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# ANNUAL REPORT 2013

LOTTE CHEMICAL PAKISTAN LTD

(Formerly LOTTE Pakistan PTA Limited)

# About Us

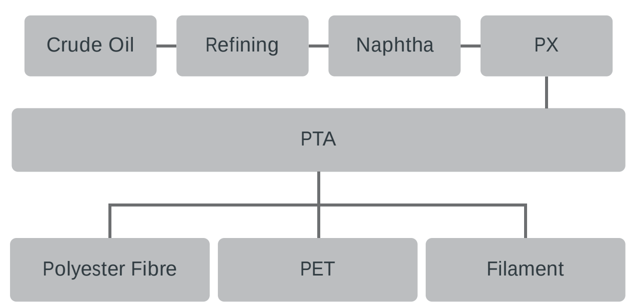
Lotte Chemical Pakistan Limited (formerly Lotte Pakistan PTA Ltd) is the only world-class manufacturer and supplier of Purified Terephthalic Acid (PTA) in Pakistan. The Company has the capacity to produce 500,000 tonnes of PTA per year through its state-of-the-art plant at Port Qasim, Karachi.

PTA is the key raw material for the manufacture of Polyester fibre, Polyester resin, Polyester film and Polyethylene Terephthalate (PET). Being the only producer in the Country, the Company forms the backbone of the polyester chain and maintains its competitive edge by virtue of being a local manufacturer and major supplier for the domestic polyester and PET industries with short delivery times, consistent quality and excellent customer service.

In addition to its own manufacturing facilities, Lotte Chemical Pakistan Ltd. has helped create a large infrastructure network in the vicinity of Port Qasim, which includes a chemical jetty, raw water pipeline and manufacture of industrial gases through third party contracts, thus encouraging further investments in these important infrastructure facilities. It has, therefore, been a trendsetter in industrial investment in Pakistan.

Our finished product, PTA remains an important link in the growth and stability of the Polyester and downstream chain. Domestic PTA manufacturing has resulted in savings of approximately US$ 1 billion for the Country, since the start-up of the plant in 1998.

## PTA Chain




## Our Journey

**1996**
- Construction phase carried out by renowned engineering and consultancy firms under ICI's supervision

**1998**
- PTA Plant commissioned

**2000**
- PTA business demerged from ICI Pakistan Ltd into Pakistan PTA Ltd (PPTA)

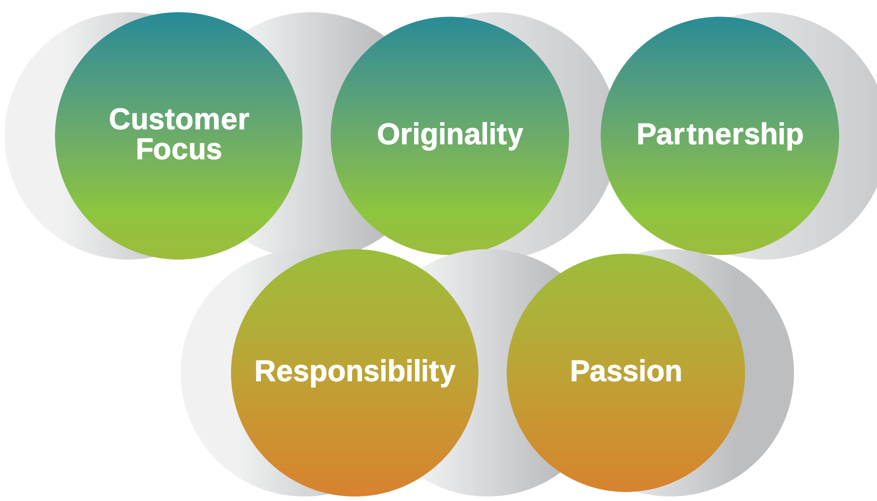
**2008**
- AkzoNobel acquires ICI globally, making PPTA part of AkzoNobel

# Vision, Mission & Overall Strategic Objectives

## The Spirit To Make A Difference Through Value, Quality And Excellence

At Lotte Chemical Pakistan Limited, our customer's satisfaction is the driving force behind our spirit to meet challenges and achieve excellence in whatever we do. We maximise operating efficiencies and demonstrate best practices in Safety, Health and Environment that add value to our quality product and make a difference in letter and in spirit.

## Core Values




### 2009

- KP Chemical (Subsidiary of LOTTE) acquired PPTA, making PPTA part of LOTTE
- Name changed to Lotte Pakistan PTA Ltd (LPPTA)

### 2012

- Co-Generation Plant commissioned
- KP Chemical's identity changed to LOTTE CHEMICAL

### 2013

- Name changed to Lotte Chemical Pakistan Ltd
- HSE milestone of achieving 40 million plus man-hours without a Lost Time Case (LTC) to any Company and contractor employees

## About LOTTE

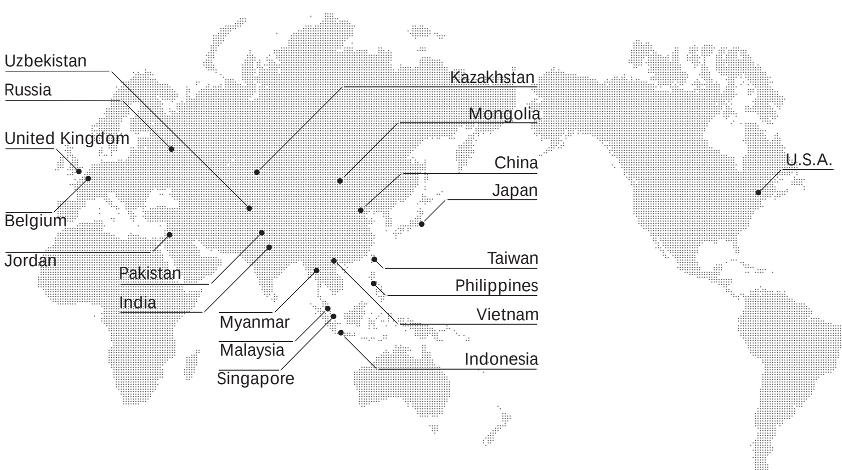
LOTTE contributes to enriching life by providing products and services that are loved and trusted. Since LOTTE officially entered the food industry by founding LOTTE Confectionery in 1967, it has become a leader in the Korean tourism and retail industries by establishing some of Korea's top hotels and department stores. LOTTE has since extended its reach into such key industries as petrochemicals and construction. LOTTE is positioning itself as one of Korea's key conglomerates based on a wealth of diverse experiences and know-how. Furthermore, it is now growing as a global conglomerate trusted by customers all over the world, making constant efforts focused on the vision of becoming one of Asia's TOP 10 Global Groups by 2018. LOTTE will continue to make customers' lives richer with its strict quality control and differentiated services.

## Mission

We enrich people's lives by providing superior products and services that our customers love and trust.

## Vision 2018
## Asia TOP 10 Global Group

The LOTTE Group, with a turnover of $75 billion in 2012, is engaged in over 20 businesses in 19 countries worldwide.




- China — confectionery/beverages/department store/hypermarket/supermarket/petrochemicals/construction/hotel/fast food/TV shopping/cinema/IT/capital/others
- Russia — hotel/department store/confectionery/trade/others
- Vietnam — hypermarket/hotel/fast food/confectionery/others
- India — confectionery
- Indonesia — department store/hypermarket/fast food/petrochemicals/duty free shop/IT/others
- Malaysia — confectionery/petrochemicals
- Pakistan — confectionery/petrochemicals
- U.K. — petrochemicals
- Philippines — confectionery/beverages
- Belgium — confectionery
- Japan — fast food/beverage
- Jordan — construction
- Mongolia — construction
- Myanmar — fast food
- Uzbekistan — petrochemicals
- Kazakhstan — confectionery
- Singapore — confectionery/duty free shop
- Taiwan — confectionery
- U.S.A — hotel/petrochemicals/beverages/trade

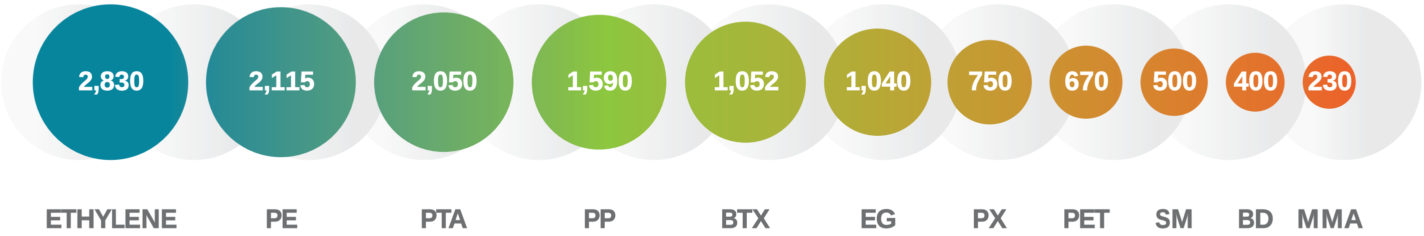
# About LOTTE Chemical Corp.

Since its foundation in 1976, LOTTE Chemical, as a general petrochemical company, has localized cutting-edge petrochemical technologies and has led Korea's heavy and chemical industry technology development. With vision of growing into a Top-tier Asian Chemical Company, LOTTE Chemical is endeavouring to become a company that ensures stable growth and contribute to human strategy.


## Production Capacity For Major Products Including Overseas Subsidiaries

With the production of the following chemical products, LOTTE Chemical has established a strong foundation overseas in the petrochemical industry.

(unit: thousand tons a year)




# Contents



LOTTE CHEMICAL PAKISTAN LTD
(Formerly LOTTE Pakistan PTA Limited)

# Stakeholders Information

# *Company Information*

**Board of Directors**

| | |
|---|---|
| Changgyou Kim | Chairman |
| M Asif Saad | Chief Executive |
| Sang Hyeon Lee | Non-executive |
| Jung Neon Kim | Executive |
| Oh Hun Im | Executive |
| Mohammad Qasim Khan | Independent |
| Aliya Yusuf | Independent |
| Istaqbal Mehdi | Non-executive |

**Audit Committee**

| | |
|---|---|
| Aliya Yusuf | Chairperson |
| Jung Neon Kim | Member |
| Istaqbal Mehdi | Member |
| Ashiq Ali | Secretary & Head of Internal Audit |

**HR & Remuneration Committee**

| | |
|---|---|
| Changgyou Kim | Chairman |
| Sang Hyeon Lee | Member |
| Jung Neon Kim | Member |

**Shares Sub Committee**

| | |
|---|---|
| Jung Neon Kim | Chairman |
| Mohammad Qasim Khan | Member |
| Oh Hun Im | Member |

**Chief Financial Officer and Company Secretary**
Adnan W Samdani

**Executive Management Team**
M Asif Saad
Chief Executive

Adnan W Samdani
Chief Financial Officer & Company Secretary

Mohammad Wasim
Director Manufacturing

Humair Ijaz
Director Commercial

Waheed U Khan
Corporate Human Resource Manager

**Bankers**
Askari Bank Limited
Citibank NA
Deutsche Bank AG
Habib Bank Limited
HSBC Bank Middle East Limited
KASB Bank Limited
MCB Bank Limited
National Bank of Pakistan
Standard Chartered Bank
(Pakistan) Limited

**Internal Auditors**
Ernst & Young Ford Rhodes
Sidat Hyder, Chartered Accountants

**External Auditors**
A.F. Ferguson & Co.,
Chartered Accountants

**Legal Advisor**
Mohammad Mitha
148, 18th East Street,
Phase 1, DHA, Karachi

**Registered Office**
EZ/1/P-4, Eastern Industrial Zone,
Port Qasim, Karachi

**Shares Registrar**
Famco Associates (Pvt) Limited
8-F, Next to Hotel Faran, Nursery,
Block 6, P.E.C.H.S., Shahrah-e-Faisal,
Karachi.

# Code of Conduct

Our Code of Conduct constitutes a set of standards and rules which form an integral part of our corporate culture. They highlight employee responsibilities towards your Company, and the Company's responsibilities towards its employees. Our business principles, integrity, company and employee responsibilities, all encompass our Code of Conduct. All standards ensure both management and staff work in cohesion towards the smooth functioning of the organization.

**BUSINESS PRINCIPLES**

- Employees should implement core values, comply with and observe applicable laws, support human rights and ensure health, safety and environment values remain top priorities.

**BUSINESS INTEGRITY**

- Bribery and other forms of unethical business practices are prohibited.
- Free enterprise is promoted and strict compliance with competition laws is required.
- As responsible corporate citizens, we encourage our employees to participate in community activities, take all necessary measures to ensure the safety and health of our employees, while playing our role in protecting the environment.
- Employees are expected to maintain confidentiality and act in the Company's best interest at all times.

**COMPANY RESPONSIBILITIES**

- Adopt a spirit of open communication.
- Provide equal opportunities and a healthy, safe and secure environment.
- Ensure employee rights are exercised such as freedom to join unions and associations.
- Protect employees' personal data.
- Engage in an active performance management system.

**EMPLOYEE RESPONSIBILITIES**

The Code provides guidance to employees on their responsibilities in the following areas:

- Media relations and disclosures
- Inside information
- Corporate identity
- Protecting intellectual property
- Internet use
- Business travel policy
- Prohibit substance abuse

# ***Chief Executive's*** *Message to the Stakeholders*

Like 2012, 2013 continued to be a challenging year for the PTA industry worldwide. The influx of more than 12 million tons of new PTA capacities coupled with short Px market and uncertain economic environment in the region have resulted in PTA margins to drop drastically. While the majority of PTA plants have reduced their operations and curbed production, our plant is one of the few in the world which continues to run flat-out and fulfill its contractual commitments with customers.

In these challenging times, the Company's Management remains steadfast in its business approach and maintained its focus on key controllables. In our fifteen years of operation, the Company has sustained an excellent safety record of 43 million man-hours without Lost Time Case (LTC). Additionally, we adhere to safety policies and procedures which have helped us attain OHSAS-18001 & ISO-14001 certifications.

In addition to high plant production levels, we were able to maximise domestic sales, control fixed costs and maintain acceptable cash levels despite erosion in margins.

Our co-generation power plant, the largest capital project since the base plant construction in 1998, is proving reliable and efficient, and we hope to further augment our engineering capabilities to control processes and achieve maximum operational efficiency.

While ensuring we return to profitability, we will continue to identify and implement sustainable ways of doing business. Our vision is to make a positive difference in people's lives, leading to socio-economic development. Our CSR activities in 2013 surpassed last year's efforts. We continued to invest in charities, education, vocational training, youth engagement, health initiatives and other community initiatives - in many instances partnering with reputable NGOs, who support those who work for the betterment of society.

As we look towards 2014, we are excited about our business opportunities. The demand for PTA in Pakistan is increasing, and we strive to gain a stronger market presence by remaining committed to our goals. Our focus remains to reduce costs, maintain quality, and surpass output levels.

As our Company completes another year - one thing remains the same - our unwavering commitment to our stakeholders - our employees, suppliers, business partners and shareholders. I express my gratitude for your support and trust over the years and I look forward to your continued collaboration with the Company.

Sincerely yours

M Asif Saad

# Quarterly Highlights - 2013

## Quarter 1

- Awarded 8th EFP Best Practice Award in the category of Occupational Health Safety and Environment (OHS&E) for the year 2012
- Long term partnership renewed with Engro Vopak Terminal Ltd and Linde Pakistan Ltd
- Safe and timely completion of Overhaul '13
- Board Meeting and AGM

## Quarter 2


- CSR Business Excellence Award
- Board Meeting
- Fresh Engineer Recuitment from all over Pakistan

## Quarter 3


- 10th Environmental Excellence Award & Certificate from NFEH
- Board Meeting
- Awareness Session on ISO 14001 & OHSAS 18001
- 2012 Employer of the Year Award - Employers Federation of Pakistan
- Best Learning Organization Award - PSTD

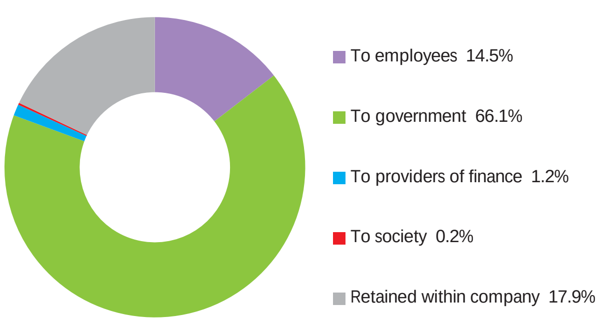
## Quarter 4

- First Annual Maintenance of Gas Turbine Generator.
- 3rd Fire & Safety Excellence Award & Certificate from NFEH & FPAP
- TPM Launch
- HR Road Show at various Engineering Universities
- 230 Employee Volunteers completed 580 hours of Community Service in 2013
- Successful Conclusion of all Sales and Feedstock purchase contracts for 2014

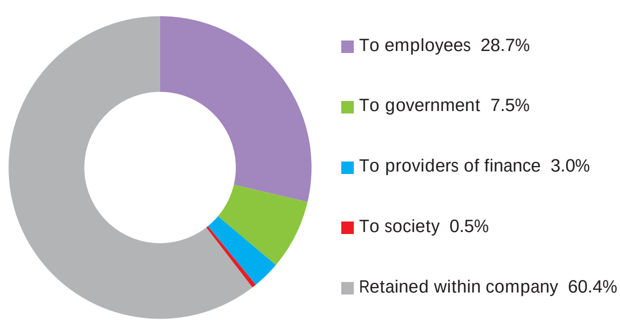
# *Statement Of Value Added And Its Distribution*

| | 2013 Rs ('000) | % | 2012 Rs ('000) | % |
|---|---|---|---|---|
| Wealth generated | | | | |
| Total revenue (including other income) | 60,127,709 | | 53,404,510 | |
| Bought-in material and services | (56,340,729) | | (51,444,789) | |
| | 3,786,980 | 100.0 | 1,959,721 | 100.0 |
| Wealth distribution | | | | |
| To employees | | | | |
| Salaries, wages and other benefits | 550,390 | 14.5 | 561,531 | 28.7 |
| To government | | | | |
| Income tax, sales tax, excise duty,WWF and WPPF | 2,502,874 | 66.1 | 146,701 | 7.5 |
| To shareholders | | | | |
| Dividend | - | 0.0 | - | 0.0 |
| To providers of finance | | | | |
| Finance costs | 46,168 | 1.2 | 58,199 | 3.0 |
| To society as donations | | | | |
| Donations towards education,health and environment | 8,072 | 0.2 | 8,953 | 0.5 |
| Retained within company | | | | |
| Depreciation, amortisation and retained earnings | 679,476 | 17.9 | 1,184,337 | 60.4 |
| | 3,786,980 | 100.0 | 1,959,721 | 100.0 |

Wealth distribution in 2013




Wealth distribution in 2012

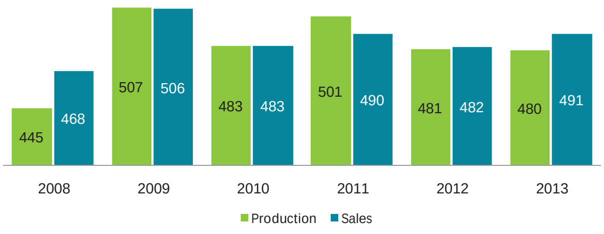


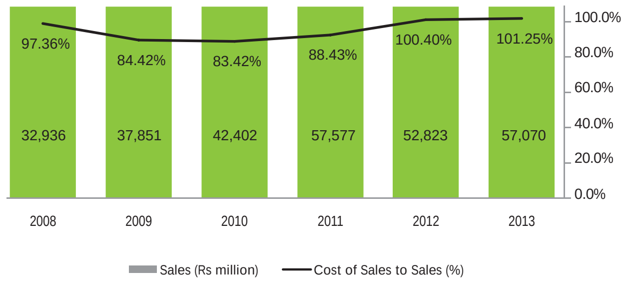
# *Key Operational And Financial Data*
# *Six Years At A Glance*

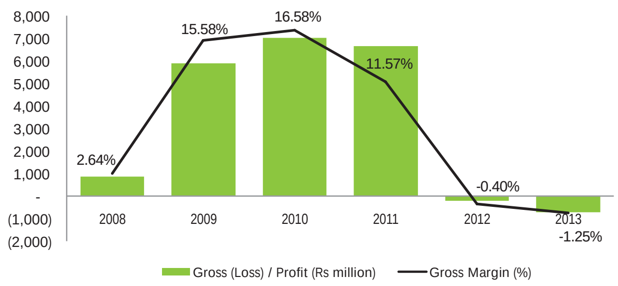
| | | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|
| BALANCE SHEET SUMMARY | | | | | | | |
| Issued, subscribed & paid-up capital | Rs m | 15,142 | 15,142 | 15,142 | 15,142 | 15,142 | 15,142 |
| Capital reserves | Rs m | 2 | 2 | 2 | 2 | 2 | 2 |
| Accumulated loss | Rs m | (3,567) | (3,024) | (2,062) | (5,482) | (9,250) | (12,886) |
| Long term loans | Rs m | 400 | - | - | 3,438 | 5,322 | 4,997 |
| Current liabilities | Rs m | 7,631 | 8,045 | 9,616 | 8,054 | 5,751 | 5,667 |
| Fixed assets | Rs m | 4,976 | 6,051 | 9,853 | 8,754 | 9,201 | 9,953 |
| Long term investment | Rs m | 4,500 | 4,500 | - | - | - | - |
| Current assets | Rs m | 10,462 | 10,295 | 13,901 | 13,897 | 9,544 | 5,149 |
| PROFIT AND LOSS ACCOUNT SUMMARY | | | | | | | |
| Revenue | Rs m | 57,070 | 52,823 | 57,577 | 42,402 | 37,851 | 32,936 |
| Cost of sales | Rs m | (57,780) | (53,035) | (50,915) | (35,372) | (31,954) | (32,068) |
| Gross (loss) / profit | Rs m | (711) | (212) | 6,663 | 7,030 | 5,897 | 868 |
| (Loss) / profit before taxation | Rs m | (348) | (242) | 6,209 | 6,710 | 4,719 | (1,679) |
| (Loss) / profit after taxation | Rs m | (546) | (181) | 4,178 | 4,525 | 3,574 | (1,570) |
| EBITDA | Rs m | 1,004 | 1,269 | 7,758 | 8,185 | 6,680 | 1,918 |
| CASH FLOW SUMMARY | | | | | | | |
| Net cash generated from operating activities | Rs m | 1,952 | 638 | 2,209 | 5,631 | 7,051 | 542 |
| Net cash used in investing activities | Rs m | (150) | (2,067) | (1,956) | (1,305) | (277) | (273) |
| Net cash from /(used in) financing activities | Rs m | 400 | (2,851) | (2,658) | (2,853) | (98) | (777) |
| Cash and cash equivalents at year end | Rs m | 2,427 | 225 | 4,505 | 6,910 | 5,438 | (1,238) |
| KEY RATIOS | | | | | | | |
| Gross (loss) / profit ratio | % | (1.25) | (0.40) | 11.57 | 16.58 | 15.58 | 2.64 |
| EBITDA margin to sales | % | 1.76 | 2.40 | 13.47 | 19.30 | 17.65 | 5.82 |
| Net profit margin | % | (0.96) | (0.34) | 7.26 | 10.67 | 9.44 | (4.77) |
| ROE | % | (4.72) | (1.49) | 31.93 | 46.83 | 60.63 | (69.53) |
| ROCE | % | (4.56) | (1.49) | 31.84 | 33.99 | 30.89 | (20.51) |
| Inventory turnover | times | 15.50 | 11.59 | 13.90 | 18.00 | 25.38 | 17.87 |
| Inventory turnover in days | days | 23.54 | 31.48 | 26.25 | 20.27 | 14.38 | 20.42 |
| Debtors turnover | times | 18.77 | 16.40 | 18.94 | 17.90 | 26.19 | 16.85 |
| Average collection period | days | 19.45 | 22.26 | 19.27 | 20.40 | 13.94 | 21.66 |
| Creditors turnover | times | 10.71 | 10.04 | 11.03 | 10.50 | 12.21 | 9.57 |
| Payable turnover in days | days | 34.09 | 36.35 | 33.09 | 34.76 | 29.89 | 38.14 |
| Operating cycle | days | 8.89 | 17.39 | 12.44 | 5.91 | (1.57) | 3.94 |
| Total asset turnover | times | 2.78 | 2.35 | 2.47 | 2.04 | 2.22 | 2.03 |
| Fixed asset turnover | times | 10.35 | 6.64 | 6.19 | 4.72 | 3.95 | 3.18 |
| Current ratio | times | 1.37 | 1.28 | 1.45 | 1.73 | 1.66 | 0.91 |
| Quick ratio | times | 0.88 | 0.63 | 0.89 | 1.33 | 1.37 | 0.59 |
| Cash to current liabilities | times | 0.32 | 0.03 | 0.47 | 0.86 | 0.95 | 0.00 |
| Cash flow from operation to sales | times | 0.03 | 0.01 | 0.04 | 0.13 | 0.19 | 0.02 |
| Interest cover | times | (1.75) | (0.66) | 27.71 | 30.27 | 7.25 | 0.30 |
| Debt equity ratio | times | 1.03 | 1.00 | 1.14 | 1.38 | 1.96 | 3.39 |
| Price earnings ratio | times | (20.35) | (61.51) | 3.36 | 4.58 | 3.32 | (1.53) |
| EPS | Rs | (0.36) | (0.12) | 2.76 | 2.99 | 2.36 | (1.04) |
| Cash dividend per share | Rs | - | - | 0.50 | 0.50 | 0.50 | - |
| Dividend yield ratio | % | - | - | 5.39 | 3.65 | 6.39 | - |
| Dividend payout ratio | % | - | - | 18.12 | 16.73 | 21.19 | - |
| Dividend cover ratio | times | - | - | 5.52 | 5.98 | 4.72 | - |
| Breakup value per share | Rs | 7.65 | 8.00 | 8.64 | 6.38 | 3.89 | 1.49 |
| Market value per share - 31 December | Rs | 7.34 | 7.35 | 9.27 | 13.70 | 7.83 | 1.59 |
| Market value per share – High | Rs | 9.13 | 10.78 | 17.36 | 14.11 | 8.19 | 5.95 |
| Market value per share – Low | Rs | 6.20 | 6.70 | 8.31 | 6.75 | 1.59 | 1.15 |
| Market capitalization | Rs m | 11,114.3 | 11,129.4 | 14,036.7 | 20,744.6 | 11,856.2 | 2,407.6 |

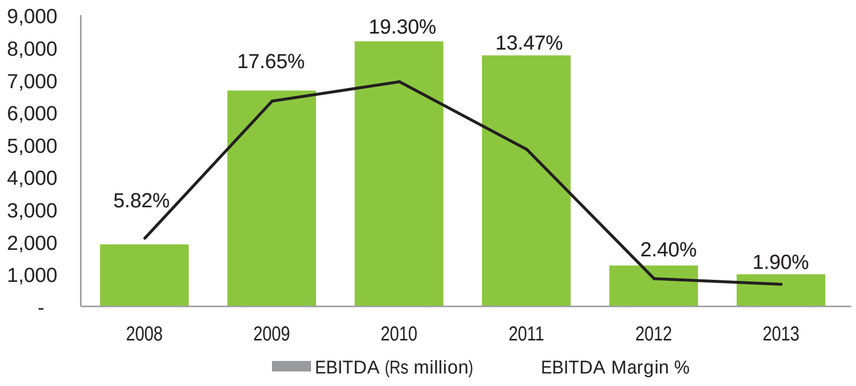
Year 2013 and 2012 have been presented as per change in accounting policy (note 4 to the Financial Statements)

# Key Operational And Financial Data Graphical Presentation

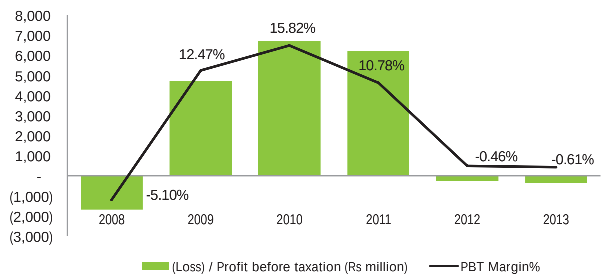



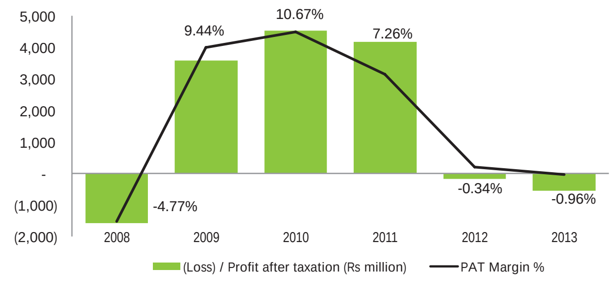



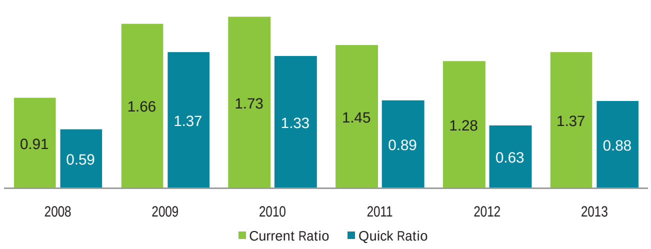
PBT (Rs million) & PBT Margin (%)



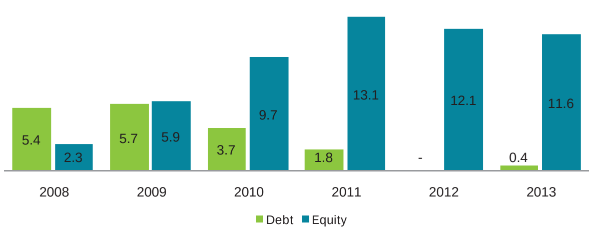

PAT (Rs million) & PAT Margin (%)



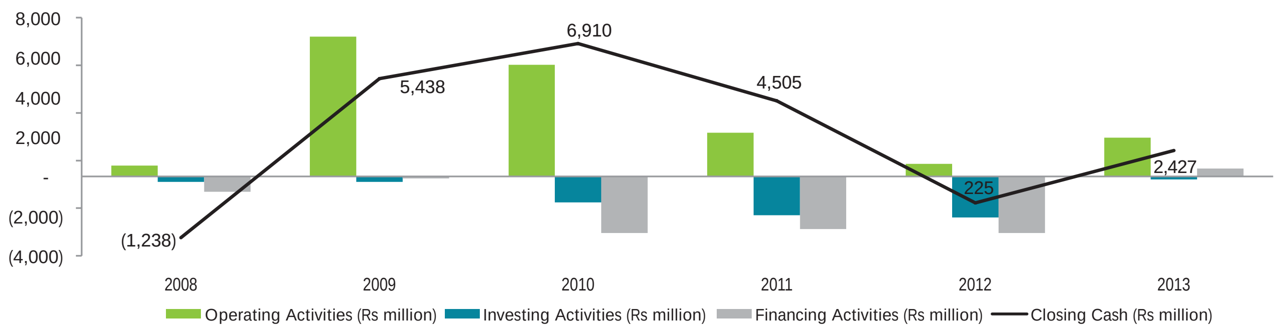

Liquidity Ratios




Debt Equity (Rs billion)




Cash Flow Analysis



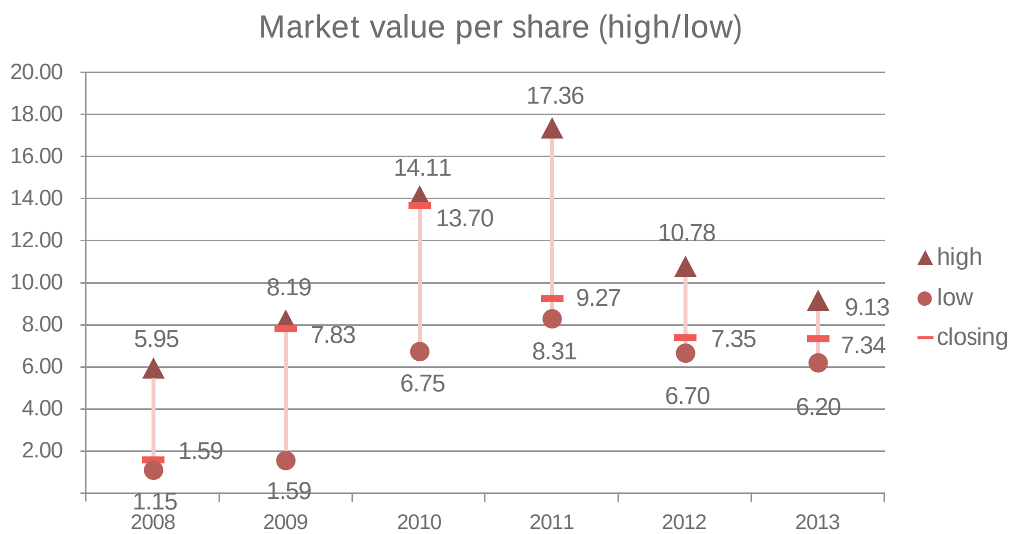
# Vertical Analysis

| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| | % | | | | | |
| BALANCE SHEET | | | | | | |
| Fixed assets | 24.8 | 28.9 | 41.2 | 38.5 | 48.8 | 65.5 |
| Long-term investment | 22.5 | 21.5 | - | - | - | - |
| Other non-current assets | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 | 0.6 |
| Current assets | 52.2 | 49.1 | 58.2 | 61.1 | 50.7 | 33.9 |
| Total assets | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Shareholders equity | 57.8 | 57.8 | 54.7 | 42.5 | 31.3 | 14.9 |
| Surplus on revaluation of fixed assets | - | - | - | - | - | 0.6 |
| Non-current liabilities | 4.2 | 3.8 | 5.0 | 22.2 | 38.2 | 47.3 |
| Current liabilities | 38.1 | 38.4 | 40.2 | 35.4 | 30.5 | 37.3 |
| Total equity and liabilities | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| PROFIT AND LOSS ACCOUNT | | | | | | |
| Revenue | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of sales | (101.2) | (100.4) | (88.4) | (83.4) | (84.4) | (97.4) |
| Gross (loss) / profit | (1.2) | (0.4) | 11.6 | 16.6 | 15.6 | 2.6 |
| Distribution and selling expenses | (0.2) | (0.3) | (0.3) | (0.3) | (0.3) | (0.2) |
| Administration expenses | (0.6) | (0.6) | (0.6) | (0.6) | (0.6) | (0.6) |
| Other expenses | (0.1) | (0.0) | (0.9) | (1.4) | (1.4) | (0.1) |
| Other income | 1.7 | 1.1 | 1.4 | 2.1 | 1.2 | 0.5 |
| Finance costs | (0.2) | (0.3) | (0.4) | (0.5) | (2.0) | (7.3) |
| (Loss) / profit before taxation | (0.6) | (0.5) | 10.8 | 15.8 | 12.5 | (5.1) |
| Taxation | (0.3) | 0.1 | (3.5) | (5.2) | (3.0) | 0.3 |
| (Loss) / profit after taxation | (1.0) | (0.3) | 7.3 | 10.7 | 9.4 | (4.8) |

# Horizontal Analysis

| | 2013 over 2012 | 2012 over 2011 | 2011 over 2010 | 2010 over 2009 | 2009 over 2008 | 2008 over 2007 |
|---|---|---|---|---|---|---|
| | ---------- | ---------- | ---------- | % | ---------- | ---------- |
| BALANCE SHEET | | | | | | |
| Fixed assets | (17.8) | (38.6) | 12.5 | (4.9) | (7.6) | (7.4) |
| Long-term investment | - | 100.0 | - | - | - | - |
| Other non-current assets | (16.6) | (14.2) | 35.2 | 12.1 | 12.3 | 9.3 |
| Current assets | 1.6 | (25.9) | 0.0 | 45.6 | 85.3 | (19.5) |
| Total assets | (4.4) | (12.3) | 5.0 | 20.8 | 24.1 | (11.8) |
| | | | | | | |
| Shareholders equity | (4.5) | (7.4) | 35.4 | 63.9 | 161.0 | (41.0) |
| Surplus on revaluation of fixed assets | - | - | - | - | (100.0) | 100.0 |
| Non-current liabilities | 3.5 | (32.9) | (76.2) | (29.9) | 0.3 | 14.2 |
| Current liabilities | (5.1) | (16.3) | 19.4 | 40.1 | 1.5 | (20.2) |
| Total equity and liabilities | (4.4) | (12.3) | 5.0 | 20.8 | 24.1 | (11.8) |
| | | | | | | |
| PROFIT AND LOSS ACCOUNT | | | | | | |
| Revenue | 8.0 | (8.3) | 35.8 | 12.0 | 14.9 | 15.7 |
| Cost of sales | 8.9 | 4.2 | 43.9 | 10.7 | (0.4) | 18.3 |
| Gross profit / (loss) | 235.5 | (103.2) | (5.2) | 19.2 | 579.1 | (99.9) |
| Distribution and selling expenses | (9.1) | (33.0) | 79.3 | (9.3) | 114.9 | (99.7) |
| Administration expenses | 8.4 | (8.1) | 23.2 | 24.4 | 7.3 | 25.0 |
| Other expenses | 41.3 | (95.6) | (17.1) | 11.5 | 1,230.1 | 6.5 |
| Other income | 69.0 | (29.0) | (9.5) | 95.2 | 197.5 | (9.0) |
| Finance costs | (13.2) | (37.2) | 1.4 | (69.6) | (68.6) | 117.7 |
| Profit / (loss) before taxation | 43.9 | (103.9) | (7.5) | 42.2 | (381.1) | (100.8) |
| Taxation | (424.0) | (103.0) | (7.0) | 90.7 | (1,154.3) | (259.7) |
| Profit / (loss) after taxation | 201.8 | (104.3) | (7.7) | 26.6 | (327.6) | (101.2) |

# Financial Calendar




**OWNERSHIP**

On 31 December 2013, there were 18,319 members on the record of the Company's ordinary shares. Market capitalization of the Company's stock as at 31 December 2013 was recorded at Rs 11.11 billion (2012: Rs 11.13 billion) with the price per share fluctuating from a high of Rs 9.13 to a low of Rs 6.20 and closing the year at Rs 7.34. Trading volumes for the Company's shares remained consistently high during the year.

Closely held shares (i.e. those held by the sponsors, investment companies, financial institutions, foreign investors and other corporate bodies) amounted to 83.72% of the total share capital including 75.01% held by the foreign shareholders.

**ANNUAL GENERAL MEETING**

The 16th annual shareholders meeting will be held at 11:00 am on 26 March 2014 at the Beach Luxury Hotel, M.T. Khan Road, Karachi. Shareholders as of 20 March 2014 are encouraged to participate and vote.

Any shareholder may appoint a proxy to vote on his or her behalf. Proxies should be filed with the Company at least 48 hours before the meeting date.

CDC shareholders or their proxies are requested to bring with them copies of their Computerized National Identity Card along with Participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate their identification.

**FINANCIAL CALENDAR**

| | |
|---|---|
| Year ended 31 December 2012 | announced on 28 January 2013 |
| First quarter ended 31 March 2013 | announced on 26 April 2013 |
| Second quarter ended 30 June 2013 | announced on 27 August 2013 |
| Third quarter ended 30 September 2013 | announced on 28 October 2013 |
| Year ended 31 December 2013 | announced on 28 January 2014 |

15th Annual General Meeting held on 26 March 2013.

Tentative dates of 2014 financial results to be announced on:

| | |
|---|---|
| First quarter ending 31 March 2014 | 25 April 2014 |
| Second quarter ending 30 June 2014 | 26 August 2014 |
| Third quarter ending 30 September 2014 | 27 October 2014 |
| Year ending 31 December 2014 | January 2015 |

All annual / quarterly reports are regularly posted at the Company's website: www.lottechem.pk

The Company reserves the right to change any of the above dates.

**INVESTOR RELATION CONTACT**

Mr Waseem Ahmed Siddiqui (Assistant Manager Shares)
Email: waseem.siddiqui@lottechem.pk
UAN: +92(0)21 111 568 782 Fax: +92(0)21 3416 9126

Enquiries concerning cost of share certificate, dividend payments, change of address, verification of transfer deeds and shares transfers should be directed to the Shares Registrar at the following address:

M/S Famco Associates (Pvt) Limited
8-F, Next to Hotel Faran,
Nursery, Block 6, P.E.C.H.S.,
Shahrah-e-Faisal,
Karachi.

# Corporate Governance

# Corporate Governance And Compliance

## Overview

The Company's corporate governance structure is based on the requirements of the Companies Ordinance, 1984, along with other circulars and guidelines issued by the Securities and Exchange Commission of Pakistan (SECP), listing regulations of the three stock exchanges, the Code of Corporate Governance and the Company's Articles of Association. This is further strengthened by several internal procedures, which include a risk management assessment and control system, as well as a system of assurances of compliance with the applicable laws, regulations and the Company's Code of Conduct.

The Company is a public limited company established under the laws of Pakistan. The shares of the Company are listed on the three stock exchanges of the Country, the Karachi Stock Exchange (G) Limited, Lahore Stock Exchange (G) Limited and Islamabad Stock Exchange (G) Limited.

## The Board And Its Processes

**THE BOARD'S ROLE**

The Board of Directors provides oversight in the governance, management and control of the Company and is responsible for setting the goals, objectives and strategies of the Company and for formulating the policies and guidelines towards achieving those goals and objectives. The Board is accountable to the shareholders for the discharge of its fiduciary function. The Management is responsible for the implementation of the aforesaid goals and strategies in accordance with the policies and guidelines laid down by the Board of Directors. In order to facilitate the smooth running of the day to day affairs of the Company, the Board entrusts the Chief Executive with necessary powers and responsibilities who in turn is assisted by an Executive Management Team. The Board is also assisted by a number of sub committees comprising mainly non-executive/independent directors.

The activities of the Board are based on the requirements and duties laid down under relevant laws and the Company's Memorandum and Articles of Association. This compliance assists the Board in safeguarding the interests of all the stakeholders.

## BOARD COMPOSITION, SIZE AND TENURE

The structure of the Board reflects an optimum combination of executive, non-executive and independent directors. The current Board comprises eight directors which include three executive directors (including the Chief Executive), three non-executive directors and two independent directors. The Chairman of the Board is a non-executive director. The positions of Chairman and Chief Executive are held by separate individuals with clearly defined roles and responsibilities.

All the directors are appointed for a term of three years on completion of which they are eligible for re-election under the Company's Articles of Association through a formal election process. Consent to act as director is obtained from each candidate prior to election.

The Company has had an Audit Sub Committee and a HR & Remuneration Sub Committee of the Board much before the introduction of the Code of Corporate Governance.

## BOARD MEETINGS

The Board determines the key items for its consideration for the coming financial year. The agenda is set by the Chairman in consultation with the CE and with support of the Company Secretary. A similar process is used for meetings of Board Committees.

Meetings of the Board of Directors and Sub Committees are held in accordance with an annual schedule circulated before each year end to ensure maximum director participation.

Discussions at Board meetings are open and constructive. All discussions of the Board and their records are maintained in confidence unless there is a specific decision or legal requirement to make disclosure.

In participating in Board discussion, Executive Directors are expected to discharge their responsibilities as directors of the Company and not to act solely as the representatives of that activity for which they bear executive responsibility.

## FINANCIAL STATEMENTS

Periodic financial statements of the Company are circulated to the directors duly endorsed by the Chief Executive and the Chief Financial Officer for approval by the Board before publication, in compliance with the Listing Regulations of the Stock Exchanges. After consideration and approval, the Board authorizes the signing of financial statements for issuance and circulation. The half-yearly and annual financial statements are initialled by the external auditors before presentation to the Audit Committee and the Board for their respective approvals.

The publication and circulation to the shareholders, stock exchanges and regulators of quarterly unaudited financial statements along with Directors' Review is done within one month and half-yearly financial statements reviewed by the external auditors within two months, of the respective period end dates.

Annual financial statements together with the Directors' Report, Auditors' Reports and other Statutory Statements / Information are circulated for consideration and approval by the shareholders, within four months from the end of the financial year. These statements are also made available on the Company's website. All other important information considered sensitive for share price determination is transmitted to stakeholders and regulators on a timely basis.

## BOARD EVALUATION

As stipulated in the revised Code of Corporate Governance, a mechanism is to be put in place for an annual evaluation of the Board's own performance by 2014. The Board is in the process of putting a formal mechanism to evaluate its own performance and same will be implemented as per the requirements of the Code.

