Engro Polymer & Chemicals is proud to present its Annual Report for the year 2014. This report focuses on Stakeholder Information, Corporate Governance, the Directors' Report and Financial Statements for the year ended December 31, 2014.

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

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

Painting Blue to Stay Green

The blue of this report depicts our continued commitment to water conservation. Engro Polymer and Chemicals is dedicated to efficient utilization of water through its products, thus keeping its environmental footprint relatively green.

Engro, at a group level, has been pushing ahead with a strategy to inform its shareholders and readers of how the Company creates value over time by showcasing both financial and non-financial information. Guided by this philosophy we launched our first integrated report last year that incorporated elements of our sustainability and annual reports as per the newly launched Integrated Reporting Framework.

To read more about our value creation process as per the new framework you can visit our group website www.engro.com and access the Integrated Report 2014 in the Downloads section. Alternatively you can also view a digital version of the report by visiting www.engro.com/integratedreview2014

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Our Mission

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

Corporate Objectives

- Improve health & safety standards as per the DuPont framework
- Adhere to global environmental standards based on British Safety Council standards
- Ensure site reliability and product availability
- Penetrate domestic vinyls market through new product development and market awareness
- Develop and optimize manpower and improve employee engagement
- Complete PVC debottlenecking resulting in capacity enhancement of 22 KT

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Our Core Values

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

Ethics & Integrity

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

Community & Society

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

Health Safety & Environment

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

Our People

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

Innovation & Risk Taking

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

Our Statement of Best Practices

- Overall, work towards creating an environment which promotes the realization of our Vision and Values, by focusing on behavioral modification and systematic changes.
- Challenge the status quo by, experimenting and taking reasonable and calculated risk.
- Think EPCL, by placing Company interest above individual, sectional, departmental and achieving these before implementing.
- Collectively develop clear, concise and realistic goals, also agreeing on the process of achieving these before implementing.
- Balance task, team and individual needs, by keeping the helicopter view.
- Work through teams, by valuing all ideas and effectively committing people through consensus building and active involvement.
- Remind each other on the importance of using participatory processes, just as much as emphasizing attention on safety, quality and continuous improvement.
- Recognize individual needs and help fulfill them.
- Trust each other by delegating authority and decision making to the lowest possible level.
- Encourage sharing a clear, consistent and timely feedback for learning and growth.
- Give everyone a chance by listening patiently and thinking before speaking.
- Recognize team and individual efforts to change by celebrating both lessons and successes.

Our Statement of Business Ethics

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

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

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

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

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

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

Our Approach Towards Creating Meaningful Value

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

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

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

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

Engaging Stakeholders

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

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

EPCL's stakeholders include:

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

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

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

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

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

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

Our Hues of Green

Forest Gradation Program

The 'Go Green Drive' focuses on the conservation of reserve forest lands of Pakistan with special emphasis in Punjab and Khyber Pakhtunkhwa regions. This has led to EPCL's active involvement in protecting and conserving forests in the country, while highlighting their beauty and splendor and increasing public awareness regarding the threats to their existence through its various modes of communication.

Stakeholder Information

Company Information

Board of Directors
Muhammad Aliuddin Ansari - Chairman
Khalid S. Subhani (Chief Executive)
Kimihide Ando
Shahzada Dawood
Naz Khan
**Khalid Rahman
Asif Saad
*Abdul Samad Khan
***Waqar Malik
Takashi Yoshida

Chief Financial Officer
Mohsin Ali Mangi

Company Secretary
Schaane Ansari

Corporate Audit Manager
Muneeza Kassim

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

Share Registrar
FAMCO Associates (Private) Limited
8-F, Next to Hotel Faran, Nursery,
Block-6, P.E.C.H.S., Shahra-e-Faisal
Karachi-74000
Tel: +92(21) 34380101-5 lines

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

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

PABX	:	+92-21-35293871-85
Fax	:	+92-21-35293886
UAN	:	111 411 411

Plant
EZ/1/P-ii-1, Eastern Zone, Bin Qasim, Karachi

Website
www.engropolymer.com

*Mr. Abdul Samad Khan resigned from the Board effective January 01, 2015

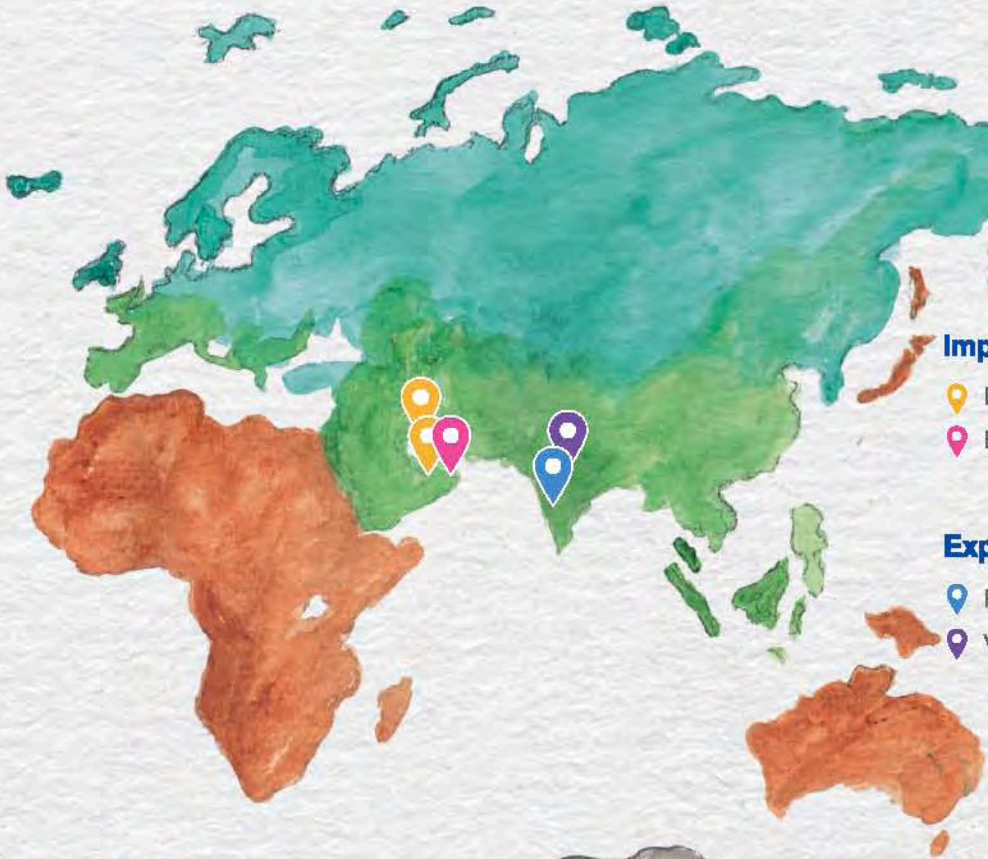
**Mr. Khalid Rehman resigned from the Board effective January 14, 2015

***Mr. Waqar Malik resigned from the Board effective February 06, 2015

Business at a Glance

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

Poly Vinyl Chloride (PVC)



Importing Countries

- ETHYLENE
- ETHYLENE DI CHLORIDE (EDC)

Exporting Countries

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

Domestic Market

PVC

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

PVC

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

PVC Plant Information

Capacities:

- 178 KTA PVC - as at december 31, 2014
- 127 KTA EDC
- 204 KTA VCM

PVC

AU 67 S : Soft sheet, garden hose

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

AU 67 R : Pipe, soft sheet, window profiles

AU 60 : Rigid sheet, pipe fittings

Caustic & Allied Chemicals

Raw Material

Salt is our primary raw material for Caustic and allied chemicals

Caustic Plant Information

Capacities:

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

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

Caustic & Allied Chemicals

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

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

Hydrochloric Acid : Pickling, oil well acidizing, water treatment, cleaning, food processing, medicine

Hydrogen : Used in the manufacturing of terephthalic acid

Domestic Market

SWOT Analysis

Strengths

- Integrated production facility capable of operating at high capacity utilization
- Established brand name and diversified product portfolio
- Strong human resource base and unique technical expertise in chlor vinyls
- Established domestic presence and access to global export markets

Weaknesses

- Limited pricing power due to linkage with international prices
- Dependence on specialized raw material which is not widely available

Opportunities

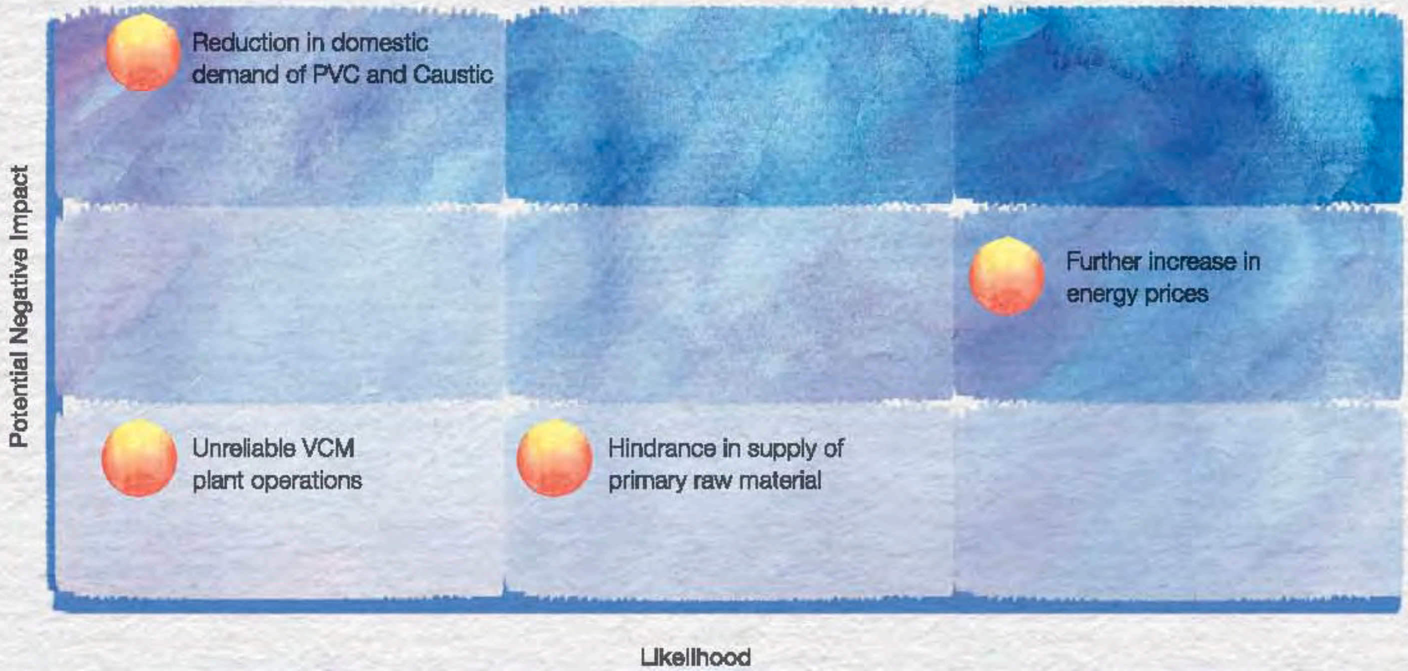
- Low per capita PVC consumption in the country
- Improving economy and uptick in private construction activity
- Introduction of PVC in large diameter pipe

Threats

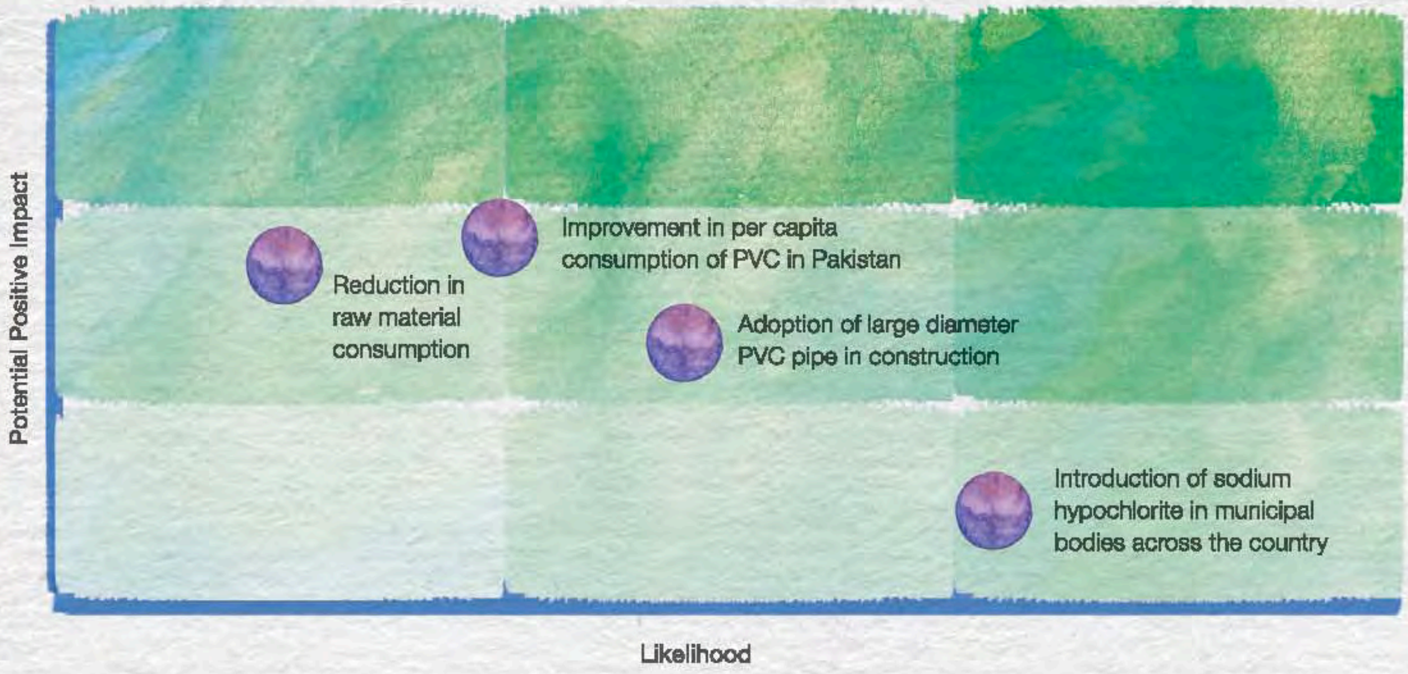
- Volatility in international commodity prices
- Regulatory duty on import of primary raw material
- Rise in gas energy prices in Pakistan
- Volatility in currency exchange rates

Risk and Opportunity Matrix

Risk



Opportunity



Key Figures

Sales Revenue (Rs. in thousands)

2013 24,780,581

2014 23,819,272

Earning / (Loss) Per Share (in Rs.)

2013 1.07

2014 (1.67)

Profit / (Loss) After Tax (Rs. in thousands)

2013 706,707

2014 (1,109,318)

Capital Expenditure (Rs. in thousands)

2013 638,543

2014 1,052,114

Total Assets (Rs. in thousands)

2013 25,368,363

2014 26,336,715

Market Capitalization (share price)

2013 8,897,116

2014 7,961,625

Share price (In Rs.)

2013 13.41

2014 12.00

Total Equity (Rs. in thousands)

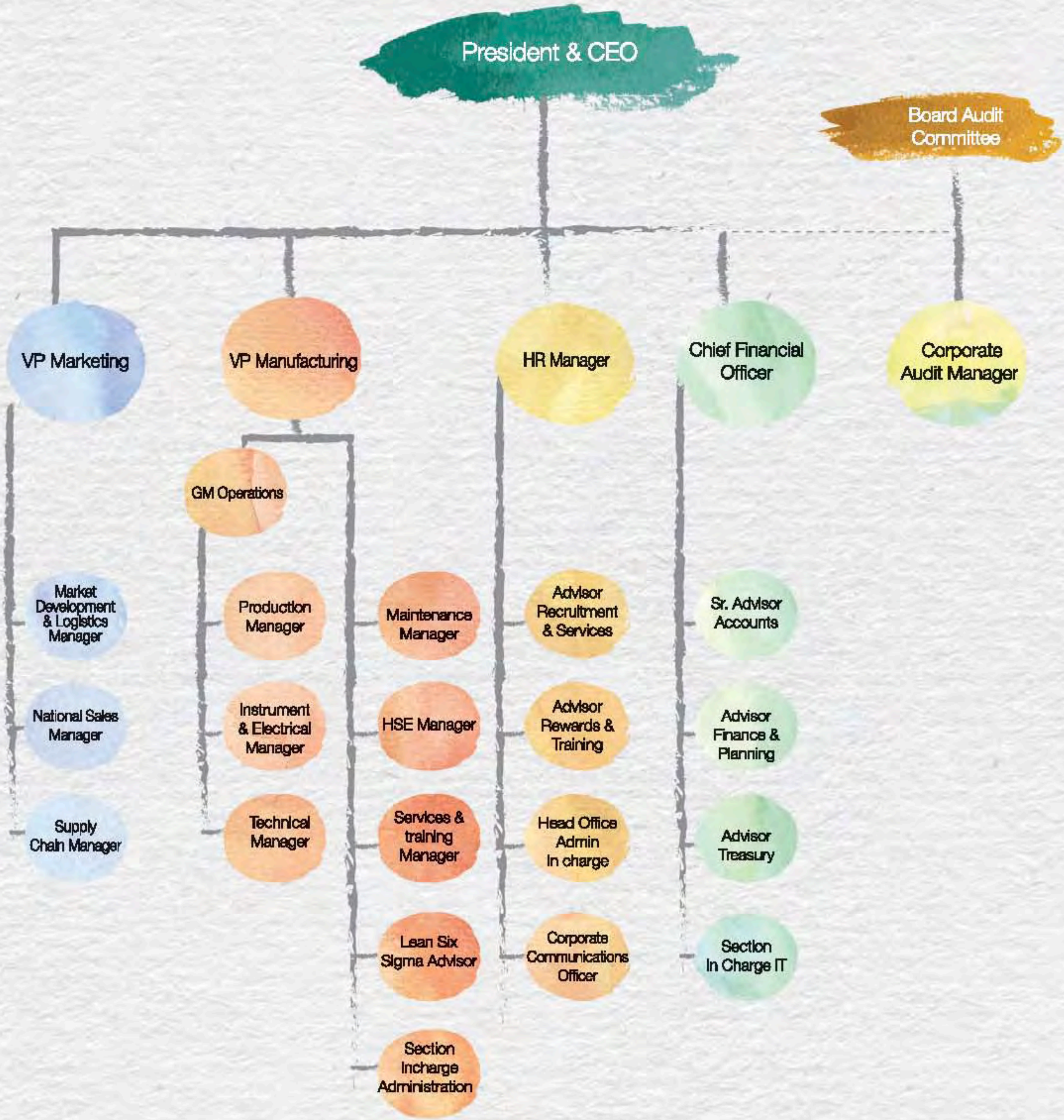
2013 7,052,953

2014 5,965,034

Key Highlights & Major Achievements

- First Engro company to achieve DuPont PSM/ PSRM rating of 4+(Excellence) for all of its operations
- Highest rating of 3.3 amongst all Engro companies achieved in DuPont audit for OHIH
- Won Engro Cross Companies Safety Award in Non-Manufacturing for 3 consecutive years
- Completed de-bottlenecking of 22 KT on PVC and in house repair of tornado gas turbine
- Highest ever production of PVC and EDC
- Locally manufactured PVC large diameter pipe to penetrate Concrete Pipe market
- Achieved long term PACRA credit rating of A and short term rating of A1
- Received award for 'Best Annual Report', in the chemical sector, by joint committee of ICAP & ICMAP

Organizational Structure



Awards Achievements & Accreditations

Certifications

DuPont Certification

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

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

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

In Januray 2015, an external audit was conducted by DuPont, and EPCL achieved a PSRM (Process Safety Risk Management) rating of 4.0 and PSM (Personnel Safety Management) rating of 4.2.

DuPont assess various safety system of an organization on a scale of (Basic systrems in place) and 5 (Excellence in safety systems). In short EPCL, is heading towards excellence in safety.

On OHIH, in the year 2014, the Compnay achieved OHIH external audit rating of 3.3.

EMS-ISO 14001 Certification

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

In 2013, the British Safety Council 5 star audit program for environment management system was implemented and a second party audit rating of 3 Star (80%) was achieved.

QMS-ISO 9001-2000 Certification

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

Integrated Management Systems

Engro Polymer is now Integrated Management System, ISO-14001, ISO-9001 & OHSAS 18001 certified by SGS, an external auditor.

In order to get updated on latest development on HSE front and networking EPCL have membership of following world renowed organizations as well;

- Center of Chemical Process Safety (CCPS)
- National Safety Council (NSC)
- British Safety Council (BSC)

GRI Certification

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

Green Office Certification

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

In 2014, three more office buildings at the plant site were certified as Green Office by WWF.

Credibility

PACRA Rating

In 2014, the Company was awarded an investment grade rating by PACRA. The Company has 'A' Long term and 'A1' Short term rating. Strong rating is a testimony to the fact that the Company has achieved operational consolidation and has promising fundamentals. The investment grade rating will enable the Company to explore new avenues to raise capital, optimize capital structure and weighted average cost of capital.

Best Corporate Report Awards

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

In 2014, the EPCL annual report won the first prize for the 'Best Corporate Report' in the chemical sector.

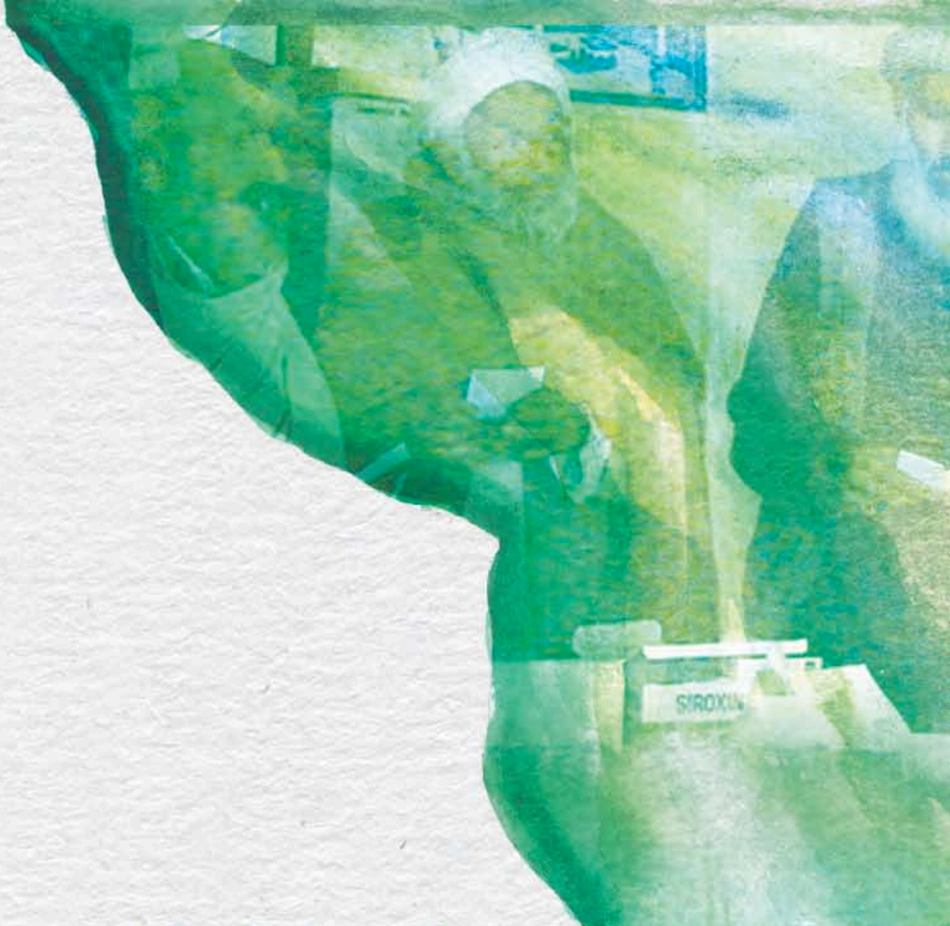
SAP & Siemens Award

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

UN Global Compact

The Company signed the United Nations Global Compact (UNGC) in 2010. This initiative meant that it is committed to following the ten values stated in the Compact. The organization entered the contract to achieve highly-regarded worldwide standards of sustainable and socially responsible policies. Moreover, the Company reported its first communication on progress in 2012 from the time when it had become a signatory of the UNGC, and this was renewed in 2013.

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



The Palette of Initiatives

Water Conservation

Engro Polymer & Chemicals Ltd. takes a holistic approach to addressing the important aspects of water use and conservation not only in agricultural but also in non-agricultural applications.

Corporate Governance

Governance Framework

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

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

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

The Internal Environment

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

Internal Control Framework

Responsibility

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

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

Framework

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

Risk Assessment

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

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

Control Activities

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

Information Systems' Governance Framework and Safety of Accounting Records

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

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

Conflict of Interest Policy

Every employee, director and executive at EPCL is required to and strives to avoid any conflict between their own interests and the interest of the company in dealing with suppliers, customers and all other organisations/individuals doing or seeking to do business with the company or any affiliate.

In addition, in the event of such conflicts arising in the conduct of employees', executives' or directors' personal affairs, including transactions in securities of the company, of any affiliate, or of any unaffiliated company having a business relationship with company interests, full compliance to the restrictions and set of disclosures requirements laid down by the management is ensured. Moreover, a robust mechanism to report exceptions, if any, to the office of Internal Audit Function has been established within the company to ensure that company resources are utilised in the shareholder's best interest.

Investor Relations Policy

Engro Polymer & Chemicals Ltd. strives to develop and maintain trustworthy relations with its stakeholders, including shareholders and investors. It recognizes the importance of timely and fair disclosure of all material information to them, without advantage to any particular investor, group or investment advisor / analyst, in order to enable them to make informed decisions about investing in the Company's equity and other debt instruments.

- The Company will ensure that a Shares Registry or Customer Call Centre exists to handle shareholders / other investors' complaints and tackle any problems that they may be facing with regard to their investments or access to relevant corporate communications.
- The Company will disclose all material information in a fair and transparent manner in compliance with legal requirements and listing regulations of the stock exchanges where it is listed.
- It may also disclose, through designated spokespersons, other financial or non-financial information that it considers useful for enhancing stakeholders understanding. This may be done through analysts briefings, press releases, television programs or postings on the Company's website.
- Where it makes any forward-looking statements / projections based upon information available at the time of disclosure or assumptions of future events, it will qualify such statements by disclosing the factors that could cause actual results to materially differ from those being implied in such statements.
- To prevent information leaks and maintain fairness in disclosure the Company will observe a "quiet period" prior to the announcement of quarterly / annual results, during which it will decline to respond to inquiries about its business performance and related matters.

HSE Policy

"To be recognized as a world class performer in the field of Health, Safety & Environmental Management"

Engro Polymer will:

- Conduct its business in a manner that protects the health and safety of employees, contractors, others involved in our operations and the community in which we operate.
- Continuously improve environmental performance to achieve sustainable development.
- Strengthen its business by making Health, Safety & Environment (HSE) considerations an integral part of all business activities.
- Comply with all laws & regulations.
- Practice transparent public reporting of the HSE performance.
- Ensure that HSE is a major responsibility of appropriately trained, empowered & accountable employees & management.
- Promote a culture of learning & practicing HSE management among employees and contractors.

Encourage off the Job HSE awareness among employees and families.

Khalid S. Subhani
President and CEO
Engro Polymer and Chemicals Limited

To achieve these objectives, Engro Polymer Shall:

Health

- Identify and evaluate health risks related to its operations that potentially affect its employees, contractors or the public.
- Implement programs and appropriate protective measures to control such risks, including appropriate monitoring of its potentially affected employees. Carry out pre-employment and periodic medical check-up of its employees.
- Provide or arrange for medical services necessary for the treatment of employee occupational illness or injuries and for handling medical emergencies.

Safety

- Implement a rigorous system of Process Safety Risk Management
- Institutionalize behavioral safety practices using the Personnel Safety Management system.
- Keep abreast of the latest international codes, standards and practices and adopting the same where applicable.

Environment

- Comply with all applicable environmental laws, regulations and apply responsible standards where law and regulations does not exist.
- Conserve natural resources & energy by continuously improving our processes and measuring performance.

• Continuously improve our processes to minimize pollution and waste.

Whistleblower Policy

All EPCL stakeholders are mandated to abide by the company's code of conduct and also encouraged to speak-out any concerns related to business ethics, health safety and environment, harassment, employment related matters or other possible breaches of compliance. The responsibility to report any ethical breaches is ingrained in our employees, contractors and suppliers which is further reinforced via management's behavior and firm commitment. All stakeholders are encouraged to take up non-compliances and questionable practices, if any, with company authorities, i.e. divisional and departmental heads and Corporate Audit Department without any fear of reprisal.

In 2014, four incident were highlighted and dealt under the policy.

Review

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

Responsibilities of the Chairman:

At EPCL, as per Code of Corporate Governance, Chairman along with other Board members play a major role in ensuring that the statutory and fiduciary duties of directors are properly carried out and the board, as a whole, functions effectively in deciding the corporate policy, while CEO and his senior executives devise the long-term and short-term operational plans for the Company

Formal Orientation

The Human Resource department chalks out a formal orientation plan, which is followed at the induction of a new board member. The orientation plan is devised to familiarize the new member with the business. Each Divisional Head of the company takes them through a presentation pertaining to their own divisions and macro level policies are discussed. Plant site and Head office visits are a part of this orientation plan.

Training Program for Directors

The Directors Training program has been completed by Aliuddin Ansari, Khalid S. Subhani, Naz Khan, Shahzada Dawood, Waqar Malik, Asif Saad, Khalid Rahman and Abdul Samad Khan, during the preceding years from recognized institutions of Pakistan approved by the SECP.

Evaluation Criteria of Board Performance:

- Has clarity on Company beliefs, values and strategic/business plans
- Board meetings are conducted in a manner that ensures open communication, meaningful participation and timely resolution of issues
- Quality material is received by Directors, for Board meetings
- Board members receive timely meeting notices along with advance written agendas
- Clear and concise background material for the meetings is provided
- Minutes of the meeting are accurately documented
- Board receives timely reports on finances/budgets/compensation and other important matters
- Board members respect the difference between the board's policy making role and CEO's management role
- Board goals, expectations, and concerns are communicated to the CEO
- Overall rating for the performance of the Board

Succession Planning:

Every year at Engro Polymer & Chemicals Limited "Talent Review Sessions" are conducted. Main objective of talent review process is to map the succession plan of a department with the capacity, potential and career development needs of employees in order to develop a comprehensive Talent Management Plan. Talent review process is a series of structured, facilitated process where employees (direct reports) are reviewed in terms of their key strengths, career goals, stage of readiness, areas for development and development actions plans. Outcome of these sessions has helped the company in increasing the rate of internal moves / replacements. We currently have four distinct training programs to cater different needs of the organization.

Audit

Head of Internal Audit Department functionally reports to the Board Audit Committee and administratively to CEO. Reviews of financial and operational level controls and compliance checks for all policies and procedures are performed by our Internal Audit function and findings are shared on a quarterly basis with Board Audit Committee, Chief Executive and the concerned Divisional Management.

Reasonable level of assurance with regard to the adequacy of disclosures, transparency of data, internal controls, and risk management framework operating is provided by the office of Internal Audit Function to the Board Audit Committee. Greater emphasis is placed on investigation and auditing that conforms to international standards, good Corporate Governance and best auditing practices. This facilitates continuous development and a greater awareness of the need for preventive measures within the Company.

Salient features of Internal Audit Charter

Our Internal Audit Function assesses whether the company's network of controls, risk management, and compliance processes, as designed, formulated and represented by management, are adequate, effective and functioning appropriately in a manner to ensure that:

- Significant financial, managerial and operating information is accurate, reliable and timely

- Significant statutory or regulatory issues impacting the Company are recognised and addressed appropriately
- Resources are acquired economically, used efficiently and adequately protected
- Quality and continuous improvement are fostered in the company's control process
- Risks are appropriately identified and managed
- Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations

Directors

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

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

A Board of Directors' meeting calendar is issued annually and includes matters reserved for discussion and approval. The full Board met five times in 2014 including meetings for long term planning, giving consideration to both the opportunities and risks of future strategy.

All Board members are given appropriate documentation in advance of each Board meeting. This normally includes a detailed analysis on the business and full papers on matters where the Board will be required to make a decision or give its approval.

Board Evaluation

Code of Corporate Governance 2012 mandatorily requires evaluation of the Board of Directors as a whole, its Committees and the contribution of each Director to the strategic direction and steerage of the Company. In this regard, a comprehensive range of self-evaluation surveys were conducted in EPCL with respect to the performance of its Boards of Directors and Principal Board Committees. Purposive feedback from all Board members was solicited on areas of strategic clarity & beliefs, direction of business plan and functional adequacy of its role.
Equally emphasized, the individual contribution of each Director was assessed and evaluated during the year by both Chairman of the Board and CEOs of the respective companies - highlighting significant areas of development for them.

Board Activities in 2014

In 2014, the Board's activities were characterized by prospective issues of central importance. Significant attention was paid to strategic planning, financing strategy and foreign exchange management. In November, the Board also approved the Corporate Plan for 2015.

Board Meetings And Attendance

In 2014, the Board of Directors held 5 meetings to cover its complete cycle of activities. The attendance record of the Directors is as follows:

	Committee Members		Attendance		
Director's Name	Board Audit Committee	Board Compensation Committee	Board Meetings Attended	Board Audit Committee	Board Compensation Committee
Mr. Muhammad Aliuddin Ansari			5/5		3/3
Mr. Khalid Siraj Subhani			5/5		
Mr. Kimihide Ando			5/5	7/8	3/3
Mr. Shahzada Dawood			4/5		3/3
Mr. Abdul Samad Khan**			5/5		
Ms. Naz Khan			5/5	7/8	
Mr. Waqar Malik****			5/5		3/3
Mr. Takashi Yoshida			5/5		
*Mr. Khalid Rahman***			4/4	6/6	
*Mr. Asif Saad			4/4	6/6	
Mr. Shabbir Hashmi*****			1/1	2/2	

*Elected Directors effective 15-04-2014.
**Mr.Abdul Samad Khan resigned from the Board effective January 01, 2015
***Mr. Khalid Rehman resigned from the Board effective January 14, 2015
****Mr. Waqar Malik resigned from the Board effective February 06, 2015
*****Retired Director on completion of tenure on 15-04-2014.

