632	14,405
Communication, stationery and other office expenses	4,548	3,404
Others	11,587	13,524
	<u>1,345,329</u>	<u>1,179,186</u>

26.1 Includes Rs. 6,719 (2012: Rs. 6,437) in respect of staff retirement and other service benefits, referred to in note 33.

	2013	2012
	Rupees	
27. ADMINISTRATIVE EXPENSES		
Salaries, wages and staff welfare - note 27.1	281,523	225,877
Rent, rates and taxes	58,110	33,666
Purchased services	109,195	71,734
Insurance	1,632	1,568
Depreciation - note 4.2	10,542	6,591
Amortization - note 5	10,637	10,467
Training and travelling expenses	94,139	79,101
Communication, stationery and other office expenses	24,476	26,869
Others	16,227	23,626
	<u>606,481</u>	<u>479,499</u>

27.1 Includes Rs. 13,034 (2012: Rs. 16,290) in respect of staff retirement and other service benefits, referred to in note 33.

(Amounts in thousand)

	2013	2012
	Rupees	
28. OTHER OPERATING EXPENSES		
Legal and professional charges	26,856	33,703
Auditors' remuneration - note 28.1	2,989	2,777
Donations - notes 28.2 and 28.3	4,719	2,296
Workers' profits participation fund - note 20.2	72,425	9,065
Workers' welfare fund	35,631	8,012
Foreign exchange loss - net	375,786	474,726
Damaged items of operating assets written-off - note 4.3	7,816	7,109
	<u>526,222</u>	<u>537,688</u>
28.1 Auditors' remuneration		
Fee for:		
- Annual statutory audit	850	835
- Half yearly review	270	236
- Review of compliance with Code of Corporate Governance	50	50
	<u>1,170</u>	<u>1,121</u>
Taxation and other advisory services	1,691	1,551
Reimbursement of expenses	128	105
	<u>2,989</u>	<u>2,777</u>
28.2	Includes donation to Engro Foundation - a related party, amounting to Rs. 2,000 (2012: Rs. 2,010).	
28.3	The Directors including the Chief Executive and their spouses do not have any interest in any donees except for Mr. Muhammad Ali-ud-din Ansari who is the Chairman of the Board of trustees of Engro Foundation.	
	2013	2012
	Rupees	
29. OTHER INCOME		
On financial assets		
Income on bank deposits	29,193	9,517
Gain on investments in mutual funds held for trading	14,550	13,313
On non-financial assets		
Insurance claim - note 29.1	-	423,281
Reversal of provision for SED	-	31,940
Profit on disposal of operating assets	1,408	2,427
Scrap sales	31,610	26,255
Others	14,977	5,462
	<u>91,738</u>	<u>512,195</u>
29.1	This represents insurance claim received on account of loss of profit and property damage, incurred as a result of fire incident at the site of Plant in December 2009 amounting to Rs. 391,000 and Rs. 32,281, respectively.	

(Amounts in thousand)

	2013	2012
	Rupees	
30. FINANCE COSTS		
Interest/mark-up on:		
- long term borrowings	893,338	1,142,303
- short term borrowing	138,577	62,508
- running finances	32,370	99,572
	<u>1,064,285</u>	<u>1,304,383</u>
Foreign exchange loss on borrowings	275,425	314,542
Guarantee commission	5,951	8,071
Bank charges and others	24,188	32,065
	<u>1,369,849</u>	<u>1,659,061</u>
31. TAXATION		
Current		
- for the year - note 31.1	255,071	122,927
- for prior years	(24,391)	407
	<u>230,680</u>	<u>123,334</u>
Deferred		
- for the year	384,487	11,558
- for prior years	21,424	-
	<u>405,911</u>	<u>11,558</u>
	<u>636,591</u>	<u>134,892</u>

31.1 Current year charge includes minimum tax at the rate of 1% (2012: 0.5%) of the turnover, in accordance with section 113 of the Income Tax Ordinance, 2001.

31.2 Relationship between tax expense and accounting profit

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the Company's applicable tax rates as follows:

	2013	2012
	Rupees	
Profit before taxation	<u>1,343,298</u>	<u>211,901</u>
Tax calculated at applicable rate of 34% (2012: 35%)	456,721	74,165
Tax effect of presumptive tax regime and income subject to lower tax rates	(44,863)	(58)
Prior year tax charge, net	(2,967)	407
Permanent differences	7,572	2,181
Derecognition of deferred tax asset on minimum turnover tax	209,825	57,805
Impact of change in tax rate	10,204	-
Others	99	392
Tax expense for the year	<u>636,591</u>	<u>134,892</u>

(Amounts in thousand)

32. EARNINGS PER SHARE - Basic and diluted

There is no dilutive effect on the basic earnings per share of the Company, which is based on:

	2013	2012
	Rupees	
Profit for the year	<u>706,707</u>	<u>77,009</u>
	Number in thousands	
Weighted average number of ordinary shares	<u>663,469</u>	<u>663,469</u>

33. RETIREMENT AND OTHER SERVICE BENEFITS

The latest actuarial valuation of the defined benefit plans was carried out as at September 30, 2013 using the 'Projected Unit Credit Method'. Details of the defined benefit plans are as follows:

	Pension Fund		Gratuity Fund	
	2013	(Restated) 2012	2013	(Restated) 2012
	Rupees			
33.1 Balance sheet reconciliation				
Present value of defined benefit obligations	-	150,494	-	51,561
Fair value of plan assets	-	(149,406)	-	(47,578)
Deficit	-	1,088	-	3,983
Payable in respect of transfers	-	-	-	42
Net liability at the end of the year	<u>-</u>	<u>1,088</u>	<u>-</u>	<u>4,025</u>
33.2 Movement in net asset / liability				
Opening balance	1,088	15,365	4,025	6,049
Cost for the period charged to profit and loss	1,570	17,002	1,693	6,812
Net contributions and other adjustments	(16,811)	(17,002)	(5,835)	(6,812)
Total remeasurements charged to OCI	14,153	(14,277)	117	(2,024)
Closing balance	<u>-</u>	<u>1,088</u>	<u>-</u>	<u>4,025</u>
33.3 Movement in the defined benefit obligations				
Obligation as at January 1	150,494	132,499	51,561	42,778
Current service cost	10,546	13,441	4,318	5,263
Past service cost	(10,178)	-	(3,393)	-
Interest cost	13,631	17,659	4,719	5,791
Remeasurement of liability - OCI charge	9,923	(10,559)	4,767	(1,069)
Benefits paid	(6,018)	(2,546)	(1,901)	(1,160)
Liability recognized in respect of transfers	-	-	259	(42)
Effects of curtailment and settlement - note 2.13	(168,398)	-	(60,330)	-
Obligation as at December 31	<u>-</u>	<u>150,494</u>	<u>-</u>	<u>51,561</u>

(Amounts in thousand)

	Pension Fund		Gratuity Fund	
	2013	(Restated) 2012	2013	(Restated) 2012
33.4	Rupees			
Movement in the fair value of plan assets				
Fair value as at January 1	149,406	117,134	47,578	36,729
Expected return on plan assets	12,429	14,333	3,951	4,439
Remeasurement of asset - OCI charge	(4,230)	3,483	4,650	758
Employer contributions	16,366	17,002	8,584	6,812
Benefits paid	(6,018)	(2,546)	(1,901)	(1,160)
Effects of curtailment and settlement - note 2.13	(167,953)	-	(62,862)	-
Fair value as at December 31	<u>-</u>	<u>149,406</u>	<u>-</u>	<u>47,578</u>
33.5	The amounts recognized in the profit and loss account are as follows:			
Current service cost	10,546	13,441	4,318	5,263
Past service cost	(10,178)	-	(3,393)	-
Net interest cost	1,202	3,326	768	1,352
Recognition of actuarial losses	-	235	-	197
Expense	<u>1,570</u>	<u>17,002</u>	<u>1,693</u>	<u>6,812</u>
33.6	Remeasurements losses / (gains) recognized in Other Comprehensive Income			
Remeasurement of defined benefit obligation				
Loss / (gain) due to change in financial assumptions	446	(54)	82	(22)
Loss / (gain) due to change in demographic assumptions	-	-	-	-
Loss / (gain) due to change in retirement age assumptions	10,178	-	3,393	-
Loss / (gain) due to experience	(3,269)	(7,936)	41	204
Opening difference after audit	2,568	(2,804)	1,251	(1,448)
	<u>9,923</u>	<u>(10,794)</u>	<u>4,767</u>	<u>(1,266)</u>
Remeasurement of fair value of plan assets				
Loss / (gain) due to experience	(6,403)	(7,174)	(2,626)	(1,125)
Opening difference after audit	10,633	3,691	(2,024)	367
Remeasurement of fair value of plan assets	<u>4,230</u>	<u>(3,483)</u>	<u>(4,650)</u>	<u>(758)</u>
	<u>14,153</u>	<u>(14,277)</u>	<u>117</u>	<u>(2,024)</u>
33.7	<u>18,832</u>	<u>19,580</u>	<u>6,577</u>	<u>5,144</u>

(Amounts in thousand)