## BOARD INDUCTION AND EDUCATION

All Directors, including foreign resident directors, as part of their induction package, are provided with sufficient information of their duties and responsibilities under respective laws and the Company's Memorandum and Articles of Association. Directors, being senior professionals and possessing experience of managing various responsibilities, have adequate exposure to corporate matters. The three executive directors, including the Chief Executive and one independent director have completed all parts of the certification "The Board Development Series" offered by the Pakistan Institute of Corporate Governance. Certification for remaining directors will be obtained in accordance with the Code of Corporate Governance.

## MATERIAL INTERESTS OF BOARD MEMBERS

Directors are required to disclose, at the time of appointment and on an annual basis, the directorships or memberships they hold in other corporations. This is in pursuance with Section 214 of the Companies Ordinance 1984, which also requires them to disclose all material interests. We use this information to help us maintain an updated list of related parties. In case any conflict of interest arises, we refer the matter to the Board's Audit Committee.

None of the directors are either members of any stock exchanges in Pakistan or engaged in the business of stock brokerage. Moreover, they are not involved in external audit and have had no relationship with the Company's external auditors during the preceding two years. Remuneration and benefits of the Board, including the Chief Executive and executive directors, are disclosed in note 37 to the financial statements as determined under provisions of the Articles of Association of the Company.

## ROLES AND RESPONSIBILITIES OF THE CHAIRMAN AND CHIEF EXECUTIVE

There is a clear segregation of roles between the Chairman of the Board and the Chief Executive for smooth running of the business. The Company's Articles of Association, relevant laws and the duties assigned by the Board outline the responsibilities and the power of the Chairman of the Board. He presides over the meetings of the Board / shareholders and is responsible for appropriate composition of the Board and all the activities of the Board.

The Chief Executive functions in accordance with the powers vested in him by law, the Company's Articles of Association and the authorities delegated to him by the Board. The Chief Executive is responsible for framing strategic proposals and formulating business plans for the Board approval. Moreover, the Chief Executive is also responsible for ensuring smooth functioning of the business with optimum utilisation of the Company's resources and effective implementation of internal controls.

### BOARD & MANAGEMENT COMMITTEE

The Board may at any time establish Committees of the Board to assist in carrying out its responsibilities. Any Committee will be subject to the Board Principles and will speak or act for the Board only when and to the extent so authorised.

The permanent Committees of the Board include the Audit Committee, the HR & Remuneration Committee and Shares Sub Committee.

Each permanent Committee is comprised of those directors the Board considers best suited to serve on that Committee and in accordance with the Code of Corporate Governance.

The Board and Management Committees brief details are covered elsewhere in the Report.

## *Best Corporate Practices*

### CODE OF CONDUCT

Even before the introduction of the requirement in the Code of Corporate Governance, the Company had a comprehensive Code of Conduct. In order to apprise the employees of the Code of Conduct, the Company organizes training sessions and induction programmes on a regular basis to ensure compliance at all levels. Besides this, every employee and director of the Company is required to sign, on an annual basis, a statement to the effect that he or she understands the Code of Conduct and that he or she abides by it at all times while doing business for the Company. Salient features of the Code of Conduct are covered earlier in the Report.

### SPEAK UP

A separate 'Speak Up' policy has been formulated in order to facilitate strict adherence to the Code of Conduct, whereby any Company employee can raise concerns, expose irregularities and help management of the Company in identifying financial malpractices and potential frauds without any fear of reprisal or adverse consequences on a confidential basis through various modes of communication. Complete anonymity of the person using this facility is assured and all complaints are thoroughly investigated either by the Company internally or by assigning it to the Internal Auditors.

Employees of the Company are encouraged to use the guidance provided by the Speak Up Policy for reporting wrongdoing/improper conduct. A separate Speak Up Committee has been formed with a direct reporting line to the Board Audit Committee (BAC).

### INSIDER TRADING

The Company has a stringent policy on insider trading and securities transactions. The policy paper which is circulated to all the employees of the Company from time to time prohibits all employees of the Company from making use of inside information for direct or indirect transactions in Company shares. No trading in Company shares is allowed during the closed periods. Trading is only allowed in the open period, preferably in the two weeks period following announcement of quarterly/half-yearly/annual results. Prior notification in writing is required to be given to Company Secretary before carrying out any transaction and once the transaction is executed, it is to be reported back to the Company Secretary within four days of execution of the transactions with relevant details of purchase/sale of shares. No opposite transaction is allowed within six months i.e. if anyone buys any shares of the Company, he or she is not allowed to sell those shares within six months to make a gain.

### RELATED PARTY TRANSACTIONS

We maintain a complete and updated list of related parties. All transactions with related parties are carried out on an arm's length basis as per formulas approved by the Board of Directors. A complete list of all related party transactions is compiled and submitted to the Audit Committee every quarter. After review by the Audit Committee, the transactions are placed before the Board for their consideration and approval.

### INTERNAL CONTROL

The Company has a sound system of internal control and risk management. The internal audit function, which is mainly responsible for internal controls, has been outsourced to M/s Ernst & Young Ford Rhodes Sidat Hyder and reports directly to the Chairman of the Audit Committee. As a consequence of regular review over several years, the Company now has an extremely robust system of internal controls which was further strengthened in 2005 when the Company had to go through a comprehensive implementation of the Sarbanes-Oxley Act (SOX) due to listing of its previous parent company's shares on the New York Stock Exchange. Although this requirement is no longer applicable to the Company, the Company continued with the control framework then adopted.

## *Disclosure And Transparency*

### ADEQUATE DISCLOSURE

We believe in best practices in corporate governance by adopting transparency and disclosure as a policy with our stakeholders. This is achieved through disclosure of communications to our shareholders and other stakeholders, including our financial statements. All critical accounting estimates, rules and procedures governing extraordinary transactions, or any changes in accounting policies along with their financial impact, are disclosed in the notes to our financial statements. We follow the Companies Ordinance and applicable IAS and IFRS (International Accounting Standards and International Financial Reporting Standards). In addition, we endeavour to provide as much relevant supplementary information in the financial statements as possible.

### ANNUAL GENERAL MEETING

The Company holds its Annual General Meeting of the shareholders in light of the Companies Ordinance, Listing Regulations, Code of Corporate Governance and our Articles of Association. We request all our shareholders to participate. We also ensure that a copy of the Annual Report containing the agenda and notice of our AGM is dispatched to every shareholder at her/his registered address.

### INVESTOR RELATIONS

The Company seeks to keep all stakeholders informed on a regular basis. This is done by means of publication on Company's website containing complete financial reports on a quarterly basis and the publication of the annual and interim reports. In addition, the Company communicates with all its shareholders / investors and analysts through organizing or attending meetings such as AGMs. Also, on need basis, meetings are held with stakeholders to ensure that the investment community receives a balanced and complete view of the Company's performance and the issues faced by the business, while always observing applicable rules concerning selective disclosure, equal treatment of shareholders and insider trading.

## *Pattern Of Shareholding*

**OWNERSHIP & CONTROL STRUCTURE**

Disclosure of Company's shareholding structure is given in the pattern pursuant to the Companies Ordinance and the Code of Corporate Governance in the printed accounts of the Company. Our share capital is comprised of ordinary shares. No other class of shares is issued by the Company. LOTTE Chemical Corporation (formerly KP Chemical Corporation), Korea holds 75.01% shares, while the balance 24.99% shares are held by individuals and domestic and foreign institutions. The pattern of shareholding in the Company, as at 31 December 2013, is given on page 193 of the Annual Report.

## *Internal and External Audit*

Our Internal Audit function plays a key role in providing the management and the Board an objective view and reassurance of the effectiveness of the risk management and related control systems throughout the entity. Internal Audits are carried out across all functions by Ernst & Young (our independent internal auditors) and all findings are reported to the Management and the Audit Committee of the Board. Action plans are followed up rigorously to ensure that timely corrective action is implemented for the effective functioning of controls. The Board, through the Audit Committee, reviews the assessment of risks, internal and disclosure controls and procedures and suggests remedial actions where applicable. The role of the Audit Committee is to assist the Board in fulfilling their oversight responsibilities regarding the integrity of Company's financial statements, risk management and internal control, compliance with legal and regulatory requirements, the external auditors' performance, qualifications and independence, the performance of the internal audit function, and compliance with the Code of Conduct.

The external auditors are appointed by the shareholders on a yearly basis at the Annual General Meeting on the recommendation of the Board of Directors and shareholders. The partner in charge of our audit is rotated every five years as per the regulations.

# *Risk Management*

The Board has an overall responsibility for the risk management process and internal control procedures. The Audit Committee monitors the Company's risk management process quarterly or more frequently if required and reviews the adequacy of the risk management framework. The Company's documented and regularly reviewed procedures are designed to safeguard our assets, address risks facing the business, and ensure timely reporting to the Board and senior management. A clear organizational structure with defined delegation of authorities is maintained and the senior management takes the day to day responsibility for implementation of procedures, ongoing risk monitoring, and effectiveness of controls.

Our risk and control procedure is supported through a Business Continuity Plan and Crisis Management Plan.

**BUSINESS CONTINUITY PLAN/ CRISIS MANAGEMENT PLAN**

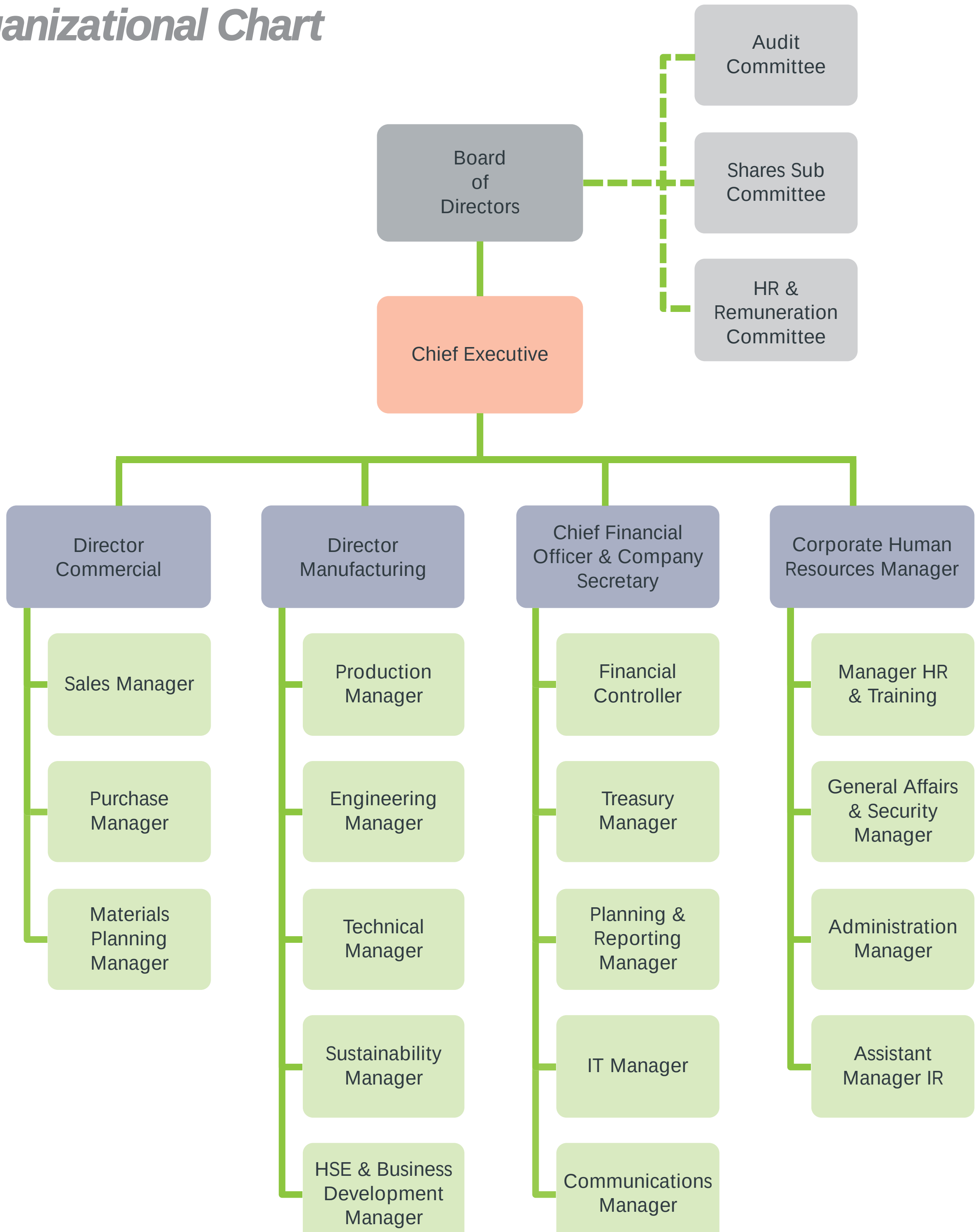
The Company recognizes the importance of a comprehensive Business Continuity Planning Programme that allows it to plan for and manage major business disruptions. All significant risks, possibilities for control and reduction are identified. The plan is periodically tested in a simulated environment to ensure that it can be implemented in emergency situations and that the management and employees are aware of their respective roles. The range of events considered includes natural disasters, failure of equipment, terrorist action, government/political/legal actions, and changes in the financial and business climate. The controls identified are tested by our internal auditors and action plans are followed rigorously to ensure timely corrective action is implemented for the effective functioning of controls. In addition, a Crisis Management Plan is also developed and is regularly reviewed and updated. This focuses on helping management to handle the immediate effects of a major incident and includes instructions on communications both within and outside the Company.

**BUSINESS RISKS & CHALLENGES**

The following risks are considered to be relevant in evaluating the overall outlook and business strategy of the Company.

| | Risk | Mitigating Factors |
|---|---|---|
| STRATEGIC | Changing Economic Conditions & Government Policies | The Board and the Management strive to follow a defined strategy to overcome strategic risks and continuously seek dialogue with the policy makers through various business forums in the overall interest of the domestic industries. |
| STRATEGIC | Compliance with Laws & Regulations | Changes in regulatory environment are monitored closely and all significant changes are adapted in a timely manner. We advertise and encourage use of 'Speak Up' policy to all our employees to report irregularities, if any, in relation to our Code of Conduct. We remain committed to compliance with all legal and regulatory requirements with special emphasis on our Code of Conduct. |
| OPERATIONAL | Critical Equipment Failure | Stringent control measures for all critical equipment are in place which includes, but is not limited to, exhaustive preventive maintenance regimes, availability of all adequate spares, upgrade of technologies and necessary training of related manpower. |
| OPERATIONAL | Power Failure | Being the sole producer of PTA in the country, it remains imperative that the PTA plant remains in operation on continuous basis throughout the year and as a result, alternate sources for all its key utility needs are in place. The Company in 1998/1999 invested heavily in the KESC's network to ensure uninterrupted power supply to the Company and the Company entered into an evergreen power supply agreement with KESC based on its investment in the necessary infrastructure. All critical equipment remains connected to standby generators. In addition, the Company invested in a captive co-generation power facility, which became operational in July 2012, to improve the energy economics of the business and to ensure alternate uninterrupted power supply for continuous PTA operations. |
| OPERATIONAL | Health, Safety, Environment & Security | We continue to uphold the highest safety standards, in line with OHSAS 18001 & internal HSE policies, for both Company and contractor employees which is evidenced by an excellent safety record spread over 13 years without a Lost Time Injury - more than 42 million man-hours have been completed without a Lost Time Case. |
| OPERATIONAL | Attraction & Retention of Talent | The Board and the Management put great emphasis on attracting, educating, motivating and retaining staff and the Company continues to support the development of a winning culture through its human resources management policies. Engagement of all our employees remains our key priority. |
| COMMERCIAL | Key Supplier Failure | The Company aims to use its purchasing power and long-term relationships with the suppliers to ensure continuous availability of raw materials. Maintenance of optimum buffer inventory levels and ensuring alternative sources for key raw materials assists in partially mitigating the risk of abrupt supply interruptions. |
| COMMERCIAL | Key Customer Failure | The Company takes pride in the dependable relations developed with its customers over the years and aims to enter into long term relationships to ensure continuous sale of its product. The Company has demonstrated its ability to export larger volumes, if required. Availability of locally produced PTA and excellent technical support present a strong incentive for local customers to retain the relationship in the Company on a long-term basis. |
| FINANCIAL | Liquidity Risk | The Company's sales strategy enables maximum volumes to be sold against sight letters of credit and purchasing strategy ensures optimum level of credit days. Adequate modes of financing are available in the form of committed bank facilities. This risk is also mitigated by continuous monitoring of cash flow needs and careful selection of financially strong banks with good credit ratings. |
| FINANCIAL | Fluctuations in Foreign Currency Rates | The Company incurs foreign currency risk on sales, purchases and borrowings that are in a currency other than Pak Rupees. The Company's foreign currency risk arising on sales is minimised through a natural hedge resulting from the pricing mechanism of PTA whereby the price invoiced for PTA domestically is recalculated every month to derive a Rupee price from the international commodity price of PTA in US dollars. To hedge against its foreign currency risk arising on purchase transactions, the Company may enter into forward exchange contracts when considered appropriate. Also, the natural hedge on PTA sales minimises the impact of risk arising on purchase transactions. |
| FINANCIAL | Credit Risk | The Company's exposure to credit risk is influenced by the individual characteristics of each customer. All sales are made against letters of credit and the Board has established a credit policy under which each new customer is analysed individually for credit worthiness. All customers have been transacting with the Company for over five years. |

# Organizational Chart



# Board Member Profiles

**Mr Changgyou Kim, Chairman**

Mr Kim was appointed to the Board in December 2012. Mr Kim started his career in Honam Petrochemical in 1978 after completing his bachelor's degree in Industrial Chemistry from Seoul National University, Korea. He went on to pursue a master's and a PhD degree in Chemical Engineering at University of South Carolina, USA. After receiving his doctorate in 1990, he started working at Hyundai Petrochemical Corporation. In 2005, Mr Kim joined Honam Petrochemical Daeduk Research Institute where he served as the Head of Institute and Managing Director. In February 2012, Mr Kim was appointed as the CEO of KP Chemical Corporation; following the company's merger, he was appointed Head of the Aromatics Business Division at LOTTE Chemical Corporation. Mr Kim is also the Vice Chairman of the Polymer Society of Korea. Mr Kim received the President Award in the first chemical industry day. His other directorships include serving in Lotte Chemical UK Limited and Hanju Co. Limited.

**Mr M Asif Saad, Chief Executive**

Mr Saad was appointed to the Board in January 2008 and was re-elected in June 2011. A LUMS MBA graduate, Mr Saad joined ICI as a management trainee in 1988. He was associated with ICI Pakistan for almost 15 years in diverse business functions including Paints, Chemicals and Polyester Fibre. In 2002, Mr Saad joined the Company as a Commercial Manager. He has also been responsible for product stewardship and long-term strategy development for the Company. In 2008, he was appointed Chief Executive of the Company. Mr Saad is also the Chairman of the Board of Lotte Powergen (Pvt) Limited. His other directorships include serving in Pakistan Human Development Fund, Alfalah GHP Investment Management Limited, Education Fund for Sindh and Pakistan Business Council. He is also the Vice President of Overseas Investors Chamber of Commerce and Industry.

**Mr Mohammad Qasim Khan, Director**

Mr Khan was appointed to the Board in September 2009 and was re-elected in June 2011. Mr Khan is currently Business Unit President for PepsiCo International in Bangkok. He is responsible for PepsiCo's beverage and food businesses in Japan, Korea, Philippines and Pakistan. He has been with the company since 1986, serving diverse roles in Australia, New Zealand, Vietnam, Malaysia, Singapore, Thailand and the Pacific Islands. Prior to PepsiCo, Mr Khan worked for Procter & Gamble based in Geneva, Switzerland, where he was responsible for the Arabian Gulf markets. Mr Khan has an MBA in Marketing from the USA. His current directorships include serving in Kirin Tropicana Inc., Pepsi-Cola Products Philippines, Inc., Pepsi-Cola Korea Co., Limited, and Pepsi-Cola Far East Trade Development Co. Inc.

**Mr Sang Hyeon Lee , Director**

Mr Hyeon was appointed to the Board in April 2013. Mr Hyeon is a General Manager working in the Aromatic Planning Team at LOTTE Chemical Corporation, formerly KP Chemical Corporation. He graduated from Hanyang University, majoring in Business Administration in 1989. He's been working for LOTTE Chemical Corporation since 1992, spending his first twelve years in the Production Control Team in the Ulsan plant, where he was in charge of planning, budgeting, cost accounting, and decision-making support.

**Ms Aliya Yusuf, Director**

Ms Yusuf was appointed to the Board in September 2009 and was re-elected in June 2011. Ms Yusuf is a partner at Orr, Dignam & Co. based in Karachi. She joined the firm in 1989 and has been a partner since 1996. Along with her team, she deals with a wide range of corporate, financial and commercial matters. Her focus areas include mergers and acquisitions including privatization and project work, as well as joint ventures in the energy, pharmaceutical, communication and real estate development sectors. She obtained her Bachelor's of Arts degree with honours from Canatab. She also completed her Barrister-at-Law from Gray's Inn. She is a certified Director of Corporate Governance from Pakistan Institute of Corporate Governance (PICG). Her other directorships include serving in Engro Power Generation Limited, Engro Power Generation Qadipur Limited and The First Micro Finance Bank Limited.

**Mr Istaqbal Mehdi, Director**

Mr Mehdi was appointed to the Board in June 2013. He has held several roles throughout his professional career. From 2009 onward, he served as Chairman and Chief Executive of Al-Aman Holding Pvt. Ltd. Prior to that, he was a Managing Director at Pakistan Kuwait Investment Company (Private) Limited. Some of his other roles include: serving as President and Chief Executive Officer at Zarai Taraqiati Bank Limited, Chairman and Chief Executive Officer at Agriculture Development Bank of Pakistan and Managing Director at Investment Corporation of Pakistan. He began his career in 1967 as a Research Assistant at USAID Lahore. He holds a Master's of Philosophy in Financial Economics from the University of Leeds, UK. He also holds Bachelor's and Master's of Arts degrees in Economics from Government College, Lahore. In 1982, Mr Mehdi completed a course in public enterprise policy in developing countries from Harvard University.

**Mr Jung Neon Kim, Director**

Mr Kim was appointed to the Board in September 2009 and was re-elected in June 2011. Mr Kim has been working with LOTTE Chemical Corporation, formerly KP Chemical Corporation, Korea since 1991. He stayed in the Singapore Branch from 1996 to 2000. He's been in the PET business since 2001 and in PTA sales for more than ten years with LOTTE Chemical Corporation.

Mr Kim holds a bachelor's degree in Economics from Pusan National University in Korea. Mr Kim also completed a short MBA programme at Seoul National University and is a certified Director of Corporate Governance from Pakistan Institute of Corporate Governance (PICG). His other directorships include serving in Lotte Powergen (Pvt) Limited.

**Mr Oh Hun Im, Director**

Mr Im was appointed to the Board in September 2009 and was re-elected in June 2011. Mr Hun Im has been working with LOTTE Chemical Corporation, formerly KP Chemical Corporation, Korea since 1992. The same year he received his bachelor's degree in Chemical Engineering from Yeungnam University, Korea. Mr Im has been involved in various functions at LOTTE Chemical Corporation including technical, new projects and plant management and planning.

He is a certified Director of Corporate Governance from Pakistan Institute of Corporate Governance (PICG). His other directorships include serving in Lotte Powergen (Pvt) Limited and Karachi American School. Since 2009, he's also been a member of the Korea-Pakistan Association.

# Board & Management Committees With Brief Terms Of Reference

## AUDIT COMMITTEE

*(Left to Right)*
Mr Istaqbal Mehdi
Ms Aliya Yusuf
Mr Neon Jung Kim

The Audit Committee, a sub committee of the Board, assists the Board in effectively discharging its responsibilities with regards to corporate governance, financial reporting and corporate control. The Board draws up the terms of reference of the Audit Committee, which comply with relevant legislations.

The Board acts in accordance with the Committee's recommendations on matters forming its responsibilities. The Audit Committee reviews the system of internal controls, risk management and the financial audit process, as well as assists the Board in reviewing financial statements and announcements to shareholders. In carrying out its duties, the Audit Committee has the authority to discuss any issues within its remit with management, internal auditors or external auditors. If it deems necessary, it may also obtain legal advice on it. The Committee controls and monitors the scope of the internal audit function, including powers and responsibilities encompassing its charter.

The Chairperson of the Audit Committee, Ms Aliya Yusuf is an Independent Non-executive Director, while its members include a non-executive and an executive director. The Head of Internal Audit acts as the Secretary of the Committee.

The Audit Committee meets at least four times annually. Its members meet at least once a year with external auditors, without the CFO or the internal auditors. In addition, Committee members also meet internal auditors at least once a year, excluding the CFO.

## HR AND REMUNERATION COMMITTEE

The HR and Remuneration Committee assists the Company's Board of Directors to administer and develop a fair and transparent procedure for establishing human resource management policies. The Committee is responsible for reviewing the remuneration and benefits of the Chief Executive, executive directors and senior managers. Consisting of two non-executives and one executive director, the Committee is also responsible for reviewing the remuneration budget.

The following Board members form part of the HR and Remuneration Committee.

| | |
|---|---|
| Mr Changgyou Kim | Chairman |
| Mr Sang Hyeon Lee | Member |
| Mr Jung Neon Kim | Member |

The Corporate Human Resource Manager acts as the Secretary and the Committee meets at least once a year.

## SHARES SUB COMMITTEE

The Shares Sub Committee consists of one non-executive and two executive directors. This Committee approves registrations, transfers and transmission of the Company’s shares. Resolutions passed by this Committee are subsequently placed at Board meetings for ratification. The following Board members form part of the Shares Sub Committee.

| | |
|---|---|
| Mr Jung Neon Kim | Chairman |
| Mr Mohammad Qasim Khan | Member |
| Mr Oh Hun Im | Member |

## EXECUTIVE MANAGEMENT TEAM

*(Left to Right)*
Mr Raja Waheed U Khan
Mr M Asif Saad
Mr Humair Ijaz
Mr Adnan W Samdani
Mr Mohammad Wasim

The Executive Management Team contains heads of various departments, operating under the Board and the Chief Executive, to ensure smooth operations and achieve strategic objectives.

The Team conducts its business under the chairmanship of the Chief Executive with four other senior managers. The team is responsible for strategic business planning, decision-making, establishing adequacy of the Company's operational, administrative and control policies adopted by the Board and monitoring compliance thereof.

## EXECUTIVE COMMITTEE

*(L-R Standing)*
Mr Mohammad Wasim
Mr Humair Ijaz
Mr M Asif Saad
Mr Raja Waheed U Khan
Mr Adnan W Samdani

*(L-R Sitting)*
Mr Tariq Nazir Virk
Mr Adnan Ul Haque
Mr Qamar Alam
Mr Masood Ul Hasan

The Executive Committee supports the Executive Management Team in achieving its objectives and is responsible for smooth operations on an ongoing basis. It comprises of the various heads of departments including the Executive Management Team. The Executive Committee meetings are conducted on a monthly basis or more frequently if needed. The Committee reviews all operational and financial aspects, advises improvements to operational policies / procedures and monitors implementation of the same.

The Planning & Reporting Manager, Mr Faisal Abid, acts as the Secretary of the Committee.

## HSE&S MANAGEMENT COMMITTEE

*(L-R Standing)*
Mr Raja Waheed U Khan
Mr Masood ul Hasan
Mr Qamar Alam
Mr Tariq Nazir Virk
Mr Adnan ul Haq
Mr Humair Ijaz

*(L-R Sitting)*
Mr Adnan W Samdani
Mr Shabbir K. Hussain
Mr M Asif Saad
Mr Mohammad Wasim

The HSE&S Committee, chaired by the CE, periodically reviews and monitors company-wide practices. It oversees the Health, Safety, Environment and Security functions of the Company and is responsible for ensuring that all operations are safe, environment-friendly and compliant with regulatory framework.

## BCP COMMITTEE

*(L-R Standing)*
Mr Aashiq Ali
Mr Khurram Qureshi
Mr Asad Ullah Chugtai
Mr Adnan ul Haq

*(L-R Sitting)*
Mr Tariq Nazir Virk
Mr Shabbir K. Hussain
Mr Mohammad Wasim
Mr Masood ul Hasan
Mr Arif Hussain

The BCP Committee's objective is to steer the Business Continuity Plan (BCP) by establishing a fit-for-purpose strategic and operational framework to respond to major business interruption situations.

The CE as Business Continuity Manager (BCM) leads the BCP process along with General Manager Manufacturing and Chief Financial Officer. A working level BCP Committee, headed by General Manager Manufacturing is responsible for stewarding the BCP Programme and comprises of representatives of all functions / departments. Each functional head is responsible for current and comprehensive Business Continuity Planning in his respective sphere of operations.

| NAME | DESIGNATION |
|---|---|
| Mr M Asif Saad | Chief Executive |
| Mr Humair Ijaz | Director Commercial |
| Mr Adnan Wasey Samdani | Chief Financial Officer & Company Secretary |
| Mr Mohammad Wasim | Director Manufacturing |
| Mr Raja Waheed Ullah Khan | Corporate Human Resource Manager |
| Mr Syed Qamar Alam | Sustainability Manager |
| Mr Adnan Ul Haque | Technical Manager |
| Mr Tariq Nazir Virk | Engineering Manager |
| Mr Syed Masood Ul Hasan | Production Manager |
| Mr Shabbir Khurshid Hussain | HSE & Business Development Manager |
| Mr Khurram Qureshi | Sales Manager |
| Mr Syed Arif Hussain | Systems Analyst |
| Mr Asad Ullah Chughtai | General Affairs & Security Manager |
| Mr Ashiq Ali | Head of Internal Audit |

# Business Review

# Directors' Report

*The Directors are pleased to present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2013. The Group results comprise of Lotte Chemical Pakistan Limited (formerly Lotte Pakistan PTA Limited) (Company) and Lotte Powergen (Private) Limited, a wholly owned subsidiary of the Company.*

**BOARD CHANGES**

Mr Soon Hyo Chung resigned as Chairman and Director of the Company with effect from 12 April 2013 and Mr Sang Hyeon Lee was appointed Director with effect from 12 April 2013 to fill the casual vacancy for the remainder of the term to expire on 22 June 2014.

The Board of Directors in their Board meeting held on 25 April 2013 appointed Mr Changgyou Kim as Chairman of the Company for the remainder of the term which expires on 22 June 2014.

Mr Manzoor Ahmed resigned as Director of the Company with effect from 17 June 2013 and Mr Istaqbal Mehdi was appointed Director with effect from 18 June 2013 to fill the casual vacancy for the remainder of the term which expires on 22 June 2014.

The Board places on record its appreciation for the valuable contributions made by the outgoing Directors, Mr Soon Hyo Chung and Mr Manzoor Ahmed and welcomes Mr Sang Hyeon Lee and Mr Istaqbal Mehdi as new Directors of the Company.

## BUSINESS OVERVIEW

The Chinese PTA industry expanded to over 12 million tonnes in 2012. This resulted in change to the traditional pricing and profitability thresholds in the PTA market. Lower costs and better technologies resulted in more efficient operations of PTA plants, which were able to operate at high rates, despite bleak returns.

Moreover, this lower cost base enabled producers in China to engage in fierce price wars to attain market share. Brand new Chinese producers were therefore able to break even, and earn some returns at lower margins. However, the rest of the industry was losing money. As a result, operating rates in the region were reduced by 50% to 60% in PTA exporting countries like Taiwan and Korea. In fact, Taiwan's PTA production had deteriorated from 4.2 million tonnes in 2012, to 2.9 million tonnes in 2013. Taiwan's PTA exports to China had also reduced by 75% in 2013 compared to a year earlier. Korean producers seem to be following the same trend.

During 2013, the average price of PTA in the spot market was US$ 1,073 per tonne CFR China with a low of US$ 990 per tonne CFR China and high of US$ 1,195 per tonne CFR China.

The same excess capacities which caused drastic falls in PTA operating rates provided strength to Px suppliers, as new PTA producers competed to acquire maximum Px volumes. In the beginning of the year, Px spot crossed US$1,700 per tonne CFR Taiwan, before the market experienced an operating rate reduction by PTA producers, bringing Px down to around US$1,450 per tonne CFR Taiwan in the middle of the year. The year saw many standoffs between Px producers, who saw their own margins over MX decline and PTA producers' whose profitability had completely worn out due to over supplies and they sought some rationality in feedstock pricing to ensure sustainability.

In 2013, the integrity of the Px contract pricing system was challenged, with five months without a settled Asian contract price. The average price of Px in the spot market was US$ 1,496 per tonne CFR China with a low of US$ 1,407 per tonne CFR China and high of US$ 1,713 per tonne CFR China.

Downstream polyester industries in China and India faced a difficult year as well. Chinese producers dealt with a situation of restricted demand and high inventories, along with more expansion in the PET and PFY capacities. In India, a weaker economy and a persistent PTA shortage, kept polyester operating rates lower than previous years.

The Pakistani domestic market, however, operated mostly at high rates during the year as the improved energy availability provided relief to producers. Ibrahim Fibers, the largest PSF producer in the country, successfully commissioned its new PSF capacity, which should improve PSF supplies in the market. PSF price averaged Rs179 per kg in the domestic market.

PET production remained stable throughout the year. Novatex's BoPET plant operated smoothly, which will improve the scope of the domestic packaging industry and marginally impact PTA demand.

## OPERATIONS

Yearly production stood at 480,369 tonnes, which was in line with last year, despite 22 days shutdown for plant maintenance. This resulted in plant availability of 92.6% compared to 92% a year earlier.

The Board is pleased to report that planned plant overhaul was successfully completed in 22 days during January and February 2013. The last shutdown was 25 months ago back in December 2010. The time gap between the two overhauls being unprecedented in the operations of similar plants elsewhere. 2013 plant overhaul included the highest number of jobs (planned and unplanned) ever handled during any overhaul to improve reliability and efficiency.

The major jobs during the overhaul included repair work on the CTA dryer to extend its life and replacing a heat exchanger. For the remainder of the year, monthly production remained fairly consistent with minor fluctuations, accounting to commercial reasons and plant maintenance downtime. The Company continued to make small investments in its production facility, aimed at sustaining continuous operations and improve plant efficiency.

Sales volume for the year was 2% higher than last year standing at 490,783 tonnes. In the domestic market, energy availability was better than previous years which helped maintain healthy polyester operating rates during the year. However, due to machinery breakdown at a customer's manufacturing facility, the Company was forced to avail export opportunities. During 2013, we exported 17,204 tonnes to India, Oman and the UAE.

The domestic and export sales mix for the year remained at last year's level of 96%.

## HEALTH, SAFETY AND ENVIRONMENT

Your Company continues to conform to the highest safety standards for its employees and contractors' staff. The excellent safety record spanning over 15 years without a lost time injury is a testimony in itself. The Directors are proud to report that by the end of 2013, the Company employees and contractors completed more than 43 million man-hours without Lost Time Case.

In recognition of this exemplary performance, the Company won the Environmental Excellence Award from the National Forum for Environment & Health (NFEH), the third Fire Safety Award from NFEH and Fire Protection Associate of Pakistan (FPAP), and secured second place in the Employer's Federation of Pakistan (EFP) Best Practice Award in the category of Occupational Health, Safety and Environment.

During the year, many external audits were carried out to verify compliance with regulations and standards. The audits brought forward no major concerns. Both external audits, OHSAS-18001 and ISO-14001, were carried out and both certifications were extended until next year. In addition, the Company's liquid effluent met national environment quality standards. Gaseous emissions were also within regulatory limits.

A detailed report on HSE performance and development in 2013 is available on page 58 of the annual report.

## MANUFACTURING EXCELLENCE

As mentioned in the business overview, your Company continues to take actions to mitigate the impact of the change witnessed in the PTA industry as a result of over supplies.

The Company has focused on lowering costs and improving efficiency; its objective being to lower operating costs. Though your Company cannot reduce its operating costs to the level of new Chinese plants due to limitations in technology and scale, by consistently investing in cost improvement projects, we have tried to limit the gap and not allow it to increase.

Therefore, while, for most of the year, similar technology PTA producers in the region opted to reduce their operating rates in order to minimize losses due to squeezed margins, your Company remained one of the few PTA plants worldwide to have operated at high levels during 2013 and resultantly managed to fulfill its long term commitment to its customers.

A detailed report on Manufacturing Excellence is available on page 65 of the annual report.

## LOTTE POWERGEN (PRIVATE) LIMITED

The co-generation power project was undertaken through the wholly owned subsidiary of the Company, Lotte Powergen (Private) Limited, in order to be eligible for exemptions and concessions under the relevant fiscal regulations.

As mentioned in previous reports, the co-generation power project started its commercial production on 17 July 2012. 2013 marks the first full year of sustained and smooth operation of the co-generation plant. Apart from minimizing the risk of electric supply fluctuations and outages to the PTA plant, co-generation operations have resulted in better operating efficiencies by utilizing heat energy in exhaust gases to produce high pressure steam for the PTA manufacturing process.

In order to ensure that PTA plant operates on a continuous basis, it remains imperative that the Company also relies on electricity supply from KESC. In 1996/97, your Company has invested significantly in a dedicated supply system/ infrastructure to receive power from KESC and entered into an agreement with KESC based on high investment. In line with the power purchase agreement, KESC is to ensure that the connected load remains available to the Company at all times.

Financial performance of Lotte Powergen (Private) Limited together with the Company is presented in the consolidated financial results for the year ended 31 December 2013.

## PROFIT, FINANCE & TAXATION

| Rs Million | 2013 | 2012 (Re-stated) |
|---|---|---|
| Revenue | 57,070 | 52,823 |
| Gross Loss | (711) | (212) |
| Loss before taxation | (348) | (242) |
| Loss after taxation | (546) | (181) |
| Loss per share (in Rupees) | (0.36) | (0.12) |
| (Loss) / profit after tax - consolidated | (498) | 4 |
| (Loss) / earning per share (in Rupees) - consolidated | (0.33) | 0.0024 |

Revenue of Rs 57,070 million for the year was higher by 8% compared to Rs 52,823 million of previous year mainly due to higher volume sold and depreciation of Pakistani Rupee against US Dollar. However, due to continued adverse / unfavourable trading conditions, the PTA margin over Px reduced by 18% as compared to last year. This together with plant overhaul related costs, partially offset by lower conversions costs, resulted in a gross loss of Rs 711 million for the year as compared to gross loss of Rs 212 million during last year.

Distribution and selling expenses were lower than last year mainly due to lower export sales. Administration expenses were 8% higher than last year due to high inflationary environment. Other expenses were also higher than last year mainly due to provision for Workers' Welfare Fund relating to prior year. Other income was higher than last year mainly due to interim dividend income, in respect of nine months period ended 30 September 2013, received from Lotte Powergen (Private) Limited. Finance costs remained lower than last year.

As a result, your Company incurred a loss before taxation of Rs 348 million for the year ended 31 December 2013 as compared to loss before taxation of Rs 242 million last year.

Taxation for the year ended 31 December 2013, shows a charge of Rs 198 million. This is based on minimum turnover tax as reduced by the movement in the deferred tax account.

Loss after taxation for the Company for the year amounted to Rs 546 million as compared to loss after taxation of Rs 181 million last year. On consolidated basis, the loss after taxation amounted to Rs 498 million for 2013 as compared to profit after taxation of Rs 3.6 million in 2012.

Due to better working capital management by the Company, cash and cash equivalents increased to Rs 2,427 million as compared to Rs 225 million last year. Surplus cash, whenever available, was placed with various banks in short term call deposits. On consolidated basis, the available cash and cash equivalent amounted to Rs 3,069 million for 2013 as compared to Rs 880 million in 2012.

## HUMAN RESOURCES

Your Company recognizes its employees as its most critical asset and the competitive edge for its business. Therefore appropriate systems are in place to recruit, develop and grow talent for achieving excellence across all functional areas. Your Company's strong value based system provides a robust framework for meeting these objectives.

The Company continues to maintain cordial relations with all its employees. Negotiations on a new wage settlement with the CBA were concluded satisfactorily and a two-year agreement effective 01 January 2013 was signed.

Throughout 2013, stability and sustainability were maintained in the organizational numbers. Permanent staff strength at the year-end was 228 against 227 in the previous year.

A detailed report on human resource performance and development in 2013 is available on page 79 of the annual report.

## FUTURE OUTLOOK

In 2014, new Px capacities of over 7 million tonnes are expected to come online in the region. However, another 10 million tonnes of PTA production will also come online, effectively eradicating the chances of much needed improvement in the demand supply balance and raw material pricing. Consequently, PTA margins are expected to remain under pressure, and PTA producers will be anxious to rationalize production capacities and operating rates.

Usage of Polyester is expected to improve in 2014. However, this may not translate into higher margins for polyester producers, despite rising cotton prices. Polyester producers, much like PTA producers are also contending with a situation where supplies have increased.

Demand in the domestic market is expected to remain strong in 2014. Pakistani textiles can reap the benefit of the Eurozone's GSP Plus Scheme if energy availability is improved. In addition, the textile industry needs to diversify its product portfolio from low-end cotton based to high-end products which require more polyester.

In 2013, the National Tariff Commission (NTC) carried out a study of the polyester chain tariff levels. After consulting with all major stakeholders, they concluded a detailed analysis of the entire chain in August 2013. The NTC has recommended an increase in PTA tariff to 4% from a present level of 3%. According to them, this shift will provide some relief to the domestic PTA industry, while putting minimum burden on the downstream sectors. NTC's recommendation is still pending with the Ministry of Commerce. This delay is straining the domestic PTA industry, and putting it at further risk.

## COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

As required under the Code of Corporate Governance, the Directors are pleased to state as follows:

- The financial statements of the Company, prepared by the management, present fairly its state of affairs, the results of its operations, cash flows and the changes in equity.
- Proper books of account have been maintained by the Company.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and the accounting estimates are based on reasonable and prudent judgments.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and departures therefrom, if any, have been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts on the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of Corporate Governance, as detailed in the Listing Regulations.

## KEY OPERATIONAL AND FINANCIAL DATA

A statement summarizing key operating and financial data for the last six years of the Company is given on page 14 of the Annual Report.

## INVESTMENT IN RETIREMENT BENEFITS

The value of investments made by the staff retirement funds as per their respective audited financial statements for the year ended 31 December 2012, is as follows:

| | Value (Rs '000) |
|---|---|
| Lotte Pakistan PTA Management Staff Provident Fund | 259,045 |
| Lotte Pakistan PTA Management Staff Pension Fund | 47,172 |
| Lotte Pakistan PTA Management Staff Gratuity Fund | 144,109 |
| Lotte Pakistan PTA Management Staff Defined Contribution Superannuation Fund | 193,049 |
| Lotte Pakistan PTA Non-Management Staff Provident Fund | 4,549 |
| Lotte Pakistan PTA Non-Management Staff Gratuity Fund | 3,175 |

## PATTERN OF SHAREHOLDING

The statement of Pattern of shareholding in the Company as at 31 December 2013, is given on page 193 of the Annual Report.

## DIRECTORS' ATTENDANCE

During the year, 4 (four) Board of Directors, 4 (four) Audit Committee and 1 (one) HR & Remuneration Committee meetings were held:

| Name of Director | Board of Directors' Attendance | Audit Committee Attendance | HR & Remuneration Committee Attendance |
|---|---|---|---|
| Mr Soon Hyo Chung* | 1/1 | - | 1/1 |
| Mr M Asif Saad | 4/4 | - | - |
| Mr Changgyou Kim | 4/4 | - | 1/1 |
| Mr Jung Neon Kim | 4/4 | 4/4 | 1/1 |
| Mr Oh Hun Im | 4/4 | - | - |
| Mr Mohammad Qasim Khan | 3/4 | - | - |
| Ms Aliya Yusuf | 3/4 | 3/4 | - |
| Mr Manzoor Ahmed ** | 2/2 | 1/2 | - |
| Mr Istaqbal Mehdi ** | 2/2 | 2/2 | - |
| Mr Sang Hyeon Lee* | 3/3 | - | - |

* Mr. Soon Hyo Chung resigned w.e.f 12 April 2013 and Mr. Sang Hyeon Lee appointed on same date.
** Mr. Manzoor Ahmed resigned w.e.f 17 June 2013 and Mr Istaqbal Mehdi appointed w.e.f 18 June 2013

Leave of absence was granted to directors who could not attend some of the Board meetings.

## TRADING IN COMPANY SHARES

The Directors, Chief Executive and Chief Financial Officer & Company Secretary and Head of Internal Audit and their spouses and minor children did not carry out any transaction in the shares of the Company during the year, except for the transfer of one share each to Mr Sang Hyeon Lee and Mr Istaqbal Mehdi.