Governance Performance

Enterprise Risk Management

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

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

Business Risks and Challenges

Risk	Impact and Strategy
Reduction in domestic demand of PVC and Caustic	EPCL is the sole manufacturer of PVC in Pakistan; in 2014 the Company completed its second phase of PVC debottlenecking taking the cumulative capacity to 178 Kilo Tons per annum. At present the capacity is higher than local demand. EPCL is aggressively pursuing marketing development activities to stimulate local demand but until then the Company has an option to export surplus PVC in regional markets. EPCL entered the Caustic Soda market in 2009; it has been able to penetrate the local market and holds leadership position in South. The Company has developed strong relationship with end users across segments
Hindrance in supply of primary raw material	The Company has integrated Chlor Alkali facility and is primarily dependent on Ethylene for uninterrupted operations. EPCL has developed strong relationship with Ethylene suppliers and regional traders to ensure availability of raw material. However, the regional supply dynamics can at times challenge availability and result in delayed deliveries. EPCL enjoys strategic relationship with Mitsubishi of Japan for supply of ethylene.
Further increase in energy prices	EPCL is implementing energy efficiency projects to minimize the impact of increase in gas price however its profitability remains vulnerable to hefty increase in gas price.
Continuation of duty on import of primary raw materials	In federal budget 2015, the government imposed 5% duty on import of Ethylene and EDC. The Company has pursued the case of zero duty on imports with relevant government authorities; however, in case zero duty status on ethylene and EDC is not restored EPCL's profitability will be impacted
Unreliable VCM plant operations	Stable VCM operations are a prerequisite for stable PVC production. EPCL has demonstrated reliable VCM plant operations consistently over last years and has been able to meet entire PVC production through in house VCM. In case required, the Company also has an option to import VCM from regional markets and maintain PVC production

Treasury Management

Liquidity Risk Management

Liquidity management is a crucial aspect of our business due to the frequent volatility in international commodity prices and other external factors such as foreign exchange rates, interest rates and gas price that can affect liquidity.

Frequent cash forecasting enables the Company to measure its immediate cash needs. This operation encompasses revenue streams, raw material payments, debt servicing and frequent import of spares and capital expenditures.

Peak cash cycles are mitigated using approved lines of credit.

Long term cash requirement is measured in our Corporate Planning Cycle based on a 5-Year horizon.

We try to maintain order on the balance sheet by utilizing long term capital for capital expenditures and short term running finance for working capital needs.

In case of surplus cash, excess is placed in government securities and mutual fund to earn the best possible returns.

Overall liquidity situation of the Company remains fairly comfortable as our sales are mostly based on cash while we enjoy credit from our raw material suppliers.

Foreign Exchange Risk Management

The Company's core margin of PVC is derived in US Dollars as the prices of both raw materials and finished goods are providing a partial natural hedge to the Company against rupee devaluation to the extent of gross profits.

We have further restricted the downside of currency fluctuations by booking forward contracts on usance import LCs. The Company also has sizeable foreign currency loans on its books which are subject to revaluation based on the prevailing currency rate.

Interest Rate Management

The Company's capital structure involves sizeable leverage exposing EPCL to interest rate risk. As of December 31, 2014, outstanding borrowings stood at Rs. 9,114 Million out of which Rs. 1,694 relating to 2 bilateral loans was drawn-down in December 2014. Further, Rs. 1,992 Million (USD 20 Million) is related to a LIBOR based foreign currency loan.

The Company has hedged a proportion of its interest rate risk by entering into floating-to-fixed interest rate swaps on its foreign currency borrowings.

Credit Risk Management

The Company monitors and manages the credit quality of its financial assets. Exposure to credit risk is minimal as unsecured credit is only provided as per policy to customers with strong credit history.

Further, the majority of trade debt is secured by bank guarantees and letters of credit.

Credit risk with regard to investments is limited as the Company places its idle funds with Financial Institutions with high credit ratings only.

Audit Report Ratings

During the year, EPCL had 10% (compared to 8% in 2013) of its Internal Audit Reports rated as Management Attention Required (MARs) against a restrictive threshold of 10% set for all Engro group companies. There were no 'unsatisfactory' rated reports in 2014.

Report of the Audit Committee:

The Board Audit Committee is one of the critical governing bodies of the company. It assists the Board in fulfilling its oversight responsibilities in areas such as the integrity and adequacy of financial reporting, the effectiveness of the risk management and internal controls and related governance and compliance matters in line with the Securities Exchange Commission of Pakistan (SECP) and listing regulations. The committee focuses on ensuring that the EPCL's control framework is operating effectively as intended and evolving in line with the external environment, industry requirement and Company's growth.

The Audit Committee comprises of all non-executive and 2 independent directors with at least one member having expert knowledge of finance and accounting.

Chairman of our BAC, Mr. Khalid Rehman, is a member of the Institute of Chartered Accountants in England & Wales and Institute of Chartered Accountants of Pakistan (ICAP), has professional experience that spans over 35 years including senior management positions in oil and gas and banking industry & accounting profession in Pakistan and abroad. He resigned from the Board of EPCL on 14th of Jan 2015.

The terms of the Audit Committee's mandate are governed by the Board of Directors and the Code of Corporate Governance. The Audit Committee met eight times during the year 2014. Regular attendees at the Committee meetings include the Chief Financial Officer and the Head of Internal Audit. Departmental Heads are invited for relevant items of the agenda, as and when required. The Committee also independently meets external and internal auditors once every year.

During the year 2014, the following key responsibilities were satisfactorily carried out by the BAC:

- Compliance with the Code of Corporate Governance
- Review of quarterly, half-yearly and annual financial statements of the Company prior to their approval by the Board of Directors, focusing on major judgmental areas, compliance of accounting standards, local regulations and other statutory / regulatory requirements
- Review of Related Party Transactions, confirming that the pricing methods used were on terms equivalent to those that prevail on arm's length basis
- Proper accurate and adequate accounting records have been maintained by the company
- Monitor management's compliance with all Company's policies including complaints received through the Speakout – Whistleblower Policy
- Approve the annual internal audit plan and monitor its progress to ensure enhancement of overall control environment of the organisation
- Company's system of Internal Control is sound in design and been continually evaluated for effectiveness and adequacy.
- Review the irregularities & whistleblower complaints lodged during the year
- Recommend the appointment of the external auditors to the Board to be confirmed by the Company's shareholders in the Annual General Meeting

Kimihide Ando
Director

Board of Directors

Profile of Directors

Muhammad Aliuddin Ansari

Chairman

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

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

Khalid Siraj Subhani

President & Chief Executive

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

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

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

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

He graduated from NED University of Engineering and Technology, Pakistan with a degree in Chemical Engineering and has completed programs on advance management from MIT and Hass School of Business Management, University of Berkeley, USA. He and his wife have two daughters and a son.

Kimihide Ando
Director

Kimihide Ando was posted as General Manager for Pakistan, Mitsubishi Corporation in April 2010. This is his second assignment to Pakistan, the 1st of which was during 1998 – 2003. He has a Bachelor of Liberal Arts degree from the International Christian University, Tokyo and joined Mitsubishi Corporation, Japan in 1982. He has spent most of his career in the Chemical Group. During his tenure, other than Pakistan he was assigned to Egypt, Iraq, Saudi Arabia, Malaysia and Indonesia, and has diverse experience in Marketing, Chemicals, HRD and Manufacturing. He became on the board of Engro Polymer & Chemicals Ltd in 2010. He is also Director of Tri-Pack Films Limited. Moreover he is Vice Chairman of PJBF, Pakistan Japan Business Forum. He was President 2013 of OICCI, Overseas Investors Chamber of Commerce and Industry. He is also director of PBIT, Punjab Board of Investment and Trade.

Naz Khan
Director

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

Mr. M. Asif Saad
Director

Mr. Asif Saad served as Chief Executive of Lotte Chemical Pakistan, one of the largest petrochemical producers in the country, from 2008 to 2014. Prior to this he was employed with the ICI Pakistan group for almost 20 years and held various management positions in diverse businesses such as Paints, polyester and Chemicals. In 2002 he joined Pakistan PTA Ltd as Commercial Manager with responsibilities for Marketing, Sales and Supply Chain functions and was appointed CEO in 2008. During his tenure as CEO, he led the management team through acquisition of this company by the Korean conglomerate Lotte.

Mr. Saad is a former Director of Pakistan Business Council (PBC) and former Vice President of the Overseas Investors Chamber of Commerce & Industry (OICCI). He currently serves on the boards of Education Fund for Sindh, Engro Polymer & Chemicals, Alfalah GHP Investments and Port Qasim Authority. He has also served on the board of Pakistan Human Development Fund and was a member of the fund's investment committee. Mr. Saad has an MBA from LUMS and has undertaken extensive executive & leadership training. He is also a certified Director by PICG.

Shahzada Dawood
Director

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

Takashi Yoshida
Director

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

Waqar Ahmed Malik
Director

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

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

An Alumnus of Harvard Business School and INSEAD, Waqar is a Fellow of the Institute of Chartered Accountants in England & Wales.
He joined the Board in 2007.

Mr. Khalid Rahman
Director

With professional experience of over 35 years in Senior Management, Mr. Khalid Rahman was previously a part of prestigious organizations including SSGC, Pakistan Petroleum Ltd., and Institute of Chartered Accountants, Pakistan.

His experience in the Oil, Gas and Banking Industry has spanned across continents including Asia, Europe and the Far East. In addition, he has handled regional responsibilities in the United Kingdom and Hong Kong for 17 years.

Previously in Pakistan Petroleum Limited for two decades, he has worked there in various capacities including Chief Executive Officer, Managing Director, Deputy Managing Director, Chief Financial Officer and Company Secretary. He was also part of the Institute of Chartered Accountants as the Chief Operating Officer.

A council member of the ICAP, having served on the Board of Overseas Investors of the Chamber of Commerce and Industry, LUMS, PIP, Petroleum Exploration and Production Companies Association and the Community Development Board of Government of Sindh, Mr. Khalid Rahman has also been an active part of various business and professional forums.

He was also honored with the responsibly of representing the Institute of Chartered Accountants of Pakistan on the Advisory Compliance Panel of International Federation of Accountants.

He is also a member of the Institute of Chartered Accountants in England and Wales, Institute of Chartered Accountants of Pakistan and the Ontario Institute of Chartered Professional Accountants and an alumnus of the Graduate Business School, Stanford University and Kellogg Graduate School of Management, North Western University.

Abdul Samad Khan
Director

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

Principal Board Committees

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

Board Audit Committee (BAC)

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

The Chief Financial Officer and the Head of Internal Audit regularly attend BAC meetings by invitation to discuss matters relating to financial statements and audits. The Committee also frequently meets with external auditors independently. The Committee met 8 times during 2014.

Members

Khalid Rahman (Chairman)*

Kimihide Ando (Director)

Naz Khan (Director)

Asif Saad (Director)

*Khalid Rahman resigned from the Board effective January 14, 2015.

Secretary

Muneeza Kassim

Board Compensation Committee (BCC)

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

The President attends BCC meetings by invitation, and the Committee met 3 times during 2014. The members of the Committee are as follows:

Members

Muhammad Aliuddin Ansari (Chairman)

Kimihide Ando (Director)

Shahzada Dawood (Director)

Waqar Malik (Director)*

Secretary

Shmaz Mir

*Waqar Malik resigned from the Board effective January 01, 2015.

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Management Committee

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

Khalid Siraj Subhani
President & CEO

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

Arshaduddin Ahmed
Vice President Marketing

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

Shmaz Mir
Human Resource & Corporate Communication Manager

Shmaz Mir is working as Human Resource & Corporate Communication Manager since April 2014.
Having a diversified experience of operations management, business consultancy, HR, IR and Corp Communication, Shmaz started his career from Fauji Fertilizer Company Ltd as an Engineer. Post MBA he worked as Business Consultant at SME Business Support Fund (Asian Development Bank project). He later joined Fatima Fertilizer Company Limited and handled two companies Human Resource & IR Division. He joined Engro Corporation's HR in 2011 after working for three years in previous

company. In 2013 Shmaz was transferred to EPCL's HR, where he was given additional responsibility for Lean Six Sigma and Corporate Communications.He holds a Bachelors' degree in Chemical Engineering from the University of Engineering & Technology, Lahore and a MBA degree from Lahore University of Management Sciences

Jahangir Piracha
Vice President Manufacturing

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

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

Jahangir Waheed
General Manager Operations

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

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

Mohsin Ali Mangi
Chief Financial Officer

Mohsin Ali Mangi joined Engro Polymer & Chemicals Ltd. as Chief Financial Officer in October, 2013. Before joining EPCL, his previous assignments included Chief Financial Officer in Engro Fertilizers Ltd. and Engro Powergen Ltd. His past assignments include Equity Analyst at Credit Suisse Singapore covering Oil & Gas, Energy and Petrochemicals and Head Advisory (Investment Banking Group) at Global Securities/NIB Bank. He has 15 years of experience working in business development, project finance, consultancy, investment banking and equity research.

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

Syed Nayyar Iqbal Raza
Manager Market Development & Logistics

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

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Functional Committees

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

Management Committee (MC)

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

Members

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

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

Corporate HSE Committee

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

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

Members

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

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

Committee for Organization & Employee Development (COED)

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

Members

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

The Secretary of the Committee is Mr. Shmaz Mir.

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President Review

In 2014, Engro Polymer & Chemicals steered through one of the most challenging years in its history. The Company was confronted with several challenges on the commercial side and unfortunately several of them were beyond our locus of control.

EPCL continued to uphold its regard for HSE; during the year several milestones were achieved in this account. The DuPont Safety Management Systems in their audits awarded a rating of 4+ (Excellence) for companywide operations and a rating of 3.3 (Satisfactory) for Occupational Health and Industrial Hygiene.

On the operational front, the Company achieved highest ever production of EDC and PVC while maintaining production levels for VCM and Caustic Soda. As planned in 2013, the debottlenecking of PVC plants was successfully completed, enhancing capacity by 22KT. A total of $10 Mn was spent on the plant site during the year to manifest higher volumes and to ensure safer and more sustainable site operations.

The domestic market for PVC remained challenging in 2014. Major obstacles included declining PVC prices in the international market. The trend started in July and lasted till December, inducing the customers to remain in wait and see mode and avoid inventory buildup, imposition of duty on PVC pipes by the government of Afghanistan, imposition of import duty on primary raw materials i.e. Ethylene and EDC, and erosion of inventory value erupting from a reduction in value of vinyl chain prices in the last quarter of 2014. In the area of market development, EPCL facilitated a customer to introduce a new PVC pipe manufacturing technology which enables production of non-pressure PVC pipes of up to a diameter of 118 inches using PVC extruded strips. The pipe can be produced at the construction site and can be extended to long lengths without joints. The product has started to gain market acceptance and has been approved in some major infrastructure projects in the country.

The Caustic Soda market remained competitive but EPCL maintained its leading position in the South and acquired a market share of 36% across the country. During the year, the Company introduced Sodium Hypochlorite for water treatment in municipal bodies.

The overall profitability of the Company remained fragile during the year; the Company maintained its top line despite a price drop, adverse market conditions and appreciation of local currency. However, gross profitability was hurt due to the rise in energy prices after increase in GIDC on gas. In the last quarter of 2014, the Company witnessed a significant dent in profitability due to a sharp drop in PVC price that was followed by a price drop in Ethylene but with a significant time delay. It was only in December 2014 when vinyl chain margins rationalized but by then the Company had already sourced its Ethylene to ensure uninterrupted production. The unfavorable Vinyl prices eroded the value of inventory being held by the Company and forced revaluation of year-end inventory at net realizable value.

During the year, the Company acquired a long-term loan of Rs. 1,700 Mn to carry out CAPEX which will result in volumetric growth, improved plant reliability and operational efficiency. On a holistic level, the Company retired a debt of Rs. 2,254 Mn resulting in net de leveraging of Rs. 554 Mn.

In 2014, the Company was awarded an investment grade rating by PACRA. The Company achieved 'A' long term and 'A1' short term rating. Strong rating is a testimony to the fact that the Company has achieved operational consolidation, and has promising fundamentals. The investment grade rating will enable the Company to explore new avenues to raise capital and optimize capital structure.

On the front of CSR, the construction activity of the school in Ghaghar Phatak initiated through The Citizens Foundation in 2014 and is expected to be operational in April 2015. Our flagship employee volunteer program Envision continued to make its mark in society and we completed 1100 hours of voluntary work. The employees undertook several activities ranging from career counseling/mentorship of students at The Citizens Foundation and the Hunar Foundation, to conducting activities for people with disabilities at Dar ul Sukoon. EPCL volunteers also joined hands with WWF, and contributed towards creating a cleaner and more conducive habitat for Green Turtle hatchlings. In addition to this, EPCL awarded scholarships to a batch of 12 students from Ghaghar Phatak, Port Qasim for City and Guilds training at the Hunar Foundation.

On the productivity and efficiency improvements front, the implementation of Lean Six Sigma (LSS) in 2013 has facilitated in reviewing our processes and enabled us to reduce waste in the Company. In 2014, 24 employees were selected to go through the second batch of Lean Six Sigma training, designed and conducted by the originators of the concept, Motorola Solutions, Singapore. Additionally, 14 employees (from the first batch) were awarded Green Belt certifications post completion of their week long training, online exam and project submission to Motorola Solutions.

A skilled workforce is critical for smooth business continuity and long term growth of the enterprise. In 2014, the attrition rate of the workforce reduced to 9.6% compared to 11% in 2013.

Looking forward, the demand outlook for domestic PVC market remains positive; we highlight growth in private housing activity and higher allocation and spending of public sector development program as levers for growth. The domestic Caustic Soda market remains well supplied, however, capitalization on GSP plus status to textile and supportive textile policy will improve textile sector dynamics and stimulate demand for Caustic Soda. The management will continue to focus on safe and stable plant operations, coupled with improvements in operational efficiencies across all aspects of business so as to achieve the objective of reaping optimal economic benefits. However, the overall economic value creation of the Company remains largely linked to uncontrollable factors such as vinyl chain prices in the international market, energy prices, duty on primary raw materials and currency volatility.

I would like to thank our shareholders, customers, employees and business partners for standing with us in these challenging times. I look forward to our valuable business partnership in upcoming years.

Khalid Siraj Subhani

Diversifying Our Canvas

CSR Strategy

Engro Polymer & Chemicals Ltd's community development programs focus on education, community development and water conservation related initiatives. The Company has various diversified programs in place and is on its way to create visible social impact on the communities within which it operates. It invests in programs that address the environmental and social challenges faced by its business, thus mitigating the impact of its operations through taking these initiatives. It also focuses on the element of sustainable business development and that is what is most visible in its key social investments.

Directors' Report

Directors' Report

The Directors' of Engro Polymer & Chemicals Limited are pleased to submit the annual report and audited accounts for the year ended December 31, 2014. The period under review was one of the most challenging in history. Strong operational performance could not translate into economic benefit due to assemblage of unfavorable market, macro-economic and regulatory influences.

Principal Activities

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

Nature of Business & Business Model

Engro Polymer & Chemicals Limited operates in the Chlor-Vinyl segment; its growth is influenced by the overall macro-economic scenario of the country while profitability is determined by growth in domestic demand, international vinyl chain prices, energy price, operational efficiencies and currency fluctuations. The Company has implemented a multi-tier strategy focusing on expansion of the domestic PVC market, enhanced plant capacity, improved operating efficiencies and hedging of foreign exchange exposure but is still susceptible to volatility in international commodity prices and energy prices.

Organizational Review

The Company sustained consolidation on the operational front but had to take a setback in its journey towards economic swaying. After posting the highest ever profitability last year, the Company posted a loss after tax of Rs. 1,109 Mn translating into negative Earnings Per Share of Rs. 1.67 in 2014 as compared to a profit after tax of Rs. 707 Mn and Earning Per Share of Rs. 1.07 in 2013. This setback was witnessed due to a swing in the USD/PKR exchange rate, increase in Gas Infrastructure Development Cess (GIDC), contraction of the PVC domestic market due to increase in duty on PVC pipes by government of Afghanistan, imposition of 5% duty on primary raw materials and disparaging vinyl chain prices which forced the Company to revalue its finished goods inventory at net realizable value (NRV)

Objectives & Strategy

In 2014, the Company met its operational objectives but efforts were eroded by sharp decline in PVC prices and unfavorable vinyl chain prices in fourth quarter 2014 which wiped out the profitability for the entire year. Going forward, the broad objectives of the Company remain intact, while the management has simultaneously devised a comprehensive strategy to overcome challenges that surfaced in the year. To summarize, the Company plans to restore its profitability regime by leveraging its operational strength, and assigning further emphasis on the marketing frontier. In this regard, the objectives have been set and a detailed strategy has been crafted to achieve them.

Health Safety and Environment

Objectives	Critical Performance Indicators
Maintain safe work environment	Measured against Total Recordable Incident Rate (TRIR), Fleet Accident Frequency Rate (FAFR) targets and DuPont best practices ratings
Further reduce environmental impact	Performance is measured against several benchmark ratings and is also verified by external authorities

Impact
Health, Safety & Environment (HSE) is our core value, we take pride in our practices and will ensure that we run safe operations and are not a source of environmental degradation

Manufacturing

Objectives	Critical Performance Indicators
Maintain optimal production levels	Production targets are set for all products, production and benchmarks for quality have been defined
Maintain raw material/energy consumption ratios	Consumption ratios for major raw materials are monitored on a daily basis and are also linked to management's performance

Impact
Manufacturing ability is the backbone of commodity business, strong production profile will further facilitate the Company's ability to capitalize rising price trends and ensure product availability in the domestic market.

Marketing

Objectives	Critical Performance Indicators
Expand domestic market for vinyl and optimize sales mix for chlor alkali segment	Product wise sales volume and optimal sales mix is established and performance is measured against it
Market Penetration	The company has targets for substitution of imports and competing materials
New product development	Application-wise sales is monitored and new applications are stewarded on a quarterly basis

Impact
Domestic market expansion is the key towards economic consolidation; these measures will enhance product off take and optimal resource utilization

Human Resource

Objectives	Critical Performance Indicators
Develop & retain talent, and revamp top talent identification system	HR matrices monitor attrition and succession readiness level on a regular basis
Improve employee engagement	Employee engagement surveys are conducted by a third party and the results are part of management performance standards

Impact
Human resource is an integral part of organizational success, we engage with employees to ensure a motivated workforce

Finance

Objectives	Critical Performance Indicators
Optimize capital structure	Measured against financial ratios, credit rating and effective matching of inflow/outflow of cash
Augment liquidity and cashflow management	Monitored through cash availability and Spread

Impact
Financial discipline and cash availability ensure smooth operations and extend the ability to sustain commodity price volatility and capitalize any price opportunity

Performance Measurement

Engro Polymer places significant emphasis on performance as well as the means used to achieve it. In order to assess performance against targets and objectives, the Company has a comprehensive measurement system in place that acts as a barometer for the Company's performance. Business results are carefully monitored against benchmarks on a monthly basis in Business Review Meetings and tactical strategies are devised. Every quarter, the Company also conducts a companywide stewardship meeting to monitor progress on annual objectives and analyze departmental performance.

The Company also engages external bodies such as DuPont Safety Management Systems, British Safety Council, ISO 14001 Environment Management System and ISO-9001 Quality Management System to measure performance.

Macro-Economic Environment

The fiscal year 2014 proved to be a year of consolidation for Pakistan, GDP posted encouraging growth of 4.1%, primarily driven by industrial sector growth. Improvement in the economic landscape can be attributed to recovering investor confidence and economic activity, gradually improving energy situation, constrained inflation, reduction in fiscal deficit, capital mobilization through Euro Bond and auction of long pending 3G and 4G licenses. However, structural weaknesses, staggered energy crisis and limited progress on enhancing tax base constrained the country's growth prospective.

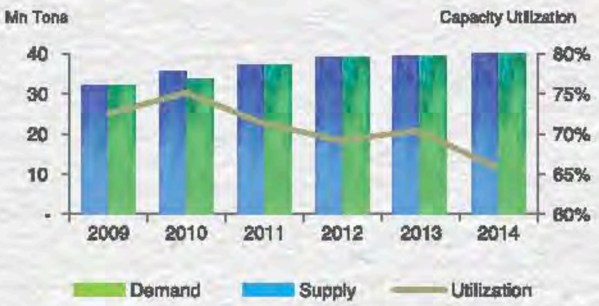
Going forward, economic growth of the country will be driven by law order situation, price of broadly traded commodities, energy situation and magnitude of foreign direct investment. We are optimistic that with continued progress on economic reform agenda and a supportive regulatory framework, the country can realize its true economic potential.

Business Overview

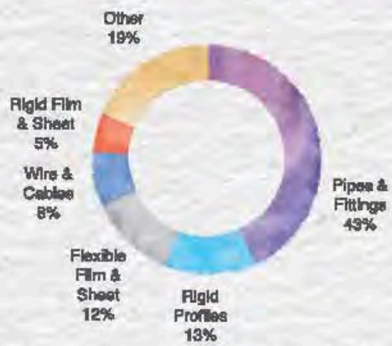
PVC & Allied Products

Global PVC downstream demand crossed 40 Mn Metric Tons in 2014, growing at a 5-year Compound Annual Growth Rate (CAGR) of 2.8%. The PVC market remained well supplied throughout the year with China leading the world in terms of capacity growth. Overall the industry operated at a rate of approximately 66% as compared to 70% in 2013. In terms of application, pipes and fittings remained the major consuming segment for PVC, accounting for approximately 43% of the global demand while rigid profiles were a distant second with 13% of overall demand.

Global PVC Demand Supply Scenario



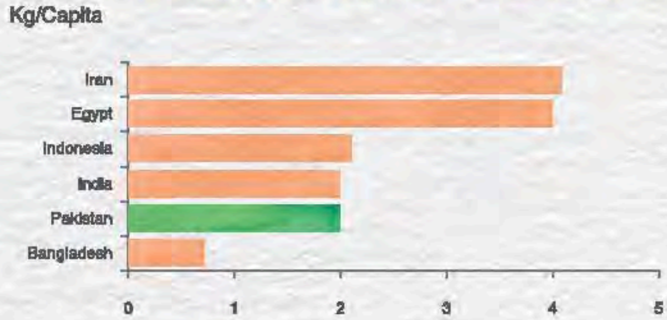
Product Wise Application



In terms of consumption, Asia remained the largest PVC consumer in the world accounting for approximately 64% of total global demand, with China alone accounting for almost 40% of global demand. In recent years, China has remained a major growth driver of global PVC demand and capacity expansions; however the bulk of its capacity comes from the acetylene production route.

Demand in Asia

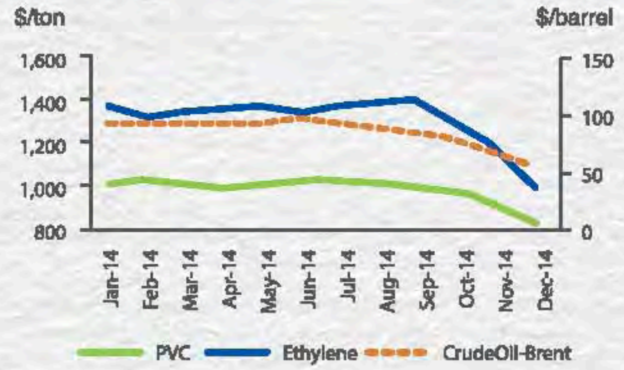
Consumption Pattern - Peer Group



In terms of consumption, Pakistan has one of the lowest PVC resin consumption per capita in the region i.e. 0.81 Kg. The low per capita consumption relative to other regional economies implies that there is potential for growth of PVC consumption in Pakistan. Rising construction activity and preference of PVC in large infrastructure projects in Pakistan is likely to enhance PVC consumption in the country.

In 2014, international PVC prices ranged between $ 1060/ton to $ 795/ton. PVC prices declined sharply from July this year, firstly due to weakening demand in the region and then due to a sharp decline in upstream Naphtha and Ethylene prices. Crude oil prices hit a five year low in the latter half of 2014, adversely influencing Ethylene and PVC prices.

International PVC & Ethylene Price Trend 2014



International PVC Margins

Ethylene prices plunged significantly after a sharp decline in crude oil prices, which hit a five year low in the second half of 2014. Ethylene prices remained on the higher side during the first three quarters, hovering around levels of $1450/mt; however prices plummeted during the last quarter, following the steep decline in international crude oil prices. This price volatility forced manufacturers to carry high value inventory in the latter part of 2014, hence exerting pressure on the margins. Overall ethylene supply remained tight in Asia, especially during the first half of the year. Supply tightness can be attributed to several turnarounds in Middle East and Southeast Asia.

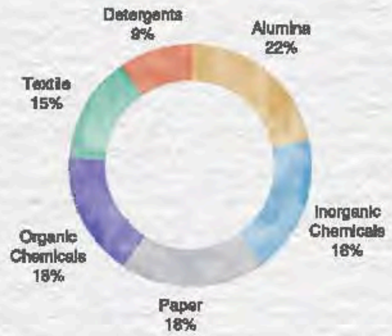
Caustic & Allied Products

In 2014, global Caustic Soda demand stood at 70 Mn tons, growing at a 5 year CAGR of 4.6%. Of late the annual demand growth has remained lower than average. Asia leads the world demand accounting for approximately 59% of the global Caustic Soda consumption. During the year, supply remained robust and has outpaced the growth in demand by growing at a CAGR of 5.3%.

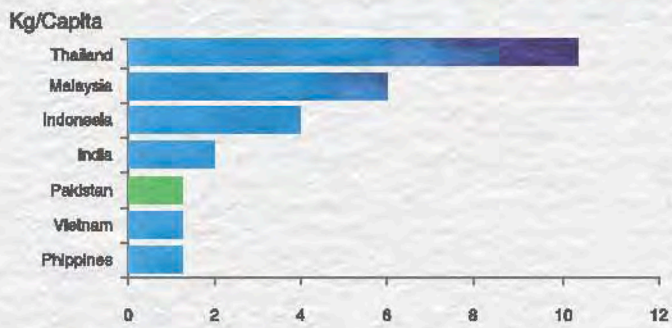
Global Caustic Demand Supply Scenario

The majority of Caustic Soda production was consumed in Alumina, Inorganic Chemicals, Pulp & Paper, Organic Chemicals, Textile and Detergents. The global Caustic Soda consumption per capita in 2014 was estimated to be around 10 kg.

Global Caustic Application



Consumption Pattern - Peer Group



Global Caustic Soda prices remained stable for most of the year, but declined in the last quarter following a broad based decline in commodity prices globally. International prices are expected to remain under pressure due to availability of excess supply relative to demand.

Global Caustic demand is only expected to post modest growth in 2015 as economic growth in major emerging economies has demonstrated signs of slowing. Rationalization of energy prices will reduce the cost of production for Caustic Soda. Overall, supply is expected to remain adequate, whereas demand growth outlook is modest exerting pressure on Caustic Soda prices.

Domestic Market Overview

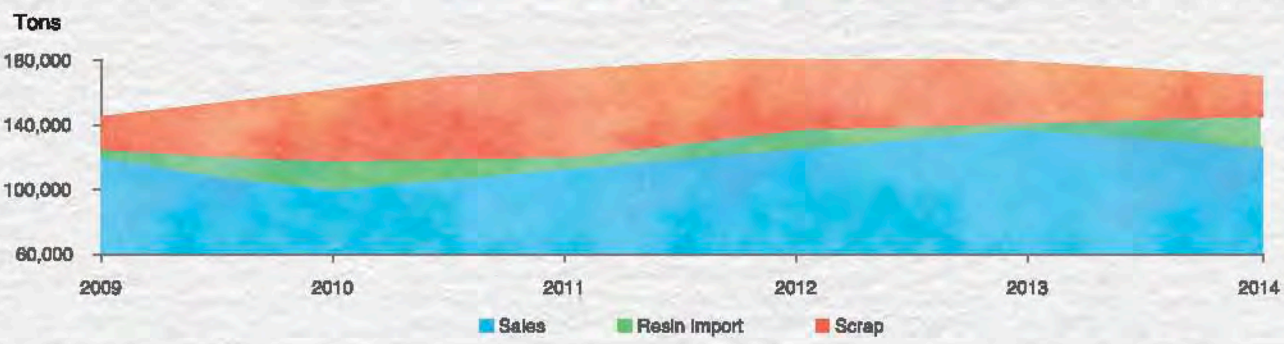
PVC & Allied Products

In 2014, domestic PVC market size stood at 162 KT. There has been a rationalization in the domestic PVC market especially due to reduced exports of pipes and fittings to Afghanistan. This was driven by the imposition of a hefty duty on imports of PVC pipes and fittings in Afghanistan to protect the domestic pipe industry. Domestic PVC is manufactured solely by Engro Polymer & Chemicals which sells under the brand name of "SABZ". In 2014, EPCL's market share remained at 77% as compared to 81% in 2013.

In the domestic market, pipes and fittings constituted a significant portion of the PVC market; the Company is channelizing efforts to enhance PVC pipes demand in the country and is working with private and public sectors to encourage use of PVC pipes in the newly developing products. EPCL will continue to direct its efforts towards development of this sector and in spreading awareness about advantages of PVC over competing materials.

Construction activity along with positive economic outlook is likely to support PVC demand in the domestic market positively contributing to PVC consumption.

PVC Market Growth & Market Share*

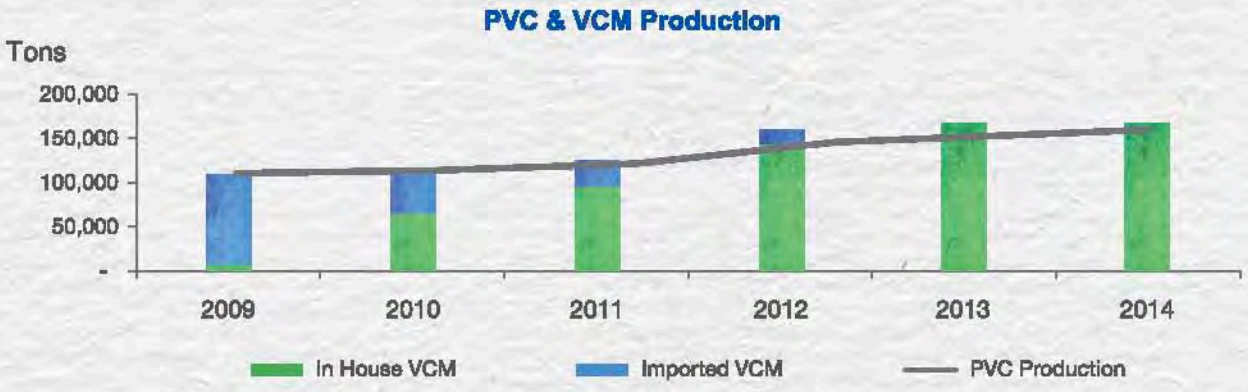


* Market Share and product application have not been verified by an independent source and is based on company's estimate

PVC Scrap imports were estimated to be approximately 20 KT in 2014 in Pakistan, which is an estimated decline of 20% from 2013. EPCL's market share declined by 4% mainly on account of higher import of PVC resin during the year.

The Company is pursuing an aggressive marketing strategy and is working extensively with its customers, government agencies, architects and construction consultants for PVC market development and to increase domestic sales of the Company. The Company is hopeful that these efforts will continue to bear fruit for the stakeholders in times to come.

