Akzo Nobel Pakistan Limited

# Colors of life

2014 Report

# Giving the past a colorful future

In line with our Human Cities initiative (page 4), AkzoNobel Pakistan participates in various endeavors to help restore the former glory of urban heritage sites such as Ganga Ram Hospital and Tollington Market in Lahore and the Cantt. Railway Station in Karachi. AkzoNobel's advanced, high quality products offer excellent performance and protection, fit for the restoration of the city's glorious landmarks.

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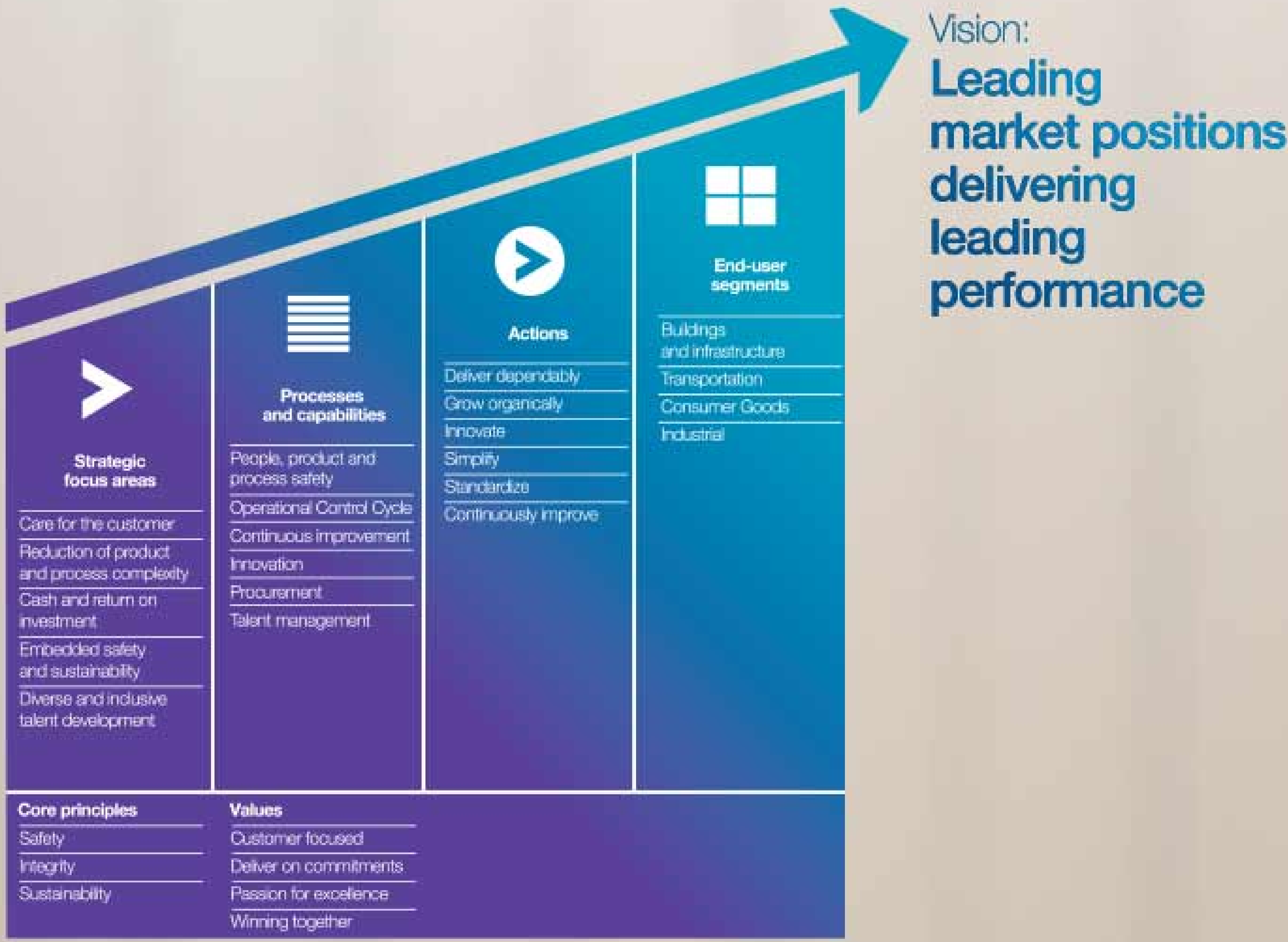
# Overview and Strategy




In June 2014, AkzoNobel launched its Human Cities initiative designed to help urban areas become more inspiring, energizing and vibrant.

Although we are already active in all areas of the initiative, they help align us further with our new vision, target and strategy set in 2013.

Key enablers such as aligned core values and behaviors have now been fully integrated with our everyday work.

AkzoNobel is a leading global paints and coatings company and a major producer of specialty chemicals. Calling on centuries of expertise, we supply industries and consumers worldwide with innovative products and sustainable technologies designed to meet the growing demands of our fast-changing planet. Headquartered in Amsterdam, the Netherlands, we have approximately 48,000 people in around 80 countries, while our portfolio includes well-known brands such as Dulux, Sikkens, International and Eka. Consistently ranked as one of the leaders in the area of sustainability, we are committed to making life more liveable and our cities more human.

### AkzoNobel Pakistan being a part of the AkzoNobel Group

At AkzoNobel Pakistan, we carry with us the traditions and expertise of one of Pakistan's oldest and most successful companies; ICI Pakistan Limited. The AkzoNobel Group acquired ICI in 2008 bringing together the innovation, leadership and expertise of both companies. Through a scheme of demerger, the Paints Business at ICI was separated into a separate legal entity. As of June 1, 2012, we are now operating as AkzoNobel Pakistan. With our head office in Lahore and branches across the country, the AkzoNobel Pakistan family consists of over 250 talented people and many others associated indirectly, all committed to excellence and passionate about providing sustainable solutions to our customers.

### Our mission

To be a growing, sustainable OneAkzoNobel operation that exceeds customer expectations by leveraging our strong heritage, global knowledge base and world class talent

### Our strategic targets

To achieve our mission, we will:

- Give priority to health, safety, environment and ethical matters
- Ensure our products deliver maximum value to customers by maintaining dependable supply, consistent quality, and reliability
- Uphold excellent service levels to foster long-term relationships with customers and suppliers
- Achieve the highest possible operating efficiencies and lowest cost, and expand the business through new product launches and by tapping into new markets
- Develop and retain a team of highly capable people dedicated to delivering the mission
- To leverage AkzoNobel's global knowledge and expertise to better deliver our strategic targets.

# Chief Executive's Statement

## Dear Stakeholders,

Consistent with industry in general, AkzoNobel Pakistan was subject to the challenging business climate which persisted in 2014 from severe energy shortage, political uncertainty, and a complex security environment. Despite the unpredictability which prevailed in the markets, and could have had a far greater impact on overall business performance, all employees, led by senior managers, lived up to our core value of 'Winning Together' by putting forward our best efforts - often going beyond the call of duty to demonstrate a high level of flexibility to deliver a leading performance.

It is at the very outset that I would like to acknowledge, appreciate, and thank the sincere efforts and dedication of our employees, as well as those who work directly and indirectly with AkzoNobel Pakistan. Progress is made possible when the trust that we keep in their capability and commitment is reciprocated, and I specifically include our customers and our suppliers in my thoughts.

The support and direction from AkzoNobel Middle East has kept us oriented towards innovation, governance, safety, quality and has further strengthened our internal controls. In the short few weeks after the formation of the SESAME region, very specific support has been initiated. Exciting prospects to identify and capitalize on market opportunities and take advantage of the company's global and regional knowledge and strengths are on the to-do list for AkzoNobel Pakistan.

The increased level of interaction with the Middle East, SESAME, and global teams have enabled AkzoNobel Pakistan to channelize experience and opportunities into developing employees and improving our capabilities as well as our systems and processes. We are proud of the talent pool developed, from which several managers have been selected to join AkzoNobel's regional teams and projects; this indeed reaffirms our belief that our managers truly are world class.

We look forward to launching and embedding some key programs and safety initiatives during 2015. These will surely put us a few more steps ahead and allow us to maintain our leading position when it comes to safe and responsible operations. We strive to be the paints company that most concerns itself with health, safety, and the environment; and one that extends this care to homeowners who use our products, to our customers in various industries, to partners who supply materials and services to us, and of course our employees.

AkzoNobel Pakistan is fully on board the 'Human Cities initiative', which further sharpens our focus on the environment and societies. We are actively doing our part to make the world a better place to live in.

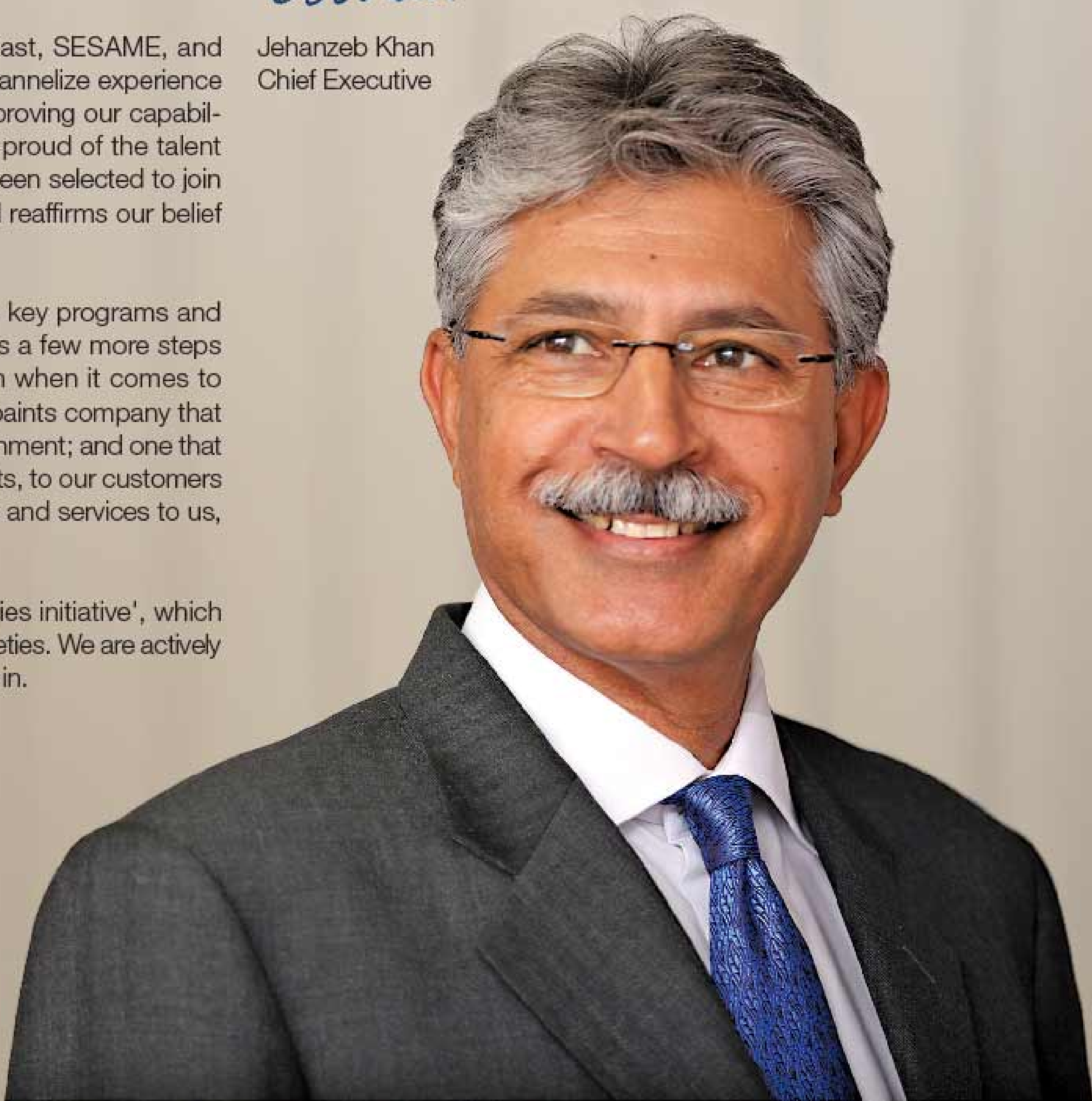
We endeavor to remain at the forefront, along with every company that resolves to operate ethically, and comply with all legislative requirements. Furthermore, we openly support the government's endeavor to level the playing field for all companies operating in Pakistan.

Learning from last year, we are aware of the challenges we are likely to face in our several businesses, and are prepared to deliver shareholder value in 2015. Without missing a beat, commercial and support functions alike have already started to execute clearly mapped out plans to improve our service offering to customers, launch new products, improve our current products through research and development, localize new environment-friendly technologies and tap into new markets. In later pages, you will read more about some of these.

The confidence that our shareholders invest in AkzoNobel Pakistan drives and encourages us, and for that, we are forever grateful. With this support, we will remain an exciting company with a bright future in Pakistan.

With my warm regards,

Jehanzeb Khan
Chief Executive



# The Human Cities Initiative

The Human Cities initiative is built on six main pillars. They outline some of the issues we think cities should be focusing on in order to create more 'human' urban environments.

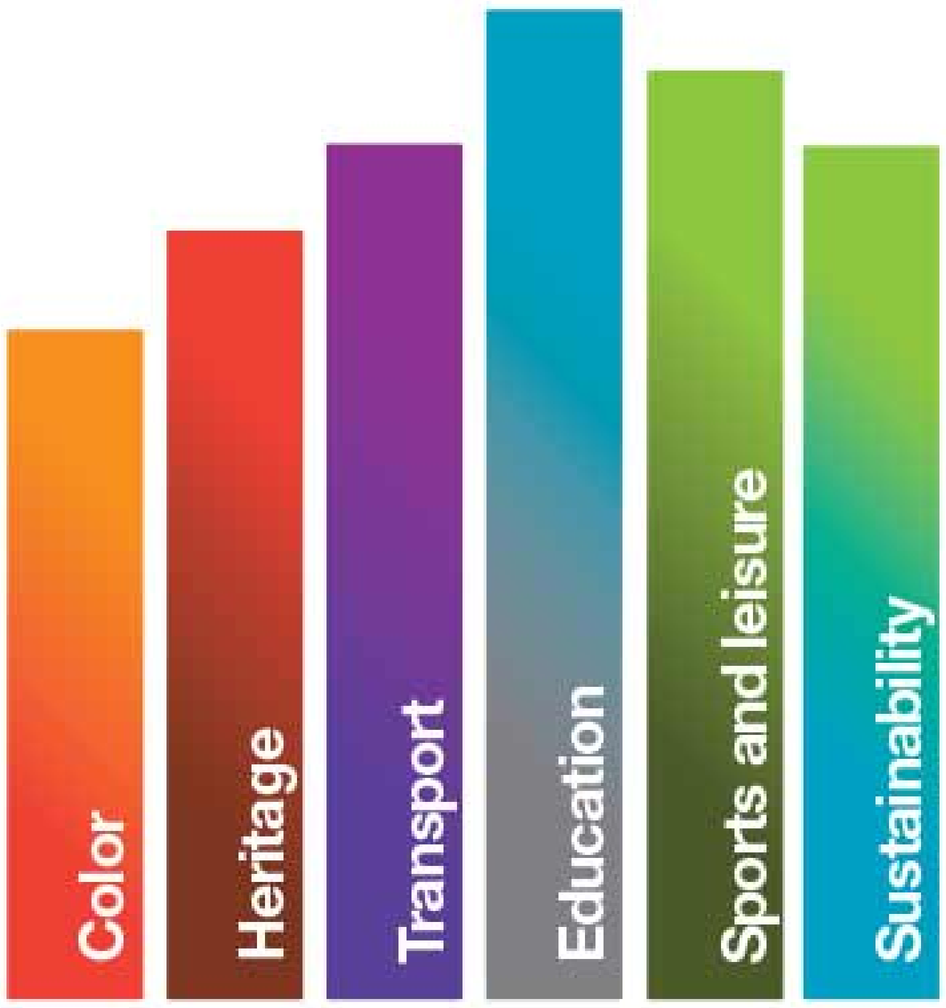
Human Cities; our new company positioning is an opportunity for AkzoNobel to make a major contribution to one of the key challenges of our age. Currently, around half the world's population lives in cities. Estimates say this will increase to more than 75 percent by 2050. Many cities are already struggling to cope with the demands of fast-rising populations, alongside the difficulties posed by economic instability, social breakdown and climate change. Cities have to adapt to become more resilient to these changes and be better able to cope with this common set of challenges. AkzoNobel can play a major role in this because over 60 percent of our products are used in buildings, infrastructure and transport.