## HOLDING COMPANY

LOTTE Chemical Corporation (formerly KP Chemical Corporation), South Korea continues to hold 75.01% shares in Lotte Chemical Pakistan Limited (formerly Lotte Pakistan PTA Limited).

## EXTERNAL AUDITORS

The present auditors Messrs A.F. Ferguson & Co., Chartered Accountants retire and being eligible, have offered themselves for reappointment.

## GROUP FINANCIAL STATEMENTS

The audited financial statements of the Group for the year ended 31 December 2013 are attached. The Group comprises of Lotte Chemical Pakistan Limited (formerly Lotte Pakistan PTA Limited) (the Company) and Lotte Powergen Private Limited, a 100% wholly owned subsidiary of the Company.

## ACKNOWLEDGEMENT

We acknowledge and are thankful for the continued support of our shareholders, customers, suppliers and employees.

Kimchanggyou

Changgyou Kim
Chairman

M Asif Saad
Chief Executive

28 January 2014
Karachi

# Report of the Board Audit Committee

## On adherence to the Code of Corporate Governance

The Board Audit Committee has concluded its annual review of the conduct and operations of the Company for the year ended 31 December 2013 and reports that:

- The Company has adhered without any material departure, with the mandatory and voluntary provisions of the listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges of Pakistan, the Code of Corporate Governance and Company's Code of Conduct and Values throughout the year.

- The Unconsolidated Financial Statements, Consolidated Financial Statements, Directors' Report and other information in the Annual Report have been reviewed by the Chief Executive and the Chief Financial Officer. They acknowledge their responsibility for true and fair presentation of the financial statements, accuracy of reporting, compliance with regulations and applicable accounting standards and establishment and maintenance of internal controls and systems of the Company.

- Appropriate accounting policies have been consistently applied. Applicable accounting standards were followed in preparation of the financial statements of the Company and consolidated financial statements on a going concern basis, for the financial year ended 31 December 2013, which fairly present the state of affairs, results of operations, cash flows and changes in equity of the Company for the year under review.

- Accounting estimates are based on reasonable and prudent judgment. Estimates and judgments were continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under current circumstances. Proper, accurate and adequate accounting records have been maintained by the Company in accordance with the Companies Ordinance, 1984.

- The Financial Statements comply with the requirements of the Fourth Schedule to the Companies Ordinance, 1984 and applicable International Accounting Standards and International Financial Reporting Standards notified by the SECP.

- The Company has issued a Statement of Compliance with the Code of Corporate Governance which has also been reviewed and certified by the auditors of the Company.

- All direct and indirect trading in and holdings of the Company's shares by Directors and executives or their spouses were notified in writing to the Company Secretary along with the price, number of share, form of share certificates and nature of transaction. All such holdings have been disclosed.

- Closed periods during which the Directors, the Chief Executive and executives of the Company were precluded from dealing in Company shares were duly determined and announced by the Company prior to each Board meeting involving announcement of interim / final results, distribution to shareholders or any other business decision which could materially affect the share market price of Company along with maintenance of confidentiality of the relevant business information was maintained.

## INTERNAL AUDIT FUNCTION

- The internal control framework has been implemented through outsourcing the internal audit function to Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, for the last 13 years. The Company's system of internal control is sound in design and is continually evaluated for effectiveness and control.

- The Board Audit Committee has overseen the achievement of operational, compliance and financial reporting objectives, safeguarding of the assets of the Company and the shareholders wealth through financial, operational and compliance controls and risk management at all levels within the Company.

- The Company has also appointed a Head of Internal Audit in compliance with the Code of Corporate Governance. The Head of Internal Audit coordinates with the internal auditors Ernst & Young Ford Rhodes Sidat Hyder and reports directly to the Chairman of the Board Audit Committee.

- During the year four Board Audit Committee meetings were held.

- Coordination between the external and internal auditors was facilitated to ensure efficiency and contributions to the Company's objectives, including a reliable financial reporting system and compliance with laws and regulations.

## EXTERNAL AUDITORS

- The statutory auditors of the Company, A. F. Ferguson & Co., Chartered Accountants, have completed their audit assignment of the "Company's Financial Statement", the "Consolidated Financial Statements" and the "Statements of Compliance with the Code of Corporate Governance" for the financial year ended 31 December 2013 and shall retire on the conclusion of the 16th Annual General Meeting.

- The Board Audit Committee has reviewed and discussed audit observations and the Management Letter with the external auditors.

- The Audit firm has been given a satisfactory rating under the Quality Control Review Programme of the Institute of Chartered Accountants of Pakistan (ICAP) and the firm is fully compliant with the International Federation of Accountants (IFAC) Guidelines on Code of Ethics, as adopted by ICAP.

- The Auditors have been allowed direct access to the Committee and the effectiveness, independence and objectivity of the Auditors has thereby been ensured. The Auditors attended the General Meeting of the Company during the year and have indicated their willingness to continue as Auditors.

- Being eligible for reappointment under the listing regulations, the Board Audit Committee recommends their reappointment for the financial year ending 31 December 2014 on terms of remuneration to be negotiated by the Chief Executive.

Aliya Yusuf
Chairperson - Board Audit Committee

27 January 2014
Karachi

# STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
## FOR THE YEAR ENDED 31 DECEMBER 2013

This statement is being presented to comply with the Code of Corporate Governance (the “Code”) contained in Regulation No. 35 of listing regulations of the Karachi Stock Exchange, Lahore Stock Exchange and the Islamabad Stock Exchange 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 Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present, the Board includes:

| CATEGORY | NAMES |
|---|---|
| Independent Directors | Mohammad Qasim Khan, Aliya Yusuf |
| Executive Directors | M Asif Saad, Jung Neon Kim, Oh Hun Im |
| Non-Executive Directors | Changgyou Kim, Sang Hyeon Lee, Istaqbal Mehdi |

The independent directors meet the criteria of independence under clause i (b) of the Code.

2. The Directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company.

3. The Directors have voluntarily declared that all the resident Directors of the Company are registered taxpayers and none of them has 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. The Company had adopted a Code of Conduct and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.

5. The two casual vacancies occurring on the Board on 12 April 2013 and on 17 June 2013 were filled up by the induction of new Directors on 12 April 2013 and 18 June 2013, respectively.

6. The Board has developed 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 Chief Executive, other executive and non-executive directors, have been taken by the Board/Shareholders.

8. All the meetings of the Board were presided over by the Chairman who is a Non-Executive Director and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. No new appointments have been made during the year for Chief Financial Officer, Company Secretary and Head of Internal Audit.

10. The Directors have been provided with copies of the Listing Regulations of the Stock Exchange; the Company's Memorandum and Articles of Association and the Code of Corporate Governance and are well conversant with their duties and responsibilities. During the year one independent director has completed Directors Training Course from Pakistan Institute of Corporate Governance (PICG). At present three executive directors and one independent director have the required certification of Directors Training Course from PICG.

11. The Directors' report for the year ended 31 December 2013 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by the Chief Executive and the Chief Financial Officer, before approval of the Board.

13. The Directors, Chief Executive and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding. The Board has reviewed and approved the threshold for executives for the purpose of disclosing trades in the shares of the Company.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee. It comprises three members, including one independent director, one non-executive director and one executive director. The Chairperson of the committee is an independent 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 Code. 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 comprising of one executive and two non-executive Directors. The Chairman of the committee is a non-executive director.

18. The Board has outsourced the internal audit function to Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.

19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, 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 the code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.

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 and 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 exchanges.

22. Material / price sensitive information has been disseminated among all market participants at once through stock exchanges.

23. The related party transactions with details of pricing methods have been placed before the Audit Committee and approved by the Board of Directors.

24. As stated above, we confirm that all other material principles contained in the Code have been complied with.

Kimchanggyou

Changgyou Kim
Chairman

M Asif Saad
Chief Executive

28 January 2014
Karachi

# Review Report To The Members On Statement Of Compliance With The 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 Lotte Chemical Pakistan Limited (Formerly Lotte Pakistan PTA Limited) to comply with the Listing Regulation No. 35 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.

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 requires 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 31 December 2013.

A.F. Ferguson & Co.
Chartered Accountants

Dated: 17 February 2014
Karachi

# Sustainability

# Introduction - Sustainability

*Though profitability is a key indicator for any organization's success, we continue to identify and implement sustainable ways of doing business. Our desire to benefit the planet, and the people which occupy it, remains an integral part of our DNA. Especially, in challenging business situations, this desire, continues to inspire us and fulfills our responsibilities towards our communities and the environment.*

Health, Safety and Environment form the primary components of our core values. We remain committed to inculcate these values among all our stakeholders, particularly our employees and contractors. In its fifteen years of operation, our Company has sustained an excellent safety record of 43 million man-hours without Lost Time Case (LTC). LTC refers to injuries or illnesses resulting in at least one calendar day lost from work, not including the day of injury or illness.

This figure is reflective of successfully implementing HSE policies, procedures, training and above all, employee and contractor commitment towards safety. Our desire to exceed these standards, has placed us among the leaders in the global petrochemical industry - we are proud to hold the highest standards in health, safety and environmental performance in our operations.

Last year, we invested in an innovative computerized HSE database system to report personal safety including near misses, accidents, injuries, occupational diseases and environmental accidents. This system helps us determine the root cause of incidents and take necessary preventative measures.

In 2012, we embarked on aligning our comprehensive Responsible Care Management System (RCMS) with the International OHSAS-18001 Health and Safety Management System and ISO-14001 Environment Management System. Since March 2012, we are an OHSAS-18001 and ISO-14001 certified Company.

In addition, we continuously strive to minimize our impact on climate change as well as unburdening of natural resources through operational excellence, innovative plant optimizations as well as capital investments.

Some of our manufacturing highlights include, reducing operating cost to maximize profitability with minimum available margins. In 2013, we achieved the lowest ever operating cost on raw materials.

Having said this, 2013 continued to remain a challenging year for the PTA industry worldwide. While majority of the PTA plants reduced their operations in line with market dynamics, our Company continued to fulfill its contractual commitments with customers by continuing plant operations throughout the year.

We believe in developing long-term relationships with our customers, and this has been a hallmark of our operations. We are the only PTA producer in the Country, and therefore consider it vital to capitalize on the Country's export oriented sectors (polyester and textiles). This ensures that PTA is available to our customer base. PTA operation forms the backbone of part of the Country's exports and the availability of domestic PTA results in significant foreign exchange savings to the Country.

Since starting PTA operations in Pakistan, we have gained significantly in various areas including downstream capacity enhancement, major infrastructure development in Port Qasim, creating employment opportunities. We take pride in not only being a taxpayer to the national economy, but also being an agent for creating a sustained environment for achieving progress.

Our employee, partner and customer inspiration, dedication as well as commitment combined with our strategy, provides us confidence in our abilities to effectively operate and innovate to deliver value to our customers, stakeholders and local communities.

Sustainability is about building long-term commitments, and requires meticulous planning - with the hope of sustaining a prosperous future for generations to come. We remain committed to help protect the environment and safeguard the interests of those who occupy it.

# Environmental Management

*Preserving the future of our planet is a fundamental part of our sustainability vision. We continuously strive to minimize our impact on climate change using less natural resources through operational excellence, innovative plant optimization and capital investment. Some of our focus areas include: energy, water, waste and resource conservation, biodiversity enhancement, emissions management and regulatory compliance.*

We are committed to ensure that our operations remain environmental friendly - taking an avid interest in reducing our carbon footprint. In line with this belief, we have invested in excess of US$ 44 million in our plants and equipment.

We had installed a state-of-the-art deep shaft technology to treat liquid emissions. Additionally, we continue to invest significant funds in operating them, believing that they will yield long-term economic and environmental benefits.

Being an ISO 14001 certified organization, and believing that long-term economic sustainability depends on ecological sustainability, we comply with the 3R's of environment (reduce, recycle and reuse). Our focus remains on reducing waste generation, reusing generated waste within the processes, and lastly recycling so that waste output of our operation is minimized.

We have also made great strides in lowering our impact on the environment by plant modification and process optimization: reducing greenhouse and acid gases through various changes in the plant including installing a co-generation plant, stopping a steam boiler and diesel generators, and shutting down an incinerator - and installing a US$ 4 million project for recovering metals.

## Energy Consumption

We live in a Country which is suffering from an energy crisis, affecting the lives of millions of people. To conserve energy, we are actively trying to reduce our energy and resource consumption.

Our integrated manufacturing process results in highly-efficient operations, allowing waste heat from one chemical process to be used in a different process. Compared to other facilities which lack comprehensive integration of processes and energy systems, our integrated production process provides:

- Greater opportunities to beneficially use materials
- Better use of thermal energy which would otherwise be discharged into the environment
- Significantly smaller emissions across the supply chain

Our co-generation power plant has reduced the carbon footprint by 40%. Keeping sustainability in mind, our aim is to manage key components of design integration, planning, procurement, contracts, commissioning and operations by our project team, which is working hard.

We also believe in continuously innovating - developing new manufacturing processes that reduce energy intensity and ensure our energy-related emissions are clean.

We observe and monitor energy consumption on a daily basis, reporting results to higher management. Additionally, we are looking at the possibility of converting all lighting into LED in one building. Other future energy-reducing initiative include the possibility of installing solar panels in the plant.

## *Waste Consumption*

All types of wastes, be it liquid or solid are reported, controlled and monitored according to site procedures which are reported internally and to local authorities as per legal requirements.

Organic waste produced in effluent treatment plant is passed to cement plants as a partial fuel replacement. Clinical waste, on the other hand, is incinerated in line with legal environmental standards.

To conserve our natural resources, we developed an energy conservation plan in 2011, reducing our energy and water consumption by 55% compared to 2000. For example, wastewater which was previously wasted is now used for horticultural purposes in the plant - resulting in more greenery in the surrounding areas. This, is in turn, attracts migratory birds, producing a fresh supply of oxygen in the atmosphere.

## *Water Consumption*

Due to a change in global climatic conditions, it is estimated that Pakistan will experience water scarcity in the coming years, making it imperative that water use be minimized, and water recycling initiatives implemented. Our water management practices are based on principles including, efficient usage, pollution prevention, and maximizing reusing and recycling.

We continuously monitor our water intake and control its use. We optimize water consumption through modern process optimization by recycling part of the wastewater within the plant, as well as using it for horticultural purposes and landscaping - which substantially minimizes water intake.

The industrial process we have in place helps minimize our water usage by treating it to meet specific purposes within the manufacturing cycle, and recycling water whenever possible.

Our wastewater treatment plants at our manufacturing facilities are designed and operated to meet and exceed environmental standards, securing the health of our employees, communities and the local ecosystems in which we operate.

Our water efficiency best practices help reduce:

- Cost of water and wastewater treatment
- Capital equipment costs
- Handling and use of potentially hazardous chemicals
- Carbon footprint - by reducing energy consumption associated with water treatment and distribution

## Biodiversity

We have systems and procedures in place for conserving biodiversity. To maintain a sustainable environment at our plant site and demonstrate best practices in environment management, we try to provide a conducive environment for fauna and flora in surrounding areas.

In the past, we were involved in a tree plantation plan within the site which was aimed at improving the number of flora and fauna in the area. Based on recommendations provided by WWF, we planted 600 to 800 trees around the premises and within the vicinity to provide nesting grounds to local birds and enhance greenery. Our plantation was carried out on a three-kilometer portion passing through the eastern industrial zone, where more than three hundred saplings were planted. Additionally, we were involved in initiatives to establish organic farming by using wastewater from our reverse osmosis plant.

## Emissions Management

Our operational strategy, post power generation, has reduced thousands of tons of carbon and NOx and SOx, resulting in a substantial reduction in greenhouse gases. We invested US$ 4 million for a capital project which helped close a unit which used furnace oil as fuel. Additionally, we spent US$ 50 million in the co-generation power project, resulting in not using diesel generators and boilers. When it comes to discharge: our effluent quality meets NEQS limits which reflects our dedication to conform to the highest environmental standards.

## Regulatory Compliance

We report our liquid and gaseous emissions to local authorities through SMART, a software developed by the Pakistani environmental authority, as well as through non-digital correspondence. Since commissioning the plant in 1998, we continue to comply with regulatory requirements on environmental matters in all other areas of our operations.

# Health And Safety

*The health and safety of our employees remains the most important part of our corporate social responsibility initiatives. Our goal is to continuously improve occupational health and safety standards so our employees remain secure, while carrying out their daily work practices.*


Health, Safety and Environment (HSE) management forms an integral part of our core values and we remain committed to instill these values among our employees and contractors. To achieve world class standards, the Company has developed HSE management systems, which comply with international guidelines and local legislative requirements.

Through the years, we have maintained exceptional safety records. Currently, among the petrochemical industry, the Company is a leader in terms of retaining the highest standards in health, safety and environmental performance in all its operations. Our long-term objective of “zero accidents” remains unchanged, because every occupational accident is one too many. In its fifteen years of operation, our Company has sustained an excellent safety record of 43 million man-hours without Lost Time Case (LTC). LTC refers to injuries or illnesses resulting in at least one calendar day lost from work, not including the day of injury or illness. Our LTC performance is a testament towards our relentless commitment to  safety and our excellent responsible care management systems.

The Company has also achieved zero injury target during the annual overhaul of 2013. This remarkable safety performance resulted in achieving 0.503 million safe working man-hours, while executing over 1,400 jobs. This milestone was achieved as a result of collaboration among all Company employees - from those who successfully implemented HSE policies, systems and trainings, to those who showed unwavering commitment and enthusiasm to follow these guidelines. In addition, 2013 has been an  injury-free year for us. This is the third consecutive year where there have been no injuries in the workplace - a record in the history of the Company.

The continued success of our system and its implementation is indicative of the Management's dedication, together with the support and commitment of team members at all levels, who work to ensure maximum safety levels are maintained. The Management's focus on health, safety and environment defines our standards and success criteria for the future.

We continue to instill the importance of safety within our staff members by conducting capacity building workshops and demonstrations to ensure staff members carry out tasks safely, correctly and promptly use first aid kits for emergencies, and follow proactive steps to receive medical care, if necessary.

Additionally, we prepare health and hygiene monitoring plans at the beginning of the year, comply with all medical examinations and focus on field monitoring so our workers remain free from occupational illnesses.

## *Accident Prevention*

*We identify and prioritize key risks, strengthen control of contractors working on our sites, as well as extend our safety program beyond our manufacturing sites - and into our sales and distribution networks. By conducting regular audits and training, we continue to maintain the highest standards of safety.*

Industrial accidents not only cause suffering and distress among workers and their families, but also represent a significant material loss to society. Slips, trips and falls are leading causes of accidents within the workplace. Other hazards which can lead to accidents include falling objects, thermal and chemical burns, fires and explosions, dangerous substances and stress. To prevent accidents from occurring, your Company has a comprehensive HSE system that incorporates training, risk assessment and monitoring.

## *Internal Audits*

We have a thorough internal audit system which monitors possible wrongdoings during the day and identifies corrective measures. Safety officers conduct daily field audits ensuring workers are practicing in safe working conditions. If work practices are carried out in an unsafe manner, safety officers rectify and stop any such activities- wrongdoings are reported and discussed in morning meetings. The safety officers work towards identifying and eliminating immediate safety concerns that could otherwise lead to incidents, or eventually to much graver accidents.

The safe-unsafe act (SUSA) audit system on the other hand, is a more action-driven audit, involving a team of managers who visit the plant every week, and identify both safe and unsafe acts that employees may engage in, while performing their duties. We commend safe acts - they are highlighted in weekly communication meetings. Acts which are deemed unsafe are corrected on the spot by counseling the concerned individual. Unsafe acts are also brought forward in weekly meetings so they prove as learning opportunities for others, in turn avoiding future wrongdoings within the plant.

## Process Safety

*Our commitment to protecting the environment and our communities begins with operational safety. The Company has extensive processes and procedures to prevent incidents from occurring and if they do occur, to reduce their impact.*

Assessing risks and finding ways to reduce them is our prime responsibility towards the environment, our employees and communities. We engage in risk assessment and management – right from design and construction to start-up and operation, to maintenance and training. We measure performance, conduct audits, and improve conditions. This is an ongoing process, requiring advanced management systems and highly skilled manpower to continuously monitor and test equipment.

### SAFETY PROGRAM COMPONENTS

The Company maintains process safety programs based on the principle that our facility is safe, designed and built according to effective engineering practices, and operated and maintained in accordance with the highest safety standards. Our comprehensive process safety program includes the following:

- Management of change:
  A documented process used at each chemical handling site to evaluate any potential hazards associated with process-related changes and incorporate controls in the design.

- Root cause analysis:
  A structured approach to incident investigation allows us to learn from past incidents and prevent future incidents.

- Chemical safety testing:
  A laboratory analysis of chemicals before use to identify potential hazardous properties.

- Engineering standards:
  Using recognized engineering practices in designing and constructing facilities and equipment in accordance with global and local standards.

- Management leadership and commitment:
  There is a committee responsible for process safety which evaluates and controls hazards associated with reactive, flammable and toxic materials at the site.

- Leading indicators:
  We collect data to ensure safety management systems are consistently updated so that they are effective.

## Employee Training

*Health and safety training plays a pivotal role in ensuring our staff is equipped with the skills and knowledge to conduct daily tasks in a safe manner so the workplace environment is conducive to safety. Our entire workforce is trained, supported and regularly assessed.*

**TRAINING NEED ANALYSIS**

Training needs of employees and contractors are identified in consultation with relevant departments. Training schedules and programs are then developed including ongoing mandatory and refresher trainings. The objective of these trainings is to enhance the knowledge and skills of individuals - enabling them to perform their jobs with minimum risk. Daily, weekly and monthly audit cycles, continious trainings, effective communications of HSE incidents (learning events), daily tool box talks, which encompass talks from supervisors to their staff on any safety topics or learning events from the previous week, all help improve behavior-based safety and system compliance.

**HSE INDUCTION PROGRAM**

The Company has a system to provide HSE induction to employees, contractors and new visitiors to the site. HSE induction involves awareness pertaining to Company policy, systems and procedures, relevant hazards, risk assessment, control, as well as behavior-based safety.

**BEHAVIOR-BASED SAFETY TRAINING**

Successfully implementing our sustainability strategy and HSE standards reflects our leadership behavior at the local level. This is why we are particularly concerned about training site managers to detect hazards early and avoid potential accidents.

The program content ranges from risk assessment and warehousing procedures to emergency management and management systems. Additionally, we conduct training sessions for contractors' staff working at our sites.

HSE training involves external as well as internal training. We have developed our internal faculty who are experts in delivering HSE training. Where necessary, external faculty members are invited to impart employee training. During the year, we conducted training for field staff in areas such as defensive driving, office work safety, usage of critical personal protective equipment and fire extinguishers/hose reels, gas cylinder safety training and others. For management staff members, we provided training on accident prevention, investigation, reporting, operational audits, first aid, CPR, hazardous area classification, hearing conservation, industrial safety, security of sealed radioactive sources and others.

## Occupational Health And Safety Management Systems

To achieve our goal, we strictly comply with safety, health and environment standards. Independent auditors from our internal HSE department regularly monitor that such standards are implemented.

In 2012, we embarked on aligning our comprehensive Responsible Care Management System (RCMS) with the International OHSAS-18001 Health & Safety Management System and ISO-14001 Environment Management System. Since March 2012, we are an OHSAS-18001 and ISO-14001 certified Company.

## COMPUTERIZED HSE SYSTEM

We have invested in a computerized HSE database system to report personal safety including near misses, accidents, injuries, occupational diseases and environmental accidents. The system also helps us determine the root cause of incidents and take necessary preventative measures. The statistics compiled with the help of this advanced system are analyzed and reported to senior members of the organization.


## OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT

OHSAS 18001 system provides the Company regular updates and benchmarking to Industry best practices. The OHSAS 18001 Occupational Health and Safety Management System reduces harm to employees and other personnel, while reducing overall liability.

The Company's OHSAS 18001 Safety Management System focuses on best practices in safety management:

## INCIDENT PREVENTION

Work-related incidents are prevented through several layers of protection, including safe design, work practices, safe behaviors and by using appropriate engineering, operating and administrative controls.

## MANAGEMENT LEADERSHIP AND ACCOUNTABILITY

Management establishes clear safety expectations and goals, providing resources, establishing processes and monitoring overall progress.

## EMPLOYEE INVOLVEMENT

Employees are involved in all aspects of the safety program, and remain committed to work safely and protect the safety of others.

## REGULATORY COMPLIANCE

Complying with applicable laws and regulations is an integral part of the Company's safety program.

## INCLUSIVE SCOPE

Our safety objective is to prevent workplace incidents, injuries and illnesses for employees, contractors, visitors, suppliers and customers. Our ultimate goal is to provide our employees with the skills and attitude to ensure safety remains a number one priority even in their personal lives.

## SAFETY EDUCATION

Employees are provided with the knowledge and skills necessary to work safely.

## ASSESSMENT

Assessment and benchmarking against the world’s safety leaders drives continual improvement through adopting best practices.

**EMERGENCY PREPAREDNESS**

Emergency response plans and capabilities are maintained to manage emergencies related to the Company's facilities and operations.

**HAZARD CONTROL**

Hazard studies are a vital component of your Company's engineering procedures which are carried out for new plants, processes, buildings, services and operations. We identify, assess, control and monitor various hazards in the workplace. Hazards also relate to demolishing plants or buildings, and abandoning draining facilities - under the leadership of trained and experienced Hazard Study Leaders at the Company.

In 2013, we carried out multiple hazard studies, including modifications related to process improvement, variable cost reduction, system upgrade and new initiatives. We included suggestion and preventive measures to comply with HSE policies, national and local legislations.

## *2013 HSE Highlights*

- Fully compliant with OHSAS-18001 and ISO 14001 surveillance audits
- Fully compliant in external audit of radioactive sources conducted by the Pakistan Nuclear Regulatory Authority (PNRA)
- Awarded 10th Environment Excellence Award from NFEH
- Achieved 2nd position in the 8th Employer Federation of Pakistan (EFP) Best Practice Award in the category of Health Safety and Environment.
- Awarded 3rd Fire Safety Award & Certificate by NFEH and FPP.
- Completed 11 Million Man-Hours without Lost Time Case (LTC) for our employees.
- Achieved “Zero Injury Target" Annual Overhaul 2013.
- Completed 2013 with no workplace injuries

## *Green Office Certification*

This year, we received Green Office Certification from WWF Pakistan for our city office. WWF's mission remains to stop the deprivation of our planet, and pave a future where humans preserve the environment.

This certification signifies that we meet and exceed conservation standards in terms of energy efficiency, resource conservation, and environmental protection. The initiative results in cost savings, and engages employees in the Company's sustainability goals.

The certification is a testament to the fact that we are eager to go above and beyond environmental standards and do everything possible to protect and safeguard the interests of our people and the planet.

Our goal is to ensure that we continue to work in collaboration with the environment to ensure future sustainability targets are met.

# Manufacturing Excellence

*We think that a high performance involvement culture is a driver for manufacturing excellence. This includes ensuring every employee is working to his or her optimum level. We are firm believers that operating performance is an outcome of detailed technical knowledge, as well as performance and manufacturing discipline, including equipment reliability, process control, working within time constraints and safety parameters.*

## Plant Operations And Improvement

2013 was a challenging year for our business. Despite difficult market situations, the performance of our manufacturing facilities remained excellent in all areas. The credit goes to Company employees, who displayed outstanding teamwork and remained adamant to face challenges pertaining to plant operations and improvement.

Additionally, our employees are equipped with the required expertise and knowledge to operate Pakistan's most-technologically advanced plant. Our complex chemical plant, operates at a very high pressure and temperature - its engineering features ensure product purity exceeds 99.97 percent.

We strive for excellence and innovation in all that we do, and our team culture contains these important ingredients - changing the dynamics of PTA manufacturing.

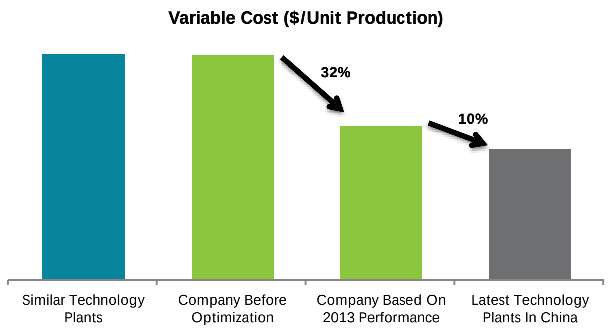
## Reducing Operating Costs

Throughout the year, our focus remained on reducing operating cost to maximize profitability with minimum available margins. In 2013, we achieved the lowest ever operating cost on raw materials. We attained this milestone by making the record lowest specific consumption for major raw materials including paraxylene, and other raw materials such as acetic acid, and electricity.

Our short and long-term strategies helped us achieve these targets. We implemented projects involving capital expenditure and out-of-the-box thinking. We achieved improvements by using minimum capital or without any expenditure, and only by doing things differently.

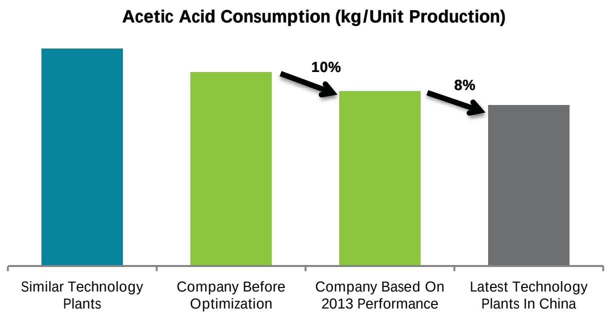
The Company has set new benchmarks of lowest specific raw material and utilities consumptions among similar technology plants world-wide - making our production cost per unit of PTA lower than these plants. We also improved plant performance to a significant level - reducing the gap with the latest PTA technology plants operating in China.

Based on current raw material and utilities costs, the graph highlights this change.




## *Replacing Acetic Acid With Water: Cost Savings*

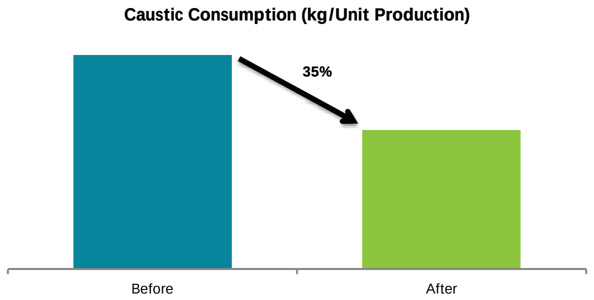
The word “impossible” is not part of our dictionary, rather we want our people to display "out-of-the-box" thinking. And our team was successful in doing just that, when they replaced the raw material, acetic acid, with water for one of our operation units. It was the first time that water was used instead of acid for such a process.



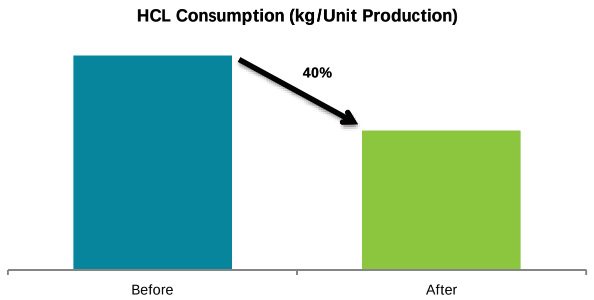

PTA technologists assumed that water has a tendency to have a negative impact on the process - therefore only acetic acid can be used for that unit operation, even at the expense of some losses to the effluent plant. The Company's team, however, challenged this assumption, by replacing acid with water and controlled the trials with process improvement which resulted in no negative impact on the process, yet substantial savings were achieved.

This project also acted as a catalyst for change, a new model of innovation and improvement, which others in the industry could emulate.

## *Lowering Caustic Soda And Hydrochloric Acid Inputs*




Our Company believes that continuous improvement is a crucial ingredient for sustainability and growth. Therefore, since commissioning the new plant, our Company's team remained focused on developing and improving processes.




Last year, we carried out a study questioning why specific quantities of caustic soda and hydrochloric acid are used in demin plants and whether these quantities can be reduced further.

To answer these questions, our Company's process and operations teams carried out a theoretical study, laboratory-based research and a plant trial. This resulted in a new set of conditions which reduced caustic soda consumption on the demin plant by 35 percent, and hydrochloric acid consumption by 40 percent. The initiative played a major role in reducing the operating cost of the plant.

## *Overhaul (OH) 2013*

Production department's achievements related to overhaul planning, execution and completion of tasks were noteworthy. 2013 overhaul targets (safe and zero injury completion with pre-defined time period and pre-estimated costs) were successfully achieved.

Good planning, however, remained a pivotal factor leading to the success of the overhaul. This included nomination of area to shift teams, developing organizational charts and job lists, isolation plans, safe job handover/takeover procedures, major job reviews, slip plate registrars, rescue plans and ordering miscellaneous items.

We arranged awareness sessions at the plant site for shift teams to refresh Permit To Work (PTW) systems, and overhaul safety statistics, which were conducted by the production department's overhaul coordinator and senior managers. In the current overhaul, 1400 jobs were executed - 728 by maintenance, 364 by instruments, 289 by electrical, among others.

After 44 hours of shutdown, the plant was declassified, which was yet another milestone. Previously, 48 hours was required for de-classification. Additionally, during this overhaul a new concept called "area block" was introduced which helped reduce the number of slip plates for vessel entries, resulting in reduced cost, manpower resource and early handover of equipment. Nothing was misoperated and observation failure wasn't seen during these activities.

## *Innovation And Teamwork*

During OH 2013, the dehydration (DH) column bottom cooler tubes were leaking, resulting in malfunction. It is difficult for the plant to operate without cooling DH column bottom stream. Since no spare cooler or tube bundle was available, manufacturing a new cooler and transportation on site would take six months. This was a serious threat to prolonged plant outage.

To address this issue, a used gas and steam heater were identified and declared suitable after minor modifications.

Subsequently, the technical team formed a task team, to install this retrofit exchange on a new location containing new pipelines. The workshop and project team executed the job at a rapid pace, enabling plant startup with this exchanger within timelines. Excellent initiative and team-building skills made it possible to avert a prolonged plant outage.

## *Technological Innovations For Better Process Control*

**DCS UPGRADED**

The distributed control system (DCS) of the plant plays the most critical role in controlling the manufacturing process, serving as a bridge between the plant operations team and the equipment to be controlled. During the recent overhaul at the plant, we upgraded the DCS to the most latest version. Additionally, during the commissioning phase, we successfully performed complete loop testing and logic verification of around 3000 instruments.

The older technology had become obsolete, which was affecting the reliability of the system. By utilizing the new DCS, we started the plant in time without any delays. A technology transition on such a large scale and short time span, not only improved the reliability of the system, but provided availability of spares and technical support from the vendor.

**CONTROL SYSTEM - PROCESS AIR COMPRESSOR**

Process Air Compressor's control system was upgraded from an obsolete system to the latest PLC-based system. According to the vendor, the upgradation would take 30 days.

After multiple reviews, we decided to take care of the hardware by utilizing the Company's resources, while the vendor handled software-related components. This resulted in substantial cost and time savings - and the project completed in 17 days.

The new control system has many advantages - its user friendly and troubleshooting is easier and more robust. The system can also connect remotely to vendor's online diagnostic centre for performance monitoring and troubleshooting.

**SUCCESSFUL BLACK START TEST OF NATURAL GAS BOOSTER COMPRESSOR (NGBC)**

We performed a test to begin a NGBC by three onsite diesel generators (BLG, EDG-A, EDG-B). We performed this test after conducting detailed technical studies and discussions with design consultants, vendors and teams at the site.

Initially, the consultant and the equipment manufacturer, did not declare NGBC startup on DGs possible, however efforts were initiated for detailed and thorough analyses which were concluded by the successful startup test.

This successful start-up has provided the Company to begin GTG in the absence of K Electric supply. This has resulted in enormous savings by eliminating the requirement of starting an additional system for GTG black start.

## *Highlights & Initiatives*

**92.6% Plant Availability in Overhaul Year**

- Focused on inspection and reliability resulting in world-class plant availability
- Operated for 338 days in the year, despite a 22-day outage for Overhaul 2013
- Adhered to OEM guidelines and international standards
- Improved, repaired and carried out maintenance practices through detailed root cause analysis.

**Safe and Timely Completion of Overhaul 2013**

- Provided highest number of jobs to date for an Overhaul
- Carried out unplanned major overhauling of main process air compressor
- Undertook major repairs on CTA dryer to extend its life span
- Used in-house resources and expertise to replace a problematic critical heat exchanger with minimal cost and time

**First Annual Maintenance of Gas Turbine and Natural Gas Booster Compressors**

- Successfully executed annual maintenance using local resources without any rework and time delays.

**Reverse Engineering of High Cost Spares**

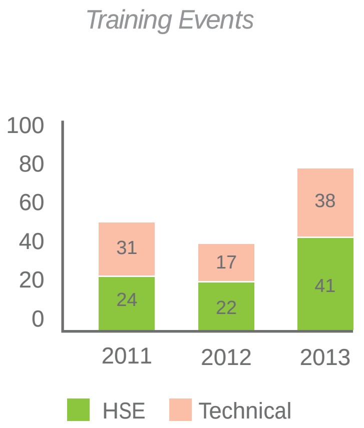
- Substituted high-cost imported spares with lower cost components - developed through reverse engineering
- Associated with alternate vendors for developing detailed drawings and fabrication methodology
- Reduced delivery time for producing critical spares
- Successfully tested and commissioned reverse engineered spares

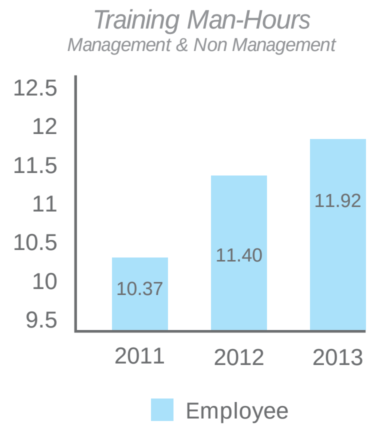
## Technical Training

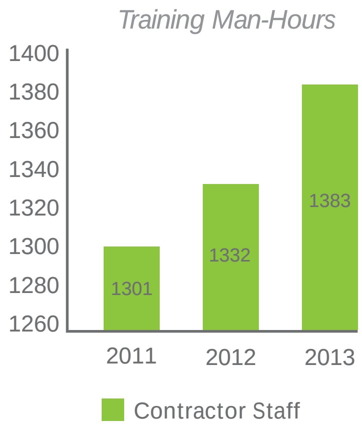
*We provide training at all levels, and do not underestimate its value in enhancing our staff's skills, while ensuring the highest safety parameters are in place. Particularly, plant employees need the technical skills so they can conduct their jobs safely, without harming themselves and others.*

**TRAINING AGAINST KPIs**

In 2013, the number and type of trainings increased compared to 2012 and 2011. For example, the number of technical trainings conducted at the Company soared from 31 in 2011 to 38 in 2013. Similarly, training man-hours (for both management and non-management staff as well as contractor staff) increased through the years as well. The graphs below highlight this rise.




**EXTERNAL TRAINING**

In 2013, we also offered a range of external courses which helped our employees build their skills. Some of 2013's external courses included: UK Certified Course on Health and Safety, Vibration Analysis Course Mobious-ISO Category II, 28 Multi Topic International Symposium, Root Cause Analysis for Bearing Failure, Vibration Analysis II, Introduction to Thermography, Assets Integrity Management Summit, Vibration Analysis 1, Welding Inspector Level II, and Emergency Preparedness, Evacuation and Response.

**IN-HOUSE TRAINING BY OUTSIDE BODIES**

In 2013, a number of outside organizations conducted training programs at the TTC. Health Line conducted a CPR Training course in April 2013, Techno Trade conducted a course on Caesar II, United Registrar of Systems on Awareness Sessions on ISO 14001 and OHSAS 18001 Compliance and Internal Auditing to Integrated Management Systems(IMS). The Pakistan Nuclear Regulatory Authority carried out a course on Industrial Safety and Security of Sealed Radioactive Sources. Other courses included Machinery Laser Alignment by Plant Asset Efficiency Solutions as well as Introduction to Engineering Standards and Procedures and Operational Audit by Mohsin Ali and Associates.

In addition, we also organize HSE awareness sessions for other industries and organizations. Some companies which have participated in HSE awareness sessions include FFBL, Novatex, International Textile Limited, General Tyres, and Dawood College of Engineering & Technology.

## Technical Training Centre

*Started in August 2009, our Technical Training Center (TTC) provides a systematic method of training all plant personnel working in various departments within the PTA plant. TTC serves as an in-house training resource to enhance professional skills and competencies of all local manufacturing staff and those of neighboring industries, providing direction to incoming apprentices and graduates, in turn helping businesses achieve their objectives.*

Our training centre has a variety of facilities including, state-of-the-art training rooms which are equipped with audio visual equipment and accommodate many people. The TTC encompasses many rooms for group discussions and activities.

A number of training manuals, modules, API's and other forms of technical and safety literature such as videos are regularly updated by staff at the TTC. Resources, which are readily available at TTC's library, serve as excellent tools to educate individuals.

**INTERNAL FACULTY RECOGNITION PROGRAM**

In line with our strategy of talent localization, we develop a talented pool of in-house trainers through the Internal Faculty Recognition Program (IFRP). Launched in August 2013 by the sustainability department, the IFRP is driven by the TTC.

Inspiring trainers from various functions are selected and subjected to rigorous training using internal and external resources. The pool of internal trainers then conduct various learning and development programs within the company, which saves training costs and helps improve a learning-culture based on knowledge sharing.

All our employees are encouraged to participate in this program and share their knowledge and experiences with their colleagues. In 2013, our local faculty trained participants on topics ranging from Smart Purchasing Skills, Six Sigma Orientation, Learning the Art of Presentation, Condition-based Maintenance, Accident Investigation Workshop, among others.

## Total Productive Management (TPM)

*With the goal to achieve global competitiveness through operational excellence, TPM was launched in your Company in October 2013.*


TPM is a plant improvement methodology which involves people working in small organized teams to create the most efficient working equipment and mechanisms, while conforming to the highest safety parameters.

TPM is an innovative Japanese concept dating back to 1951, when preventive maintenance was introduced in Japan. TPM was originally developed for maintenance, designed to integrate equipment maintenance into the manufacturing process. Later, its scope enhanced all aspects of the business, consequently emerging as a total productive management tool.

TPM, compared to traditional maintenance, is a more proactive measure geared to maintain equipment in optimum conditions at all times. TPM methodology embraces an array of techniques that ensure all equipment in the manufacturing process is able to perform well.

At the launch of the TPM ceremony, which was attended by over two hundred employees, Sustainability Manager Mr Qamar Alam reiterated that “TPM does not provide a quick or easy solution, rather implementing the system requires a change in employee attitude and values which often takes time. TPM is a company-wide approach towards achieving a standard performance in manufacturing, including overall effectiveness of equipment, machines and processes”, he said.

Chairman of the Company, Mr Kim made a video appearance. Mr Kim recalled the remarkable success of implementing TPM at Lotte Chemical's Ulsan plants, hoping that TPM implementation at your Company would be just as successful in terms of plant productivity, availability, and efficiency and employee skill development. Mr Kim appreciated employees for their stellar performance and willingness to tackle challenges.

Chief Executive Mr Asif Saad said TPM enhances collaboration among different functions by team-work, continuous improvement, and good working practices. Mr Saad insisted that TPM is initiated as a “top down” exercise, but it's only successful by adopting the “bottom-up” approach. TPM implementation can considerably contribute towards improving organizational behavior in the manufacturing business, added Mr Saad.

**TPM STRATEGIC COMPONENTS**

- Build a corporate culture that maximizes effectiveness of production systems.
- Use a shop-floor approach, build an organization that prevents every type of loss (zero accidents, zero defects and zero failures).
- Involve all departments to implement TPM (from top management to shop-floor workers).
- Conduct zero loss activities through overlapping small group activities. The key to no losses is to identify and establish optimal conditions which result in no losses.

**BENEFITS OF TPM**

TPM has spread rapidly throughout the world, guaranteeing results, which have transformed the workplace and increased knowledge and skill-levels within manufacturing teams.

### *Increases Tangible Results*

TPM reduces equipment breakdown, minimizes idling, minor stops, quality defects and claims, boosts productivity, trims costs, shrinks inventory, reduces accidents, and promotes employee involvement.

### *Transforms Plant Environment*

By implementing TPM, a rusty plant covered in oil, grease and leaking fluids can be transformed into a pleasant and safe working environment. These changes positively impact customer and visitor perceptions in turn increasing their confidence in the plant's products.

### *Higher Employee Motivation*

As TPM yields concrete results (improves work environment, minimizes breakdowns, improves quality, reduces changeover times) workers become more motivated, their involvement in the workplace increases, and TPM becomes an integral part of their work.