33.8 Principal assumptions used in the actuarial valuation:

	Pension Fund		Gratuity Fund	
	2013	2012	2013	2012
Discount rate per annum	11.0%	12.0%	11.0%	12.0%
Expected rate of increase per annum in future salaries	10.0%	11.0%	10.0%	11.0%
Mortality tables				
- During service	LIC (75-79)+1	LIC (75-79)+1	LIC (75-79)+1	LIC (75-79)+1
- Post employment	PA (90)-1	PA (90)-1	-	-
Withdrawals	Heavy	Heavy	Heavy	Heavy

33.9 Sensitivity analysis in actuarial assumptions - actuarial liability

	Pension Fund		Gratuity Fund	
	2013	2012	2013	2012
Discount rate +1%	143,397	128,407	54,403	46,894
Discount rate -1%	200,095	178,544	66,378	57,007
Long term salary increase +1%	183,398	163,628	66,228	57,007
Long term salary increase -1%	155,299	139,060	54,434	46,815
Pension Increases +1%	183,313	164,202	-	-
Pension Increases -1%	155,508	138,768	-	-
Weighted average duration - PBO	17.92	19.58	11.53	13.25

33.10 Plan assets comprise of following:

	Rupees			
Equity	-	35,857	-	11,419
Debt	-	113,549	-	36,159
	-	149,406	-	47,578

33.11 Historical information of staff retirement benefits:

	2013	2012	2011	2010	2009
	Rupees				
Pension Fund					
Present value of defined benefit obligation	-	150,494	132,499	110,835	78,994
Fair value of plan assets	-	(149,406)	(117,134)	(97,803)	(88,607)
Deficit / (Surplus)	-	1,088	15,365	13,032	(9,613)
Gratuity Fund					
Present value of defined benefit obligation	-	51,561	42,778	35,488	26,048
Fair value of plan assets	-	(47,578)	(36,729)	(30,903)	(27,618)
Deficit / (Surplus)	-	3,983	6,049	4,585	(1,570)

(Amounts in thousand)

33.12 As stated in note 2.13, during the year, the Company converted its staff retirement benefit funds from the defined benefit plans to the defined contribution plans maintained by Engro Corporation Limited - the Holding Company. Accordingly, funds assets and the related defined benefit liabilities were re-measured as at September 30, 2013 by the actuary and were substantially transferred to defined contribution funds as at the December 31, 2013.

33.13 Provident fund

The following information is based on the latest audited financial statements of the Fund:

	June 30, 2013	June 30, 2012
Size of fund	243,832	178,375
Cost of investments made	179,977	146,950
Percentage of investments made	81%	82%
Fair value of investments	196,706	146,950

33.13.1 Break-up of investments in terms of amount and percentage of size of provident fund is as follows:

Description	June 30, 2013		June 30, 2012	
	Investments in Rupees	Percentage of investment made	Investments in Rupees	Percentage of investment made
Special Savings Certificates	7,955	3%	7,955	4%
Term Finance Certificates	11,771	5%	9,743	5%
Treasury Bills	22,952	9%	44,912	25%
Regular Income Certificates	8,550	4%	-	0%
National Savings Bonds	-	0%	12,000	7%
Pakistan Investment Bonds	54,641	22%	33,309	19%
Quoted Shares	28,671	12%	33,657	19%
Mutual Funds	62,166	26%	5,374	3%
	<u>196,706</u>		<u>146,950</u>	82%

33.13.2 Investments in provident fund have been made in accordance with the provisions of the section 227 of the Companies Ordinance, 1984 and the rules formulated for the purpose.

33.13.3 During the year, Rs. 50,241 (2012: Rs. 38,535) has been recognized in the profit and loss account in respect of defined contribution provident fund.

33.13.4 As stated in note 2.13, during the year, the Company transferred its provident fund from the defined contribution scheme to the defined contribution scheme maintained by Engro Corporation Limited - the Holding Company. Accordingly, fund's related assets and the liabilities were re-measured as at September 30, 2013 and were substantially transferred to defined contribution fund as at December 31, 2013.

(Amounts in thousand)

34. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The details of amounts charged in the financial statements for remuneration to the Chief Executive, Directors and executives are as follows:

	2013			2012		
	Director		Executives	Director		Executives
	Chief Executive	Others		Chief Executive	Others	
	Rupees					
Managerial remuneration	24,015	-	447,746	21,303	-	406,843
Retirement benefit funds	4,217	-	71,851	9,165	-	68,938
Bonus paid	9,662	-	63,303	3,801	-	67,856
Other benefits	3,486	-	73,947	2,863	-	40,786
Directors fee	-	2,402	-	-	2,900	-
Total	<u>41,380</u>	<u>2,402</u>	<u>656,847</u>	<u>37,132</u>	<u>2,900</u>	<u>584,423</u>
Number of persons at year end	<u>1</u>	<u>9</u>	<u>232</u>	<u>1</u>	<u>9</u>	<u>198</u>

34.1 The Company also provides household items and vehicles for the use of Chief Executive and certain executives.

34.2 Premium charged in the financial statements in respect of Directors' indemnity insurance policy, purchased by the Company amounts to Rs. 850 (2012: Rs. 620).