On the production front, we remained steadfast to our strategy of converting maximum VCM to PVC and meeting all our PVC production requirements through in house VCM. In 2014, we produced the highest level of PVC i.e. 153 Kilo Tons

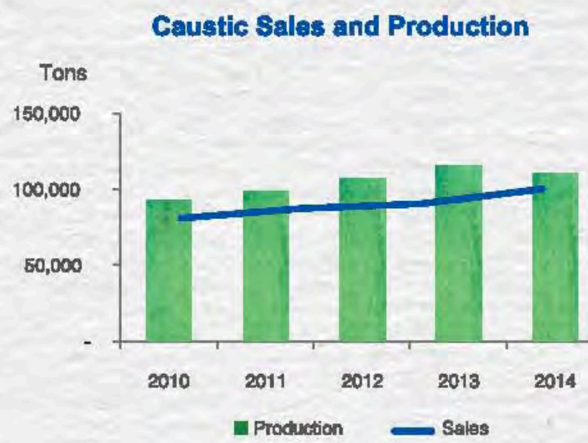


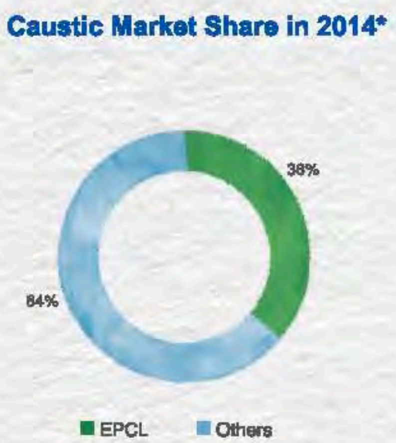
Market Development Activities

Pipe segment collectively accounts for 65% of the total PVC consumption, until recently PVC pipes were available only up to a diameter of 24 inches and therefore despite PVC being the preferred choice end users had to use alternative material for large diameter pipe requirements. In this regard, EPCL facilitated a customer to introduce a new PVC pipe manufacturing technology which enables production of non-pressure PVC pipes of up to a diameter of 118 inches using PVC extruded strips. The pipe can be produced at the construction site and can be extended to long lengths without joints. The product has started to gain market acceptance and has been approved in some major infrastructure projects in the country.

Caustic & Allied Products

The Caustic Soda market size stood at approximately 260 KT in 2014. EPCL emerged as a strong player and sold 93 KT in domestic market, maintaining a market share of around 36%. EPCL maintains a leading position in the South Caustic Soda market, supplying to bulk of the customers.





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

Most of the demand in Pakistan is generated by textile and soap & detergent segments. Growth in these segments can propel growth in Caustic Soda demand in the country; however, given the current situation of textile industry in Pakistan, overall demand growth is expected to remain modest. During the year, domestic prices declined due to long supplies.

In 2014, the Company was successful in introducing sodium hypochlorite as a water disinfectant in municipal bodies. The practice will be replicated at several other pumping stations in 2015.

Operational Overview

Manufacturing continued to demonstrate sustainable operations in 2014. VCM production stood at 168 KT, PVC at 153 KT, Caustic soda at 114 KT.

In addition, debottle-necking initiatives taken in 2014 were completed on time and enhanced the plant capacities of PVC by 22 Kilo Tons. Investments to the tune of $ 10 Mn were made as a part of debottlenecking and reliability enhancement initiatives that would not only manifest higher volumes, but ensure safer and more sustainable site operation

On the reliability front, major overhaul of one of the Gas turbines was completed safely, along with successful replacement of the last two sets of membranes at the Chlor alkali plant. VCM plant turnaround was conducted successfully in June 2014.

On the technology front, a 5 year VCM licensing agreement was signed with OXY Vinyls U.S.A, while an agreement on PVC Quality improvement was also reached with Ineos Vinyls.

Theme for 2015 is maintaining the current level of excellence attained in process and personnel safety, maximize VCM conversion to PVC resin and sustain chlor alkali operations to keep pace with market demands. Moving forth the challenge would be to optimize plant operations, keep raw material conversion ratios on a downward trend, and capitalize all possible avenues of energy and resource conservation.

Financial Overview & Management

During 2014, the Company incurred a loss after tax of Rs. 1,109 Mn as compared to a profit after tax of Rs. 707 Mn in 2013. The loss can be attributed to an amalgamation of several factors including swing in exchange rate, increase in GIDC on gas, imposition of 5% import duty on primary raw material, unfavorable vinyl chain prices which resulted in ending inventory being valued at net realizable value and shrinkage of domestic PVC market due to imposition of duty on PVC pipe by Afghanistan. The broad fundamentals of the business remain intact, but vulnerability to commodity prices and a rise in the price of natural gas have the potential to hurt profitability.

Profitability

In revenue terms, the Company maintained the top line despite a price drop and adverse market conditions and appreciation of local currency. However, gross profitability was hurt due to rise in energy price post increase in GIDC on gas. The last quarter of 2014 was particularly challenging, the Company witnessed significant dent in profitability due to a sharp drop in PVC price that was followed by ethylene but with a significant time delay. It was only in December 2014 when vinyl chain prices rationalized but by then the Company had already sourced its ethylene to ensure uninterrupted production. The unfavorable vinyl prices eroded the value of inventory being held by the Company and forced revaluation of year end inventory at net realizable value.

Liquidity & Cashflows

Adverse profitability had a toll on the Company's cashflows but effective financial management enabled the Company to sustain operations without compromising on required CAPEX and debt obligations. Despite a price drop in PVC, the Company remained steadfast on its risk mitigation framework and did not accumulate inventory for purpose of speculation. In order to convert inventory into cash in hostile market conditions, the management offered price protection to its regular customers based on their average off take. The scheme encouraged domestic customers to purchase the commodity in a declining market and enabled the Company to encash inventory, limit commodity price risk and maintain financial ratios. Despite cautious approach on inventory, the Company could not refrain from incurring erosion of inventory value and had to mark the inventory down to net realizable loss because of sharp decline in vinyl chain prices post crude oil price decline. The major proportion of NRV is attributable to export sales, price of which were locked in December in anticipation of weakening market sentiment.

The cashflows were carefully allocated for required CAPEX throughout the year to ensure plant reliability and planned debottlenecking.

Financing

During the year, the Company remained committed to its long term strategy of debottlenecking its PVC capacity and ensuring its plant site reliability. In this regard, new investment activities were financed through a new long-term loan of Rs. 1,700 Mn to be paid in 5 years. The long-term loan will enable the Company to carry out CAPEX which will result in volumetric growth, improved plant reliability and operational efficiency. On a holistic level, the Company retired a debt of Rs. 2,254 Mn resulting in net de leveraging of Rs. 554 Mn in 2014.

Credit Rating

In 2014, the Company was awarded an investment grade rating by PACRA. The Company has 'A' Long term and 'A1' Short term rating. Strong rating is a testimony to the fact that the Company has achieved operational consolidation and has promising fundamentals. The investment grade rating will enable the Company to explore new avenues to raise capital, optimize capital structure and weighted average cost of capital.

Capital Structure

The assets of the Company are financed by debt and equity in the ratio of 51:49 as compared to 52:48 in 2013 while our interest cover was negative 0.43 in 2014 as compared to 1.98 times in 2013.

Risk Management Framework

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

Several risks and vulnerabilities that confronted us in 2014 were broadly covered in our risk matrix but it is the assemblage that restricted our ability to mitigate them within one reporting period.

We recognize that we are operating in a complex business context; the Company mandates assessment of the organization's strategy and quantum of risk that the entity is willing to accept by adequately assigning responsibilities throughout the organization. Risks are identified from across the organization and are ranked based on their impact and probability. Upon identification of risks, a strategy is devised to mitigate its impact which is regularly monitored by the chief risk officer and senior management. The key risks identified are as follows:

Strategic Risk

Volatility VCM plant operations

Strategy
Implemented prudent maintenance & inspection strategy, addressed known vulnerabilities during turnarounds and replaced critical assets ahead of time to ensure smooth operations

Result
The strategy yielded results, for the second consecutive year we sustained high VCM production endorsing plant reliability

Commerical/Operational Risk

Imposition of duty on primary raw material

Strategy
Engaging with relevant government authorities for rationalization of vinyl chain duty structure and availing DTRE for raw material used in exports

Result
We have received positive feedback from the authorities and are expecting positive outcome

International commodity prices

Strategy
Developed in-house business intelligence, established network with international olefins analysts to have better insight of international price trend

Result
The Company now has better ability to forecast price trends but is constrained on storage infrastructure to capitalize all price movements

Energy Prices

Strategy
Implemented energy conservation projects and devised a strategy for different price levels of natural gas

Result
The impact of increase in gas price is being managed through efficiency enhancement but the company remains vulnerable to hefty increase in gas price

Financial Risk

Liquidity Risk/Balance sheet profile

Strategy
Acquired adequate running finance lines for operational liquidity and long term financing for capital expenditure

Result
Enabled the Company to hold inventory without constraining operations, meet its debt obligations and required capital expenditure

Foreign Exchange Risk

Strategy
Mitigated the foreign exchange exposure using forward contracts

Result
Reduced the Company's vulnerability to sudden exchange rate movements, but the cost of mitigation is that it limits ability to capitalize occasional favorable movement

Business Continuity Plan

Engro Polymer & Chemicals Limited recognizes its responsibility to operate and ensure protection of business operations from disruption. Keeping this vision in mind, the Company initiated the Business Continuity Plan in 2013. The preamble of the plan is to ensure the smooth functioning of critical business processes in the event of an unforeseen disaster and has the following objectives:

- To provide a framework for building resilience and the capability for an effective response that safeguards the interests of key stakeholders, reputation, brand and value creating activities
- To assess the risks to our operations and to understand the impacts of the risks should they materialize whilst considering business priorities and organizational interdependency
- To manage the response to and aftermath of any potential disruption, in an effective and appropriate manner to minimize impact
- To recover business operations as quickly as possible should an incident result in disruption to our critical business operations or support services
- To test and review at regular intervals and revise as required, the plans supporting the Business Continuity

The plan encompasses EPCL's response strategy, minimum operating requirements, BCP team organization, damage assessment, and primary site restoration activities. From a risk perspective, it ensures the smooth functioning of business operations and preservation of critical data by mapping out fine details of the process of disaster recovery. The management takes keen interest in this initiative and regularly evaluates the threats and response strategy.

Responsible Citizenship

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

Treatment of effluents and chemical discharge

Chlor Alkali plants use chemically active substances on site; we realize our responsibility to ensure safe handling of such chemicals. The Company is well equipped with incineration plant, air strippers and evaporation pond to ensure safe handling and disposal of emissions and effluents. Environmental performance and parameters are voluntarily reported to Environment Protection Agency (EPA), Sindh on a monthly basis in spite of the regulatory requirement of only quarterly reporting.

Quality Assurance & Testing

The Company has a dedicated team for market development and technical services; the team is working to elevate quality standards in the downstream industry. In this regard, we have developed coherence with Pakistan Standards and Quality Control Authority (PSQCA) aiming towards standardization and enforcement of quality standards for the pipe industry.

EPCL aims to deliver the highest quality standards not only to its primary customers but also to the end user, it was noted that inability to test for impurities in pipe was allowing penetration of substandard material especially in public sector projects. In this regard, the Company established a pipe quality testing lab at the department of Housing and Urban Development (HUD) and Public Health Engineering (PHE) Lahore which is fully equipped to test the product for impurities in house. The initiative will enable public sector departments to ensure installation of quality material in public municipalities. In addition to this, our mobile testing labs have been offering on-site testing to facilitate project owners and end users to test for impurities in pipes.

Business Ethics & Anti-Corruption

Business Ethics is our core value and lies at the heart of what we do at Engro Polymer & Chemicals Limited. The Board of Directors of the Company has univocally set down the acceptable business practices and behaviors in the "Code of Conduct" to ensure that all our business dealings are undertaken whilst maintaining highest standards of ethical values. This is ascertained through implementation of effectively designed and executed audit plans and assurance procedures which proscribe all sorts of unethical behaviors and highlight matters causing concerns in respect of business conduct. In addition thereto, multiple channels are available to our Stakeholders to speak-up and identify practices and behaviors that are unacceptable to our fundamental and core values.

Corporate governance affects the way we direct our company and the relationship we have with interested parties. Due emphasis on transparency and ethical practices by the management has played a pivotal role in developing our employees as responsible professionals and corporate citizens.

Energy Management

Energy is crucial to our operations; the Company is self-sustainable in terms of electricity but is dependent on gas for electricity production and is exposed to fluctuations in gas price. In this regard, the Company has benchmarked energy consumption for each unit of production and performance is measured against it. We will continue to analyze and undertake energy conservation projects.

Environmental Protection

Our conviction to environmental protection remains strong. During the year, several proposals were submitted to International Union for Conversation of Nature (IUCN) on the theme of conversation of coastal eco system. The proposals are under consideration and we are optimistic about its outcome.

Last year we obtained WWF Green Office certification for our head office, this year we extended the initiative to manufacturing site as well. At present, several buildings at the manufacturing site have

been certified as green office. It is important to note that we are the only Company in Pakistan whose control room and instrument and engineering site are certified green office by WWF.

In 2014, we launched a housekeeping initiative by the name of 5S program. The program will conserve energy, reduce waste generation and promote ecofriendly purchasing. The Company attained a 3 star rating in British safety council (2nd Party audit) which is a step forward towards improving its environmental management program.

Contribution to national exchequer

Engro Polymer & Chemicals Limited is a significant contributor to the national exchequer. In 2014, the Company contributed approximately Rs. 3,371 Mn on account of Sales & Income tax.

Corporate Social Responsibility

Recently Engro Foundation consolidated the CSR activities of all Engro subsidiaries with an aim to create a larger impact on society. Several programs were initiated under this scheme during the year.

Our flagship employee volunteer program Envision continued to make its mark in society. During the year it completed 1,500 hours of voluntary work. The employees undertook several activities ranging from career counseling/mentorship of students at The Citizens Foundation and The Hunar Foundation, to conducting activities for people with disabilities at Dar ul Sukoon. EPCL volunteers also joined hands with WWF, and contributed towards creating a cleaner and more conducive habitat for Green Turtle hatchlings.

In addition to this, EPCL adopted the cause of education and technical training and in this regard awarded scholarship to a batch of 12 students from Ghaghar Phatak, Port Qasim for City & Guilds training at The Hunar Foundation. This skill enhancement program will enable the students to improve their job prospects.

Community Investments and Support Program

Envision volunteers of the Company carried out a community development activity at Haji Jangi Goth, Ghaghar Phattak and replaced the filters of the drinking water plant, and ensured its utility. The initiative will provide access to clean drinking water to 200 families.

Rural Development and Donations

The Company had signed an MOU with The Citizens Foundation in December 2013 to set up a school in Ghaghar Phatak, Port Qasim. The construction initiated in 2014 and the project is expected to be operational in April 2015. The school will provide access to education to children in the adjoining areas of Ghaghar Phatak.

Health Safety & Environment

Health, Safety & Environment (HSE) is one of our core values. We follow stringent systems and policies to ensure that consideration for HSE becomes part of our operations. We believe in promoting a culture of safety, where employees conduct self-audits to minimize the distress and disruption caused by an injury or work related illness. We emphasize on safety to the extent that it is an integral part of all of our business decisions and our employees are required to achieve business goals in line with the Company's HSE policies and principles.

In 2014, the Total Recordable Injury Rate (TRIR) of the Company remained at 0.16 with 03 recordable injuries including one Lost Workday Injury. In this regard, a detailed assessment was done to mitigate the conditions and to avoid any significant injury in the future. In fourth quarter 2014, the Company initiated "Goal Zero" for injuries with a preamble of targeting behavioral safety. We have stretched our target for the next year and aim to achieve ZERO injury throughout the year.

In 2014, the Company took a step forward in improving the process safety, a detailed study of Safety Integrity level (SIL) and Layer of Protection Analysis (LOPA) was launched. In this regard, we have also developed a way forward strategy to enhance process safety. Process Safety and Risk Management (PSRM) standards were elevated and aligned with the revised standards by DuPont.

Several initiatives were under taken across the Company to achieve excellence in personnel safety. Internal assessments of Personnel safety management (PSM) were conducted to prepare the company for DuPont audit.

EPCL has a fleet of around 56 vehicles including dedicated and semi dedicated fleet. The logistics department transports chemicals such as Caustic Soda, Sodium Hypochlorite and HCL, in the safest way possible to minimize potential risk in case of incident while PVC resin in transported through market vehicles. A comprehensive Fleet Safety Program is in place. In 2014, a significant milestone was achieved in logistics as the Company adopted ADR compliance, the European standard for safe transportation of vehicles. The performance of fleet safety is gauged through Fleet Accident Frequency Rate (FAFR). In 2014, our logistics operations fleet showed remarkable performance by attaining a FAFR of 1.12 against a target of 1.25. There were no injuries in our corporate services and logistics operations throughout the year and TRIR remained zero.

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

An external assessment on Occupational Health and Industrial Hygiene (OHIH) Management by DuPont was conducted during the year and a rating of 3.3 was scored. This rating depicts that EPCL has attained OSHAS compliance in OHIH by adopting DuPont best practices.

In 2014, the Company initiated and implemented the Integrated Management System (IMS) to integrate the Quality Management System (QMS) and Environmental Management System (EMS). OSHAS-18001

Occupational Safety & Health Assessment Series is also a part of IMS. Company got the IMS certification by SGS successfully and integrated QMS, EMS & OSHAS -18001.

In 2014, the Company progressed significantly on British Safety Council 5-star environmental program to elevate environmental standards beyond compliance since the Company is already certified by ISO-14001. In this regard, a second party audit was conducted and the Company scored a rating of 3-star with 80% score. This is a major step towards attaining sustainable environmental performance.

Moving forward, the Company has set objectives to embark on to DuPont 22 essential element model which is an enhanced version of PSM & PSRM modules. We will embark on environmental sustainability projects in a comprehensive manner by following up the BSC audit recommendations. Health & hygiene standards will be enhanced further and monitored against preset KPI's.

Information systems

In 2014, IT embarked on the journey of transformation by putting into action the IT strategy formulated in the previous year. Comprehensive IT strategic goals and revised structures are being formulated to provide a sustainable support system to deliver key projects enhancing business value and efficiency.

Project SAPphire has been initiated which will address business process improvements throughout the organization by implementing the world renowned SAP ERP. The project team has worked on re-engineering of the Finance & Controlling, Materials Management and Sales & Distribution processes which is likely to result in good implementation of the system catering to key requirements of these areas. Production Planning and Plant Maintenance will be under focus in 2015.

The Information Technology department also supported various key initiatives taken throughout the company. These included implementation of server virtualization which will help in reducing the need to manage multiple hardware and power usage. The company's appraisal process was also automated through project MyEngro which will help in keeping track of employee performance and progress.

The journey to improved systems and processes will continue in 2015 as the information technology looks to transform from 'Systems of Records' to 'Systems of Engagement' resulting in a truly enterprise organization that harnesses all our expertise and skills, working to common standards to deliver innovation that adds real value to Engro and partnering with businesses to deliver this value.

Human Resources

The year 2014 was one where HR focused on two key areas: improving productivity/efficiency in the Company, and enhancing the quality of & services to our workforce. In these regards, several significant initiatives were launched during the year.

Productivity & Efficiency Improvements

On the productivity and efficiency improvements front, the implementation of Lean Six Sigma (LSS) in 2013 has facilitated in reviewing our processes and enabled us to reduce waste in the Company. In 2014, 24 employees were selected to go through the second batch of Lean Six Sigma training, designed and conducted by the originators of the concept, Motorola Solutions, Singapore. Additionally, 14 employees (from the first batch) were awarded Green Belt certifications post completion of their week long training, online exam and project submission to Motorola Solutions.

Numerous HR processes were reviewed and configured on SAP, helping in improving HR efficiency by streamlining data, reducing processing time, and eliminating computation errors.

Furthermore, an innovative study gaging Manpower Optimization was conducted and completed, resulting in important organizational restructuring through the redesign of certain job descriptions.

In our quest to improve services to our employees, the HR Department launched an internal HR Satisfaction Survey comprising of questions related to the services offered by the different sections in the department. Many gaps were identified, and results were communicated to both senior management and employees, along with suggestions on ways of improving service delivery. In 2015, this is going to be a large focus for the HR team. Moreover, since 2014, a quarterly HR report is being issued in order to monitor HR key performance indicators and make us more attuned to the business in which we operate.

Workforce Quality & Services

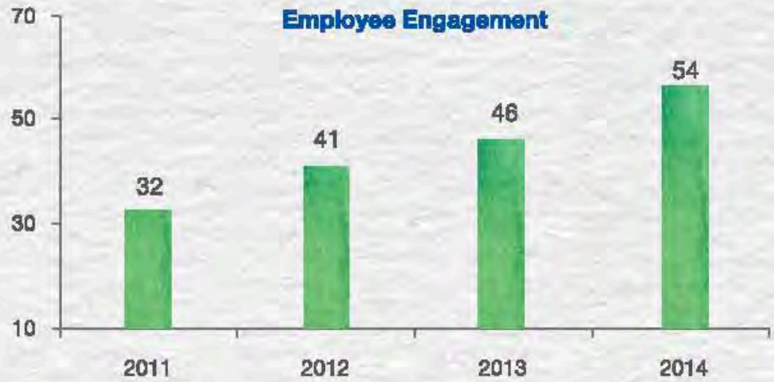
In our endeavor to ensure induction of quality talent and the right fit between person and job, a new personality assessment tool by the name of 'Predictive Index' (PI) has been introduced.

Quality human resource is essential to our business, and overall the focus remained on providing opportunities to home-grown talent. As a result, the ratio of internal hiring increased and 2014 showed 64% of total hiring was from within the Company - primarily from trainee programs. The number may also be attributed to upward and horizontal mobility provided to the employee as part of our promise for career growth and talent retention.

Aside from induction, retention of our skilled workforce is critical for smooth business continuity and long term growth of the enterprise. In 2014, the attrition rate of the workforce reduced to 9.6% compared to 11% in 2013.

A Business Acumen program was internally designed and developed for employees, highlighting the need for them to understand how their actions and behavior impact decision-making, and how this in turn affects business outcomes.

Moreover, in continuation of our aim to enhance employee engagement, activities such as communication sessions with departments were carried out, and actions plans were developed in close coordination with the relevant departments to ensure concerns raised by employees were properly addressed. The Employee Engagement Index improved by 17.4% in 2014.



Workforce Diversity and Employment of People with Disabilities

Workforce diversity was also a key theme, the focus being on improving the ratio of female employees and hiring people with disabilities (PWDs). As a result, 4 new female employees joined. The larger challenge was in the hiring of PWDs for which a reputed local NGO was taken onboard to facilitate the process. As a first step, a detailed study was conducted to assess the gaps in terms of infrastructure requirements. Projects including the building of ramps for wheelchairs and dedication of toilets are already underway and will expand in 2015. "Inclusion Sessions" were also conducted for all employees in collaboration with the NGO to sensitize employees and increase their acceptance level towards PWDs.

Stakeholder Engagement & Relations

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

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

EPCL has hundreds of vendors and customers and we seek to engage them from time to time through formal and informal meetings and conferences. The highlight for this year was the plumber training, through this initiative several plumbers were trained on installation and maintenance of PVC pipes and fittings. We have engaged with our customers regularly to provide them with technical assistance related to their businesses for the benefit of the industry

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

Performance Review & Future Outlook

Global economy witnessed consolidation in 2014; growth trajectory remained positive but only modest due to legacies of pre-crisis boom and high public debt in advanced economies. In line with our assessment, global PVC demand remained flat during the year and followed the trend of global economic environment. However, PVC demand remained asymmetric across regions and price volatility was also witnessed. The primary raw material of the vinyl chain i.e. ethylene witnessed an upward pressure during first 9 months of the year due to supply tightness in the region and strong downstream demand as anticipated in our note last year. However, during the last quarter of the year, ethylene followed the oil price trend and lost significant value.

2015 appears to be a another year of global economic consolidation, economists believe that fiscal consolidation and accommodative monetary policy in advanced economies, easing of political tensions and improving economic prospects of India will support global economic growth prospects. Global PVC market dynamics are expected to remain stable, modest economic outlook of China coupled with sufficient supply will keep the market in check while North America is likely to maintain its dominant position in global PVC trade. The upstream market i.e. ethylene is also expected to demonstrate stable dynamics but prices are expected to remain volatile and will be directed by the trend of crude oil prices.

Domestic PVC market, which demonstrated resilience in 2014 despite contraction due to imposition of duty on PVC end products and depletion of inventory by end users, is likely to pick up in 2015. EPCL pursued aggressive marketing strategy in 2014 and introduced several new applications of PVC in Pakistan. The marketing efforts will materialize in the upcoming years and will result in stronger demand outlook for 2015. We highlight growth in private housing activity and higher allocation and spending of public sector development program to further support PVC demand.

Domestic market for Caustic Soda remains well supplied, the Company is hopeful GSP plus status to textile and supportive textile policy will improve textile sector dynamics and support demand for Caustic Soda. The overall supply situation may however restrict EPCL to influence pricing and restrict its ability to pass on cost pressure due to increase in energy prices. The Company is confident that it will be able to capitalize market opportunities arising from demand and price outlook. However; economic value creation of the Company remains largely linked to uncontrollable factors such as vinyl chain prices in the international market, energy prices, duty on primary raw materials and currency volatility.

Corporate Review

Shareholding in the Company

The shareholding in the company as at December 31, 2014 is as follow:

Shareholders' Category	Number of Share holders	Number of Shares held	Percentage of Holding
Directors, Chief Executive Officer, spouse and minor children.	10	5,109	0.00%
Associated Companies, undertaking and related parties.	4	539,091,127	81.25%
Banks, DFIs, Non Banking Financial Institutions.	7	4,866,833	0.73%
Insurance Companies	3	1,795,000	0.27%
Modarabas and Mutual Funds	2	488,500	0.05%
Shareholders holding 10%	3	537,914,987	81.08%
General Public (Individuals)			
a. Local	32,542	78,558,091	11.85%
b. Foreign	-	-	-
Others	90	38,807,128	5.85%

Category of Shareholding

Information of shareholding required under the reporting framework is as follow:

1. Associated Companies, Undertaking and Related Parties

Name of Holders'	Number of Shares held
Engro Corporation Limited	372,809,989
International Finance Corporation	97,155,000
Mitsubishi Corporation	67,949,998
EPCL Employees' Trust	1,176,140
	539,091,127

2. Mutual Fund

Name of Holders'	Number of Shares held
CDC - Trustee AKD Opportunity Fund	95,500
Golden Arrow Selected Stocks Fund Limited	250,000
	345,500

3. Directors and their spouse and minor children

Name of Holders'	Number of Shares held
Mr. Abdul Samad Khan	1
Mr. Khalid S. Subhani	1
Mr. Kimihide Ando	1
Mr. Muhammad Aliuddin Ansari	1
Mr. Shahzada Dawood	5,001
Mr. Khalid Rahman	100
Mr. Takashi Yoshida	1
Mr. Waqar Malik	1
Ms. Naz Khan	1
Mr. Asif Saad	1

4. Executives

Name of Holders'	Number of Shares held
Executives	858,504

5. Public sector companies and corporations

Name of Holders'	Number of Shares held
Public sector companies and corporations	-

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

Name of Holders'	Number of Shares held
Banks, Development Finance Institutions, Non-Banking Finance Companies, Insurance, Takaful, Modarbas & Pension Funds	6,661,833

7. Shareholding, 5% or more voting interest in the Company

Names of holders	Number of Shares held	Percentage of Holding
Engro Corporation Limited	372,809,989	56%
International Finance Corporation	97,155,000	15%
Mitsubishi Corporation	67,949,998	10%

8. Details of purchase/sale of shares by Directors, Executives and their spouse/minor children

Names of holders	Shares Purchase	Shares Sold	Rate	Date of Purchase / Sale
Syed Khurram Hussain		24,535	15.97	January 6, 2014
Muhammad Saadullah Abulkhairi		5,000	15.29	January 17, 2014
Muhammad Saadullah Abulkhairi		5,000	15.30	January 17, 2014
Muhammad Saadullah Abulkhairi		5,000	15.15	January 17, 2014
Shabbir Hashmi		50,000	16.00	January 21, 2014
Muhammad Bilal Ahmed		5,000	16.00	February 4, 2014
Muhammad Farhan		23,000	16.15	February 6, 2014
Muhammad Saadullah Abulkhairi	10,000		16.12	February 7, 2014
Shabbir Hashmi		50,000	16.21	February 4, 2014
Muhammad Zohaib Sufyan		13,595	15.91	February 10, 2014
Syed Tilal Hasan		1,500	16.30	February 7, 2014
Khurram Tahir		5,000	16.00	February 11, 2014
Muzzaffar Islam	7,000		15.09	March 7, 2014
Zubair Ashraf		24,000	16.13	April 10, 2014
Syed Muhammad Farooq Ahmed		10,000	14.92	May 5, 2014
Syed Muhammad Farooq Ahmed		18,000	15.01	May 2, 2014
Bilal Ahmed		40,500	14.65	June 5, 2014
Ali Mohsin Bhagat		25,000	13.27	July 17, 2014
Abdul Qayoom		2,000	11.45	August 26, 2014
Khurram Tahir		19,625	11.40	August 29, 2014
Tauseef Ali		83,800	11.60	November 11, 2014
Tauseef Ali		41,000	11.85	November 10, 2014
Abdul Latif		5,000	11.55	November 24, 2014
Muzzaffar Islam / Adila M. Islam		80,000	11.38	November 20, 2014
Ali Mohsin Bhagat		3,889	12.13	November 27, 2014
Syed Muhammad Ali		83,950	12.51	December 10, 2014

9. Pattern of Shareholding

Number of Shareholders	Shareholding From		Shareholding To	Total Shares Held
412	1	-	100	11,969
21,018	101	-	500	10,138,115
6,878	501	-	1,000	4,883,239
2,864	1,001	-	5,000	7,008,717
590	5,001	-	10,000	4,715,617
241	10,001	-	15,000	3,093,019

Number of Shareholders	Shareholding From		To	Total Shares Held
134	15,001	-	20,000	2,492,229
107	20,001	-	25,000	2,578,210
52	25,001	-	30,000	1,485,345
32	30,001	-	35,000	1,056,754
27	35,001	-	40,000	1,047,450
16	40,001	-	45,000	692,880
43	45,001	-	50,000	2,132,282
22	50,001	-	55,000	1,158,349
11	55,001	-	60,000	653,125
13	60,001	-	65,000	820,300
9	65,001	-	70,000	610,489
10	70,001	-	75,000	735,329
8	75,001	-	80,000	636,000
9	80,001	-	85,000	753,600
4	85,001	-	90,000	354,000
5	90,001	-	95,000	466,191
32	95,001	-	100,000	3,185,152
5	100,001	-	105,000	510,170
6	105,001	-	110,000	648,348
2	110,001	-	115,000	226,575
2	115,001	-	120,000	240,000
5	120,001	-	125,000	625,000
3	125,001	-	130,000	384,600
1	130,001	-	135,000	132,000
1	135,001	-	140,000	140,000
2	140,001	-	145,000	286,502
5	145,001	-	150,000	750,000
1	155,001	-	160,000	159,876
3	160,001	-	165,000	488,500
4	165,001	-	170,000	676,500
1	185,001	-	190,000	186,075
17	195,001	-	200,000	3,400,000
2	200,001	-	205,000	408,500
2	205,001	-	210,000	413,500
1	210,001	-	215,000	215,000
1	220,001	-	225,000	225,000
2	230,001	-	235,000	468,500
1	235,001	-	240,000	236,500
2	245,001	-	250,000	500,000
1	255,001	-	260,000	256,000
1	265,001	-	270,000	270,000
2	285,001	-	290,000	576,500
1	290,001	-	295,000	292,949
4	295,001	-	300,000	1,200,000
1	305,001	-	310,000	308,500

Number of Shareholders	Shareholding From		Shareholding To	Total Shares Held
1	310,001	-	315,000	315,000
1	315,001	-	320,000	316,869
1	335,001	-	340,000	337,500
1	340,001	-	345,000	345,000
1	345,001	-	350,000	348,500
1	355,001	-	360,000	360,000
1	360,001	-	365,000	364,425
2	370,001	-	375,000	748,500
1	375,001	-	380,000	378,000
2	420,001	-	425,000	849,000
1	445,001	-	450,000	446,250
1	565,001	-	570,000	569,925
1	575,001	-	580,000	575,270
1	590,001	-	595,000	595,000
1	595,001	-	600,000	600,000
1	615,001	-	620,000	618,199
1	630,001	-	635,000	633,000
1	645,001	-	650,000	650,000
1	680,001	-	685,000	682,099
1	695,001	-	700,000	700,000
2	995,001	-	1,000,000	2,000,000
1	1,045,001	-	1,050,000	1,049,061
1	1,135,001	-	1,140,000	1,138,000
1	1,170,001	-	1,175,000	1,174,500
1	1,175,001	-	1,180,000	1,176,140
1	1,325,001	-	1,330,000	1,326,000
1	1,345,001	-	1,350,000	1,349,000
1	1,470,001	-	1,475,000	1,475,000
1	1,500,001	-	1,505,000	1,503,000
1	2,545,001	-	2,550,000	2,550,000
1	2,645,001	-	2,650,000	2,645,333
1	2,840,001	-	2,845,000	2,843,677
1	3,495,001	-	3,500,000	3,500,000
1	3,595,001	-	3,600,000	3,600,000
1	5,995,001	-	6,000,000	6,000,000
1	16,855,001	-	16,860,000	16,858,097
1	67,945,001	-	67,950,000	67,949,998
1	97,150,001	-	97,155,000	97,155,000
1	372,805,001	-	372,810,000	372,809,989
32,658				**663,468,788**

Major Judgment Areas

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

Accounting Standards

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

Provident Fund

Statement as to value of investments as at last audited statement date

Provident Fund	Rs. '000	
	2014	2013
Size of the fund	2,091,284	243,832
Investments at fair value	228,053	145,479
Investments at amortized cost	1,482,459	51,227

The employees of the Company participate in Provident Fund maintained by Engro Corporation (the holding Company) from October 01, 2013. Monthly contributions are made both by the Company and employees to the fund maintained by the Holding Company at the rate of 10% of basic salary. Accordingly, the following information is based upon the latest audited financial statements of the provident fund maintained by the Holding Company as at June 30, 2014 and the audited financial statements as at June 30 2013.

Compliance with Corporate Governance

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

The Board of Directors is pleased to report that:

- The financial statements prepared by the management present fairly its state of affairs, the results of its operations, cash flows and changes in equity
- Proper books of accounts have been maintained
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed
- The system of internal control is sound in design and has been effectively implemented and monitored
- There are no significant doubts upon the ability of the Company to continue as a going concern
- There have been no departures from the best practices of corporate governance, as detailed in the listing regulations

Shares traded and average prices

During the year 253.1 Mn shares of the Company were traded on the Karachi Stock Exchange. The average price of the Company's share based on daily closing rates was Rs. 13.61. The 52 week low high during 2014 was Rs. 11.08 – 16.78 per share respectively.

Dividends

Accumulated losses of the Company on a consolidated basis stand at Rs. 1,604 Mn therefore the Board has not recommended any dividend during the year.