Many cities are losing their identity and have little sense of history or heritage.In other areas, public space for leisure activities has been sacrificed to make room for rapidly expanding housing developments. We want to find ways to help address those needs and breathe fresh life and energy into urban communities.

Through this initiative, we are linked to the challenge posed by rapid population growth in urban areas, and we can demonstrate why our products are so relevant to the world around us. The fact that we are already so active in these markets creates a strong platform for us to positively influence the process of urban transformation that is taking place.

We're trying to make cities come alive, enabling people to make more of an emotional connection with where they live.

Understanding both the trends in our end-user segments and the needs of our customers is fundamental to our strategy – and that's what Human Cities is all about. It's focused on directing our efforts towards current and future market demands, which will be heavily influenced by population growth. Human Cities also gives us a clearer focus and helps drive our vision of leading market positions delivering leading performance.




As a company, we are already active in all six areas: color, heritage, transport, education, sport and leisure, sustainability.

# Our Human Cities Manifesto

### 1. Cities should be more colorful
As our cities continue to grow and expand, we have to ensure they remain exciting and vibrant. A simple way of doing this is to make them more colorful. This helps to create an emotional connection and gives people a sense of place, space and identity. It also underlines our belief that everyone should be given the chance to benefit from the transformative power of color.

### 2. Urban heritage needs to be embraced
Balancing old and new is vital if our cities are to retain a sense of history and collective identity. Which means urban heritage shouldn't be allowed to fade away. We need to preserve places that are important to all sections of the community and make the past a part of the future.

### 3. People must connect to make cities come alive
As our cities become increasingly crowded, we need to ensure that transport remains affordable and accessible for everyone. This goes beyond simply ensuring that roads are properly maintained. It also includes improving the physical mode of transport that we use to make it safer, more efficient and more sustainable.

### 4. Education should be a city's lifeblood
Cities aren't just defined by their buildings. Because they wouldn't function without the people who live and work there. It's vital, therefore, that more thought is given to providing proper education, as it will unlock potential and help ensure that cities continue to thrive.

### 5. Citizens need space to rest and play
Public spaces refresh the soul of a city, because people need somewhere to relax and unwind. That's why we have to give more consideration to providing open areas for sport and recreation when planning and developing urban areas.

### 6. Urban design must consider climate change
The future health of our cities – and the people who live there – will hinge on our ability to do radically more with less. That's why we have adopted a strategy of radical resource efficiency (known as Planet Possible) which is focused on developing more sustainable solutions for the built environment. By working with customers and suppliers, we can enable an ever-growing population to live a sustainable life in one finite world.

# Code of Conduct and Values

**At AkzoNobel Pakistan, we conduct our business in line with a strong sense of principles. These principles, in the form of our Code of Conduct, are a part of our philosophy and our culture. This Code is intended to provide a clear overview of the obligations that each employee in the company needs to understand and practice.**

**A brief overview of the code:**

### Business principles

- Each employee should implement our core values, comply with and observe applicable laws, support fundamental human rights and give due regard to health, safety and environment

### Business integrity

- We insist on integrity and fairness in all aspects of our business operations
- Bribery and any other forms of unethical business practice are prohibited
- Our employees are expected to maintain confidentiality at all times and act in the company's interests
- All business transactions shall be accurately and completely recorded in accordance with the company's accounting principles and local laws and may be subject to audit

### Company responsibilities

AkzoNobel Pakistan is committed to creating long-term value for customers, shareholders, employees, and society. In line with this aim, the Code of Conduct encourages us to:

- Adopt openness, integrity and reliability in all communications
- Provide equal opportunities, and a healthy, safe and secure environment for all employees
- Ensure the rights of employees to join unions/ associations
- Protect the personal data of all employees
- Engage actively in performance and development dialog

### Employee responsibilities

The Code of Conduct provides employees with guidance on their responsibilities regarding:

- Media relations and disclosures
- Inside information
- Corporate identity
- Protecting AkzoNobel Pakistan's intellectual property
- Internet use
- Business travel
- Substance abuse

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**The common thread running through our strategy is the need to change our mindset, assumptions, and the general way we do things. This in turn has led us to develop new values and behaviors in 2013 and align our way of working accordingly. If the strategy is considered as the 'what' we need to do, then these values provide the 'how' for the successful implementation of our strategy.**

**During 2014, we continued to rollout our new values and behaviors across the company through the 'Count me in!' campaign.**

We want to encourage a high performance culture of engagement, feedback and trust. The new core principles and values help shape the behavior that creates this culture.

Today we have four clear and simple values: Customer Focused, Deliver on Commitments, Passion for Excellence and Winning Together. These are supported by three 'core principles': Safety, Integrity and Sustainability. The core principles apply to everyone in the company and are our 'permission to play'.

The values and principles outline how we must conduct ourselves to succeed as a company, bring focus to operational excellence and organic growth to ultimately help improve, energize and regenerate urban communities around the world.

| | | |
|---|---|---|
| **Core principles:** Safety, Integrity, Sustainability | **Customer focused** | We build successful partnerships with our customers |
| | **Deliver on commitments** | We do what we say we will do |
| | **Passion for excellence** | We strive to be the best in everything we do, every day |
| | **Winning together** | We develop, share and use our personal strengths to win as a team |

# Our Passion for People

Our people are the key to our success as an organization. We need to ensure that we have a performance-driven culture and the right people with the right capabilities to deliver our strategic objectives.

**We know that our business will grow if our people grow too, so we aim to provide a work environment that is conducive to development and well-being, and strive for the professional and personal development of our people.**

myCareer P&DDialog

**The right culture -** Our performance driven culture is supported by our Performance and Development Dialog process (P&DD); a transparent evaluation tool for development planning and performance review in line with our strategy and the new values. P&DD is a mandatory process that promotes active dialog and feedback between employee and manager.

myCareer Talent & Succession

**The right people -** Improved management capability is the key enabler of a high performance culture, a better environment for employees and ultimately our business success. We aim to become a 'talent factory', recognized for development opportunities for our employees that help build strong leadership practices in our people to ultimately benefit our business today and tomorrow.

**The right capabilities -** Continuous learning helps us stay competitive and create a working environment that makes people feel valued and empowered to their own development. In addition to regular training needs identification, the AkzoNobel Academy – an intranet based portal available to AkzoNobel employees globally – helps drive functional and leadership capability as well as access to exceptional learning experiences based on best practices from across AkzoNobel.

ViewPoint

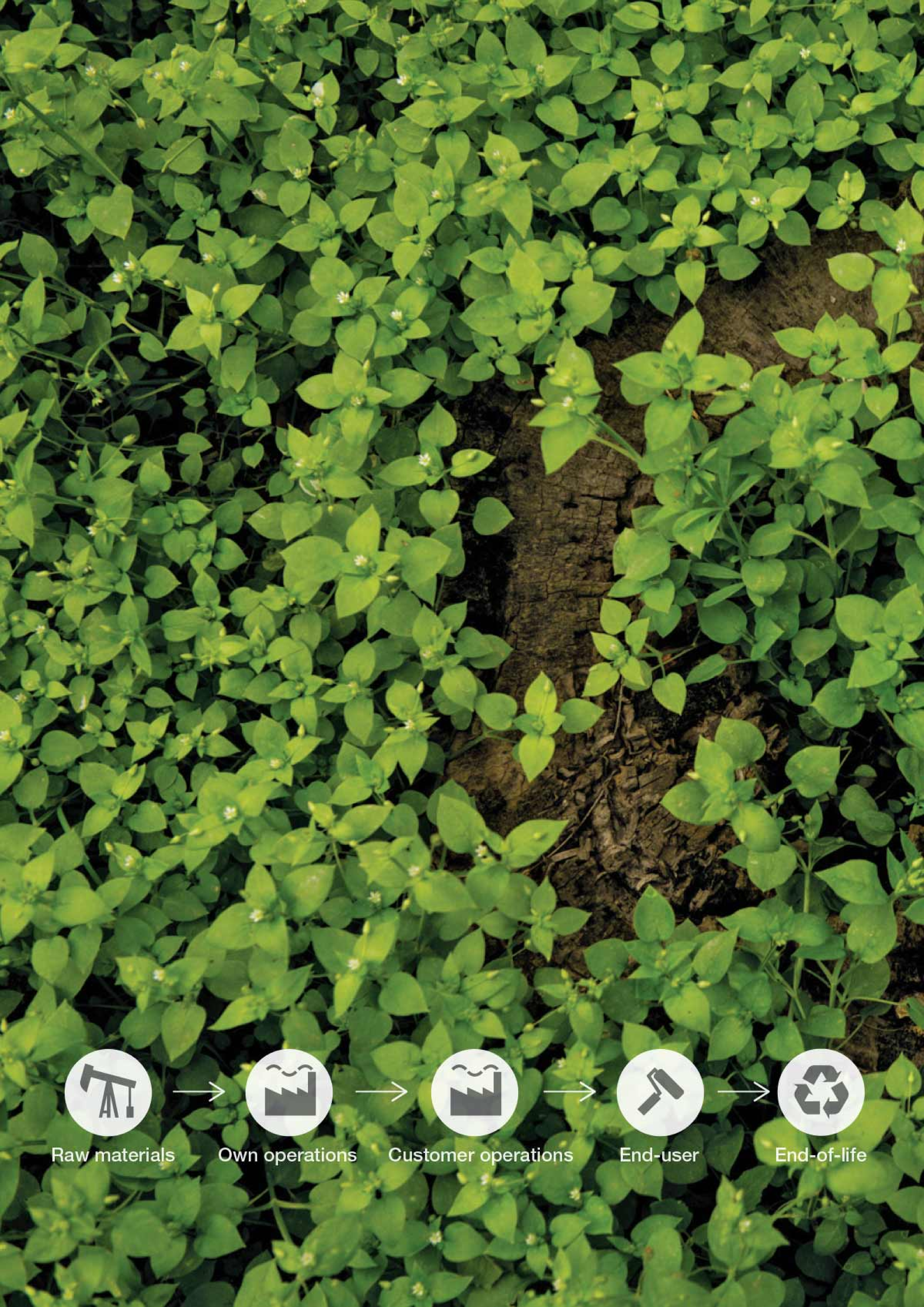
**The right culture -** Manufacturing is generally acknowledged to be one of the more difficult areas to build employee engagement in. Through the ViewPoint Employee Engagement Survey, our focused interventions, measurement and action planning improved our scores of 2014 from a GrandMean of 4.08 to 4.19, on a 5-point scale; with a high participation rate of 95%.

Diversity & Inclusion

**The right mix -** Diversity of thought is an important factor in creating the right culture. Our workforce should reflect the society where we do business. We aim to create an inclusive environment where diversity and differences are valued, and everyone has the opportunity to develop skills and talents consistent with our company's values and ambitions.

Take your IDEAS further @AkzoNobel

**The right potential -** We want to recruit, retain and develop the people we need to create winning teams. Our people – and those with potential looking to join us – can recognize AkzoNobel as a place to grow and develop in so they can make a strong impact on the way we operate.


Raw materials
Own operations
Customer operations
End-user
End-of-life

# HSE and Sustainability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Planet Possible™

When people ask us what sustainability means to AkzoNobel, we tell them that our success depends on it.

Our business success and that of our customers hinges on our ability to do radically more while using less.

More innovation, less traditional solutions; more renewable energy and materials, less fossil-based; more value chain focus, less introverted thinking.

We are determined to turn what is an obvious challenge into a clear opportunity and bring more value to our customers and society in general.

# Health, Safety and Environment Performance

Increasing stakeholder value through implementation of sustainable processes and solutions is crucial for our success to the extent that sustainable business operations are a prerequisite for meeting our challenging targets.

AkzoNobel's vision for accelerated growth is closely linked with its ambitions to ensure that the growth is sustainable. Over the last few years we have ingrained a strong focus on HSE&S and Operational Eco-efficiency into our regular business operations. We aim to continuously improve our HSE&S performance through corporate leadership, the dedication of our staff and application of the highest professional standards in our work.

### One safety mission:

### Our vision
Our vision is zero injuries and incidents.

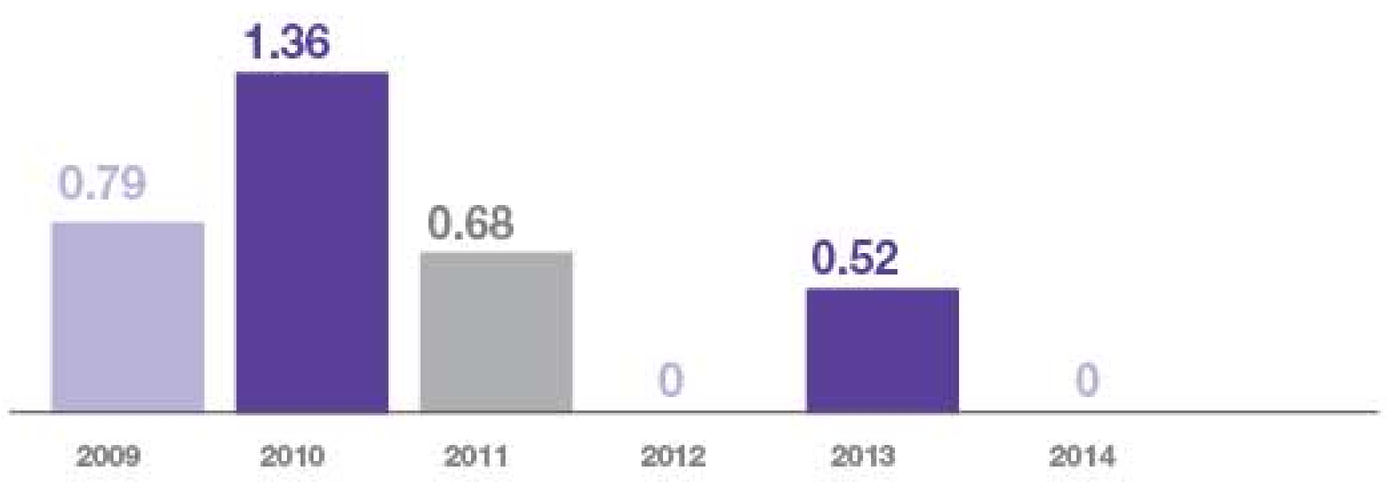
### Our ambition
We aim to contribute in a way that the company's ambition to be in the top quartile of our peer group in safety performance can be achieved.