### *Greater Employee Empowerment*

TPM blurs the distinction between the roles of manufacturing functions by placing a strong emphasis on empowering all employees to help maintain their equipment, in turn creating a shared responsibility for equipment, which encourages greater involvement from all manufacturing team members.

### *Better Quality And Productivity*

TPM optimizes equipment reliability and ensures effective management of plant assets using employee empowerment and involvement by linking various business functions. TPM initiatives are aimed at addressing major losses and wastes associated with production systems by virtue of continuous and systematic evaluations, thereby resulting in substantial improvements in production facilities.

### *Optimum And Reliable Equipment*

TPM focuses on allowing employees to take ownership of their equipment. This drastically reduces equipment failures if equipment users recognize potential failure conditions. They can then take appropriate corrective actions before the actual functional failure takes place.

### *Creating Skilled Employees*

TPM prevents waste by involving operators in reducing equipment failures during the production process by: keeping work surfaces clean to prevent contamination and wear, reporting oil leakages and ensuring action is taken to prevent future recurrences, being alert and recognizing unusual noises, vibrations, smells and temperature controls - all of which are indicative of impending failures. Lastly, we involve employees in reporting product quality deterioration.

## *Enhanced Teamwork Through Cross-Functional Approach*

TPM thrives on teamwork. Operators and technicians develop multiple skills, leading to job enrichment and improved flexibility. Better coordination among varying functions reduces delays and downtimes, in turn increasing productivity.

### TPM ACTIVITIES

At the Company, Small Group Teams (SGTs) implement TPM through key activities. SGTs include production, engineering and technical teams. To simplify the implementation process, the entire plant is divided into several blocks and every group team is assigned different blocks to execute TPM activities. We form cross-functional teams because we realize that smaller teams which work in harmony are more capable of achieving goals rather than individuals acting alone.




### TPM MODEL AND BLOCK ACTIVITY

This activity is carried out by SGTs in the initial phase to ensure everyone understands TPM implementation prior to starting them in a block. The model activity is performed to ensure increased understanding of TPM implementation among teams. After TPM model activities are completed, SGTs begin TPM block activities on the same pattern as model activities in their respective blocks. TPM block activities are activities in which small group teams perform TPM activities on every equipment of their block.

## TPM MISSION ACTIVITY

TPM mission activity aims to improve variable cost and overall equipment efficiency. Mission activities are performed by small group teams at each step of TPM along with block activities. These activities address vital issues such as establishing criteria for selecting process conditions, discovering deficiencies in process conditions, as well as finding and closing gaps between ideal and actual process conditions.

## TPM 5S ACTIVITY

These activities revolve around organizing a work space for efficiency by identifying and storing the items used, maintaining the areas and items, and sustaining the system. The TPM 5S activity is carried out by small teams on their blocks to drastically transform the plant environment.

## 5S

The 5S process is one the most fundamental and widely-applied Japanese methodologies. The guiding principles underlining the 5S system include: organization, cleanliness, and standardization.

The concept behind 5S is simple: minimize waste and improve efficiency by ensuring workers spend time on productive tasks rather than look for misplaced tools and sort through waste material.

The table below describes the 5S system.

| SEIRI | SEITON | SEISO | SEIKETSU | SHITSUKE |
|---|---|---|---|---|
| Sort | Set in Order | Shine | Standardize | Sustain |
| To distinguish between necessary things and unnecessary things and getting rid of what you don't need | It is a way to eliminating search | Eliminating trash filth & foreign materials for a cleaner workplace. | Standardization means to keep 3S... Sort, Set in order & Shine | Doing things as a matter of course |
| The more things you own the more they own you | Less is usually more | Slow as you go | Believe in checklist not memory | To sustain longevity, you have to evolve |

## TPM AWARENESS SESSIONS

In order to enhance sustainabile operations, the sustainability department arranged TPM awareness sessions for employees working at the plant site to implement TPM. Two sessions were arranged in which a total of 150 plus employees participated. Employees learned about 5S activity, total productive management, and TPM reward and suggestions systems.

# Product Stewardship

*We are a world-class producer of PTA, and conform to the highest quality and safety standards. We try to ensure that our manufacturing process remains safe and hazard-free for our customers and employees.*

Product stewardship forms an integral part of our sustainability strategy. While maintaining our efforts to offer customers more value and better performance, we aim to reduce the environmental burden throughout the life cycle of our product - from raw material procurement to disposal.

### PRODUCT DESCRIPTION

Your Company is a world-class supplier of PTA, an essential raw material for Pakistan's textile and PET packaging industries. PTA is used in manufacturing polyester staple fiber, polyester filament yarn and PET. Our plant at Port Qasim, Karachi was built using ICI's state-of-the-art technology when it was commissioned in 1998, and we remain committed to maintain short delivery times, consistent quality and excellent customer service.

### PROCESS

PTA is made by oxidizing paraxylene, using acetic acid as a solvent. In the first stage, known as oxidation, air is blown into a stirred reactor vessel containing a mixture of paraxylene, acetic acid and a catalyst. The result: Crude Terephthalic Acid (TA) is formed, which is crystallized and then dried.

In the second stage, purification, the crude TA is re-dissolved in hot water. Impurities are removed by hydrogenation and PTA is again crystallized out and dried. This process ensures that 99.98% of purity required for manufacturing polyester products is achieved. Liquid effluent from the process is biologically treated using a deep shaft technology, so that water being discharged fully complies with the National Environmental Quality Standards (NEQS).

### PRODUCT SAFETY

Our product is safe when used as intended. All raw materials, including the finished PTA product, are subjected to numerous assessments and tests to ensure safety is maintained during production, use and disposal.

### MARKETS SERVED

Since its inception, the Company has focused on meeting Pakistan's PTA demand. However, if local demand lowers, only then does the Company export to other countries. 2013 has been a challenging year for PTA producers around the world due to significant oversupply in Asia and resultantly low industry margins. Despite these difficult circumstances, the domestic market share was maintained.

### CUSTOMER SATISFACTION AND COMPLAINT MANAGEMENT

Customer satisfaction plays an integral role in every business. The business sales team conducts regular meetings to maintain business relationships and gauge customer satisfaction. Any concerns and issues are addressed on a priority basis, and systems are in place to ensure that occurrences are not repeated. Moreover, a comprehensive system is in place to handle all complaints, within a defined time frame. Information and status of all complaints are circulated at the highest levels of the organization.

# Information Technology (IT)

*As businesses evolve and adapt to changing market dynamics, they require a flexible approach to Information Technology usage for achieving their strategic goals and objectives.*

## *Information Systems Strategic Planning*

The Company's IT function focuses on strategic IT issues - how to make IT work for the business, improve Company performance, examine ways to exploit the maximum potential of information systems from existing and new IT products, and provide innovative and cost effective IT solutions. We also review generic and industry-specific best practices and incorporate them in our functions.

## *The Company's Business Processes*

We continuously map and document our business processes. We also engineer and improve for transforming into automated functions, developing plans and conducting trainings for introducing an automated work flow system.

## *Major Projects / Improvements*

During 2013, IT function continued adding value to the business through helping identify and implement cost saving initiatives, strengthening internal controls, reducing paper work and enhancing productivity. Leveraging on current real time database platforms - ORACLE, Maximo and InfoPlus.21 - have allowed our business to run efficiently on processes derived from industry best practices. The key to our strategy is to deliver value, efficiency and control.

As a part of this strategy, we successfully upgraded InfoPlus.21 from version 6.0 to version 7.3 on a new server - carrying out extensive testing to help the technical team ensure all applications were running smoothly on the new version.

Besides upgrading, we made a number of developments. Such improvements have resulted in considerable time savings, reducing manual work, while increasing user productivity.

We have already started working on business intelligence tools which will provide insights and help simplify and use information within our company. Such tools will result in faster and easier decision making by providing key information to decision makers in a timely and efficient manner by way of dashboards - displaying possibilities for targeted planning and forecasting based on existing data.

Additionally, we plan on expanding the IT infrastructure with the latest technology to enable users to collaborate more effectively with tools for video conferencing and web meetings, among others.

The security of our information assets is more robust by deploying Symantec End Point security, and establishing a new DR site.

## Team

Our "one team" attitude helps us engage effectively from the c-suite to the front line. Our collaborative working methodology emphasizes teamwork, trust, and tolerance for varying thoughts. We are a team of multi-skilled and talented people, who engage with each other to find solutions to problems - and are ready to tackle challenges with perseverance.

## Value Addition And Future Investment

Our Company is committed to continuously improve its IT infrastructure, technologies, processes and procedures. This results in improved controls, enhanced reporting, optimized procedures and best overall performance.

We foster collaboration, innovation and creativity, trying our best to play a vital role to ensure efficient and effective business processes, while thinking of innovative ways to help the business benefit from technological advances. We continue to demonstrate "out of the box" thinking and our goal remains to be a model IT function, which plays a critical role for our business.

# Our People

*Our people remain our greatest assets. Our goal is to attract, develop and retain high-caliber people with the skills, attributes and drive to help the Company achieve its current and future strategic objectives. We support the continuous development of a winning culture through our human resources management policies - treating all employees and contractors fairly, providing them a safe working environment, compensating our employees in accordance with industry standards, and providing them comprehensive benefits. In addition, we provide continuous development opportunities to employees, allowing them to advance their careers.*

## Compensation, Rewards And Benefits

*Our competitive compensation and benefit programs attract and retain talented employees, allowing them to exceed business objectives and reach their personal and professional goals.*

We believe that all Company employees contribute to our progress, therefore everyone should benefit from the company's success. We have a fair and transparent wage policy, and don't discriminate against age, gender, ethnicity or any other criteria.

We also recognize employees who surpass their daily expectations and provide rewards to these employees. Bonus payments and salary increases are linked to performance against individual goals - calculated against a combination of individual achievement and overall Company performance.

In addition to compensation and benefits, the Company offers a number of fringe benefits to employees including an option to participate in a Hajj ballot, employee wellness programs and an excellent working environment. Our wellness program includes periodic health checkups, availability of medical facilities at the plant, as well as organizing sports and recreational activities.

We believe in work-life balance, and therefore discourage employees from staying in the office after work hours. We firmly believe that employees personal lives should not be compromised.

## Human Resource Awards

| AWARDS | DONOR |
|---|---|
| Best Learning Organization | Pakistan Society for Training and Development |
| Best Human Resource Department | Employer Federation of Pakistan<br>(1st prize in medium size category) |
| 4th Global HR Excellence Award | Global Media Links<br>(Excellence in human resource development infrastructure) |
| Best Chief Executive Award for 2012 | Employer Federation of Pakistan<br>(Medium-size organization category) |

## *Diversity And Inclusion*

**KEY CHALLENGE**
Our key challenge includes attracting more women in the workforce. Women are underrepresented in the petrochemical field, and we are working hard to ensure they are fairly represented in the workforce.

*We welcome diversity within our workplace. Diversity in terms of gender, ethnicity, skill, thought, experience, and language are all important elements of our people strategy and are key drivers for our success. We are firm believers that the rich mix of experiences and skills allows us to better understand the needs of all our customers, suppliers and communities - helping us create innovative solutions and increase our corporate responsibility initiatives.*

Ample research suggests that employees working in a diverse environment feel more fulfilled in their jobs - resulting in greater job performance and creative thinking. Our employees are our foremost priority and we do everything possible to ensure our workplace environment helps them achieve their personal as well as professional goals.

Our selection process is unbiased, and our goal is to hire creative thinkers, and innovators who display out-of-the-box thinking. Multi-taskers, flexible and positive people - who retain a global perspective and continuously improve and inspire themselves and those around them - remain our key strengths and ultimately our business drivers.

Women represent an average of 10 percent of our workforce in the city office, however representation of women at our plant is much lower, probably due to the distance of the plant from the city, as well as the nature of the petrochemical industry. We provide flexi-work timings, so women can manage their personal as well as professional lives. In addition, we also provide transportation facilities to women in the city office.

A number of measures, including strategic workforce planning, as well as program and policy development, are used to address the issues of diversity and equal opportunity. Our mindset towards recognizing the benefits of having a diverse workforce allows others to encourage a culture that is respectful and tolerant of differences.

## *Career Portal*

The Company has improved its recruitment system by leveraging the opportunities available in this age of technology. The Company has launched a web-based resume system, The Career Portal. Such a system allows all vacancies to be posted online, and interested applicants, attach their resumes for consideration.

The system, not only saves costs and time, but also allows the HR department to generate statistics and reports pertaining to job applications, conduct analyses and respond to applicant queries. Additionally, this portal provides line managers access to resumes, in turn increasing their participation in the recruitment process.

## *Talent Localization*

*The Company cultivates constructive and mutually beneficial relationships with our employees, customers, suppliers and communities. Our vision is to be the preferred supplier and employer in Pakistan, as well as in the markets we operate in.*

Our talent management efforts integrate a variety of components to develop local workforce and make use of readily available talent within Pakistan. In 2013, 100 percent of our workforce was from locally available talent.

We work towards employing the right people to deliver the services and operational excellence our customers require, when and where they need them, as well as build and strengthen local talent pools. We offer cutting-edge training and competency development programs. In 2013, a total of 4,040 hours of instructor-led and online training was given to employees.

From numerous applicants, the Company hired approximately 27 people in the workforce.

## *Training And Development*

*We believe in our people, yet we think it's our responsibility to train and develop our employees so they acquire the skill-set and aptitude to demonstrate and harness their potential.*

Through a structured process, we provide management and leadership development initiatives for our employees. The individual development needs of our employees are identified within the framework of our performance evaluation system. During the performance evaluation period, development areas are determined by comparing employees' existing qualifications and competencies to targeted qualifications and competencies, which, in turn, provide input for training requirement analyses. This process aligns employees’ work to support Company strategies.

## Apprenticeship Program

In line with our efforts to develop local talent from the grass root level and nurture a talent pool that can cater to the upcoming human resource needs of the Company, we manage a structured apprenticeship program in line with the Government of Pakistan rules and regulations.

The apprenticeship program, lasting for 24 months, begins with a ten-week orientation at the Technical Training Center (TTC). Apprentices are trained in different areas and functions of the plant, as well as about specific equipment available for commercial use. In the process, they not only gain a thorough understanding about the technical knowledge of the plant, but also a comprehensive understanding of processes related to occupational health and safety.

Upon completion, the majority of apprentices are offered permanent jobs within the Company - depending on job openings, of course. In 2013, 7 percent of apprentices were hired by the Company, compared to 6.8 percent a year earlier.

## Graduate Trainee Engineers Program

The Company is eager to hire and attain recent graduates from a range of professional and academic disciplines. We seek talented individuals, who we nurture within our organization. We provide training and development opportunities so they become future business and industry leaders. In particular, we lead, when it comes to providing training platforms for emerging engineers in Pakistan.

Like previous years, in 2013, we initiated three recruitment drives for recent engineering graduates from universities including Ghulam Ishaq Khan Institute of Engineering Sciences and Technology (GIKI), University of Engineering and Technology Lahore, Punjab University, NED University of Engineering and Technology, Dawood College of Engineering and Technology, National University of Science and Technology (NUST) and Lahore University of Management Sciences (LUMS). As per Company requirements, these graduates went through a rigorous selection criteria by way of a formal test. Approximately 1100 employees were tested, and only 26 were selected for trainee engineers jobs.

We provide our trainees opportunities to network with leaders and decision makers in their fields. Such networking opportunities serve as an excellent means to gain insight and practical knowledge from experienced industry practitioners.

Over the years, we have developed a structured framework for internal progression, which is supported by defined competencies for each position and career level.

Furthermore, our personnel development plans ensure we offer the appropriate support, training and coaching so our employees succeed at all levels of engineering and commercial functions. A number of our trainees have progressed, and some also hold key positions in other Pakistani and overseas companies.

## Internships

The Company offers internship opportunities to students from various universities offering technical and business management programs.

The internship program provides aspiring and future leaders opportunities to learn the corporate culture and business practices of your Company, while working alongside highly professional and supportive staff. In 2013, we offered 30 internships, increasing from 10 in 2012. Interns are selected based on a strict selection criteria by HR - they undergo orientation and are placed in particular functions based on their preferences and educational requirements.

## External Training

We carry out a number of HR trainings for our employees, believing that these sessions enhance employee skills and in turn their productivity and motivation within the workplace.

Some corporate trainings from renowned corporate trainers included: Leading from Within, Building Beautiful Minds, Problem Solving and Decision Making, The Power of Positive Attitude, Full Steam Ahead, Winning Decision, Team Building Skills and others.

Employees who participate in external training organize information sharing training sessions which enhance interaction among employees so they form a cohesive unit in line with the Company's corporate culture.

## Internal Faculty Development

In line with our strategy of talent localization, your Company develops a talented pool of in-house trainers. Inspiring trainers from various functions are selected and subjected to rigorous training using internal and external resources. The pool of internal trainers then conduct various learning and development programs within the Company, which saves training costs and helps improve a learning culture based on knowledge sharing.

All our employees are encouraged to participate in this program and share their knowledge and experiences with their colleagues. In 2013, our local faculty trained participants on topics ranging from Smart Purchasing Skills to Six Sigma Orientation to Learning the Art of Presentation, among others.

## Human Resource Branding

To enhance our Company's image in universities, we introduced Lotte Ambassador Concept. This concept entails bringing a professional trainer in engineering universities, and arranging training workshops pertaining to soft-skills.

We conducted a technical lecture at the University of Engineering and Technology in Lahore and Punjab University. We are the only Company which arranges such lectures in engineering universities. Both universities were appreciative towards our efforts, and look forward to attend sessions in the future.

## Scholarships In Universities

We provided scholarships to deserving students (on a need and merit basis) in various disciplines at LUMS and NED University of Engineering and Technology. The scholarship covers their entire education period, and is renewed based on students' performance in each semester.

## Employee Engagement

*We realize that our employees, through their dedication and commitment to the company, drive our business results. We are eager to engage with our employees, and willing to hear their voices and help ease their concerns.*

## Time Out Sessions

In order to establish a two-way relationship with our employees, we conduct engagement timeout sessions. These sessions are conducted as a focus group discussion moderated by senior management. Employee opinions are considered and sometimes incorporated when developing policies and programs designed to attract, engage and retain top-notch talent.

Companies world-wide, across a wide spectrum of industries, develop and engage their staff members, leading to increased business performance and organizational sustainability.

Feedback from timeout sessions also helps managers align their training to meet employee satisfaction. Results from these sessions further help managers better train, develop and challenge their respective workforces so they work better and achieve company objectives.

In addition to formal timeout sessions, business and functional leaders meet with employees in person to present and discuss new strategies and business objectives. The CE also holds quarterly meetings with employees. These meetings provide a forum for updates on business performance and future plans.

## Housing Facilities

Starting July 2013, we began providing temporary housing and other facilities to upcountry employees until they are able to find permanent accommodations. The HR and administration departments helped develop this initiative to facilitate trainee engineers. We also provide first aid and medical facilities on site, 24 hours a day. Up until now, we have accommodated twenty-one trainee engineers and five internees.

*We also organize a number of recreational events for our employees to encourage team-building skills and enhance work-life balance. 2013 highlights included:*

## Eid Milan Party

Like previous years, HR organized an Eid event in August, 2013 at the plant site.

## Mango Party

Organized by the HR department, the mango party, allowed employees to feast on all kinds of fruits. Events like these increase interaction between staff members and enhance people's social skills. The event was followed by a juice drinking, mango cutting and a quiz competition.

## Iftar And Dinner Party

HR and administration arranged an iftar party with shift staff in July, 2013. Available shift, HR and administration staff attended the party.

## Fitness Challenge: Enhancing A Healthy Lifestyle

We firmly believe that healthy employees are happier and perform better. In line with this belief, we initiated a fitness challenge program for our employees. The week-long challenge helped promote a healthy lifestyle based on employee medical trends which showed rising levels of obesity, cholesterol and blood pressure. The first challenge, No Smoking Day, involved volunteers to quit smoking for a day. The second day of the program was geared towards enhancing a healthy lifestyle and eating healthy. Participants controlled eating unhealthy food for a day. The third challenge, Fitness Freak, was geared towards looking smart and feeling energetic. The challenge involved meeting fitness experts to devise individual fitness plans. The two remaining challenges, Arm Wrestling and Tug of War, also helped improve employee engagement and team building skills - enhancing interaction among employees from different departments.

## Newsletter

We publish a quarterly newsletter, in which important events are shared with employees and other stakeholders. This newsletter serves as a medium for communication where all employees can contribute news worthy articles. Topics such as HR development, social events, business performance, CSR interventions, HSE performance, and continual improvement initiatives are some of the regular features in the newsletter.


LIFE@LOTTE CHEMICAL PAKISTAN LTD

TPM Launching Ceremony

IN THIS ISSUE

## Labor Relations, Freedom Of Association And Collective Bargaining

*Your Company is committed to establish open, honest and productive relationships with our people. We adhere to best practices of labor relations in all our activities: treat all employees fairly, prohibit child or forced labor, and believe all employees have a right to join trade unions and collectively bargain.*

We prohibit child labor or forced labor. Our working hours are in line with local legal requirements and ILO standards.

When contractors are used, we work closely with contracting companies to encourage that employee relations governed by those companies are consistent with ours, and that they comply with our values.

We recognize the right of our employees to freely associate and join trade unions. In 2013, around 17 percent of our workforce was covered by collective bargaining agreements. We believe that successful relations with all our employees, unionized or non-unionized, must be built on values of mutual trust and respect.

The Company's management maintains friendly relations with the CBA. Participation of CBA representatives in relevant forums and reaching a negotiated CBA agreement with them are fundamental indicators of our success in building a healthy and constructive relationship between management and workers.

## Transparency And Ethics

Employees also have certain responsibilities towards their workplace, and must conform to the highest levels of discipline and integrity.

We follow our code of conduct while carrying out business practices. All kinds of unethical business practices are strictly prohibited. We have monitoring methods in place to ensure no employees are involved in unethical practices. There are set procedures for transparency in doing business and free enterprise, which comply with competition laws and regulations.

# Societal Responsibility

*Societal responsibility remains an integral part of our corporate culture. Our communities are essential to our success. We, therefore, take our responsibility towards members of our community very seriously. Our focus is to ensure today's children remain tomorrow's leaders.*

We strive to strengthen ties between industry and communities by promoting a favorable environment for business growth. We support projects pertaining to education, health, disaster relief, youth engagement, environmental awareness, and other community initiatives. We remain supportive towards promoting organizations and programs, as well as collaborating with them, to further augment our initiatives and impact lives.

## Education And Vocational Training

*We believe education is a powerful tool which will help empower individuals, providing them with the skills and training necessary to achieve a prosperous future.*

In line with our belief, we've been partnering with WWF Pakistan since the last three years, sponsoring their eco-internship program. The program is open to students aged 8-15, from all schools in Karachi, whether they be government or private. Every year, WWF Pakistan inducts approximately 3000 students, and offers many two-week summer internships from June-July. Industry experts from different organizations are invited to lecture on the environment, water and wildlife conservation, as well as sustainable business practices. Engineers from our plant also conduct sessions on our environmentally sustainable deep shaft technology, a water purification system and other sustainable methods used within the plant so children understand the importance of sustainable business practices. WWF has become one of the largest environmental organizations in the world.

We remain committed to partner with the Family Educational Services Foundation (FESF), a non-profit educational association active in Pakistan since 1984. FESF invests in educational development and provides innovative training programs and services empowering individuals to gain competency and self-sufficiency, in turn realizing their potential. We partner with FESF Deaf Reach Schools and Training Centers, which helps advance academic and vocational skills training for deaf children and young adults. This facility also focuses on educating families, parents and entire communities on the needs of deaf children by providing an educational model which helps these children integrate in society.

Our other educational initiatives include donating funds towards providing several merit and need-based (full and partial) scholarships to internationally recognized higher education institutions such as LUMS and NED University of Engineering and Technology. In 2013, we donated funds to Generation's School towards a conference visit to LUMS, as well as donated equipment for Al-Zohra Foundation, a school in Neelam Colony, Karachi. We also allocated funds geared to provide scholarships at NED University. As part of our societal development initiatives, we also strive to build future leaders by recruiting candidates from leading educational institutions.

**YOUTH ENGAGEMENT**

The Company sponsors football teams at Karachi United Football Foundation (KUFF) centers where approximately 175 children, averaging 12 years of age, are provided free football training in six KUFF centers in underprivileged areas of Karachi.

Football remains a popular sport among the youth. A youth engagement initiative like this provides opportunities for Pakistan's youth, giving them a chance to showcase their skills and change their lives. This experience had a life changing impact on some: two talented youth went on to represent Pakistan on the country's under 14 football team.

One of the prerequisites for being a part of KUFF is that children must be enrolled in schools. Children who are part of KUFF are also provided free healthcare for themselves and their families.

”میرا نام شیرزاد رحیم ہے اور میں پرانا گولیمار میں رہتا ہوں۔ فارغ ہونے کی وجہ سے میں نے نشہ کرنا
اور بیچنا شروع کر دیا تھا۔ پھر ایک دن میں نے پارک میں اپنے ہم عمر لڑکوں کو فٹبال کی ٹریننگ کرتے
ہوئے دیکھا۔ یہ دیکھ کر مجھے اپنا آپ بہت بُرا لگا۔ کیونکہ میں نہ صرف اپنی بلکہ دوسروں کی زندگیاں بھی
برباد کر رہا تھا۔ میں ان کے کوچ سے ملا اور کہا کہ مجھے اپنی ٹیم میں شامل کر لیں۔ انھوں نے میری بات
مانتے ہوئے فوری طور پر مجھے ٹیم میں شامل کر لیا۔ اگلے ہی دن سے میں نے فٹبال کی ٹریننگ شروع کر دی۔
اس دوران میرے بہت سے دوست بھی بن گئے۔ الحمدوللہ آج میں نے نشے کی لعنت سے مکمل طور پر
چھٹکارا حاصل کر لیا ہے اور میں Lotte کیمیکل پاکستان، کے-یو اکیڈمی کا گول کیپر ہوں۔
میری خواہش ہے کہ میں ایک دن پاکستان کی فٹبال ٹیم کا حصہ بنوں۔“

## *Engaging In Charities And Volunteering*

Our employees remain committed to establish relationships with local communities by volunteering their time and effort so we can change lives and positively impact society. Funding for our social impact activities stems from the Company and its mission to serve others in need. Our volunteer activities include charity giving and other programs which enhance employee giving. Whether it be setting up an eye camp or collecting donations for disaster relief victims, our employees continue to display zeal and enthusiasm, showing that they care.


## Community Initiative

*Our passion to give back to members of our community remains a driving force behind all our community-related initiatives. We are keen to make a difference and change lives.*

We have remained active in supporting community-related initiatives, and we continue to join hands with Hisaar Foundation, a NGO working on water conservation. We remain supportive towards this cause - we sponsored a conference, and also donated funds. The NGO also promotes Integrated Water Resources Management and environmental conservation. We also support diverse communities, and recently bought a generator for St. Thomas Parish Church in Malir.

**DISASTER RELIEF EFFORTS: REVIVING BALUCHISTAN**

In 2013, Pakistani districts Awaran and Kech in Baluchistan were struck by two earthquakes measuring 7.7 and 7.2 in magnitude. The effects of the earthquakes and floods which engulfed Pakistan are still quite apparent. Many lost their lives, a number were injured, and many more were left homeless and hungry.

It can often take months, if not years for individuals to recover from the catastrophic effects of natural disasters. In times like these, any support they get is too little. We continue to provide a lending hand to victims in times of distress.

Our staff was quick to offer assistance and collaborated by preparing hampers consisting of foods and warm clothes. We donated these hampers to the Provisional Disaster Management Authority (PDMA) which sent goods to Baluchistan for these victims. These efforts reached out to 1000 families affected by the Earthquake.

Your Company's Korean directors took initiative by handing goods to the Director General of PDMA.

This is the third year we have donated to disaster relief victims, and like every year, our staff has continued to offer assistance and displayed tremendous compassion and enthusiasm.

## Health

*Access to quality healthcare should be everyone's right. Unfortunately, only a minority of the country's population can afford quality healthcare. In order to ensure healthcare is accessible to everyone who needs it, we continue to invest in this area.*


We donated a significant amount to Sindh Institute of Urology and Transplantation (SIUT), a reputable medical institution in the South Asian region, providing specialized medical care to individuals suffering from kidney, liver, related cancers and ethical transplant procedures at no cost. SIUT believes that no one should die because he or she cannot afford treatment. We also donated funds to the Aga Khan Hospital and Medical College Foundation, as well as to Memon Hospital.

We continue to support the Layton Rahmatullah Benevolent Trust (LRBT), which provides comprehensive eye-care treatments from simple refraction to the most advanced retinal surgery and corneal transplants. In 2013, we contributed to an eye camp at Ghaghar Pattak. Free eye screening was provided to people of neighboring communities, who lacked basic medical facilities, prompting your Company to set up the camp. A team of medical professionals from  LRBT joined us at the camp.

We also provided reasonable financial support to the Institute of Physical Medicine And Rehabilitation at Dow University of Health Sciences. The Institute provides customized orthotics and prosthetics services - providing artificial body parts to patients, and training on ways to cope with these parts.  The majority of patients suffer from road accidents, others from diabetes due to unhealthy lifestyles.  Children are also among the victims - many suffer from backbone imbalance as a result of carrying heavy school bags.

Since its existence, the institute has provided 1,360 artificial limbs and 2,300 orthotic appliances to amputees all over the Country.

## Move Program

Organized by the Family Educational Services Foundation, The Move Program aims to bring social change by providing in-house training and field work for Pakistani youth in community development projects. The program, hosted by Chanesar Goth Government Girls School, Development in Literacy (DIL) School, Korangi Academy, and Qamar e Bani Hashim School, was sponsored by your Company.

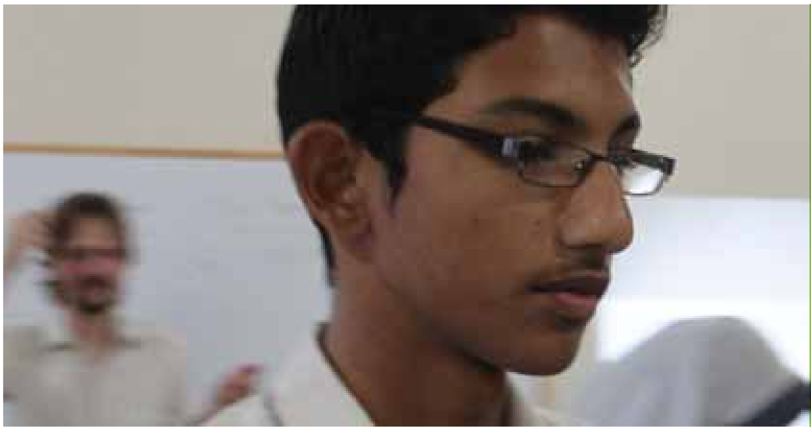
The MOVE program encompassed presentations, discussions, role-play situations and interactive activities to provide participants with the necessary knowledge and leadership skills to organize and conduct community projects.

**The objectives of this program include:**

- Providing youth with training in leadership, advocacy and soft-skills, empowering them to positively impact society
- Increasing youth involvement in social action programs that impact society
- Uniting youth from both genders, varied ethnicities and socio-economic backgrounds
- Optimizing effectiveness of community projects
- Creating social consciousness among youth

The MOVE sessions hosted at the mentioned four schools helped the participants to implement community projects around 'Cleanliness', 'Plantation' and 'Environment'.

The Students ran a door-to-door campaign to create awareness about the importance of living in a clean environment. They engaged community members to clean streets, water trees, plant new trees and raised awareness about the importance of greenery. The students also raised awareness among students from other schools.



*"The different types of games and exercises in the Lotte Chemical-MOVE Program, and also the activities and the presentations, were done in a very new and different way"*

*M. Yasir Rizvi,*
*Qamar e Bani Hashim School,*
*Malir City*

## Enivronmental Awareness

*We as a Company remain active in promoting initiatives which benefit the environment and enhance the importance of sustainability within our employees.*

### WORLD ENVIRONMENT DAY

We celebrated World Environment Day on June 6, 2013. Think-Eat-Save - was this year's theme for World Environment Day. The anti-food waste and food loss campaign encourages individuals to reduce their food print.

According to the UN Food and Agriculture Organization (FAO), a staggering 1.3 billion tons of food is wasted every year. One in seven people worldwide go to bed hungry, and an outstanding 20,000 children under five years, die daily, from hunger.

Think-Eat-Save, was therefore, geared towards making employees more aware about the environmental impact of food choices - empowering them to make more informed decisions. Over sixty employees from different departments, took an avid interest in playing their part in protecting the environment by participating in beach cleaning activities at Port Qasim.

### EARTH DAY

On April 22, 2013, more than a billion people worldwide participated in the 43rd anniversary of Earth Day by voicing their concerns about the planet and taking action to protect it. Over a hundred enthusiastic employees participated to celebrate Earth Day by planting 130 new plants at our plant sites and city office. They also planted trees at other sites.

# Economic Contribution

A sustainable business plays a pivotal role in delivering economic and social progress. A business which generates substantial revenue to sustain people's quality of life and safeguard the planet is important, but one that ensures employees, owners and members of the community remain financially secure, is also critically important.

We contribute economically in a number of ways: we provide employment, buy from local, regional and global suppliers, distribute our products, and contribute to the National exchequer via direct and indirect taxes.

In the year ended December 2013, the Company generated Rupees 58 billion in economic value.

| | Rs '000 |
|---|---|
| **Revenues**<br>Revenue plus interest and dividend receipts, royalty income and proceeds of sales of assets | 57,971,181 |
| **Operating Costs**<br>Cost of materials, services and facilities | 57,415,253 |
| **Employee Wages and Benefits**<br>Cost of employees' salaries and benefits | 550,390 |
| **Payments to Governments**<br>Tax paid, including remittance taxes and excise taxes | 2,991,200 |
| **Community Investments**<br>Voluntary contributions and investment of funds in the broader community | 8,072 |
| Economic Value Retained | 118,936,096 |

## *Transparent Approach To Taxation*

We recognize the growing interest in the level of taxes paid by multinational companies. We remain transparent in our dealings and pay appropriate amount of taxes according to country-specific laws and regulations.

In the year, total taxes borne and collected by the Company amounted to Rupees 3 billion. This figure includes excise taxes, transactional taxes and taxes incurred by employees. We consider the wider tax footprint to be an appropriate indication of tax contribution from our operations. Our presence in Pakistan is beneficial to the Country as it provides employment to people - affecting income levels and subsequently tax revenues.

## *Understanding Our Role And Responsibilities In Our Value Chain*

The reach and scale of our business results in us playing a pivotal role in the economic development of the Country.

We remain aware of our influence with our suppliers and the importance of developing personal relationships with them. Our goal remains to pay fairly for their products, materials and services. In addition, we often work in collaboration with them, to help improve their working practices and conditions, as well as their overall efficiency, which in turn, impacts their income levels.

# Independent Assurance Report

*United Registrar of Systems have been engaged by Lotte Chemical Pakistan Limited (LCPL) to perform an independent assurance engagement in regard to the following aspects of LCPL's 2013 Annual Report (the "Report")*

**SCOPE**

Our engagement was designed to provide the readers of The Report with limited assurance on whether the information in The Report is in all material respects fairly presented in accordance with the reporting criteria described below.

**MANAGEMENT'S RESPONSIBILITY**

The Managing Board of LCPL is responsible for the preparation of the Annual Report in accordance with the criteria stated in the Sustainability Reporting Guidelines Vol. 3.1 of the Global Reporting Initiative (GRI). This responsibility includes the selection and application of appropriate methods to prepare the Sustainability Report and the use of assumptions and estimates for individual sustainability disclosures which are reasonable in the circumstances.

**PRACTITIONER'S RESPONSIBILITY**

Our responsibility is to express a conclusion based on our work performed as to whether any matters have come to our attention that cause us to believe that the Annual Report for the fiscal year 2013 has not been prepared, in all material respects, in accordance with the above mentioned criteria of the Sustainability Reporting Guidelines Vol. 3 of the GRI. We also have been engaged to make recommendations for the further development of sustainability management and sustainability reporting based on the results of our assurance engagement.

**BASIS OF THE ASSURANCE**

We conducted our work in accordance with the Sustainability Reporting Guidelines Vol. 3.1 of the GRI and International Standard on Assurance Engagements (ISAE) 3000. These standards require that we comply with ethical requirements and plan and perform the assurance engagement under consideration of materiality to express our conclusion with limited assurance.

**ASSURANCE METHODOLOGY**

We have performed the procedures deemed necessary to obtain the evidence that is sufficient and appropriate to provide a basis for our conclusions.

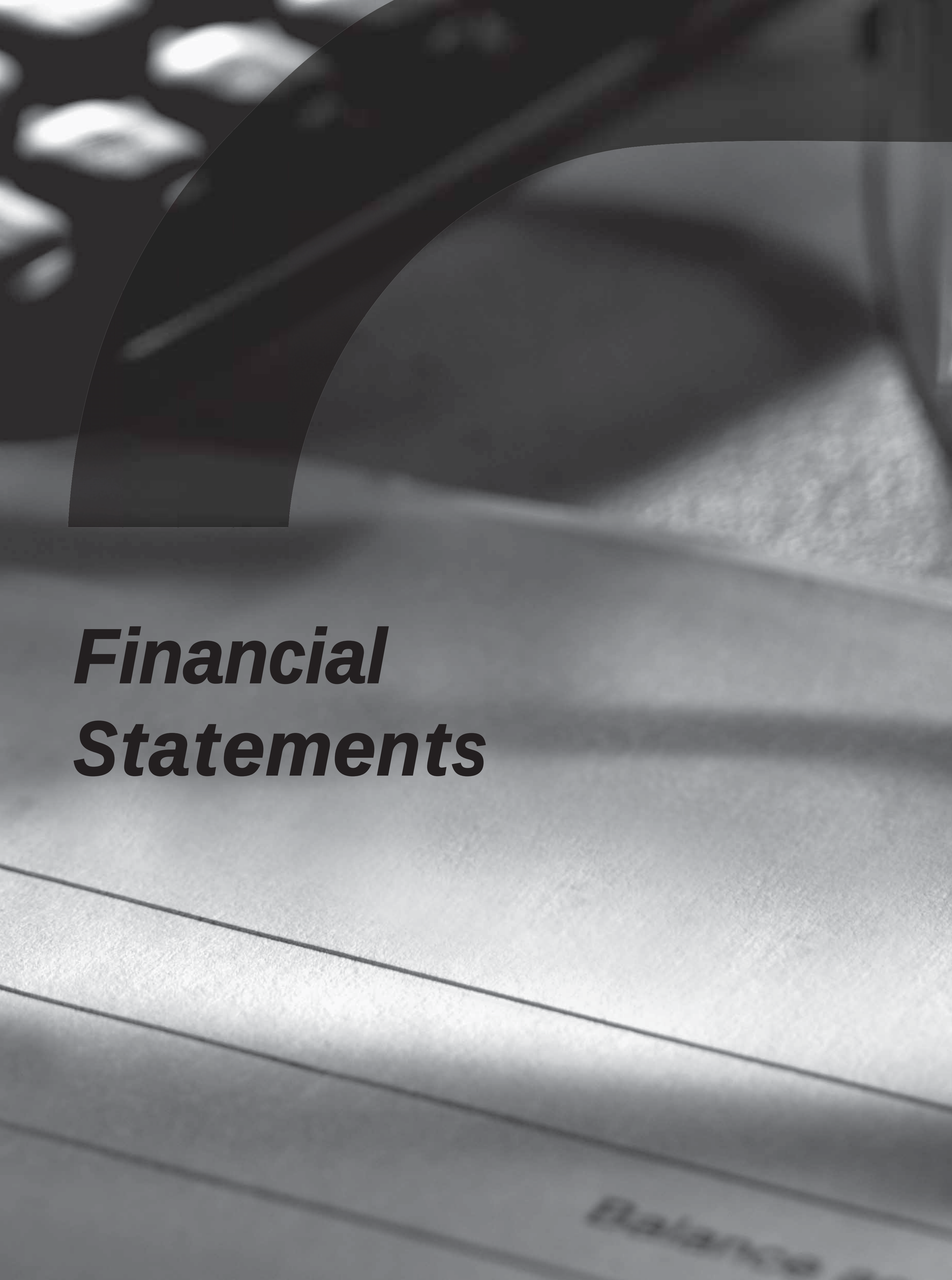
Visits to the site, projects and other stakeholders did not form part of the assurance scope.

**CONCLUSION**

Based on the procedures performed, as described above, the information in The Report does not, in all material respects, appear to be unfairly presented in accordance with the criteria described in 'Basis of Assurance'.

Furthermore, nothing has come to our attention that causes us to believe that, in all material respects, the selected quantitative sustainability information of the Sustainability Report has not been prepared in accordance with the abovementioned criteria of the Sustainability Reporting Guidelines Vol. 3.1 of the Global Reporting Initiative (GRI).

Ali Khan
CEO
United Registrar of Systems
Dated: 15/01/2014



# Financial Statements


Page

# Auditors' Report to the Members

We have audited the annexed balance sheet of Lotte Chemical Pakistan Limited [formerly Lotte Pakistan PTA Limited] as at 31 December 2013 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity 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 accounts 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 accounts and are further in accordance with accounting policies consistently applied except for the change as stated in note 4 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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with 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 31 December 2013 and of the loss, total comprehensive loss, its cash flows and changes in equity 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).

**A. F. Ferguson & Co.,**
Chartered Accountants
Karachi

Dated: 17 February 2014

Name of Engagement Partner: Farrukh Rehman

# Balance Sheet
## As at 31 December 2013

Amount in Rs '000

| | Note | 2013 | (Re-stated) 2012 | (Re-stated) 2011 |
|---|---|---|---|---|
| ASSETS | | | | |
| NON-CURRENT ASSETS | | | | |
| Fixed assets | 5 | 4,975,814 | 6,051,127 | 9,852,587 |
| Long-term investment | 6 | 4,500,000 | 4,500,000 | - |
| Long-term loans and advances | 7 | 41,297 | 46,957 | 46,937 |
| Long-term deposits and prepayments | 8 | 64,011 | 79,247 | 100,212 |
| | | 9,581,122 | 10,677,331 | 9,999,736 |
| CURRENT ASSETS | | | | |
| Stores and spares | 9 | 794,770 | 728,025 | 694,745 |
| Stock-in-trade | 10 | 2,973,270 | 4,480,516 | 4,669,004 |
| Trade debts | 11 | 2,780,329 | 3,300,360 | 3,143,244 |
| Loans and advances | 12 | 24,644 | 32,796 | 40,603 |
| Trade deposits and short-term prepayments | 13 | 94,333 | 92,404 | 159,398 |
| Mark-up accrued on bank deposits | | 4,940 | 42 | 12,831 |
| Other receivables | 14 | 87,140 | 105,054 | 195,625 |
| Tax refunds due from government - sales tax | 15 | 417,005 | 662,145 | 288,872 |
| Taxation - payments less provision | | 858,864 | 668,177 | 177,264 |
| Cash and bank balances | 16 | 2,426,739 | 225,134 | 4,505,251 |
| | | 10,462,034 | 10,294,653 | 13,886,837 |
| TOTAL ASSETS | | 20,043,156 | 20,971,984 | 23,886,573 |

Amount in Rs '000

| | Note | 2013 | (Re-stated) 2012 | (Re-stated) 2011 |
|---|---|---|---|---|
| **EQUITY** | | | | |
| **SHARE CAPITAL AND RESERVES** | | | | |
| Share capital | 17 | 15,142,072 | 15,142,072 | 15,142,072 |
| Capital reserves | 18 | 2,345 | 2,345 | 2,345 |
| Accumulated losses | | (3,567,158) | (3,023,864) | (2,100,448) |
| | | 11,577,259 | 12,120,553 | 13,043,969 |
| **LIABILITIES** | | | | |
| **NON-CURRENT LIABILITIES** | | | | |
| Long-term loan from subsidiary | 19 | 400,000 | - | - |
| Liability against assets subject to finance lease | | - | - | 38,039 |
| Deferred tax | 20 | 389,877 | 762,789 | 1,123,353 |
| Retirement benefit obligation | 21 | 45,002 | 43,668 | 65,016 |
| | | 834,879 | 806,457 | 1,226,408 |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | 22 | 7,445,711 | 7,854,630 | 7,479,634 |
| Current maturity of long-term loans | | - | - | 1,801,150 |
| Interest accrued | 23 | 185,307 | 147,685 | 140,074 |
| Short-term financing | 24 | - | - | - |
| Current portion of liability against assets subject to finance lease | 25 | - | 42,659 | 195,338 |
| | | 7,631,018 | 8,044,974 | 9,616,196 |
| **TOTAL LIABILITIES** | | 8,465,897 | 8,851,431 | 10,842,604 |
| **Contingencies and commitments** | 26 | | | |
| **TOTAL EQUITY AND LIABILITIES** | | 20,043,156 | 20,971,984 | 23,886,573 |

The annexed notes 1 to 46 form an integral part of these financial statements.