35. CASH GENERATED FROM OPERATIONS

	2013	2012
	Rupees	
Profit before taxation	1,343,298	211,901
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	45,282	61,481
Depreciation and amortization	1,193,358	1,179,437
Provision for slow moving stores and spares	4,930	4,365
Provision for net realizable value of stock-in-trade	29,174	20,822
Write-off of damaged items of property, plant and equipment	7,816	7,109
Income on bank deposits	(29,193)	(9,517)
Gain on investments in mutual funds held for trading	(14,550)	(13,313)
Unrealized foreign exchange loss on borrowings	229,225	259,200
Amortization of prepaid financial charges	20,772	9,120
Unrealized foreign exchange loss on imports and retention money and derivatives	150,151	120,002
Finance costs	1,369,849	1,659,061
Profit on disposal of operating assets	(1,408)	(2,427)
Reversal of provision against Special Excise Duty (SED)	-	(25,612)
Provisions against concessionary duty on import of raw materials and GIDC	176,722	13,038
Working capital changes - note 35.1	(125,881)	(455,606)
	<u>4,399,545</u>	<u>3,039,061</u>

(Amounts in thousand)

35.1 WORKING CAPITAL CHANGES	2013	2012
	Rupees	
Increase in current assets		
Stores, spares and loose tools	(4,084)	(384,136)
Stock-in-trade	(227,328)	(564,679)
Trade debts	(258,552)	26,140
Loans, advances, deposits, prepayments and other receivables - net	(37,669)	(79,709)
	<u>(527,633)</u>	<u>(1,002,384)</u>
Increase in current liabilities		
Trade and other payables	401,752	546,778
	<u>(125,881)</u>	<u>(455,606)</u>
36. CASH AND CASH EQUIVALENTS		
Cash and bank balances - note 14	865,040	94,732
Short term Investments - note 13	300,000	-
Running finance utilized under markup arrangements - note 19	(166,062)	(1,204,084)
	<u>998,978</u>	<u>(1,109,352)</u>
37. FINANCIAL INSTRUMENTS BY CATEGORY		
37.1 Financial assets as per balance sheet		
Fair value through profit or loss		
Short term investments	465,122	169,545
Loans and receivables at amortized cost		
Long term loans	37,752	32,358
Trade debts - considered good	525,017	266,465
Loans, deposits and other receivables	132,545	120,237
Cash and bank balances	865,040	94,732
	<u>1,560,354</u>	<u>513,792</u>
37.2 Financial liabilities as per balance sheet		
Financial liabilities measured at amortized cost		
Long term borrowings	9,737,618	9,584,847
Short term borrowings	766,062	2,004,084
Trade and other payables	6,858,287	6,020,373
Accrued interest/mark-up	82,753	121,555
	<u>17,444,720</u>	<u>17,730,859</u>
Derivatives		
Used for hedging purposes	80,006	141,656
At fair value through profit or loss	102,172	-
	<u>182,178</u>	<u>141,656</u>

(Amounts in thousand)

37.3 Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction.

The carrying values of all financial assets and liabilities reflected in these financial statements approximate their fair values.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

38.1 Financial risk factors

The Company's activities expose it to a variety of financial risks including market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk factors. Risk management is carried out by the Company's finance department under guidance of the Company's Board of Directors.

a) Market risk

i) Currency risk

Currency risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in foreign currency rates. The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to US Dollars. The risk arises from outstanding payments for imports, recognized assets and liabilities in foreign currency and future commercial transactions. In the current economic environment, the Company is significantly exposed to currency risk because of the expected volatility in exchange rates. The Company manages the currency risk through forward exchange contracts.

At December 31, 2013, the financial assets and liabilities exposed to foreign exchange risk amount to Rs. 329,401 (2012: Rs. 172,337) and Rs. 5,390,022 (2012: Rs. 6,599,557) respectively.

At December 31, 2013, if the Pakistan Rupee had weakened / strengthened by 5% against the US Dollar with all other variables held constant, post-tax profit for the year would have been lower / higher by Rs. 167,000 (2012: Rs. 208,885), mainly as a result of foreign exchange losses/gains on translation of uncovered US Dollar-denominated liabilities. However, this change in profits or losses would be partially offset by a corresponding change in margins as bulk of revenues is linked with movements in exchange rates.

ii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk arising from long and short term running finances utilized under mark-up arrangements. Borrowing at variable rates exposes the Company to cash flow interest rate risk, whereas, borrowing at fixed rate expose the Company to fair value interest rate risk.