Auditors

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

Sketching the Future

Education Support Programs

EPCL, playing its role as a socially responsible corporation, has helped communities to grow both socially and economically by developing and supporting educational infrastructure in remote areas around Port Qasim, EPCL joined hands with The Citizens foundation to set up a school in Ghaghar Phatak, a village near Port Qasim.

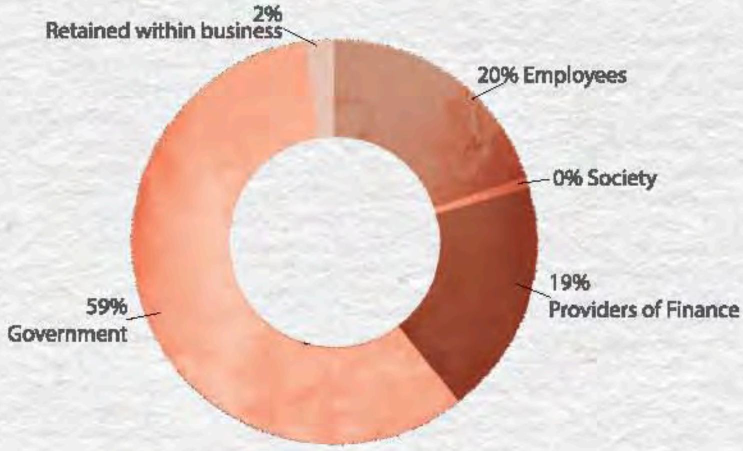
Financial Summary

Consolidated Statement of Value Addition

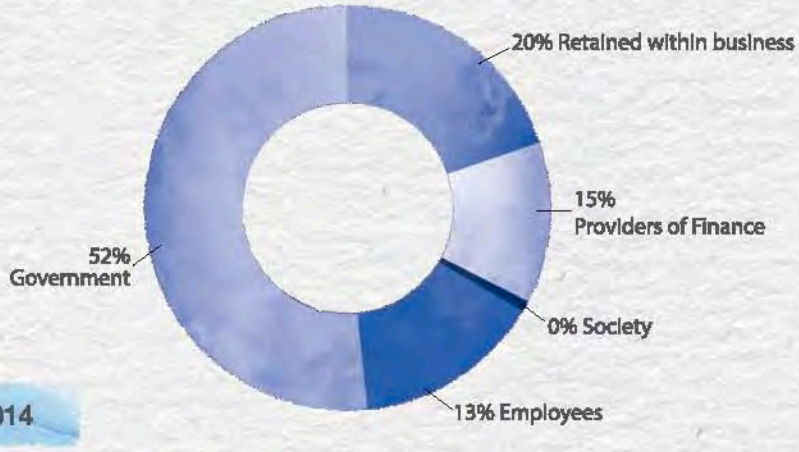
For the year ended December 31, 2014

	2014 Rs. in '000	%	2013 Rs. in '000	%
Wealth Generated				
Gross Sales and Other Income	27,391,099		28,495,524	
Materials and Services Purchased	(21,648,214)		(19,237,308)	
	5,742,885	100%	9,258,216	100%
Wealth Distributed				
Employees Salaries, wages and other benefits	1,165,560	20%	1,202,284	13%
Society Donations and other CSR activities	13,669	0%	4,719	0%
Providers of Finance Finance costs	1,064,980	19%	1,369,849	15%
Government Income tax, Sales Tax, Duties, WWF and WPPF	3,370,954	59%	4,781,299	52%
Retained within business Retained earnings, Depreciation and amortization	127,722	2%	1,900,065	20%
	5,742,885	100%	9,258,216	100%

Distribution of value added - 2014



Distribution of value added - 2013



Quarterly Analysis

Q1

- PVC market remained dull due to inventory carry over effect. Exports partially compensated for lower domestic sales
- Vinyl production suffered due to technical issue at the plant site which was successfully resolved in house
- EPCL maintained dominance in caustic south market and resisted competitive pricing
- Rupee appreciation shrank rupee contribution margin but brought gains on FX liabilities

Q2

- Strong growth in PVC domestic sales was witnessed as customers expected prices to have bottomed out but margins were low
- Caustic prices witnessed pressure due to competitive market structure
- 5% duty was imposed on primarily raw materials

Q3

- Successful completion of debottlenecking of PVC, enhanced capacity by 15 KT on annual basis
- PVC domestic market dynamics turned unfavorable and both volume and margins were low
- Competitive pricing continued to keep caustic margins under pressure

Q4

- Sharp decline in vinyl chain prices was witnessed internationally post crude oil price drop. The phenomena also forced the company to mark down inventory at NRV
- PVC domestic customers were reluctant in taking buying positions due to price forcing EPCL to offer price protection
- The company witnessed highest ever production of VCM and PVC

Six Years Cash Flows with Direct Method

Cash Flow Statements - Direct Method	2009	2010	2011	2012	2013	2014
Cash flows from customers	11,305.00	14,373.00	17,263.00	20,412.00	24,335.00	23,789.00
Cash payments to suppliers and others	(9,815.00)	(14,268.00)	(12,539.00)	(17,560.00)	(20,118.00)	(20,986.00)
Cash generated from operations	**1,490.00**	**105.00**	**4,724.00**	**2,852.00**	**4,217.00**	**2,803.00**
Finance costs	(561.00)	(1,421.00)	(1,795.00)	(1,670.00)	(1,412.00)	(1,055.00)
Long term loans and advances	60.00	7.00	3.00	(12.00)	(3.00)	(14.00)
Retirement beenfits paid	(11.00)	(12.00)	(41.00)	(69.00)	(56.00)	(120.00)
Income tax paid	(290.00)	(333.00)	(381.00)	(270.00)	62.00	(456.00)
Net cash flow from operating activities	**688.00**	**(1,654.00)**	**2,510.00**	**831.00**	**2,808.00**	**1,158.00**
Purchase of operating assets and intangibles	(3,746.00)	(880.00)	(533.00)	(364.00)	(640.00)	(1,052.00)
Retention money against Project payments	(553.00)	-	-	-	-	-
Proceeds from disposal of operating assets	6.00	15.00	18.00	18.00	8.00	12.00
Purchase of short term investments	-	-	(540.00)	(750.00)	(924.00)	-
Proceeds from the sale of short term investments	35.00	-	546.00	754.00	928.00	-
Income on investments and bank deposits	62.00	14.00	6.00	8.00	26.00	29.00
Net cash flow from investing activities	**(4,196.00)**	**(851.00)**	**(503.00)**	**(334.00)**	**(602.00)**	**(1,011.00)**
Proceeds from long term borrowings	4,179.00	1,390.00	-	700.00	1,956.00	1,700.00
Proceeds from short term borrowings	-	-	-	1,250.00	620.00	300.00
Repayment of borrowings	(130.00)	(1,104.00)	(1,613.00)	(2,945.00)	(2,873.00)	(2,554.00)
Issue of share capital	-	1,414.00	-	-	-	-
Dividend	-	-	-	-	200.00	100.00
Net cash flow from financing activities	**4,049.00**	**1,700.00**	**(1,613.00)**	**(995.00)**	**(97.00)**	**(454.00)**
Net cash flows	**541.00**	**(805.00)**	**394.00**	**(498.00)**	**2,109.00**	**(307.00)**

Six Years Summary Profit and Loss Account and Balance Sheet

	Unit	2009	2010	2011	2012	2013	2014
PROFIT AND LOSS							
Net Sales	Rs. in M	11,571	14,628	16,886	20,466	24,592	23,819
Gross Profit	Rs. in M	1,152	1,192	2,075	3,453	4,911	1,821
Operating Profit / (loss)	Rs. in M	347	123	630	1,813	2,718	(370)
Profit / (Loss) before tax	Rs. in M	(249)	(1,289)	(1,117)	166	1,344	(1,435)
Profit / (Loss) after Tax	Rs. in M	(232)	(814)	(729)	50	717	(1,016)
BALANCE SHEET							
Property, Plant and Equipment	Rs. in M	19,361	19,199	18,538	17,715	17,133	16,923
Intangibles, Investments, Deferred Taxation and Long term Loans & Advances	Rs. in M	109	434	1,021	1,015	608	1,134
Current Assets	Rs. in M	3,086	4,501	4,969	6,227	7,500	8,244
Current Liabilities	Rs. in M	4,681	6,163	9,550	11,030	10,731	14,219
Long Term Liabilities / Non Current liabilities	Rs. in M	11,515	11,064	8,840	7,728	7,575	6,143
Share Capital	Rs. in M	5,204	6,635	6,635	6,635	6,635	6,635
Shareholders Equity	Rs. in M	6,360	6,906	6,139	6,198	6,934	5,939

Six Years Analysis

Share holders equity

Share holders equity fluctuated over the period of six years, mainly due to the cyclic nature of the business and the injection of capital for the backward integration project in 2008-09. During the year the equity has diminished due to the losses incurred by the company as a result of adverse market conditions.

Non Current Assets

Due to the backward integration project, the major capital expenditure was incurred in 2008 and 2009 and afterwards assets grow at stable rate.

Current Liabilities

Overall current liabilities have recorded a 33% increase as compared to 2013, attributable mainly to increase in trade and other payables. The increase in current liabilities over the last six years has remained fairly in line with the changes in the Company's business cycle.

Non Current Liabilities

Non current liabilities mainly comprise of long term loan. Major increase in long term debt was in 2008 and 2009 when the company funded its new project of backward integration through loan. Since 2009, installments of loan are being repaid resulting in the decreasing balance of loan year on year.

Current Assets

There is an increasing trend in the current asset since 2008, mainly due to the accumulation of taxes recoverable, as the company's income tax is assessed under the provision of minimum turnover tax and taxes paid on advance stage are higher than total tax liability resulting in the accumulation of refunds.

Revenue

Revenue over the last six period has recorded a stable growth rate of approximately 20%, except for the current year, where sales revenue is declined marginaly by 3% due to the compressed demand and prices of the PVC.

Gross Profit

Due to cyclic nature of the business the company witnessed heavy fluctuation in gross profit. From 2010 to 2013, the gross profit was increasing at an average rate of 50% but during the current year the gross profit of the company has decreased by 63% as compared to last year due to increase in GIDC, imposition of 5% duty on primary raw material and infavorable vinyl chain prices.

Finance and Other costs

Finance cost has recorded a decreasing trend during the last 3 years as the debts have become repayable from 2012. All other cost have increased on a fairly stable rate except for the foreign currency loss which has decreased as compared to last year due to the appreciation of the value of Pak Rupee as compared to last year.

Ratio Analysis

Profitablity Ratios

In 2014, gross profit of the company is reduced to 8% due to the adverse market conditions. The prices of the finished goods declined against the high prices of raw material. Further, the increase in GIDC rate and imposition of 5% on import of ethylene and EDC increased the cost of doing business. Other costs increased at a fairly stable rate as compared to last year.

Liquidity Ratios

Current ratio has decrease by 0.12 as compared to last year and quick ratio has decreased by 0.06. The decrease in ratios is due to the increase in trade payables due to the higher prices of raw material.

Capital Structure Ratios

Due to backward integration project, the financial gearing increased in 2008 from 0.26 to 1.21 and financial leverage from 28% to 136%. Financial gearing and leverage ratio had started to rise and continued till midyear 2010. Thereafter, the Company started recovering by earning profits and resulted in improved ratios in year 2012, 2013 and 2014. The weighted average cost of debt is nearly constant through the period of six years.

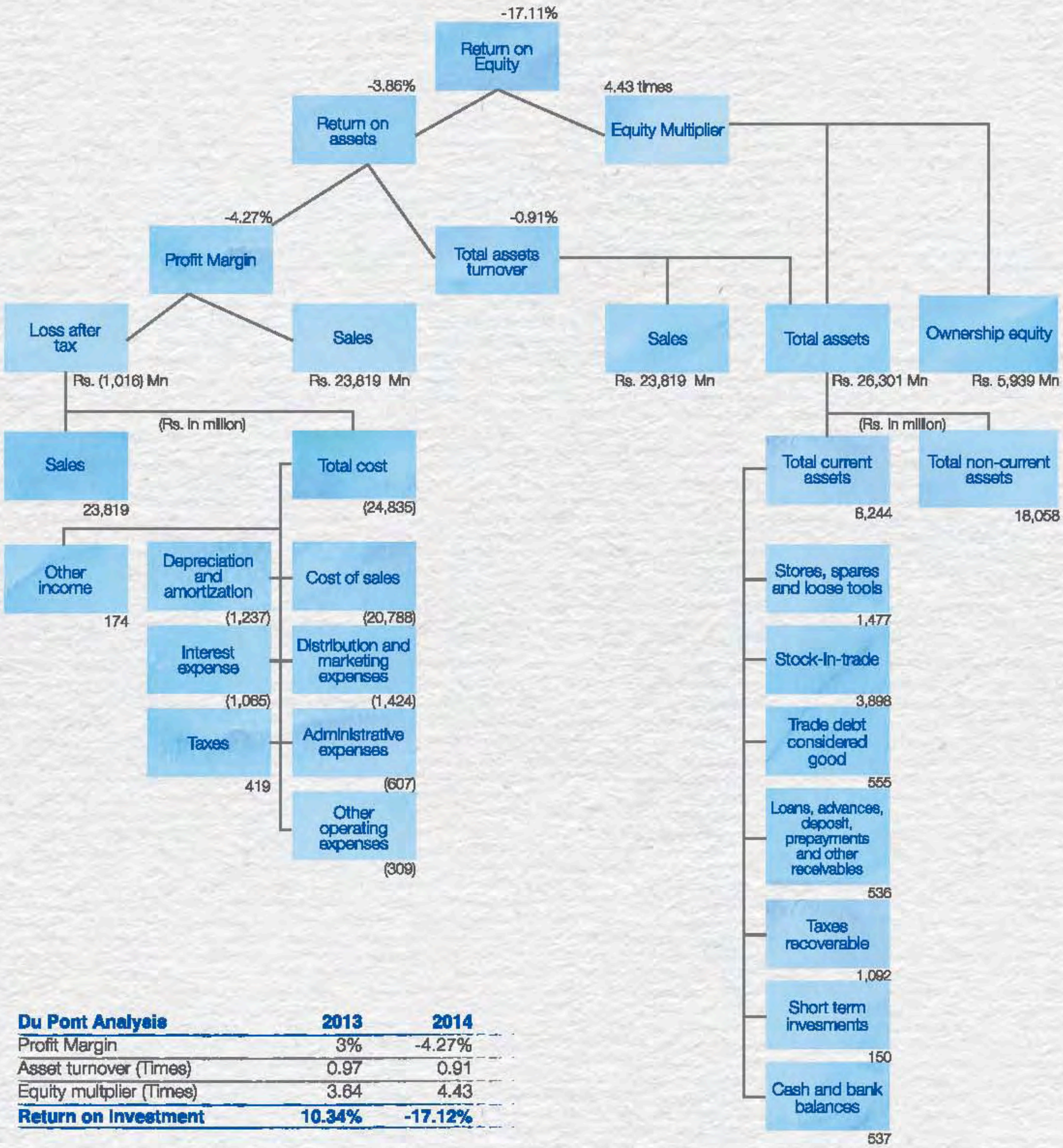
Investment / Market Ratios

Lower profits and higher cost resulted in negative EPS. Average market value per shares is approximately Rs. 12 and the current year closing share price is also Rs. 12 which depicts that the market value of the company is fairly stable.

Activity / Turnover Ratios

Cash operating cycle of the company has increased by ten days as compared to last year.

DuPont Analysis



Du Pont Analysis	2013	2014
Profit Margin	3%	-4.27%
Asset turnover (Times)	0.97	0.91
Equity multplier (Times)	3.64	4.43
Return on Investment	**10.34%**	**-17.12%**

Balance Sheet Vertical and Horizontal Analysis

Amounts in Rs. M

	2009	2010	2011	2012	2013	2014
ASSETS						
Non-Current Assets	19,470	19,633	19,559	18,730	17,740	18,058
Current Assets	3,086	4,501	4,969	6,227	7,500	8,244
Total Assets	22,556	24,134	24,528	24,957	25,240	26,301
EQUITY AND LIABILITIES						
Equity	6,360	6,906	6,139	6,199	6,934	5,939
Non-Current Liabilities	11,515	11,064	8,839	7,729	7,575	6,143
Current Liabilities	4,681	6,164	9,550	11,029	10,731	14,219
Total Equity & Liabilities	22,556	24,134	24,528	24,957	25,240	26,301

Vertical Analysis % of Balance Sheet Total	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
ASSETS						
Non-Current Assets	86%	81%	80%	75%	70%	69%
Current Assets	14%	19%	20%	25%	30%	31%
Total Assets	100%	100%	100%	100%	100%	100%
EQUITY AND LIABILITIES						
Equity	28%	29%	25%	25%	27%	23%
Non-Current Liabilities	51%	46%	36%	31%	30%	23%
Current Liabilities	21%	25%	39%	44%	42%	54%
Total Equity & Liabilities	100%	100%	100%	100%	100%	100%

Horizontal Analysis Year on Year	**2009 over 2008**	**2010 over 2009**	**2011 over 2010**	**2012 over 2011**	**2013 over 2012**	**2014 over 2013**
ASSETS						
Non-Current Assets	19%	1%	–	(5%)	(5%)	2%
Current Assets	56%	46%	10%	27%	20%	10%
Total Assets	23%	7%	2%	2%	1%	4%
EQUITY AND LIABILITIES						
Equity	(3%)	9%	(11%)	1%	12%	(14%)
Non-Current Liabilities	28%	(4%)	(20%)	(13%)	(2%)	(19%)
Current Liabilities	73%	32%	55%	15%	(4)%	32%
Total Equity & Liabilities	23%	7%	2%	2%	1%	4%

Profit and Loss Account Vertical and Horizontal Analysis

Amounts in Rs. M

	2009	2010	2011	2012	2013	2014
Net Sales	11,571	14,628	16,886	20,466	24,592	23,819
Cost of Sales	(10,419)	(13,437)	(14,811)	(17,014)	(19,681)	(21,998)
Gross Profit	1,152	1,191	2,075	3,452	4,911	1,821
Distribution and marketing expenses	(469)	(609)	(854)	(1,134)	(1,344)	(1,428)
Administrative expenses	(205)	(311)	(386)	(478)	(606)	(628)
Other operating expenses	(231)	(171)	(226)	(528)	(521)	(309)
Other operating income	100	22	21	501	278	174
Operating profit	347	122	630	1,813	2,718	(370)
Finance costs	(596)	(1,412)	(1,747)	(1,647)	(1,374)	(1,065)
Profit / (Loss) before taxation	(249)	(1,290)	(1,117)	166	1,344	(1,435)
Taxation	17	476	388	(116)	(627)	419
Profit / (Loss) after taxation	(232)	(814)	(729)	50	717	(1,016)

Vertical Analysis

% of Sales	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Net Sales	100%	100%	100%	100%	100%	100%
Cost of sales	(90%)	(92%)	(88%)	(83%)	(80%)	(92%)
Gross profit	10%	8%	12%	17%	20%	8%
Distribution and marketing expenses	(4%)	(4%)	(5%)	(6%)	(6%)	(6%)
Administrative expenses	(2%)	(2%)	(2%)	(2%)	(2%)	(3%)
Other operating expenses	(2%)	(1%)	(1%)	(3%)	(2%)	(1%)
Other income	1%	–	–	2%	1%	1%
Operating profit / (loss)	3%	1%	4%	9%	11%	(2%)
Finance costs	(5%)	(10%)	(10%)	(8%)	(6%)	(5%)
Profit / (Loss) before taxation	(2%)	(9%)	6%	1%	5%	(6%)
Taxation	–	3%	2%	(1%)	(3%)	2%
Profit / (Loss) after taxation	(2%)	(6%)	(4%)	0%	3%	(4%)

Horizontal Analysis Year on Year	**2009 over 2008**	**2010 over 2009**	**2011 over 2010**	**2012 over 2011**	**2013 over 2012**	**2014 over 2013**
Net Sales	47%	26%	15%	21%	20%	(3%)
Cost of sales	55%	29%	10%	15%	16%	12%
Gross Profit	2%	3%	74%	66%	42%	(63%)
Distribution and marketing expenses	50%	30%	40%	33%	19%	6%
Administrative expenses	26%	51%	24%	24%	27%	4%
Other operating expenses	(20%)	(26%)	32%	134%	(1%)	(41%)
Other operating income	(19%)	(78%)	(5%)	2,286%	(45%)	(37%)
Operating profit	(29%)	(65%)	245%	188%	50%	(114%)
Finance costs	1,706%	137%	24%	(6%)	(17%)	(22%)
Profit / (Loss) before taxation	(154%)	418%	(13%)	115%	710%	(207%)
Taxation	(116%)	2,643%	(18%)	(130%)	441%	(167%)
Profit / (Loss) after taxation	(166%)	251%	(10%)	107%	1334%	(242%)

Key Financial Information

	Unit	2009	2010	2011	2012	2013	2014
Profitability ratios							
Gross Profit Ratio	%	9.96	8.15	12.29	16.87	19.97	7.65
Net Profit /(Loss) to Sales	%	(2.01)	(5.56)	(4.32)	0.24	2.92	(4.27)
EBITDA	Rs. in M	860	1,144	1,793	2,992	3,897	867
EBITDA to Sales	%	7.43	7.82	10.62	14.62	14.6	3.64
Operating leverage ratio	No. of Times	-0.65	-2.58	25.55	11.23	3.58	12.05
Return on Equity	%	(3.65)	(11.79)	(11.87)	0.81	10.34	(17.11)
Return on Capital Employed	%	(1.33)	(4.57)	(4.94)	0.36	4.97	(8.44)
Liquidity ratios							
Cash flow from operations to sales	No. of Times	0.13	0.01	0.28	0.14	0.17	0.12
Cash to current liabilities	No. of Times	-0.04	-0.16	-0.06	-0.10	0.09	0.05
Current Ratio	No. of Times	0.66	0.73	0.52	0.57	0.71	0.58
Quick Ratio	No. of Times	0.28	0.29	0.15	0.17	0.27	0.20
Activity/turnover ratios							
Fixed Assets Turnover	No. of Times	0.60	0.76	0.91	1.16	1.44	1.41
Inventory Turnover	No. of days	48.43	49.73	55.77	59.23	58.45	59.31
Debtor Turnover	No. of days	5.37	9.83	7.35	3.77	5.44	8.18
Creditor turnover	No. of days	46.61	63.22	123.05	164.88	151.35	165.00
Operating cycle	No. of days	7.18	(3.65)	(59.93)	(101.88)	(87.47)	(97.51)
Capital structure							
Interest Cover Ratio	No. of Times	0.58	0.09	0.36	1.10	1.98	-0.35
Long term Debt to Equity Ratio	No. of Times	1.75	1.58	1.40	1.22	1.08	1.03
Weighted average cost of debt	%	11.51	10.99	12.09	11.21	11.21	11.61
Financial leverage	%	197%	200%	193%	187%	151%	164%
Price to Book ratio	Rs.	0.41	0.39	0.20	0.27	0.35	0.30
Earning assets to total assets	%	90%	86%	81%	77%	76%	76%
Investment/market ratios							
Number of outstanding shares	No. in M	520	663	663	663	663	663
Earnings Per Share - Basic and Diluted	Rs.	(0.42)	(1.29)	(1.10)	0.07	1.08	(1.53)
Price Earning Ratio	No. of Times	(2.34)	(9.05)	(14.99)	0.69	8.05	(12.76)
Market value per share (year end)	Rs.	17.94	4.25	7.34	10.12	13.41	12.00
Market value per share (highest)	Rs.	27.00	18.80	15.87	13.82	14.55	17.25
Market value per share (lowest)	Rs.	12.11	9.57	7.15	8.20	8.50	10.65
Breakup value per share	Rs.	12.23	10.42	9.26	9.35	10.46	8.96

Share Price Sensitivity Analysis

During the year, 253.1 million shares were traded at the Karachi Stock Exchange. The share price could not maintain parity with the index and lost 16.7% in value during the year, the erosion in value can be attributed to the setbacks faced by the Company during the year. The average price of the Company share based on daily closing rates was Rs. 13.61 while 52 week low/high during 2014 was Rs. 10.65 – 17.25 per share respectively.

Share Price and KSE 100 Index in 2014

PVC-Ethylene Margins

EPCL generates significant proportion of its revenue and profits from sale of PVC, in a commodity business the spread between end product and primary raw material is a major determinant of profitability. A surge in ethylene prices with constrained PVC prices can shrink the margins; this factor had an adverse impact on the Company's profitability in 2014. Since both Ethylene and PVC are part of the vinyl chain, this phenomena is likely to be temporary in nature and chain is expected to rationalize.

Energy Prices

Chlor vinyl operations are energy intensive, in case of significant increase in gas price, the cost of chlor alkali segment will increase. In case market conditions do not permit the Company to pass on the increase in cost of production, the margins of chlor alkali segment may witness pressure.

VCM plant operations

Stable VCM plant operations enable the Company to produce entire volume of PVC through in house VCM, enabling it to achieve higher margins. Disruptions at production facilities would force the Company to either cut down its PVC production or import VCM. However, the likelihood of major disruption is low as the plant has demonstrated strong operational performance off late.

Interest rate

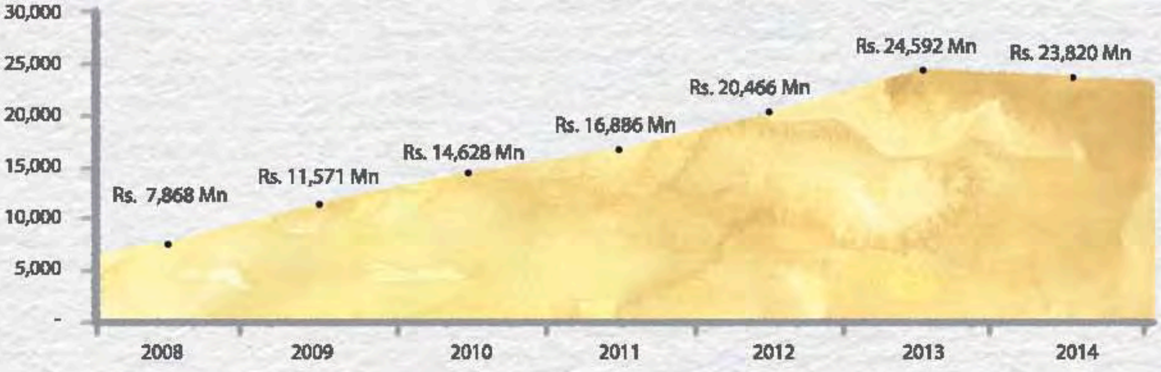
The Company has a sizeable debt on its books and is therefore dependent on interest rate movements. In case of upward movement in interest rates, profitability can be dented and can therefore have a negative impact on share price.

Exchange rate volatility

Major proportion of the Company's profitability is sensitive to exchange rate. The Company's primary raw materials prices are denominated in dollar therefor any volatility in exchange rate can potentially impact the business. Simultaneously, EPCL also has dollar based liabilities which are sensitive to exchange rate volatility. The Company has robust treasury management to manage exchange rate risk.

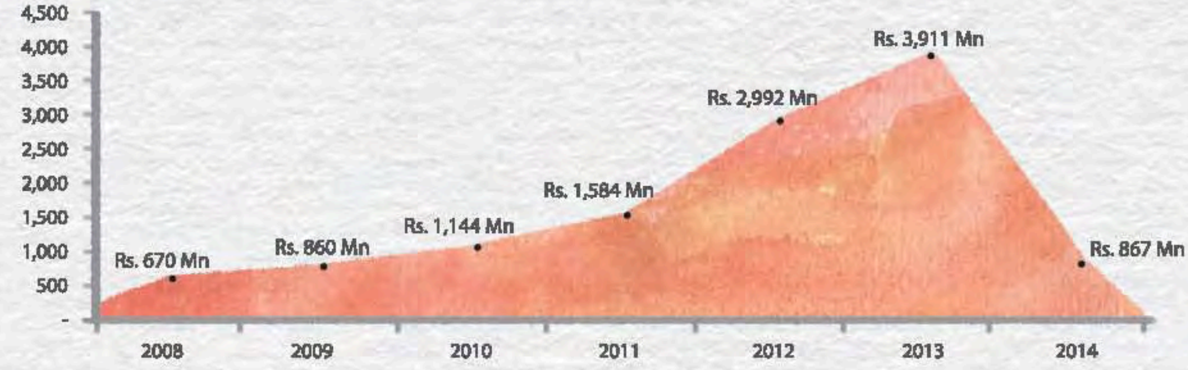
Graphical Presentation

Sales Revenue

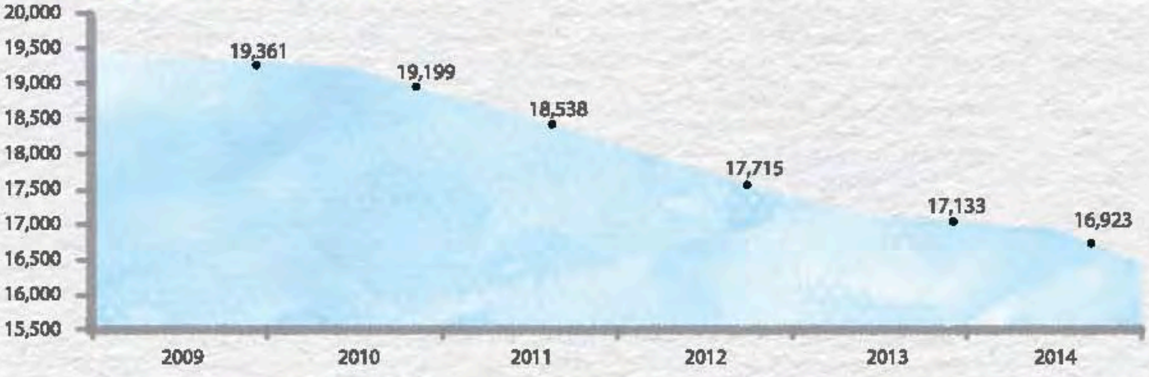


Profit/(Loss) After Tax

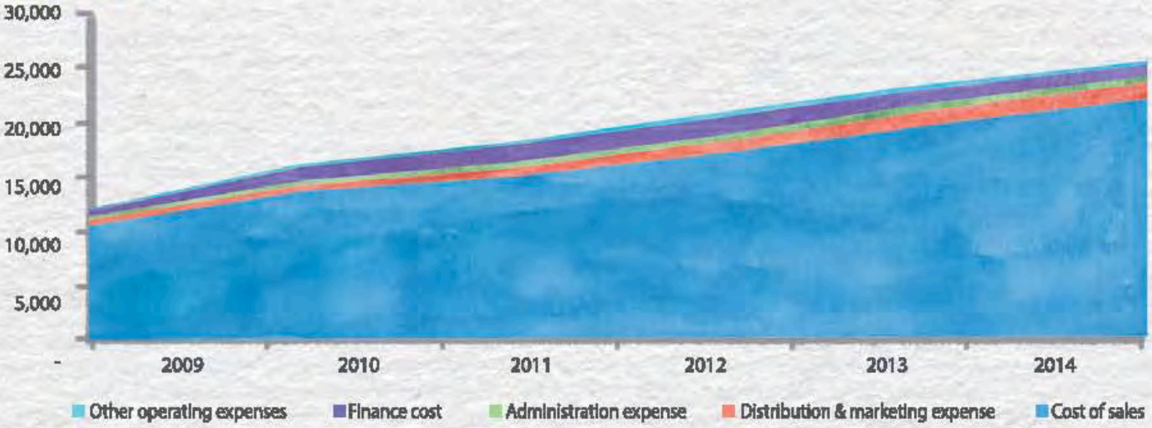
EBITDA



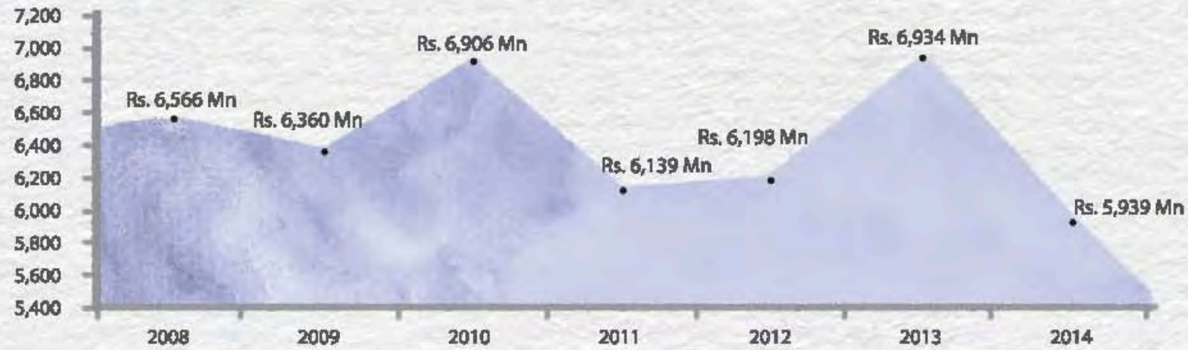
Property, Plant And Equipment



Total Cost



Share Holder Value



Coloring Outside the Lines

Flood Rehabilitation

Engro Polymer & Chemicals Ltd embarked on flood relief activities in far-flung areas that were significantly devastated by the floods in 2010. Special emphasis was laid on maternal health issues that aroused in the absence or total destruction of hospitals and other medical infrastructure in these areas. Expectant mothers suffering from anaemia and other severe blood disorders were provided medical attention in the areas of Qabal, the Kohistan border, Utror, Garbral, Mataltan, Minkial, Bashab and interior Swat.

engro polymer & chemicals

Financial Statements

statement of compliance

with the code of corporate governance
For the year ended December 31, 2014

This statement is being presented to comply with the Code of Corporate Governance (the CCG) contained in Regulation No. 5.19 of Karachi Stock Exchange Limited Regulations and Regulation No. 35 of the Listing Regulations of the Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. As at December 31, 2014 the Board included the following members:

Category	Name
Independent Director	Waqar Malik Khalid Rahman Asif Saad
Executive Director	Khalid S. Subhani
Non-Executive Directors	Kimihide Ando Shahzada Dawood Takashi Yoshida Muhammad Aliuddin Ansari Naz Khan Abdul Samad Khan

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

2. The Directors have confirmed that none of them are serving as a Director on more than seven listed Companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable.)

3. All the resident Directors of the Company are registered as tax payers and none of them have defaulted in payment of any loan to a banking company, a DFI or an NBFI, or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. A casual vacancy occurred on the Board on January 17, 2014. A new Board was elected on April 16, 2014 and therefore the casual vacancy lapsed upon election of the new Board.

5. The Company has prepared a "Code of Conduct" comprising of Ethics and Business Practices policies and has ensured that appropriate steps have been taken to disseminate it through the Company along with its supporting policies and procedures.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and the meeting fees payable to the non-executive directors have been taken by the Board.

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

9. Five of the directors attended the directors training course conducted by the Pakistan Institute of Corporate Governance (PICG) this year. Three other directors have already completed this course earlier.