Kimchanggyou
Changgyou Kim
Chairman

M Asif Saad
Chief Executive

# Profit and Loss Account
## For the year ended 31 December 2013

Amount in Rs '000

| | Note | 2013 | (Re-stated) 2012 |
|---|---|---|---|
| Revenue | 27 | 57,069,684 | 52,823,257 |
| Cost of sales | 28 | (57,780,354) | (53,035,075) |
| **Gross loss** | | (710,670) | (211,818) |
| Distribution and selling expenses | 29 | (120,104) | (132,191) |
| Administrative expenses | 30 | (329,043) | (303,595) |
| Other expenses | 31 | (31,567) | (22,346) |
| Other income | 32 | 970,053 | 573,985 |
| Finance costs | 33 | (126,835) | (146,054) |
| Loss before taxation | | (348,166) | (242,019) |
| Taxation | 34 | (197,936) | 61,095 |
| **Loss after taxation** | | (546,102) | (180,924) |
| **Earnings per share - basic and diluted (in Rupees)** | 36 | (0.36) | (0.12) |

The annexed notes 1 to 46 form an integral part of these financial statements.

Kimchanggyou

Changgyou Kim
Chairman

Asif Saad.

M Asif Saad
Chief Executive

# Statement of Comprehensive Income
For the year ended 31 December 2013

Amount in Rs '000

| | Note | 2013 | (Re-stated) 2012 |
|---|---|---|---|
| **Loss after taxation** | | (546,102) | (180,924) |
| **Other comprehensive income:** | | | |
| Items that will not be reclassified to Profit or Loss | | | |
| Remeasurements of post employment benefit obligations | 21 | 4,148 | 21,891 |
| Impact of deferred tax | | (1,340) | (7,279) |
| | | 2,808 | 14,612 |
| Items that may be subsequently reclassified to Profit or Loss | | - | - |
| **Total comprehensive loss for the year** | | (543,294) | (166,312) |

The annexed notes 1 to 46 form an integral part of these financial statements.

Kimchanggyou
Changgyou Kim
Chairman

M Asif Saad
Chief Executive

# Cash Flow Statement
For the year ended 31 December 2013

Amount in Rs '000

| | Note | 2013 | (Re-stated) 2012 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 35 | 2,681,756 | 1,231,377 |
| Long-term loans and advances - net | | 5,660 | (20) |
| Long-term deposits and prepayments - net | | 15,236 | 20,965 |
| Finance costs paid | | (57,767) | (75,789) |
| Payments to staff retirement benefit scheme | | (16,510) | (23,623) |
| Taxes paid | | (762,875) | (797,661) |
| Mark-up received from bank deposits | | 86,599 | 282,759 |
| Net cash generated from operating activities | | 1,952,099 | 638,008 |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | | |
| Payments for capital expenditure | | (150,371) | (1,720,529) |
| Long-term investment - payment for shares in subsidiary | | - | (346,922) |
| Net cash used in investing activities | | (150,371) | (2,067,451) |
| **CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES** | | | |
| Payments for liability against assets subject to finance lease | | - | (217,002) |
| Repayment of long term loan | | - | (1,878,950) |
| Long-term loan from subsidiary | | 400,000 | - |
| Dividend paid | | (123) | (754,722) |
| Net cash from / (used in) financing activities | | 399,877 | (2,850,674) |
| Net increase / (decrease) in cash and cash equivalents | | 2,201,605 | (4,280,117) |
| Cash and cash equivalents at the beginning of the year | | 225,134 | 4,505,251 |
| **Cash and cash equivalents at the end of the year** | | 2,426,739 | 225,134 |

The annexed notes 1 to 46 form an integral part of these financial statements.

Kimchanggyou
Changgyou Kim
Chairman

Asif Saad.
M Asif Saad
Chief Executive

# Statement of Changes in Equity
## For the year ended 31 December 2013

Amount in Rs '000

| | Issued, subscribed and paid-up capital | Capital reserves | Accumulated loss | Total equity |
|---|---|---|---|---|
| Balance as at 1 January 2012 as previously reported | 15,142,072 | 2,345 | (2,061,717) | 13,082,700 |
| Effect of change in accounting policy with respect to accounting for recognition of actuarial losses on defined benefit plan - net of tax - note 4 | - | - | (38,731) | (38,731) |
| **Balance as at 1 January 2012 - restated** | 15,142,072 | 2,345 | (2,100,448) | 13,043,969 |
| Final cash dividend for the year ended 31 December 2011 @ Rs 0.5 per share | - | - | (757,104) | (757,104) |
| Total comprehensive loss for the year ended 31 December 2012 | | | | |
| - Loss for the year ended 31 December 2012 | - | - | (180,924) | (180,924) |
| - Other comprehensive income for the year ended 31 December 2012 | - | - | 14,612 | 14,612 |
| | - | - | (166,312) | (166,312) |
| **Balance as at 1 January 2013 - restated** | 15,142,072 | 2,345 | (3,023,864) | 12,120,553 |
| Total comprehensive loss for the year ended 31 December 2013 | | | | |
| - Loss for the year ended 31 December 2013 | - | - | (546,102) | (546,102) |
| - Other comprehensive income for the year ended 31 December 2013 | - | - | 2,808 | 2,808 |
| | - | - | (543,294) | (543,294) |
| **Balance as at 31 December 2013** | 15,142,072 | 2,345 | (3,567,158) | 11,577,259 |

The annexed notes 1 to 46 form an integral part of these financial statements.

Kimchanggyou
Changgyou Kim
Chairman

M Asif Saad
Chief Executive

## 1. STATUS AND NATURE OF BUSINESS

Lotte Chemical Pakistan Limited (formerly Lotte Pakistan PTA Limited) ("the Company") is incorporated in Pakistan and is listed on the Karachi, Lahore and Islamabad Stock Exchanges, and is engaged in the manufacture and sale of Pure Terephthalic Acid (PTA). The Company's registered office is situated at EZ/1/P-4, Eastern Industrial Zone, Port Qasim, Karachi.

The Company is a subsidiary of Lotte Chemical Corporation and the ultimate parent company is South Korean conglomerate Lotte.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, except as stated in note 4.

These are separate financial statements of the Company.

### 2.1 Basis of preparation

### 2.1.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984 and provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 (the Ordinance) have been followed.

### 2.1.2 Changes in accounting standards, interpretations and pronouncements

a) **Standards, interpretations and amendments to published approved accounting standards that are effective and relevant**

The amendments to following standards have been adopted by the Company for the first time for the financial year beginning on 1 January 2013:

Amendment to IAS 1, 'Financial Statement Presentation' regarding other comprehensive income. 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 new amendment is not expected to materially affect the disclosures in the financial statements of the Company.

IAS 19, 'Employee Benefits' was revised in June 2011. The changes on the Company's accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). See note 4 for the impact on the financial statements.

b) **Standards, interpretations and amendments to published approved accounting standards that are effective but not relevant**

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after 1 January 2013 are considered not to be relevant for the Company's financial statements and hence have not been detailed here.

c) **Standards, interpretations and amendments to published approved accounting standards that are not yet effective but relevant**

There are no new standards, amendments to existing approved accounting standards and new interpretations that are not yet effective that would be expected to have a material impact on the financial statements of the Company.

### 2.2 Overall valuation policy

These financial statements have been prepared under the historical cost convention, except that certain exchange elements have been incorporated in the cost of the relevant operating property, plant and equipment upto 4 July 2004.

### 2.3 Fixed assets

#### 2.3.1 Property, plant and equipment and depreciation

Operating property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (if any). Cost of certain items of operating property, plant and equipment comprises historical cost, exchange differences referred to in note 2.2 and the cost of borrowings during the construction period in respect of loans taken for the PTA construction project.

Renewals and improvements are included in an asset's carrying amount or are recognised 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 expenses are charged to income during the financial period in which they are incurred.

Depreciation charge is based on the straight-line method whereby the cost of an asset is written off to profit and loss account over its estimated useful life, from the date the asset is available for use. The cost of leasehold land is amortised in equal installments over the lease period.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The residual value, depreciation method and the useful lives of each part of property, plant and equipment that is significant in relation to the total cost of the asset are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposal of assets are taken to the profit and loss account.

2.3.2 Intangible assets and amortisation

Intangible assets are stated at cost less accumulated amortisation and impairment, if any. Major computer software licences are capitalised on the basis of cost incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life of five years using the straight-line method. Full month's amortisation is charged in the month of acquisition and no amortisation is charged in the month of disposal.

Costs associated with maintaining computer software programmes are recognised as an expense as and when incurred.

2.4 Long-term investment

Investment in subsidiary is stated at cost.

2.5 Stores and spares

Stores and spares are stated at the lower of weighted average cost and net realisable value.

2.6 Stock-in-trade

Stock-in-trade is valued at the lower of cost and net realisable value. Cost is determined using the weighted average method, except for in transit which comprises invoice value and the direct charges in respect thereof. Manufactured finished goods include prime cost and an appropriate portion of production overheads.

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make the sale.

2.7 Trade debts and other receivables

Trade debts are recognised initially at original invoice amount and subsequently measured at amortised cost less provision for impairment, if any.

Other receivables are stated at amortised cost less provision for impairment.

2.8 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, short term fixed deposits having maturity upto three months and current accounts held with commercial banks. Running finance and short term finance facilities availed by the Company, which are payable on demand and form an integral part of the Company's cash management are included as part of cash and cash equivalents for the purpose of statement of cash flows.

## 2.9 Impairment

### 2.9.1 Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

The Company considers evidence of impairment for receivables and other financial assets at specific asset levels. Losses are recognised as an expense in the profit and loss account. When a subsequent event causes the amount of impairment loss to decrease, this reduction is reversed through the profit and loss account.

### 2.9.2 Non-financial assets

The carrying amounts of non-financial assets other than inventories and deferred tax asset, are assessed at each reporting date to ascertain whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised as an expense in the profit and loss account for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects current market assessment of the time value of money and the risk specific to the assets. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

## 2.10 Trade and other payables

Trade and other payables, excluding provisions are carried at the fair value of the consideration to be paid for goods and services.

## 2.11 Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of that can be made.

## 2.12 Offsetting

Monetary assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set-off the recognised amounts and the Company intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously.

2.13 Lease payments

Payments made under operating leases / Ijarah contracts are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

At the inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Company's incremental borrowing rate.

2.14 Staff retirement benefits

2.14.1 Defined benefit plans

The Company operates an approved funded defined benefit gratuity scheme for all permanent employees. Minimum qualifying period for entitlement to gratuity is five years continuous service with the Company.

The Company also has an approved funded defined benefit pension scheme for all management staff who joined the Company before 1 May 2004.

The Company also has an unfunded medical scheme to provide post retirement medical benefits to members of its pension fund.

Contributions to all schemes are made periodically on the basis of recommendations of the actuary and in line with the provisions of the Income Tax Ordinance, 2001.

The liability recognised in the balance sheet in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income.

2.14.2 Defined contribution plans

The Company operates a provident fund scheme for all its permanent employees. Equal monthly contributions are made to the fund, both by the Company and the employees at the rate of 10 percent of basic salary and cost of living allowance wherever applicable. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Company also operates a defined contribution superannuation fund for its management staff who joined the Company on or after 1 May 2004 and for those who opted out of the defined benefit pension scheme. Contributions are made at the rate of 10.6 percent of basic salary of the members of the fund.

2.15 Dividend

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividend is approved.

2.16 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

2.16.1 Current

Provision for current taxation is based on taxable income / turnover at the enacted or substantively enacted rates of taxation after taking into account available tax credits and rebates, if any. The charge for current tax includes adjustments to charge for prior years, if any.

2.16.2 Deferred

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit at the time of the transaction. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 2.17 Foreign currency transactions

Transactions denominated in foreign currencies are translated to Pakistan Rupees at the exchange rate ruling at the date of transaction.

Monetary assets and liabilities in foreign currencies at balance sheet date are translated into Pakistan Rupees at exchange rates ruling on that date. 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 recognised in the income statement.

In respect of foreign currency loans obtained for acquisition of operating property, plant and equipment, the exchange differences on principal amount upto 4 July 2004 were included in the cost of relevant operating property, plant and equipment. All exchange differences, effective 5 July 2004, are taken to the profit and loss account, due to amendments in the Fourth Schedule to the Ordinance.

## 2.18 Revenue recognition

Revenue from the sale of goods is recognised on despatch of goods i.e. when the significant risks and rewards of ownership are transferred to the customer.

Dividend income is recognised when the right to receive payment is established.

## 2.19 Interest income

Profit on funds invested is recognised as it accrues in the profit and loss account, using the effective interest method.

## 2.20 Borrowings and their cost

Borrowings are recognised initially at fair value, net of transaction cost incurred. Borrowing costs are recognised as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalised as part of the cost of that asset.

## 2.21 Earnings per share

The Company presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

## 2.22 Functional and presentation currency

These financial statements are presented in Pakistan Rupees which is the functional currency of the Company and figures are rounded off to the nearest thousands of Rupees.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

### 3.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The 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 addressed below.

#### 3.1.1 Income taxes

In making the estimates for income taxes, the Company takes into account the current income tax law and decisions taken by appellate authorities on certain issues in the past. There may be various matters where the Company's view differs with the view taken by the income tax department at the assessment stage and where the Company considers that its view on items of a material nature is in accordance with the law. The difference between the potential and actual tax charge, if any, is disclosed as a contingent liability.

The deemed assessment order of the Company for the Tax Year 2003 was rectified by the tax department in 2008 without any cause and basis, allowing tax losses brought forward relating to the pre de-merger period. This treatment was apparently made as a consequence of the action undertaken to effect the amendment of assessment for the Tax Year 2003 in the case of ICI Pakistan Limited. In that case the tax department had taken certain actions in the order, considered by the department as "protective assessment", on the matter of unabsorbed depreciation carried forward by ICI Pakistan Limited relating to assets of the PTA business as of the date of de-merger. The Company's position under the tax law is that such depreciation should be allowed to ICI Pakistan Limited and a writ petition was, therefore, filed jointly with ICI Pakistan Limited in the High Court of Sindh challenging this rectification. The honourable High Court of Sindh vide its order dated 31 January 2009, directed the tax department that no further action shall be taken until the next date of hearing. The matter is still pending.

Recently in the case of that company, the availability of the said depreciation loss from the year 2001-2002 has attained finality after the decision of the Appellate Tribunal Inland Revenue. However, the matter is still pending as the department has preferred appeal.

In 2008 while issuing the rectification order for the Tax Year 2003, the Taxation Officer had erroneously disallowed the loss brought forward of Rs 2.6 billion for which a rectification application and corresponding appeal was filed with the Additional Commissioner of Income Tax and CIT (Appeals) respectively. During 2011, the Commissioner (Appeals) disposed off the Company's appeal via order No. 156 dated 14 March 2011 and allowed the said loss while maintaining certain disallowances against which corresponding appeals were filed with the Appellate Tribunal Inland Revenue [ATIR]. In its order passed on 14 September 2011, ATIR referred back the matter of disallowance of such loss against which rectification appeal was filed on 13 October 2011. The issue is still pending in appeal.

3.1.2 Defined benefit plans

The Company has adopted certain actuarial assumptions as disclosed in note 21 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets, based on actuarial advice.

3.2 No critical judgement has been used in applying the accounting policies.

4. CHANGE IN ACCOUNTING POLICY

IAS 19 (revised) - 'Employee Benefits' effective for annual periods beginning on or after 1 January 2013 amends the accounting for employee benefits. The standard requires immediate recognition of past service cost and also 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.

Further, a new term "remeasurements" has been introduced. This is made up of actuarial gains and losses, the difference between actual investment returns and the return implied by the net interest cost. The standard requires "remeasurements" to be recognised in the Balance Sheet immediately, with a charge or credit to Other Comprehensive Income in the periods in which they occur.

Following the application of IAS 19 (revised), the Company's policy for Staff Retirement Benefits - Defined Benefit Plans stands amended as follows:

- The amount arising as a result of remeasurements are recognised in the Balance Sheet immediately, with a charge or credit to Other Comprehensive Income in the periods in which they occur.

- The change in accounting policy has been accounted for retrospectively in accordance with the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and comparative figures have been restated.

The Company's financial statements are affected by the 'remeasurements' relating to prior years. The effects have been summarised below:

Amount in Rs '000

| | 2012 | 2011 |
|---|---|---|
| **Impact on Balance Sheet** | | |
| Increase in deferred liability | 16,125 | 44,229 |
| Decrease in other receivables | 15,839 | 13,795 |
| Decrease in deferred tax liabilities | 10,638 | 19,293 |
| Increase in accumulated losses | 21,326 | 38,731 |
| **Impact on Statement of Changes in Equity** | | |
| Increase in accumulated losses | | |
| Cumulative effect from prior years | - | 34,088 |
| Impact for the year ended | (17,405) | 4,643 |
| **Impact on Profit & Loss** | | |
| Decrease in cost of sales | 2,777 | - |
| Decrease in distribution and selling expenses | 328 | - |
| Decrease in administrative expenses | 1,064 | - |
| Increase in taxation | 1,376 | - |
| **Impact on Other Comprehensive Income** | | |
| Items that will not be reclassified to Profit or Loss | 14,612 | - |

The effect of change in accounting policy, due to adoption of IAS 19 (Revised), on 'earnings per share' is immaterial in the overall context of these financial statements. There is no cash flow impact as a result of the retrospective application of change in accounting policy.

Amount in Rs '000

| | | 2013 | 2012 |
|---|---|---|---|
| 5 | FIXED ASSETS | | |
| | Property, plant and equipment | | |
| | Operating assets - note 5.1 | 4,965,072 | 5,967,079 |
| | Capital work-in-progress - note 5.2 | 9,352 | 82,174 |
| | | 4,974,424 | 6,049,253 |
| | Intangible assets - note 5.4 | 1,390 | 1,874 |
| | | 4,975,814 | 6,051,127 |

## 5.1 Operating assets

The following is a statement of operating property, plant and equipment:

| | Leasehold land | Buildings on leasehold land | Plant and machinery | | Motor vehicles | Furniture and equipment | Total |
|---|---|---|---|---|---|---|---|
| | | | Owned | Held under finance lease | | | |
| **Net carrying value basis** | | | | | | | |
| **Year ended 31 December 2013** | | | | | | | |
| Opening net book value (NBV) | 50,494 | 165,599 | 5,659,590 | 4,395 | 6,382 | 80,619 | 5,967,079 |
| Additions (at cost) | - | 627 | 216,537 | - | 868 | 5,125 | 223,157 |
| Disposals (at NBV) | - | - | - | - | - | (106) | (106) |
| Depreciation charge | (1,422) | (24,675) | (1,169,647) | (4,395) | (4,868) | (20,051) | (1,225,058) |
| Closing net book value (NBV) | 49,072 | 141,551 | 4,706,480 | - | 2,382 | 65,587 | 4,965,072 |
| **Gross carrying value basis** | | | | | | | |
| **at 31 December 2013** | | | | | | | |
| Cost | 90,278 | 989,836 | 26,879,716 | 395,543 | 57,481 | 183,957 | 28,596,811 |
| Accumulated depreciation | (41,206) | (646,574) | (20,915,122) | (395,543) | (55,099) | (118,370) | (22,171,914) |
| Accumulated impairment losses | - | (201,711) | (1,258,114) | - | - | - | (1,459,825) |
| Net book value (NBV) | 49,072 | 141,551 | 4,706,480 | - | 2,382 | 65,587 | 4,965,072 |
| **Net carrying value basis** | | | | | | | |
| **Year ended 31 December 2012** | | | | | | | |
| Opening net book value (NBV) | 51,916 | 186,004 | 6,805,141 | 30,765 | 11,785 | 48,643 | 7,134,254 |
| Additions (at cost) | - | 3,347 | 143,110 | - | - | 54,820 | 201,277 |
| Disposals (at NBV) | - | - | (3,432) | - | - | (208) | (3,640) |
| Depreciation charge | (1,422) | (23,752) | (1,285,229) | (26,370) | (5,403) | (22,636) | (1,364,812) |
| Closing net book value (NBV) | 50,494 | 165,599 | 5,659,590 | 4,395 | 6,382 | 80,619 | 5,967,079 |
| **Gross carrying value basis** | | | | | | | |
| **at 31 December 2012** | | | | | | | |
| Cost | 90,278 | 989,209 | 26,663,180 | 395,543 | 56,613 | 250,441 | 28,445,264 |
| Accumulated depreciation | (39,784) | (621,899) | (19,745,476) | (391,148) | (50,231) | (169,822) | (21,018,360) |
| Accumulated impairment losses | - | (201,711) | (1,258,114) | - | - | - | (1,459,825) |
| Net book value (NBV) | 50,494 | 165,599 | 5,659,590 | 4,395 | 6,382 | 80,619 | 5,967,079 |
| Depreciation rate % per annum | 2 | 5 | 5 - 20 | 6.67 | 25 | 10-33 | |

Amount in Rs '000

| | | 2013 | 2012 |
|---|---|---|---|
| 5.2 | **Capital work-in-progress** | | |
| | Civil works and buildings | 1,599 | - |
| | Plant and machinery | 679 | 81,489 |
| | Miscellaneous equipments | 7,074 | 685 |
| | | 9,352 | 82,174 |
| 5.3 | **Capital work-in-progress - movement** | | |
| | Opening balance | 82,174 | 2,717,177 |
| | Capital expenditure | 143,862 | 1,717,595 |
| | Transferred to operating property, plant and equipment | (216,684) | (199,520) |
| | Transferred to Lotte Powergen (Private) Limited - wholly owned subsidiary | - | (4,153,078) |
| | Closing balance | 9,352 | 82,174 |
| 5.4 | INTANGIBLE ASSETS | | |
| 5.4.1 | **Net carrying value basis** | | |
| | Opening net book value | 1,874 | 1,156 |
| | Additions during the year | 36 | 1,177 |
| | Amortisation charge | (520) | (459) |
| | Closing net book value | 1,390 | 1,874 |
| 5.4.2 | **Gross carrying value basis** | | |
| | Cost | 214,102 | 214,066 |
| | Accumulated amortisation | (212,712) | (212,192) |
| | Net book value | 1,390 | 1,874 |

5.5 Following assets, having net book value exceeding Rs 50,000 were retired during the year.

| Description | 2013 | | | | Particulars of buyers / others |
|---|---|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value | Sales proceeds | |
| Furniture and equipment | | | | | |
| Dell Latitude Notebook | 114 | 38 | 76 | - | Discarded / Scrapped |

Amount in Rs '000

| | 2013 | 2012 |
|---|---|---|
| **6. LONG-TERM INVESTMENT - unquoted** | | |
| **Investment in subsidiary** | | |
| Lotte Powergen (Private) Limited, wholly owned subsidiary - at cost 450,000,000 ordinary shares of Rs 10 each (31 December 2012: 450,000,000) | 4,500,000 | 4,500,000 |

6.1 The Subsidiary is engaged in generation and sale of electricity and steam to the Company.

## 7. LONG-TERM LOANS AND ADVANCES - considered good

| | 2013 | | | | 2012 |
|---|---|---|---|---|---|
| | Motor car | House building assistance | Others | Total | Total |
| Due from executives - note 7.1 | 25,372 | 14,767 | - | 40,139 | 46,560 |
| Less: Receivable within one year - note 12 | (4,891) | (7,695) | - | (12,586) | (13,970) |
| | 20,481 | 7,072 | - | 27,553 | 32,590 |
| Due from employees | 13,703 | 1,346 | 2,957 | 18,006 | 19,335 |
| Less: Receivable within one year - note 12 | (2,618) | (994) | (650) | (4,262) | (4,968) |
| | 11,085 | 352 | 2,307 | 13,744 | 14,367 |
| | 31,566 | 7,424 | 2,307 | 41,297 | 46,957 |

### 7.1 Reconciliation of carrying amount of loans to executives

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Key management personnel | Executives | Total | Key management personnel | Executives | Total |
| Balance at 1 January | 6,009 | 40,551 | 46,560 | 806 | 46,329 | 47,135 |
| Disbursements | - | 19,345 | 19,345 | 6,555 | 13,925 | 20,480 |
| Repayments | (1,311) | (24,455) | (25,766) | (1,352) | (19,703) | (21,055) |
| Balance at 31 December | 4,698 | 35,441 | 40,139 | 6,009 | 40,551 | 46,560 |

7.2 Loans for purchase of motor cars and house building assistance are repayable between two to ten years. All the loans are interest free and are secured, where applicable, against respective assets granted to the employees of the Company in accordance with their terms of employment.

7.3 The maximum aggregate amount of loans and advances due from Executives at the end of any month during the year was Rs 47.51 million (2012: Rs 52.70 million).

Amount in Rs '000

| | 2013 | 2012 |
|---|---|---|
| **8. LONG-TERM DEPOSITS AND PREPAYMENTS** | | |
| Deposits - note 8.1 | 40,524 | 40,524 |
| Prepayments | 23,487 | 38,723 |
| | 64,011 | 79,247 |

8.1 These include Rs 14.42 million (2012: Rs 14.42 million) paid to Pakistan Steel Mills Corporation for emergency back-up supply of water and Rs 24.27 million (2012: Rs 24.27 million) paid to Karachi Electric Supply Corporation (KESC).

| | 2013 | 2012 |
|---|---|---|
| **9. STORES AND SPARES** | | |
| Stores | 30,021 | 23,517 |
| Spares | 785,609 | 720,254 |
| | 815,630 | 743,771 |
| Less: Provision for slow moving, obsolete and rejected items - note 9.1 | (20,860) | (15,746) |
| | 794,770 | 728,025 |
| **9.1 Provision for slow moving, obsolete and rejected items** | | |
| Provision at 1 January | 15,746 | 10,975 |
| Charge for the year | 5,114 | 4,771 |
| | 20,860 | 15,746 |
| Write-offs | - | - |
| Provision at 31 December | 20,860 | 15,746 |

Amount in Rs '000

| | | 2013 | 2012 |
|---|---|---|---|
| 10. | STOCK-IN-TRADE | | |
| | Raw and packing materials [including in-transit Rs 181 million (2012: Rs 942 million)] | 2,166,141 | 2,802,171 |
| | Finished goods | | |
| | - Manufactured goods | 735,540 | 1,538,654 |
| | - Trading goods [including in-transit Rs Nil (2012: Rs 115.5 million)] | 71,589 | 139,691 |
| | | 807,129 | 1,678,345 |
| | | 2,973,270 | 4,480,516 |

10.1 Raw and packing materials include Rs 1.11 billion (2012: Rs 1.25 billion) held with third party.

11. TRADE DEBTS

11.1 These are secured and considered good.

11.2 All of the Company's trade debts are secured by letters of credit issued by various banks.

| | | 2013 | 2012 |
|---|---|---|---|
| 12. | LOANS AND ADVANCES - considered good | | |
| | Loans due from: | | |
| | - Executives - note 7 | 12,586 | 13,970 |
| | - Employees - note 7 | 4,262 | 4,968 |
| | | 16,848 | 18,938 |
| | Advances to: | | |
| | - Executives | 3,698 | 4,701 |
| | - Employees | 1,018 | 1,148 |
| | - Contractors and suppliers | 3,080 | 8,009 |
| | | 7,796 | 13,858 |
| | | 24,644 | 32,796 |

12.1 The maximum aggregate amount of advances due from Executives at the end of any month during the year was Rs 6.16 million (2012: Rs 4.01 million).

Amount in Rs '000

| | | 2013 | 2012 |
|---|---|---|---|
| 13. | TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS | | |
| | Deposits | 9,499 | 4,489 |
| | Margin on import letters of credit | 18,222 | 47,463 |
| | Short-term prepayments | 66,612 | 40,452 |
| | | 94,333 | 92,404 |

| | | 2013 | (Re-stated) 2012 | (Re-stated) 2011 |
|---|---|---|---|---|
| 14. | OTHER RECEIVABLES | | | |
| | Rebates receivable - note 14.1 | 20,535 | 62,850 | 180,834 |
| | Asset recognised in respect of staff retirement benefit funds - note 21.1 | 807 | 27 | - |
| | Receivable from subsidiary of the Company | 53,294 | 13,479 | - |
| | Insurance claims receivable | 12,029 | 27,112 | 12,828 |
| | Others | 475 | 1,586 | 1,963 |
| | | 87,140 | 105,054 | 195,625 |

14.1 This represents amounts receivable on account of price and exchange rate differentials in respect of paraxylene and acetic acid settlements.

| | | 2013 | 2012 |
|---|---|---|---|
| 15. | TAX REFUNDS DUE FROM GOVERNMENT - SALES TAX | | |
| | Sales tax refundable | 511,013 | 756,153 |
| | Provision for doubtful receivables | (94,008) | (94,008) |
| | | 417,005 | 662,145 |

15.1 This includes Rs 301.3 million (31 December 2012: Rs 259 million) on account of input tax arising from sales tax charged to the Company under the Sindh Sales Tax on Services Act, 2011 which is administered by the Sindh Revenue Board with effect from 1 July 2011. This is being deferred due to procedural issues between Federal and Provincial Tax collecting agencies, resulting in lack of verification by the refund issuing authority i.e. the Federal Board of Revenue (FBR). The Company had approached Federal Tax Ombudsman (FTO) for resolution of the matter. The FTO in its order dated 2 May 2013 have directed FBR, with certain recommendations, to resolve the issue. The Company is maintaining close focus with the relevant authorities for early resolution for the same.

Amount in Rs '000

| | | 2013 | 2012 |
|---|---|---|---|
| 16. | CASH AND BANK BALANCES | | |
| | Short-term fixed deposits - note 16.1 | 2,401,350 | 171,950 |
| | With banks in current accounts | 17,271 | 44,438 |
| | Cash in hand | 8,118 | 8,746 |
| | | 2,426,739 | 225,134 |

16.1 During the year ended 31 December 2013, the mark-up rates on term deposits ranged from 6.50% to 9.70% (2012: 6.50% to 11.75%) per annum and had maturities of less than three months.

## 17. SHARE CAPITAL

| | | 2013 | 2012 |
|---|---|---|---|
| 17.1 | Authorised capital 2,000,000,000 ordinary shares of Rs 10 each | 20,000,000 | 20,000,000 |
| 17.2 | 504,735,636 ordinary shares of Rs 10 each fully paid-up issued pursuant to the Scheme for consideration other than cash - note 17.3 | 5,047,356 | 5,047,356 |
| | 1,009,471,572 ordinary shares of Rs 10 each fully paid-up in cash | 10,094,716 | 10,094,716 |
| | | 15,142,072 | 15,142,072 |

17.3 With effect from 1 October 2000 the PTA Business of ICI Pakistan Limited was demerged under a Scheme of Arrangement (Scheme), dated 12 December 2000, approved by the shareholders and sanctioned by the High Court of Sindh.

17.4 At 31 December 2013 and 2012, Lotte Chemical Corporation - South Korea held 1,135,860,105 ordinary shares of Rs 10 each.

## 18. CAPITAL RESERVES

Capital reserves represent the amount received from various overseas companies of AkzoNobel Group (then group Companies), for purchase of fixed assets. The remitting companies have no claim to their repayments.

Amount in Rs '000

## 19. LONG-TERM LOAN FROM SUBSIDIARY

| Lender | Installments payable | Interest rate | Repayment month | 2013 | 2012 |
|---|---|---|---|---|---|
| Loan from wholly owned subsidiary | | | | | |
| Lotte Powergen (Private) Limited - Rs 400 million (31 December 2012: Rs Nil) | full payment on maturity | 3% p.a. above 6 months KIBOR | January 2018 | 400,000 | - |

## 20. DEFERRED TAX

| | 2013 | (Re-stated) 2012 | (Re-stated) 2011 |
|---|---|---|---|
| Credit balance arising in respect of property, plant and equipment | 907,627 | 1,199,074 | 1,432,500 |
| (Debit) balances arising in respect of: | | | |
| - liability against assets subject to finance lease | - | (12,723) | (77,598) |
| - provisions for: | | | |
| • sales tax refundable | (30,365) | (31,258) | (41,174) |
| • staff retirement benefits | (24,406) | (19,796) | (26,205) |
| • slow moving, obsolete and rejected items | (6,738) | (5,236) | (3,649) |
| • unpaid liabilities | (220,791) | (209,307) | (160,521) |
| - carry forward of turnover tax | (157,965) | (157,965) | - |
| - taxable loss | (77,485) | - | - |
| | 389,877 | 762,789 | 1,123,353 |

20.1 Deferred income tax asset is recognised for tax losses available for carry forward to the extent that the related tax benefit available through future taxable profit.

## 21. RETIREMENT BENEFIT OBLIGATION

### 21.1 Staff retirement benefits

21.1.1 As stated in note 2.14.1, the Company operates three retirement benefit plans (The Plans) namely approved funded defined benefit gratuity scheme for all permanent employees, approved funded defined benefit pension scheme for all management staff and unfunded medical scheme for members of its pension fund subject to minimum service of prescribed period in the respective trust deed. Actuarial valuation of these plans is carried out every year and the latest actuarial valuation was carried out as at 31 December 2013.

21.1.2 Plan assets held in trust are governed by local regulations which mainly includes Trust Act, 1882, Companies Ordinance, 1984, Income Tax Rules, 2002 and Rules under the Trust deed of the Plans. Responsibility for governance of the Plans, including investment decisions and contribution schedules, lies with the Board of Trustees. The Company appoints the trustees and all trustees are employees of the Company.

21.1.3 The latest actuarial valuation of the Fund as at 31 December 2013 was carried out using the Projected Unit Credit Method. Details of the Fund as per the actuarial valuation are as follows:

Amount in Rs '000

| | | 2013 | | | | (Re-stated) 2012 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Funded | | | Unfunded | Funded | | | Unfunded |
| | | Pension | Gratuity | Total | Medical | Pension | Gratuity | Total | Medical |
| 21.1.4 | **Balance sheet reconciliation** | | | | | | | | |
| | Present value of defined benefit obligation at 31 December - note 21.1.5 | (62,124) | (161,337) | (223,461) | (38,362) | (55,347) | (154,764) | (210,111) | (36,404) |
| | Fair value of plan assets at 31 December - note 21.1.6 | 55,484 | 162,144 | 217,628 | - | 48,083 | 154,791 | 202,874 | - |
| | (Deficit) / Surplus | (6,640) | 807 | (5,833) | (38,362) | (7,264) | 27 | (7,237) | (36,404) |
| 21.1.5 | **Movement in the present value of defined benefit obligation** | | | | | | | | |
| | Balances as at 1 January | 55,347 | 154,764 | 210,111 | 36,404 | 48,359 | 130,914 | 179,273 | 31,313 |
| | Benefits paid by the plan | - | (17,787) | (17,787) | (325) | (3,507) | (4,847) | (8,354) | (210) |
| | Current service costs | 2,882 | 12,010 | 14,892 | 2,226 | 2,639 | 11,524 | 14,163 | 2,215 |
| | Interest cost | 6,365 | 16,802 | 23,167 | 4,168 | 6,066 | 16,714 | 22,780 | 4,057 |
| | Remeasurement on obligation | (2,470) | (4,452) | (6,922) | (4,111) | 1,790 | 459 | 2,249 | (971) |
| | Balance as at 31 December | 62,124 | 161,337 | 223,461 | 38,362 | 55,347 | 154,764 | 210,111 | 36,404 |
| 21.1.6 | **Movement in the fair value of plan assets** | | | | | | | | |
| | Fair value of plan assets at 1 January | 48,083 | 154,791 | 202,874 | - | 34,871 | 110,699 | 145,570 | - |
| | Contributions paid into the plan | 3,343 | 12,842 | 16,185 | - | 6,279 | 17,134 | 23,413 | - |
| | Benefits paid by the plan | - | (17,787) | (17,787) | - | (3,507) | (4,847) | (8,354) | - |
| | Interest income | 5,717 | 17,524 | 23,241 | - | 4,527 | 14,549 | 19,076 | - |
| | Remeasurement | (1,659) | (5,226) | (6,885) | - | 5,913 | 17,256 | 23,169 | - |
| | Fair value of plan assets at 31 December | 55,484 | 162,144 | 217,628 | - | 48,083 | 154,791 | 202,874 | - |

# Notes to and Forming Part of the Financial Statements
For the year ended 31 December 2013

Amount in Rs '000

| | | 2013 | | | | (Re-stated) 2012 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Funded | | | Unfunded | Funded | | | Unfunded |
| | | Pension | Gratuity | Total | Medical | Pension | Gratuity | Total | Medical |
| 21.1.7 | **Expense recognised in profit and loss account** | | | | | | | | |
| | Current service costs | 2,882 | 12,010 | 14,892 | 2,226 | 2,639 | 11,524 | 14,163 | 2,215 |
| | Net Interest cost | 648 | (722) | (74) | 4,168 | 1,539 | 2,165 | 3,704 | 4,057 |
| | Expense recognised in profit and loss account | 3,530 | 11,288 | 14,818 | 6,394 | 4,178 | 13,689 | 17,867 | 6,272 |
| 21.1.8 | **Remeasurement recognised in Other Comprehensive Income** | | | | | | | | |
| | Loss from changes in demographic assumptions | - | - | - | - | (171) | 401 | 230 | (1,424) |
| | Experience (gain) / losses | (2,470) | (4,452) | (6,922) | (4,111) | 1,961 | 58 | 2,019 | 453 |
| | Remeasurement of fair value of plan assets | 1,659 | 5,226 | 6,885 | - | (5,913) | (17,256) | (23,169) | - |
| | Remeasurements | (811) | 774 | (37) | (4,111) | (4,123) | (16,797) | (20,920) | (971) |
| 21.1.9 | **Net recognised liability / (asset)** | | | | | | | | |
| | Net liability at beginning of the year | 7,264 | (27) | 7,237 | 36,404 | 13,488 | 20,215 | 33,703 | 31,313 |
| | Charge for the year | 3,530 | 11,288 | 14,818 | 6,394 | 4,178 | 13,689 | 17,867 | 6,272 |
| | Contribution made during the year to the fund | (3,343) | (12,842) | (16,185) | (325) | (6,279) | (17,134) | (23,413) | (210) |
| | Remeasurements recognised in Other Comprehensive Income | (811) | 774 | (37) | (4,111) | (4,123) | (16,797) | (20,920) | (971) |
| | Recognised liability / (asset) as at 31 December | 6,640 | (807) | 5,833 | 38,362 | 7,264 | (27) | 7,237 | 36,404 |
| 21.1.10 | **Plan assets comprises of following** | | | | | | | | |
| | Government bonds | 33,477 | 79,395 | 112,872 | | 30,426 | 106,934 | 137,360 | |
| | Other bonds (TFCs) | - | - | - | | 4,114 | 5,214 | 9,328 | |
| | Shares | 8,392 | 24,413 | 32,805 | | 11,268 | 36,306 | 47,574 | |
| | Term deposits | 12,094 | 55,655 | 67,749 | | - | 1,533 | 1,533 | |
| | Cash at Bank | 1,521 | 2,681 | 4,202 | | 2,275 | 4,804 | 7,079 | |
| | Total as at 31 December | 55,484 | 162,144 | 217,628 | | 48,083 | 154,791 | 202,874 | |
| 21.1.11 | **Actuarial assumptions** | | | | | | | | |
| | Discount rate at 31 December | 13.00% | 13.00% | | 13.00% | 11.50% | 11.50% | | 11.50% |
| | Future salary increases | 10.75% | 10.75% | | | 9.50% | 9.50% | | |
| | Medical cost trend rate | | | | 7.50% | | | | 6.25% |
| | Future pension increases | 7.50% | | | | 6.25% | | | |

21.1.12 Mortality was assumed to be 70% of the EFU(61-66) Table.

21.1.13 In case of the funded plans, the Company ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the retirement benefit plan. Within this framework, the Company's ALM objective is to match assets to the retirement benefit obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The Company actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement benefit plan obligations. The Company has not changed the processes used to manage its risks from previous periods. The Company does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in 2013 consists of government bonds and term deposits. The Company believes that government bond offer the best returns over the long term with an acceptable level of risk.

21.1.14 The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

The Company's contribution to the pension and gratuity funds in 2014 is expected to amount to Rs 16.2 million.

The actuary conducts separate valuations for calculating contribution rates and the Company contributes to the pension and gratuity funds according to the actuary's advice. Expense of the defined benefit plan is calculated by the actuary.

Figures in this note are based on the latest actuarial valuation carried out as at 31 December 2013.

## 21.2 Sensitivity analysis for actuarial assumptions

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

Amount in Rs '000

| | Impact on defined benefit obligation | | |
|---|---|---|---|
| | Change in assumption | Increase in assumption | Decrease in assumption |
| Discount rate at 31 December | 1% | (27,418) | 32,054 |
| Future salary increases | 1% | 23,746 | (21,250) |
| Future pension increases | 1% | 735 | (623) |

If longevity increases by 1 year, obligation increases by Rs 88,000.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

A sensitivity analysis was conducted to determine the impact of a 1% change in the medical cost trend, which was not material.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Amount in Rs '000

| | | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|
| 21.3 | **Historical information** | | | | | |
| | Present value of the defined benefit obligation as at 31 December | 261,823 | 246,515 | 210,586 | 171,312 | 131,655 |
| | Fair value of plan assets | 217,628 | 202,874 | 145,570 | 129,673 | 109,724 |
| | Deficit in the plan | (44,195) | (43,641) | (65,016) | (41,639) | (21,931) |
| | **Experience Adjustments** | | | | | |
| | (Gain) / loss on obligation (as percentage of plan obligation) | (4)% | (1)% | (6)% | (7)% | (9)% |
| | Gain / (loss) on plan assets (as percentage of plan assets) | (3)% | 11% | 1% | 1% | 17% |

21.4 The expected return on plan assets is based on the market expectations and depends upon the asset portfolio of the Fund, at the beginning of the period, for returns over the entire life of related obligation.

21.5 The Company's contributions towards the provident fund and defined contribution superannuation fund for the year ended 31 December 2013 amounted to Rs 18.83 million (2012: Rs 18.16 million) and Rs 18.31 million (2012: Rs 17.93 million).

21.6 The weighted average duration of the defined benefit obligation is 13 years.

Expected maturity analysis of undiscounted retirement benefit plans.

| At 31 December 2013 | Less than a year | Between 1-2 years | Between 2-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Retirement benefit plans | 4,389 | 6,585 | 35,582 | 158,868 | 205,424 |

Amount in Rs '000

| | | 2013 | 2012 |
|---|---|---|---|
| 22. | TRADE AND OTHER PAYABLES | | |
| | Trade creditors including bills payable - note 22.1 | 5,197,423 | 5,597,069 |
| | Accrued expenses | 676,678 | 773,548 |
| | Advances from supplier / customer | 683 | 152,483 |
| | Unclaimed dividend | 12,262 | 12,385 |
| | Provision for infrastructure cess - note 22.2 | 1,453,826 | 1,249,432 |
| | Workers' welfare fund | 12,572 | - |
| | Others | 92,267 | 69,713 |
| | | 7,445,711 | 7,854,630 |

22.1 This includes payable to subsidiary amounting to Rs 277.92 million (31 December 2012: Rs 264.55 million).

22.2 The Company (along with a number of other parties) is challenging the levy of infrastructure cess on cost and freight value of goods entering the province of Sindh. According to a decision of the High Court, levy of the fee / cess upto December 2006 was declared to be illegal while amounts charged after that date were decreed to be within the law. Appeals were filed in the Supreme Court both by the companies and the Government of Sindh in respect of the aforesaid judgement of the High Court. During the year 2011, the Supreme Court referred the case back to the High Court.

The High Court vide its order dated 2 June 2011 provided for an interim arrangement reached through a joint statement filed with the Court by the counsels of the petitioners and respondent of the case. As per the order, bank guarantees / securities furnished in respect of consignments cleared after 27 December 2006 would be encashed to the extent of 50% and guarantees for the remaining balance would be kept till final disposal of the petitions. Consequently, bank guarantees relating to the period upto 27 December 2006 have been cancelled and returned to the Company.