### We believe that:
- The Value & Values agenda are of equal importance; we do not want one without the other; we cannot achieve one without the other.
- Safety is a permanent value and not a temporary priority.
- Safety starts with me. It's about 'us', not about 'them', it's about individual responsibility.
- Nothing we do is worth getting hurt for.
- We have a right and responsibility to ensure our own safety and that of others.
- Safety is an essential springboard for our future success.
- Transparency in our processes demonstrates our belief that stake-holders have a right to information about our operations and HSE performance.

### Our commitment
There is zero tolerance for not working safely. If we choose not to work safely, we should find alternative employment.

### Take Care because....
- We want to do all that we can to make sure that colleagues, contractors and others don't get hurt on the job.
- We can only realize our safety goals if we all put our shoulders to the same wheel - when we speak with the same voice and are committed to realizing our vision of zero injuries.
- We want to support our businesses in achieving their safety goals.
- We want to get closer to our vision of zero injuries and serious incidents.
- We want to drive top quartile safety performance.

### Total reportable injury rate




Total Reportable Incidents Per Million Man-hours worked by Employees & Supervised Contractors

### HSE operational excellence


We at AkzoNobel Pakistan, believe in and are committed to improve Health, Safety, Environment, Security and Product Stewardship to achieve sustainable HSE operational excellence through the execution of three core safety processes:

- People Safety,
- Process Safety; and
- Product Safety

# Achievements during 2014

### Launch of Process Safety Management program

The Process Safety Management framework is risk based and is founded on the principles of understanding the hazards and associated risks; that the risks have to be managed and that we should learn from our experience. Management commitment and a proper process safety culture are essential for success. This system is needed to prevent catastrophic incidents from occurring and to provide a solid basis for further operational improvement programs. A process safety management scan was conducted at AkzoNobel Pakistan in September 2014. The scan was conducted using a protocol containing questions derived from AkzoNobel's internal HSE&S standards and Global Guidelines for Risk Based Process Safety. A weighted scoring system was developed to reflect the relative importance of each element in the Process Safety Management scan. In the following stages, the action plans generated from the scan will be put to execution with the aim of making our people, our equipment and our processes safer than before.

### Optimization of Operating Working Capital and Fixed Manufacturing Costs (FMC)

Operating Working Capital (OWC) is an important measure of a company's financial health. Moreover, it is also a sound indicator of a company's operating efficiency. At AkzoNobel Pakistan, OWC and FMC are strictly monitored and kept in balance with varying market conditions. With a volatile market, keeping this balance becomes a challenging task. During 2014, AkzoNobel Pakistan took major initiatives to reduce OWC and FMC. The Operations department played a key role in meeting this target. By maintaining strict control on staffing and contracted services, a significant reduction in FMC was materialized. To add on this performance, capital projects like replacement of diesel generator with efficient models were executed. Spend of capital expenditure was optimized to get the optimum balance in terms of plant operations and FMC. On the OWC side, the teams met the challenge by exercising effective control of shop floor inventory. The result of these synergies was a significant reduction of OWC and FMC.

### Global Safety Day 2014 – Driving Safety

As a demonstration of our commitment to safety, every year AkzoNobel celebrates Global Safety Day. Following the same tradition, the Global Safety Day 2014, themed around driving safety, was celebrated on September 17. The day was marked with transformative sessions on vehicular safety and maintenance especially motor cars and motor bikes.

The Safety Day was also used as a platform to launch the 'Halo Principle' which is a key safety concept for plant vehicles. To imbue these principles with a sense of fun and to ensure that they become ingrained into our way of working, a safe driving competition,'Tour de Plant' fashioned in the image of a famous car sporting event was organized. The competition combined the principles of fork lift truck driving safety, maintenance and the Halo Principle into one sporty event. The event left the employees with a renewed enthusiasm for making safety their responsibility as well as some fond memories for times to come.

### Asset improvement with rehabilitation of pipe bridges

In order to ensure the safety of our people and improve the integrity of the bridge structures at plant areas, AkzoNobel Pakistan rehabilitated the existing racking structure. Under this project, seven existing bridge columns were dismantled and replaced with newer columns. The new columns have an increased load bearing capacity which will ensure sustained operations in the years to come. Additionally, the new columns owing to their construction, are easier to inspect and maintain as compared to their legacy counterparts.

TakeCare
Global Safety AkzoNobel

# Sustainability and Energy Efficiency

By 2050, nine billion people will be living on this planet. We recongnize that population growth, climate change and the scarcity of resources are driving major transformations with an enormous impact on society and the way we do business.

Generating maximum positive impact from our products and services and using fewer resources, across the value chain is the essence of our sustainability strategy and we at AkzoNobel Pakistan are proud of what we have achieved.

Energy consumption per ton of product manufactured is a key sustainability performance indicator. Our energy consumption has reduced significantly over last year; reduction in energy consumption means reduced carbon footprint and operational costs.

Another key indicator is direct $CO_2$ emissions. Over the course of 2014, massive reduction in carbon dioxide emissions were realized, improving on last year's performance. In every manner, AkzoNobel Pakistan has strived and succeeded in becoming a greener and eco-friendlier organization in 2014. These targets could only be achieved by focusing our energies year round towards a number of initiatives targeting one or more pillars of sustainable operations.

### Replacement of diesel generator

The highlight of this year in terms of sustainability driven projects was the replacement of the single site diesel generator with two state of the art fuel efficient engines. The changeover of supply from and to generator was all manually executed. The new system is completely automated and requires no human intervention. It will result in reduced fuel consumption and consequently reduced environmental emissions. In terms of NOx emissions, a 12 percent reduction has been realized, whereas $CO_2$ emission reduction from this project is targeted at 13 percent. To top it off, the project has also brought about a 17 percent reduction in the noise levels in the area.

### Modernization of air operated pumps

Compressed air is considered to be the most expensive utility at any plant. Over the years, AkzoNobel Pakistan has undertaken various capital projects to drive cost reductions and efficiency optimization in generation and consumption of compressed air. This year, yet another initiative was executed successfully: the modernization of air operated pumps. The operation and compressed air consumption of these pumps was improved by installation of electronic measures. Owing to the system's unique air management system, energy reduction of up to 40% will be achieved. Seven critical pumps were upgraded at different locations of plant which are now operating at reduced consumption. Over and above that, additional advantages of the project are reduced noise, extended pump service life and reduced maintenance activities.

AkzoNobel Pakistan has strived and succeeded in becoming a greener and eco-friendlier organization in 2014.

### Installation of metering systems on plant water supply

Another highlight of the year was the installation of state of the art systems dedicated to measuring and controlling water consumption at our plant. The first step towards optimization is measuring or metering. At our site, we installed state of the art water flow meters at key locations to accurately measure the consumption of water at our plant. Building on that, an automatic dispensing system was also installed at a key manufacturing area resulting in reduced water consumption. In addition to the enviromental benefits of the reduction in water consumption, the system has helped improve the quality of our products as well.

### Re-use of rinsing water in product manufacturing

2014 was marked with the successful completion of a key initiative focused on reducing fresh water consumption. The team was able to develop a solution that made the re-use of washing effluent water possible. Re-use of water for manufacturing purposes will drive significant reduction in our fresh water consumption. The team went the extra mile by embedding into the system a mechanism which helps decontaminate the manufacturing equipment even better than before. This helps not only in improving product quality but also reduces water losses in the system.

These projects reflects the way we operate; we make environmentally conscious decisions and reflect on our own performance to strive to outperform ourselves, aiming to do better than we did previously. The above projects and many others to follow are all part of our strategy to build a sustainable future. We started sowing the seeds of sustainability years ago and we are seeing it flourish and evolve right across the company.

**Eco efficiency performance 2014 versus 2013 (per ton of product)**

| | |
|---|---|
| Waste 9.5% | Energy 12% |
| Direct $CO_2$ 18% | Fresh Water 7.1% |
| VOC 43% | NOx 60% |
| COD 0% | SOx 100% |

# Corporate Social Responsibility

### Giving back to our communities

The tradition of excellence in corporate citizenship is an old one at AkzoNobel Pakistan. Since our inception, we are constantly working towards the positive development of our community, society and country because a healthy and growing business can only thrive in a healthy and sustainable community. To leave a lasting impact on our surroundings, AkzoNobel Pakistan and all its employees are fully invested in making the communities we operate in, safer and healthier for its inhabitants. Like every year, AkzoNobel Pakistan took a number of initiatives including but not limited to contributions in health, education, environment protection as well as community development.

### Creating character and emotion with color

Color is not just for aesthetic appeal. We believe in impacting people's lives by not only bringing color to their surroundings but to extend our time, warmth and love to the recipients. This year AkzoNobel Pakistan joined hands with the National College of Arts, Lahore to add color to Sir Ganga Ram Hospital's Thalassemia day care center. Knowing that the benefits of colorful surroundings would impact young patients, employees contributed to the activity cost as well as took out time to paint the ward themselves. Ms. Nina Fite, US Consul General and Ambassador Robin Raphel, Senior Advisor to Pakistan in the US Department of State also joined the team for the activity.

Roshan Umeed-e-Sehar Foundation – an NGO working for the rehabilitation and education of children with mental and physical handicaps was the recipient of AkzoNobel Pakistan's community outreach program. With the help of the school psychologist and experts in behavior studies, the enthusiastic volunteers from AkzoNobel went the extra mile to create interior layouts designed to give an emotional uplift to the inhabitants with resounding success.

We endeavor to ensure that we qualify as responsible corporate citizens by ensuring sustainable improvement in the lives of the communities where we operate.

Behbud Association in Karachi, is a non-profit, non-political organization working for the socio-economic empowerment of underprivileged people in the major cities of Pakistan. Behbud Association reachs out to a large population of the destitute and needy and in June, AkzoNobel Pakistan donated a large amount of paint to the organization to ensure that the offices for the people involved in spreading color and joy are also in a colorful and uplifting environment.

As AkzNobel Pakistan's neighbor, SOS Children's Village enjoys a long standing and special relation. This year, AkzoNobel Pakistan assisted SOS in holding a fund-raising concert by which not only could the children enjoy an evening of festivity but the Friends of SOS and other donors could also channel their contributions to the welfare of the resident children at SOS.

### Unblocking potential to build a better future

Proper education is the lifeblood of a city and to keep the heart pumping, AkzoNobel Pakistan undertook many ventures into education. The Citizen's Foundation is the largest non-profit organization in the field of education in Pakistan. Their mission is to provide quality education to the less-privileged youth by getting them off the streets and into schools. The TCF introduced the Rahbar Program for volunteers to mentor these

Over the years, our commitment to the development of our country, community and society has served as a guiding principle of the way we work.

children into staying in school to complete their basic education in order to build secure careers. Our employees volunteered their time to participate in the seven week program at the end of which, AkzoNobel Pakistan invited the students of The Citizen's Foundation to visit the plant and understand what career opportunities they may have in the paint and coatings market. The safety protocols as well as the conduct of the employees and plant workers in their daily activities impressed and inspired the visitors.

Following the success of the Rahbar Program, employees from AkzoNobel were also invited to participate in career counseling activities for students to assist them in making suitable career choices and motivate them to continue their education. AkzoNobel is proud of its employees who not only give inspiration but also get inspired – one positive step at a time!

Art and architecture are the cornerstones of building a colorful future. Upcoming artists are the custodians of color in any country. We look forward to providing opportunities to talented individuals who have promise and potential of showing expressive muscle and sinew. For this reason, we supported the Vasl Artists Collective – a residency program which provides a platform for contemporary art practice in Pakistan.


AkzoNobel Pakistan was pleased to bring in artists from Namibia and Italy to the five week residency program that led up to an exciting exhibition in the Full Circle Gallery, Karachi.

AkzoNobel Pakistan's relationship with art and design students and institutions is a natural inevitability. By supporting the thesis display of the Architecture department at Indus Valley School of Art and Architecture, we engage with the future architects and interior designers of the country at a very early stage that promises to grow into long term associations with them.

NCA Rawalpindi is home and haven for art students in the north of the country and when it comes to making your home beautiful and colorful, who else would the artist community turn to other than one of the world's leading paints and coatings company. AkzoNobel Pakistan rose to the occasion by joining the students and faculty in giving the building a colorful makeover.

### Celebrating culture through colorful expression

AkzoNobel Pakistan is part of the Dutch Business Circle Pakistan and is proud of its Dutch roots. In April, we got together with key members of the DBCP and the Embassy of the Kingdom of the Netherlands to celebrate King's Day.

The celebration was given a colorful touch by AkzoNobel Pakistan by repainting the façade of the Dutch embassy in the colors of the famous Dutch artist, Piet Mondriaan. Employees from Islamabad and of the Netherlands Embassy including the Ambassador, His Excellency, Marcel de Vink took part in the activity. Ambassador De Vink said "I am very grateful for AkzoNobel giving the embassy a much needed facelift. It will inspire all of us at the embassy to further deepen the bilateral relationship between the Netherlands and Pakistan."

### The spirit of giving

Every year in Ramadan, AkzoNobel Pakistan's employees show great philanthropic spirit by contributing towards a needy cause. This year, employees contributed generously to gather rations, water and medicine for the welfare of internally displaced persons in North Waziristan. The collection was done in collaboration with the Pakistan Navy to ease the plight of the less

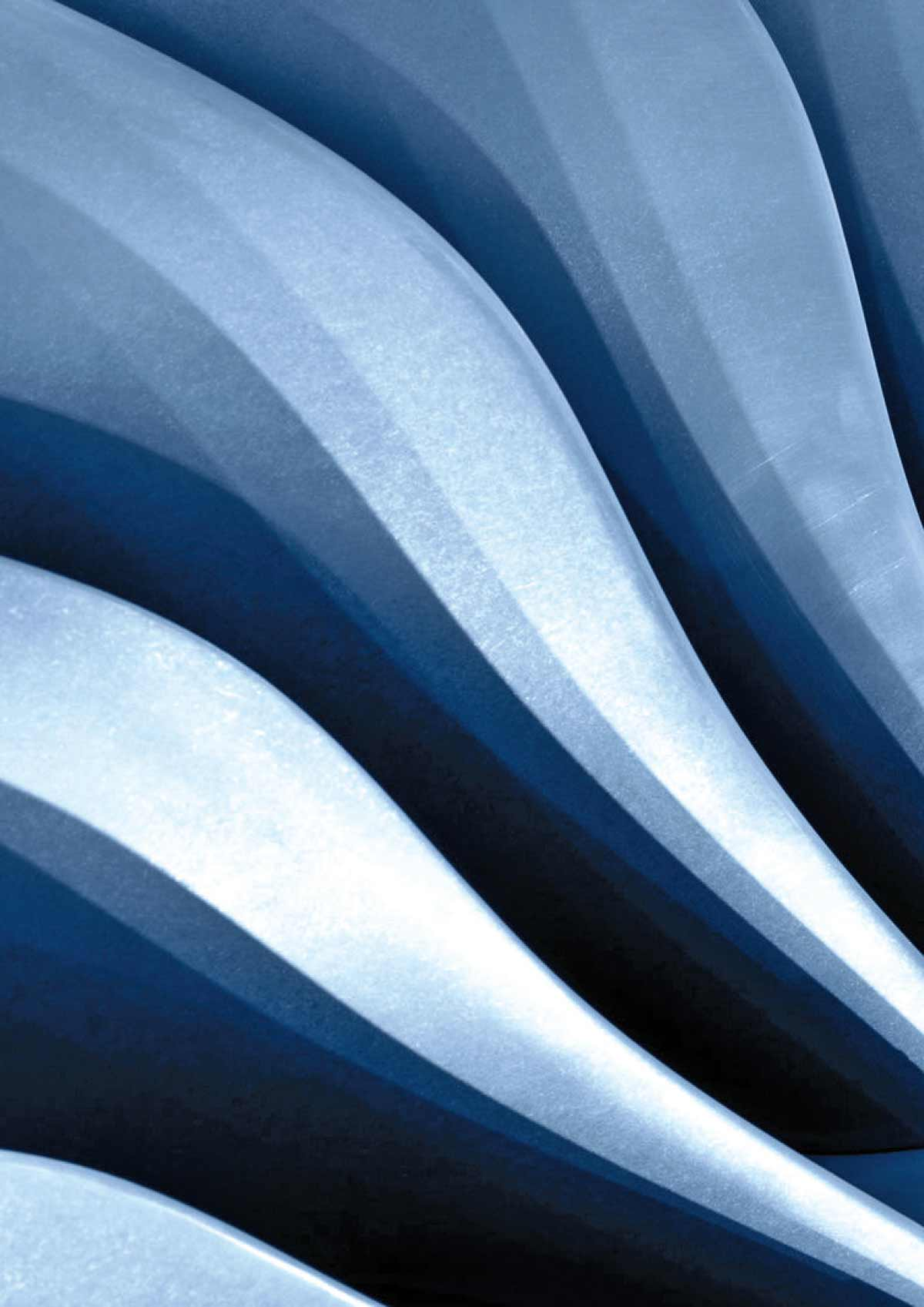

fortunate on the occasion of Eid ul Azha when thousands of citizens did not have access to food and clean drinking water.