To manage its cash flow interest rate risk, the Company has entered into floating to fixed rate interest swaps on its foreign currency borrowings and variable to variable cross currency interest rate swap on its local borrowings. Under the interest rate swap agreements, the Company has agreed with the banks to exchange, at half yearly intervals, the difference between contracted rates and the floating rate interest amounts calculated by reference to the agreed notional amounts.

(Amounts in thousand)

As at December 31, 2013, if interest rate on Company's unhedged borrowings had been 1% higher / lower with all other variables held constant, post tax profit for the year would have been lower / higher by approximately Rs. 55,250 (2012: Rs. 53,150) mainly as a result of higher/lower interest exposure on variable rate borrowings.

iii) **Other price risk**

Price risk represents the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those change are caused by factors specific to the individual financial instruments or its issuer or factors affecting all similar financial instruments traded in the market. The Company is exposed to equity security price risk as the Company deals in securities. However, the Company's exposure to price risk as at December 31, 2013 is not material.

b) **Credit risk**

Credit risk represents the risk of financial loss being caused if counter parties fail to discharge their obligations. Credit risk arises from deposits with banks and financial institutions, trade debts, loans, deposits and other receivables. The maximum exposure to credit risk is equal to the carrying amount of financial assets.

The Company is not materially exposed to credit risk as unsecured credit is provided to selected parties with no history of default. Moreover, major part of trade debts are secured by bank guarantees and letters of credit from customers. Further, credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings.

The Company monitors the credit quality of its financial assets with reference to historical performance of such assets and available external credit ratings. The carrying values of financial assets which are neither past due nor impaired are as follows:

	2013	2012
	Rupees	
Long term loan	37,752	24,383
Trade debts - considered good	525,017	266,465
Loan, deposits and other receivables	132,545	127,399
Short term investments	165,122	169,545
Bank balances	864,754	93,977
	<u>1,725,190</u>	<u>681,769</u>

(Amounts in thousand)

The credit quality of receivables can be assessed with reference to their historical performance with no defaults in recent history. The credit quality of the Company's liquid funds can be assessed with reference to external credit ratings of banks and mutual funds as follows:

Bank	Rating agency	Rating	
		Short term	Long term
Allied Bank Limited	PACRA	A1+	AA+
Askari Commercial Bank Limited	PACRA	A1+	AA
Bank AlFalah Limited	PACRA	A1+	AA
Bank AlHabib Limited	PACRA	A1+	AA+
Barclays Bank PLC, Pakistan	Moody's	P-1	A2
Burj Bank Limited	JCR-VIS	A1	A
Citibank N.A.	Moody's	P-2	A3
Deutsche Bank A.G	Moody's	P-1	A2
Faysal Bank Limited	PACRA	A1+	AA
Habib Bank Limited	JCR-VIS	A1+	AAA
HSBC Bank Middle East Limited	Moody's	P-1	A2
Industrial and Commercial Bank of China	Moody's	P-1	A1
MCB Bank Limited	PACRA	A1+	AAA
Meezan Bank Limited	JCR-VIS	A1+	AA
National Bank of Pakistan	JCR-VIS	A1+	AAA
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA
Summit Bank Limited	JCR-VIS	A3	A-
United Bank Limited	JCR-VIS	A1+	AA+
Investment	Rating agency	Rating	
HBL Money Market Fund	JCR-VIS	AA	
UBL Liquidity Plus Fund	JCR-VIS	AA+	
Meezan Cash Fund	JCR-VIS	AA	
Askari Sovereign Cash Fund	PACRA	AAA	
ABL Cash Fund	JCR-VIS	AA	

c) Liquidity risk

Liquidity risk represents the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company's liquidity management involves maintaining sufficient cash and marketable securities, the availability of funds through an adequate amount of credit facilities and through its ability to close out market positions. Due to the dynamic nature of the business, the Company aims at maintaining flexibility in funding by keeping committed credit lines available.

(Amounts in thousand)

The table below analyses how management monitors net liquidity based on details of the remaining contractual maturities of financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows:

	2013			2012		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
Rupees						
Financial liabilities						
Long term borrowings	2,242,800	7,494,818	9,737,618	2,052,981	7,531,866	9,584,847
Derivative financial instruments	-	80,006	80,006	-	141,656	141,656
Trade and other payables	6,858,287	-	6,858,287	6,020,373	-	6,020,373
Accrued interest / mark-up	82,753	-	82,753	121,555	-	121,555
Short term borrowings	766,062	-	766,062	2,004,084	-	2,004,084
	<u>9,949,902</u>	<u>7,574,824</u>	<u>17,524,726</u>	<u>10,198,993</u>	<u>7,673,522</u>	<u>17,872,515</u>

Net settled derivatives comprise interest rate swaps used by the Company to manage the Company's interest rate profile. The Company's net settled derivative financial instruments with a negative fair value have been included at their fair value of Rs. 80,006 (2012: Rs.141,656) in the maturity analysis because the contractual maturities are essential for an understanding of the timing of the cash flows. These contracts are managed on a net-fair value basis as well as maturity date.