As per legal advice sought by the Company in respect of the aforementioned case, the High Court may uphold the validity of the law against the Company upon its re-filing since the matter has been referred back to the High Court by the Supreme Court, thereby making the Company liable to pay the levy for all consignments cleared till date. As a matter of abundant caution, full amount of provision has been made in these financial statements in this respect.

| | 2013 | 2012 |
|---|---|---|
| Balance as at 1 January | 1,249,432 | 1,048,914 |
| Charge | 204,394 | 200,518 |
| Balance as at 31 December | 1,453,826 | 1,249,432 |

Amount in Rs '000

| | 2013 | 2012 |
|---|---|---|
| **23. INTEREST ACCRUED** | | |
| Long-term loans - note 23.1 | 160,696 | 147,685 |
| Long-term loan from subsidiary - note 23.2 | 24,246 | - |
| Short-term financing | 365 | - |
| | 185,307 | 147,685 |

23.1 This represents interest payable to Mortar Investments International Limited amounting to USD 1.52 million (2012: USD 1.52 million) on long-term loans previously repaid. The amount is still unpaid due to certain procedural complexities with respect to foreign remittance.

23.2 This represents interest payable to the Subsidiary Company on long-term loan.

## 24. SHORT-TERM FINANCING

24.1 The facilities for running finance available from various banks as at 31 December 2013 amounted to Rs 1.68 billion (2012: Rs 1.43 billion). These facilities carry mark-up at rates ranging from 1 month KIBOR plus 1.00 percent per annum to 3 months KIBOR plus 1.75 percent per annum and are secured by joint pari-passu hypothecation charge over all the present and future stock and book debts of the Company.

24.2 Foreign currency import and export finance facilities available from a local bank as at 31 December 2013 amounted to USD 10.0 million (2012: USD 10.0 million). These facilities are available at interest rates to be negotiated at the time of booking and are secured against trust receipts and / or joint pari-passu hypothecation charge over all the present and future stock and book debts of Company. Total facility was unutilised as at 31 December 2013 and 2012.

## 25. LIABILITY AGAINST ASSETS SUBJECT TO FINANCE LEASE - plant and machinery

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Minimum lease payments | Financial charges for future periods | Principal outstanding | Minimum lease payments | Financial charges for future periods | Principal outstanding |
| Not later than one year | - | - | - | 43,687 | 1,028 | 42,659 |

## 26. CONTINGENCIES AND COMMITMENTS

26.1 Commitments in respect of capital expenditure as at 31 December 2013 amount to Rs 16.87 million (2012: Rs 286 million).

26.2 Commitments for rentals under operating lease agreements / Ijarah contracts in respect of vehicles as at 31 December are as follows:

Amount in Rs '000

| Year | 2013 | 2012 |
|---|---|---|
| 2013 | - | 17,806 |
| 2014 | 20,570 | 14,434 |
| 2015 | 19,189 | 10,172 |
| 2016 | 14,215 | 3,850 |
| 2017 | 6,369 | - |
| | 60,343 | 46,262 |

26.3 Commitments for rentals under operating lease agreements for certain supplies in respect of goods and services as at 31 December are as follows:

| Year | 2013 | 2012 |
|---|---|---|
| 2013 | - | 604,199 |
| 2014 | 587,174 | 561,436 |
| 2015 | 598,917 | 572,665 |
| 2016 | 610,896 | 584,118 |
| 2017 | 571,188 | 595,800 |
| | 2,368,175 | 2,918,218 |

26.3.1 Commitments for rentals under operating lease agreements in respect of goods and services are stated at minimum lease payments. These are priced in foreign currency and payable in Pakistan Rupees, converted at exchange rates applicable on the date of payment.

26.4 Outstanding guarantees and letters of credit issued on behalf of the Company as at 31 December 2013 were Rs 1.21 billion (2012: Rs 1.41 billion) and Rs 1.28 billion (2012: Rs 342 million), respectively.

Amount in Rs '000

## 27. REVENUE

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Manufactured goods | Trading goods | Total | Manufactured goods | Trading goods | Total |
| Local sales | 58,314,785 | 998,605 | 59,313,390 | 50,405,677 | 624,095 | 51,029,772 |
| Export sales | 1,900,190 | - | 1,900,190 | 2,033,562 | - | 2,033,562 |
| | 60,214,975 | 998,605 | 61,213,580 | 52,439,239 | 624,095 | 53,063,334 |
| Less: Sales tax and excise duty | (2,044,882) | (43,090) | (2,087,972) | (61) | (7,207) | (7,268) |
| Price settlements and discounts | (2,024,541) | (31,383) | (2,055,924) | (231,477) | (1,332) | (232,809) |
| | 56,145,552 | 924,132 | 57,069,684 | 52,207,701 | 615,556 | 52,823,257 |

27.1 Four (2012: Four) of the Company's customers contributed towards 85% (2012: 84%) of the revenue during the year amounting to Rs 50.52 billion (2012: Rs 44.43 billion) and each customer individually exceeded 10% of the revenue.

## 28. COST OF SALES

| | 2013 | (Re-stated) 2012 |
|---|---|---|
| Raw and packing materials consumed: | | |
| Opening stock | 2,802,171 | 3,334,047 |
| Purchases - note 28.1 | 49,921,141 | 47,393,721 |
| Closing stock | (2,166,141) | (2,802,171) |
| | 50,557,171 | 47,925,597 |
| Salaries, wages and benefits - note 28.2 | 365,101 | 371,202 |
| Stores and spares consumed | 144,810 | 133,439 |
| Lease rentals / Ijarah arrangements | 12,445 | 11,268 |
| Insurance | 86,780 | 100,785 |
| Oil, gas and electricity | 3,134,195 | 2,492,496 |
| Travelling expenses | 65,192 | 61,284 |
| Depreciation and amortisation | 1,225,578 | 1,365,271 |
| Repairs and maintenance - note 28.3 | 467,954 | 175,899 |
| Other expenses | 45,900 | 38,389 |
| Cost of goods manufactured | 56,105,126 | 52,675,630 |
| Opening stock of manufactured goods | 1,538,654 | 1,332,340 |
| | 57,643,780 | 54,007,970 |
| Closing stock of manufactured goods | (735,540) | (1,538,654) |
| | 56,908,240 | 52,469,316 |
| Trading goods | | |
| Opening stock | 139,691 | 2,617 |
| Purchases | 804,012 | 702,833 |
| Closing stock | (71,589) | (139,691) |
| | 872,114 | 565,759 |
| | 57,780,354 | 53,035,075 |

28.1 This includes discount recognised during the year amounting to Rs 188.01 million (2012: Nil) after renewal of a supplier's contract under the terms of the arrangement.

28.2 Salaries, wages and benefits include Rs 12.32 million (2012: Rs 12.60 million) and Rs 25.35 million (2012: Rs 25.03 million) in respect of defined benefit and defined contribution plans respectively.

28.3 Repair and maintenance includes Rs 212 million (2012: Nil) in respect of plant overhaul carried out during the year.

Amount in Rs '000

| | 2013 | (Re-stated) 2012 |
|---|---|---|
| **29. DISTRIBUTION AND SELLING EXPENSES** | | |
| Outward freight and handling charges | 53,812 | 69,065 |
| Salaries and benefits - note 29.1 | 45,330 | 43,924 |
| Lease rentals / Ijarah arrangements | 2,079 | 2,043 |
| Repairs and maintenance | 2,521 | 4,378 |
| Travelling expenses | 5,808 | 5,573 |
| Postage and telephone | 1,238 | 1,304 |
| Advertising and sales promotion | 560 | 527 |
| Other expenses | 8,756 | 5,377 |
| | 120,104 | 132,191 |

29.1 Salaries and benefits include Rs 1.83 million (2012: Rs 1.87 million) and Rs 4.05 million (2012: Rs 3.63 million) in respect of defined benefit plans and defined contribution plans respectively.

| | 2013 | (Re-stated) 2012 |
|---|---|---|
| **30. ADMINISTRATIVE EXPENSES** | | |
| Salaries and benefits - note 30.1 | 139,959 | 142,236 |
| Legal, professional and consultancy charges | 15,750 | 15,880 |
| Lease rentals / Ijarah arrangements | 5,924 | 5,555 |
| Travelling expenses | 20,728 | 16,085 |
| Repairs and maintenance | 19,324 | 18,577 |
| Expenses on information technology | 14,022 | 10,539 |
| Security expenses | 17,118 | 13,980 |
| Rent, rates and taxes | 26,247 | 25,754 |
| Publication and subscriptions | 2,086 | 4,324 |
| Postage and telephone | 6,300 | 5,335 |
| Printing and stationery | 8,890 | 6,499 |
| Other expenses | 52,695 | 38,831 |
| | 329,043 | 303,595 |

Amount in Rs '000

30.1 Salaries and benefits include Rs 7.06 million (2012: Rs 9.67 million) and Rs 7.74 million (2012: Rs 7.43 million) in respect of defined benefit plans and defined contribution plans respectively.

| | | 2013 | 2012 |
|---|---|---|---|
| 31. | OTHER EXPENSES | | |
| | Auditors' remuneration - note 31.1 | 4,698 | 4,097 |
| | Donations - note 31.2 | 8,072 | 8,953 |
| | Loss on retirement of property, plant and equipment | 106 | 3,640 |
| | Provision for obsolete stores and spares | 5,114 | 4,771 |
| | Workers' welfare fund - note 31.3 | 12,572 | - |
| | Others | 1,005 | 885 |
| | | 31,567 | 22,346 |
| 31.1 | Auditors' remuneration | | |
| | Audit fee | 2,100 | 1,900 |
| | Taxation | 920 | 361 |
| | Limited reviews, audit of consolidated financial statements, certain funds for staff retirement benefits, group reporting and various certifications | 1,480 | 1,630 |
| | Out of pocket expenses | 198 | 206 |
| | | 4,698 | 4,097 |
| 31.2 | Donations include payments in respect of the following: | | |
| | Community services | 3,550 | 3,178 |
| | Education | 1,852 | 3,780 |

31.2.1 None of the directors or their spouse had any interest in the donee.

31.3 This includes Rs 10.3 million in respect of tax year 2012.

Amount in Rs '000

| | | 2013 | 2012 |
|---|---|---|---|
| **32.** | **OTHER INCOME** | | |
| | Scrap sales | 8,226 | 22,280 |
| | Dividend received from subsidiary | 810,000 | 225,000 |
| | Recoveries against provision made in prior year for sales tax refundable | - | 29,825 |
| | Service fee from subsidiary - note 38 | 16,800 | 8,400 |
| | Liabilities no longer payable written back | 42,659 | 16,700 |
| | Return on bank deposits | 91,497 | 269,970 |
| | Others | 871 | 1,810 |
| | | 970,053 | 573,985 |
| **33.** | **FINANCE COSTS** | | |
| | Interest / mark-up on: | | |
| | - short-term financing | 365 | - |
| | - workers' profit participation fund | - | 3,433 |
| | - finance lease - note 33.1 | - | 34,385 |
| | - long term loans from parent company | - | 20,381 |
| | - long term loan from subsidiary company | 45,803 | - |
| | Discounting charges on trade debts | 40,562 | 7,552 |
| | Exchange loss - net | 31,446 | 70,068 |
| | Bank charges | 8,659 | 10,235 |
| | | 126,835 | 146,054 |

33.1 This includes contingent rent of Rs Nil (2012: Rs 23.14 million) recognised as an expense during the year which is determined by the movement in UK Consumer Price Index.

| | | 2013 | (Re-stated) 2012 |
|---|---|---|---|
| **34.** | **TAXATION** | | |
| | Current - for the year | 569,510 | 274,421 |
| | - for prior year | 2,678 | 32,327 |
| | | 572,188 | 306,748 |
| | Deferred | (374,252) | (367,843) |
| | | 197,936 | (61,095) |

34.1 Current taxation expense for the year is subject to minimum tax charged at 1% of taxable turnover which is adjustable against the tax liability of succeeding five years. The Company, however, on prudence has not recognised the related deferred tax asset in view of taxable loss for the year.

Amount in Rs '000

| | | 2013 | (Re-stated) 2012 |
|---|---|---|---|
| 34.2 | **Reconciliation of income tax expense for the year** | | |
| | Loss before taxation | (348,166) | (242,019) |
| | Applicable tax rate | 34% | 35% |
| | Tax calculated at the applicable tax rate | (118,376) | (84,707) |
| | Tax effect of : | | |
| | - permanent differences | (241,691) | (32,620) |
| | - minimum tax | 542,661 | - |
| | - tax credits | (21,654) | (16,852) |
| | - income chargeable to tax under FTR basis | 61,546 | 40,757 |
| | - prior year tax charge | 2,678 | 32,327 |
| | - change in tax rate | (27,228) | - |
| | | 197,936 | (61,095) |
| 35. | **CASH GENERATED FROM OPERATIONS** | | |
| | Loss before taxation | (348,166) | (242,019) |
| | Adjustments for non cash charges and other items: | | |
| | Depreciation and amortisation | 1,225,578 | 1,365,271 |
| | Loss on retirement of property, plant and equipment | 106 | 3,640 |
| | Provision for staff retirement benefit scheme | 21,212 | 24,139 |
| | Finance costs | 95,389 | 86,912 |
| | Unrealised exchange loss on current maturity of long-term loan and current portion of liability against assets subject to finance lease | - | 100,572 |
| | Mark-up accrued on bank deposits | (91,497) | (269,970) |
| | Provision for infrastructure cess | 204,394 | 200,518 |
| | | 1,455,182 | 1,511,082 |
| | | 1,107,016 | 1,269,063 |
| | **Effect on cashflows due to working capital changes** | | |
| | Decrease / (increase) in current assets | | |
| | Stores and spares | (66,745) | (33,280) |
| | Stock-in-trade | 1,507,246 | 188,488 |
| | Trade debts | 520,031 | (157,116) |
| | Loans and advances | 8,152 | 7,807 |
| | Trade deposits and short-term prepayments | (1,929) | 66,994 |
| | Other receivables and tax refunds | 263,834 | (282,675) |
| | | 2,230,589 | (209,782) |
| | (Decrease) / increase in trade and other payables | (655,849) | 172,096 |
| | Cash generated from operations | 2,681,756 | 1,231,377 |

| | 2013 | Amount in Rs '000 (Re-stated) 2012 |
|---|---|---|
| **36. EARNINGS PER SHARE - basic and diluted** | | |
| Loss for the year after tax | (546,102) | (180,924) |
| | Number of shares | |
| Weighted average ordinary shares in issue during the year | 1,514,207,208 | 1,514,207,208 |
| Earnings per share (in Rupees) | (0.36) | (0.12) |

There is no dilutive effect on the basic earnings per share of the Company.

## 37. REMUNERATION OF DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the financial statements for remuneration, including all benefits, to the Chief Executive, Directors and Executives of the Company were as follows:

| | Chief Executive | | Executive Directors | | Executives | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Managerial remuneration | 15,636 | 14,552 | 13,547 | 11,322 | 177,598 | 169,777 |
| Retirement benefits | 5,520 | 7,150 | - | - | 45,881 | 48,305 |
| Group insurance | 54 | 64 | - | - | 865 | 997 |
| Rent and house maintenance | 300 | 455 | 3,924 | 3,380 | 58,002 | 55,676 |
| Utilities | - | - | - | - | 12,612 | 11,974 |
| Medical expenses | 88 | 168 | 58 | 225 | 10,276 | 9,868 |
| | 21,598 | 22,389 | 17,529 | 14,927 | 305,234 | 296,597 |
| Number of persons | 1 | 1 | 2 | 2 | 119 | 119 |

37.1 In addition to the above, amount charged in the financial statements for remuneration and fee to the non-executive directors, were Rs 0.6 million (2012: Rs 0.6 million) and Rs 0.045 million (2012: Rs 0.075 million) respectively.

37.2 An amount of Rs 34.60 million (2012: Rs 57.04 million) on account of variable pay has been recognised in the financial statements. This amount is payable in 2014 after verification of target achievements.

Out of variable pay recognised for 2012, following payments were made:

| | Paid in 2013 relating to 2012 | Paid in 2012 relating to 2011 |
|---|---|---|
| Chief Executive | 3,006 | 5,722 |
| Executives | 37,257 | 68,237 |
| Other employees | 4,480 | 7,713 |
| | 44,743 | 81,672 |

37.3 The Chief Executive, Executive Directors and certain Executives are provided with free use of Company maintained cars in accordance with their entitlements.

38. TRANSACTIONS WITH RELATED PARTIES

38.1 The related parties comprise parent company, related group companies, directors of the Company, companies where directors also hold directorships, key management personnel and staff retirement funds. Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

Amount in Rs '000

| Relationship | Nature of transaction | 2013 | 2012 |
|---|---|---|---|
| Parent company | Repayment of loan | - | 1,878,950 |
| | Payment of interest on loan | - | 23,696 |
| | Purchase of goods | 1,496,404 | 343,986 |
| | Purchase of services | - | 4,071 |
| | Amount payable | - | 346,486 |
| Subsidiary company | Purchase of shares against transfer of asset | - | 4,153,078 |
| | Purchase of shares against cash | - | 346,922 |
| | Purchase of electricity and steam energy | 2,418,192 | 1,304,407 |
| | Transfer of spares | 73,953 | 16,661 |
| | Fee for providing of services to Subsidiary company | 16,800 | 8,400 |
| Associates | Purchase of services | - | 33 |
| Key management personnel | Salaries and other short term benefits | 71,551 | 71,457 |
| | Post employment benefit | 11,737 | 13,142 |
| Others | Payment to staff retirement benefit funds | 52,288 | 57,369 |

38.1.1 The plant and machinery of the Subsidiary is situated at the leasehold land of the Company. No amount is charged in this respect by the Company to the Subsidiary.

38.1.2 The Company has agreement with the Subsidiary for purchase of electricity and steam energy. The tariffs are determined in light of guidelines of National Electric Power Regulatory Authority Licensing (Generation) Rules, 2000. The Company has another agreement for certain technical and administrative services rendered by the Company to its subsidiary under a service level agreement. Further, various expenses incurred on behalf of the Subsidiary are reimbursed to the Company on monthly basis.

38.1.3 The related party status of outstanding balances as at 31 December 2013 is included in long term loan from subsidiary, other receivables, trade and other payables and interest accrued respectively. These are settled in ordinary course of business.

## 39. CAPACITY AND PRODUCTION - in metric tonnes

| | 2013 | 2012 |
|---|---|---|
| Annual name plate capacity | 506,750 | 506,750 |
| Production | 480,369 | 480,941 |

The current Production is based on 95% Plant availability. This was mainly due to a 22 days outage during the year due to overhauling of the plant which is carried out periodically. Last year there was a temporary shutdown of a supplier manufacturing facility.

## 40. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency interest rate and price risks). The Company's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

### 40.1 Risk management framework

The Board of Directors has overall responsibility for the establishment and over sight of the Company's risk management framework. The executive management team is responsible for developing and monitoring the Company's risk management policies. The team regularly meets and any changes and compliance issues are reported to the Board of Directors through the audit committee.

Risk management systems are reviewed regularly by the executive management team to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The audit committee oversees compliance by management with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Financial assets and liabilities by category and their respective maturities

Amount in Rs '000

| | Interest bearing | | | Non-interest bearing | | | Total |
|---|---|---|---|---|---|---|---|
| | Maturity up to one year | Maturity after one year | Total | Maturity up to one year | Maturity after one year | Total | |
| **Financial assets** | | | | | | | |
| **Loans and receivables** | | | | | | | |
| Loans and advances | - | - | - | 24,644 | 41,297 | 65,941 | 65,941 |
| Deposits | - | 24,272 | 24,272 | 27,721 | 16,252 | 43,973 | 68,245 |
| Trade debts | - | - | - | 2,780,329 | - | 2,780,329 | 2,780,329 |
| Mark-up accrued on bank deposits | - | - | - | 4,940 | - | 4,940 | 4,940 |
| Other receivables | - | - | - | 86,333 | - | 86,333 | 86,333 |
| Cash and bank balances | 2,401,350 | - | 2,401,350 | 25,389 | - | 25,389 | 2,426,739 |
| 31 December 2013 | 2,401,350 | 24,272 | 2,425,622 | 2,949,356 | 57,549 | 3,006,905 | 5,432,527 |
| 31 December 2012 (Re-stated) | 171,950 | 24,272 | 196,222 | 3,543,388 | 63,209 | 3,606,597 | 3,802,819 |
| **Financial liabilities** | | | | | | | |
| **At amortised cost** | | | | | | | |
| Trade and other payables | - | - | - | 7,433,139 | - | 7,433,139 | 7,433,139 |
| Long-term loan | - | 400,000 | 400,000 | - | - | - | 400,000 |
| Interest accrued | - | - | - | 185,307 | - | 185,307 | 185,307 |
| 31 December 2013 | - | 400,000 | 400,000 | 7,618,446 | - | 7,618,446 | 8,018,446 |
| 31 December 2012 | 42,659 | - | 42,659 | 8,002,315 | - | 8,002,315 | 8,044,974 |
| **On balance sheet date gap** | | | | | | | |
| 31 December 2013 | 2,401,350 | (375,728) | 2,025,622 | (4,669,090) | 57,549 | (4,611,541) | (2,585,919) |
| 31 December 2012 (Re-stated) | 129,291 | 24,272 | 153,563 | (4,458,927) | 63,209 | (4,395,718) | 4,242,155) |
| **OFF BALANCE SHEET ITEMS** | | | | | | | |
| Letter of credits / guarantees | | | | | | | 1,435,092 |
| Operating lease liability | | | | | | | 2,428,518 |
| 31 December 2012 | | | | | | | 3,911,475 |

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

## 40.2 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers and deposits with banks.

### Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To reduce exposure to credit risk, substantially all the sales are made against letters of credit. Approximately 34 percent (2012: 28 percent) of the Company's revenue is attributable to sales transactions with a single customer. However, geographically there is no concentration of credit risk.

The Board has established a credit policy under which each new customer is analysed individually for credit worthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available. The customers associated with the Company for four years have contributed more than 95% of the revenue and losses have occurred infrequently.

The maximum exposure to credit risk as at 31 December was:

Amount in Rs '000

| | 2013 | (Restated) 2012 |
|---|---|---|
| Financial assets | | |
| Loans and advances | 86,339 | 98,267 |
| Deposits | 68,245 | 92,476 |
| Trade debts | 2,780,329 | 3,300,360 |
| Mark-up accrued on bank deposits | 4,940 | 42 |
| Other receivables | 86,333 | 105,027 |
| Bank balances | 2,418,621 | 216,388 |
| | 5,444,807 | 3,812,560 |
| Secured | 2,780,329 | 3,300,360 |
| Unsecured | 2,664,478 | 512,200 |
| | 5,444,807 | 3,812,560 |
| Not past due | 5,444,807 | 3,812,560 |

The maximum exposure to credit risk for trade debts as at 31 December by geographic region was:

| | | |
|---|---|---|
| Domestic | 2,780,329 | 3,300,360 |

The Company has placed its funds with banks which are rated AA or above by PACRA/ JCR VIS.

40.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the maturity date.

Amount in Rs '000

| | 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | Less than one year | 1-2 years | 2-3 years | 3-5 years |
| Financial Liabilities | | | | | | |
| Long-term loan from subsidiary | 400,000 | - | - | - | - | 400,000 |
| Trade and other payables | 7,433,139 | 7,433,139 | 7,433,139 | - | - | - |
| Interest accrued | 185,307 | 185,307 | 185,307 | - | - | - |
| Off balance sheet | | | | | | |
| Operating lease liabilities | - | 2,428,518 | - | 1,225,850 | 625,111 | 577,557 |
| | 8,018,446 | 10,046,964 | 7,618,446 | 1,225,850 | 625,111 | 977,557 |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

The Company manages liquidity risk by maintaining sufficient cash in bank accounts. At 31 December 2013, the Company had financial assets of Rs 5.45 billion (2012: Rs 3.81 billion), which include Rs 2.42 billion (2012: Rs 0.22 billion) of cash placed in bank accounts.

40.4 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market price. Market risk comprises of three types of risks: currency risk, interest rate risk and other price risk.

40.4.1 Currency risk

Currency risk arises mainly where receivables and payables exist due to transactions based on currencies other than Pakistan Rupees. The Company is exposed to currency risk on receivables, payables and borrowings that are in a currency other than Pakistan Rupees.

The currency exposure in Pakistan Rupees at the year end was as follows:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | GBP | Euro | US$ | GBP | Euro | US$ |
| | -----Equivalent Rs '000----- | | | | | |
| **Financial liabilities** | | | | | | |
| Trade payables | (1,225) | (1,128,252) | (2,332,337) | (6,809) | (6,098) | (5,165,621) |
| Liability against assets subject to finance lease | - | - | - | (42,659) | - | - |
| | (1,225) | (1,128,252) | (2,332,337) | (49,468) | (6,098) | (5,165,621) |
| Operating lease liability (off balance sheet) | - | - | (2,368,175) | (44,492) | - | (2,864,446) |

Significant exchange rates applied during the year were as follows:

| | Average rate for the year | | Spot rate as at 31 December | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | Rupees | | Rupees | |
| US Dollar | 101.8 | 93.5 | 105.8 | 97.3 |
| Great Britain Pound Sterling | 160.1 | 149.5 | 174.4 | 157.1 |
| Euro | 136.2 | 121.3 | 145.9 | 128.3 |

**Sensitivity analysis**

Every 1% increase or decrease in exchange rate, with all other variables held constant, will decrease or increase loss before tax for the year by Rs 34.62 million (2012: Rs 52.09 million).

### 40.4.2 Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

Amount in Rs '000

| | Carrying amount | |
|---|---|---|
| | 2013 | 2012 |
| **Fixed rate instruments** | | |
| Financial assets | 2,425,622 | 196,222 |
| **Variable rate instruments** | | |
| Financial liabilities | 400,000 | 42,659 |

Sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through the profit and loss account. Therefore a change in interest rates at the reporting date would not affect materially profit or loss for the year.

Sensitivity analysis for variable rate instruments

If KIBOR had been 10% higher / lower with all other variables held constant, the impact on the loss after tax for the year would not have been material.

40.4.3 Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the fund issuing that financial instruments, or its management company.

## 41. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an optimal structure to reduce the cost of capital.

The gearing ratio as at 31 December 2013 and 2012 are as follows:

| | Amount in Rs '000 | |
|---|---|---|
| | | (Re-stated) |
| | 2013 | 2012 |
| Debt | 400,000 | - |
| Equity | 11,577,259 | 12,120,553 |
| Total equity and debt | 11,977,259 | 12,120,553 |
| Gearing ratio | 3% | - |

## 42. PROVIDENT FUND RELATED DISCLOSURES

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

| | 2013 | 2012 |
|---|---|---|
| Size of the fund - Total assets | 284,872 | 264,701 |
| Percentage of investments made | 96% | 92% |
| Fair value of investments | 272,997 | 244,025 |

The cost of above investments amounted to Rs 242.02 million (2012: Rs 199.32 million).

The break-up of fair value of investments is as follows:

| | 2013 | 2012 | 2013 | 2012 |
|---|---|---|---|---|
| | Percentage | | Rupees '000 | |
| Shares in listed companies | 15.1% | 19.6% | 41,206 | 47,772 |
| Bank deposits | 2.1% | 2.3% | 5,617 | 5,688 |
| Government securities | 82.8% | 74.4% | 226,174 | 181,495 |
| Debt securities | - | 3.7% | - | 9,069 |

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

## 43. NUMBER OF EMPLOYEES

| | 2013 | 2012 |
|---|---|---|
| Number of employees at 31 December | 228 | 227 |
| Average number of employees during the year | 226 | 231 |

## 44. GENERAL

Figures have been rounded-off to the nearest thousand rupees except as stated otherwise.

## 45. CORRESPONDING FIGURES

Corresponding figures have been re-arranged wherever necessary for purposes of better presentation as follows:

| Reclassification from component | Reclassification to component | Amount in Rs '000 |
|---|---|---|
| Finance income<br>- Return on bank deposits | Other income<br>- Return on bank deposits | 269,970 |
| Finance costs<br>- Interest on long term loan from parent company | Finance costs<br>- Exchange loss - net | 10,926 |

## 46. DATE OF AUTHORISATION

These financial statements were authorised for issue in the Board of Directors meeting held on 28 January 2014.

Kimchanggyou
Changgyou Kim
Chairman

M Asif Saad
Chief Executive

# Consolidated Financial Statements

# Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of **Lotte Chemical Pakistan Limited** [formerly Lotte Pakistan PTA Limited] **(the Holding Company) and its subsidiary company Lotte Powergen (Private) Limited** as at 31 December 2013 and the related consolidated Profit and Loss Account, consolidated Statement of Comprehensive Income, consolidated Cash Flow Statement and consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of Lotte Chemical Pakistan Limited and its subsidiary company. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these 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 Lotte Chemical Pakistan Limited and its subsidiary company as at 31 December 2013 and the results of their operations for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

**A. F. Ferguson & Co.,**
Chartered Accountants
Karachi

Dated: 17 February 2014

Name of Engagement Partner: Farrukh Rehman

# Consolidated Balance Sheet
## As at 31 December 2013

Amount in Rs '000

| | Note | 2013 | (Re-stated) 2012 | (Re-stated) 2011 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| Fixed assets | 5 | 8,713,584 | 10,065,769 | 9,852,587 |
| Long-term loans and advances | 6 | 41,297 | 46,957 | 46,937 |
| Long-term deposits and prepayments | 7 | 64,011 | 79,247 | 100,212 |
| | | 8,818,892 | 10,191,973 | 9,999,736 |
| **CURRENT ASSETS** | | | | |
| Stores and spares | 8 | 840,720 | 732,735 | 694,745 |
| Stock-in-trade | 9 | 2,961,089 | 4,440,877 | 4,669,004 |
| Trade debts | 10 | 2,780,329 | 3,300,360 | 3,143,244 |
| Loans and advances | 11 | 24,644 | 32,796 | 40,603 |
| Trade deposits and short-term prepayments | 12 | 94,333 | 92,404 | 159,398 |
| Mark-up accrued on bank deposits | | 7,020 | 186 | 12,831 |
| Other receivables | 13 | 33,846 | 91,575 | 195,625 |
| Tax refunds due from government - sales tax | 14 | 398,784 | 625,656 | 288,872 |
| Taxation - payments less provision | | 868,491 | 670,290 | 177,264 |
| Cash and bank balances | 15 | 3,068,673 | 879,990 | 4,505,251 |
| | | 11,077,929 | 10,866,869 | 13,886,837 |
| **TOTAL ASSETS** | | 19,896,821 | 21,058,842 | 23,886,573 |

Amount in Rs '000

| | Note | 2013 | (Re-stated) 2012 | (Re-stated) 2011 |
|---|---|---|---|---|
| **EQUITY** | | | | |
| **SHARE CAPITAL AND RESERVES** | | | | |
| Share capital | 16 | 15,142,072 | 15,142,072 | 15,142,072 |
| Capital reserves | 17 | 2,345 | 2,345 | 2,345 |
| Accumulated losses | | (3,334,528) | (2,839,352) | (2,100,448) |
| | | 11,809,889 | 12,305,065 | 13,043,969 |
| **LIABILITIES** | | | | |
| **NON-CURRENT LIABILITIES** | | | | |
| Liability against assets subject to finance lease | | - | - | 38,039 |
| Deferred tax | 19 | 389,877 | 762,789 | 1,123,353 |
| Retirement benefit obligation | 20 | 45,002 | 43,668 | 65,016 |
| | | 434,879 | 806,457 | 1,226,408 |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | 21 | 7,490,992 | 7,756,976 | 7,479,634 |
| Current maturity of long-term loans | | - | - | 1,801,150 |
| Interest accrued | 22 | 161,061 | 147,685 | 140,074 |
| Short-term financing | 23 | - | - | - |
| Current portion of liability against assets subject to finance lease | 18 | - | 42,659 | 195,338 |
| | | 7,652,053 | 7,947,320 | 9,616,196 |
| **TOTAL LIABILITIES** | | 8,086,932 | 8,753,777 | 10,842,604 |
| Contingencies and commitments | 24 | | | |
| **TOTAL EQUITY AND LIABILITIES** | | 19,896,821 | 21,058,842 | 23,886,573 |

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

Kimchanggyou
Changgyou Kim
Chairman

M Asif Saad
Chief Executive

# Consolidated Profit and Loss Account
For the year ended 31 December 2013

Amount in Rs '000

| | Note | 2013 | (Re-stated) 2012 |
|---|---|---|---|
| Revenue | 25 | 57,069,684 | 52,823,257 |
| Cost of sales | 26 | (56,920,556) | (52,614,280) |
| Gross profit | | 149,128 | 208,977 |
| Distribution and selling expenses | 27 | (120,104) | (132,191) |
| Administrative expenses | 28 | (331,932) | (303,595) |
| Other expenses | 29 | (93,816) | (46,500) |
| Other income | 30 | 180,340 | 361,856 |
| Finance costs | 31 | (83,664) | (146,054) |
| Loss before taxation | | (300,048) | (57,507) |
| Taxation | 32 | (197,936) | 61,095 |
| (Loss) / profit after taxation | | (497,984) | 3,588 |
| Earnings per share - basic and diluted (in Rupees) | 34 | (0.33) | 0.0024 |

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

Kimchanggyou
Changgyou Kim
Chairman

M Asif Saad
Chief Executive

# Consolidated Statement of Comprehensive Income
For the year ended 31 December 2013

Amount in Rs '000

| | Note | 2013 | (Re-stated) 2012 |
|---|---|---|---|
| **(Loss) / profit after taxation** | | (497,984) | 3,588 |
| **Other comprehensive income:** | | | |
| Items that will not be reclassified to Profit or Loss | | | |
| Remeasurements of post employment benefit obligations | 20 | 4,148 | 21,891 |
| Impact of deferred tax | | (1,340) | (7,279) |
| | | 2,808 | 14,612 |
| Items that may be subsequently reclassified to Profit or Loss | | - | - |
| **Total comprehensive (loss) / income for the year** | | (495,176) | 18,200 |

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

Kimchanggyou
Changgyou Kim
Chairman

M Asif Saad
Chief Executive

# Consolidated Cash Flow Statement

For the year ended 31 December 2013

Amount in Rs '000

| | Note | 2013 | (Re-stated) 2012 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 33 | 3,022,272 | 1,520,297 |
| Long-term loans and advances - net | | 5,660 | (20) |
| Long-term deposits and prepayments - net | | 15,236 | 20,965 |
| Finance costs paid | | (38,842) | (75,789) |
| Payments to staff retirement benefit scheme | | (16,510) | (23,623) |
| Taxes paid | | (770,389) | (799,774) |
| Mark-up received from bank deposits | | 121,750 | 303,886 |
| Net cash generated from operating activities | | 2,339,177 | 945,942 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for capital expenditure | | (150,371) | (1,720,529) |
| Net cash used in investing activities | | (150,371) | (1,720,529) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Payments for liability against assets subject to finance lease | | - | (217,002) |
| Repayment of long term loan | | - | (1,878,950) |
| Dividend paid | | (123) | (754,722) |
| Net cash used in financing activities | | (123) | (2,850,674) |
| Net increase / (decrease) in cash and cash equivalents | | 2,188,683 | (3,625,261) |
| Cash and cash equivalents at the beginning of the year | | 879,990 | 4,505,251 |
| **Cash and cash equivalents at the end of the year** | | 3,068,673 | 879,990 |

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

Kimchanggyou

Changgyou Kim
Chairman

M Asif Saad
Chief Executive

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

Amount in Rs '000

| | Issued, subscribed and paid-up capital | Capital reserves | Accumulated loss | Total equity |
|---|---|---|---|---|
| Balance as at 1 January 2012 as previously reported | 15,142,072 | 2,345 | (2,061,717) | 13,082,700 |
| Effect of change in accounting policy with respect to accounting for recognition of actuarial losses on defined benefit plan - net of - tax - note 4 | - | - | (38,731) | (38,731) |
| Balance as at 1 January 2012 - restated | 15,142,072 | 2,345 | (2,100,448) | 13,043,969 |
| Final cash dividend for the year ended 31 December 2011 @ Rs 0.5 per share | - | - | (757,104) | (757,104) |
| Total comprehensive income for the year ended 31 December 2012 | | | | |
| - Profit for the year ended 31 December 2012 | - | - | 3,588 | 3,588 |
| - Other comprehensive income for the year ended 31 December 2012 | - | - | 14,612 | 14,612 |
| | - | - | 18,200 | 18,200 |
| **Balance as at 1 January 2013 - restated** | 15,142,072 | 2,345 | (2,839,352) | 12,305,065 |
| Total comprehensive loss for the year ended 31 December 2013 | | | | |
| - Loss for the year ended 31 December 2013 | - | - | (497,984) | (497,984) |
| - Other comprehensive Income for the year ended 31 December 2013 | - | - | 2,808 | 2,808 |
| | - | - | (495,176) | (495,176) |
| **Balance as at 31 December 2013** | 15,142,072 | 2,345 | (3,334,528) | 11,809,889 |

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

Kimchanggyou

Changgyou Kim
Chairman

M Asif Saad
Chief Executive

1. STATUS AND NATURE OF BUSINESS

The Group consists of:

i) Lotte Chemical Pakistan Limited (formerly Lotte Pakistan PTA Limited) (the Company)

ii) Lotte Powergen (Private) Limited (the Subsidiary)

The Subsidiary is a wholly owned subsidiary of the Company. The Parent company of the Group is Lotte Chemical Corporation and the ultimate parent company of the Group is South Korean conglomerate Lotte.

The Company is a limited liability company incorporated in Pakistan and is listed on the Karachi, Lahore and Islamabad Stock Exchanges, and is engaged in the manufacture and sale of Pure Terephthalic Acid (PTA).

The Subsidiary is engaged in generation and sale of electricity and steam to the Company. The Subsidiary was incorporated in Pakistan on 29 February 2012. During the year, National Electric Power Regulatory Authority has issued generation license to the Subsidiary on 26 November 2013.

1.1 Basis of consolidation

The consolidated financial statements include the financial statements of Lotte Chemical Pakistan Limited (formerly Lotte Pakistan PTA Limited) and Lotte Powergen (Private) Limited. The financial statements of the Subsidiary have been consolidated on a line by line basis.

All inter-company transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented , except as stated in note 4.

2.1 Basis of preparation

2.1.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984 and provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 (the Ordinance) have been followed.

2.1.2 Changes in accounting standards, interpretations and pronouncements

a) **Standards, interpretations and amendments to published approved accounting standards that are effective and relevant**

The amendments to following standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2013:

Amendment to IAS 1, 'Financial Statement Presentation' regarding other comprehensive income. 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 new amendment is not expected to materially affect the disclosures in the financial statements of the Group.

IAS 19, 'Employee Benefits' was revised in June 2011. The changes on the Group's accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). See note 4 for the impact on the financial statements.

b) **Standards, interpretations and amendments to published approved accounting standards that are effective but not relevant**

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after 1 January 2013 are considered not to be relevant for the Group's financial statements and hence have not been detailed here.

c) **Standards, interpretations and amendments to published approved accounting standards that are not yet effective but relevant**

There are no new standards, amendments to existing approved accounting standards and new interpretations that are not yet effective that would be expected to have a material impact on the financial statements of the Group.

2.2 Overall valuation policy

These financial statements have been prepared under the historical cost convention, except that certain exchange elements have been incorporated in the cost of the relevant operating property, plant and equipment upto 4 July 2004.

2.3 Fixed assets

2.3.1 Property, plant and equipment and depreciation

Operating property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (if any). Cost of certain items of operating property, plant and equipment comprises historical cost, exchange differences referred to in note 2.2 and the cost of borrowings during the construction period in respect of loans taken for the PTA construction project.

Renewals and improvements are included in an asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other expenses are charged to income during the financial period in which they are incurred.

Depreciation charge is based on the straight-line method whereby the cost of an asset is written off to profit and loss account over its estimated useful life, from the date the asset is available for use. The cost of leasehold land is amortised in equal instalments over the lease period.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The residual value, depreciation method and the useful lives of each part of property, plant and equipment that is significant in relation to the total cost of the asset are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposal of assets are taken to the profit and loss account.

### 2.3.2 Intangible assets and amortisation

Intangible assets are stated at cost less accumulated amortisation and impairment, if any. Major computer software licences are capitalised on the basis of cost incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life of five years using the straight-line method. Full month's amortisation is charged in the month of acquisition and no amortisation is charged in the month of disposal.

Costs associated with maintaining computer software programmes are recognised as an expense as and when incurred.

### 2.4 Stores and spares

Stores and spares are stated at the lower of weighted average cost and net realisable value.

### 2.5 Stock-in-trade

Stock-in-trade is valued at the lower of cost and net realisable value. Cost is determined using the weighted average method, except for in transit which comprises invoice value and the direct charges in respect thereof. Manufactured finished goods include prime cost and an appropriate portion of production overheads.

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make the sale.

### 2.6 Trade debts and other receivables

Trade debts are recognised initially at original invoice amount and subsequently measured at amortised cost less provision for impairment, if any.

Other receivables are stated at amortised cost less provision for impairment.

2.7 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, short term fixed deposits having maturity upto three months and current accounts held with commercial banks. Running finance and short term finance facilities availed by the Group, which are payable on demand and form an integral part of the Group's cash management are included as part of cash and cash equivalents for the purpose of statement of cash flows.

2.8 Impairment

2.8.1 Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

The Group considers evidence of impairment for receivables and other financial assets at specific asset levels. Losses are recognised as an expense in the profit and loss account. When a subsequent event causes the amount of impairment loss to decrease, this reduction is reversed through the profit and loss account.

2.8.2 Non-financial assets

The carrying amounts of non-financial assets other than inventories and deferred tax asset, are assessed at each reporting date to ascertain whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised as an expense in the profit and loss account for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects current market assessment of the time value of money and the risk specific to the assets. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

2.9 Trade and other payables

Trade and other payables, excluding provisions are carried at the fair value of the consideration to be paid for goods and services.

2.10 Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of that can be made.

### 2.11 Offsetting

Monetary assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set-off the recognised amounts and the Group intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously.

### 2.12 Lease payments

Payments made under operating leases / Ijarah contracts are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

At the inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

### 2.13 Staff retirement benefits

#### 2.13.1 Defined benefit plans

The Group operates an approved funded defined benefit gratuity scheme for all permanent employees. Minimum qualifying period for entitlement to gratuity is five years continuous service with the Group.

The Group also has an approved funded defined benefit pension scheme for all management staff who joined the Group before 1 May 2004.

The Group also has an unfunded medical scheme to provide post retirement medical benefits to members of its pension fund.

Contributions to all schemes are made periodically on the basis of recommendations of the actuary and in line with the provisions of the Income Tax Ordinance, 2001.

The liability recognised in the balance sheet in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income.

### 2.13.2 Defined contribution plans

The Group operates a provident fund scheme for all its permanent employees. Equal monthly contributions are made to the fund, both by the Group and the employees at the rate of 10 percent of basic salary and cost of living allowance wherever applicable. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group also operates a defined contribution superannuation fund for its management staff who joined the Group on or after 1 May 2004 and for those who opted out of the defined benefit pension scheme. Contributions are made at the rate of 10.6 percent of basic salary of the members of the fund.

### 2.14 Dividend

Dividend distribution to the Group's shareholders is recognised as a liability in the period in which the dividend is approved.

### 2.15 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

### 2.15.1 Current

Provision for current taxation is based on taxable income / turnover at the enacted or substantively enacted rates of taxation after taking into account available tax credits and rebates, if any. The charge for current tax includes adjustments to charge for prior years, if any.

2.15.2 Deferred

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit at the time of the transaction. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 2.16 Foreign currency transactions

Transactions denominated in foreign currencies are translated to Pakistan Rupees at the exchange rate ruling at the date of transaction.

Monetary assets and liabilities in foreign currencies at balance sheet date are translated into Pakistan Rupees at exchange rates ruling on that date. 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 recognised in the income statement.

In respect of foreign currency loans obtained for acquisition of operating property, plant and equipment, the exchange differences on principal amount upto 4 July 2004 were included in the cost of relevant operating property, plant and equipment. All exchange differences, effective 5 July 2004, are taken to the profit and loss account, due to amendments in the Fourth Schedule to the Ordinance.

## 2.17 Revenue recognition

Revenue from the sale of goods is recognised on despatch of goods i.e. when the significant risks and rewards of ownership are transferred to the customer.

## 2.18 Interest income

Profit on funds invested is recognised as it accrues in the profit and loss account, using the effective interest method.

## 2.19 Borrowings and their cost

Borrowings are recognised initially at fair value, net of transaction cost incurred. Borrowing costs are recognised as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalised as part of the cost of that asset.

### 2.20 Earnings per share

The Group presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

### 2.21 Functional and presentation currency

These financial statements are presented in Pakistan Rupees which is the functional currency of the Group and figures are rounded off to the nearest thousands of Rupees.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

### 3.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The 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 addressed below.

### 3.1.1 Income taxes

In making the estimates for income taxes, the Group takes into account the current income tax law and decisions taken by appellate authorities on certain issues in the past. There may be various matters where the Group's view differs with the view taken by the income tax department at the assessment stage and where the Group considers that its view on items of a material nature is in accordance with the law. The difference between the potential and actual tax charge, if any, is disclosed as a contingent liability.