**Making the past part of the future**

By embracing and cherishing our heritage, we can ensure that cities don't lose their identity and meaning. One of the most exciting projects this year for AkzoNobel Pakistan was the restoration of the grand architecture of Karachi Cantt Station by bringing it to its original form. The team of Pursukoon Karachi – consisting of senior and influential architects and artists of the city were thrilled to have us support the cause.

The Decorative Paints business brought in a notable contribution to the project by providing premium paints from the ICI Dulux range to cater for the specific needs of the restoration.

AkzoNobel Pakistan will continue to endeavor and ensure unrelenting quality commitment towards urban transformation and revival through active and meaningful contributions towards society at large, the environment, the people and the communities we operate in.



# Business Performance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| Performance Coatings | 20 |
| Specialty Chemicals | 21 |


# Our businesses

## Decorative Paints

Whether our customers are professional decorators or keen DIY-ers, they want great paint that gives a great finish. We supply a huge variety of quality products for every situation and surface, including paints, lacquers and varnishes. We also offer a range of mixing machines, color concepts and training courses for the building and renovation industry, while our specialty coatings for metal, wood and other critical building materials lead the market.

Brands include:
ICI Dulux, Paintex, Magik

Some of our customers:
Thousands of paint dealers, contractors and home owners around the country.

## Performance Coatings

We're a leading supplier of performance coatings with strong product technologies and brands. Our high quality products are used by customers across the world to protect and enhance everything from vessels, cars, aircraft, yachts and architectural components (structural steel, building products, flooring) to consumer goods (mobile devices, appliances, beverage cans, furniture) and oil and gas platforms.

Brands include:
Sikkens, DynaCoat, Industrial Coatings, International, ICI AutoPaints

Some of our customers:
Millat Tractors, Indus Motors Company, Pakistan Suzuki Motors Company, Atlas Honda, Descon Engineering

## Specialty Chemicals

As a major producer of specialty chemicals with leadership positions in many markets, we make sure that industries worldwide are supplied with high quality ingredients and process aids for the manufacture of life's essentials.

Brands include:
Bermocoll, Arquad, Dissolvine, Alcosperse, Redicote, Perkadox, Berol

Some of our customers:
Unilever, FMC, Colgate Palmolive, Fospak, Reckitt Benckiser

# Decorative Paints

## Overview

ICI Dulux goes far beyond paint. It creates a world in which people can live more colorful and enjoyable lives. We don't just change the color of walls. We change people's surroundings – their moods, their view, their attitude to life. We stir the imagination, delight the senses and inspire renewal. And we're always on hand with the know-how our consumers need to get the job done. Our knowledge of color formulation and design principles help us facilitate people around the world to decorate more easily and more often.

ICI Dulux is the pioneer of Tinting Systems in Pakistan under the label of ICI Dulux Colour Solutions which offers over 2,000 shades available over all over Pakistan at designated dealer outlets. We take pride in being the 'Let's Colour' people. Transforming the world and making it a more colorful place is at the heart of ICI Dulux. Color is what we breathe, what we live and what we are.

## Analysis

It has been a challenging year for the decorative paints industry as a consequence of political instability and poor law and order situation. Despite the challenges, the business continued to invest in brand building initiatives to strengthen awareness and equity of ICI Dulux. Efforts were also put into minimizing costs to ensure a profitable and sustainable business with no compromise on product quality.

*Above: The Chief Executive and the Decorative Paints business team at the launch event for the 'Colour of the Year 2015'*
*Below (left to right): Adding color to the Thalassemia Day Care Center; on set for the ICI Dulux Pentalite Classic media campaign*

## Highlights

### Digital Transformation

This year, we gave a new face to our ICI Dulux website. The website has been shifted to a new digital platform designed to help consumers select a color, fall in love with it and then easily find the right product for their project. It does this by being home to hundreds of pieces of inspirational content (articles, images, room sets etc.) all of which use keywords related to decoration that are tuned to the 740 million searches on Google each month on the subject. In layman terms, the website will appear more in Google searches related to color and paint as well as searches for interior decoration.

The website is designed to automatically adapt itself to the web browser being used and the device that it is being viewed on i.e. desktop, tablet or smartphone. While a significant technical challenge, this 'fluid' approach also presents a huge opportunity to display color in a way that is optimized for each device. At the moment, the end point of the new digital journey is the scrapbook, where a consumer can store their colors and products and find their closest retailer. Over time, ICI Dulux will continue to add different digital functionalities into the digital platform to help color visualization.

Please visit our website: www.icidulux.com.pk

### New media campaign ICI Dulux Pentalite Classic

We are much more than simply paint on walls. We believe that decorating leads to positive emotional change and renewal. Renewal is more than a finite moment in time; it is the ongoing sense of well-being that comes from a better environment. Our new media campaign for ICI Dulux Pentalite Classic was able to achieve just that. As we continue to touch the hearts and minds of our consumers, we were able to reaffirm the commitment that ICI Dulux is a catalyst for renewal in life. We are not just bystanders waiting for a house-move or a new baby; we take an active role in inspiring and helping renewal.

### Launch of Colour Futures 2015

As part of our trend research, AkzoNobel's Global Aesthetic Centre invites a group of respected independent design and trend experts to discuss emerging worldwide trends, resulting in the Colour Futures workshop. Since 2004, the Colour Futures workshop has been presenting five colour trends inspired by one larger idea: the driving influence that holds all of the trends together and result in the determination of one 'Colour Of The Year' that represents the mood of that year.

For 2015, the overriding mood is one of searching and finding that extra which makes the difference to our lives. ICI Dulux has translated this trend for 2015 into a soft and earthy color palette which is inspired by warmth in attitude and a positive global outlook as we nurture our relationships with each other and with the natural world.

Colour Futures 2015 was launched in high style in Karachi through an extravagant event for top architects and interior designers. The 'Colour of the Year 2015: Copper Orange' was revealed.

### Let's Colour projects

The Let's Colour projects are an important part of who we are – that's where we start to integrate our social work with our business. Through this corporate social responsibility platform, ICI Dulux has been able to redecorate and rejuvenate various public schools, heritage buildings and hospitals. The most noteworthy project undertaken this year was the restoration of Karachi Cantt Railway Station in collaboration with Pursukoon Karachi. The idea behind this project was to restore the architecture of Karachi Cantt Station building and bring it to its original form. ICI Dulux premium products like Matt Enamel, Gloss Enamel and Water Repellent were used to facilitate the restoration and beautification of the building. The project also witnessed several artists and architects donating benches for this area and for the plantation of trees as well.

Another Let's Colour project was held at the National College of Arts (NCA), Rawalpindi. The campus building in Rawalpindi was formerly a customs office and did not match its colorful new purpose. To add color and vibrancy to the environment, ICI Dulux was able to replicate the Dutch artist, Mondriaan's painting in the main courtyard of the campus. The activity was carried out jointly by the enthusiastic staff and students of NCA along with the employees of AkzoNobel Pakistan.


*Above: the new fluid interface of the ICI Dulux website (www.icidulux.com.pk)*
*Below: the Chief Executive in conversation with key architects at the IAPEX 2014 event*

### Developments

ICI Dulux is a premium brand that is seen as an innovator in the decorative paints industry. We will continue to offer our consumers the latest in trends in paints and ensure sustainable products and services. The business will also continue with its brand building initiatives to ensure that we are are always the first paint brand that comes to our consumer's mind when decorating and thinking about color. To achieve the growth ambition, channel related initiatives will also be taken to increase the customer base in areas with high potential so that our consumers always find their color of choice with ICI Dulux.

# Performance Coatings

## Overview

The Performance Coatings business delivered strong results despite facing a difficult political scenario and unstable market conditions including the continuing energy crisis in 2014. A number of new products were commercialized which enabled the business to capitalize on opportunities and penetrate into new segments. This business development along with vigilant operational management and cost control paved the way for delivering promised results.

## Analysis

2014 proved to be another good year for Performance Coatings as the business was able to achieve growth in contribution margins depicting a profitable portfolio. A number of new business developments were commercialized that played a vital role in increasing our share against the competition such as winning the GT truck project at Hino Pak. It is worth mentioning that our major target segment, automotive manufacturing, contracted as the demand for our customer's output remained under pressure. However, efficient operational planning resulted in improvement in our operational KPIs, most notably working capital management where the team did well to improve through more robust 'Sales & Operation planning' processes.



*Above: the Performance Coatings business team with CE at the Auto Show 2014 in Lahore*
*Below (left to right): the AkzoNobel iMatchColor app; cutting edge paint technologies for metal and plastic parts*

## Highlights

The performance of our Vehicle Refinish business was particularly impressive as new avenues of business were explored with the aid of new marketing initiatives. The team focused on gaining volume growth through increased market coverage. The team also initiated marketing campaigns including the first Sikkens Reward scheme for painters, with an ambition to increase brand awareness and induce purchase intent. Additionally, VR also commenced its second foreign scheme for our dealers to motivate channel partners to promote our brands. In addition to sales and marketing initiatives, the segment also focused on customers' technical needs by conducting a number of training sessions with the help of the company's technical experts. In 2014, the business also launched iMatchColor, a color formulation mobile application to facilitate refinishers to have access to color formulations on the go.

The Industrial and Protective Coatings business, which was hit by the decline in the automotive manufacturing segment, gained significant ground over competitors through a series of new business development successes. This included capitalizing in the protective coating, packaging and coil coating segments and some institutional businesses in the commercial vehicle segment.

A number of new products were commercialized which enabled the business to capitalize on opportunities and penetrate into new segments.

## Developments

The business initiated supply of coil coating products to a leading steel producer in the country, International Steel Limited, in 2014. This coating system is the first of its kind in Pakistan for providing enhanced protection to galvanized steel sheets. Other major projects coated with our products included Naphtha Isomerization at Attock Oil Refinery, LPG bullets for Kunar Passaki, Pakistan State Oil fuel storage tanks, Adhi Gas field, UEPL Gas field Phase III, BHP Gas field, Jinnah Barrage steel structure, Head Baloki gates, distillery plant at Chashma Sugar Mills and the first laptop manufacturing facility owned by Haier Pakistan. The VR team was able to increase its market coverage and added many disconnected 3S and A class workshops to strengthen our premium portfolio. This was done vis-a-vis developing trade channel to increase our product availability.

# Specialty Chemicals

### Overview
AkzoNobel offers a wide and diverse range of specialty chemicals to different end-users spread across different market segments. The Chemicals business has been operating as a global business for many decades; however the local business is still relatively new to the Pakistan market, having spent less than seven years in operation.

2014 was an exciting year for the Specialty Chemicals business, full of changes and challenges yet brimming with opportunities for growth and development.

The business was able to leverage the strength of its high quality product portfolio and strong service levels to exceed customers' expectations. The newly created organization created synergies that led to significant developments in key segments.

### Analysis
This year as well, the business was driven by the Functional Chemicals and Surface Chemistry portfolios, and both business units performed exceedingly well against last year. Despite tough economic conditions and energy

The business was able to leverage the strength of its high quality product portfolio and strong service levels to exceed customers' expectations.

shortage in Pakistan, the business was able to capitalize on development opportunities that our target markets presented. Conditions remained favourable for farmer incomes which helped the business achieve significant growth in the agriculture and paint segments.

### Highlights
The business was successful in expanding its footprint in Pakistan and improving customer service levels. Growth opportunities were availed in key segments, including personal care, surface cleaning, and agriculture. Strong efforts were made to tap new segments, including infrastructure development, paint, rubber and Plastic to develop these into sustainably growing businesses in the years to come.

### Developments
The development of new customers in the surface cleaning and paint industries as well as new product introductions in agriculture segment added much value to the business in the year and will continue into the coming years.

The business is seeing good growth in different segments like pharmaceuticals, textile and personal care and plans are in place to capitalize on the market potential. Further product introductions in infrastructure development and paint segments will continue in 2015 and is likely to establish AkzoNobel Pakistan as a viable alternative to current suppliers.

The local business has only touched the tip of the iceberg in 2014, whereas many opportunities are likely to emerge in the coming years.

# Corporate Governance and Compliance

AkzoNobel Pakistan's corporate governance structure is based on the company's Articles of Association, statutory, regulatory and other compliance requirements applicable to companies listed on the stock exchanges, complemented by several internal procedures. These procedures include a risk assessment and control system, as well as a system of assurances on compliance with the applicable laws, regulations and company's Code of Conduct.

## Corporate Governance Statement

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

## Code of Conduct and SpeakUp!

Akzo Nobel Pakistan Limited has always held in high esteem the best practices of corporate governance and believes in widely propagating the values and the ethics for strict adherence by all the employees, contractors, suppliers and others while doing business for the Company. In order to apprise the employees of the Code of Conduct, the Company organizes training sessions and induction programs on a regular basis to ensure compliance at all levels. Besides this, every employee and director, except for independent directors of the Company are required to sign, on an annual basis, a statement to the effect that he or she understands the Code of Conduct and that he or she abides by it at all times while doing business for the Company.

In order to facilitate strict adherence to the Code of Conduct, the employees also have access to a "Speak Up" program whereby any employee can report any unethical dealing by any Company employee on a confidential basis either through telephone or e-mail. Complete anonymity of the person using this facility is assured and all complaints are thoroughly investigated either by the Company internally or by assigning it to the Internal Auditors. Results of the investigation are communicated to the complainant. Whole of this process is being looked after by the Audit Sub Committee of the Board.

## Internal Control

Akzo Nobel Pakistan Limited has a sound system of internal control and risk management. The internal audit function which is mainly responsible for internal controls, has been outsourced to M/s Ernst & Young Ford Rhodes Sidat Hyder and reports directly to the Chairman of the Audit Sub Committee.