39. CAPITAL RISK MANAGEMENT

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern and to provide expected returns to its shareholders by maintaining optimum capital structure to minimize the cost of capital. To maintain or adjust the capital structure, the Company may issue new equity, manage dividend payouts to its shareholders or sell assets to reduce debt.

The Company manages capital by maintaining gearing ratio at certain levels. This ratio is calculated as long term borrowings, as disclosed in note 16, divided by total capital. Total capital is calculated as 'equity' as shown in the balance sheet plus long term borrowings.

The gearing ratio of the Company is as follows:

The gearing ratio of the Company is as follows:

	2013	2012
	Rupees	
Long term borrowings - note 16	7,494,818	7,531,866
Total equity	7,052,953	6,328,004
Total capital	<u>14,547,771</u>	<u>13,859,870</u>
Gearing ratio	<u>0.515</u>	<u>0.543</u>

40. SEGMENT INFORMATION

40.1 Based on the internal management reporting structure, the Company is organized into three business segments based on the products produced and sold as follows:

- Poly Vinyl Chloride (PVC) and allied chemicals;
- Caustic soda and allied chemicals; and
- Power supplies.

Management monitors the operating results of abovementioned segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in table below, is measured differently from profit or loss in the financial statements. Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Finance costs, other operating income and expenses, and taxation are managed at Company level. Further, unallocated assets include long term investment, long term loans and advances, loans, advances, prepayments and other receivables, taxes recoverable, and cash and bank balances.

40.2 The following table presents the profit or loss and total assets for the operating segments of the Company:

	Poly Vinyl Chloride (PVC) and allied chemicals		Caustic soda and allied chemicals		Power Supply		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	Rupees							
Segment profit and loss								
Revenue	19,376,368	15,878,624	5,344,807	4,542,039	59,406	45,669	24,780,581	20,605,601
Less:								
Cost of sales (excluding depreciation)	(15,849,860)	(13,571,513)	(2,652,823)	(2,278,696)	(11,182)	(5,946)	(18,513,865)	(15,892,849)
Distribution and marketing expenses (excluding depreciation)	(1,003,783)	(788,266)	(336,642)	(341,629)	-	-	(1,340,425)	(1,174,419)
Allocated depreciation	(886,521)	(846,332)	(257,751)	(288,463)	(27,907)	(27,584)	(1,172,179)	(1,162,379)
Profit before unallocated expenses	<u>1,636,204</u>	<u>672,513</u>	<u>2,097,591</u>	<u>1,633,251</u>	<u>20,317</u>	<u>12,139</u>	<u>3,754,112</u>	<u>2,375,954</u>
Unallocated expenses								
Administrative expenses							(606,481)	(479,499)
Other operating expenses							(526,222)	(537,688)
Other income							91,738	512,195
Finance costs							(1,369,849)	(1,659,061)
Taxation							(636,591)	(134,892)
Profit for the year							<u>706,707</u>	<u>77,009</u>
Segment assets								
Total segment assets	<u>14,062,022</u>	<u>14,642,414</u>	<u>6,572,720</u>	<u>6,297,304</u>	<u>31,620</u>	<u>59,527</u>	<u>20,666,362</u>	<u>20,999,245</u>
Unallocated assets							<u>4,702,001</u>	<u>4,092,119</u>
Total assets							<u>25,368,363</u>	<u>25,091,364</u>

40.3 Segment assets consist primarily of property, plant and equipment, stores, spares and loose tools, stock in trade and trade debts.

(Amounts in thousand)

41. TRANSACTIONS WITH RELATED PARTIES

41.1 Transactions with related parties, other than those which have been disclosed elsewhere in these financial statements, are as follows:

Nature of relationship	Nature of transactions	2013		2012	
		Rupees		Rupees	
Holding Company					
- Engro Corporation Limited	Purchase of services	35,134		17,847	
	Purchase of goods	-		547	
	Use of operating assets	1,334		3,328	
	Markup on Subordinated Loan	138,844		62,508	
	Reimbursement made	5,520		6,400	
	Reimbursement received	3,941		1,323	
	Pension fund contribution	9,812		5,034	
	Provident fund contribution	6,038		8,581	
	Medical contribution	171		167	
	Gratuity fund contribution	2,227		1,749	
Associated Company					
- Mitsubishi Corporation	Purchase of goods	9,234,746		9,942,467	
	Sale of goods	1,291,794		60,405	
	Purchase of services	309		58	
	Reimbursement made	-		8,677	
Related parties by virtue of common directorship					
- Engro Fertilizers Limited	Purchase of services	8,091		7,962	
	Purchase of goods	-		4,470	
	Sale of goods	25,376		19,399	
	Sale of services	504		4,814	
	Supply of electricity	74,241		57,476	
	Use of operating assets	7,755		8,198	
	Reimbursement made	10,199		8,458	
	Reimbursement received	2,374		10,775	
	Use of operating assets	6,953		802	
- Engro Vopak Terminal Limited	Purchase of services	973,207		849,582	
	Reimbursement made	19,091		19,439	
	Reimbursement received	10,394		15,529	
- Engro Foundation	Reimbursement received	-		760	
	Purchase of services	2,263		-	
	Donation	2,000		2,010	
- Engro PowerGen Qadirpur Limited	Reimbursement made	1,186		81	
	Reimbursement received	4,252		2,768	
- Engro PowerGen Limited	Reimbursement made	896		2,345	
	Reimbursement received	-		7	
	Use of operating assets	827		542	
- Engro Foods Limited	Sale of goods	47,023		53,927	
	Reimbursement received	909		-	
	Reimbursement made	1,101		167	
	Use of operating assets	429		196	
- Akzo Nobel (formerly ICI Pakistan Limited)	Purchase of goods	-		53,841	
- IGI Insurance Company Limited	Purchase of services	-		1,121	
- Dawood Hercules Corporation Limited	Sale of goods	-		234	
	Purchase of services	14,400		14,400	
- Lahore University of Management Sciences	Purchase of services	678		1,256	
- Pakistan Institute of Corporate Governance	Purchase of services	-		15	
- Institute of Business Administration	Purchase of services	2,186		-	
- Engro Eximp (Pvt) Ltd	Reimbursement received	2,035		-	
	Use of operating assets	217		-	
- Pakistan Japan Business Forum	Annual subscription	100		-	
- Overseas Investors Chamber of Commerce & Industries	Annual subscription	330		451	
- UBL Fund Managers	Purchase of units of UBL Liquidity Plus Fund	230,000		175,000	
	Sale of units of UBL Liquidity Plus Fund	225,710		150,759	
Other related party					
- Arabian Sea Country Club	Purchase of services	856		1,104	
	Annual Subscription	46		55	
Directors' fee		2,400		2,900	
Contribution to staff retirement benefits	Pension fund	23,104		17,002	
	Provident funds	40,127		38,535	
	Gratuity funds	15,380		6,812	
Key management personnel	Managerial remuneration	66,996		71,139	
	Retirement benefit funds	11,953		10,471	
	Bonus	26,318		23,677	
	Other benefits	15,379		13,314	

41.2 The related party status of outstanding balances as at December 31, 2013 are disclosed in the respective notes.

42. GENERAL

42.1 Number of employees

Number of permanent employees as at December 31, 2013 was 435 (December 31, 2012: 441) and average number of employees during the year were 440 (2012: 445).

42.2 Production capacity	Designed Annual Capacity		Actual Production		Remarks
	2013	2012	2013	2012	
	Kilo tons				
PVC	156	150	146	146	Production planned as per market demand and in house consumption need
EDC	127	127	117	110	
Caustic soda	106	106	115	107	
VCM	220	220	170	146	
	Mega Watts				
Power	64	64	45	45	

43. CORRESPONDING FIGURES

During the year, for better presentation, the following reclassification has been made:

Description	Rupees	Head of account in financial statements for the year ended December 31, 2012	Head of account in financial statements for the year ended December 31, 2013
Capital spares	80,979	Stores, spares and loose tools	Property, plant and equipment

The effect of other reclassifications is not material.

44. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 3, 2014 by the Board of Directors of the Company.



Khalid Siraj Subhani
President & Chief Executive



Waqar Malik
Director

calendar of major events

2013

March 1, 2013	Initiation of commercial sales of HCL
April 19, 2013	Approval of first quarterly accounts, 2013
April 22, 2013	Launch of Six Sigma drive across organization
April 25, 2013	Annual General Meeting (AGM) for the year ended December 31, 2012
May 21, 2013	Launch of 'Zero makes you a Hero' Safety campaign
August 1, 2013	Declaration of dividend by subsidiary company (EPTL)
August 5, 2013	Approval of first half yearly accounts, 2013
October 23, 2013	Approval of third quarterly accounts, 2013
December 31, 2013	Annual VCM production crossed 170 KT