The deemed assessment order of the Group for the Tax Year 2003 was rectified by the tax department in 2008 without any cause and basis, allowing tax losses brought forward relating to the pre de-merger period. This treatment was apparently made as a consequence of the action undertaken to effect the amendment of assessment for the Tax Year 2003 in the case of ICI Pakistan Limited. In that case the tax department had taken certain actions in the order, considered by the department as "protective assessment", on the matter of unabsorbed depreciation carried forward by ICI Pakistan Limited relating to assets of the PTA business as of the date of de-merger. The Group's position under the tax law is that such depreciation should be allowed to ICI Pakistan Limited and a writ petition was, therefore, filed jointly with ICI Pakistan Limited in the High Court of Sindh challenging this rectification. The honourable High Court of Sindh vide its order dated 31 January 2009, directed the tax department that no further action shall be taken until the next date of hearing. The matter is still pending.

Recently in the case of that company, the availability of the said depreciation loss from the year 2001-2002 has attained finality after the decision of the Appellate Tribunal Inland Revenue. However, the matter is still pending as the department has preferred appeal.

In 2008 while issuing the rectification order for the Tax Year 2003, the Taxation Officer had erroneously disallowed the loss brought forward of Rs 2.6 billion for which a rectification application and corresponding appeal was filed with the Additional Commissioner of Income Tax and CIT (Appeals) respectively. During 2011, the Commissioner (Appeals) disposed off the Group's appeal via order No. 156 dated 14 March 2011 and allowed the said loss while maintaining certain disallowances against which corresponding appeals were filed with the Appellate Tribunal Inland Revenue [ATIR]. In its order passed on 14 September 2011, ATIR referred back the matter of disallowance of such loss against which rectification appeal was filed on 13 October 2011. The issue is still pending in appeal.

3.1.2 Defined benefit plans

The Group has adopted certain actuarial assumptions as disclosed in note 20 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets, based on actuarial advice.

3.2 No critical judgement has been used in applying the accounting policies.

## 4. CHANGE IN ACCOUNTING POLICY

IAS 19 (revised) - 'Employee Benefits' effective for annual periods beginning on or after 1 January 2013 amends the accounting for employee benefits. The standard requires immediate recognition of past service cost and also 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.

Further, a new term "remeasurements" has been introduced. This is made up of actuarial gains and losses, the difference between actual investment returns and the return implied by the net interest cost. The standard requires "remeasurements" to be recognised in the Balance Sheet immediately, with a charge or credit to Other Comprehensive Income in the periods in which they occur.

Following the application of IAS 19 (revised), the Group's policy for Staff Retirement Benefits - Defined Benefit Plans stands amended as follows:

- The amount arising as a result of remeasurements are recognised in the Balance Sheet immediately, with a charge or credit to Other Comprehensive Income in the periods in which they occur.

- The change in accounting policy has been accounted for retrospectively in accordance with the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and comparative figures have been restated.

The Group's financial statements are affected by the 'remeasurements' relating to prior years. The effects have been summarised below:

Amount in Rs '000

| | 2012 | 2011 |
|---|---|---|
| | Rupees '000 | |
| **Impact on Balance Sheet** | | |
| Increase in deferred liability | 16,125 | 44,229 |
| Decrease in other receivables | 15,839 | 13,795 |
| Decrease in deferred tax liabilities | 10,638 | 19,293 |
| Increase in accumulated losses | 21,326 | 38,731 |
| **Impact on Statement of Changes in Equity** | | |
| Increase in accumulated losses | | |
| Cumulative effect from prior years | - | 34,088 |
| Impact for the year ended | (17,405) | 4,643 |
| **Impact on Profit & Loss** | | |
| Decrease in cost of sales | 2,777 | - |
| Decrease in distribution and selling expenses | 328 | - |
| Decrease in administrative expenses | 1,064 | - |
| Increase in taxation | 1,376 | - |
| **Impact on Other Comprehensive Income** | | |
| Items that will not be reclassified to Profit or Loss | 14,612 | - |

The effect of change in accounting policy, due to adoption of IAS 19 (Revised), on 'earnings per share' is immaterial in the overall context of these financial statements. There is no cash flow impact as a result of the retrospective application of change in accounting policy.

Amount in Rs '000

| | 2013 | 2012 |
|---|---|---|
| **5 FIXED ASSETS** | | |
| Property, plant and equipment | | |
| Operating assets - note 5.1 | 8,702,842 | 9,981,721 |
| Capital work-in-progress - note 5.2 | 9,352 | 82,174 |
| | 8,712,194 | 10,063,895 |
| Intangible assets - note 5.4 | 1,390 | 1,874 |
| | 8,713,584 | 10,065,769 |

## 5.1 Operating assets

The following is a statement of operating property, plant and equipment:

| | Leasehold land | Buildings on leasehold land | Plant and machinery | | Motor vehicles | Furniture and equipment | Total |
|---|---|---|---|---|---|---|---|
| | | | Owned | Held under finance lease | | | |
| **Net carrying value basis** | | | | | | | |
| **Year ended 31 December 2013** | | | | | | | |
| Opening net book value (NBV) | 50,494 | 165,599 | 9,674,232 | 4,395 | 6,382 | 80,619 | 9,981,721 |
| Additions (at cost) | - | 627 | 216,537 | - | 868 | 5,125 | 223,157 |
| Disposals (at NBV) | - | - | - | - | - | (106) | (106) |
| Depreciation charge | (1,422) | (24,675) | (1,446,519) | (4,395) | (4,868) | (20,051) | (1,501,930) |
| Closing net book value (NBV) | 49,072 | 141,551 | 8,444,250 | - | 2,382 | 65,587 | 8,702,842 |
| **Gross carrying value basis** | | | | | | | |
| **at 31 December 2013** | | | | | | | |
| Cost | 90,278 | 989,836 | 31,032,794 | 395,543 | 57,481 | 183,957 | 32,749,889 |
| Accumulated depreciation | (41,206) | (646,574) | (21,330,430) | (395,543) | (55,099) | (118,370) | (22,587,222) |
| Accumulated impairment losses | - | (201,711) | (1,258,114) | - | - | - | (1,459,825) |
| Net book value (NBV) | 49,072 | 141,551 | 8,444,250 | - | 2,382 | 65,587 | 8,702,842 |
| **Net carrying value basis** | | | | | | | |
| **Year ended 31 December 2012** | | | | | | | |
| Opening net book value (NBV) | 51,916 | 186,004 | 6,805,141 | 30,765 | 11,785 | 48,643 | 7,134,254 |
| Additions (at cost) | - | 3,347 | 4,296,188 | - | - | 54,820 | 4,354,355 |
| Disposals (at NBV) | - | - | (3,432) | - | - | (208) | (3,640) |
| Depreciation charge | (1,422) | (23,752) | (1,423,665) | (26,370) | (5,403) | (22,636) | (1,503,248) |
| Closing net book value (NBV) | 50,494 | 165,599 | 9,674,232 | 4,395 | 6,382 | 80,619 | 9,981,721 |
| **Gross carrying value basis** | | | | | | | |
| **at 31 December 2012** | | | | | | | |
| Cost | 90,278 | 989,209 | 30,816,258 | 395,543 | 56,613 | 250,441 | 32,598,342 |
| Accumulated depreciation | (39,784) | (621,899) | (19,883,912) | (391,148) | (50,231) | (169,822) | (21,156,796) |
| Accumulated impairment losses | - | (201,711) | (1,258,114) | - | - | - | (1,459,825) |
| Net book value (NBV) | 50,494 | 165,599 | 9,674,232 | 4,395 | 6,382 | 80,619 | 9,981,721 |
| Depreciation rate % per annum | 2 | 5 | 5 - 20 | 6.67 | 25 | 10-33 | |

Amount in Rs '000

| | | 2013 | 2012 |
|---|---|---|---|
| 5.2 | **Capital work-in-progress** | | |
| | Civil works and buildings | 1,599 | - |
| | Plant and machinery | 679 | 81,489 |
| | Miscellaneous equipments | 7,074 | 685 |
| | | 9,352 | 82,174 |
| 5.3 | **Capital work-in-progress - movement** | | |
| | Opening balance | 82,174 | 2,717,177 |
| | Capital expenditure | 143,862 | 1,717,595 |
| | Transferred to operating property, plant and equipment | (216,684) | (4,352,598) |
| | Closing balance | 9,352 | 82,174 |
| 5.4 | INTANGIBLE ASSETS | | |
| 5.4.1 | **Net carrying value basis** | | |
| | Opening net book value | 1,874 | 1,156 |
| | Additions during the year | 36 | 1,177 |
| | Amortisation charge | (520) | (459) |
| | Closing net book value | 1,390 | 1,874 |
| 5.4.2 | **Gross carrying value basis** | | |
| | Cost | 214,102 | 214,066 |
| | Accumulated amortisation | (212,712) | (212,192) |
| | Net book value | 1,390 | 1,874 |

5.5 Following assets, having net book value exceeding Rs 50,000 were retired during the year.

| Description | 2013 Cost | Accumulated depreciation | Net book value | Sales proceeds | Particulars of buyers / others |
|---|---|---|---|---|---|
| Furniture and equipment | | | | | |
| Dell Latitude Notebook | 114 | 38 | 76 | - | Discarded / Scrapped |

## 6. LONG-TERM LOANS AND ADVANCES - considered good

Amount in Rs '000

| | 2013 | | | | 2012 |
|---|---|---|---|---|---|
| | Motor car | House building assistance | Others | Total | Total |
| Due from executives - note 6.1 | 25,372 | 14,767 | - | 40,139 | 46,560 |
| Less: Receivable within one year - note 11 | (4,891) | (7,695) | - | (12,586) | (13,970) |
| | 20,481 | 7,072 | - | 27,553 | 32,590 |
| Due from employees | 13,703 | 1,346 | 2,957 | 18,006 | 19,335 |
| Less: Receivable within one year - note 11 | (2,618) | (994) | (650) | (4,262) | (4,968) |
| | 11,085 | 352 | 2,307 | 13,744 | 14,367 |
| | 31,566 | 7,424 | 2,307 | 41,297 | 46,957 |

### 6.1 Reconciliation of carrying amount of loans to executives

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Key management personnel | Executives | Total | Key management personnel | Executives | Total |
| Balance at 1 January | 6,009 | 40,551 | 46,560 | 806 | 46,329 | 47,135 |
| Disbursements | - | 19,345 | 19,345 | 6,555 | 13,925 | 20,480 |
| Repayments | (1,311) | (24,455) | (25,766) | (1,352) | (19,703) | (21,055) |
| Balance at 31 December | 4,698 | 35,441 | 40,139 | 6,009 | 40,551 | 46,560 |

6.2 Loans for purchase of motor cars and house building assistance are repayable between two to ten years. All the loans are interest free and are secured, where applicable, against respective assets granted to the employees of the Group in accordance with their terms of employment.

6.3 The maximum aggregate amount of loans and advances due from Executives at the end of any month during the year was Rs 47.51 million (2012: Rs 52.70 million).

## 7. LONG-TERM DEPOSITS AND PREPAYMENTS

| | 2013 | 2012 |
|---|---|---|
| Deposits - note 7.1 | 40,524 | 40,524 |
| Prepayments | 23,487 | 38,723 |
| | 64,011 | 79,247 |

7.1 These include Rs 14.42 million (2012: Rs 14.42 million) paid to Pakistan Steel Mills Corporation for emergency back-up supply of water and Rs 24.27 million (2012: Rs 24.27 million) paid to Karachi Electric Supply Corporation (KESC).

Amount in Rs '000

| | | 2013 | 2012 |
|---|---|---|---|
| 8. | STORES AND SPARES | | |
| | Stores | 30,021 | 23,517 |
| | Spares | 831,559 | 724,964 |
| | | 861,580 | 748,481 |
| | Less: Provision for slow moving, obsolete and rejected items - note 8.1 | (20,860) | (15,746) |
| | | 840,720 | 732,735 |
| 8.1 | **Provision for slow moving, obsolete and rejected items** | | |
| | Provision at 1 January | 15,746 | 10,975 |
| | Charge for the year | 5,114 | 4,771 |
| | | 20,860 | 15,746 |
| | Write-offs | - | - |
| | Provision at 31 December | 20,860 | 15,746 |
| 9. | STOCK-IN-TRADE | | |
| | Raw and packing materials [including in-transit Rs 181 million (2012: Rs 942 million)] | 2,166,141 | 2,802,171 |
| | Finished goods | | |
| | - Manufactured goods | 723,359 | 1,499,015 |
| | - Trading goods [including in-transit Rs Nil (2012: Rs 115.5 million)] | 71,589 | 139,691 |
| | | 794,948 | 1,638,706 |
| | | 2,961,089 | 4,440,877 |

9.1 Raw and packing materials include Rs 1.11 billion (2012: Rs 1.25 billion) held with third party.

10. TRADE DEBTS

10.1 These are secured and considered good.

10.2 All of the Group trade debts are secured by letters of credit issued by various banks.

Amount in Rs '000

| | 2013 | 2012 |
|---|---|---|
| **11. LOANS AND ADVANCES - considered good** | | |
| Loans due from: | | |
| - Executives - note 6 | 12,586 | 13,970 |
| - Employees - note 6 | 4,262 | 4,968 |
| | 16,848 | 18,938 |
| Advances to: | | |
| - Executives | 3,698 | 4,701 |
| - Employees | 1,018 | 1,148 |
| - Contractors and suppliers | 3,080 | 8,009 |
| | 7,796 | 13,858 |
| | 24,644 | 32,796 |

11.1 The maximum aggregate amount of advances due from Executives at the end of any month during the year was Rs 6.16 million (2012: Rs 4.01 million).

12. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS

| | 2013 | 2012 |
|---|---|---|
| Deposits | 9,499 | 4,489 |
| Margin on import letters of credit | 18,222 | 47,463 |
| Short-term prepayments | 66,612 | 40,452 |
| | 94,333 | 92,404 |

| | 2013 | (Re-stated) 2012 | (Re-stated) 2011 |
|---|---|---|---|
| **13. OTHER RECEIVABLES** | | | |
| Rebates receivable - note 13.1 | 20,535 | 62,850 | 180,834 |
| Asset recognised in respect of staff retirement benefit funds - note 20.1 | 807 | 27 | - |
| Insurance claims receivable | 12,029 | 27,112 | 12,828 |
| Others | 475 | 1,586 | 1,963 |
| | 33,846 | 91,575 | 195,625 |

13.1 This represents amounts receivable on account of price and exchange rate differentials in respect of paraxylene and acetic acid settlements.

Amount in Rs '000

| | | 2013 | 2012 |
|---|---|---|---|
| **14.** | **TAX REFUNDS DUE FROM GOVERNMENT - SALES TAX** | | |
| | Sales tax refundable | 492,792 | 719,664 |
| | Provision for doubtful receivables | (94,008) | (94,008) |
| | | 398,784 | 625,656 |

14.1 This includes Rs 301.3 million (31 December 2012: Rs 259 million) on account of input tax arising from sales tax charged to the Group under the Sindh Sales Tax on Services Act, 2011 which is administered by the Sindh Revenue Board with effect from 1 July 2011. This is being deferred due to procedural issues between Federal and Provincial Tax collecting agencies, resulting in lack of verification by the refund issuing authority i.e. the Federal Board of Revenue (FBR). The Group had approached Federal Tax Ombudsman (FTO) for resolution of the matter. The FTO in its order dated 2 May 2013 have directed FBR, with certain recommendations, to resolve the issue. The Group is maintaining close focus with the relevant authorities for early resolution for the same.

| | | 2013 | 2012 |
|---|---|---|---|
| **15.** | **CASH AND BANK BALANCES** | | |
| | Short-term fixed deposits - note 15.1 | 3,043,250 | 826,800 |
| | With banks in current accounts | 17,305 | 44,444 |
| | Cash in hand | 8,118 | 8,746 |
| | | 3,068,673 | 879,990 |

15.1 During the year ended 31 December 2013, the mark-up rates on term deposits ranged from 6.50% to 9.70% (2012: 6.50% to 11.75%) per annum and had maturities of less than three months.

| | | 2013 | 2012 |
|---|---|---|---|
| **16.** | **SHARE CAPITAL** | | |
| 16.1 | Authorised capital 2,000,000,000 ordinary shares of Rs 10 each | 20,000,000 | 20,000,000 |
| 16.2 | 504,735,636 ordinary shares of Rs 10 each fully paid-up issued pursuant to the Scheme for consideration other than cash - note 16.3 | 5,047,356 | 5,047,356 |
| | 1,009,471,572 ordinary shares of Rs 10 each fully paid-up in cash | 10,094,716 | 10,094,716 |
| | | 15,142,072 | 15,142,072 |

16.3 With effect from 1 October 2000 the PTA Business of ICI Pakistan Limited was demerged under a Scheme of Arrangement (Scheme), dated 12 December 2000, approved by the shareholders and sanctioned by the High Court of Sindh.

16.4 At 31 December 2013 and 2012, Lotte Chemical Corporation - South Korea held 1,135,860,105 ordinary shares of Rs 10 each.

## 17. CAPITAL RESERVES

Capital reserves represent the amount received from various overseas companies of AkzoNobel Group (then group Companies), for purchase of fixed assets. The remitting companies have no claim to their repayments.

## 18. LIABILITY AGAINST ASSETS SUBJECT TO FINANCE LEASE - plant and machinery

Amount in Rs '000

| | 31 December 2013 | | | 31 December 2012 | | |
|---|---|---|---|---|---|---|
| | Minimum lease payments | Financial charges for future periods | Principal outstanding | Minimum lease payments | Financial charges for future periods | Principal outstanding |
| Not later than one year | - | - | - | 43,687 | 1,028 | 42,659 |

## 19. DEFERRED TAX

| | 2013 | (Re-stated) 2012 | (Re-stated) 2011 |
|---|---|---|---|
| Credit balance arising in respect of property, plant and equipment | 907,627 | 1,199,074 | 1,432,500 |
| (Debit) balances arising in respect of: | | | |
| - liability against assets subject to finance lease | - | (12,723) | (77,598) |
| - provisions for: | | | |
| • sales tax refundable | (30,365) | (31,258) | (41,174) |
| • staff retirement benefits | (24,406) | (19,796) | (26,205) |
| • slow moving, obsolete and rejected items | (6,738) | (5,236) | (3,649) |
| • unpaid liabilities | (220,791) | (209,307) | (160,521) |
| - carry forward of turnover tax | (157,965) | (157,965) | - |
| - taxable loss | (77,485) | - | - |
| | 389,877 | 762,789 | 1,123,353 |

19.1 Deferred income tax asset is recognised for tax losses available for carry forward to the extent that the related tax benefit available through future taxable profit.

20. RETIREMENT BENEFIT OBLIGATION

20.1 Staff retirement benefits

20.1.1 As stated in note 2.13.1, the Group operates three retirement benefit plans (The Plans) namely approved funded defined benefit gratuity scheme for all permanent employees, approved funded defined benefit pension scheme for all management staff and unfunded medical scheme for members of its pension fund subject to minimum service of prescribed period in the respective trust deed. Actuarial valuation of these plans is carried out every year and the latest actuarial valuation was carried out as at 31 December 2013.

20.1.2 Plan assets held in trust are governed by local regulations which mainly includes Trust Act, 1882, Companies Ordinance, 1984, Income Tax Rules, 2002 and Rules under the Trust deed of the Plans. Responsibility for governance of the Plans, including investment decisions and contribution schedules, lies with the Board of Trustees. The Group appoints the trustees and all trustees are employees of the Group.

20.1.3 The latest actuarial valuation of the Fund as at 31 December 2013 was carried out using the Projected Unit Credit Method. Details of the Fund as per the actuarial valuation are as follows:

Amount in Rs '000

| | 2013 | | | | (Re-stated) 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Funded | | | Unfunded | Funded | | | Unfunded |
| | Pension | Gratuity | Total | Medical | Pension | Gratuity | Total | Medical |
| **20.1.4 Balance sheet reconciliation** | | | | | | | | |
| Present value of defined benefit obligation at 31 December - note 20.1.5 | (62,124) | (161,337) | (223,461) | (38,362) | (55,347) | (154,764) | (210,111) | (36,404) |
| Fair value of plan assets at 31 December - note 20.1.6 | 55,484 | 162,144 | 217,628 | - | 48,083 | 154,791 | 202,874 | - |
| (Deficit) / Surplus | (6,640) | 807 | (5,833) | (38,362) | (7,264) | 27 | (7,237) | (36,404) |
| **20.1.5 Movement in the present value of defined benefit obligation** | | | | | | | | |
| Balances as at 1 January | 55,347 | 154,764 | 210,111 | 36,404 | 48,359 | 130,914 | 179,273 | 31,313 |
| Benefits paid by the plan | - | (17,787) | (17,787) | (325) | (3,507) | (4,847) | (8,354) | (210) |
| Current service costs | 2,882 | 12,010 | 14,892 | 2,226 | 2,639 | 11,524 | 14,163 | 2,215 |
| Interest cost | 6,365 | 16,802 | 23,167 | 4,168 | 6,066 | 16,714 | 22,780 | 4,057 |
| Remeasurement on obligation | (2,470) | (4,452) | (6,922) | (4,111) | 1,790 | 459 | 2,249 | (971) |
| Balance as at 31 December | 62,124 | 161,337 | 223,461 | 38,362 | 55,347 | 154,764 | 210,111 | 36,404 |
| **20.1.6 Movement in the fair value of plan assets** | | | | | | | | |
| Fair value of plan assets at 1 January | 48,083 | 154,791 | 202,874 | - | 34,871 | 110,699 | 145,570 | - |
| Contributions paid into the plan | 3,343 | 12,842 | 16,185 | - | 6,279 | 17,134 | 23,413 | - |
| Benefits paid by the plan | - | (17,787) | (17,787) | - | (3,507) | (4,847) | (8,354) | - |
| Interest income | 5,717 | 17,524 | 23,241 | - | 4,527 | 14,549 | 19,076 | - |
| Remeasurement | (1,659) | (5,226) | (6,885) | - | 5,913 | 17,256 | 23,169 | - |
| Fair value of plan assets at 31 December | 55,484 | 162,144 | 217,628 | - | 48,083 | 154,791 | 202,874 | - |

Amount in Rs '000

| | 2013 | | | | (Re-stated) 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Funded | | | Unfunded | Funded | | | Unfunded |
| | Pension | Gratuity | Total | Medical | Pension | Gratuity | Total | Medical |
| **20.1.7 Expense recognised in profit and loss account** | | | | | | | | |
| Current service costs | 2,882 | 12,010 | 14,892 | 2,226 | 2,639 | 11,524 | 14,163 | 2,215 |
| Net Interest cost | 648 | (722) | (74) | 4,168 | 1,539 | 2,165 | 3,704 | 4,057 |
| Expense recognised in profit and loss account | 3,530 | 11,288 | 14,818 | 6,394 | 4,178 | 13,689 | 17,867 | 6,272 |
| **20.1.8 Remeasurement recognised in Other Comprehensive Income** | | | | | | | | |
| Loss from changes in demographic assumptions | - | - | - | - | (171) | 401 | 230 | (1,424) |
| Experience (gain) / losses | (2,470) | (4,452) | (6,922) | (4,111) | 1,961 | 58 | 2,019 | 453 |
| Remeasurement of fair value of plan assets | 1,659 | 5,226 | 6,885 | - | (5,913) | (17,256) | (23,169) | - |
| Remeasurements | (811) | 774 | (37) | (4,111) | (4,123) | (16,797) | (20,920) | (971) |
| **20.1.9 Net recognised liability / (asset)** | | | | | | | | |
| Net liability at beginning of the year | 7,264 | (27) | 7,237 | 36,404 | 13,488 | 20,215 | 33,703 | 31,313 |
| Charge for the year | 3,530 | 11,288 | 14,818 | 6,394 | 4,178 | 13,689 | 17,867 | 6,272 |
| Contribution made during the year to the Fund | (3,343) | (12,842) | (16,185) | (325) | (6,279) | (17,134) | (23,413) | (210) |
| Remeasurements recognised in Other Comprehensive Income | (811) | 774 | (37) | (4,111) | (4,123) | (16,797) | (20,920) | (971) |
| Recognised liability / (asset) as at 31 December | 6,640 | (807) | 5,833 | 38,362 | 7,264 | (27) | 7,237 | 36,404 |
| **20.1.10 Plan assets comprises of following** | | | | | | | | |
| Government bonds | 33,477 | 79,395 | 112,872 | | 30,426 | 106,934 | 137,360 | |
| Other bonds (TFCs) | - | - | - | | 4,114 | 5,214 | 9,328 | |
| Shares | 8,392 | 24,413 | 32,805 | | 11,268 | 36,306 | 47,574 | |
| Term deposits | 12,094 | 55,655 | 67,749 | | - | 1,533 | 1,533 | |
| Cash at Bank | 1,521 | 2,681 | 4,202 | | 2,275 | 4,804 | 7,079 | |
| Total as at 31 December | 55,484 | 162,144 | 217,628 | | 48,083 | 154,791 | 202,874 | |
| **20.1.11 Actuarial assumptions** | | | | | | | | |
| Discount rate at 31 December | 13.00% | 13.00% | | 13.00% | 11.50% | 11.50% | | 11.50% |
| Future salary increases | 10.75% | 10.75% | | | 9.50% | 9.50% | | |
| Medical cost trend rate | | | | 7.50% | | | | 6.25% |
| Future pension increases | 7.50% | | | | 6.25% | | | |

21.1.12 Mortality was assumed to be 70% of the EFU(61-66) Table.

20.1.13 In case of the funded plans, the Group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the retirement benefit plan. Within this framework, the Group's ALM objective is to match assets to the retirement benefit obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement benefit plan obligations. The Group has not changed the processes used to manage its risks from previous periods. The Group does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in 2013 consists of government bonds and term deposits. The Group believes that government bond offer the best returns over the long term with an acceptable level of risk.

20.1.14 The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

The Group's contribution to the pension and gratuity funds in 2014 is expected to amount to Rs 16.2 million.

The actuary conducts separate valuations for calculating contribution rates and the Group contributes to the pension and gratuity funds according to the actuary's advice. Expense of the defined benefit plan is calculated by the actuary.

Figures in this note are based on the latest actuarial valuation carried out as at 31 December 2013.

## 20.2 Sensitivity analysis for actuarial assumptions

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

Amount in Rs '000

| | Impact on defined benefit obligation | | |
|---|---|---|---|
| | Change in assumption | Increase in assumption | Decrease in assumption |
| Discount rate at 31 December | 1% | (27,418) | 32,054 |
| Future salary increases | 1% | 23,746 | (21,250) |
| Future pension increases | 1% | 735 | (623) |

If longevity increases by 1 year, obligation increases by Rs 88,000.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

A sensitivity analysis was conducted to determine the impact of a 1% change in the medical cost trend, which was not material.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Amount in Rs '000

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| **20.3 Historical information** | | | | | |
| Present value of the defined benefit obligation as at 31 December | 261,823 | 246,515 | 210,586 | 171,312 | 131,655 |
| Fair value of plan assets | 217,628 | 202,874 | 145,570 | 129,673 | 109,724 |
| Deficit in the plan | (44,195) | (43,641) | (65,016) | (41,639) | (21,931) |
| **Experience Adjustments** | | | | | |
| (Gain) / loss on obligation (as percentage of plan obligation) | (4)% | (1)% | (6)% | (7)% | (9)% |
| Gain / (loss) on plan assets (as percentage of plan assets) | (3)% | 11% | 1% | 1% | 17% |

20.4 The expected return on plan assets is based on the market expectations and depends upon the asset portfolio of the Fund, at the beginning of the period, for returns over the entire life of related obligation.

20.5 The Group's contributions towards the provident fund and defined contribution superannuation fund for the year ended 31 December 2013 amounted to Rs 18.83 million (2012: Rs 18.16 million) and Rs 18.31 million (2012: Rs 17.93 million).

20.6 The weighted average duration of the defined benefit obligation is 13 years.

Expected maturity analysis of undiscounted retirement benefit plans.

| At 31 December 2013 | Less than a year | Between 1-2 years | Between 2-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Retirement benefit plans | 4,389 | 6,585 | 35,582 | 158,868 | 205,424 |

Amount in Rs '000

| | | 2013 | 2012 |
|---|---|---|---|
| 21. | TRADE AND OTHER PAYABLES | | |
| | Trade creditors including bills payable | 4,919,508 | 5,332,520 |
| | Accrued expenses | 914,522 | 916,914 |
| | Advances from supplier / customer | 683 | 152,483 |
| | Unclaimed dividend | 12,262 | 12,385 |
| | Provision for infrastructure cess - note 21.1 | 1,453,826 | 1,249,432 |
| | Workers' profit participation fund - note 21.2 | 68,153 | 23,529 |
| | Workers' welfare fund | 29,771 | - |
| | Others | 92,267 | 69,713 |
| | | 7,490,992 | 7,756,976 |

21.1 The Group (along with a number of other parties) is challenging the levy of infrastructure cess on cost and freight value of goods entering the province of Sindh. According to a decision of the High Court, levy of the fee / cess upto December 2006 was declared to be illegal while amounts charged after that date were decreed to be within the law. Appeals were filed in the Supreme Court both by the companies and the Government of Sindh in respect of the aforesaid judgement of the High Court. During the year 2011, the Supreme Court referred the case back to the High Court.

The High Court vide its order dated 2 June 2011 provided for an interim arrangement reached through a joint statement filed with the Court by the counsels of the petitioners and respondent of the case. As per the order, bank guarantees / securities furnished in respect of consignments cleared after 27 December 2006 would be encashed to the extent of 50% and guarantees for the remaining balance would be kept till final disposal of the petitions. Consequently, bank guarantees relating to the period upto 27 December 2006 have been cancelled and returned to the Group.

As per legal advice sought by the Group in respect of the aforementioned case, the High Court may uphold the validity of the law against the Group upon its re-filing since the matter has been referred back to the High Court by the Supreme Court, thereby making the Group liable to pay the levy for all consignments cleared till date. As a matter of abundant caution, full amount of provision has been made in these financial statements in this respect.

| | 2013 | 2012 |
|---|---|---|
| Balance as at 1 January | 1,249,432 | 1,048,914 |
| Charge | 204,394 | 200,518 |
| Balance as at 31 December | 1,453,826 | 1,249,432 |

Amount in Rs '000

| | | 2013 | 2012 |
|---|---|---|---|
| **21.2** | **Reconciliation of workers' profit participation fund** | | |
| | Balance as at 1 January | 23,529 | 334,196 |
| | Provision / allocation for the year - note 29 | 44,624 | 23,529 |
| | Interest on funds utilised - note 31 | - | 3,433 |
| | Amount paid to the fund | - | (337,629) |
| | Balance as at 31 December | 68,153 | 23,529 |
| **22.** | **INTEREST ACCRUED** | | |
| | Long-term loans - note 22.1 | 160,696 | 147,685 |
| | Short-term financing | 365 | - |
| | | 161,061 | 147,685 |

**22.1** This represents interest payable to Mortar Investments International Limited amounting to USD 1.52 million (2012: USD 1.52 million) on long-term loans previously repaid. The amount is still unpaid due to procedural complexities with respect to foreign remittance.

**23. SHORT-TERM FINANCING**

**23.1** The facilities for running finance available from various banks as at 31 December 2013 amounted to Rs 1.68 billion (2012: Rs 1.43 billion). These facilities carry mark-up at rates ranging from 1 month KIBOR plus 1.00 percent per annum to 3 months KIBOR plus 1.75 percent per annum and are secured by joint pari-passu hypothecation charge over all the present and future stock and book debts of the Group.

**23.2** Foreign currency import and export finance facilities available from a local bank as at 31 December 2013 amounted to USD 10.0 million (2012: USD 10.0 million). These facilities are available at interest rates to be negotiated at the time of booking and are secured against trust receipts and / or joint pari-passu hypothecation charge over all the present and future stock and book debts of Group. Total facility was unutilised as at 31 December 2013 and 2012.

**24. CONTINGENCIES AND COMMITMENTS**

**24.1** Commitments in respect of capital expenditure as at 31 December 2013 amount to Rs 16.87 million (2012: Rs 286 million).

Amount in Rs '000

24.2 Commitments for rentals under operating lease agreements / Ijarah contracts in respect of vehicles as at 31 December are as follows:

| Year | 2013 | 2012 |
|---|---|---|
| 2013 | - | 17,806 |
| 2014 | 20,570 | 14,434 |
| 2015 | 19,189 | 10,172 |
| 2016 | 14,215 | 3,850 |
| 2017 | 6,369 | - |
| | 60,343 | 46,262 |

24.3 Commitments for rentals under operating lease agreements for certain supplies in respect of goods and services as at 31 December are as follows:

| Year | 2013 | 2012 |
|---|---|---|
| 2013 | - | 604,199 |
| 2014 | 587,174 | 561,436 |
| 2015 | 598,917 | 572,665 |
| 2016 | 610,896 | 584,118 |
| 2017 | 571,188 | 595,800 |
| | 2,368,175 | 2,918,218 |

24.3.1 Commitments for rentals under operating lease agreements in respect of goods and services are stated at minimum lease payments. These are priced in foreign currency and payable in Pakistan Rupees, converted at exchange rates applicable on the date of payment.

24.4 Outstanding guarantees and letters of credit issued on behalf of the Group as at 31 December 2013 were Rs 1.66 billion (2012: Rs 1.41 billion) and Rs 1.28 billion (2012: Rs 342 million), respectively.

## 25. REVENUE

Amount in Rs '000

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Manufactured goods | Trading goods | Total | Manufactured goods | Trading goods | Total |
| Local sales | 58,314,785 | 998,605 | 59,313,390 | 50,405,677 | 624,095 | 51,029,772 |
| Export sales | 1,900,190 | - | 1,900,190 | 2,033,562 | - | 2,033,562 |
| | 60,214,975 | 998,605 | 61,213,580 | 52,439,239 | 624,095 | 53,063,334 |
| Less: Sales tax and excise duty | (2,044,882) | (43,090) | (2,087,972) | (61) | (7,207) | (7,268) |
| Price settlements and discounts | (2,024,541) | (31,383) | (2,055,924) | (231,477) | (1,332) | (232,809) |
| | 56,145,552 | 924,132 | 57,069,684 | 52,207,701 | 615,556 | 52,823,257 |

25.1 Four (2012: Four) of the Group's customers contributed towards 85% (2012: 84%) of the revenue during the year amounting to Rs 50.52 billion (2012: Rs 44.43 billion) and each customer individually exceeded 10% of the revenue.

## 26. COST OF SALES

| | 2013 | (Re-stated) 2012 |
|---|---|---|
| Raw and packing materials consumed: | | |
| Opening stock | 2,802,171 | 3,334,047 |
| Purchases - note 26.1 | 49,921,141 | 47,393,721 |
| Closing stock | (2,166,141) | (2,802,171) |
| | 50,557,171 | 47,925,597 |
| Salaries, wages and benefits - note 26.2 | 365,101 | 371,202 |
| Stores and spares consumed | 177,523 | 145,390 |
| Lease rentals / Ijarah arrangements | 12,445 | 11,268 |
| Insurance | 91,023 | 104,417 |
| Oil, gas and electricity | 1,939,167 | 1,869,354 |
| Travelling expenses | 68,096 | 62,280 |
| Depreciation and amortisation | 1,502,450 | 1,503,707 |
| Repairs and maintenance - note 26.3 | 507,612 | 183,499 |
| Other expenses | 52,198 | 38,482 |
| Cost of goods manufactured | 55,272,786 | 52,215,196 |
| Opening stock of manufactured goods | 1,499,015 | 1,332,340 |
| | 56,771,801 | 53,547,536 |
| Closing stock of manufactured goods | (723,359) | (1,499,015) |
| | 56,048,442 | 52,048,521 |
| Trading goods | | |
| Opening stock | 139,691 | 2,617 |
| Purchases | 804,012 | 702,833 |
| Closing stock | (71,589) | (139,691) |
| | 872,114 | 565,759 |
| | 56,920,556 | 52,614,280 |

26.1 This includes discount recognised during the year amounting to Rs 188.01 million (2012: Nil) after renewal of a supplier's contract under the terms and their arrangements.

26.2 Salaries, wages and benefits include Rs 12.32 million (2012: Rs 12.60 million) and Rs 25.35 million (2012: Rs 25.03 million) in respect of defined benefit and defined contribution plans respectively.

26.3 Repair and maintenance includes Rs 212 million (2012: Nil) in respect of plant overhaul carried out during the year.

Amount in Rs '000

| | 2013 | (Re-stated) 2012 |
|---|---|---|
| **27. DISTRIBUTION AND SELLING EXPENSES** | | |
| Outward freight and handling charges | 53,812 | 69,065 |
| Salaries and benefits - note 27.1 | 45,330 | 43,924 |
| Lease rentals / Ijarah arrangements | 2,079 | 2,043 |
| Repairs and maintenance | 2,521 | 4,378 |
| Travelling expenses | 5,808 | 5,573 |
| Postage and telephone | 1,238 | 1,304 |
| Advertising and sales promotion | 560 | 527 |
| Other expenses | 8,756 | 5,377 |
| | 120,104 | 132,191 |

27.1 Salaries and benefits include Rs 1.83 million (2012: Rs 1.87 million) and Rs 4.05 million (2012: Rs 3.63 million) in respect of defined benefit plans and defined contribution plans respectively.

| | 2013 | (Re-stated) 2012 |
|---|---|---|
| **28. ADMINISTRATIVE EXPENSES** | | |
| Salaries and benefits - note 28.1 | 139,959 | 142,236 |
| Legal, professional and consultancy charges | 18,639 | 15,880 |
| Lease rentals / Ijarah arrangements | 5,924 | 5,555 |
| Travelling expenses | 20,728 | 16,085 |
| Repairs and maintenance | 19,324 | 18,577 |
| Expenses on information technology | 14,022 | 10,539 |
| Security expenses | 17,118 | 13,980 |
| Rent, rates and taxes | 26,247 | 25,754 |
| Publication and subscriptions | 2,086 | 4,324 |
| Postage and telephone | 6,300 | 5,335 |
| Printing and stationery | 8,890 | 6,499 |
| Other expenses | 52,695 | 38,831 |
| | 331,932 | 303,595 |

28.1 Salaries and benefits include Rs 7.06 million (2012: Rs 9.67 million) and Rs 7.74 million (2012: Rs 7.43 million) in respect of defined benefit plans and defined contribution plans respectively.

Amount in Rs '000

| | | 2013 | 2012 |
|---|---|---|---|
| **29.** | **OTHER EXPENSES** | | |
| | Auditors' remuneration - note 29.1 | 5,123 | 4,482 |
| | Donations - note 29.2 | 8,072 | 8,953 |
| | Loss on retirement of property, plant and equipment | 106 | 3,640 |
| | Provision for obsolete stores and spares | 5,114 | 4,771 |
| | Workers' profit participation fund - note 21.2 | 44,624 | 23,529 |
| | Workers' welfare fund - note 29.3 | 29,772 | - |
| | Others | 1,005 | 1,125 |
| | | 93,816 | 46,500 |
| **29.1** | **Auditors' remuneration** | | |
| | Audit fee | 2,400 | 2,200 |
| | Taxation | 920 | 361 |
| | Limited reviews, audit of consolidated financial statements, certain funds for staff retirement benefits, group reporting package and various certifications | 1,580 | 1,690 |
| | Out of pocket expenses | 223 | 231 |
| | | 5,123 | 4,482 |

**29.2** Donations include payments in respect of the following:

| | 2013 | 2012 |
|---|---|---|
| Community services | 3,550 | 3,178 |
| Education | 1,852 | 3,780 |

**29.2.1** None of the directors or their spouse had any interest in the donee.

**29.3** This includes Rs 10.3 million in respect of tax year 2012.

| | | 2013 | 2012 |
|---|---|---|---|
| **30.** | **OTHER INCOME** | | |
| | Scrap sales | 8,226 | 22,280 |
| | Recoveries against provision made in prior year for sales tax refundable | - | 29,825 |
| | Liabilities no longer payable written back | 42,659 | 16,700 |
| | Return on bank deposits | 128,584 | 291,241 |
| | Others | 871 | 1,810 |
| | | 180,340 | 361,856 |

Amount in Rs '000

| | | 2013 | 2012 |
|---|---|---|---|
| 31. | FINANCE COSTS | | |
| | Interest / mark-up on: | | |
| | - short-term financing | 365 | - |
| | - workers' profit participation fund - note 21.2 | - | 3,433 |
| | - finance lease - note 31.1 | - | 34,385 |
| | - long term loans from parent company | - | 20,381 |
| | Discounting charges on trade debts | 40,562 | 7,552 |
| | Exchange loss - net | 31,446 | 70,068 |
| | Bank charges | 11,291 | 10,235 |
| | | 83,664 | 146,054 |

31.1 This includes contingent rent of Rs Nil (2012: Rs 23.14 million) recognised as an expense during the year which is determined by the movement in UK Consumer Price Index.

| | | 2013 | (Re-stated) 2012 |
|---|---|---|---|
| 32. | TAXATION | | |
| | Current - for the year | 569,510 | 274,421 |
| | - for prior year | 2,678 | 32,327 |
| | | 572,188 | 306,748 |
| | Deferred | (374,252) | (367,843) |
| | | 197,936 | (61,095) |

32.1 Current taxation expense for the year is subject to minimum tax charged at 1% of taxable turnover which is adjustable against the tax liability of succeeding five years. The Group, however, on prudence has not recognised the related deferred tax asset in view of taxable loss for the year.

Amount in Rs '000

| | | 2013 | (Re-stated) 2012 |
|---|---|---|---|
| 32.2 | **Reconciliation of income tax expense for the year** | | |
| | Loss before taxation | (300,048) | (57,507) |
| | Applicable tax rate | 34% | 35% |
| | Tax calculated at the applicable tax rate | (102,016) | (20,127) |
| | **Tax effect of :** | | |
| | - permanent differences | 33,709 | 44,555 |
| | - minimum tax | 542,661 | - |
| | - tax credits | (21,654) | (16,852) |
| | - income chargeable to tax under FTR basis | 61,546 | 40,757 |
| | - prior year tax charge | 2,678 | 32,327 |
| | - exempt income | (291,760) | (141,755) |
| | - change in tax rate | (27,228) | - |
| | | 197,936 | (61,095) |

| | | 2013 | (Re-stated) 2012 |
|---|---|---|---|
| 33. | CASH GENERATED FROM OPERATIONS | | |
| | Loss before taxation | (300,048) | (57,507) |
| | Adjustments for non cash charges and other items: | | |
| | Depreciation and amortisation | 1,502,450 | 1,503,707 |
| | Loss on retirement of property, plant and equipment | 106 | 3,640 |
| | Provision for staff retirement benefit scheme | 21,212 | 24,139 |
| | Finance costs | 52,218 | 86,912 |
| | Unrealised exchange loss on current maturity of long-term loan and current portion of liability against assets subject to finance lease | - | 100,572 |
| | Mark-up accrued on bank deposits | (128,584) | (291,241) |
| | Provision for infrastructure cess | 204,394 | 200,518 |
| | | 1,651,796 | 1,628,247 |
| | | 1,351,748 | 1,570,740 |
| | **Effect on cashflows due to working capital changes** | | |
| | Decrease / (increase) in current assets | | |
| | Stores and spares | (107,985) | (37,990) |
| | Stock-in-trade | 1,479,788 | 228,127 |
| | Trade debts | 520,031 | (157,116) |
| | Loans and advances | 8,152 | 7,807 |
| | Trade deposits and short-term prepayments | (1,929) | 66,994 |
| | Other receivables and tax refunds | 285,381 | (232,707) |
| | | 2,183,438 | (124,885) |
| | (Decrease) / increase in trade and other payables | (512,914) | 74,442 |
| | Cash generated from operations | 3,022,272 | 1,520,297 |

# Notes to and Forming Part of the Consolidated Financial Statements
For the year ended 31 December 2013

Amount in Rs '000

| | | 2013 | (Re-stated) 2012 |
|---|---|---|---|
| 34. | **EARNINGS PER SHARE - basic and diluted** | | |
| | (Loss) / profit for the year after tax | (497,984) | 3,588 |
| | | Number of shares | |
| | Weighted average ordinary shares in issue during the year | 1,514,207,208 | 1,514,207,208 |
| | Earnings per share (in Rupees) | (0.33) | 0.0024 |

There is no dilutive effect on the basic earnings per share of the Group.