## Insider Trading and Competition Law

The Company has a stringent policy on insider trading and securities transactions. The policy paper which is circulated to all the employees of the Company from time to time, divides the employees in certain categories on the basis of their position and involvement in day-to-day decision making process and access to price sensitive information. Certain senior executives and the finance staff are categorized as "Permanent Insiders", while "Executives" (as defined in the Code of Corporate Governance) some of whom may not be "Permanent Insiders", can deal in the Company's shares any time outside the closed period announced by the Company on the eve of the quarterly Board meetings. The "Permanent Insiders" can deal in the Company's shares only during the open period specifically announced by the Company immediately after the quarterly Board meetings and the announcement of financial results. This open period does not exceed 15 calendar days in each quarter from the date of announcement of the financial results. All such transactions are required to be reported to the Company Secretary within two days of execution of the transaction with relevant details of purchase/sale of shares.

As embodied in our Code of Conduct, AkzoNobel Pakistan supports the principles of free enterprise and fair competition. The Company competes vigorously but fairly with its competitors within the framework of applicable laws - all to provide better and increasingly useful products and more efficient services to our customers. All relevant employees are required to sign an additional declaration of compliance with the Competition Law. The Company continues to regularly hold training sessions to ensure compliance with competition laws for relevant employees.

Akzo Nobel Pakistan Limited has always held in high esteem the best practices of corporate governance and believes in widely propagating the values and the ethics for strict adherence by all the employees, contractors, suppliers and others while doing business for the company.

## Material interests of Board Members

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

# Risk Management

## The company's documented and regularly reviewed procedures are designed to safeguard our assets, address risks facing the business, and ensure timely reporting to the Board and senior management.

We maintain a clear organizational structure with defined delegation of authorities. Our senior management takes the day to day responsibility for implementation of procedures; ongoing risk monitoring; and effectiveness of controls. On an ongoing basis, we monitor risks faced by the Company to ensure pertinent control arrangements. Our risk and control procedures are supported through:

### Internal Control self-assessment

The Internal Control Self Assessment (ICSA) exercise was carried out by the Company in 2014 which assisted in the thorough assessment of controls to ensure a robust control structure. The senior management of the Company led this annual self assessment exercise. Existing controls were identified, assessed and documented with the help of the online Control Self Assessment Tool (CSAT). Weaknesses highlighted through this exercise were documented through action plans which clearly defined the corresponding actions to close the identified weaknesses in the system and processes. Action plans are followed up rigorously to ensure that corrective action is timely taken for the effective functioning of controls.

### Enterprise Risk Management

The Enterprise Risk Management (ERM) methodology is part of AkzoNobel's effort to clearly and structurally prioritize the risks affecting our operations and organizations, in order to focus the efforts on those risks that are not controlled in an acceptable manner. For this purpose, ERM workshops are conducted on a periodic basis. The purpose and goal of the ERM workshops is to identify, assess and develop responses to the main risks that are affecting or could in the future affect the Company in achieving its strategy and objectives (financial & non-financial). A cross-functional Executive Team identifies a detailed list of overall business risk exposures. This exercise is performed by all businesses and functions; and the main outcome of these workshops is the development of a current and complete risk profile upon which necessary action plans are developed to take, treat or transfer (3T's) the identified risks. These action plans are monitored on a regular basis.

# Company Information

## Board of Directors

| | | | |
|---|---|---|---|
| Mueen Afzal | Chairman (Independent) | Michiel Franse | Non-Executive |
| Jehanzeb Khan | Chief Executive | Peter Tomlinson | Non-Executive |
| Bart Kaster | Non-Executive | Harris Mahmood | Executive |
| Asad I A Khan | Non-Executive (Independent) | | |

## Audit Sub Committee

| | |
|---|---|
| Asad I A Khan | Chairman |
| Mueen Afzal | Member |
| Bart Kaster | Member |
| Michiel Franse | Member |

## Human Resource & Remuneration Sub Committee

| | |
|---|---|
| Mueen Afzal | Chairman |
| Peter Tomlinson | Member |
| Jehanzeb Khan | Member |

## Share Transfer Committee

| | |
|---|---|
| Jehanzeb Khan | Chief Executive |
| Harris Mahmood | Chief Financial Officer |
| Saira Soofi | Company Secretary |

## Chief Financial Officer
Harris Mahmood

## Company Secretary
Saira Soofi

## Executive Management Team

| | | | |
|---|---|---|---|
| Jehanzeb Khan | Chief Executive | Harris Mahmood | Chief Financial Officer |
| Rizwan Afzal | Operations Manager | Bashar Rasheed | Supply Chain Manager |
| Shahid Sultan Butt | Technical Manager (R&D) | Saad Mehmood Rashid | Business Manager - Decorative Paints |
| Usman Ali Jamil | HR Business Partner | Imran Qureshi | Business Manager - Performance Coatings |

## Bankers
Citibank N.A.
Deutsche Bank Limited A.G
United Bank Limited
Habib Metropolitan Bank Limited
Barclays Bank PLC

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

## External Auditors
KPMG Taseer Hadi & Co.,
Chartered Accountants

## Registered Office
346, Ferozepur Road,
Lahore - 54600
Tel: (042) 111-551-111
Fax: (042) 35835011
www.akzonobel.com/pk/paints

## Shares Registrar
FAMCO Associates (Pvt) Ltd
8-F, Nursery, Block 6, P.E.C.H.S
Shahrah-e-Faisal, Karachi 74000
Tel: (021) 34380101-5
Fax: (021) 34380106

# Our Board of Directors




**The Board of Directors are elected or appointed as representatives of the stockholders to establish corporate management related policies and to make decisions on major company issues.**

### Mueen Afzal (Chairman; Independent)

Appointed to the Board of Directors of Akzo Nobel Pakistan Limited on May 23, 2012, Mr. Mueen Afzal is also the Chairman of the Board. Mr. Afzal joined the Civil Service of Pakistan in 1964 and held important positions, including Finance Secretary in Balochistan (1981-1984) and in the Punjab (1984-1986). He was also the Economic Minister in the Pakistan Embassy, Washington, DC, USA (1987-1990), Health Secretary for the Government of Pakistan (1995-1996), Finance Secretary for the Government of Pakistan (1996-1998), and Secretary General, Finance and Economic Affairs from 1999-2002. Mr. Afzal has been awarded Hilal-e-Imitaz for distinguished public service in 2003.

Additionally, Mr. Mueen Afzal is the Chairman of Pakistan Tobacco Company Limited & Sanjan Nagar Public Education Trust, Lahore and currently holds directorships of Murree Brewery Company Limited Rawalpindi, Pakistan Philanthropy Centre, Islamabad, Beaconhouse National University, Lahore, Children's Global Network, Islamabad, Karachi Education Initiative, Dawood Centre, Karachi and Green Bean Coffee Company, Islamabad.

He is also a Senior Advisor in Pakistan for Faber Industries Spa, an Italian company which produces CNG cylinders for road transport; and member of the advisory committee on South Asian issues at Wolfson College, Oxford University.

Mr. Afzal is also a member of the pension committees for the management and staff at the Pakistan Tobacco Company.

### Asad I A Khan (Independent)

Appointed to the Board of Directors of Akzo Nobel Pakistan Limited on May 21, 2012, Mr. Asad I. A. Khan, an architect by profession, graduated from the National College of Arts, Lahore and obtained a Master's degree in Architecture from the University of Illinois, Chicago, USA. Asad joined NESPAK in 1985 and from 1999 to 2009 served as Head of the Architecture & Planning Division. In 2009, Mr. Khan took charge as the President and Managing Director of NESPAK till the year 2013.

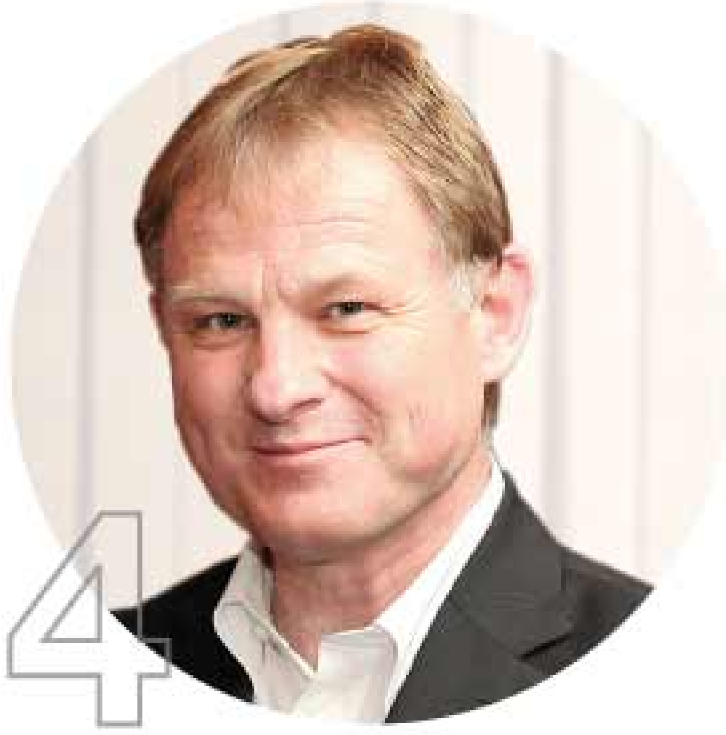
Asad brings with him 32 years rich and varied experience of architectural planning and design, interior design, landscape architecture, construction supervision and project management with a wide range of outstanding and often award-winning projects of national significance, including the Prime Minister's house, the Prime Minister's Secretariat building, the Stock Exchange building and the Telecom Towers in Islamabad and Expo Centre and the Arabian Sea Country Club in Karachi.

Asad is also an avid sportsman having represented Pakistan in various golf championships, having served as Secretary and Vice President of the Sindh Golf Association. He has been the captain at the Karachi Golf Club and the Arabian Sea Country Club and presently is the President of Sindh Golf Association. Asad I.A.Khan is now a practicing architect as the Principal of AIAK Associates at Karachi.

### Peter Tomlinson (Non-Executive)

Appointed to the Board of Directors of Akzo Nobel Pakistan Limited on May 23, 2012, Peter Tomlinson a graduate of University of York (UK) with a degree in Chemistry 1984, has held various sales and marketing management positions for Courtaulds PLC (UK) within Decorative and Yacht Coatings from 1984-1990. From 1990-1992, Peter acted as the General Manager Courtaulds Yacht Coatings (Italy). In the years 1992-2003 Peter held various General Management Operations/R&D & Commercial positions in AkzoNobel UK. Peter was the Aerospace General Manager, from 2003-2005, in AkzoNobel, The Netherlands. Moreover, Peter was also the SBU Director EMEA Marine & Protective Coatings (UK) 2005-2011 (board member of UK, German, French, Netherlands, Belgian & East Russian companies).

Since 2011 Peter is the Managing Director of AkzoNobel Middle East and on the board of management for Akzo Nobel UAE (Paints) LLC, Akzo Nobel Saudi Arabia, and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International Warba (Kuwait) and Akzo Nobel Oman SAOC. Additionally, since January 2014 Mr. Tomlinson is also on the board of Akzo Nobel Qatar and currently in 2015 Peter is on the board of PJA South Africa (Proprietary) Limited, Akzo Nobel Powder Coatings South Africa (Proprietary) Limited and Akzo Nobel Powder Coatings SAE.

### Bart Kaster (Non-Executive)

Appointed to the Board of Directors of Akzo Nobel Pakistan Limited on May 23, 2012, Bart has been associated with the AkzoNobel Group since 1980, during which he has held senior positions and various business and corporate assignments in Europe and Asia.

Bart is also a Director of Akzo Nobel Limited, AkzoNobel UK Limited, AkzoNobel Decorative Coatings Limited, ICI Limited, ICI Chemicals and Polymers Ltd., ICHEM Reinsurance Company Ltd as well as chairman of Anholmen Fastighets AB, a Swedish AkzoNobel company and of Akzo Nobel Bygglim AB (Sweden). Bart is also a supervisory Board member of Akzo Nobel GmbH (holding company for all AN companies in Germany).

### Michiel Franse (Non-Executive)

Appointed to the Board of Directors of Akzo Nobel Pakistan Limited in May 2014, Michiel Franse did his M.Sc. in Business Administration from Erasmus University Rotterdam (NL) and a post-doc degree in Controlling (Chartered Controller) from Maastricht University (NL). He also attended the Strategic Finance program at IMD in Lausanne. Michiel started to work for AkzoNobel after graduating in 2002 on the Rotterdam site (NL) of BU Industrial Chemicals as controller for the Technical Maintenance Department. He moved to the Industrial Chemicals site Hengelo (NL) as Site controller in 2004.

He joined the Functional Chemicals in 2006 as SBU Controller for the global MCA (Monochloroacetic Acid) business. After spending 2.5 years with MCA, Michiel changed jobs again in 2008 and joined Corporate HQ as Manager Economic Affairs assisting the BA Controller Performance Coatings and the Corporate Controlling Department. Michiel is an all-round Finance professional with experience in Business Strategy, business partnering, capital allocation, budgeting, forecasting, financial modelling, acquisitions, JV's, ERP implementations, Compliance and IM. He has been working as the Finance Director Middle East since April 2011 and is based in UAE. Michiel is also serving on the board of management of Akzo Nobel (UAE) Paints LLC, Akzo Nobel Saudi Arabia Ltd, Akzo Nobel Middle East FZE since 2011 and Akzo Nobel Oman SAOC since January 2014.

### Jehanzeb Khan (Chief Executive)

Appointed to the Board of Directors of Akzo Nobel Pakistan Limited in April 2012, Jehanzeb Khan, Chief Executive of Akzo Nobel Pakistan Limited has a career that includes more than a decade in heading commercial enterprises.

His career started at ICI Pakistan, where after joining as a Management Trainee in 1983, he held commercial positions in various businesses before taking over the Paints Business in 2010. He led the team in demerging the Business from ICI Pakistan in 2012 and in the same year established AkzoNobel Pakistan as an independent public listed company. Since then he has successfully steered AkzoNobel Pakistan in establishing itself as a successful, profitable and sustainable entity.

He received his schooling from Burn Hall in Abbottabad, and has a BS in Auto Diesel Technology from the Oregon Institute of Technology in the US. He studied Business Administration at the Darden School, University of Virginia, graduating with an MBA degree. Jehanzeb has attended several management programs including the Advanced Management Programs at INSEAD, France and the Strategic Leadership Program at Oxford University, UK.

### Harris Mahmood (Executive Director and Chief Financial Officer)

Appointed to the Board of Directors of Akzo Nobel Pakistan Limited in January 2015, Harris Mahmood is also the Chief Financial Officer of the Company. He has been associated with ICI Pakistan and later Akzo Nobel Pakistan Limited for around 9 years in various roles looking after Finance and Internal Audit.

Harris Mahmood is currently heading the Finance, IT and Legal functions in Akzo Nobel Pakistan Limited. He joined ICI Pakistan Limited in 2006 as Internal Audit Manager at Head Office and subsequently worked in business finance functions at Polyester Fibres and Paints before joining Chemicals and Soda Ash businesses as Finance Manager. In March 2013, he joined Akzo Nobel Pakistan Limited as Finance Manager and took over as CFO of the Company in January 2015.

He received his schooling from Aitchison College Lahore and became an Associate Chartered Accountant from Institute of Charted Accountants of Pakistan in 2005. He completed his article-ship from A F Ferguson & Company (member firm of PWC) and has attended several management development programs including the Advanced Financial Management Program at AkzoNobel in 2011.