10. There was no change in the appointment of the CFO, Company Secretary and Head of Internal Audit, however their remuneration and terms and conditions of employment were approved by the Board.

11. The Directors' Report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.

13. The Directors, CEO and executives do not hold any interest in the shares ofthe Company other than that disclosed in the pattern of shareholding.

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

15. The Board has formed an Audit Committee comprisingof 4 members of whom two are non-executive directors and two are independent directors and the Chairman of the Committee is an independent director.

16. The meetings of the Audit Committee were held at least once in every quarter prior to approval of interim and final results of the Company and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has formed a Human Resource and Remuneration Committee, called the Board Compensation Committee. It comprises 4 members, of whom 3 are non-executive directors and one is an independent director and the Chairman of the Committee is a non-executive director.

18. The Board has set up an effective internal audit function manned by suitably qualified and experienced personnel that are involved in the internal audit function on a full time basis.

19. The statutory auditors of the Company have confirmed that they have been given asatisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. The "closed period", prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange(s) except that the closed period for the full year 2013 results was,inadvertently, not declared.

22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).

23. We confirm that all other material principles enshrined in the CCG have been complied with.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

pwc

A.F.FERGUSON & CO.

review report to the members on statement of compliance

with best practices of code of corporate governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Engro Polymer and Chemicals Limited (the Company) for the year ended December 31, 2014 to comply with the code contained in the Regulation No. 5.19 of the Karachi Stock Exchange Limited Regulations and Regulation No. 35 of Chapter XI contained in the Listing Regulations of the Lahore and Islamabad Stock Exchanges, where the Company is listed.

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

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.

The Code of Corporate Governance requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors, for their review and approval of its 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. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2014.

Further, we draw attention to Paragraph 21 of the Statement of Compliance, which states that during the year, closed period prior to the announcement of final results for the year ended December 31, 2013 was inadvertently not declared.

Chartered Accountants
Karachi
Dated: March 13, 2015
Engagement Partner: Waqas A. Sheikh

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pwc

A.F.FERGUSON & CO.

auditors' report to the members

We have audited the annexed balance sheet of Engro Polymer and Chemicals Limited (the Company) as at December 31, 2014 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

(ii) the expenditure incurred during the year was for the purpose of the Company's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2014 and of the loss, total comprehensive loss, changes in equity and its cash flows for the year then ended; and

(d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Chartered Accountants
Karachi
Dated: March 06, 2015
Engagement Partner: Waqas A. Sheikh

A. F. Ferguson & Co., Chartered Accountants, a member firm of the PwC network
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balance sheet

as at december 31, 2014

(Amounts in thousand)	Note	2014	2013
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	16,923,190	17,132,553
Intangible assets	5	51,847	50,098
Long term investment - at cost	6	50,000	50,000
Long term loans and advances	7	66,351	52,605
Deferred taxation	8	966,120	455,181
		18,057,508	17,740,437
Current Assets			
Stores, spares and loose tools	9	1,476,761	1,390,168
Stock-in-trade	10	3,897,503	3,250,590
Trade debts - considered good	11	554,666	525,017
Loans, advances, deposits, prepayments and other receivables	12	535,690	431,177
Taxes recoverable	13	1,091,859	742,454
Short term investments	14	150,012	300,000
Cash and bank balances	15	537,185	860,335
		8,243,676	7,499,741
TOTAL ASSETS		26,301,184	25,240,178
EQUITY AND LIABILITIES			
Equity			
Share capital	16	6,634,688	6,634,688
Share premium		964,029	964,029
Hedging reserve		(29,757)	(52,804)
Accumulated loss		(1,629,890)	(612,103)
		5,939,070	6,933,810
Non-Current Liabilities			
Long term borrowings	17	6,098,708	7,494,818
Derivative financial instruments	18	44,414	80,006
		6,143,122	7,574,824
Current Liabilities			
Current portion of long term borrowings	17	3,016,196	2,242,800
Derivative financial instruments - at fair value through profit or loss	18	119,571	102,172
Service benefit obligations	19	39,737	63,662
Short term borrowings	20	600,000	766,062
Trade and other payables	21	9,336,520	7,209,155
Accrued interest / mark-up	22	92,785	82,753
Provisions	23	1,014,183	264,940
		14,218,992	10,731,544
TOTAL EQUITY AND LIABILITIES		26,301,184	25,240,178
Commitments	24		

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

profit and loss account

for the year ended december 31, 2014

[Amounts in thousand except for (loss) / earnings per share]	Note	2014	2013
		Rupees	
Net revenue	25	23,819,272	24,591,905
Cost of sales	26	(21,998,345)	(19,681,106)
Gross profit		1,820,927	4,910,799
Distribution and marketing expenses	27	(1,428,412)	(1,343,872)
Administrative expenses	28	(627,899)	(606,409)
Other operating expenses	29	(309,139)	(520,816)
Other income	30	174,344	278,267
Operating (loss) / profit		(370,179)	2,717,969
Finance costs	31	(1,064,972)	(1,373,541)
(Loss) / Profit before taxation		(1,435,151)	1,344,428
Taxation	32	419,012	(627,261)
(Loss) / Profit for the year		(1,016,139)	717,167
(Loss) / Earnings per share - basic and diluted	33	(1.53)	1.08

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

statement of comprehensive income

for the year ended december 31, 2014

(Amounts in thousand)	Note	2014	2013
		Rupees	
(Loss) / Profit for the year		(1,016,139)	717,167
Other comprehensive income / (loss):			
Items that will not be reclassified to profit or loss			
Deferred tax charge relating to revaluation of equity related items		(1,648)	(1,648)
Remeasurement of post employment benefits obligation - Actuarial loss		-	(14,270)
		(1,648)	(15,918)
Items that may be reclassified subsequently to profit or loss			
Hedging reserve			
Gain / (Loss) arising during the year, net		33,147	(5,601)
Reclassification adjustments for losses included in profit and loss		2,445	67,251
Income tax relating to hedging reserve		(12,545)	(22,377)
		23,047	39,273
Other comprehensive income for the year - net of tax		21,399	23,355
Total comprehensive (loss) / income for the year		(994,740)	740,522

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

statement of changes in equity

for the year ended december 31, 2014

(Amounts in thousand)

	Share Capital	RESERVES — CAPITAL: Share premium	RESERVES — REVENUE: Hedging reserve	RESERVES — REVENUE: Accumulated loss	RESERVES — REVENUE: Remeasurement of post employment benefits - Actuarial loss	Total
	Rupees					
Balance as at January 1, 2013	6,634,688	964,029	(92,077)	(1,308,239)	(5,113)	6,193,288
Total comprehensive income for the year ended December 31, 2013	-	-	39,273	715,519	(14,270)	740,522
Effect of curtailment and settlement of defined benefit plans	-	-	-	(19,383)	19,383	-
Balance as at December 31, 2013	6,634,688	964,029	(52,804)	(612,103)	-	6,933,810
Total comprehensive loss for the year ended December 31, 2014	-	-	23,047	(1,017,787)	-	(994,740)
Balance as at December 31, 2014	6,634,688	964,029	(29,757)	(1,629,890)	-	5,939,070

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

statement of cash flows

for the year ended december 31, 2014

(Amounts in thousand)	Note	2014	2013
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	36	2,802,594	4,215,639
Finance costs paid		(1,054,940)	(1,412,343)
Long term loans and advances		(13,746)	(3,265)
Retirement benefits paid		(120,347)	(55,537)
Income tax (paid) / refunded - net		(455,525)	61,896
Net cash generated from operating activities		1,158,036	2,806,390
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(1,036,970)	(608,672)
- intangible assets		(15,143)	(29,871)
Proceeds from disposal of property, plant and equipment		12,024	8,164
Purchase of short term investments		-	(924,000)
Proceeds from sale of short term investments		-	927,973
Income on short term investment and bank deposits		28,858	26,299
Net cash utilized in investing activities		(1,011,231)	(600,107)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings		1,700,000	1,955,655
Repayments of long term borrowings		(2,253,881)	(2,052,881)
Proceeds from short term borrowings		300,000	620,000
Repayments of short term borrowings		(300,000)	(820,000)
Dividend from subsidary		100,000	200,000
Net cash utilized in financing activities		(453,881)	(97,226)
Net (decrease) / increase in cash and cash equivalents		(307,076)	2,109,057
Cash and cash equivalents at beginning of the year		994,273	(1,114,784)
Cash and cash equivalents at end of the year	37	687,197	994,273

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

notes to the financial statements

for the year ended december 31, 2014

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

1.1 Engro Polymer and Chemicals Limited (the Company) was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984. The Company is listed on Karachi, Lahore and Islamabad Stock Exchanges.

1.2 The Company is a subsidiary of Engro Corporation Limited (the Holding Company). The address of its registered office is 16th Floor, The Harbor Front Building, HC-3 Marine Drive, Block 4 Clifton, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), Vinyl Chloride Monomer (VCM), Caustic soda and other related chemicals. The Company is also engaged in the supply of surplus power generated from its power plants to Engro Fertilizers Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

2.1.1 These financial statements have been prepared under the historical cost convention as modified by remeasurement of certain financial assets and financial liabilities (including derivative financial instruments) at fair value.

2.1.2 These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.

2.1.3 The preparation of financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

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

a) Standards, amendments to published standards and interpretations effective in 2014

The following amendments and interpretations to published standards are mandatory for the financial year beginning January 1, 2014 and are relevant to the Company:

- IAS 32 (Amendment), 'Financial instruments: Presentation'. This amendment updates the application guidance in IAS-32 'Financial Instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet date. The amendment clarifies that right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The Company's current accounting treatment is already in line with this amendment.

(Amounts in thousand)

- IAS 36 (Amendment) 'Impairment of assets'. The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.This amendment does not affect the Company's financial statements as there is no event of impairment during the year.

- IFRIC 21 'Levies'. This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company's current accounting treatment is in line with this amendment.

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2014 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

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

The following new standards and amendments to published standards are not effective for the financial year beginning on January 1, 2014 and have not been early adopted by the Company.

- IFRS 10 'Consolidated financial statements' (effective for periods beginning on or after January 1, 2015). This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in determination of control where this is difficult to assess. It is unlikely that the standard will have any significant impact on the Company's financial statements.

- IFRS 13 'Fair value measurement' (effective for periods beginning on or after January 1, 2015). The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Company is yet to assess the full impact of the standard, however, initial indicators are that it may not affect the Company's financial statements significantly.

- IAS 27 (Revised) 'Separate financial statements' (effective for periods beginning on or after January 1, 2015). This standard replaces the current IAS 27 'Consolidated and Separate Financial Statements' (as amended in 2008) and includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. It is unlikely that the standard will have any significant impact on the Company's financial statements.

- IAS 27 (Amendment) 'Separate financial statements' (effective for annual periods beginning on or after January 1, 2016). The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. It is unlikely that the amendment will have any significant impact on the Company's financial statements.

(Amounts in thousand)

- Amendment to following standards as a result of annual improvements to International Financial Reporting Standards issued by IASB:

- IFRS 7 'Financial instruments: Disclosures' (effective for annual periods beginning on or after July 1, 2016). 'Interim financial statements – the amendment clarifies that the additional disclosure required by the amendments to IFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods unless required by IAS 34. This amendment is retrospective. It is unlikely that the amendment will have any significant impact on the Company's financial statements.

- IFRS 8 'Operating segments' (effective for annual periods beginning on or after July 1, 2014). This amendment requires disclosure of the judgments made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. The amendment will only affect the disclosures in the Company's financial statements. It is unlikely that the amendment will have any significant impact on the Company's financial statements.

- IAS 24 'Related party disclosures' (effective for annual periods beginning on or after July 1, 2014). The standard has been amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity'). Disclosure of the amounts charged to the reporting entity is required. It is unlikely that the amendment will have any significant impact on the Company's financial statements.

- IAS 34, 'Interim financial reporting' (effective for annual periods beginning on or after July 1, 2016). This amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective. It is unlikely that the amendment will have any significant impact on the Company's financial statements.

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

2.2 Property, plant and equipment

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

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

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

(Amounts in thousand)

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

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

2.3 Capital spares

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

2.4 Intangible assets - Computer software

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

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

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

2.5 Investments in subsidiaries

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

2.6 Financial instruments

2.6.1 Financial assets

Classification

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

(Amounts in thousand)

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, these are classified as non-current.

b) Loans and receivables

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

c) Held to maturity financial assets

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

d) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. These are included in non-current assets unless the investment matures or management intends to dispose off the financial assets within 12 months of the balance sheet date.

Recognition and measurement

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

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

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

(Amounts in thousand)

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

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

2.6.2 Financial liabilities

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

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

2.6.3 Offsetting of financial assets and liabilities

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

2.7 Stores, spares and loose tools

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

2.8 Stock-in-trade

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

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

(Amounts in thousand)

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

2.9 Trade debts and other receivables

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

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

2.10 Cash and cash equivalents

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

2.11 Share capital

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

2.12 Borrowings

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

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

2.13 Retirement and other service benefits

2.13.1 Gratuity fund

The employees of the Company participate in a defined contribution gratuity fund (the Fund) operated and managed by Engro Corporation Limited - the Holding Company. As per the terms of the defined contribution plan, the Company contributes to the Fund at the rate of 8.33% of basic salary. Annual contribution by the Company is charged to income.

(Amounts in thousand)

2.13.2 Provident fund

The employees of the Company participate in defined contribution provident fund (the Fund) operated and managed by Engro Corporation Limited - the Holding Company. Equal monthly contributions at the rate of 10% of the basic salary are made both by the Company and the employees to the Fund. Annual contribution by the Company is charged to income.

2.13.3 Compensated absences

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

2.13.4 Other benefits - Service Incentive Plan

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

2.14 Trade and other payables

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

2.15 Provisions

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

2.16 Taxation

2.16.1 Current

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

2.16.2 Deferred

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

(Amounts in thousand)

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

2.17 Foreign currency transactions and translation

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

2.18 Derivative financial instruments and hedging activities

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

a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or

b) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

Fair value hedge

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

Cash flow hedge

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

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

(Amounts in thousand)

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

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

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

2.19 Revenue recognition

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

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

2.20 Borrowing costs

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

2.21 Segment reporting

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

2.22 Dividend and appropriation to reserves

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

(Amounts in thousand)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Property, plant and equipment and intangible assets

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

3.2 Derivative financial instruments designated as cash flow hedges

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

3.3 Stock-in-trade

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

3.4 Income taxes

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

3.5 Deferred tax asset

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

4. PROPERTY, PLANT AND EQUIPMENT

	2014	2013
	Rupees	
Operating assets, at net book value - note 4.1	16,472,475	16,833,072
Capital work-in-progress - note 4.4	366,659	211,833
Capital spares	84,056	87,648
	16,923,190	17,132,553

(Amounts in thousand)

4.1 Operating assets

	Leasehold land	Building on leasehold land	Plant and machinery	Pipelines				Furniture, fixtures and equipment	Vehicles	Total
				Water	VCM	Ethylene	Gas			
	Rupees									
As at January 1, 2013										
Cost	194,127	486,578	21,263,875	398,968	26,122	50,315	33,849	139,782	143,245	22,736,861
Accumulated depreciation	(29,086)	(95,698)	(4,819,138)	(125,740)	(17,141)	(7,758)	(7,428)	(103,742)	(54,584)	(5,260,315)
Net book value	165,041	390,880	16,444,737	273,228	8,981	42,557	26,421	36,040	88,661	17,476,546
Year ended December 31, 2013										
Opening net book value	165,041	390,880	16,444,737	273,228	8,981	42,557	26,421	36,040	88,661	17,476,546
Additions - note 4.4	-	13,493	512,939	-	-	-	-	20,904	6,483	553,819
Disposals - note 4.3										
Cost	-	-	-	-	-	-	-	(2,725)	(14,596)	(17,321)
Accumulated depreciation	-	-	-	-	-	-	-	2,330	9,940	12,270
	-	-	-	-	-	-	-	(395)	(4,656)	(5,051)
Write offs - note 4.3										
Cost	-	-	(72,227)	-	-	-	-	(196)	(1,638)	(74,061)
Accumulated depreciation	-	-	64,131	-	-	-	-	153	256	64,540
	-	-	(8,096)	-	-	-	-	(43)	(1,382)	(9,521)
Depreciation charge - note 4.2	(3,934)	(12,377)	(1,104,755)	(19,948)	(1,306)	(2,516)	(1,692)	(13,680)	(22,513)	(1,182,721)
Net book value	161,107	391,996	15,844,825	253,280	7,675	40,041	24,729	42,826	66,593	16,833,072
As at January 1, 2014										
Cost	194,127	500,071	21,704,587	398,968	26,122	50,315	33,849	157,765	133,494	23,199,298
Accumulated depreciation	(33,020)	(108,075)	(5,859,762)	(145,688)	(18,447)	(10,274)	(9,120)	(114,939)	(66,901)	(6,366,226)
Net book value	161,107	391,996	15,844,825	253,280	7,675	40,041	24,729	42,826	66,593	16,833,072
Year ended December 31, 2014										
Opening net book value	161,107	391,996	15,844,825	253,280	7,675	40,041	24,729	42,826	66,593	16,833,072
Additions - note 4.4	-	3,611	849,384	-	-	-	-	29,149	-	882,144
Disposals - note 4.3										
Cost	-	-	-	-	-	-	-	-	(34,586)	(34,586)
Accumulated depreciation	-	-	-	-	-	-	-	-	23,584	23,584
	-	-	-	-	-	-	-	-	(11,002)	(11,002)
Write offs - note 4.3										
Cost	-	-	(42,484)	-	-	-	-	(263)	-	(42,747)
Accumulated depreciation	-	-	34,613	-	-	-	-	41	-	34,654
	-	-	(7,871)	-	-	-	-	(222)	-	(8,093)
Depreciation charge - note 4.2	(3,934)	(12,491)	(1,152,313)	(19,948)	(1,306)	(2,516)	(1,692)	(13,915)	(15,531)	(1,223,646)
Net book value	157,173	383,116	15,534,025	233,332	6,369	37,525	23,037	57,838	40,060	16,472,475
As at December 31, 2014										
Cost	194,127	503,682	22,511,487	398,968	26,122	50,315	33,849	186,651	98,908	24,004,109
Accumulated depreciation	(36,954)	(120,566)	(6,977,462)	(165,636)	(19,753)	(12,790)	(10,812)	(128,813)	(58,848)	(7,531,634)
Net book value	157,173	383,116	15,534,025	233,332	6,369	37,525	23,037	57,838	40,060	16,472,475
Annual rate of depreciation (%)	2 to 2.14	2.5 to 10	5 to 25	5	5	5	5	5 to 33	5 to 25	

(Amounts in thousand)

		2014	2013
		Rupees	
4.2	Depreciation charge has been allocated as follows:		
	Cost of sales - note 26	1,210,823	1,167,275
	Distribution and marketing expenses - note 27	4,893	4,904
	Administrative expenses - note 28	7,930	10,542
		1,223,646	1,182,721

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

	Cost	Accumulated depreciation	Net book value	Sale Proceeds	Mode of disposal	Particulars of purchaser
	Rupees					
Vehicle	2,220	1,776	444	838	By auction	Naveed Rauf
"	749	749	-	538		Naveed Rauf
"	2,420	1,936	484	1,172		Naveed Rauf
"	900	675	225	714		Muhammad Arif
"	1,849	1,387	462	350	By Company policy to existing/ separating employees	Zafar Ali
"	1,300	813	488	427		Ehtisham Zaheer
"	2,176	612	1,564	1,530		Haseeb Hafeezuddin
"	1,289	906	383	322		Qasim Siddiqui
"	1,269	952	317	317		Rahim Khan
"	1,270	833	437	397		Ibtesam Ahmed
"	1,269	952	317	317		Athar Rizvi
"	1,300	934	366	325		Zubair Ashraf
"	1,300	914	386	325		Muzafar Islam
"	1,300	914	386	325		Tauseef Ali
"	1,300	914	386	325		Shakeel ur Rehman
"	1,295	911	384	324		Shujaat Jamal Rizvi
"	1,357	806	551	339		Sohail Baig
"	1,300	934	366	325		Aqeel Riaz
"	1,325	932	393	331		Rizwan Hassan
"	1,270	953	318	317		Fawad Soomro
"	1,930	1,357	573	483		Saleem Lallany
"	1,337	940	397	334		Abid Hussain
"	1,524	524	1,000	827		Athar Abrar Khwaja
"	1,337	960	375	334		Imran Aslam
	34,586	23,584	11,002	11,836		
Computer equipment - Laptop	263	41	222	188	Write-off / Insurance claims	EFU General Insuarance Limited
Plant and Machinery	42,484	34,613	7,871	-		
	42,747	34,654	8,093	188		
2014	77,333	58,238	19,095	12,024		
2013	91,382	76,810	14,572	8,164		

(Amounts in thousand)

4.4 Capital work-in-progress

	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipments	Advances for vehicles & software	Total
	Rupees				
Year ended December 31, 2013					
Balance as at January 1, 2013	4,802	147,423	412	4,343	156,980
Additions during the year	10,952	563,450	30,423	33,718	638,543
Transferred to:					
-Operating assets - note 4.1	(13,493)	(512,939)	(20,904)	(6,483)	(553,819)
-Intangible assets - note 5	-	-	-	(29,871)	(29,871)
Balance as at December 31, 2013	2,261	197,934	9,931	1,707	211,833
Year ended December 31, 2014					
Balance as at January 1, 2014	2,261	197,934	9,931	1,707	211,833
Additions during the year	6,325	994,613	21,177	29,998	1,052,113
Transferred to:					
-Operating assets - note 4.1	(3,611)	(849,384)	(29,149)	-	(882,144)
-Intangible assets - note 5	-	-	-	(15,143)	(15,143)
Balance as at December 31, 2014	4,975	343,163	1,959	16,562	366,659

5. INTANGIBLE ASSETS - Computer software

	Rupees
As at January 1, 2013	
Cost	62,672
Accumulated amortization	(31,808)
Net book value	30,864
Year ended December 31, 2013	
Opening net book value	30,864
Additions at cost - note 4.4	29,871
Amortization charge - note 28	(10,637)
Closing net book value	50,098
As at January 1, 2014	
Cost	92,543
Accumulated amortization	(42,445)
Net book value	50,098
Year ended December 31, 2014	
Opening net book value	50,098
Additions at cost - note 4.4	15,143
Amortization charge - note 28	(13,394)
Closing net book value	51,847
As at December 31, 2014	
Cost	107,686
Accumulated amortization	(55,839)
Net book value	51,847

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

(Amounts in thousand)

	2014	2013
	Rupees	
6. LONG TERM INVESTMENT		
Subsidiary - at cost		
Engro Polymer Trading (Private) Limited		
5,000,000 (2013: 5,000,000) ordinary shares of Rs. 10 each	50,000	50,000
7. LONG TERM LOANS AND ADVANCES - Considered good		
Executives - notes 7.1, 7.2, 7.4 and 7.5	99,847	88,146
Less: Current portion shown under current assets - note 12	(33,636)	(35,989)
	66,211	52,157
Employees - notes 7.3 and 7.5	340	952
Less: Current portion shown under current assets - note 12	(200)	(504)
	140	448
	66,351	52,605

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

	2014	2013
	Rupees	
Balance at beginning of the year	88,146	74,752
Add: Disbursements	63,560	63,560
Less: Repayments / Amortizations	(51,859)	(50,166)
Balance at end of the year	99,847	88,146

7.2 These include interest free loans and advances to executives for house rent, vehicles, home appliances and investments given in accordance with the terms of employment. Loans for house rent and investments are repayable in 18 to 36 equal monthly installments. Loans for home appliances are repayable in 5 equal annual installments. Advances for vehicles are charged to profit and loss account over a period of 4 years.

7.3 These include interest free loans to employees for home appliances and investments, given in accordance with the terms of employment. Loans are repayable in accordance with the terms stated in note 7.2.

7.4 The maximum aggregate amount due from the executives at the end of any month during the year was Rs. 102,242 (2013: Rs. 88,220). These are secured by way of promissory notes.

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

(Amounts in thousand)

	2014	2013
	Rupees	
8. DEFERRED TAXATION		
Credit balances arising due to:		
- accelerated tax depreciation	(3,517,629)	(3,979,859)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 8.1	3,628,101	3,745,640
- recoupable minimum turnover tax - note 8.2	154,348	419,806
- unpaid liabilities	88,283	73,093
- provision for Gas Infrastructure Development Cess, Custom duty and Special Excise Duty	314,747	96,214
- provision for net realizable value of stock-in-trade	220,655	9,919
- provision for slow moving stores and spares	8,545	7,105
- fair value of hedging instrument	14,657	27,202
- share issuance cost, net to equity	54,413	56,061
	4,483,749	4,435,040
	966,120	455,181

8.1 Deferred income tax asset is recognized for tax losses available for carry-forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The aggregate tax losses available for carry-forward as at December 31, 2014 amount to Rs. 10,994,246 (2013: Rs. 11,016,588).

8.2 During the year, the Company has fully derecognized the deferred tax asset relating to minimum turnover tax paid in prior years, on account of significant uncertaininty over its future recoverability. However, the Company has recognized deferred tax asset on recoupable minimum turnover tax in respect of current year amounting to Rs. 154,348 as the Company, based on its financial projections, expects to recoup it in the ensuing years.

Further, the High Court of Sindh, in respect of another company, has overturned the interpretation of the Appellate Tribunal on Section 113 (2) (c) of the Income Tax Ordinance, 2001 and has decided that the minimum tax paid cannot be carried forward in respect of the year where there is no tax paid on account of loss for the year or carried forward losses. The Company's management is, however, of the view, duly supported by the legal advisor, that the above order would not be maintained by the Supreme Court, which the Company intends to approach, if required. Accordingly, as stated above, the Company has recognized deferred tax asset on minimum turnover tax for the current year.

	2014	2013
	Rupees	
9. STORES, SPARES AND LOOSE TOOLS		
Consumable stores	107,111	80,515
Spares	1,397,673	1,330,549
	1,504,784	1,411,064
Less:		
Provision for slow moving stores and spares - note 9.1	28,023	20,896
	1,476,761	1,390,168

9.1 The movement in the provision for slow moving stores and spares is as follows:	2014	2013
	Rupees	
Balance at the beginning of the year	20,896	15,966
Add: Recognized during the year - note 26	7,127	4,930
Balance at the end of the year	28,023	20,896

(Amounts in thousand)

		2014	2013
		Rupees	
10.	STOCK-IN-TRADE		
	Raw and packing materials - notes 10.1, 10.3, 10.4 and 10.5	2,406,646	1,998,111
	Work-in-process	21,632	27,923
	Finished goods - own manufactured product - notes 10.1 and 10.2	1,469,225	1,224,556
		3,897,503	3,250,590
10.1	This includes stocks held at the storage facilities of the following parties:		
	- Engro Vopak Terminal Limited, a related party	579,802	747,367
	- Dawood Hercules Corporation Limited, a related party	9,334	6,672
	- Al-Rahim Trading Company (Private) Limited	7,739	32,162
		596,875	786,201

10.2 This includes carrying value of PVC resin, net of realizable value reduction of Rs. 700,679 (2013: Rs. 29,174).

10.3 This includes carrying value of Vinyl Chloride Monomer (VCM) net of realizable value reduction of Rs. 22,970 (2013: Nil).

10.4 Raw materials amounting to Rs. 428 (2013: Nil) were written-off during the year.

10.5 This includes goods in transit amounting to Rs. 650,925 (2013: Nil).

		2014	2013
		Rupees	
11.	TRADE DEBTS - considered good		
	Secured - notes 11.1 and 11.2	464,597	195,452
	Unsecured - note 11.2	90,069	329,565
		554,666	525,017

11.1 These debts are secured by way of bank guarantees and letters of credit from customers.

		2014	2013
		Rupees	
11.2	Includes amounts due from the following related parties:		
	- Engro Fertilizers Limited	4,752	-
	- Engro Foods Limited	1,492	1,671
	- Mitsubishi Corporation	135,342	249,939
		141,586	251,610

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

(Amounts in thousand)

	2014	2013
	Rupees	
12. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Considered good		
Current portion of long term loans and advances - note 7		
- executives	33,636	35,989
- employees	200	504
	33,836	36,493
Advances to employees	3,788	3,611
Advances to suppliers and others	61,661	94,097
Deposits	53,106	88,884
Prepayments	89,219	102,646
Receivable from Government of Pakistan		
- Sales tax and Federal excise duty refundable	279,679	83,018
- Octroi/duty claims	152	152
	279,831	83,170
Due from related parties:		
Engro Vopak Terminal Limited	-	2,208
Engro Fertilizers Limited	9,754	5,918
Engro Eximp (Private) Limited	-	25
Engro Powergen Qadirpur Limited	9	21
	9,763	8,172
Other receivables	4,486	14,104
	535,690	431,177
Considered doubtful		
Custom duty claims refundable - note 12.1	18,043	18,043
Less: Provision for impairment - note 12.2	(18,043)	(18,043)
	-	-
Special Excise Duty (SED) refundable	36,687	36,687
Less: Provision for impairment - note 12.2	(36,687)	(36,687)
	-	-
	535,690	431,177

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

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

(Amounts in thousand)

12.2 As at December 31, 2014, receivables aggregating to Rs. 54,730 (2013: Rs. 54,730) were deemed to be impaired and have been provided for in full based on prudence. The remaining balances of loans, deposits, and other receivables are neither past due nor impaired.

13. TAXES RECOVERABLE

13.1 Tax year 2008

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

The Company filed an appeal against the aforesaid order before the Commissioner Inland Revenue Appeals [CIR(A)], but discharged the entire demand through adjustment against assessed refunds of Rs. 180,768 and paying the balance of Rs. 32,404 'under protest'. Through his appellate order, the CIR(A) maintained certain additions aggregating Rs. 189,810 including finance cost amounting to Rs. 134,414 and remanded back the issue of imputed interest on loans to employees and executives and directed the DCIR to allow credit of the minimum tax charged for the period of tax years 2004 to 2007. An appeal against the said appellate order was filed by the Company before the Appellate Tribunal Inland Revenue (ATIR). The department also filed an appeal against the said appellate order challenging the actions of the CIR(A).

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

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

13.2 Tax year 2009

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

The entire demand of Rs. 163,206 was adjusted against assessed tax refunds and an appeal was filed by the Company before the CIR(A). Through his appellate order, the CIR(A) maintained certain additions aggregating to Rs. 493,971 including disallowance of finance cost amounting to Rs. 457,282 and remanded back the issue of imputed interest on loans to employees and executives. An appeal against the said appellate order was filed before the ATIR. The department also filed an appeal against the said appellate order challenging the action of CIR(A), regarding deletion of addition on account of provision for the retirement benefits.

(Amounts in thousand)

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

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

	2014	2013
	Rupees	
14. SHORT TERM INVESTMENTS		
Held to maturity		
Treasury bills - note 14.1	-	300,000
Loans and receivables		
Reverse repurchased Pakistan Investment Bonds - note 14.2	150,012	-
	150,012	300,000

14.1 These represented treasury bills having face value of Rs. 304,105 discounted using the market yield of 9.79%.

14.2 These represent reverse repurchased Pakistan Investment Bonds carrying an effective interest rate of 9.41%, maturing on January 7, 2015.

	2014	2013
	Rupees	
15. CASH AND BANK BALANCES		
Cash in hand	428	286
Cash at bank:		
- current accounts	73,193	709,534
- saving accounts	463,564	150,515
	536,757	860,049
	537,185	860,335

(Amounts in thousand)

	2014	2013
	Rupees	
16. SHARE CAPITAL		
Authorized capital		
800,000,000 (2013: 800,000,000) ordinary shares of Rs. 10 each	8,000,000	8,000,000
Issued, subscribed and paid-up capital		
663,468,788 (2013: 663,468,788) ordinary shares of Rs. 10 each, fully paid in cash - note 16.1	6,634,688	6,634,688

16.1 As at December 31, 2014, Engro Corporation Limited (the Holding Company) held 372,809,989 (2013: 372,809,989) ordinary shares of Rs.10 each.

17. LONG TERM BORROWINGS, secured

Title	Mark-up rate per annum	Installments Number	Installments Commencing from	2014 Rupees	2013 Rupees
Syndicated term finance I (note 17.2)	6 months KIBOR + 2.25%	13 half yearly	November 2010	2,530,284	3,475,184
Syndicated term finance II (note 17.2)	6 months KIBOR + 3%	13 half yearly	June 2010	566,842	846,591
Syndicated term finance IV (note 17.3)	6 months KIBOR + 2.55%	6 half yearly	May 2013	166,667	330,181
Syndicated term finance V (note 17.4)	6 months KIBOR + 1.5%	8 half yearly	June 2015	1,322,136	1,315,170
Bilateral Loan I (note 17.1)	6 months KIBOR + 2%	6 half yearly	June 2016	542,388	540,554
Master Istisna III	6 months KIBOR + 2%	6 half yearly	June 2015	200,000	200,000
Master Istisna IV	6 months KIBOR + 2.6%	6 half yearly	April 2016	100,000	100,000
International Finance Corporation (IFC) (note 17.2)	6 months LIBOR + 2.6% to 3%	15 half yearly	June 2010	1,991,687	2,929,938
Bilateral Loan II (note 17.1)	6 months KIBOR + 1.35%	6 half yearly	June 2017	847,450	-
Bilateral Loan III (note 17.1)	6 months KIBOR + 1.35%	6 half yearly	June 2017	847,450	-
				9,114,904	9,737,618
Less: Current portion shown under current liabilities				(3,016,196)	(2,242,800)
				6,098,708	7,494,818

17.1 During the year, the Company entered into bilateral loan agreements with two banks for a facility of Rs. 850,000 each, for a period of five years. These loans are repayable in six half yearly installments, due after an initial grace period of two years from the date of drawdown. These facilities, alongwith Bilateral Loan I, are secured by a ranking hypothecation charge over the present and future movable assets of the Company.

(Amounts in thousand)

17.2 These finances are secured by:

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

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

- all Project Assets; and

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

17.3 These finances are secured by:

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

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

17.4 These finances are secured by:

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

(ii) a ranking charge by way of hypothecation over all present and future fixed assets of the Company excluding land and buildings.

17.5 Under the terms of the agreements for long term borrowings from International Finance Corporation (IFC) and Syndicate banks and under the bilateral loans agreements, the Company is required to comply with certain debt covenants. As at December 31, 2014, the Company is not in compliance with some of these debt covenants and has accordingly notified the concerned financial institutions.