35. **REMUNERATION OF DIRECTORS AND EXECUTIVES**

The aggregate amounts charged in the financial statements for remuneration, including all benefits, to the Chief Executive, Directors and Executives of the Group were as follows:

| | Chief Executive | | Executive Directors | | Executives | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Managerial remuneration | 15,636 | 14,552 | 13,547 | 11,322 | 177,598 | 169,777 |
| Retirement benefits | 5,520 | 7,150 | - | - | 45,881 | 48,305 |
| Group insurance | 54 | 64 | - | - | 865 | 997 |
| Rent and house maintenance | 300 | 455 | 3,924 | 3,380 | 58,002 | 55,676 |
| Utilities | - | - | - | - | 12,612 | 11,974 |
| Medical expenses | 88 | 168 | 58 | 225 | 10,276 | 9,868 |
| | 21,598 | 22,389 | 17,529 | 14,927 | 305,234 | 296,597 |
| Number of persons | 1 | 1 | 2 | 2 | 119 | 119 |

35.1 In addition to the above, amount charged in the financial statements for remuneration and fee to the non-executive directors, were Rs 0.6 million (2012: Rs 0.6 million) and Rs 0.045 million (2012: Rs 0.075 million) respectively.

35.2 An amount of Rs 34.60 million (2012: Rs 57.04 million) on account of variable pay has been recognised in the financial statements. This amount is payable in 2014 after verification of target achievements.

Out of variable pay recognised for 2012, following payments were made:

Amount in Rs '000

| | Paid in 2013 relating to 2012 | Paid in 2012 relating to 2011 |
|---|---|---|
| Chief Executive | 3,006 | 5,722 |
| Executives | 37,257 | 68,237 |
| Other employees | 4,480 | 7,713 |
| | 44,743 | 81,672 |

35.3 The Chief Executive, Executive Directors and certain Executives are provided with free use of Group maintained cars in accordance with their entitlements.

## 36. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise parent company, related group companies, directors of the Group, companies where directors also hold directorships, key management personnel and staff retirement funds. Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

| Relationship | Nature of transaction | 2013 | 2012 |
|---|---|---|---|
| Parent company | Repayment of loan | - | 1,878,950 |
| | Payment of interest on loan | - | 23,696 |
| | Purchase of goods | 1,496,404 | 343,986 |
| | Purchase of services | - | 4,071 |
| | Amount payable | - | 346,486 |
| Associates | Purchase of services | - | 33 |
| Key management personnel | Salaries and other short term benefits | 71,551 | 71,457 |
| | Post employment benefit | 11,737 | 13,142 |
| Others | Payment to staff retirement benefit funds | 52,288 | 57,369 |

37. CAPACITY AND PRODUCTION / GENERATION

| | 2013 | 2012 | 2013 | 2012 |
|---|---|---|---|---|
| | Annual name plate capacity | | Actual production / generation | |
| Pure Terephthalic Acid - in metric tonnes- note 37.1 | 506,750 | 506,750 | 480,369 | 480,941 |
| Electricity - in thousands of Kw - note 37.2 | 421,356 | 193,939 | 200,168 | 101,708 |

37.1 The current Production is based on 95% Plant availability. This was mainly due to a 22 days outage during the year due to overhauling of the plant which is carried out periodically. Last year there was a temporary shutdown of a supplier manufacturing facility.

37.2 Actual generation is as per the requirement of the Company.

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency interest rate and price risks). The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

38.1 Risk management framework

The Board of Directors has overall responsibility for the establishment and over sight of the Group's risk management framework. The executive management team is responsible for developing and monitoring the Group's risk management policies. The team regularly meets and any changes and compliance issues are reported to the Board of Directors through the audit committee.

Risk management systems are reviewed regularly by the executive management team to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The audit committee oversees compliance by management with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

## Financial assets and liabilities by category and their respective maturities

Amount in Rs '000

| | Interest bearing | | | Non-interest bearing | | | Total |
|---|---|---|---|---|---|---|---|
| | Maturity up to one year | Maturity after one year | Total | Maturity up to one year | Maturity after one year | Total | |
| **Financial assets** | | | | | | | |
| **Loans and receivables** | | | | | | | |
| Loans and advances | - | - | - | 24,644 | 41,297 | 65,941 | 65,941 |
| Deposits | - | 24,272 | 24,272 | 27,721 | 16,252 | 43,973 | 68,245 |
| Trade debts | - | - | - | 2,780,329 | - | 2,780,329 | 2,780,329 |
| Mark-up accrued on bank deposits | - | - | - | 7,020 | - | 7,020 | 7,020 |
| Other receivables | - | - | - | 33,039 | - | 33,039 | 33,039 |
| Cash and bank balances | 3,043,250 | - | 3,043,250 | 25,423 | - | 25,423 | 3,068,673 |
| **31 December 2013** | 3,043,250 | 24,272 | 3,067,522 | 2,898,176 | 57,549 | 2,955,725 | 6,023,247 |
| 31 December 2012 (Re-stated) | 826,800 | 24,272 | 851,072 | 3,530,059 | 63,209 | 3,593,268 | 4,444,340 |
| **Financial liabilities** | | | | | | | |
| **At amortised cost** | | | | | | | |
| Trade and other payables | - | - | - | 7,393,068 | - | 7,393,068 | 7,393,068 |
| Interest accrued | - | - | - | 161,061 | - | 161,061 | 161,061 |
| **31 December 2013** | - | - | - | 7,554,129 | - | 7,554,129 | 7,554,129 |
| 31 December 2012 | 42,659 | - | 42,659 | 7,881,132 | - | 7,881,132 | 7,923,791 |
| **On balance sheet date gap** | | | | | | | |
| 31 December 2013 | 3,043,250 | 24,272 | 3,067,522 | (4,655,953) | 57,549 | (4,598,404) | (1,530,882) |
| 31 December 2012 (Re-stated) | 784,141 | 24,272 | 808,413 | (4,351,073) | 63,209 | (4,287,864) | (3,479,451) |
| **OFF BALANCE SHEET ITEMS** | | | | | | | |
| Letter of credits / guarantees | | | | | | | 1,435,092 |
| Operating lease liability | | | | | | | 2,428,518 |
| 31 December 2012 | | | | | | | 3,911,475 |

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

## 38.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and deposits with banks.

### Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To reduce exposure to credit risk, substantially all the sales are made against letters of credit. Approximately 34 percent (2012: 28 percent) of the Group's revenue is attributable to sales transactions with a single customer. However, geographically there is no concentration of credit risk.

The Board has established a credit policy under which each new customer is analysed individually for credit worthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available. The customers associated with the Group for four years have contributed more than 95% of the revenue and losses have occurred infrequently.

The maximum exposure to credit risk as at 31 December was:

Amount in Rs '000

| | 2013 | (Restated) 2012 |
|---|---|---|
| | Rupees '000 | |
| **Financial assets** | | |
| Loans and advances | 86,339 | 98,267 |
| Deposits | 68,245 | 92,476 |
| Trade debts | 2,780,329 | 3,300,360 |
| Mark-up accrued on bank deposits | 7,020 | 186 |
| Other receivables | 33,039 | 91,548 |
| Bank balances | 3,060,555 | 871,244 |
| | 6,035,527 | 4,454,081 |
| Secured | 2,780,329 | 3,300,360 |
| Unsecured | 3,255,198 | 1,153,721 |
| | 6,035,527 | 4,454,081 |
| Not past due | 6,035,527 | 4,454,081 |

The maximum exposure to credit risk for trade debts as at 31 December by geographic region was:

| | 2013 | 2012 |
|---|---|---|
| Domestic | 2,780,329 | 3,300,360 |

The Group has placed its funds with banks which are rated AA or above by PACRA / JCR VIS.

### 38.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the maturity date.

Amount in Rs '000

| | 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | Less than one year | 1-2 years | 2-3 years | 3-5 years |
| **Financial Liabilities** | | | | | | |
| Trade and other payables | 7,393,068 | 7,393,068 | 7,393,068 | - | - | - |
| Interest accrued | 161,061 | 161,061 | 161,061 | - | - | - |
| **Off balance sheet** | | | | | | |
| Operating lease liabilities | - | 2,428,518 | - | 1,225,850 | 625,111 | 577,557 |
| | 7,554,129 | 9,982,647 | 7,554,129 | 1,225,850 | 625,111 | 577,557 |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

The Group manages liquidity risk by maintaining sufficient cash in bank accounts. At 31 December 2013, the Group had financial assets of Rs 6.04 billion (2012: Rs 4.45 billion), which include Rs 3.06 billion (2012: Rs 0.87 billion) of cash placed in bank accounts.

### 38.4 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market price. Market risk comprises of three types of risks: currency risk, interest rate risk and other price risk.

### 38.4.1 Currency risk

Currency risk arises mainly where receivables and payables exist due to transactions based on currencies other than Pakistan Rupees. The Group is exposed to currency risk on receivables, payables and borrowings that are in a currency other than Pakistan Rupees.

The currency exposure in Pakistan Rupees at the year end was as follows:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | GBP | Euro | US$ | GBP | Euro | US$ |
| | ---------- Equivalent Rupees '000 ---------- | | | | | |
| **Financial liabilities** | | | | | | |
| Trade payables | (1,225) | (1,128,252) | (2,332,337) | (6,809) | (6,098) | (5,165,621) |
| Liability against assets subject to finance lease | - | - | - | (42,659) | - | - |
| | (1,225) | (1,128,252) | (2,332,337) | (49,468) | (6,098) | (5,165,621) |
| Operating lease liability (off balance sheet) | - | - | (2,368,175) | (44,492) | - | (2,864,446) |

Significant exchange rates applied during the year were as follows:

| | Average rate for the year | | Spot rate as at 31 December | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | Rupees | | Rupees | |
| US Dollar | 101.8 | 93.5 | 105.8 | 97.3 |
| Great Britain Pound Sterling | 160.1 | 149.5 | 174.4 | 157.1 |
| Euro | 136.2 | 121.3 | 145.9 | 128.3 |

**Sensitivity analysis**

Every 1% increase or decrease in exchange rate, with all other variables held constant, will decrease or increase loss before tax for the year by Rs 34.62 million (2012: Rs 52.09 million).

**38.4.2 Interest rate risk**

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

Amount in Rs '000

| | Carrying amount | |
|---|---|---|
| | 2013 | 2012 |
| **Fixed rate instruments** | | |
| Financial assets | 3,067,522 | 851,072 |
| **Variable rate instruments** | | |
| Financial liabilities | - | 42,659 |

Sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through the profit and loss account. Therefore a change in interest rates at the reporting date would not affect materially profit or loss for the year.

Sensitivity analysis for variable rate instruments

If KIBOR had been 10% higher / lower with all other variables held constant, the impact on the loss after tax for the year would not have been material.

38.4.3 Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the fund issuing that financial instruments, or its management company.

## 39. CAPITAL RISK MANAGEMENT

The Group's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an optimal structure to reduce the cost of capital. The Group has no debt as at 31 December 2013.

## 40. PROVIDENT FUND RELATED DISCLOSURES

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

Amount in Rs '000

| | 2013 | 2012 |
|---|---|---|
| Size of the fund - Total assets | 284,872 | 264,701 |
| Percentage of investments made | 96% | 92% |
| Fair value of investments | 272,997 | 244,025 |

The cost of above investments amounted to Rs 242.02 million (2012: Rs 199.32 million).

The break-up of fair value of investments is as follows:

| | 2013 | 2012 | 2013 | 2012 |
|---|---|---|---|---|
| | Percentage | | Rupees '000 | |
| Shares in listed companies | 15.1% | 19.6% | 41,206 | 47,772 |
| Bank deposits | 2.1% | 2.3% | 5,617 | 5,688 |
| Government securities | 82.8% | 74.4% | 226,174 | 181,495 |
| Debt securities | - | 3.7% | - | 9,069 |

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

## 41. NUMBER OF EMPLOYEES

| | 2013 | 2012 |
|---|---|---|
| Number of employees at 31 December | 228 | 227 |
| Average number of employees during the year | 226 | 231 |

## 42. GENERAL

Figures have been rounded-off to the nearest thousand rupees except as stated otherwise.

## 43. CORRESPONDING FIGURES

Corresponding figures have been re-arranged wherever necessary for purposes of better presentation as follows:

| Reclassification from component | Reclassification to component | Amount in Rs '000 |
|---|---|---|
| Finance income | Other income | |
| - Return on bank deposits | - Return on bank deposits | 291,241 |
| Finance costs | Finance costs | |
| - Interest on long term loan from parent company | - Exchange loss - net | 10,926 |

## 44. DATE OF AUTHORISATION

These financial statements were authorised for issue in the Board of Directors meeting held on 28 January 2014.

Kimchanggyou
Changgyou Kim
Chairman

M Asif Saad
Chief Executive

# Pattern of Shareholding
# As at 31 December 2013

| Size of Holding | | No. of Shareholders | No. of Shares held |
|---|---|---|---|
| From | To | | |
| 1 | 100 | 2,893 | 100,632 |
| 101 | 500 | 4,465 | 1,284,747 |
| 501 | 1,000 | 2,641 | 2,197,579 |
| 1,001 | 5,000 | 4,529 | 12,456,826 |
| 5,001 | 10,000 | 1,401 | 11,429,888 |
| 10,001 | 15,000 | 526 | 6,907,650 |
| 15,001 | 20,000 | 353 | 6,590,630 |
| 20,001 | 25,000 | 229 | 5,437,613 |
| 25,001 | 30,000 | 172 | 4,910,246 |
| 30,001 | 35,000 | 103 | 3,443,036 |
| 35,001 | 40,000 | 110 | 4,260,788 |
| 40,001 | 45,000 | 53 | 2,290,467 |
| 45,001 | 50,000 | 149 | 7,403,802 |
| 50,001 | 55,000 | 44 | 2,334,596 |
| 55,001 | 60,000 | 35 | 2,051,120 |
| 60,001 | 65,000 | 23 | 1,450,465 |
| 65,001 | 70,000 | 33 | 2,273,776 |
| 70,001 | 75,000 | 36 | 2,660,461 |
| 75,001 | 80,000 | 25 | 1,976,079 |
| 80,001 | 85,000 | 12 | 1,001,404 |
| 85,001 | 90,000 | 17 | 1,505,507 |
| 90,001 | 95,000 | 12 | 1,117,208 |
| 95,001 | 100,000 | 88 | 8,796,275 |
| 100,001 | 105,000 | 13 | 1,327,875 |
| 105,001 | 110,000 | 7 | 763,408 |
| 110,001 | 115,000 | 12 | 1,364,435 |
| 115,001 | 120,000 | 11 | 1,303,209 |
| 120,001 | 125,000 | 6 | 746,000 |
| 125,001 | 130,000 | 4 | 517,100 |
| 130,001 | 135,000 | 6 | 793,095 |
| 135,001 | 140,000 | 5 | 692,800 |
| 140,001 | 145,000 | 3 | 431,750 |
| 145,001 | 150,000 | 22 | 3,296,621 |
| 150,001 | 155,000 | 3 | 464,500 |
| 155,001 | 160,000 | 9 | 1,429,575 |
| 160,001 | 165,000 | 3 | 495,000 |
| 165,001 | 170,000 | 4 | 676,661 |
| 170,001 | 175,000 | 7 | 1,222,118 |
| 175,001 | 180,000 | 2 | 360,000 |
| 180,001 | 185,000 | 3 | 552,100 |
| 185,001 | 190,000 | 5 | 948,000 |
| 190,001 | 195,000 | 2 | 387,000 |
| 195,001 | 200,000 | 38 | 7,595,000 |
| 200,001 | 205,000 | 5 | 1,010,902 |
| 205,001 | 210,000 | 6 | 1,250,450 |
| 210,001 | 215,000 | 2 | 430,000 |
| 215,001 | 220,000 | 2 | 433,500 |
| 220,001 | 225,000 | 4 | 893,537 |
| 225,001 | 230,000 | 2 | 457,000 |
| 230,001 | 235,000 | 2 | 462,948 |
| 235,001 | 240,000 | 2 | 477,400 |

# Pattern of Shareholding
# As at 31 December 2013

| Size of Holding | | No. of Shareholders | No. of Shares held |
|---|---|---|---|
| From | To | | |
| | | | |
| 240,001 | 245,000 | 4 | 971,000 |
| 245,001 | 250,000 | 4 | 1,000,000 |
| 250,001 | 255,000 | 4 | 1,007,019 |
| 255,001 | 260,000 | 2 | 518,500 |
| 260,001 | 265,000 | 2 | 530,000 |
| 270,001 | 275,000 | 2 | 549,500 |
| 275,001 | 280,000 | 1 | 280,000 |
| 280,001 | 285,000 | 2 | 565,044 |
| 285,001 | 290,000 | 2 | 573,154 |
| 290,001 | 295,000 | 1 | 292,500 |
| 295,001 | 300,000 | 10 | 2,997,000 |
| 300,001 | 305,000 | 1 | 302,300 |
| 305,001 | 310,000 | 1 | 310,000 |
| 310,001 | 315,000 | 1 | 313,000 |
| 315,001 | 320,000 | 3 | 951,716 |
| 320,001 | 325,000 | 3 | 975,000 |
| 325,001 | 330,000 | 1 | 330,000 |
| 330,001 | 335,000 | 1 | 331,303 |
| 340,001 | 345,000 | 1 | 342,307 |
| 345,001 | 350,000 | 2 | 696,500 |
| 355,001 | 360,000 | 1 | 359,841 |
| 360,001 | 365,000 | 1 | 360,500 |
| 365,001 | 370,000 | 2 | 736,500 |
| 370,001 | 375,000 | 2 | 750,000 |
| 380,001 | 385,000 | 1 | 385,000 |
| 385,001 | 390,000 | 3 | 1,163,184 |
| 390,001 | 395,000 | 1 | 395,000 |
| 395,001 | 400,000 | 4 | 1,600,000 |
| 400,001 | 405,000 | 1 | 405,000 |
| 405,001 | 410,000 | 1 | 408,570 |
| 420,001 | 425,000 | 1 | 425,000 |
| 425,001 | 430,000 | 3 | 1,279,123 |
| 435,001 | 440,000 | 1 | 435,850 |
| 445,001 | 450,000 | 1 | 450,000 |
| 450,001 | 455,000 | 2 | 906,500 |
| 465,001 | 470,000 | 1 | 470,000 |
| 470,001 | 475,000 | 2 | 949,500 |
| 475,001 | 480,000 | 1 | 475,100 |
| 480,001 | 485,000 | 1 | 485,000 |
| 490,001 | 495,000 | 1 | 490,565 |
| 495,001 | 500,000 | 12 | 6,000,000 |
| 500,001 | 505,000 | 2 | 1,010,000 |
| 515,001 | 520,000 | 1 | 519,904 |
| 520,001 | 525,000 | 1 | 522,500 |
| 535,001 | 540,000 | 1 | 540,000 |
| 540,001 | 545,000 | 1 | 545,000 |
| 545,001 | 550,000 | 1 | 550,000 |
| 550,001 | 555,000 | 1 | 552,800 |
| 555,001 | 560,000 | 2 | 1,120,000 |
| 560,001 | 565,000 | 2 | 1,126,000 |

# Pattern of Shareholding
# As at 31 December 2013

| Size of Holding | | No. of Shareholders | No. of Shares held |
|---|---|---|---|
| From | To | | |
| 565,001 | 570,000 | 1 | 570,000 |
| 595,001 | 600,000 | 3 | 1,800,000 |
| 600,001 | 605,000 | 1 | 602,500 |
| 605,001 | 610,000 | 1 | 605,514 |
| 615,001 | 620,000 | 1 | 617,000 |
| 675,001 | 680,000 | 1 | 676,583 |
| 705,001 | 710,000 | 1 | 710,000 |
| 725,001 | 730,000 | 1 | 729,000 |
| 825,001 | 830,000 | 2 | 1,655,000 |
| 835,001 | 840,000 | 1 | 840,000 |
| 845,001 | 850,000 | 1 | 850,000 |
| 855,001 | 860,000 | 1 | 856,891 |
| 875,001 | 880,000 | 1 | 875,375 |
| 895,001 | 900,000 | 1 | 900,000 |
| 975,001 | 980,000 | 1 | 978,000 |
| 995,001 | 1,000,000 | 7 | 6,999,116 |
| 1,010,001 | 1,015,000 | 1 | 1,015,000 |
| 1,040,001 | 1,045,000 | 1 | 1,044,500 |
| 1,055,001 | 1,060,000 | 1 | 1,058,203 |
| 1,060,001 | 1,065,000 | 1 | 1,063,000 |
| 1,095,001 | 1,100,000 | 1 | 1,100,000 |
| 1,120,001 | 1,125,000 | 1 | 1,120,500 |
| 1,170,001 | 1,175,000 | 1 | 1,171,500 |
| 1,195,001 | 1,200,000 | 1 | 1,200,000 |
| 1,205,001 | 1,210,000 | 1 | 1,206,602 |
| 1,210,001 | 1,215,000 | 1 | 1,212,100 |
| 1,295,001 | 1,300,000 | 2 | 2,600,000 |
| 1,380,001 | 1,385,000 | 1 | 1,385,000 |
| 1,395,001 | 1,400,000 | 1 | 1,400,000 |
| 1,465,001 | 1,470,000 | 1 | 1,468,393 |
| 1,495,001 | 1,500,000 | 1 | 1,500,000 |
| 1,500,001 | 1,505,000 | 1 | 1,501,000 |
| 1,505,001 | 1,510,000 | 1 | 1,509,500 |
| 1,510,001 | 1,515,000 | 1 | 1,514,893 |
| 1,540,001 | 1,545,000 | 1 | 1,543,000 |
| 1,545,001 | 1,550,000 | 1 | 1,550,000 |
| 1,565,001 | 1,570,000 | 1 | 1,568,729 |
| 1,695,001 | 1,700,000 | 1 | 1,700,000 |
| 1,760,001 | 1,765,000 | 1 | 1,765,000 |
| 1,780,001 | 1,785,000 | 1 | 1,780,151 |
| 1,790,001 | 1,795,000 | 1 | 1,792,200 |
| 1,995,001 | 2,000,000 | 2 | 4,000,000 |
| 2,020,001 | 2,025,000 | 1 | 2,024,000 |
| 2,245,001 | 2,250,000 | 1 | 2,250,000 |
| 2,320,001 | 2,325,000 | 1 | 2,325,000 |
| 2,415,001 | 2,420,000 | 1 | 2,420,000 |
| 2,500,001 | 2,505,000 | 1 | 2,504,778 |
| 2,555,001 | 2,560,000 | 1 | 2,557,685 |
| 2,715,001 | 2,720,000 | 2 | 5,436,875 |
| 2,755,001 | 2,760,000 | 1 | 2,756,200 |
| 2,775,001 | 2,780,000 | 1 | 2,776,500 |

# Pattern of Shareholding
# As at 31 December 2013

| Size of Holding | | No. of Shareholders | No. of Shares held |
|---|---|---|---|
| From | To | | |
| 3,050,001 | 3,055,000 | 1 | 3,051,000 |
| 3,740,001 | 3,745,000 | 1 | 3,741,100 |
| 4,220,001 | 4,225,000 | 1 | 4,223,657 |
| 4,295,001 | 4,300,000 | 1 | 4,300,000 |
| 4,495,001 | 4,500,000 | 1 | 4,500,000 |
| 5,680,001 | 5,685,000 | 1 | 5,684,901 |
| 7,620,001 | 7,625,000 | 1 | 7,621,500 |
| 7,770,001 | 7,775,000 | 1 | 7,770,526 |
| 11,030,001 | 11,035,000 | 1 | 11,033,000 |
| 16,350,001 | 16,355,000 | 1 | 16,351,072 |
| 17,495,001 | 17,500,000 | 1 | 17,500,000 |
| 19,995,001 | 20,000,000 | 1 | 20,000,000 |
| 23,565,001 | 23,570,000 | 1 | 23,570,000 |
| 1,135,860,001 | 1,135,865,000 | 1 | 1,135,860,105 |

# Pattern of Shareholding
# As at 31 December 2013

| Shareholders category | No. of Shareholders | No. of Shares held |
|---|---|---|
| **Associated Companies, Undertakings and Related Parties:** | | |
| Lotte Chemical Corporation | 1 | 1,135,860,105 |
| **NIT and ICP (name wise detail)** | | |
| National Bank of Pakistan, Trustee Department NI(U)T Fund | 1 | 16,351,072 |
| **Directors, CEO and their spouse and minor children (name wise detail)** | | |
| Changgyou Kim | 1 | 1 |
| M Asif Saad | 1 | 396 |
| Sang Hyeon Lee | 1 | 1 |
| Jung Neon Kim | 1 | 1 |
| Oh Hun Im | 1 | 1 |
| Mohammad Qasim Khan | 1 | 1 |
| Aliya Yusuf | 1 | 1 |
| Istaqbal Mehdi | 1 | 1 |
| **Executives** | 1 | 300 |
| **Mutual Funds** | | |
| B.R.R. GUARDIAN MODARABA | 1 | 505,000 |
| CDC - TRUSTEE AKD INDEX TRACKER FUND | 1 | 87,452 |
| CDC - TRUSTEE AKD OPPORTUNITY FUND | 1 | 1,501,000 |
| CDC - TRUSTEE FAYSAL ASSET ALLOCATION FUND | 1 | 5,000 |
| CDC - TRUSTEE FAYSAL BALANCED GROWTH FUND | 1 | 5,000 |
| CDC - TRUSTEE FIRST CAPITAL MUTUAL FUND | 1 | 50,000 |
| CDC - TRUSTEE KSE MEEZAN INDEX FUND | 1 | 676,583 |
| CDC - TRUSTEE NIT-EQUITY MARKET OPPORTUNITY FUND | 1 | 4,223,657 |
| CDC - TRUSTEE PICIC GROWTH FUND | 1 | 23,570,000 |
| CDC - TRUSTEE PICIC INCOME FUND - MT | 1 | 71,000 |
| CDC - TRUSTEE PICIC INVESTMENT FUND | 1 | 11,033,000 |
| CDC-TRUSTEE NAFA SAVINGS PLUS FUND - MT | 1 | 173,500 |
| CONFIDENCE MUTUAL FUND LTD | 1 | 30 |
| CRESCENT STANDARD MODARABA | 1 | 50,000 |
| DOMINION STOCK FUND LIMITED | 1 | 750 |
| FIRST ALNOOR MODARABA | 1 | 200,000 |
| FIRST ELITE CAPITAL MODARABA | 1 | 12,000 |
| FIRST EQUITY MODARABA | 1 | 140,000 |
| FIRST FIDELITY LEASING MODARABA | 2 | 650 |
| GOLDEN ARROW SELECTED STOCKS FUND | 1 | 30 |
| GOLDEN ARROW SELECTED STOCKS FUND LIMITED | 1 | 1,015,000 |
| GROWTH MUTUAL FUND LIMITED | 1 | 75 |
| LONG TERM VENTURE CAPITAL MODARABA | 1 | 30 |
| MCBFSL - TRUSTEE NAMCO BALANCED FUND - MT | 1 | 346,500 |
| SAFEWAY MUTUAL FUND LIMITED | 1 | 1,050 |
| SECURITY STOCK FUND LIMITED | 1 | 150 |
| TRUSTEE - BMA CHUNDRIGAR ROAD SAVINGS FUND - MT | 1 | 215,000 |
| Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Insurance, Takaful, Modaraba and Penssion Funds | 45 | 20,879,906 |
| Others | 196 | 50,669,623 |
| Individuals | 18,039 | 246,563,342 |
| **TOTAL** | **18,319** | **1,514,207,208** |
| Shareholders holding 10% or more voting interest | | |
| Lotte Chemical Corporation | 1 | 1,135,860,105 |

# Pattern of Shareholding
# As at 31 December 2013

| S.No. | Shareholders Category | No. of Shareholders | No. of Shares | Percentage % |
|---|---|---|---|---|
| 1 | Associated Companies, Undertakings and Related Parties holding 10% | 1 | 1,135,860,105 | 75.01% |
| 2 | NIT and ICP | 1 | 16,351,072 | 1.08% |
| 3 | Directors, CEO and their Spouse and minor children | 8 | 403 | 0.00% |
| 4 | Executives | 1 | 300 | 0.00% |
| 6 | Modarabas and Mutual Funds | 28 | 43,882,457 | 2.90% |
| 7 | Banks, Development Finance Institutions, Non-Banking Financial Institutions | 32 | 10,429,197 | 0.69% |
| | Insurance Companies | 13 | 10,450,709 | 0.69% |
| 8 | Others | 196 | 50,669,623 | 3.35% |
| 9 | Individuals | 18,039 | 246,563,342 | 16.28% |
| | Total | **18,319** | **1,514,207,208** | **100.00%** |

# Notice of Meeting

Notice is hereby given that the Sixteenth Annual General Meeting of Lotte Chemical Pakistan Limited (formerly Lotte Pakistan PTA Limited) will be held on Wednesday, 26 March 2014 at 11:00 a.m. at the Beach Luxury Hotel, M.T. Khan Road, Karachi to transact the following business:

**ORDINARY BUSINESS**

1. To receive and consider the Company's Financial Statements together with the Directors' and Auditors' Reports for the year ended 31 December 2013.

2. To appoint the Auditors of the Company and to fix their remuneration.

28 February 2014
Karachi

By Order of the Board

Adnan W Samdani
Company Secretary

**NOTES:**

1. The Register of Members and the Share Transfer Books of the Company will be closed from Thursday, 20 March 2014 to Wednesday, 26 March 2014 (both days inclusive). Transfers received in order at the office of our Shares Registrar, Famco Associates (Pvt) Ltd, 8-F, Next to Hotel Faran, Nursery, Block 6, P.E.C.H.S., Shahrah-e-Faisal, Karachi, by the close of business on 19 March 2014 for the purpose of the Annual General Meeting.

2. Only those persons whose names appear in the Register of Members of the Company as at 26 March 2014 are entitled to attend and participate in and vote at the Annual General Meeting.

3. A member of the Company entitled to attend and vote may appoint another member as his / her proxy to attend and vote instead of him / her. Proxies must be received at the Registered Office of the Company not less than 48 hours before the time of the holding of the Meeting. Further copies of the instrument of proxy may be obtained from the Registered Office of the Company during normal office hours. Proxy Form may also be downloaded from the Company's website: www.lottechem.pk

4. Members are requested to notify immediately changes, if any, in their registered address to our Shares Registrar, Famco Associates (Pvt) Ltd.

5. CDC Account Holders will further have to follow the undermentioned guidelines as laid down in Circular 1 dated 26 January 2000 issued by the Securities and Exchange Commission of Pakistan.

**A. FOR ATTENDING THE MEETING:**

i) In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per the Regulation, shall authenticate his / her identity by showing his / her original Computerised National Identity Card (CNIC) or original passport at the time of attending the Meeting.

ii) In case of corporate entity, the Board of Directors' resolution / power of attorney with signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.

**B. FOR APPOINTING PROXIES:**

i) In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.

ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

iii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.

iv) The proxy shall produce his / her original CNIC or original passport at the time of the meeting.

v) In case of corporate entity, the Board of Directors resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy to the Company.

# Glossary

| | |
|---|---|
| ATIR | Appellate Tribunal Inland Revenue |
| AGM | Annual General Meeting |
| Board | Board of Directors |
| BOPET | Biaxially-oriented polyethylene terephthalate |
| CDC | Central Depository Company of Pakistan |
| CFR | Cost and Freight |
| CFO | Chief Financial Officer |
| COLA | Cost of Living Allowance |
| CSR | Corporate Social Responsibility |
| EBIT | Earnings before Interest and Taxation |
| EBITDA | Earnings before Interest, Taxation Depreciation and Amortization |
| EPS | Earning Per Share |
| FBR | Federal Board of Revenue |
| FPAP | Fire Protection Association of Pakistan |
| FTO | Federal Tax Ombudsman |
| FTR | Final Tax Regime |
| GoP | Government of Pakistan |
| HR | Human Resource |
| HSE | Health, Safety and Environment |
| IAS | International Accounting Standards |
| IFRIC | International Financial Reporting Interpretation Committee |
| IFRS | International Financial Reporting Standards |
| ITAT | Income Tax Appellate Tribunal |
| IT | Information Technology |
| KIBOR | Karachi Interbank Offer Rate |
| KSE | Karachi Stock Exchange |
| LTC | Lost Time Case |
| MX | Mixed Xylene |
| NBV | Net Book Value |
| NRV | Net Realisable Value |
| NFEH | National Forum for Environment and Health |
| NTC | National Tariff Commission |
| PACRA | Pakistan Credit Rating Agency |
| PET | Polyethylene Terephthalate |
| PSF | Polyester Staple Fibre |
| PTA | Pure Terephthalic Acid |
| Px | Paraxylene |
| Rs. | Rupees |
| SECP | Securities and Exchange Commission of Pakistan |
| US$ | United States Dollar |
| WPPF | Workers' Profit Participation Fund |
| WWF | Workers' Welfare Fund |

# Admission Slip

The Sixteenth Annual General Meeting of Lotte Chemical Pakistan Limited (formerly Lotte Pakistan PTA Limited) will be held on Wednesday, 26 March 2014 at 11:00 a.m. at the Beach Luxury Hotel, M.T. Khan Road, Karachi.

Kindly bring this slip duly signed by you for attending the Meeting.

**Company Secretary**

Name ________________________________________________________________

Shareholder No. ______________________________ Signature ______________________________

Note:

i) The signature of the shareholder must tally with the specimen signature on the Company's record.

ii) Shareholders are requested to hand over duly completed admission slips at the counter before entering the Meeting premises.

**CDC ACCOUNT HOLDERS / PROXIES / CORPORATE ENTITIES:**

a) The CDC Account Holder / Proxies shall authenticate his / her identity by showing his / her original Computerised National Identity Card (CNIC) or original passport at the time of attending the Meeting.

b) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced at the time of the Meeting (unless it has been provided earlier).

**This Admission Slip is Not Transferable**

# *Dividend Mandate (Optional)*

Dear Shareholder,

Lotte Chemical Pakistan Limited (formerly Lotte Pakistan PTA Limited) wishes to inform its Shareholders that under the Law (Section 250 of the Companies Ordinance, 1984) they are entitled (if they so opt) to receive their cash dividend directly in their designated bank accounts instead of receiving it through dividend warrants. This will not only be convenient but will also save considerable time as funds will be credited directly into the bank account.

Shareholders either desiring to exercise this option or wanting to update the Bank Mandate information already provided should submit the following information to Lotte Chemical Pakistan Limited's (formerly Lotte Pakistan PTA Limited) Share Registrar at the address noted herein.

| S.No | Shareholder/Member Detail | |
|---|---|---|
| 1 | Shareholder Name | |
| 2 | Father's / Husband's Name | |
| 3 | Folio Number | |
| 4 | Name of Bank and Branch | |
| 5 | Title of Bank Account | |
| 6 | Bank Account Number | |
| 7 | Cell Number | |
| 8 | Telephone Number (if any) | |
| 9 | CNIC Number (attach copy) | |
| 10 | NTN (in case of corporate entity, attach copy) | |
| 11 | Passport No. (in case of foreign shareholder) | |

**Signature of Member/Shareholder**

Please note that this Dividend Mandate is **OPTIONAL** and **NOT COMPULSORY**, in case you do not wish your dividend to be directly credited into your bank account, then the same shall be paid to you through the dividend warrants.

**CNIC SUBMISSION (MANDATORY):**
Pursuant to the directives of the Securities and Exchange Commission of Pakistan, CNIC number is mandatorily required to be mentioned on dividend warrants, you are therefore requested to submit a copy of your valid CNIC. In case of non-receipt of the copy of valid CNIC, Lotte Chemical Pakistan Limited (formerly Lotte Pakistan PTA Limited) would be unable to comply with SRO 831(1)/2012 dated 5 July 2012 of SECP and therefore may be constrained under Section 251(2)(a) of the Companies Ordinance, 1984 to withhold dispatch of dividend warrants of such shareholders in future.

**Lotte Chemical Pakistan Limited's Share Registrar**
**M/s Famco Associates (Pvt.) Ltd., 8-F, Next to Hotel Faran, Block 6, Nursery, P.E.C.H.S., Shahrah-e-Faisal, Karachi. Tel: +92(21) 3438 0101 to 5 Fax: +92(21) 3438 0106**

***Note: The Shareholders who hold shares in Central Depository Company are requested to submit the Dividend Mandate Form after duly filled in to their Participants/Investor Account Services.***

Yours Faithfully,
Company Secretary
**Lotte Chemical Pakistan Limited**
(formerly Lotte Pakistan PTA Limited)

# *Form Of Proxy*

## *16th Annual General Meeting*

I / We_______________________________________________________________________________
of __________________________________________________________________________________
being member(s) of Lotte Chemical Pakistan Limited (formerly Lotte Pakistan PTA Limited) holding ____________ ordinary shares hereby appoint ___________________________________of ____________ or failing him/her ______________________________of ______________ who is / are also member(s) of Lotte Chemical Pakistan Limited (formerly Lotte Pakistan PTA Limited) as my / our proxy in my / our absence to attend and vote for me / us and on my / our behalf at the Sixteenth Annual General Meeting of the Company to be held on 26 March 2014 and at any adjournment thereof.

As witness my / our hand / seal this ________________________ day of ______________________ 2014

Signed by the said ________________________________________________________

in the presence of 1. ________________________________________

________________________________________

2. ________________________________________

________________________________________

Folio/CDC Account No.

| |
|---|
| |

| Signature on Revenue Stamp of Appropriate Value |
|---|

This signature should agree with the specimen registered with the Company.

**IMPORTANT:**

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Company at EZ/1/P-4, Eastern Industrial Zone, Port Qasim, Karachi, not less than 48 hours before the time of holding the meeting.
2. No person shall act as proxy unless he / she himself / herself is a member of the Company, except that a corporation may appoint a person who is not a member.
3. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.

**FOR CDC ACCOUNT HOLDERS / CORPORATE ENTITIES:**

In addition to the above, the following requirements have to be met:

i) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

ii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.

iii) The proxy shall produce his / her original CNIC or original passport at the time of the Meeting.

iv) In case of corporate entity, the Board of Directors’ resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

AFFIX
CORRECT
POSTAGE

The Company Secretary
Lotte Chemical Pakistan Ltd.
(formerly Lotte Pakistan PTA Ltd)
EZ/1/P-4
Eastern Industrial Zone,
Port Qasim,
Karachi

# GRI Index

# G3.1 Content Index

## *STANDARD DISCLOSURES PART I: Profile Disclosures*

### 1. STRATEGY AND ANALYSIS

| Profile Disclosure | Description | Reported | Cross-reference/ Direct answer | Explanation |
|---|---|---|---|---|
| 1.1 | Statement from the most senior decision-maker of the organization. | Fully | CEO Statement | |

### 2. ORGANIZATIONAL PROFILE

| Profile Disclosure | Description | Reported | Cross-reference/ Direct answer | Explanation |
|---|---|---|---|---|
| 2.1 | Name of the organization. | Fully | Cover Page | |
| 2.2 | Primary brands, products, and/or services. | Fully | About Us | |
| 2.3 | Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures. | Fully | About Us | |
| 2.4 | Location of organization's headquarters. | Fully | About LOTTE | |
| 2.5 | Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report. | Fully | About Us / About LOTTE | |
| 2.6 | Nature of ownership and legal form. | Fully | Information/ Corporate Governance | |
| 2.7 | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries). | Fully | Busniess Review | |
| 2.8 | Scale of the reporting organization. | Partially | Busniess Review | Workforce Data not included |
| 2.9 | Significant changes during the reporting period regarding size, structure, or ownership. | Fully | Busniess Review | |
| 2.10 | Awards received in the reporting period. | Fully | Yearly Highlights | |

### 3. REPORT PARAMETERS

| Profile Disclosure | Description | Reported | Cross-reference/ Direct answer | Explanation |
|---|---|---|---|---|
| 3.1 | Reporting period (e.g., fiscal/calendar year) for information provided. | Fully | 2013 | |
| 3.2 | Date of most recent previous report (if any). | Fully | 2012 | |
| 3.3 | Reporting cycle (annual, biennial, etc.) | Fully | Annual | |
| 3.4 | Contact point for questions regarding the report or its contents. | Fully | Zain Talpur, Communication Manager zain.talpur@lottechem.pk | |

## 3. REPORT PARAMETERS

| Profile Disclosure | Description | Reported | Cross-reference/ Direct answer | Explanation |
|---|---|---|---|---|
| 3.5 | Process for defining report content. | Not | The content of this report was selected based on our internal evaluation of risk and impact, level of internal and external stakeholder interest, and relevance of GRI G3.1 and Petrochemical industry best practice. | |
| 3.6 | Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance. | Fully | The principal facilities and assets operated by Lotte Chemical Pakistan during calendar year 2013 are included in this report. Data presented in this report refer to gross figures from operated facilities according to the GRI framework, and third-party activities where Lotte PPTA has overall responsibility as specified in contractual arrangements. | |
| 3.7 | State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope). | Fully | We report our sustainability performance based on the Global Reporting Initiative (GRI) G3 guidelines, to an A+ reporting level. Our report is also based on the Institute of Chartered Accountants (ICAP) guidelines for sustainability reporting guidelines and conforms to international standard for assurance, ISAE 3000. | |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations. | Fully | See 3.6 above | |

## 4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT

| Profile Disclosure | Description | Reported | Cross-reference/ Direct answer | Explanation |
|---|---|---|---|---|
| 4.1 | Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight. | Partially | Corporate Governance | Breakdown of governance bodies in terms of various indices of diversity not included |
| 4.2 | Indicate whether the Chair of the highest governance body is also an executive officer. | Fully | The Board and Its Processes | |
| 4.3 | For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members. | Fully | The Board and Its Processes | |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. | Fully | Speakup / AGM / Employee Engagement | |
| 4.14 | List of stakeholder groups engaged by the organization. | Fully | The organization interacts with its stakeholders through a number of formal and informal methods. Lotte Chemical is considering to conduct a formal stakeholder engagement process in the coming years with a formal criteria for selection and methodology of engagement with various stakeholders. | |

## *STANDARD DISCLOSURES PART III: Performance Indicators*

### ECONOMIC

#### *Economic Performance*

| Performance Indicator | Description | Reported | Cross-reference/ Direct answer | Explanation |
|---|---|---|---|---|
| EC1 | Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. | Partially | Busniess Review/Stakeholder Information | |
| EC3 | Coverage of the organization's defined benefit plan obligations. | Partially | Investment in Retirement benefits | |

#### *Market presence*

| | | | | |
|---|---|---|---|---|
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation. | Fully | Talent Localization | |

## ENVIRONMENTAL

### *Compliance*

| Performance Indicator | Description | Reported | Cross-reference/ Direct answer | Explanation |
|---|---|---|---|---|
| EN28 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations. | Fully | No Fines | |

## SOCIAL: LABOR PRACTICES AND DECENT WORK

### *Employment*

| Performance Indicator | Description | Reported | Cross-reference/ Direct answer | Explanation |
|---|---|---|---|---|
| LA2 | Total number and rate of new employee hires and employee turnover by age group, gender, and region. | Partially | Talent Localization | Only hiring numbers are reported |

### *Labor/Management Relations*

| | | | | |
|---|---|---|---|---|
| LA4 | Percentage of employees covered by collective bargaining agreements. | Fully | Labor Relations, Freedom of Association and Collective Bargaining | |

### *Occupational Health And Safety*

| | | | | |
|---|---|---|---|---|
| LA7 | Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender. | Partially | Health & Safety | Data not described by gender and locations |

### *Equal Remuneration For Women And Men*

| | | | | |
|---|---|---|---|---|
| LA14 | Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation. | Fully | No discrimination based on gender is exercised in determination of basic salary and remuneration | |

## SOCIAL: HUMAN RIGHTS

### *Non-discrimination*

| Performance Indicator | Description | Reported | Cross-reference/ Direct answer | Explanation |
|---|---|---|---|---|
| HR4 | Total number of incidents of discrimination and corrective actions taken. | Fully | None | |

### *Indigenous Rights*

| | | | | |
|---|---|---|---|---|
| HR9 | Total number of incidents of violations involving rights of indigenous people and actions taken. | Fully | None | |

### *Remediation*

| | | | | |
|---|---|---|---|---|
| HR11 | Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms. | Fully | None | |

## SOCIAL: SOCIETY

### *Corruption*

| Performance Indicator | Description | Reported | Cross-reference/ Direct answer | Explanation |
|---|---|---|---|---|
| SO4 | Actions taken in response to incidents of corruption. | Fully | NO incident of corruption reported during 2013 | |

### *Compliance*

| | | | | |
|---|---|---|---|---|
| SO8 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. | Fully | No such fines imposed | |

## SOCIAL: PRODUCT RESPONSIBILITY

| Performance Indicator | Description | Reported | Cross-reference/ Direct answer | Explanation |
|---|---|---|---|---|
| PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. | Fully | No such fines imposed | |