# Our Executive Management Team

**The Executive Management Team comprises of commercial managers and departmental heads who meet regularly for strategic business planning, decision making and overall management of the company.**

(left to right)

**Bashar Rasheed**
Supply Chain Manager

**Shahid Sultan Butt**
Technical Manager (R&D)

**Rizwan Afzal**
Operations Manager

**Jehanzeb Khan**
Chief Executive

**Harris Mahmood**
Chief Financial Officer

**Usman Ali Jamil**
HR Business Partner

**Imran Qureshi**
Business Manager
Performance Coatings

**Saad Mehmood Rashid**
Business Manager
Decorative Paints

# Report of the Directors

## For the year ended December 31, 2014

Your Directors are pleased to present the annual report together with the audited financial statements of the Company for the year ended December 31, 2014.

### Overview

2014 was a challenging year for the industry due to intense competition in the Decorative Paints market and political instability. Net sales income (NSI) at PKR 4,902 million was lower by 7% over last year. As a consequence, the Company enforced strict controls over manufacturing and operational costs (3% lower than 2013) which enabled the business to post an operating profit of PKR 557 million.

Profit before tax was lower by 28% due to a lower profit on bank deposits (a significant dividend to the shareholders reduced cash) and also because last year's results included a higher one off gain due to reversal of provisions no longer required. Accordingly earnings per share at PKR 9.88 were lower than last year by 24%.

The Company contributed PKR 1,029 million to the national exchequer through taxes, duties and other levies during 2014 (2013: PKR 981 million).

**Financial Performance**
**PKR million**

| | 2014 | 2013 | Increase (Decrease) |
|---|---|---|---|
| Turnover | 6,915 | 7,125 | -3% |
| Net sales | 4,902 | 5,265 | -7% |
| Gross profit | 1,772 | 1,939 | -9% |
| Operating profit | 557 | 644 | -14% |
| Profit before taxation | 678 | 937 | -28% |
| Profit after Taxation | 459 | 606 | -24% |
| Earnings per share - PKR | 9.88 | 13.04 | -24% |

### Dividends

Your directors are pleased to recommend a special dividend of PKR 4.50 per share and on the basis of the Company's full year performance a final dividend of PKR 0.50 per share is also recommended. This will imply a total final dividend of 50% i.e PKR 5.00 per share in addition to the interim dividend paid earlier.

### Health, Safety and Environment – HSE

As part of the company's drive to improve Operational Eco Efficiency (OEE) a number of initiatives were undertaken in 2014 to reduce energy consumption and emissions (Nox and Co2) at our plant. These were lower by 9% and 12% respectively.

In line with AkzoNobel's policies, we have embarked on a program (PSM – Process Safety Management) to further enhance the safety of our people and equipment. As a result of effective implementation of various safety systems our performance in 2014 remained satisfactory (TRR – Total Reportable Injury Rate was zero).

### Business performance

Despite political instability and a poor law and order situation, the company continued to invest in brand building initiatives to strengthen awareness and equity through ICI Dulux media campaign. The company also continued with channel related initiatives to engage the retail network. However, volumes remained lower than last year.

The automotive OEM sector has started reaping benefits of the reduction in GST from 16% to 10% on tractors as announced in the Budget 2014-15 as well as the introduction of new models by key passenger car manufacturers.

The company continues to aggressively market new products in the AkzoNobel's portfolio of Specialty Chemicals, Metal Coatings and Protective Coatings.

### Future outlook

Engagement of decision makers and influencers in the Decorative Paint market through brand building initiatives will remain our top priority and the benefits from lower petroleum prices will also be utilized to generate brand awareness through a media campaign.

The automotive OEM sector is expected to pick up in the coming months mainly due to better market conditions and a rising demand on account of Taxi Scheme launched by the Punjab Government.

### Acknowledgment

The results of our company are a reflection of the commitment and contribution by its strong pool of talented employees and the trust reposed in the company by its customers, suppliers and service providers.

### Auditors

The present auditors KPMG Taseer Hadi & Co. Chartered Accountants retire and being eligible have offered themselves for the reappointment.

### Compliance with the Code of Corporate Governance

As required under the Code of Corporate Governance 2012, the Directors are pleased to state as follows:

- The financial statements, prepared by the management of the company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the company 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 Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and deviation if any from these has been adequately disclosed and explained.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance as detailed in the Listing Regulations.
- Key operating and financial data for the last four years is summarized on page F50 and F51.
- Outstanding taxes and levies are given in the Notes to the Financial Statements.
- The management of the Company is committed to good corporate governance and appropriate steps are taken to comply with best practices.

### Investment in retirement benefits

The value of investments made by the staff retirement funds operated by the trustees of the funds, as per their respective audited financial statements for the year ended December 31, 2013, are as follows:

| | Value in PKR '000 |
|---|---|
| Akzo Nobel Pakistan Limited Management Staff Provident Fund | 204,885 |
| Akzo Nobel Pakistan Limited Management Staff Gratuity Fund | 122,932 |
| Akzo Nobel Pakistan Limited Management Staff Pension Fund | 221,564 |
| Akzo Nobel Pakistan Limited Management Staff Defined Contribution Superannuation Fund | 92,431 |
| Akzo Nobel Pakistan Limited Non Management Staff Provident Fund | 29,885 |

## Directors' attendance

During the year, 5 (five) Board of Directors, 6 (six) Audit Committee and 2 (two) HR & Remuneration Committee meetings were held. Attendance by each Director/ CFO/Company Secretary was as follows.

| Name of Directors | Board of Directors Attendance | Audit Committee Attendance | HR & Remuneration Committee Attendance |
|---|---|---|---|
| Mr. Mueen Afzal | 5 | 6 | 2 |
| Mr. Peter Tomlinson | 4 | - | 2 |
| Mr. Asad I A Khan | 5 | 6 | - |
| Mr. Jehanzeb Khan<br>Chief Executive | 5 | - | 2 |
| Mr. Zia U Syed<br>Chief Financial Officer | 5 | 6 | - |
| Mr. Bart Kaster | 4 | 6 | - |
| Mr. Michiel Franse | 2 | 3 | |
| Ms. Saira Soofi<br>Company Secretary | 5 | - | - |
| Mr. Harris Mahmood<br>Secretary Audit Committee | - | 5 | - |
| Mr. Muddassir Khalid<br>Secretary HR & R Committee | - | - | 2 |

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

## Director's training

Mr Mueen Afzal, Mr Jehanzeb Khan and Mr Asad I. A. Khan have completed the certification for the Director's Training Program conducted by Pakistan Institute of Corporate Governance (PICG).

## Pattern of shareholding

A statement showing the pattern of shareholding in the Company along with additional information as at December 31, 2014 appears on page numbers F52 to F54.

ICI Omicron B.V. (an AkzoNobel group company) held 75.81% shares, while local institutions held 6.19% and individuals and others held the balance 18.0%.

The highest and the lowest market prices during 2014 were PKR 478.48 and PKR 104.70 per share respectively.

The Directors, CEO, CFO, Company Secretary and their spouses and minor children did not carry out any transaction in the shares of the company during the year.

Mueen Afzal
Chairman / Director

Jehanzeb Khan
Chief Executive

Lahore
February 25, 2015

# 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 contained in the listing regulations of the 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 Code in the following manner:

1. The Company encourages representation of independent, non-executive directors and directors representing minority interests on its Board of Directors. At December 31, 2014 the Board includes:

| **Category** | **Names** |
|---|---|
| Independent Director | Mr. Mueen Afzal (Chairman) |
| | Mr. Asad I A Khan |
| Executive Director | Mr. Jehanzeb Khan |
| | Mr. Zia U Syed |
| Non-Executive Director | Mr. Bart Kaster |
| | Mr. Michiel Franse |
| | Mr. Peter Tomlinson |

   The independent directors meet the criteria of independence under clause i (b) of the Code of Corporate Governance.
2. The directors have confirmed that none of them is serving as a director in more than seven listed companies, including Akzo Nobel Pakistan Limited.
3. All the resident directors of the Company are registered as tax-payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.
4. One casual vacancy occurred on the Board during the year; Mr. James Thick resigned from the board on April 30, 2014, and the casual vacancy was filled by Mr. Michiel Franse on May 06, 2014.
5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.
6. The Board has developed a mission statement, overall corporate strategy and significant policies of the Company. In the meantime, the Company has adopted all significant policies applicable at the time of demerger.
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 CEO, other executive directors and non executive directors, have been taken by the Board.
8. During the year five regular meetings of the Board were held which were all presided over by the Chairman. Written notices of the regular Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of all five meetings were appropriately recorded and circulated in time.
9. The directors have been provided with copies of the listing regulations of the Karachi Stock Exchange Limited, Company's Memorandum and Articles of Association and the Code of Corporate Governance and they are all conversant with their duties and responsibilities. Three of the directors have so far acquired certification under directors training programme conducted by the PICG.
10. No new appointment of CFO and Company Secretary was made during the year.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code of Corporate Governance 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. The half yearly and annual accounts were also initialed by the external auditors before presentation to the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code of Corporate Governance.
15. The Company has an Audit Committee of the Board. It comprises four members, all of whom are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the company and as required by the Code of Corporate Governance. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Company has an HR and Remuneration Committee. It comprises three members, of whom two are non-executive directors and the chairman of the committee is an independent director.
18. The Board has outsourced the internal audit function to M/s Ernst & Young Ford Rhodes Sidat Hyder & Co., Chartered Accountants, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review 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 exchanges.
22. Market / price sensitive information has been disseminated among all market participants at once through stock exchanges.
23. We confirm that all other material principles enshrined in the Code of Corporate Governance have been complied with.

Mueen Afzal
Chairman / Director

Jehanzeb Khan
Chief Executive

Lahore
February 25, 2015

# Review Report

## to the members on Statement of Compliance with best practices of Code of Corporate Governance

We have reviewed the enclosed statement of compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of Akzo Nobel Pakistan Limited ("the Company") for the year ended December 31, 2014 to comply with the requirements of Listing Regulation No. 35 of the Karachi, Lahore and Islamabad Stock Exchanges, where the Company is listed.

The responsibility for compliance with the Code 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 and report if it does not and to highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the company to comply with the Code.

As part of our audit of the 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 of Director'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 requires the Company to place before the Audit Committee, and upon the recommendation of the Audit Committee, place before the Board of Directors for their review and approval, its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the 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 under taken at arm's length price or not.

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

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants
(Kamran Iqbal Yousafi)

Lahore
February 25, 2015

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## Visit our website to learn more about AkzoNobel Pakistan

**www.akzonobel.com/pk**

**or call at our helpline:**
**0800-38589 (DULUX)**

For answers to your paint related queries, please feel free to contact our experts:

E: customer.contact.centre@akzonobel.com

# Akzo Nobel Pakistan Limited
# Financial Statements

## Auditors' Report to the Members

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

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

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

a) in our opinion, proper books of 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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of the profit, its cash flows and changes in equity for the year then ended; and

d) in our opinion Zakat deductible at souce under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

KPMG Taseer Hadi & Co.

**KPMG Taseer Hadi & Co.**
**Chartered Accountants**
**(Kamran Iqbal Yousafi)**

**Lahore**
**Date: 25 February 2015**

# Balance Sheet
# As at December 31, 2014

Amounts in Rs '000

| | Note | 2014 | 2013 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Share capital and reserves** | | | |
| Authorized share capital | 5 | **1,000,000** | 1,000,000 |
| Issued, subscribed and paid-up capital | 5 | **464,433** | 464,433 |
| Reserves | 6 | **1,249,630** | 1,530,721 |
| | | **1,714,063** | 1,995,154 |
| Surplus on revaluation of property, plant and equipment | 7 | **880,198** | 883,192 |
| **Non-current liabilities** | | | |
| Deferred liabilities | 8 | **44,227** | 34,817 |
| **Current liabilities** | | | |
| Trade and other payables | 9 | **1,278,991** | 1,329,665 |
| Provision for taxation | | **55,888** | 5,802 |
| | | **1,334,879** | 1,335,467 |
| **Contingencies and commitments** | 10 | | |
| | | **3,973,367** | 4,248,630 |

# Balance Sheet
# As at December 31, 2014

**Amounts in Rs '000**

| | Note | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **1,277,471** | 1,356,729 |
| Intangibles | 12 | **6,397** | 24,198 |
| Long term loans | 13 | **64,591** | 63,411 |
| Long term deposits and prepayments | 14 | **5,754** | 5,855 |
| Deferred tax asset - net | 15 | **184,101** | 123,725 |
| | | **1,538,314** | 1,573,918 |
| **Current assets** | | | |
| Stores and spares | 16 | **19,368** | 24,282 |
| Stock-in-trade | 17 | **359,589** | 593,710 |
| Trade debts | 18 | **509,976** | 546,949 |
| Loans and advances | 19 | **33,098** | 52,154 |
| Trade deposits and short term prepayments | 20 | **17,347** | 8,176 |
| Interest accrued | | **3,116** | 9,482 |
| Other receivables | 21 | **12,637** | 35,453 |
| Cash and bank balances | 22 | **1,479,922** | 1,404,506 |
| | | **2,435,053** | 2,674,712 |
| | | **3,973,367** | 4,248,630 |

The annexed notes from 1 to 40 form an integral part of these financial statements.

**Mueen Afzal**
Chairman / Director

**Jehanzeb Khan**
Chief Executive

**Harris Mahmood**
Chief Financial Officer

# Profit and Loss Account
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | Note | 2014 | 2013 |
|---|---|---|---|
| Turnover | 23 | **6,915,474** | 7,124,812 |
| Sales tax, excise duty and discounts | 23 | **(2,013,683)** | (1,859,668) |
| **Net Sales** | | **4,901,791** | 5,265,144 |
| Cost of sales | 24 | **(3,129,630)** | (3,326,178) |
| **Gross profit** | | **1,772,161** | 1,938,966 |
| Selling and distribution expenses | 25 | **(820,321)** | (911,268) |
| Administrative and general expenses | 26 | **(394,922)** | (383,253) |
| **Operating profit** | | **556,918** | 644,445 |
| Finance cost | 27 | **(9,734)** | (35,219) |
| Other charges | 28 | **(54,415)** | (80,515) |
| | | **(64,149)** | (115,734) |
| Other income | 29 | **185,730** | 408,224 |
| **Profit before taxation** | | **678,499** | 936,935 |
| Taxation | 30 | **(219,643)** | (331,209) |
| **Profit after taxation** | | **458,856** | 605,726 |
| **Earnings per share - Basic and diluted** - *Rupees* | 31 | **9.88** | 13.04 |

The annexed notes from 1 to 40 form an integral part of these financial statements.

**Mueen Afzal**
Chairman / Director

**Jehanzeb Khan**
Chief Executive

**Harris Mahmood**
Chief Financial Officer

# Statement of Comprehensive Income
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Profit for the year** | | **458,856** | 605,726 |
| **Other comprehensive income** | | | |
| *Items that will never be reclassified to profit or loss:* | | | |
| Remeasurement of defined benefit liability | 8.3 | **34,889** | (32,275) |
| Related tax impact | | **(11,513)** | 10,973 |
| Tax impact due to reversal of related deferred tax assets | | **-** | (48,151) |
| | | **23,376** | (69,453) |
| **Total comprehensive income for the year** | | **482,232** | 536,273 |

The annexed notes from 1 to 40 form an integral part of these financial statements.