18. DERIVATIVE FINANCIAL INSTRUMENTS

18.1 As at December 31, 2014, the Company has outstanding interest rate swap agreements with banks for notional amounts aggregating US$ 13,334 to hedge its interest rate exposure on floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, the Company would receive six month USD-LIBOR on respective notional amounts and will pay fix rates, which will be settled semi-annually. During the year, the Company has un-winded its Cross Currency Interest Rate Swap Agreements in order to reduce its foreign currency exposure. Details of the these swap agreements are as follows:

(Amounts in thousand)

Notional Amounts US $	Effective Date	Termination Date	Rate %	Fair Values as at 2014	2013
				Rupees	
Interest Rate Swap Agreements			Fixed rate		
5,000	December 15, 2008	June 15, 2017	3.385	19,293	38,654
1,667	June 15, 2009	June 15, 2017	3.005	5,426	11,059
5,000	June 15, 2009	June 15, 2017	2.795	14,771	29,912
1,667	June 15, 2009	June 15, 2017	2.800	4,924	10,006
13,334				44,414	89,631
Cross Currency Interest Rate Swap Agreements			Floating rate		
-	September 9, 2010	June 15, 2015	LIBOR + 0.95	-	(1,968)
-	January 18, 2011	January 19, 2016	LIBOR + 3.70	-	(5,161)
-	July 6, 2011	June 30, 2016	LIBOR + 1.83	-	(2,496)
-				-	(9,625)
13,334				44,414	80,006

18.2 As at December 31, 2014, the Company has outstanding Exchange Rate Forward agreements with banks for amounts aggregating US$ 52,339 (2013 : US$ 51,036) to neutralize exchange rate exposure on outstanding foreign currency payments under the terms of supplier credit. Under the aforementioned agreements, the Company would pay respective rate agreed at the initiation of the agreement on settlement dates. As at December 31, 2014 the fair value of these derivatives is Rs. 119,571 (2013 : Rs. 102,172).

	2014	2013
	Rupees	
19. SERVICE BENEFIT OBLIGATIONS		
Service incentive plan - note 19.1	39,737	63,662

19.1 This represents annual employment benefit payable to eligible employees who have sucessfully completed the 3 years vesting period with the Company.

(Amounts in thousand)

20. SHORT TERM BORROWINGS

	2014	2013
	Rupees	
Running finance utilized under mark-up arrangements - note 20.1	-	166,062
Sub-ordinate loan from Engro Corporation Limited - note 20.2	600,000	600,000
	600,000	766,062

20.1 The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements, amounted to Rs. 2,875,000 (2013: Rs.1,550,000). The corresponding purchase price is payable on various dates during the ensuing year. Mark-up is chargeable at rates net of prompt payment rebate, ranging from relevant period KIBOR plus 1% to 1.25% (2013: relevant period KIBOR plus 1.0% to 2.5%) per annum. During the period, the mark-up rates, net of prompt payment rebate, ranged from 10.77% to 11.69% (2013: 10.19% to 12.02%) per annum. These facilities are secured by a floating charge over stocks and book debts of the Company.

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

20.3 The facility for opening letters of credit as at December 31, 2014 aggregates to Rs. 13,950,000 (2013: Rs. 9,200,000). The amount utilized as at December 31, 2014 was Rs. 7,533,229 (2013: Rs. 6,818,000). The facilities carry commission at the rate of 0.05% flat (2013: 0.05% flat).

21. TRADE AND OTHER PAYABLES

	2014	2013
	Rupees	
Trade and other creditors - note 21.1	7,446,284	5,527,076
Accrued liabilities	1,252,263	1,294,625
Advances from customers - note 21.1	516,138	224,649
Retention money against project payments	8,733	8,335
Security deposits	35,614	16,772
Workers' profits participation fund - note 21.2	-	81,654
Workers' welfare fund	43,764	38,168
Withholding tax payable	8,912	6,971
Others	24,812	10,905
	9,336,520	7,209,155

(Amounts in thousand)

		2014	2013
		Rupees	
21.1	Includes amount due to following related parties:		
	- Engro Corporation Limited	1,100	433
	- Mitsubishi Corporation	5,920,255	3,977,089
	- Engro Foods Limited	-	250
	- Engro Fertilizers Limited	-	542
	- Engro Vopak Terminal Limited	95,479	98,213
		6,016,834	4,076,527
21.2	Workers' profits participation fund		
	Balance at beginning of the year	81,654	9,229
	Add:		
	- Allocation for the year - note 29	-	72,425
	- Interest on Workers' profits participation fund - note 31	3,894	-
	Less:		
	Payments made during the year	(85,548)	-
	Balance at end of the year	-	81,654

		2014	2013
		Rupees	
22.	ACCRUED INTEREST / MARK-UP		
	Finance cost accrued on:		
	- long term borrowings	64,292	76,539
	- short term running finance utilized under mark-up arrangements	28,493	6,214
		92,785	82,753
23.	PROVISIONS		
	Provision for Gas Infrastructure Development Cess - note 23.1	923,765	174,522
	Provision for duty on import of raw materials - note 23.2	90,418	90,418
		1,014,183	264,940

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

Effective January 1, 2014, GIDC rate was further enhanced to Rs. 100 per MMBTU which remained unchanged till June 30, 2014. Thereafter, through the Finance Act, 2014, the GIDC rate was again increased to Rs. 150 per MMBTU and Rs. 200 per MMBTU for industrial and captive power consumers, respectively.

(Amounts in thousand)

On August 22, 2014 the Supreme Court of Pakistan upheld the decision of Peshawar High Court, declaring the entire levy of GIDC as unconstitutional against which Federal Government's review petition is pending. However, on September 24, 2014, the Federal Governement promulgated GIDC Ordinance, 2014, (the Ordinance) imposing GIDC on same rates as mentioned in Finance Act, 2014. The Ordinance also validates the levy from its inception notwithstanding any judgement or order of any court. The Company has obtained ad-interim stay order against the Ordinance from the High Court of Sindh.This stay order has restrained SSGCL from charging and / or recovering GIDC under the Ordinance till the final decision on this matter. Further, the enactment of the Ordinance requires approval of the Parliament of Pakistan, which is currently pending.

The Company, based on the advise of its legal council, is of the view that the aforementioned matter will ultimately be decided in its favour, however, based on prudence, the Company has recognized a provision of Rs. 923,765, being the financial exposure of differential GIDC as at December 31, 2014.

In the event the Supreme Court maintains its earler decision by disposing the review petition of the Federal Government and the GIDC Ordinance, 2014 is not enacted retrospectively, the Company's aggregate pre-tax losses for the current year would reduce by Rs. 1,278,860 as a result of reversal of aforementioned GIDC provision of Rs. 923,765 and recovery of Rs. 355,095 on account of GIDC already paid.

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

Although, no formal order creating a demand has yet been received, the Company, based on prudence, has recognized provision amounting to Rs. 90,418 (2013: Rs. 90,418) in respect of customs duty on such raw materials.

24. COMMITMENTS

24.1 The aggregate facility of performance guarantees issued by banks on behalf of the Company as at December 31, 2014 amounts to Rs. 1,165,000 (2013: Rs. 1,165,000). The amount utilized there against is Rs. 1,080,939 (2013: Rs. 946,859).

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

	2014	2013
	Rupees	
Not later than 1 year	14,788	15,675
Later than 1 year and no later than 5 years	51,600	57,600
Later than 5 years	-	8,400
	66,388	81,675

(Amounts in thousand)

25. NET REVENUE

	2014	2013
	Rupees	
Gross local sales	24,097,182	26,605,283
Less:		
- Sales tax	3,489,764	3,623,205
- Discounts	367,629	36,936
	3,857,393	3,660,141
	20,239,789	22,945,142
Export sales	3,530,917	1,587,357
Supply of electricity - note 25.1	48,566	59,406
	23,819,272	24,591,905

25.1 Represents supply of surplus power to Engro Fertilizers limited - a related party.

26. COST OF SALES

	2014	2013
	Rupees	
Opening stock of work-in-process	27,923	-
Raw and packing materials consumed	14,349,401	12,866,502
Salaries, wages and staff welfare - note 26.1	773,721	798,404
Fuel, power and gas	3,998,451	3,422,889
Repairs and maintenance	341,868	306,313
Depreciation - note 4.2	1,210,823	1,167,275
Consumable stores	300,209	276,925
Purchased services	70,832	57,470
Storage and handling	1,023,385	1,042,942
Training and travelling	14,587	17,091
Communication, stationery and other office expenses	8,684	8,154
Insurance	110,582	101,284
Provision for slow moving stores and spares - note 9.1	7,127	4,930
Raw materials written off - note 10.4	428	-
Other expenses	26,625	29,018
	22,236,723	20,099,197
Closing stock of work-in-process	(21,632)	(27,923)
Cost of goods manufactured	22,243,014	20,071,274
Opening stock of finished goods	1,224,556	834,388
Closing stock of finished goods	(1,469,225)	(1,224,556)
	(244,669)	(390,168)
	21,998,345	19,681,106

26.1 Includes Rs. 69,930 (2013: Rs. 25,529) in respect of staff retirement and other service benefits, referred to in note 34.

(Amounts in thousand)

27. DISTRIBUTION AND MARKETING EXPENSES

	2014	2013
	Rupees	
Salaries, wages and staff welfare - note 27.1	144,637	122,357
Advertising, sales promotion and entertainment	135,705	139,311
Product transportation and handling	1,071,576	1,030,559
Rent, rates and taxes	35,673	11,089
Purchased services	6,797	5,831
Insurance	456	1,054
Depreciation - note 4.2	4,893	4,904
Training and travelling	14,361	12,632
Communication, stationery and other office expenses	4,364	4,548
Others	9,950	11,587
	1,428,412	1,343,872

27.1 Includes Rs. 13,712 (2013: Rs. 6,719) in respect of staff retirement and other service benefits, referred to in note 34.

28. ADMINISTRATIVE EXPENSES

	2014	2013
	Rupees	
Salaries, wages and staff welfare - note 28.1	247,202	281,523
Rent, rates and taxes	63,702	58,110
Purchased services	142,609	109,123
Insurance	1,661	1,632
Depreciation - note 4.2	7,930	10,542
Amortization - note 5	13,394	10,637
Training and travelling expenses	109,686	94,139
Communication, stationery and other office expenses	23,807	24,476
Others	17,908	16,227
	627,899	606,409

28.1 Includes Rs. 12,780 (2013: Rs. 13,034) in respect of staff retirement and other service benefits, referred to in note 34.

(Amounts in thousand)

		2014	2013
		Rupees	
29.	**OTHER OPERATING EXPENSES**		
	Legal and professional charges	20,678	24,972
	Auditors' remuneration - note 29.1	2,898	2,689
	Donations - notes 29.2 and 29.3	13,669	4,719
	Workers' profits participation fund - note 21.2	-	72,425
	Workers' welfare fund	5,596	31,653
	Foreign exchange loss - net	258,393	376,542
	Operating assets written-off, net - note 4.3	7,905	7,816
		309,139	520,816
29.1	**Auditors' remuneration**		
	Fee for:		
	- Annual statutory audit	915	800
	- Half yearly review	200	250
	- Review of compliance with Code of Corporate Governance	50	50
	Taxation and other advisory services	1,590	1,461
	Reimbursement of expenses	143	128
		2,898	2,689

29.2 Includes donation to Engro Foundation amounting to Rs. 2,250 (2013: Rs. 2,000), and to Institute of Business Administration - Sukkur amounting to Rs. 30 (2013: Nil). Both are related parties of the Company as at year end.

29.3 The Directors and their spouses do not have any interest in any donees except for Mr Khalid Siraj Subhani who is the member of the Academic Council of Institute of Business Administration - Sukkur, and Mr. Ali-ud-din Ansari who is the trustee of Engro Foundation.

		2014	2013
		Rupees	
30.	**OTHER INCOME**		
	On financial assets		
	Income on bank deposits	28,858	26,299
	Income from short term investments	17,757	3,973
	On non-financial assets		
	Profit on disposal of operating assets	834	1,408
	Scrap sales	15,508	31,610
	Dividend from Subsidiary - note 30.1	100,000	200,000
	Others	11,387	14,977
		174,344	278,267

30.1 During the year, the wholly owned subsidiary of the Company, Engro Polymer Trading (Private) Limited approved and paid final dividend for the year end December 31, 2013 at the rate of Rs. 20 per share.

(Amounts in thousand)

	2014	2013
	Rupees	
31. FINANCE COSTS		
Interest/mark-up on:		
- long term borrowings	919,097	893,338
- short term borrowing	219,822	145,207
- running finances	35,528	32,370
	1,174,447	1,070,915
Foreign exchange (gain) / loss on borrowings	(142,400)	275,425
Guarantee commission	559	5,114
Interest on Workers' profits participation fund - note 21.2	3,894	-
Bank charges and others	28,472	22,087
	1,064,972	1,373,541

32. TAXATION

	2014	2013
Current		
- for the year - note 32.1	154,348	246,235
- for prior years	(48,228)	(24,885)
	106,120	221,350
Deferred		
- for the year	(519,366)	384,487
- for prior years	(5,766)	21,424
	(525,132)	405,911
	(419,012)	627,261

32.1 Represents minimum tax at the rate of 1% (2013: 1%) on the turnover, in accordance with section 113 of the Income Tax Ordinance, 2001.

32.2 Relationship between tax expense and accounting profit

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

	2014	2013
	Rupees	
(Loss) / Profit before taxation	(1,435,151)	1,344,428
Tax calculated at applicable rate of 33% (2013: 34%)	(473,600)	457,106
Tax effect of presumptive tax regime and income subject to lower tax rates	(280,820)	(54,085)
Prior year tax charge, net	(53,994)	(3,461)
Effect of inadmissible expenses	5,346	7,572
Derecognition of deferred tax asset on minimum turnover tax	387,210	209,825
Impact of change in tax rate	(3,521)	10,204
Others	367	100
	(419,012)	627,261

(Amounts in thousand)

33. EARNINGS PER SHARE - Basic and diluted

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

	2014	2013
	Rupees	
(Loss) / Profit for the year	(1,016,139)	717,167
	Number in thousands	
Weighted average number of ordinary shares	663,469	663,469

34. RETIREMENT AND OTHER SERVICE BENEFITS

34.1 Provident fund

During last year, the Company replaced its provident fund with the provident fund (the Fund) operated and managed by Engro Corporation Limited - the Holding Company. In accordance with the funds' transition provisions, related assets and liabilities were transferred to the Holding Company's defined contribution provident fund based on their values as at September 30, 2013. Accordingly, the following information is based on the latest audited financial statements of the Fund maintained by the Holding Company as at June 30, 2014, however, the comparative information presented below is based upon the audited financial statements of the fund maintained by the Company till last year. The share of the Company's employees in the Fund maintained by the Holding Company is approximately 13.6%, based on members' balances as at June 30, 2014.

34.1.1 Details of the Fund

	June 30, 2014	June 30, 2013
	Rupees	
Size of Fund	2,091,284	243,832
Investments at amortised cost	1,482,459	51,227
Investments at fair value	228,053	145,479
Percentage of investments made	82%	81%

34.1.2 Break-up of investments in terms of amount and percentage of size of the Fund is as follows:

	June 30, 2014		June 30, 2013	
Description	Investments in Rupees	Percentage of investment made	Investments in Rupees	Percentage of investment made
Defence Savings Certificates	127,552	6%	-	-
Pakistan Investment Bonds	901,641	43%	54,641	22%
Regular Income Certificates	88,605	4%	8,550	4%
Term Finance Certificates	132,554	6%	11,771	5%
Engro Islamic Rupiya Certificates	157,656	8%	-	-
Treasury Bills	-	-	22,952	9%
Special Saving Certificates	74,451	4%	7,955	3%
Quoted Shares	228,053	11%	28,671	12%
Mutual Funds	-	-	62,166	25%
	1,710,512		196,706	

(Amounts in thousand)

34.1.3 The investments out of the 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.

34.1.4 During the year Rs. 52,174 (2013: Rs. 10,580) has been recognized in the profit and loss account in respect of the defined contribution provident fund, maintained by Engro Corporation Limited, the Holding Company.

34.2 During the year Rs. 42,023 (2013: Rs. 9,813) has been recognized in the profit and loss account in respect of the defined contribution gratuity fund, maintained by Engro Corporation Limited, the Holding Company.

34.3 During the year, Rs. 2,225 (2013: Nil) has been recognized in the profit and loss account in respect of the defined contribution pension fund, maintained by Engro Corporation Limited, the Holding Company.

35. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The details of amounts charged during the year in respect of remuneration and benefits to the Chief Executive, Directors and executives are as follows:

	2014			2013		
	Director			Director		
	Chief Executive	Others	Executives	Chief Executive	Others	Executives
	Rupees					
Managerial remuneration	32,648	-	539,703	24,015	-	447,746
Retirement benefit funds	-	-	83,172	4,217	-	71,851
Bonus	12,088	-	78,886	9,662	-	63,303
Other benefits	3,986	-	85,687	3,486	-	73,947
Directors fee	-	1,672	-	-	2,400	-
Total	48,722	1,672	787,448	41,380	2,400	656,847
Number of persons at year end	1	9	251	1	9	232

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

35.2 Premium charged in respect of Directors' indemnity insurance policy, purchased by the Company, amounts to Rs. 927 (2013: Rs. 665).

(Amounts in thousand)

36. CASH GENERATED FROM OPERATIONS

	2014	2013
	Rupees	
(Loss) / Profit before taxation	(1,435,151)	1,344,428
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	96,422	45,282
Depreciation and amortization	1,237,040	1,193,358
Provision for slow moving stores and spares	7,127	4,930
Provision for net realizable value of stock-in-trade	694,475	29,174
Write-off of damaged items of property, plant and equipment	7,905	7,816
Income on bank deposits	(28,858)	(26,299)
Gain on investments in mutual funds held for trading	-	(3,973)
Unrealized foreign exchange (gain) / loss on borrowings	(97,000)	229,225
Amortization of prepaid financial charges	28,167	20,772
Unrealized foreign exchange (gain) / loss on imports, retention money and derivatives	3,612	150,151
Finance costs	1,064,972	1,373,541
Profit on disposal of operating assets	(834)	(1,408)
Provisions against concessionary duty on import of raw materials and GIDC	749,243	176,722
Dividend from Subsidary	(100,000)	(200,000)
Working capital changes - note 36.1	575,474	(128,080)
	2,802,594	4,215,639

36.1 WORKING CAPITAL CHANGES

	2014	2013
	Rupees	
Increase in current assets		
Stores, spares and loose tools	(90,128)	(4,084)
Stock-in-trade	(1,341,388)	(227,362)
Trade debts	(29,649)	(257,149)
Loans, advances, deposits, prepayments and other receivables - net	(104,513)	(37,297)
	(1,565,678)	(525,892)
Increase in current liabilities		
Trade and other payables	2,141,152	397,812
	575,474	(128,080)

(Amounts in thousand)

		2014	2013
37.	**CASH AND CASH EQUIVALENTS**	Rupees	
	Cash and bank balances - note 15	537,185	860,335
	Short term investments - note 14	150,012	300,000
	Running finance utilized under markup arrangements - note 20	-	(166,062)
		687,197	994,273

38. FINANCIAL INSTRUMENTS BY CATEGORY

38.1 Financial assets as per balance sheet

	2014	2013
Held to maturity		
Short term investments - Treasury bills	-	300,000
Loans and receivables		
Long term loans	51,498	37,752
Trade debts - considered good	554,666	525,017
Loans, deposits and other receivables	85,993	132,545
Short term Investments - Pakistan Investment Bonds	150,012	-
Cash and bank balances	537,185	860,335
	1,379,354	1,555,649

38.2 Financial liabilities as per balance sheet

	2014	2013
Financial liabilities measured at amortized cost		
Long term borrowings	9,114,904	9,737,618
Short term borrowings	600,000	766,062
Trade and other payables	8,767,706	6,857,713
Accrued interest/mark-up	92,785	82,753
	18,575,395	17,444,146
Derivatives		
Used for hedging purposes	44,414	80,006
At fair value through profit or loss	119,571	102,172
	163,985	182,178

(Amounts in thousand)

38.3 Fair values of financial assets and liabilities

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

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

39.1 Financial risk factors

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

a) Market risk

i) Currency risk

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

At December 31, 2014, the financial assets and liabilities exposed to foreign exchange risk amount to Rs. 336,162 (2013: Rs. 326,408) and Rs. 5,273,967 (2013: Rs. 5,390,022) respectively.

At December 31, 2014, if the Pakistan Rupee had weakened / strengthened by 5% against the US Dollar with all other variables held constant, post-tax profit / loss for the year would have been lower / higher by Rs. 165,416 (2013: Rs. 167,099), mainly as a result of foreign exchange losses/gains on translation of uncovered US Dollar-denominated liabilities. However, this change in profits or losses would be partially offset by a corresponding change in margins as bulk of revenues is linked with movements in exchange rates.

ii) Interest rate risk

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

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

(Amounts in thousand)

At December 31, 2014, if interest rate on Company's unhedged borrowings had been 1% higher / lower with all other variables held constant, post tax profit for the year would have been lower / higher by approximately Rs. 56,146 (2013: Rs. 55,250) mainly as a result of higher / lower interest exposure on variable rate borrowings.

iii) Other price risk

Price risk represents the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financials instruments or its issuers or factors affecting all similar financial instruments traded in the market. The Company is exposed to equity security price risk as the Company deals in securities. However, the Company is not exposed to equity securities price risk as at December 31, 2014 as the Company has no invetments in listed securities as at year end.

b) Credit risk

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

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

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

	2014	2013
	Rupees	
Long term loans	51,498	37,752
Trade debts - considered good	554,666	525,017
Loans, deposits and other receivables	85,993	132,545
Short term investments	150,012	300,000
Bank balances	536,757	860,049
	1,378,926	1,855,363

(Amounts in thousand)

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

Bank	Rating agency	Rating	
		Short term	Long term
Allied Bank Limited	PACRA	A1+	AA+
Askari Commercial Bank Limited	PACRA	A1+	AA
Bank AlFalah Limited	PACRA	A1+	AA
Bank AlHabib Limited	PACRA	A1+	AA+
Barclays Bank PLC, Pakistan	Moody	P1	A2
Burj Bank Limited	JCR-VIS	A1	A
Citibank N.A.	Moody	P1	A2
Deutsche Bank A.G	Moody	P1	A3
Faysal Bank Limited	PACRA	A1+	AA
Habib Bank Limited	JCR-VIS	A1+	AAA
HSBC Bank Middle East Limited	Moody	P-1	A2
Industrial and Commercial Bank of China	Moody	P-1	A1
MCB Bank Limited	PACRA	A1+	AAA
Meezan Bank Limited	JCR-VIS	A1+	AA
National Bank of Pakistan	JCR-VIS	A1+	AAA
Standard Chartered Bank (Pakistan) Limited	JCR-VIS	A1+	AAA
Summit Bank Limited	JCR-VIS	A-1	A-
United Bank Limited	JCR-VIS	A1+	AA+
The Bank of Punjab	PACRA	A1+	AA-
JS Bank	PACRA	A1	A+
NIB Bank Limited	PACRA	A1+	AA-
Soneri Bank	PACRA	A1+	AA-
Pak Oman Investment Company	JCR-VIS	A1+	AA+

c) Liquidity risk

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

(Amounts in thousand)

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

	2014			2013		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	Rupees					
Financial liabilities						
Long term borrowings	3,016,196	6,098,708	9,114,904	2,242,800	7,494,818	9,737,618
Derivative financial instruments	119,571	44,414	163,985	102,172	80,006	182,178
Trade and other payables	8,767,706	-	8,767,706	6,857,713	-	6,857,713
Accrued interest / mark-up	92,785	-	92,785	82,753	-	82,753
Short term borrowings	600,000	-	600,000	766,062	-	766,062
	12,596,258	6,143,122	18,739,380	10,051,500	7,574,824	17,626,324

Net settled derivatives comprise interest rate swaps used by the Company to manage the Company's interest rate profile. The Company's net settled derivative financial instruments with a negative fair value have been included at their fair value of Rs.165,595 (2013: Rs.182,178) in the maturity analysis because the contractual maturities are essential for an understanding of the timing of the cash flows. These contracts are managed on a net-fair value basis as well as maturity date.

40. CAPITAL RISK MANAGEMENT

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

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

The gearing ratio of the Company is as follows:

	2014	2013
	Rupees	
Long term borrowings - note 17	6,098,708	7,494,818
Total equity	5,939,070	6,933,810
Total capital	12,037,778	14,428,628
Gearing ratio	0.507	0.519

(Amounts in thousand)

41. SEGMENT INFORMATION

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

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

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

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

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

	Poly Vinyl Chloride (PVC) and allied chemicals		Caustic soda and allied chemicals		Power Supply		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	Rupees							
Segment profit and loss								
Revenue	18,491,301	19,187,692	5,279,405	5,344,807	48,566	59,406	23,819,272	24,591,905
Less:								
Cost of sales (excluding depreciation)	(17,892,031)	(15,849,826)	(2,880,785)	(2,652,823)	(14,706)	(11,182)	(20,787,522)	(18,513,831)
Distribution and marketing expenses (excluding depreciation)	(1,062,827)	(1,002,326)	(360,692)	(336,642)	-	-	(1,423,519)	(1,338,968)
Allocated depreciation	(916,070)	(886,521)	(280,933)	(257,751)	(18,713)	(27,907)	(1,215,716)	(1,172,179)
(Loss) / Profit before unallocated expenses	(1,379,627)	1,449,019	1,756,995	2,097,591	15,147	20,317	392,515	3,566,927
Unallocated expenses								
Administrative expenses							(627,899)	(606,409)
Other operating expenses							(309,139)	(520,816)
Other income							174,344	278,267
Finance costs							(1,064,972)	(1,373,541)
Taxation							419,012	(627,261)
(Loss) / Profit for the year							(1,016,139)	717,167
Segment assets								
Total segment assets (note 41.3)	15,560,768	14,062,022	6,218,330	6,572,720	12,907	31,620	21,792,005	20,666,362
Unallocated assets							4,509,179	4,573,816
Total assets							26,301,184	25,240,178

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

(Amounts in thousand)

42. TRANSACTIONS WITH RELATED PARTIES

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

Nature of relationship	Nature of transactions	2014	2013
		Rupees	
Holding Company			
- Engro Corporation Limited	Purchase of services	56,618	35,134
	Use of operating assets	601	1,334
	Markup on subordinated loan	81,655	138,844
	Reimbursement made	29,800	5,520
	Reimbursement received	2,252	3,941
	Pension fund contribution	2,225	9,812
	Provident fund contribution	8,747	6,038
	Life Insurance contribution	515	-
	Medical Insurance contribution	516	171
	Gratuity fund contribution	6,520	2,227
Subsidiary Company			
- Engro Polymer Trading (Private) Limited	Sale of goods	-	316,169
	Sale of services	-	72
	Reimbursement received	5	-
	Reimbursement made	-	9
	Mark-up on working capital loan	-	6,635
Associated Company			
- Mitsubishi Corporation	Purchase of goods	10,715,860	9,234,746
	Sale of goods	1,222,340	1,291,794
	Purchase of services	350	309
Related parties by virtue of common directorship			
- Engro Fertilizers Limited	Purchase of services	2,712	8,091
	Sale of goods	21,428	25,376
	Sale of services	517	504
	Sales of utilities	71,252	74,241
	Use of operating assets	-	7,755
	Reimbursement made	15,810	10,199
	Reimbursement received	1,795	2,374
	Use of operating assets	5,407	6,953
- Engro Vopak Terminal Limited	Purchase of services	923,568	973,207
	Reimbursement made	13,660	19,091
	Reimbursement received	13,913	10,394
- Engro Foundation	Reimbursement made	607	-
	Purchase of services	-	2,263
	Donation	2,250	2,000
- Engro PowerGen Qadirpur Limited	Reimbursement made	-	1,186
	Reimbursement received	4	4,252
- Engro PowerGen Limited	Reimbursement made	429	896
	Use of operating assets	481	827
- Engro Foods Limited	Sale of goods	53,194	47,023
	Reimbursement received	9	909
	Reimbursement made	4,460	1,101
	Use of operating assets	505	429
- Engro Eximp (Private) Limited	Reimbursement received	109	2,035
	Use of operating assets	57	217
- Sindh Engro Coal Mining Company Limited	Reimbursement received	83	-
- Dawood Hercules Corporation Limited	Purchase of services	14,480	14,400
- Lahore University of Management Sciences	Purchase of services	-	678
- Pakistan Institute of Corporate Governance	Purchase of services	1,024	-
	Annual subscription	252	-
- Institute of Business Administration - Sukkur	Purchase of services	446	2,186
- Pakistan Japan Business Forum	Annual subscription	-	100
- Overseas Investors Chamber of Commerce & Industries	Annual subscription	330	330
- UBL Fund Managers	Purchase of units of UBL Liquidity Plus Fund	-	230,000
	Sale of units of UBL Liquidity Plus Fund	-	225,710
Other related party			
- Arabian Sea Country Club	Purchase of services	218	856
	Annual subscription	71	46
Contribution to staff retirement benefits	Pension fund	-	23,104
	Provident funds	43,427	40,127
	Gratuity funds	35,503	15,380
Key management personnel	Managerial remuneration	72,480	66,996
	Retirement benefit funds	9,781	11,953
	Bonus	28,254	26,318
	Other benefits	15,477	15,379

(Amounts in thousand)

42.2 The related party status of outstanding balances as at December 31, 2014 are disclosed in the respective notes.

43. GENERAL

43.1 Number of employees

Number of permanent employees as at December 31, 2014 was 442 (2013: 435) and average number of employees during the year were 433 (2013: 440).

43.2 Production capacity

	Designed Annual Capacity		Actual Production		Remarks
	2014	2013	2014	2013	
	Kilo tons				
PVC	164	156	153	146	Production planned as per market demand and in house consumption needs
EDC	127	127	118	117	
Caustic soda	106	106	114	115	
VCM	204	204	168	170	
	Mega Watts				
Power	66	64	50	45	

44. CORRESPONDING FIGURES

Corresponding figure in respect of Service benefit obligations has been reclassified from Non-Current Liabilities to Current Liabilities for better presentation, considering the related outflow of resources.

The effects of other reclassifications are not material.

45. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 3, 2015 by the Board of Directors of the Company.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

engro polymer & chemicals

consolidated financial statements

pwc

A.F.FERGUSON & CO.

auditors' report to the members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Engro Polymer and Chemicals Limited (the Holding Company) and its subsidiary company, Engro Polymer Trading (Private) Limited as at December 31, 2014 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of Engro Polymer and Chemicals Limited and Engro Polymer Trading (Private) Limited.

These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion the consolidated financial statements present fairly the financial position of Engro Polymer and Chemicals Limited and its subsidiary company, Engro Polymer Trading (Private) Limited, as at December 31, 2014 and the results of their operations, changes in equity and cash flows for the year then ended.

Chartered Accountants
Karachi
Dated: March 06, 2015
Engagement Partner: Waqas A. Sheikh

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consolidated balance sheet

as at december 31, 2014

(Amounts in thousand)	Note	2014	2013
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	16,923,190	17,132,553
Intangible assets	5	51,847	50,098
Long term loans and advances	6	66,351	52,605
Deferred taxation	7	966,120	455,181
		18,007,508	17,690,437
Current Assets			
Stores, spares and loose tools	8	1,476,761	1,390,168
Stock-in-trade	9	3,897,503	3,250,590
Trade debts - considered good	10	554,666	525,017
Loans, advances, deposits, prepayments and other receivables	11	545,081	441,784
Taxes recoverable	12	1,092,307	740,205
Short term investments	13	218,872	465,122
Cash and bank balances	14	544,017	865,040
		8,329,207	7,677,926
TOTAL ASSETS		26,336,715	25,368,363
EQUITY AND LIABILITIES			
Equity			
Share capital	15	6,634,688	6,634,688
Share premium		964,029	964,029
Hedging reserve		(29,757)	(52,804)
Accumulated loss		(1,603,926)	(492,960)
		5,965,034	7,052,953
Non-Current Liabilities			
Long term borrowings	16	6,098,708	7,494,818
Derivative financial instruments	17	44,414	80,006
		6,143,122	7,574,824
Current Liabilities			
Current portion of long term borrowings	16	3,016,196	2,242,800
Derivative financial instruments - at fair value through profit or loss	17	119,571	102,172
Service benefit obligations	19	39,737	63,662
Short term borrowings	19	600,000	766,062
Trade and other payables	20	9,346,087	7,218,197
Accrued interest / mark-up	21	92,785	82,753
Provisions	22	1,014,183	264,940
		14,228,559	10,740,586
TOTAL EQUITY AND LIABILITIES		26,336,715	25,368,363
Commitments	23		

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated profit and loss account

for the year ended december 31, 2014

(Amounts in thousand except for (loss) / earnings per share)

	Note	2014	2013
		Rupees	
Net revenue	24	23,819,272	24,780,581
Cost of sales	25	(21,998,345)	(19,681,140)
Gross profit		1,820,927	5,099,441
Distribution and marketing expenses	26	(1,428,412)	(1,345,329)
Administrative expenses	27	(627,974)	(606,481)
Other operating expenses	28	(309,893)	(526,222)
Other income	29	82,063	91,738
Operating (loss) / profit		(463,289)	2,713,147
Finance costs	30	(1,064,980)	(1,369,849)
(Loss) / Profit before taxation		(1,528,269)	1,343,298
Taxation	31	418,951	(636,591)
(Loss) / Profit for the year		(1,109,318)	706,707
(Loss) / Earnings per share - basic and diluted	32	(1.67)	1.07

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated statement of comprehensive income

for the year ended december 31, 2014

(Amounts in thousand)	Note	2014	2013
		Rupees	
(Loss) / Profit for the year		(1,109,318)	706,707
Other comprehensive income / (loss):			
Items that will not be reclassified to profit or loss			
Deferred tax charge relating to revaluation of equity related items		(1,648)	(1,648)
Remeasurement of post employment benefits obligation - Actuarial loss		-	(14,270)
		(1,648)	(15,918)
Items that may be reclassified subsequently to profit or loss			
Hedging reserve			
Gain / (Loss) arising during the year, net		33,147	(5,601)
Reclassification adjustments for losses included in profit and loss		2,445	67,251
Income tax relating to hedging reserve		(12,545)	(22,377)
		23,047	39,273
Other comprehensive income for the year - net of tax		21,399	23,355
Total comprehensive (loss) / income for the year		(1,087,919)	730,062

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated statement of changes in equity

for the year ended december 31, 2014

(Amounts in thousand)

		RESERVES				
		CAPITAL	REVENUE			
	Share Capital	Share premium	Hedging reserve	Accumulated loss	Remeasurement of post employment benefits - Actuarial loss	Total
	Rupees					
Balance as at January 1, 2013	6,634,688	964,029	(92,077)	(1,178,636)	(5,113)	6,322,891
Total comprehensive income for the year ended December 31, 2013	-	-	39,273	705,059	(14,270)	730,062
Effect of curtailment and settlement of defined benefit plans	-	-	-	(19,383)	19,383	-
Balance as at December 31, 2013	6,634,688	964,029	(52,804)	(492,960)	-	7,052,953
Total comprehensive loss for the year ended December 31, 2014	-	-	23,047	(1,110,966)	-	(1,087,919)
Balance as at December 31, 2014	6,634,688	964,029	(29,757)	(1,603,926)	-	5,965,034

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated statement of cash flows

for the year ended december 31, 2014

(Amounts in thousand)	Note	2014	2013
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35	2,805,186	4,399,545
Finance costs paid		(1,054,948)	(1,408,651)
Long term loans and advances		(13,746)	(3,265)
Retirement benefits paid		(120,347)	(55,537)
Income tax (paid) / refunded - net		(458,283)	55,677
Net cash generated from operating activities		1,157,862	2,987,769
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(1,036,971)	(608,672)
- intangible assets		(15,143)	(29,871)
Proceeds from disposal of property, plant and equipment		12,024	8,164
Purchase of short term investments		-	(1,109,000)
Proceeds from sale of short term investments		170,909	1,127,973
Income on short term investment and bank deposits		29,110	29,193
Net cash utilized in investing activities		(840,071)	(582,213)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings		1,700,000	1,955,655
Repayments of long term borrowings		(2,253,880)	(2,052,881)
Proceeds from short term borrowings		300,000	420,000
Repayments of short term borrowings		(300,000)	(620,000)
Net cash utilized in financing activities		(553,880)	(297,226)
Net (decrease) / increase in cash and cash equivalents		(236,089)	2,108,330
Cash and cash equivalents at beginning of the year		998,978	(1,109,352)
Cash and cash equivalents at end of the year	36	762,889	998,978

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated notes to the financial statements

for the year ended december 31, 2014

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

1.1 The Group consists of Engro Polymer and Chemicals Limited (the Company) and its wholly owned subsidiary company, Engro Polymer Trading (Private) Limited.