2014

February 3, 2014	Approval of Annual accounts, 2013.
April 15, 2014	Annual General Meeting (AGM) for the year ended December 31, 2013
April 24, 2014	Approval of first quarterly accounts, 2014
August 7, 2014	Approval of half yearly accounts, 2014
October 20, 2014	Approval of third quarterly accounts, 2014
February 04, 2015	Approval of Annual accounts, 2014

glossary

AGM: Annual General Meeting	HSE: Health, Safety & Environment
ATIR: Appellate Tribunal Inland Revenue	Hypo: Sodium Hypochlorite
BAC: Board Audit Committee	IFC: International Finance Corporation
BCC: Board Compensation Committee	MAR: Management Attention Required
BCP: Business Continuity Planning	MC: Management Committee
BoD: The Board of Directors	MMBTU: Million British thermal units
BSC: British Safety Council	MMSCFD: Million Standard Cubic Feet Per Day
CC: Corporate Communications	OHSA: Occupational Health and Safety Administration
CEO: Chief Executive Officer	OICCI: Overseas Investors Chamber of Commerce and Industry
CIR (A): Commissioner of Inland Revenue Appeals	OSHA: Occupational Safety and Health Administration
CLSA: Credit Lyonnais Securities Asia	PADP: Performance Appraisal Development Plan
CNIC: Computerized National Identity Card	PAT: Profit after Tax
COED: Committee for Organization & Employee Development	PBIT: Profit before Interest and Tax
CRO: Chief Risk Officer	PJBF: Pakistan Japan Business Forum
CSR: Corporate Social Responsibility	PSM: Personnel Safety Management
E Corp: Engro Corporation - the Holding Company	PSRM: Process Safety and Risk Management
EBITDA: Earnings before Interest, Taxes, Depreciation and Amortization.	PVC: Poly Vinyl Chloride
EDC: Ethylene Di Chloride	SHRM: Society for Human Resource Management
EET: Employee Engagement Index	SOP: Standard Operating Procedures
EPTL: Engro Polymer Trading (Private) Limited	TCF: The Citizens foundations
F&A: Finance & Accounting	The Company: Engro Polymer and Chemicals Limited
FDSK: The Foundation for Diffusion of Scientific Knowledge	TRIR: Total Recordable Injury Rate
GIDC: Gas Infrastructure Development Cess	UKAS: United Kingdom Accreditation Services
GM: General Manager	URS: United Registrar of Systems
GRI: Global Reporting Initiative	VCM: Vinyl Chloride Monomer
HCl: Hydrochloric Acid	VP: Vice President
HR: Human Resources	WWF: World Wildlife Fund
	CCIRS: Cross Currency Interest Rate Swap

notice of annual general meeting

NOTICE IS HEREBY GIVEN that the Sixteenth Annual General Meeting of Engro Polymer & Chemicals Limited will be held at Pearl-Continental Hotel, Club Road, Karachi on Tuesday, April 15, 2014 at 10.00 a.m. to transact the following business:

ORDINARY BUSINESS

- (1) To receive and consider the Audited Accounts for the year ended December 31, 2013 and the Directors' and Auditors' Reports thereon.
- (2) To appoint Auditors and fix their remuneration.
- (3) To elect 10 directors in accordance with the Companies Ordinance, 1984. The retiring Directors are: Mr. Muhammad Aliuddin Ansari, Mr. Khalid S. Subhani, Mr. Kimihide Ando, Mr. Shahzada Dawood, Mr. Shabbir Hashmi, Mr. Abdul Samad Khan, Ms. Naz Khan, Mr. Waqar Ahmed Malik and Mr. Takashi Yoshida.

By Order of the Board

Karachi,

MUNEEZA IFTIKAR

Dated: February 03, 2014

Company Secretary

N.B.

- (1) The Directors of the Company have fixed, under sub-section (1) of Section 178 of the Companies Ordinance, 1984, the number of elected directors of the Company at 10.
- (2) The Share Transfer Books of the Company will be closed from Wednesday, April 02, 2014 to Tuesday, April 15, 2014 (both days inclusive). Transfers received in order at the office of our Registrar, M/s. FAMCO Associates (Private) Limited, 8-F, Next to Hotel Faran, Block 6, P.E.C.H.S. Shahra-e-Faisal, Karachi, by the close of business (5:00 p.m) on Tuesday, April 01, 2014 will be treated in time to entitle the transferees to attend the meeting.
- (3) A member entitled to attend and vote at this Meeting shall be entitled to appoint another person, as his/her proxy to attend, speak and vote instead of him/her, and a proxy so appointed shall have such rights, as respects attending, speaking and voting at the Meeting as are available to a member. Proxies, in order to be effective, must be received by the Company not less than 48 hours before the Meeting. A proxy need not be a member of the Company.



engro polymer & chemicals

AFFIX
CORRECT
POSTAGE

The Company Secretary
Engro Polymer & Chemicals Limited
16th Floor, The Harbour Front Building,
HC-3, Marine Drive, Block 4,
Clifton, Karachi-75600.



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