**Mueen Afzal**
Chairman / Director

**Jehanzeb Khan**
Chief Executive

**Harris Mahmood**
Chief Financial Officer

# Statement of Changes in Equity
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | | | Capital reserve | | Revenue reserve | |
|---|---|---|---|---|---|---|
| | Note | Share capital | Share premium | Capital receipts | Unappropriated profit | Total |
| Balance at January 01, 2013 | | 464,433 | 156,006 | 196 | 4,485,743 | 5,106,378 |
| **Total comprehensive income for year ended December 31, 2013** | | | | | | |
| Profit for the year | | - | - | - | 605,726 | 605,726 |
| Other comprehensive loss for the year | | - | - | - | (69,453) | (69,453) |
| Total comprehensive income | | - | - | - | 536,273 | 536,273 |
| Incremental depreciation charge during the year - net of deferred tax | 7 | - | - | - | 2,948 | 2,948 |
| **Transactions with owners of the Company recognized directly in equity** | | | | | | |
| Final dividend for the year ended December 31, 2012 @ Rs. 78.60 per share | | - | - | - | (3,650,445) | (3,650,445) |
| **Balance at December 31, 2013** | | **464,433** | **156,006** | **196** | **1,374,519** | **1,995,154** |
| **Total comprehensive income for year ended December 31, 2014** | | | | | | |
| Profit for the year | | - | - | - | 458,856 | 458,856 |
| Other comprehensive income for the year | | - | - | - | 23,376 | 23,376 |
| Total comprehensive income | | - | - | - | 482,232 | 482,232 |
| Incremental depreciation charge during the year - net of deferred tax | 7 | - | - | - | 2,994 | 2,994 |
| **Transactions with owners of the Company recognized directly in equity** | | | | | | |
| Final dividend for the year ended December 31, 2013 @ Rs. 2.50 per share | | - | - | - | (116,111) | (116,111) |
| Interim dividend for the year ended December 31, 2014 @ Rs. 14.00 per share | | - | - | - | (650,206) | (650,206) |
| **Balance at December 31, 2014** | | **464,433** | **156,006** | **196** | **1,093,428** | **1,714,063** |

The annexed notes from 1 to 40 form an integral part of these financial statements.

**Mueen Afzal**
Chairman / Director

**Jehanzeb Khan**
Chief Executive

**Harris Mahmood**
Chief Financial Officer

# Cash Flow Statement
## For the year ended December 31, 2014

**Amounts in Rs '000**

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | **678,499** | 936,935 |
| Adjustments for: | | | |
| Depreciation and amortization | | **155,914** | 166,754 |
| Loss on disposal of property, plant and equipment | | **2,672** | 9,403 |
| Provision for / (reversal of) employee benefits obligation | | **43,469** | (31,310) |
| Provision for doubtful debts | | **50,471** | 8,175 |
| Reversal of provision no longer required | | **(58,720)** | (122,812) |
| Provision for slow moving and obsolete stores and spares | | **1,839** | - |
| Reversal of provision for obsolete stock | | **(2,521)** | (19,040) |
| Interest income | | **(74,687)** | (176,500) |
| | | **796,936** | 771,605 |
| **Movement in working capital:** | | | |
| ***Decrease / (increase) in current assets*** | | | |
| Stores and spares | | **3,075** | 375 |
| Stock-in-trade | | **236,642** | (33,600) |
| Trade debts | | **(13,498)** | (222,636) |
| Loans and advances | | **19,056** | (8,822) |
| Trade deposits and short term prepayments | | **(9,171)** | (2,593) |
| Other receivables | | **22,816** | 4,691 |
| | | **258,920** | (262,585) |
| ***Increase in current liabilities*** | | | |
| Trade and other payables | | **45,778** | 180,778 |
| Net cash generated from operations | | **1,101,634** | 689,798 |
| Long term loans | | **(1,180)** | (4,694) |
| Long term deposits and prepayments | | **101** | (3,659) |
| Employee benefits paid | | **(37,396)** | (43,887) |
| Tax paid | | **(241,446)** | (296,579) |
| Net cash generated from operating activities | | **821,713** | 340,979 |
| **Cash flows from investing activities** | | | |
| Payments for capital expenditure | | **(62,052)** | (92,006) |
| Proceeds from disposal of property, plant and equipment | | **609** | 4,510 |
| Interest received | | **81,053** | 239,003 |
| Net cash generated from investing activities | | **19,610** | 151,507 |
| **Cash flows from financing activities** | | | |
| Dividend paid | | **(765,907)** | (3,648,699) |
| Net cash used in financing activities | | **(765,907)** | (3,648,699) |
| Net cash generated / (utilized) during the year | | **75,416** | (3,156,213) |
| Cash and cash equivalents at the beginning of the year | | **1,404,506** | 4,560,719 |
| **Cash and cash equivalents at the end of the year** | 22 | **1,479,922** | 1,404,506 |

The annexed notes from 1 to 40 form an integral part of these financial statements.

**Mueen Afzal**
Chairman / Director

**Jehanzeb Khan**
Chief Executive

**Harris Mahmood**
Chief Financial Officer

# Notes to the Financial Statements
# For the year ended December 31, 2014

## 1 Reporting entity

Akzo Nobel Pakistan Limited ("the Company") was incorporated in Pakistan on August 25, 2011 as a public unlisted company under the Companies Ordinance, 1984 and was subsequently listed on the Karachi and Islamabad Stock Exchanges on July 11, 2012 and Lahore Stock Exchange on July 17, 2012. The registered office of the Company is situated at 346, Ferozepur Road, Lahore. The Company is primarily involved in the manufacturing of paints and trading of specialty chemicals.

## 2 Basis of preparation

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with 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 and Islamic Financial Accounting Standards (IFAS's) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions of, and directives issued under the Companies Ordinance, 1984 shall prevail.

### 2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for certain classes of property, plant and equipment (i.e. freehold land, buildings on freehold land and plant and machinery) that are stated at revalued amounts and defined benefit asset / liability at fair value of plan asset less present value of defined benefit obligation as referred to in Note 8.

### 2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees which is also the Company's functional currency and has been rounded to the nearest thousand.

### 2.4 Use of estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and income and expenses. The estimates, associated assumptions and judgments are continually evaluated and are based on historical experience and various factors, including reasonable expectations of future events.

Estimates and judgments made by the management that may have a significant risk of material adjustments to the financial statements in subsequent years are as below:

***Defined benefit obligation***

Certain actuarial assumptions have been adopted as disclosed in Note 8.11 to the financial statements for present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect gains and losses in those years.

***Property, plant and equipment***

The estimates for revalued amounts, if any, of different classes of property, plant and equipment, are based on valuation performed by external professional valuer and recommendation of technical teams of the Company. The said recommendations also include estimates with respect to residual values and depreciable lives. Further, the Company reviews the value of the assets for possible impairment on an annual basis. The future cash flows used in the impairment testing of assets is based on management's best estimates which may change in future periods. Any change

# Notes to the Financial Statements
# For the year ended December 31, 2014

in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding affect on the depreciation charge and impairment.

***Income Taxes***

In making the estimates for income taxes currently payable by the Company, the management looks at the current income tax laws and the decisions of appellate authorities on certain issues in the past. In determination of deferred taxes, estimates of the Company's future taxable profit are taken into consideration.

The tax year of the Company is same as its accounting year. The income tax assessments of the Company up to and including tax year 2014 have been completed under the provisions of section 120 of the Income Tax Ordinance, 2001 except for the following:

For the tax year 2012, the Additional Commissioner Inland Revenue (Audit) ['ACIR'], Zone-II, Large Taxpayers Unit, Lahore through order dated January 31, 2014 raised a tax demand of Rs. 89.49 million, in addition to the original assessment of Rs. 151.91 million. The Company filed an appeal before Commissioner Inland Revenue (Appeals) ['CIR (A)'] against the aforesaid order, which was disposed through the appellate order dated May 05, 2014 wherein the CIR (A) remanded majority of the issues back to the assessing officer. The remaining issues of 'apportionment of other income' and 'disallowance of tax credit' have been contested by the Company with the Appellate Tribunal Inland Revenue ('ATIR') whereas the tax department has also contested the issue of 'WWF' and 'amortization of advertisement expense' with the ATIR. The issues remanded are yet to be undertaken for re-adjudication by the ACIR and as such no demand is currently outstanding.

For the tax year 2013, the ACIR through assessment order dated April 30, 2014, passed under section 122(5A) of the Income Tax Ordinance, amended the taxable income of the Company and raised a tax demand of Rs. 15.53 million, in addition to original assessment of Rs. 44.73 million. The Company filed an appeal before the CIR (A), which was disposed through the appellate order dated October 27, 2014, wherein the CIR (A) decided some of the issues in favour of the Company. The remaining issues have been contested by the Company with the ATIR. The department has also filed an appeal with the ATIR on the issues decided in favour of the Company. The Company had partially paid the demand raised through the amendment order and as a consequence of the aforementioned appellate order, an amount of Rs. 4.6 million becomes refundable if the appeal effect is given by the department.

***Stock-in-trade and stores and spares***

The net realizable value of stock-in-trade and stores and spares are assessed for any diminution in their respective values. Any change in the estimates in future years might affect the carrying amounts of stock-in-trade and stores and spares with the corresponding effect of the impairment. Net realizable value is determined with respect to estimated selling price less estimated expenditure to make the sale.

***Trade debts, advances and other receivables***

The recoverability of trade debts, advances and other receivables are reviewed at each reporting date to assess whether provision should be recorded in the profit and loss account. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

Other areas where estimates and judgments are involved have been disclosed in respective notes to the financial statements.

## 3 Significant accounting policies

These accounting policies set out below have been applied consistently to all periods presented in these financial statements.

# Notes to the Financial Statements
# For the year ended December 31, 2014

### 3.1 Property, plant and equipment

Property, plant and equipment (except freehold land, buildings on freehold land and plant and machinery) are stated at cost less accumulated depreciation and impairment losses, if any. Freehold land is stated at revalued amount, buildings on freehold land and plant and machinery are stated at revalued amounts less accumulated depreciation and impairment losses, if any. Capital work-in-progress is stated at cost. Cost of certain property, plant and equipment comprises historical cost, exchange differences recognized, cost of exchange risk cover in respect of foreign currency loans obtained, if any, for the acquisition of property, plant and equipment up to the commencement of commercial production and the cost of borrowings during construction period in respect of loans taken, if any, for specific projects.

Depreciation charge is based on the straight-line method whereby the cost or revalued amount of an asset is written off to profit and loss account over its estimated useful life after taking into account the residual value, if material. Depreciation on additions is charged from the month in which the asset is available for use and on disposals up to the month preceding the disposal. The rate of depreciation is specified in Note 11.1 to these financial statements.

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

Surplus on revaluation of property, plant and equipment is credited to the surplus on revaluation account. To the extent of the incremental depreciation charged on the revalued assets the related surplus on revaluation of property, plant and equipment (net of deferred taxation) is transferred directly to unappropriated profit.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Improvements are capitalized when it is probable that respective future economic benefits will flow to the Company and the cost of the item can be measured reliably. Assets replaced, if any, are derecognized.

Gains and losses on disposal of assets are taken to the profit and loss account, and the related surplus / deficit on revaluation of property, plant and equipment is transferred directly to retained earnings (unappropriated profits).

### 3.2 Intangibles

Intangible assets with a finite useful life, such as certain software, licenses (including software licenses, etc.) and property rights, are capitalized initially at cost and subsequently stated at cost less accumulated amortization and impairment losses, if any.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit and loss account as incurred.

Amortization is based on the cost of an asset less its residual value, if any. Amortization is recognized in profit and loss on a straight-line basis over the estimated useful lives of intangible assets. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

### 3.3 Stores and spares

Stores and spares are stated at the lower of cost and net realizable value. Cost is determined using weighted average method.

### 3.4 Stock-in-trade

Stock-in-trade is valued at lower of weighted average cost and estimated net realizable value.

Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value signifies the estimated selling price in the ordinary course of

# Notes to the Financial Statements
# For the year ended December 31, 2014

business less net estimated costs of completion and selling expenses.

Stock in-transit is valued at a cost, comprising invoice value plus other charges invoiced there on.

**3.5 Financial instruments**

**3.5.1 Non-derivative financial assets**

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the assets expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories:

- Financial assets at fair value through profit or loss;
- Held-to-maturity financial assets;
- Loans and receivables; and
- Available-for-sale financial assets.

***Loans and receivables***

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. A provision for impairment of loans and receivables 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. Loans and receivables include loans, deposits, trade debts, interest accrued, other receivables and cash and bank balances of the Company.

***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

As at December 31, 2014 no financial assets of the Company are classified under following categories:

- Financial assets at fair value through profit or loss;
- Available-for-sale financial assets; and
- Held-to-maturity financial assets.

# Notes to the Financial Statements
# For the year ended December 31, 2014

### 3.5.2 Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

### 3.5.3 Derivative financial instruments

These are initially recorded at fair value on the date a derivative contract is entered into and are re-measured to fair value at subsequent reporting dates. 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 does not apply hedge accounting for any derivatives.

Any gain or loss from change in fair value of derivatives that do not qualify for hedge accounting are taken directly to profit and loss account.

### 3.6 Impairment

***Financial assets (including receivables)***

Financial assets are assessed at each reporting date to determine whether there is an objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired may include default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy.

All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss account.

***Non-Financial assets***

The carrying amounts of non-financial assets other than inventories and deferred tax asset, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

# Notes to the Financial Statements
# For the year ended December 31, 2014

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit and loss account.

Impairment loss recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates that are used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**3.7 Share capital (ordinary shares)**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

**3.8 Staff retirement benefits**

The Company's retirement benefit plans comprise of provident funds, pensions, gratuity schemes and a medical scheme for eligible retired employees.

***Defined benefit plans***

The Company operates a funded pension scheme and a funded gratuity scheme for management staff. The pension and gratuity schemes are salary schemes providing pension and lump sums, respectively. Pension and gratuity schemes for management staff are invested through two approved trust funds. The Company also operates gratuity scheme for non-management staff and the pensioners' medical scheme which are unfunded. The pension and gratuity plans are final salary plans. The pensioners' medical plan reimburses actual medical expenses to pensioners as per entitlement. The Company recognizes expense in accordance with IAS 19 'Employee Benefits'.

All past service costs are recognized at earlier of when the amendment or curtailment occurs and when the Company has recognised related restructuring or termination benefits.

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit and loss account.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit and loss account. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

# Notes to the Financial Statements
# For the year ended December 31, 2014

***Defined contribution plans***

The Company operates two registered contributory provident funds for its permanent staff and a registered defined contribution superannuation fund for its management staff, who have either opted for this fund by July 31, 2004 or have joined the Company after April 30, 2004. In addition to this the Company also provides group insurance to all its employees.

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

**3.9 Provisions**

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. The amount recognized as a provision reflects the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

**3.10 Contingent liabilities**

Contingent liability is disclosed when:

- there is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the Company; or

- there is present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

**3.11 Revenue recognition**

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the customer.

Profit on short-term deposits is accounted for on a time-apportioned basis using the effective interest rate method.

**3.12 Financial expenses and financial income**

Financial expenses are recognized using the effective interest rate method and comprise foreign currency losses and mark-up / interest expense on borrowings.

Financial income comprises interest income on funds invested and foreign currency gains. Mark-up / interest income is recognized as it accrues in profit and loss account, using the effective interest rate method.

**3.13 Operating lease / Ijarah contracts**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases / Ijarah contracts (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

**3.14 Borrowing cost**

Borrowing costs are recognized as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such

# Notes to the Financial Statements
# For the year ended December 31, 2014

borrowing costs, if any, are capitalized as part of the cost of that asset.