1.2 Engro Polymer and Chemicals Limited (the Company) was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984. The Company is listed on Karachi, Lahore and Islamabad Stock Exchanges.

1.3 The Company is a subsidiary of Engro Corporation Limited (the Holding Company). The address of its registered office is 16th Floor, The Harbor Front Building, HC-3 Marine Drive, Block 4 Clifton, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), Vinyl Chloride Monomer (VCM), Caustic soda and other related chemicals. The Company is also engaged in the supply of surplus power generated from its power plants to Engro Fertilizers Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

2.1.1 These consolidated financial statements have been prepared under the historical cost convention as modified by remeasurement of certain financial assets and financial liabilities (including derivative financial instruments) at fair value.

2.1.2 These consolidated financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.

2.1.3 The preparation of financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

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

a) Standards, amendments to published standards and interpretations effective in 2014

The following amendments and interpretations to published standards are mandatory for the financial year beginning January 1, 2014 and are relevant to the Company:

- IAS 32 (Amendment), 'Financial instruments: Presentation'. This amendment updates the application guidance in IAS-32 'Financial Instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet date. The amendment clarifies that right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The Company's current accounting treatment is already in line with this amendment.

(Amounts in thousand)

- IAS 36 (Amendment) 'Impairment of assets'. The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.This amendment does not affect the Company's financial statements as there is no event of impairment during the year.

- IFRIC 21 'Levies'. This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company's current accounting treatment is in line with this amendment.

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2014 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

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

The following new standards and amendments to published standards are not effective for the financial year beginning on January 1, 2014 and have not been early adopted by the Company.

- IFRS 10 'Consolidated financial statements' (effective for periods beginning on or after January 1, 2015). This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in determination of control where this is difficult to assess. It is unlikely that the standard will have any significant impact on the Company's financial statements.

- IFRS 13 'Fair value measurement' (effective for periods beginning on or after January 1, 2015). The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Company is yet to assess the full impact of the standard, however, initial indicators are that it may not affect the Company's financial statements significantly.

- IAS 27 (Revised) 'Separate financial statements' (effective for periods beginning on or after January 1, 2015). This standard replaces the current IAS 27 'Consolidated and Separate Financial Statements' (as amended in 2008) and includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. It is unlikely that the standard will have any significant impact on the Company's financial statements.

- IAS 27 (Amendment) 'Separate financial statements' (effective for annual periods beginning on or after January 1, 2016). The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. It is unlikely that the amendment will have any significant impact on the Company's financial statements.

(Amounts in thousand)

- Amendment to following standards as a result of annual improvements to International Financial Reporting Standards issued by IASB:

- IFRS 7 'Financial instruments: Disclosures' (effective for annual periods beginning on or after July 1, 2016). 'Interim financial statements – the amendment clarifies that the additional disclosure required by the amendments to IFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods unless required by IAS 34. This amendment is retrospective. It is unlikely that the amendment will have any significant impact on the Company's financial statements.

- IFRS 8 'Operating segments' (effective for annual periods beginning on or after July 1, 2014). This amendment requires disclosure of the judgments made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. The amendment will only affect the disclosures in the Company's financial statements. It is unlikely that the amendment will have any significant impact on the Company's financial statements.

- IAS 24 'Related party disclosures' (effective for annual periods beginning on or after July 1, 2014) The standard has been amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity'). Disclosure of the amounts charged to the reporting entity is required. It is unlikely that the amendment will have any significant impact on the Company's financial statements.

- IAS 34, 'Interim financial reporting' (effective for annual periods beginning on or after July 1, 2016). This amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective. It is unlikely that the amendment will have any significant impact on the Company's financial statements.

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

2.2 Property, plant and equipment

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

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

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

(Amounts in thousand)

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

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

2.3 Capital spares

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

2.4 Intangible assets - Computer software

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

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

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

2.5 Financial instruments

2.5.1 Financial assets

Classification

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

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, these are classified as non-current.

(Amounts in thousand)

b) Loans and receivables

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

c) Held to maturity financial assets

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

d) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. These are included in non-current assets unless the investment matures or management intends to dispose off the financial assets within 12 months of the balance sheet date.

Recognition and measurement

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

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

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

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

(Amounts in thousand)

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

2.5.2 Financial liabilities

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

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

2.5.3 Offsetting of financial assets and liabilities

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

2.6 Stores, spares and loose tools

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

2.7 Stock-in-trade

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

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

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

2.8 Trade debts and other receivables

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

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

(Amounts in thousand)

2.9 Cash and cash equivalents

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

2.10 Share capital

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

2.11 Borrowings

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

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

2.12 Retirement and other service benefits

2.12.1 Gratuity fund

The employees of the Company participate in a defined contribution gratuity fund (the Fund) operated and managed by Engro Corporation Limited - the Holding Company. As per the terms of the defined contribution plan, the Company contributes to the Fund at the rate of 8.33% of basic salary. Annual contribution by the Company is charged to income.

2.12.2 Provident fund

The employees of the Company participate in defined contribution provident fund (the Fund) operated and managed by Engro Corporation Limited - the Holding Company. Equal monthly contributions at the rate of 10% of the basic salary are made both by the Company and the employees to the Fund. Annual contribution by the Company is charged to income.

2.12.3 Compensated absences

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

2.12.4 Other benefits - Service Incentive Plan

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

2.13 Trade and other payables

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

2.14 Provisions

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

(Amounts in thousand)

2.15 Taxation

2.15.1 Current

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

2.15.2 Deferred

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

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

2.16 Foreign currency transactions and translation

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

2.17 Derivative financial instruments and hedging activities

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

a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or

b) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

Fair value hedge

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

Cash flow hedge

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

(Amounts in thousand)

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

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

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

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

2.18 Revenue recognition

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

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

2.19 Borrowing costs

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

2.20 Segment reporting

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

2.21 Dividend and appropriation to reserves

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

(Amounts in thousand)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Property, plant and equipment and intangible assets

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

3.2 Derivative financial instruments designated as cash flow hedges

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

3.3 Stock-in-trade

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

3.4 Income taxes

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

3.5 Deferred tax asset

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

4. PROPERTY, PLANT AND EQUIPMENT

	2014	2013
	Rupees	
Operating assets, at net book value - note 4.1	16,472,475	16,833,072
Capital work-in-progress - note 4.4	366,659	211,833
Capital spares	84,056	87,648
	16,923,190	17,132,553

(Amounts in thousand)

4.1 Operating assets

	Leasehold land	Building on leasehold land	Plant and machinery	Pipelines: Water	VCM	Ethylene	Gas	Furniture, fixtures and equipment	Vehicles	Total
	Rupees									
As at January 1, 2013										
Cost	194,127	486,578	21,263,875	398,968	26,122	50,315	33,849	139,782	143,245	22,736,861
Accumulated depreciation	(29,086)	(95,698)	(4,819,138)	(125,740)	(17,141)	(7,758)	(7,428)	(103,742)	(54,584)	(5,260,315)
Net book value	165,041	390,880	16,444,737	273,228	8,981	42,557	26,421	36,040	88,661	17,476,546
Year ended December 31, 2013										
Opening net book value	165,041	390,880	16,444,737	273,228	8,981	42,557	26,421	36,040	88,661	17,476,546
Additions - note 4.4	-	13,493	512,939	-	-	-	-	20,904	6,483	553,819
Disposals - note 4.3										
Cost	-	-	-	-	-	-	-	(2,725)	(14,596)	(17,321)
Accumulated depreciation	-	-	-	-	-	-	-	2,330	9,940	12,270
	-	-	-	-	-	-	-	(395)	(4,656)	(5,051)
Write offs - note 4.3										
Cost	-	-	(72,227)	-	-	-	-	(196)	(1,638)	(74,061)
Accumulated depreciation	-	-	64,131	-	-	-	-	153	256	64,540
	-	-	(8,096)	-	-	-	-	(43)	(1,382)	(9,521)
Depreciation charge - note 4.2	(3,934)	(12,377)	(1,104,755)	(19,948)	(1,306)	(2,516)	(1,692)	(13,680)	(22,513)	(1,182,721)
Net book value	161,107	391,996	15,844,825	253,280	7,675	40,041	24,729	42,826	66,593	16,833,072
As at January 1, 2014										
Cost	194,127	500,071	21,704,587	398,968	26,122	50,315	33,849	157,765	133,494	23,199,298
Accumulated depreciation	(33,020)	(108,075)	(5,859,762)	(145,688)	(18,447)	(10,274)	(9,120)	(114,939)	(66,901)	(6,366,226)
Net book value	161,107	391,996	15,844,825	253,280	7,675	40,041	24,729	42,826	66,593	16,833,072
Year ended December 31, 2014										
Opening net book value	161,107	391,996	15,844,825	253,280	7,675	40,041	24,729	42,826	66,593	16,833,072
Additions - note 4.4	-	3,611	849,384	-	-	-	-	29,149	-	882,144
Disposals - note 4.3										
Cost	-	-	-	-	-	-	-	-	(34,586)	(34,586)
Accumulated depreciation	-	-	-	-	-	-	-	-	23,584	23,584
	-	-	-	-	-	-	-	-	(11,002)	(11,002)
Write offs - note 4.3										
Cost	-	-	(42,484)	-	-	-	-	(263)	-	(42,747)
Accumulated depreciation	-	-	34,613	-	-	-	-	41	-	34,654
	-	-	(7,871)	-	-	-	-	(222)	-	(8,093)
Depreciation charge - note 4.2	(3,934)	(12,491)	(1,152,313)	(19,948)	(1,306)	(2,516)	(1,692)	(13,915)	(15,531)	(1,223,646)
Net book value	157,173	383,116	15,534,025	233,332	6,369	37,525	23,037	57,838	40,060	16,472,475
As at December 31, 2014										
Cost	194,127	503,682	22,511,487	398,968	26,122	50,315	33,849	186,651	98,908	24,004,109
Accumulated depreciation	(36,954)	(120,566)	(6,977,462)	(165,636)	(19,753)	(12,790)	(10,812)	(128,813)	(58,848)	(7,531,634)
Net book value	157,173	383,116	15,534,025	233,332	6,369	37,525	23,037	57,838	40,060	16,472,475
Annual rate of depreciation (%)	2 to 2.14	2.5 to 10	5 to 25	5	5	5	5	5 to 33	5 to 25	

(Amounts in thousand)

		2014	2013
		Rupees	
4.2	Depreciation charge has been allocated as follows:		
	Cost of sales - note 25	1,210,823	1,167,275
	Distribution and marketing expenses - note 26	4,893	4,904
	Administrative expenses - note 27	7,930	10,542
		1,223,646	1,182,7 21

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

	Cost	Accumulated depreciation	Net book value	Sale Proceeds	Mode of disposal	Particulars of purchaser
	Rupees					
Vehicle	2,220	1,776	444	838	By auction	Naveed Rauf
"	749	749	-	538		Naveed Rauf
"	2,420	1,936	484	1,172		Naveed Rauf
"	900	675	225	714		Muhammad Arif
"	1,849	1,387	462	350	By Company policy to existing/ separating employees	Zafar Ali
"	1,300	813	488	427		Ehtisham Zaheer
"	2,176	612	1,564	1,530		Haseeb Hafeezuddin
"	1,289	906	383	322		Qasim Siddiqui
"	1,269	952	317	317		Rahim Khan
"	1,270	833	437	397		Ibtesam Ahmed
"	1,269	952	317	317		Athar Rizvi
"	1,300	934	366	325		Zubair Ashraf
"	1,300	914	386	325		Muzafar Islam
"	1,300	914	386	325		Tauseef Ali
"	1,300	914	386	325		Shakeel ur Rehman
"	1,295	911	384	324		Shujaat Jamal Rizvi
"	1,357	806	551	339		Sohail Baig
"	1,300	934	366	325		Aqeel Riaz
"	1,325	932	393	331		Rizwan Hassan
"	1,270	953	318	317		Fawad Soomro
"	1,930	1,357	573	483		Saleem Lallany
"	1,337	940	397	334		Abid Hussain
"	1,524	524	1,000	827		Athar Abrar Khwaja
"	1,337	960	375	334		Imran Aslam
	34,586	23,584	11,002	11,836		
Computer equipment - Laptop	263	41	222	188	Write-off / Insurance claims	EFU General Insuarance Limited
Plant and Machinery	42,484	34,613	7,871	-		
	42,747	34,654	8,093	188		
2014	77,333	58,238	19,095	12,024		
2013	91,382	76,810	14,572	8,164		

(Amounts in thousand)

4.4 Capital work-in-progress

	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipments	Advances for vehicles & software	Total
	Rupees				
Year ended December 31, 2013					
Balance as at January 1, 2013	4,802	147,423	412	4,343	156,980
Additions during the year	10,952	563,450	30,423	33,718	638,543
Transferred to:					
-Operating assets - note 4.1	(13,493)	(512,939)	(20,904)	(6,483)	(553,819)
-Intangible assets - note 5	-	-	-	(29,871)	(29,871)
Balance as at December 31, 2013	2,261	197,934	9,931	1,707	211,833
Year ended December 31, 2014					
Balance as at January 1, 2014	2,261	197,934	9,931	1,707	211,833
Additions during the year	6,325	994,613	21,177	29,998	1,052,113
Transferred to:					
-Operating assets - note 4.1	(3,611)	(849,384)	(29,149)	-	(882,144)
-Intangible assets - note 5	-	-	-	(15,143)	(15,143)
Balance as at December 31, 2014	4,975	343,163	1,959	16,562	366,659

5. INTANGIBLE ASSETS - Computer software

	Rupees
As at January 1, 2013	
Cost	62,672
Accumulated amortization	(31,808)
Net book value	30,864
Year ended December 31, 2013	
Opening net book value	30,864
Additions at cost - note 4.4	29,871
Amortization charge - note 28	(10,637)
Closing net book value	50,098
As at January 1, 2014	
Cost	92,543
Accumulated amortization	(42,445)
Net book value	50,098
Year ended December 31, 2014	
Opening net book value	50,098
Additions at cost - note 4.4	15,143
Amortization charge - note 27	(13,394)
Closing net book value	51,847
As at December 31, 2014	
Cost	107,686
Accumulated amortization	(55,839)
Net book value	51,847

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

(Amounts in thousand)

	2014	2013
	Rupees	
6. LONG TERM LOANS AND ADVANCES		
- Considered good		
Executives - notes 6.1, 6.2, 6.4 and 6.5	99,847	88,146
Less: Current portion shown under current assets - note 11	(33,636)	(35,989)
	66,211	52,157
Employees - notes 6.3 and 6.5	340	952
Less: Current portion shown under current assets - note 11	(200)	(504)
	140	448
	66,351	52,605

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

	2014	2013
	Rupees	
Balance at beginning of the year	88,146	74,752
Add: Disbursements	63,560	63,560
Less: Repayments / Amortizations	(51,859)	(50,166)
Balance at end of the year	99,847	88,146

6.2 These include interest free loans and advances to executives for house rent, vehicles, home appliances and investments given in accordance with the terms of employment. Loans for house rent and investments are repayable in 18 to 36 equal monthly installments. Loans for home appliances are repayable in 5 equal annual installments. Advances for vehicles are charged to profit and loss account over a period of 4 years.

6.3 These include interest free loans to employees for home appliances and investments, given in accordance with the terms of employment. Loans are repayable in accordance with the terms stated in note 6.2.

6.4 The maximum aggregate amount due from the executives at the end of any month during the year was Rs. 102,242 (2013: Rs. 88,220). These are secured by way of promissory notes.

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

(Amounts in thousand)

	2014	2013
	Rupees	
7. DEFERRED TAXATION		
Credit balances arising due to:		
- accelerated tax depreciation	(3,517,629)	(3,979,859)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 7.1	3,628,101	3,745,640
- recoupable minimum turnover tax - note 7.2	154,348	419,806
- unpaid liabilities	88,283	73,093
- provision for Gas Infrastructure Development Cess, Custom duty and Special Excise Duty	314,747	96,214
- provision for net realizable value of stock-in-trade	220,655	9,919
- provision for slow moving stores and spares	8,545	7,105
- fair value of hedging instrument	14,657	27,202
- share issuance cost, net to equity	54,413	56,061
	4,483,749	4,435,040
	966,120	455,181

7.1 Deferred income tax asset is recognized for tax losses available for carry-forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The aggregate tax losses available for carry-forward as at December 31, 2014 amount to Rs. 10,994,246 (2013: Rs. 11,016,588).

7.2 During the year, the Company has fully derecognized the deferred tax asset relating to minimum turnover tax paid in prior years, on account of significant uncertaininty over its future recoverability. However, the Company has recognized deferred tax asset on recoupable minimum turnover tax in respect of current year amounting to Rs. 154,348 as the Company, based on its financial projections, expects to recoup it in the ensuing years.

Further, the High Court of Sindh, in respect of another company, has overturned the interpretation of the Appellate Tribunal on Section 113 (2) (c) of the Income Tax Ordinance, 2001 and has decided that the minimum tax paid cannot be carried forward in respect of the year where there is no tax paid on account of loss for the year or carried forward losses. The Company's management is, however, of the view, duly supported by the legal advisor, that the above order would not be maintained by the Supreme Court, which the Company intends to approach, if required. Accordingly, as stated above, the Company has recognized deferred tax asset on minimum turnover tax for the current year.

	2014	2013
	Rupees	
8. STORES, SPARES AND LOOSE TOOLS		
Consumable stores	107,111	80,515
Spares	1,397,673	1,330,549
	1,504,784	1,411,064
Less:		
Provision for slow moving stores and spares - note 8.1	28,023	20,896
	1,476,761	1,390,168

8.1 The movement in the provision for slow moving stores and spares is as follows:	2014	2013
	Rupees	
Balance at the beginning of the year	20,896	15,966
Add: Recognized during the year - note 25	7,127	4,930
Balance at the end of the year	28,023	20,896

(Amounts in thousand)

		2014	2013
		Rupees	
9.	STOCK-IN-TRADE		
	Raw and packing materials - notes 9.1, 9.3, 9.4 and 9.5	2,406,646	1,998,111
	Work-in-process	21,632	27,923
	Finished goods - own manufactured product - notes 9.1 and 9.2	1,469,225	1,224,556
		3,897,503	3,250,590
9.1	This includes stocks held at the storage facilities of the following parties:		
	- Engro Vopak Terminal Limited, a related party	579,802	747,367
	- Dawood Hercules Corporation Limited, a related party	9,334	6,672
	- Al-Rahim Trading Company (Private) Limited	7,739	32,162
		596,875	786,201

9.2 This includes carrying value of PVC resin, net of realizable value reduction of Rs. 700,679 (2013: Rs. 29,174).

9.3 This includes carrying value of Vinyl Chloride Monomer (VCM) net of realizable value reduction of Rs. 22,970 (2013: Nil).

9.4 Raw materials amounting to Rs. 428 (2013: Nil) were written-off during the year.

9.5 This includes goods in transit amounting to Rs. 650,925 (2013: Nil).

		2014	2013
		Rupees	
10.	TRADE DEBTS - considered good		
	Secured - notes 10.1 and 10.2	464,597	195,452
	Unsecured - note 10.2	90,069	329,565
		554,666	525,017

10.1 These debts are secured by way of bank guarantees and letters of credit from customers.

		2014	2013
		Rupees	
10.2	Includes amounts due from the following related parties:		
	- Engro Fertilizers Limited	4,752	-
	- Engro Foods Limited	1,492	1,671
	- Mitsubishi Corporation	135,342	249,939
		141,586	251,610

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

(Amounts in thousand)

	2014	2013
	Rupees	
11. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Considered good		
Current portion of long term loans and advances - note 6		
- executives	33,636	35,989
- employees	200	504
	33,836	36,493
Advances to employees	3,788	3,611
Advances to suppliers and others	61,661	94,097
Deposits	53,106	88,884
Prepayments	89,219	102,646
Receivable from Government of Pakistan		
- Sales tax / Special Excise Duty / Federal Excise Duty refundable	289,070	93,625
- Octroi/duty claims	152	152
	289,222	93,777
Due from related parties:		
Engro Vopak Terminal Limited	-	2,208
Engro Fertilizers Limited	9,754	5,918
Engro Eximp (Private) Limited	-	25
Engro Powergen Qadirpur Limited	9	21
	9,763	8,172
Other receivables	4,486	14,104
	545,081	441,784
Considered doubtful		
Custom duty claims refundable - note 11.1	18,043	18,043
Less: Provision for impairment - note 11.2	(18,043)	(18,043)
	-	-
Special Excise Duty (SED) refundable	36,687	36,687
Less: Provision for impairment - note 11.2	(36,687)	(36,687)
	-	-
Sales tax refundable	140	140
Less: Provision for impairment - note 11.2	(140)	(140)
	-	-
	545,081	441,784

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

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

(Amounts in thousand)

11.2 As at December 31, 2014, receivables aggregating to Rs. 54,870 (2013: Rs. 54,870) were deemed to be impaired and have been provided for in full based on prudence. The remaining balances of loans, deposits, and other receivables are neither past due nor impaired.

12. TAXES RECOVERABLE

12.1 Tax year 2008

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

The Company filed an appeal against the aforesaid order before the Commissioner Inland Revenue Appeals [CIR(A)], but discharged the entire demand through adjustment against assessed refunds of Rs. 180,768 and paying the balance of Rs. 32,404 'under protest'. Through his appellate order, the CIR(A) maintained certain additions aggregating Rs. 189,810 including finance cost amounting to Rs. 134,414 and remanded back the issue of imputed interest on loans to employees and executives and directed the DCIR to allow credit of the minimum tax charged for the period of tax years 2004 to 2007. An appeal against the said appellate order was filed by the Company before the Appellate Tribunal Inland Revenue (ATIR). The department also filed an appeal against the said appellate order challenging the actions of the CIR(A).

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

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

12.2 Tax year 2009

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

The entire demand of Rs. 163,206 was adjusted against assessed tax refunds and an appeal was filed by the Company before the CIR(A). Through his appellate order, the CIR(A) maintained certain additions aggregating to Rs. 493,971 including disallowance of finance cost amounting to Rs. 457,282 and remanded back the issue of imputed interest on loans to employees and executives. An appeal against the said appellate order was filed before the ATIR. The department also filed an appeal against the said appellate order challenging the action of CIR(A), regarding deletion of addition on account of provision for the retirement benefits.

(Amounts in thousand)

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

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

13. SHORT TERM INVESTMENTS

	2014	2013
	Rupees	
Treasury bills - note 13.1	68,860	300,000
Fair value through profit and loss		
Mutual fund securities - note 13.2	-	165,122
Loans and receivables		
Reverse repurchased Pakistan Investment Bonds - note 13.3	150,012	-
	218,872	465,122

13.1 These represent treasury bills having face value of Rs. 69,000 (2013 : Rs. 304,105) discounted using the market yield of 9.30% (2013: 9.79%). These treasury bills mature on January 8, 2015.

13.2 Represents investments in various money market funds, valued at their respective net asset values at the balance sheet date.

13.3 These represent reverse repurchased Pakistan Investment Bonds carrying an effective interest rate of 9.41%, maturing on January 7, 2015.

14. CASH AND BANK BALANCES

	2014	2013
	Rupees	
Cash in hand	428	286
Cash at bank:		
- current accounts	74,158	710,505
- saving accounts	469,431	154,249
	543,589	864,754
	544,017	865,040

(Amounts in thousand)

	2014	2013
	Rupees	

15. SHARE CAPITAL

	2014	2013
Authorized capital 800,000,000 (2013: 800,000,000) ordinary shares of Rs. 10 each	8,000,000	8,000,000
Issued, subscribed and paid-up capital 663,468,788 (2013: 663,468,788) ordinary shares of Rs. 10 each, fully paid in cash - note 15.1	6,634,688	6,634,688

15.1 As at December 31, 2014, Engro Corporation Limited (the Holding Company) held 372,809,989 (2013: 372,809,989) ordinary shares of Rs.10 each.

16. LONG TERM BORROWINGS, secured

Title	Mark-up rate per annum	Installments		2014	2013
		Number	Commencing from	Rupees	
Syndicated term finance I (note 16.2)	6 months KIBOR + 2.25%	13 half yearly	November 2010	2,530,284	3,475,184
Syndicated term finance II (note 16.2)	6 months KIBOR + 3%	13 half yearly	June 2010	566,842	846,591
Syndicated term finance IV (note 16.3)	6 months KIBOR + 2.55%	6 half yearly	May 2013	166,667	330,181
Syndicated term finance V (note 16.4)	6 months KIBOR + 1.5%	8 half yearly	June 2015	1,322,136	1,315,170
Bilateral Loan I (note 16.1)	6 months KIBOR + 2%	6 half yearly	June 2016	542,388	540,554
Master Istisna III	6 months KIBOR + 2%	6 half yearly	June 2015	200,000	200,000
Master Istisna IV	6 months KIBOR + 2.6%	6 half yearly	April 2016	100,000	100,000
International Finance Corporation (IFC) (note 16.2)	6 months LIBOR + 2.6% to 3%	15 half yearly	June 2010	1,991,687	2,929,938
Bilateral Loan II (note 16.1)	6 months KIBOR + 1.35%	6 half yearly	June 2017	847,450	-
Bilateral Loan III (note 16.1)	6 months KIBOR + 1.35%	6 half yearly	June 2017	847,450	-
				9,114,904	9,737,618
Less: Current portion shown under current liabilities				(3,016,196)	(2,242,800)
				6,098,708	7,494,818

16.1 During the year, the Company entered into bilateral loan agreements with two banks for a facility of Rs. 850,000 each, for a period of five years. These loans are repayable in six half yearly installments, due after an initial grace period of two years from the date of drawdown. These facilities, alongwith Bilateral Loan I, are secured by a ranking hypothecation charge over the present and future movable assets of the Company.

(Amounts in thousand)

16.2 These finances are secured by:

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

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

- all Project Assets; and

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

16.3 These finances are secured by:

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

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

16.4 These finances are secured by:

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

(ii) a ranking charge by way of hypothecation over all present and future fixed assets of the Company excluding land and buildings.

16.5 Under the terms of the agreements for long term borrowings from International Finance Corporation (IFC) and Syndicate banks and under the bilateral loans agreements, the Company is required to comply with certain debt covenants. As at December 31, 2014, the Company is not in compliance with some of these debt covenants and has accordingly notified the concerned financial institutions.

17. DERIVATIVE FINANCIAL INSTRUMENTS

17.1 As at December 31, 2014, the Company has outstanding interest rate swap agreements with banks for notional amounts aggregating US$ 13,334 to hedge its interest rate exposure on floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, the Company would receive six month USD-LIBOR on respective notional amounts and will pay fix rates, which will be settled semi-annually. During the year, the Company has un-winded its Cross Currency Interest Rate Swap Agreements in order to reduce its foreign currency exposure. Details of the these swap agreements are as follows:

(Amounts in thousand)

Notional Amounts US $	Effective Date	Termination Date	Rate %	Fair Values as at 2014	2013
				Rupees	
Interest Rate Swap Agreements			Fixed rate		
5,000	December 15, 2008	June 15, 2017	3.385	19,293	38,654
1,667	June 15, 2009	June 15, 2017	3.005	5,426	11,059
5,000	June 15, 2009	June 15, 2017	2.795	14,771	29,912
1,667	June 15, 2009	June 15, 2017	2.800	4,924	10,006
13,334				44,414	89,631
Cross Currency Interest Rate Swap Agreements			Floating rate		
-	September 9, 2010	June 15, 2015	LIBOR + 0.95	-	(1,968)
-	January 18, 2011	January 19, 2016	LIBOR + 3.70	-	(5,161)
-	July 6, 2011	June 30, 2016	LIBOR + 1.83	-	(2,496)
-				-	(9,625)
13,334				44,414	80,006

17.2 As at December 31, 2014, the Company has outstanding Exchange Rate Forward agreements with banks for amounts aggregating US$ 52,339 (2013 : US$ 51,036) to neutralize exchange rate exposure on outstanding foreign currency payments under the terms of supplier credit. Under the aforementioned agreements, the Company would pay respective rate agreed at the initiation of the agreement on settlement dates. As at December 31, 2014 the fair value of these derivatives is Rs. 119,571 (2013 : Rs. 102,172).

	2014	2013
	Rupees	
18. SERVICE BENEFIT OBLIGATIONS		
Service incentive plan - note 18.1	39,737	63,662

18.1 This represents annual employment benefit payable to eligible employees who have sucessfully completed the 3 years vesting period with the Company.

(Amounts in thousand)

		2014	2013
		Rupees	
19.	SHORT TERM BORROWINGS		
	Running finance utilized under mark-up arrangements - note 19.1	-	166,062
	Sub-ordinate loan from Engro Corporation Limited - note 19.2	600,000	600,000
		600,000	766,062

19.1 The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements, amounted to Rs. 2,875,000 (2013: Rs.1,550,000). The corresponding purchase price is payable on various dates during the ensuing year. Mark-up is chargeable at rates net of prompt payment rebate, ranging from relevant period KIBOR plus 1% to 1.25% (2013: relevant period KIBOR plus 1.0% to 2.5%) per annum. During the period, the mark-up rates, net of prompt payment rebate, ranged from 10.77% to 11.69% (2013: 10.19% to 12.02%) per annum. These facilities are secured by a floating charge over stocks and book debts of the Company.

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

19.3 The facility for opening letters of credit as at December 31, 2014 aggregates to Rs. 13,950,000 (2013: Rs. 9,200,000). The amount utilized as at December 31, 2014 was Rs. 7,533,229 (2013: Rs. 6,818,000). The facilities carry commission at the rate of 0.05% flat (2013: 0.05% flat).

		2014	2013
		Rupees	
20.	TRADE AND OTHER PAYABLES		
	Trade and other creditors - note 20.1	7,446,284	5,527,076
	Accrued liabilities	1,253,221	1,295,198
	Advances from customers - note 20.1	516,138	224,649
	Retention money against project payments	8,733	8,335
	Security deposits	35,614	16,772
	Workers' profits participation fund - note 20.2	-	81,654
	Workers' welfare fund	52,373	46,636
	Withholding tax payable	8,912	6,971
	Others	24,812	10,906
		9,346,087	7,218,197

(Amounts in thousand)

		2014	2013
		Rupees	
20.1	Includes amount due to following related parties:		
	- Engro Corporation Limited	1,100	433
	- Mitsubishi Corporation	5,920,255	3,977,089
	- Engro Foods Limited	-	250
	- Engro Fertilizers Limited	-	542
	- Engro Vopak Terminal Limited	95,479	98,213
		6,016,834	4,076,527
20.2	Workers' profits participation fund		
	Balance at beginning of the year	81,654	9,229
	Add:		
	- Allocation for the year - note 28	-	72,425
	- Interest on Workers' profits participation fund - note 30	3,894	-
	Less:		
	Payments made during the year	(85,548)	-
	Balance at end of the year	-	81,654

		2014	2013
		Rupees	
21.	ACCRUED INTEREST / MARK-UP		
	Finance cost accrued on:		
	- long term borrowings	64,292	76,539
	- short term running finance utilized under mark-up arrangements	28,493	6,214
		92,785	82,753
22.	PROVISIONS		
	Provision for Gas Infrastructure Development Cess - note 22.1	923,765	174,522
	Provision for duty on import of raw materials - note 22.2	90,418	90,418
		1,014,183	264,940

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

Effective January 1, 2014, GIDC rate was further enhanced to Rs. 100 per MMBTU which remained unchanged till June 30, 2014. Thereafter, through the Finance Act, 2014, the GIDC rate was again increased to Rs. 150 per MMBTU and Rs. 200 per MMBTU for industrial and captive power consumers, respectively.

(Amounts in thousand)

On August 22, 2014 the Supreme Court of Pakistan upheld the decision of Peshawar High Court, declaring the entire levy of GIDC as unconstitutional against which Federal Government's review petition is pending. However, on September 24, 2014, the Federal Governement promulgated GIDC Ordinance, 2014, (the Ordinance) imposing GIDC on same rates as mentioned in Finance Act, 2014. The Ordinance also validates the levy from its inception notwithstanding any judgement or order of any court. The Company has obtained ad-interim stay order against the Ordinance from the High Court of Sindh.This stay order has restrained SSGCL from charging and / or recovering GIDC under the Ordinance till the final decision on this matter. Further, the enactment of the Ordinance requires approval of the Parliament of Pakistan, which is currently pending.

The Company, based on the advise of its legal council, is of the view that the aforementioned matter will ultimately be decided in its favour, however, based on prudence, the Company has recognized a provision of Rs. 923,765, being the financial exposure of differential GIDC as at December 31, 2014.

In the event the Supreme Court maintains its earlier decision by disposing the review petition of the Federal Government and the GIDC Ordinance, 2014 is not enacted retrospectively, the Company's aggregate pre-tax losses for the current year would reduce by Rs. 1,278,860 as a result of reversal of aforementioned GIDC provision of Rs. 923,765 and recovery of Rs. 355,095 on account of GIDC already paid.

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

Although, no formal order creating a demand has yet been received, the Company, based on prudence, has recognized provision amounting to Rs. 90,418 (2013: Rs. 90,418) in respect of customs duty on such raw materials.

23. COMMITMENTS

23.1 The aggregate facility of performance guarantees issued by banks on behalf of the Company as at December 31, 2014 amounts to Rs. 1,165,000 (2013: Rs. 1,598,000). The amount utilized there against is Rs. 1,080,939 (2013: Rs. 946,859).

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

	2014	2013
	Rupees	
Not later than 1 year	14,788	15,675
Later than 1 year and no later than 5 years	51,600	57,600
Later than 5 years	-	8,400
	66,388	81,675

(Amounts in thousand)

24. NET REVENUE

	2014	2013
	Rupees	
Gross local sales	24,097,182	26,289,114
Less:		
- Sales tax	3,489,764	3,623,205
- Discounts	367,629	36,936
	3,857,393	3,660,141
	20,239,789	22,628,973
Export sales	3,530,917	2,092,202
Supply of electricity - note 24.1	48,566	59,406
	23,819,272	24,780,581

24.1 Represents supply of surplus power to Engro Fertilizers limited - a related party.

25. COST OF SALES

	2014	2013
	Rupees	
Opening stock of work-in-process	27,923	-
Raw and packing materials consumed	14,349,401	12,866,502
Salaries, wages and staff welfare - note 25.1	773,721	798,404
Fuel, power and gas	3,998,451	3,422,889
Repairs and maintenance	341,868	306,313
Depreciation - note 4.2	1,210,823	1,167,275
Consumable stores	300,209	276,925
Purchased services	70,832	57,470
Storage and handling	1,023,385	1,042,942
Training and travelling	14,587	17,091
Communication, stationery and other office expenses	8,684	8,154
Insurance	110,582	101,284
Provision for slow moving stores and spares - note 8.1	7,127	4,930
Raw materials written off - note 9.4	428	-
Other expenses	26,625	29,018
	22,236,723	20,099,197
Closing stock of work-in-process	(21,632)	(27,923)
Cost of goods manufactured	22,243,014	20,071,274
Opening stock of finished goods	1,224,556	834,422
Closing stock of finished goods	(1,469,225)	(1,224,556)
	(244,669)	(390,134)
	21,998,345	19,681,140

25.1 Includes Rs. 69,930 (2013: Rs. 25,529) in respect of staff retirement and other service benefits, referred to in note 33.

(Amounts in thousand)

	2014	2013
	Rupees	
26. DISTRIBUTION AND MARKETING EXPENSES		
Salaries, wages and staff welfare - note 26.1	144,637	122,357
Advertising, sales promotion and entertainment	135,705	139,311
Product transportation and handling	1,071,576	1,032,016
Rent, rates and taxes	35,673	11,089
Purchased services	6,797	5,831
Insurance	456	1,054
Depreciation - note 4.2	4,893	4,904
Training and travelling	14,361	12,632
Communication, stationery and other office expenses	4,364	4,548
Others	9,950	11,587
	1,428,412	1,345,329

26.1 Includes Rs. 13,712 (2013: Rs. 6,719) in respect of staff retirement and other service benefits, referred to in note 33.

	2014	2013
	Rupees	
27. ADMINISTRATIVE EXPENSES		
Salaries, wages and staff welfare - note 27.1	247,202	281,523
Rent, rates and taxes	63,777	58,110
Purchased services	142,609	109,195
Insurance	1,661	1,632
Depreciation - note 4.2	7,930	10,542
Amortization - note 5	13,394	10,637
Training and travelling expenses	109,686	94,139
Communication, stationery and other office expenses	23,807	24,476
Others	17,908	16,227
	627,974	606,481

27.1 Includes Rs. 12,780 (2013: Rs. 13,034) in respect of staff retirement and other service benefits, referred to in note 33.

(Amounts in thousand)

	2014	2013
	Rupees	
28. OTHER OPERATING EXPENSES		
Legal and professional charges	20,838	26,856
Auditors' remuneration - note 29.1	3,218	2,989
Donations - notes 29.2 and 29.3	13,669	4,719
Workers' profits participation fund - note 20.2	-	72,425
Workers' welfare fund	5,736	35,631
Foreign exchange loss - net	258,527	375,786
Operating assets written-off, net - note 4.3	7,905	7,816
	309,893	526,222

	2014	2013
28.1 Auditors' remuneration		
Fee for:		
- Annual statutory audit	965	850
- Half yearly review	220	270
- Review of compliance with Code of Corporate Governance	50	50
Taxation and other advisory services	1,840	1,691
Reimbursement of expenses	143	128
	3,218	2,989

28.2 Includes donation to Engro Foundation amounting to Rs. 2,250 (2013: Rs. 2,000), and to Institute of Business Administration - Sukkur amounting to Rs. 30 (2013: Nil). Both are related parties of the Company as at year end.

28.3 The Directors and their spouses do not have any interest in any donees except for Mr Khalid Siraj Subhani who is the member of the Academic Council of Institute of Business Administration - Sukkur, and Mr. Ali-ud-din Ansari who is the trustee of Engro Foundation.

	2014	2013
	Rupees	
29. OTHER INCOME		
On financial assets		
Income on bank deposits	29,110	29,193
Income from short term investments	25,223	14,550
On non-financial assets		
Profit on disposal of operating assets	834	1,408
Scrap sales	15,508	31,610
Others	11,388	14,977
	82,063	91,738

(Amounts in thousand)

	2014	2013
	Rupees	
30. FINANCE COSTS		
Interest/mark-up on:		
- long term borrowings	919,097	893,338
- short term borrowing	219,822	138,577
- running finances	35,528	32,370
	1,174,447	1,064,285
Foreign exchange (gain) / loss on borrowings	(142,400)	275,425
Guarantee commission	559	5,951
Interest on Workers' profits participation fund - note 20.2	3,894	-
Bank charges and others	28,480	24,188
	1,064,980	1,369,849
31. TAXATION		
Current		
- for the year - note 31.1	154,409	255,071
- for prior years	(48,228)	(24,391)
	106,181	230,680
Deferred		
- for the year	(519,366)	384,487
- for prior years	(5,766)	21,424
	(525,132)	405,911
	(418,951)	636,591

31.1 Represents minimum tax at the rate of 1% (2013: 1%) on the turnover, in accordance with section 113 of the Income Tax Ordinance, 2001.

31.2 Relationship between tax expense and accounting profit

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

	2014	2013
	Rupees	
(Loss) / Profit before taxation	(1,528,269)	1,343,298
Tax calculated at applicable rate of 33% (2013: 34%)	(504,329)	456,721
Tax effect of presumptive tax regime and income subject to lower tax rates	(249,482)	(44,863)
Prior year tax charge, net	(54,542)	(2,967)
Effect of inadmissible expenses	5,346	7,572
Derecognition of deferred tax asset on minimum turnover tax	387,210	209,825
Impact of change in tax rate	(3,521)	10,204
Others	367	99
	(418,951)	636,591

(Amounts in thousand)

32. (LOSS) / EARNING PER SHARE - Basic and diluted

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

	2014	2013
	Rupees	
(Loss) / Profit for the year	(1,109,318)	706,707
	Number in thousands	
Weighted average number of ordinary shares	663,469	663,469

33. RETIREMENT AND OTHER SERVICE BENEFITS

33.1 Provident fund

During last year, the Company replaced its provident fund with the provident fund (the Fund) operated and managed by Engro Corporation Limited - the Holding Company. In accordance with the funds' transition provisions, related assets and liabilities were transferred to the Holding Company's defined contribution provident fund based on their values as at September 30, 2013. Accordingly, the following information is based on the latest audited financial statements of the Fund maintained by the Holding Company as at June 30, 2014, however, the comparative information presented below is based upon the audited financial statements of the fund maintained by the Company till last year. The share of the Company's employees in the Fund maintained by the Holding Company is approximately 13.6%, based on members' balances as at June 30, 2014.

33.1.1 Details of the Fund

	June 30, 2014	June 30, 2013
	Rupees	
Size of Fund	2,091,284	243,832
Investments at amortised cost	1,482,459	51,227
Investments at fair value	228,053	145,479
Percentage of investments made	82%	81%

33.1.2 Break-up of investments in terms of amount and percentage of size of the Fund is as follows:

Description	June 30, 2014		June 30, 2013	
	Investments in Rupees	Percentage of investment made	Investments in Rupees	Percentage of investment made
Defence Savings Certificates	127,552	6%	-	-
Pakistan Investment Bonds	901,641	43%	54,641	22%
Regular Income Certificates	88,605	4%	8,550	4%
Term Finance Certificates	132,554	6%	11,771	5%
Engro Islamic Rupiya Certificates	157,656	8%	-	-
Treasury Bills	-	-	22,952	9%
Special Saving Certificates	74,451	4%	7,955	3%
Quoted Shares	228,053	11%	28,671	12%
Mutual Funds	-	-	62,166	25%
	1,710,512		196,706	

(Amounts in thousand)

33.1.3 The investments out of the 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.

33.1.4 During the year Rs. 52,174 (2013: Rs. 10,580) has been recognized in the profit and loss account in respect of the defined contribution provident fund, maintained by Engro Corporation Limited, the Holding Company.

33.2 During the year Rs. 42,023 (2013: 9,813) has been recognized in the profit and loss account in respect of the defined contribution gratuity fund, maintained by Engro Corporation Limited, the Holding Company.

33.3 During the year, Rs. 2,225 (2013: Nil) has been recognized in the profit and loss account in respect of the defined contribution pension fund, maintained by Engro Corporation Limited, the Holding Company.

34. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The details of amounts charged during the year in respect of remuneration and benefits to the Chief Executive, Directors and executives are as follows:

	2014			2013		
	Director			Director		
	Chief Executive	Others	Executives	Chief Executive	Others	Executives
	Rupees					
Managerial remuneration	32,648	-	539,703	24,015	-	447,746
Retirement benefit funds	-	-	83,172	4,217	-	71,851
Bonus	12,088	-	78,886	9,662	-	63,303
Other benefits	3,986	-	85,687	3,486	-	73,947
Directors fee	-	1,672	-	-	2,400	-
Total	48,722	1,672	787,448	41,380	2,400	656,847
Number of persons at year end	1	9	251	1	9	232

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

34.2 Premium charged in respect of Directors' indemnity insurance policy, purchased by the Company, amounts to Rs. 927 (2013: Rs. 850).

(Amounts in thousand)

35. CASH GENERATED FROM OPERATIONS

	2014	2013
	Rupees	
(Loss) / Profit before taxation	(1,528,269)	1,343,298
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	96,422	45,282
Depreciation and amortization	1,237,040	1,193,358
Provision for slow moving stores and spares	7,127	4,930
Provision for net realizable value of stock-in-trade	694,475	29,174
Write-off of damaged items of property, plant and equipment	7,905	7,816
Income on bank deposits	(29,110)	(29,193)
Gain on investments in mutual funds held for trading	(5,787)	(14,550)
Unrealized foreign exchange (gain) / loss on borrowings	(97,000)	229,225
Amortization of prepaid financial charges	28,167	20,772
Unrealized foreign exchange (gain) / loss on imports, retention money and derivatives	3,612	150,151
Finance costs	1,064,980	1,369,849
Profit on disposal of operating assets	(834)	(1,408)
Provisions against concessionary duty on import of raw materials and GIDC	749,243	176,722
Working capital changes - note 35.1	577,215	(125,881)
	2,805,186	4,399,545

35.1 WORKING CAPITAL CHANGES

	2014	2013
	Rupees	
Increase in current assets		
Stores, spares and loose tools	(90,128)	(4,084)
Stock-in-trade	(1,341,388)	(227,328)
Trade debts	(29,649)	(258,552)
Loans, advances, deposits, prepayments and other receivables - net	(103,297)	(37,669)
	(1,564,462)	(527,633)
Increase in current liabilities		
Trade and other payables	2,141,677	401,752
	577,215	(125,881)

(Amounts in thousand)

36. CASH AND CASH EQUIVALENTS

	2014	2013
	Rupees	
Cash and bank balances - note 14	544,017	865,040
Short term investments - note 13	218,872	300,000
Running finance utilized under markup arrangements - note 19	-	(166,062)
	762,889	998,978

37. FINANCIAL INSTRUMENTS BY CATEGORY

37.1 Financial assets as per balance sheet

	2014	2013
Held to maturity		
Short term investments - Treasury bills	68,860	300,000
Fair value through profit or loss		
Short term investments - Mutual Funds Securities	-	165,122
Loans and receivables		
Long term loans	51,498	37,752
Trade debts - considered good	554,666	525,017
Loans, deposits and other receivables	85,993	132,545
Short term Investments	218,872	-
Cash and bank balances	544,017	865,040
	1,455,046	1,560,354

37.2 Financial liabilities as per balance sheet

	2014	2013
Financial liabilities measured at amortized cost		
Long term borrowings	9,114,904	9,737,618
Short term borrowings	600,000	766,062
Trade and other payables	8,768,664	6,858,287
Accrued interest/mark-up	92,785	82,753
	18,576,353	17,444,720
Derivatives		
Used for hedging purposes	44,414	80,006
At fair value through profit or loss	119,571	102,172
	163,985	182,178

(Amounts in thousand)

37.3 Fair values of financial assets and liabilities

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

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

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

38.1 Financial risk factors

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

a) Market risk

i) Currency risk

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

At December 31, 2014, the financial assets and liabilities exposed to foreign exchange risk amount to Rs. 339,020 (2013: Rs. 329,401) and Rs. 5,273,967 (2013: Rs. 5,390,022) respectively.

At December 31, 2014, if the Pakistan Rupee had weakened / strengthened by 5% against the US Dollar with all other variables held constant, post-tax profit / loss for the year would have been lower / higher by Rs. 165,321 (2013: Rs. 167,000), mainly as a result of foreign exchange losses/gains on translation of uncovered US Dollar-denominated liabilities. However, this change in profits or losses would be partially offset by a corresponding change in margins as bulk of revenues is linked with movements in exchange rates.

ii) Interest rate risk

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

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

(Amounts in thousand)

At December 31, 2014, if interest rate on Company's unhedged borrowings had been 1% higher / lower with all other variables held constant, post tax profit for the year would have been lower / higher by approximately Rs. 56,146 (2013: Rs. 55,250) mainly as a result of higher / lower interest exposure on variable rate borrowings.

iii) Other price risk

Price risk represents the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financials instruments or its issuers or factors affecting all similar financial instruments traded in the market. The Company is exposed to equity security price risk as the Company deals in securities. However, the Company is not exposed to equity securities price risk as at December 31, 2014 as the Company has no invetments in listed securities as at year end.

b) Credit risk

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

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

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

	2014	2013
	Rupees	
Long term loans	51,498	37,752
Trade debts - considered good	554,666	525,017
Loans, deposits and other receivables	85,993	132,545
Short term investments	218,872	165,122
Bank balances	543,589	864,754
	1,454,618	1,725,190

(Amounts in thousand)

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

Bank	Rating agency	Rating	
		Short term	Long term
Allied Bank Limited	PACRA	A1+	AA+
Askari Commercial Bank Limited	PACRA	A1+	AA
Bank AlFalah Limited	PACRA	A1+	AA
Bank AlHabib Limited	PACRA	A1+	AA+
Barclays Bank PLC, Pakistan	Moody	P1	A2
Burj Bank Limited	JCR-VIS	A1	A
Citibank N.A.	Moody	P1	A2
Deutsche Bank A.G	Moody	P1	A3
Faysal Bank Limited	PACRA	A1+	AA
Habib Bank Limited	JCR-VIS	A1+	AAA
HSBC Bank Middle East Limited	Moody	P-1	A2
Industrial and Commercial Bank of China	Moody	P-1	A1
MCB Bank Limited	PACRA	A1+	AAA
Meezan Bank Limited	JCR-VIS	A1+	AA
National Bank of Pakistan	JCR-VIS	A1+	AAA
Standard Chartered Bank (Pakistan) Limited	JCR-VIS	A1+	AAA
Summit Bank Limited	JCR-VIS	A-1	A-
United Bank Limited	JCR-VIS	A1+	AA+
The Bank of Punjab	PACRA	A1+	AA-
JS Bank Limited	PACRA	A1	A+
NIB Bank Limited	PACRA	A1+	AA-
Soneri Bank	PACRA	A1+	AA-
Pak Oman Investment Company	JCR-VIS	A1+	AA+

c) Liquidity risk

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

(Amounts in thousand)

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

	2014			2013		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	Rupees					
Financial liabilities						
Long term borrowings	3,016,196	6,098,708	9,114,904	2,242,800	7,494,818	9,737,618
Derivative financial instruments	119,571	44,414	163,985	102,172	80,006	182,178
Trade and other payables	8,768,664	-	8,768,664	6,858,287	-	6,858,287
Accrued interest / mark-up	92,785	-	92,785	82,753	-	82,753
Short term borrowings	600,000	-	600,000	766,062	-	766,062
	12,597,216	6,143,122	18,740,338	10,052,074	7,574,824	17,626,898

Net settled derivatives comprise interest rate swaps used by the Company to manage the Company's interest rate profile. The Company's net settled derivative financial instruments with a negative fair value have been included at their fair value of Rs.165,595 (2013: Rs. 182,178) in the maturity analysis because the contractual maturities are essential for an understanding of the timing of the cash flows. These contracts are managed on a net-fair value basis as well as maturity date.

39. CAPITAL RISK MANAGEMENT

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

The Company manages capital by maintaining gearing ratio at certain levels. This ratio is calculated as long term borrowings, as disclosed in note 16, divided by total capital. Total capital is calculated as 'equity' as shown in the balance sheet plus long term borrowings.

The gearing ratio of the Company is as follows:

	2014	2013
	Rupees	
Long term borrowings - note 16	6,098,708	7,494,818
Total equity	5,965,034	7,052,953
Total capital	12,063,742	14,547,771
Gearing ratio	0.506	0.515

(Amounts in thousand)

40. SEGMENT INFORMATION

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

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

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

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

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

	Poly Vinyl Chloride (PVC) and allied chemicals		Caustic soda and allied chemicals		Power Supply		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	Rupees							
Segment profit and loss								
Revenue	18,491,301	19,376,368	5,279,405	5,344,807	48,566	59,406	23,819,272	24,780,581
Less:								
Cost of sales (excluding depreciation)	(17,892,031)	(15,849,860)	(2,880,785)	(2,652,823)	(14,706)	(11,182)	(20,787,522)	(18,513,865)
Distribution and marketing expenses (excluding depreciation)	(1,062,827)	(1,003,783)	(360,692)	(336,642)	-	-	(1,423,519)	(1,340,425)
Allocated depreciation	(916,070)	(886,521)	(280,933)	(257,751)	(18,713)	(27,907)	(1,215,716)	(1,172,179)
(Loss) / Profit before unallocated expenses	(1,379,627)	1,636,204	1,756,995	2,097,591	15,147	20,317	392,515	3,754,112
Unallocated expenses								
Administrative expenses							(627,974)	(606,481)
Other operating expenses							(309,893)	(526,222)
Other income							82,063	91,738
Finance costs							(1,064,980)	(1,369,849)
Taxation							418,951	(636,591)
(Loss) / Profit for the year							(1,109,318)	706,707
Segment assets								
Total segment assets (note 40.3)	15,560,768	14,062,022	6,218,330	6,572,720	12,907	31,620	21,792,005	20,666,362
Unallocated assets							4,544,710	4,702,001
Total assets							26,336,715	25,368,363

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

(Amounts in thousand)

41. TRANSACTIONS WITH RELATED PARTIES

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

Nature of relationship	Nature of transactions	2014	2013
		Rupees	
Holding Company			
- Engro Corporation Limited	Purchase of services	56,618	35,134
	Use of operating assets	601	1,334
	Markup on subordinated loan	81,655	138,844
	Reimbursement made	29,800	5,520
	Reimbursement received	2,252	3,941
	Pension fund contribution	2,225	9,812
	Provident fund contribution	8,747	6,038
	Life Insurance contribution	515	-
	Medical Insurance contribution	516	171
	Gratuity fund contribution	6,520	2,227
Associated Company			
- Mitsubishi Corporation	Purchase of goods	10,715,860	9,234,746
	Sale of goods	1,222,340	1,291,794
	Purchase of services	350	309
Related parties by virtue of common directorship			
- Engro Fertilizers Limited	Purchase of services	2,712	8,091
	Sale of goods	21,428	25,376
	Sale of services	517	504
	Sales of utilities	71,252	74,241
	Use of operating assets	-	7,755
	Reimbursement made	15,810	10,199
	Reimbursement received	1,795	2,374
	Use of operating assets	5,407	6,953
- Engro Vopak Terminal Limited	Purchase of services	923,568	973,207
	Reimbursement made	13,660	19,091
	Reimbursement received	13,913	10,394
- Engro Foundation	Reimbursement made	607	-
	Purchase of services	-	2,263
	Donation	2,250	2,000
- Engro PowerGen Qadirpur Limited	Reimbursement made	-	1,186
	Reimbursement received	4	4,252
- Engro PowerGen Limited	Reimbursement made	429	896
	Use of operating assets	481	827
- Engro Foods Limited	Sale of goods	53,194	47,023
	Reimbursement received	9	909
	Reimbursement made	4,460	1,101
	Use of operating assets	505	429
- Engro Eximp (Private) Limited	Reimbursement received	109	2,035
	Use of operating assets	57	217
- Sindh Engro Coal Mining Company Limited	Reimbursement received	83	-
- Dawood Hercules Corporation Limited	Purchase of services	14,480	14,400
- Lahore University of Management Sciences	Purchase of services	-	678
- Pakistan Institute of Corporate Governance	Purchase of services	1,024	-
	Annual subscription	252	-
- Institute of Business Administration - Sukkur	Purchase of services	446	2,186
- Pakistan Japan Business Forum	Annual subscription	-	100
- Overseas Investors Chamber of Commerce & Industries	Annual subscription	330	330
- UBL Fund Managers	Purchase of units of UBL Liquidity Plus Fund	-	230,000
	Sale of units of UBL Liquidity Plus Fund	33,430	225,710
Other related party			
- Arabian Sea Country Club	Purchase of services	218	856
	Annual subscription	71	46
Contribution to staff retirement benefits	Pension fund	-	23,104
	Provident funds	43,427	40,127
	Gratuity funds	35,503	15,380
Key management personnel	Managerial remuneration	72,480	66,996
	Retirement benefit funds	9,781	11,953
	Bonus	28,254	26,318
	Other benefits	15,477	15,379

(Amounts in thousand)

41.2 The related party status of outstanding balances as at December 31, 2014 are disclosed in the respective notes.

42. GENERAL

42.1 Number of employees

Number of permanent employees as at December 31, 2014 was 442 (2013: 435) and average number of employees during the year were 433 (2013: 440).

42.2 Production capacity

	Designed Annual Capacity		Actual Production		Remarks
	2014	2013	2014	2013	
	Kilo tons				
PVC	164	156	153	146	Production planned as per market demand and in house consumption needs
EDC	127	127	118	117	
Caustic soda	106	106	114	115	
VCM	204	204	168	170	
	Mega Watts				
Power	66	64	50	45	

43 CORRESPONDING FIGURES

Corresponding figure in respect of Service benefit obligations has been reclassified from Non-Current Liabilities to Current Liabilities for better presentation, considering the related outflow of resources.

The effects of other reclassifications are not material.

44. DATE OF AUTHORIZATION FOR ISSUE

These consolidated financial statements were authorized for issue on February 3, 2015 by the Board of Directors of the Company.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

Notice of AGM and Annexures

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Seventeenth Annual General Meeting of Engro Polymer & Chemicals Limited will be held at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi on Thursday, April 30th, 2015 at 10.00 a.m. to transact the following business:

Ordinary Business

(1) To receive and consider the Audited Accounts for the year ended December 3l, 2014 and the Directors' and Auditors' Reports thereon.

(2) To appoint Auditors and fix their remuneration.

By Order of the Board

Schaane Ansari

Company Secretary

Karachi,

Dated: February 03, 2015

N.B.

(1) The Share Transfer Books of the Company will be closed from Thursday, April 16, 2015 to Thursday, April 30, 2015 (both days inclusive). Transfers received in order at the office of our Registrar, Messrs FAMCO ASSOCIATES (PVT.) LTD, 8-F, next to Hotel Faran, Nursery, Block 6, P.E.C.H.S., Shahra-e-Faisal, Karachi PABX Nos. (92-21) 34380101-5 and email info.shares@famco.com.pk, by the close of business (5:00 p.m) on Wednesday, April 15, 2015 will be treated in time to entitle the transferees to attend and vote at the meeting.

(2) A member entitled to attend and vote at this Meeting shall be entitled to appoint another person, as his/her proxy to attend, speak and vote instead of him/her, and a proxy so appointed shall have such rights, as respects attending, speaking and voting at the Meeting as are available to a member. Proxies, in order to be effective, must be received by the Company not less than 48 hours before the Meeting. A proxy need not be a member of the Company.

Shareholder Information

Annual General Meeting

The annual shareholders meeting will be held at 10:00 a.m. on April 30, 2015 at Marriott Hotel, Abdullah Haroon Road, Karachi.

Shareholders as of April 16, 2015 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 time.

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

Ownership

On December 31, 2014 there were 32,658 shareholders on record of the Company's ordinary shares.

Transmission of Annual Reports through E-Mail

The SECP has allowed the circulation of Annual Reports to the members of the Company through email. Therefore, all members of the Company who want to receive a soft copy of the Annual Report are requested to send their email addresses on the consent form to the Company's Share Registrar. The Company shall, however additionally also provide hard copies of the Annual Report to such members, on request, free of cost, within seven days of receipt of such request. The standard consent form for electronic transmission is available at the Company's website www.engropolymer.com.

Alternatively, members can fill up the Electronic transmission consent Form given in the Annexure Section at the end of this report.

Holding of General Meetings through Video Conference Facility

Members can also avail video conference facility in Lahore and Islamabad. If the Company receives consent at least 10 days prior to date of meeting, from members holding in aggregate 10% or more shareholding and residing at either Lahore and/or Islamabad to participate in the meeting through video conference, the company may arrange video conference facility in that city.

In this regard please fill up the Request for Video Conferencing Facility Form given in the Annexure Section at the end of this report and submit it to registered address of the Company 10 days before holding of the annual general meeting.

E-Dividend Mandate (Optional)

In pursuance of the directions given by the Securities and Exchange Commission of Pakistan vide Circular No. 18 of 2012 dated June 5, 2012, we hereby give you the opportunity to authorise the Company to directly credit in your bank account the cash dividend declared by the Company in the future.

Please note that this E-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 directly.

In case you wish that the cash dividend declared by the Company is directly credited to your bank account instead of issue of dividend warrants to you, then please provide the information mentioned on the Form placed on the Company's website www.engropolymer.com and send the same to your brokers or the Central Depository Company Ltd. (in case the shares are held on the CDC) or to our Registrars, FAMCO Associates (Pvt) Ltd., at their address mentioned below (in case the shares are held in paper certificate form).

Quarterly Results

The Company issues quarterly financial statements. The planned dates for release of the quarterly results in 2015 are:

- 1st quarter : April 16, 2015
- 2nd quarter : August 04, 2015
- 3rd quarter : October 20, 2015

The Company holds quarterly briefings with Security Analysts to discuss the results and the business environment. These sessions are planned to be held on:

- 1st quarter : April 22, 2015
- 2nd quarter : August 11, 2015
- 3rd quarter : October 27, 2015

All annual/quarterly reports and presentations from quarterly briefings are regularly posted at the Company's website: www.engropolymer.com

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

Change of Address

All registered shareholders should send information on changes of address to:

M/s. FAMCO Associates (Private) Limited
8-F, Next to Hotel Faran, Nursery,
Block-6 P.E.C.H.S. Shahra-e-Faisal,
Karachi-74000

Calendar of Major Events

2014

February 3, 2014	Approval of Annual accounts, 2013
April 15, 2014	Annual General Meeting (AGM) for the year ended December 31, 2013
April 24, 2014	Approval of first quarterly accounts, 2014
June 13, 2014	Introduction of sodium hypochlorite in municipal bodies
July 1, 2014	Completion of the debottlenecking project at PVC-2 unit
July 1, 2014	Implemented integrated management system, covering ISO 9001, ISO 14001 and OHSAS 18001
August 7, 2014	Approval of half yearly accounts, 2014
August 13, 2014	Development of local player to produce large diameter pipe using new technology
September 19, 2014	Achieved an award for the Best Corporate and Sustainability Report in chemicals sector for the year 2013
October 20, 2014	Approval of third quarterly accounts, 2014
December 1, 2014	Partial completion of the debottlenecking project at PVC-1 unit
December 1, 2014	Significant implementation of Green Office at the Plant site
December 5, 2014	Completion of the water study report and presentation to Engro corporation CEO and Board of Directors

2015

February 3, 2015	Approval of Annual accounts, 2014
February 18, 2015	Approval of Board of Directors for the issuance of irredeemable preference shares
April 16, 2015	Approval of first quarterly accounts 2015
April 30, 2015	Annual General Meeting (AGM) for the year ended December 31, 2014
June 1, 2015	Implementation of FICO, SD and MM Module of SAP Achieved award from Engro Corporation Limited for Safety
August 4, 2015	Approval of half yearly accounts 2015
October 20, 2015	Approval of third quarterly accounts 2015

Request for Video Conferencing Facility Form

Members can also avail video conference facility in Lahore and Islamabad. If the Company receives consent at least 10 days prior to date of meeting, from members holding in aggregate 10% or more shareholding and residing at either Lahore and/or Islamabad to participate in the meeting through video conference, the company may arrange video conference facility in that city.

In this regard please fill up the following form and submit it to registered address of the Company 10 days before holding of the annual general meeting.

I/We, ______________________ of ________________ being a member of Engro Polymer & Chemicals Ltd.

holder of ______________________ Ordinary Share(s) as per Register Folio No/CDC A/c No. ________________

hereby opt for video conference facility at ______________________

______________________________ Date: ________________

Signature of Member/Shareholder

AFFIX
CORRECT
POSTAGE

The Company Secretary
Engro Polymer & Chemicals Limited
16th Floor, The Harbour Front Building,
HC-3, Marine Drive, Block 4,
Clifton, Karachi-75600.

Electronic Transmission Consent Form

The Securities & Exchange Commission of Pakistan through SRO 787(I)/2014 of September 8, 2014 allowed the Company to circulate its annual balance sheet and profit & loss accounts, auditor's report and directors' report etc. (Audited Financial Statements) along with the Company's Notice of Annual General Meeting to its shareholders through email. Those shareholders who wish to receive the Company's Annual Report through email are requested to complete the requisite form below.

CDC shareholders are requested to submit their Electronic Transmission Consent Form along with their CNIC directly to their broker (participant)/CDC; while shareholders having physical shares are to send the forms and a copy of their CNIC to the Company's Registrar, FAMCO Associates (Pvt) Limited, 8-F, Block 6, P.E.C.H.S, next to Hotel Faran, Nursery, Shahrah-e-Faisal, Karachi.

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Electronic Transmission Consent Form

Pursuant to the directions given by the Securities & Exchange Commission of Pakistan through its SRO 787(I)/2014 of September 8, 2014, I, Mr. /Ms. ______________________________ S/o, D/o, W/o ______________________________ hereby consent to have the Engro Polymers & Chemicals Limited's Audited Financial Statements and Notice of Annual General Meeting delivered to me via email on my email address provided below:

Name of Member/Shareholder	
Folio/CDC Account Number	
CNIC	
Email Address	

It is stated that the above mentioned information is true and correct and that I shall notify the Company and its Share Registrar in writing of any change in my email address or withdrawal of my consent to email delivery of the Company's Audited Financial Statements and Notice of the Meeting.

______________________________ Date: ____________________

Signature of Member/Shareholder

engro polymer & chemicals

AFFIX
CORRECT
POSTAGE

The Company Secretary
Engro Polymer & Chemicals Limited
16th Floor, The Harbour Front Building,
HC-3, Marine Drive, Block 4,
Clifton, Karachi-75600.

Proxy Form

The Company Secretary
Engro Polymer & Chemicals Limited
16th Floor, The Harbour Front Building,
HC-3, Marine Drive, Block 4,
Clifton, Karachi-75600.

I/We ____

of ____ being a member of ENGRO POLYMER & CHEMICALS LIMITED and holder of ____________________ Ordinary shares as per share
(Number of Shares)

Register Folio No. __________ and/or CDC Participant I.D. No. __________ and Sub Account No. __________
hereby appoint ______________ of ______________ or failing him ______________ of ______________
as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of the Company to be held on the 30th day of April, 2015 and at any adjournment thereof.

Signed this ______________________ day of ______________ 2015.

Witnesses:

1. Signature: ______________________
   Name: ______________________
   Address: ______________________
   ____
   CNIC or
   Passport No. ______________________

2. Signature: ______________________
   Name: ______________________
   Address: ______________________
   ____
   CNIC or
   Passport No. ______________________

Signature

Revenue Stamp

(Signature should agree with the specimen signature registered with the Company)

Note:

i) Proxies in order to be effective, must be received by the Company not less than 48 hours before the meeting. A Proxy need not be a member of the Company.

ii) CDC Shareholders and their proxies are each requested to attach an attested photocopy of their Computerized National Identity Card or Passport with this proxy form before submission to the Company.

engro polymer & chemicals

AFFIX
CORRECT
POSTAGE

The Company Secretary
Engro Polymer & Chemicals Limited
16th Floor, The Harbour Front Building,
HC-3, Marine Drive, Block 4,
Clifton, Karachi-75600.

Glossary

AGM: Annual General Meeting
ATIR: Appellate Tribunal Inland Revenue
BAC: Board Audit Committee
BCP: Business Continuity Planning
BoD: The Board of Directors
BSC: British Safety Council
CC: Corporate Communications
CEO: Chief Executive Officer
CIR (A): Commissioner of Inland Revenue Appeals
CLSA: Credit Lyonnais Securities Asia
CNIC: Computerized National Identity Card
COED: Committee for Organization & Employee Development
CRO: Chief Risk Officer
CSR: Corporate Social Responsibility
E Corp: Engro Corporation - the Holding Company
EBITDA: Earnings before Interest, Taxes ,Depreciation and Amortization.
EDC: Ethylene Di Chloride
EET: Employee Engagement Index
EPTL: Engro Polymer Trading (Private) Limited
F&A: Finance & Accounting
FDSK: The Foundation for Diffusion of Scientific Knowledge
GIDC: Gas Infrastructure Development Cess
GM: General Manager
GRI: Global Reporting Initiative
HCL: Hydrochloric Acid
HR: Human Resources
HRRC: The HR & Remuneration Committee
HSE: Health, Safety & Environment
HSE: Health, Safety and Environment
Hypo: Sodium Hypochlorite
IFC: International Finance Corporation
MAR: Management Attention Required
MMBTU: Million British thermal units
MMSCFD: Million Standard Cubic Feet Per Day
OHSA: Occupational Health and Safety Administration
OICCI: Overseas Investors Chamber of Commerce and Industry
OSHA: Occupational Safety and Health Administration (OSHA)
PADP: Performance Appraisal Development Plan
PAT: Profit after Tax
PBIT: Profit before interest and tax
PJBF: Pakistan Japan Business Forum
PSM: Personnel Safety Management
PSRM: Process Safety and Risk Management
PVC: Poly Vinyl Chloride
SHRM: Society for Human Resource Management
SOP: Standard Operating Procedures
TCF: The Citizens foundations
The Company: Engro Polymer and Chemicals Limited
TRIR: Total Recordable Injury Rate
UKAS: United Kingdom Accreditation Services
URS: United Registrar of Systems
VCM: Vinyl Chloride Monomer
VP: Vice President
WWF: World Wildlife Fund
CCIRS: Cross Currency Interest rate Swap