**3.15 Foreign currency translation**

Transactions denominated in foreign currencies are translated into Pak Rupees, at the foreign exchange rates prevailing at the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the foreign exchange rates at the balance sheet date. Exchange differences are taken to the profit and loss account.

**3.16 Taxation**

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

***Current***

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

***Deferred***

Deferred tax is recognized using balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using the enacted or substantively enacted rates of taxation.

The Company recognizes a deferred tax asset to the extent that it is probable that taxable profits for the foreseeable future will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Further, the Company recognizes deferred tax asset / liability on deficit / surplus on revaluation of property, plant and equipment which is adjusted against the related deficit / surplus.

**3.17 Earnings per share**

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit after tax attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

**3.18 Dividend and other appropriations**

Dividend is recognised as a liability in the period in which it is declared and approved. Appropriations of profit are reflected in the statement of changes in equity in the period in which such appropriations are approved.

**3.19 Related party transactions**

The Company enters into transactions with related parties on arm's length basis except in rare circumstances where, subject to approval of Board of Directors, it is in the interest of the Company to do so.

**4 Initial application of new standards, interpretations or amendments to existing standards and forthcoming requirements**

# Notes to the Financial Statements
# For the year ended December 31, 2014

### 4.1 Standards, amendments or interpretations which became effective during the year

During the year certain amendments to standards or new interpretations became effective, however, the amendments or interpretation did not have any material effect on the financial statements of the Company.

### 4.2 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2015:

- Amendments to IAS 19 'Employee Benefits' Employee contributions – a practical approach (effective for annual periods beginning on or after July 01, 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. This amendment is not likely to have any material impact on the financial statements of the Company.

- Amendments to IAS 38 'Intangible Assets' and IAS 16 'Property, Plant and Equipment' (effective for annual periods beginning on or after January 01, 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. These amendments are not likely to have an impact on the financial statements of the Company.

- IFRS 10 'Consolidated Financial Statements' – (effective for annual periods beginning on or after January 01, 2015) replaces the part of IAS 27 'Consolidated and Separate Financial Statements'. IFRS 10 introduces a new approach to determining which investees should be consolidated. The single model to be applied in the control analysis requires that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 has made consequential changes to IAS 27 which is now called 'Separate Financial Statements' and will deal with only separate financial statements. Certain further amendments have been made to IFRS 10, IFRS 12 and IAS 28 clarifying the requirements relating to accounting for investment entities and would be effective for annual periods beginning on or after January 01, 2016. The standard has no impact on the financial statements of the Company.

- IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after January 01, 2015) replaces IAS 31 'Interests in Joint Ventures'. Firstly, it carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31 and are now called joint operations. Secondly, the remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of using the equity method or proportionate consolidation; they must now always use the equity method. IFRS 11 has also made consequential changes in IAS 28 which has now been named 'Investment in Associates and Joint Ventures'. The amendments requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business are effective for annual periods beginning on or after January 01, 2016. The adoption of this standard is not likely to have an impact on the financial statements of the Company.

- IFRS 12 'Disclosure of Interest in Other Entities' (effective for annual periods beginning on or after January 01, 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, into one place. The standard is not likely to have any impact on the financial statements of the Company.

# Notes to the Financial Statements
# For the year ended December 31, 2014

- IFRS 13 'Fair Value Measurement' (effective for annual periods beginning on or after January 01, 2015) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The adoption of this standard is likely to increase certain disclosures related to the fair value measurements.

- Amendment to IAS 27 'Separate Financial Statement' (effective for annual periods beginning on or after January 01, 2016). The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. This amendment is not likely to have any impact on the financial statements of the Company.

- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after January 01, 2016). Bearer plants are now in the scope of IAS 16 'Property, Plant and Equipment' for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 'Agriculture'. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction. This amendment is not likely to have any impact on the financial statements of the Company.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) [effective for annual periods beginning on or after January 01, 2016]. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. This amendment is not likely to have any impact on the financial statements of the Company.

  Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual periods beginning on or after July 01, 2014). The new cycle of improvements contain amendments to the following standards:

- IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'.

- IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination.

- IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria.

- Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.

- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

## Notes to the Financial Statements
## For the year ended December 31, 2014

**Amounts in Rs '000**

Annual Improvements 2012-2014 cycles (amendments are effective for annual periods beginning on or after January 01, 2016). The new cycle of improvements contain amendments to the following standards:

- IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. IFRS 5 is amended to clarify that if an entity changes the method of disposal of an asset (or disposal group) i.e. reclassifies an asset from held for distribution to owners to held for sale or vice versa without any time lag, then such change in classification is considered as continuation of the original plan of disposal and if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held for distribution, then it ceases held for distribution accounting in the same way as it would cease held for sale accounting.

- IFRS 7 'Financial Instruments - Disclosures'. IFRS 7 is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. IFRS 7 is also amended to clarify that additional disclosures required by 'Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)' are not specifically required for inclusion in condensed interim financial statements for all interim periods.

- IAS 19 'Employee Benefits'. IAS 19 is amended to clarify that high quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid.

- IAS 34 'Interim Financial Reporting'. IAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred.

**5 Share capital**

| | **2014** | 2013 | | **2014** | 2013 |
|---|---|---|---|---|---|
| **5.1** | **Authorized share capital** | | | | |
| | **Number of shares** | | | | |
| | **100,000,000** | 100,000,000 | Ordinary shares of Rs. 10/- each | **1,000,000** | 1,000,000 |
| **5.2** | **Issued, subscribed and paid-up capital** | | | | |
| | **Number of shares** | | | | |
| | **46,443,320** | 46,443,320 | Ordinary shares of Rs. 10/- each issued as fully paid shares for consideration other than cash | **464,433** | 464,433 |

ICI Omicron B.V. (which is a wholly owned subsidiary of AkzoNobel N.V.) holds 35,209,665 ordinary shares of Rs. 10/- each representing 75.81% of the share capital of the Company.

**6 Reserves**

| | **2014** | 2013 |
|---|---|---|
| Capital reserves | | |
| - Share premium | **156,006** | 156,006 |
| - Capital receipts | **196** | 196 |
| | **156,202** | 156,202 |
| Revenue reserve - Unappropriated profit | **1,093,428** | 1,374,519 |
| | **1,249,630** | 1,530,721 |

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | | **2014** | 2013 |
|---|---|---|---|
| **7** | **Surplus on revaluation of property, plant and equipment** | | |
| | This represents surplus arising on revaluation of freehold land, buildings on freehold land and plant and machinery carried out in December 2011. | | |
| | Balance at beginning of the year | **883,192** | 886,140 |
| | Transfer to unappropriated profit in respect of incremental depreciation during the year - net of deferred tax | **(2,994)** | (2,948) |
| | Balance at end of the year | **880,198** | 883,192 |
| **8** | **Deferred liabilities** | | |
| **8.1** | **The amounts recognized in the balance sheet are:** | | |
| | Unfunded - recognized in deferred liability | **44,227** | 34,817 |
| | Payable to employee retirement benefit fund: | | |
| | - Pension fund | **2,571** | 38,398 |
| | - Gratuity fund | **73,898** | 76,297 |
| | | **76,469** | 114,695 |
| | | **120,696** | 149,512 |

| | | **2014** | | | | | 2013 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **Funded** | | | **Unfunded** | **Total** | Funded | | | Unfunded | Total |
| | | **Pension** | **Gratuity** | **Sub Total** | | | Pension | Gratuity | Sub Total | | |
| **8.2** | **The amounts recognized in the profit and loss account against defined benefit schemes are as follows:** | | | | | | | | | | |
| | Current service cost | **11,077** | **13,947** | **25,024** | **1,414** | **26,438** | 7,167 | 10,993 | 18,160 | 1,448 | 19,608 |
| | Interest cost | **34,000** | **26,384** | **60,384** | **4,480** | **64,864** | 22,208 | 18,674 | 40,882 | 4,065 | 44,947 |
| | Expected return on plan assets | **(30,024)** | **(17,809)** | **(47,833)** | **-** | **(47,833)** | (18,298) | (11,901) | (30,199) | - | (30,199) |
| | | **15,053** | **22,522** | **37,575** | **5,894** | **43,469** | 11,077 | 17,766 | 28,843 | 5,513 | 34,356 |
| | Past service cost / (reversal) | **-** | **-** | **-** | **-** | **-** | (37,911) | (16,666) | (54,577) | (11,089) | (65,666) |
| | Net charge / (reversal) for the year | **15,053** | **22,522** | **37,575** | **5,894** | **43,469** | (26,834) | 1,100 | (25,734) | (5,576) | (31,310) |
| **8.3** | **Included in other comprehensive income:** | | | | | | | | | | |
| | Remeasurement of plan obligation from: | | | | | | | | | | |
| | - Change in demographic assumptions | **-** | **-** | **-** | **-** | **-** | 1,768 | (1,130) | 638 | 4,763 | 5,401 |
| | - Change in financial assumptions | **-** | **-** | **-** | **-** | **-** | 496 | 304 | 800 | 113 | 913 |
| | - Experience on obligation | **25,208** | **3,828** | **29,036** | **(4,194)** | **24,842** | (56,534) | (20,959) | (77,493) | 480 | (77,013) |
| | Return on plan assets, excluding interest income | **10,047** | **-** | **10,047** | **-** | **10,047** | 29,267 | 9,157 | 38,424 | - | 38,424 |
| | | **35,255** | **3,828** | **39,083** | **(4,194)** | **34,889** | (25,003) | (12,628) | (37,631) | 5,356 | (32,275) |

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | | Note | 2014 Funded Pension | 2014 Funded Gratuity | 2014 Funded Sub Total | 2014 Unfunded | 2014 Total | 2013 Funded Pension | 2013 Funded Gratuity | 2013 Funded Sub Total | 2013 Unfunded | 2013 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **8.4** | **Movement in the net asset / (liability) recognized in the balance sheet are as follows:** | | | | | | | | | | | |
| | Balance at beginning of the year | | **(38,398)** | **(76,297)** | **(114,695)** | **(34,817)** | **(149,512)** | (60,362) | (85,523) | (145,885) | (46,549) | (192,434) |
| | Net charge / (reversal) for the year | 8.2 | **(15,053)** | **(22,522)** | **(37,575)** | **(5,894)** | **(43,469)** | 26,834 | (1,100) | 25,734 | 5,576 | 31,310 |
| | Contributions / payments | | **15,625** | **21,093** | **36,718** | **678** | **37,396** | 20,133 | 22,954 | 43,087 | 800 | 43,887 |
| | Actuarial gain / (loss) charged to OCI | 8.3 | **35,255** | **3,828** | **39,083** | **(4,194)** | **34,889** | (25,003) | (12,628) | (37,631) | 5,356 | (32,275) |
| | Balance at end of the year | | **(2,571)** | **(73,898)** | **(76,469)** | **(44,227)** | **(120,696)** | (38,398) | (76,297) | (114,695) | (34,817) | (149,512) |
| **8.5** | **The amounts recognized in the balance sheet are as follows:** | | | | | | | | | | | |
| | Fair value of plan assets | | **278,840** | **163,503** | **442,343** | **-** | **442,343** | 223,144 | 129,017 | 352,161 | - | 352,161 |
| | Present value of defined benefit obligation | | **(281,411)** | **(237,401)** | **(518,812)** | **(44,227)** | **(563,039)** | (261,542) | (205,314) | (466,856) | (34,817) | (501,673) |
| | Liability recognized | | **(2,571)** | **(73,898)** | **(76,469)** | **(44,227)** | **(120,696)** | (38,398) | (76,297) | (114,695) | (34,817) | (149,512) |
| **8.6** | **Movement in the present value of defined benefit obligation:** | | | | | | | | | | | |
| | Balance at beginning of the year | | **261,542** | **205,314** | **466,856** | **34,817** | **501,673** | 224,922 | 175,301 | 400,223 | 35,460 | 435,683 |
| | Current service cost | | **11,077** | **14,245** | **25,322** | **1,414** | **26,736** | 7,167 | 10,993 | 18,160 | 1,448 | 19,608 |
| | Interest cost | | **34,000** | **26,384** | **60,384** | **4,480** | **64,864** | 22,208 | 18,674 | 40,882 | 4,065 | 44,947 |
| | Benefits paid | | **-** | **(4,714)** | **(4,714)** | **(678)** | **(5,392)** | (47,025) | (21,439) | (68,464) | (800) | (69,264) |
| | Actuarial loss / (gain) | | **(25,208)** | **(3,828)** | **(29,036)** | **4,194** | **(24,842)** | 54,270 | 21,785 | 76,055 | (5,356) | 70,699 |
| | Balance at end of the year | | **281,411** | **237,401** | **518,812** | **44,227** | **563,039** | 261,542 | 205,314 | 466,856 | 34,817 | 501,673 |
| **8.7** | **Movement in the fair value of plan assets:** | | | | | | | | | | | |
| | Balance at beginning of the year | | **223,144** | **129,017** | **352,161** | **-** | **352,161** | 202,471 | 106,444 | 308,915 | - | 308,915 |
| | Expected return | | **30,024** | **17,809** | **47,833** | **-** | **47,833** | 18,298 | 11,901 | 30,199 | - | 30,199 |
| | Contributions | | **15,625** | **21,391** | **37,016** | **-** | **37,016** | 20,133 | 22,954 | 43,087 | - | 43,087 |
| | Benefits paid | | **-** | **(4,714)** | **(4,714)** | **-** | **(4,714)** | (47,025) | (21,439) | (68,464) | - | (68,464) |
| | Actuarial gain / (loss) | | **10,047** | **-** | **10,047** | **-** | **10,047** | 29,267 | 9,157 | 38,424 | - | 38,424 |
| | Balance at end of the year | | **278,840** | **163,503** | **442,343** | **-** | **442,343** | 223,144 | 129,017 | 352,161 | - | 352,161 |
| **8.8** | **Plan assets comprise:** | | | | | | | | | | | |
| | Government bonds | | **156,333** | **127,311** | **283,644** | **-** | **283,644** | 118,654 | 94,220 | 212,874 | - | 212,874 |
| | Corporate bonds | | **-** | **1,057** | **1,057** | **-** | **1,057** | - | 1,491 | 1,491 | - | 1,491 |
| | Mutual funds – debt | | **713** | **21** | **734** | **-** | **734** | 666 | 20 | 686 | - | 686 |
| | Equity instrument | | **121,546** | **35,025** | **156,571** | **-** | **156,571** | 103,228 | 28,542 | 131,770 | - | 131,770 |
| | Level 3 adjustment | | **-** | **-** | **-** | **-** | **-** | 513 | 4,328 | 4,841 | - | 4,841 |
| | Cash | | **248** | **89** | **337** | **-** | **337** | 83 | 416 | 499 | - | 499 |
| | | | **278,840** | **163,503** | **442,343** | **-** | **442,343** | 223,144 | 129,017 | 352,161 | - | 352,161 |

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs ‘000**

8.9 The expected charge pertaining to pension fund, gratuity fund and unfunded schemes for the year ending December 31, 2015 is Rs. 8.86 million, Rs. 21.57 million and Rs. 6.17 million respectively.

8.10 Government bonds, mutual funds and shares are valued at quoted market prices. Corporate bonds are measured at present value based on market rates. The values of the Company’s shares included in the plan assets of the pension and gratuity fund are Rs. 2.58 million and Rs. 2.76 million (2013: Rs. 0.90 million and Rs. 0.96 million) respectively. The Gratuity Fund is invested within the limits specified by the regulations governing investment of approved retirement funds in Pakistan.

**8.11 The principal actuarial assumptions at the reporting date were as follows:**

| | **2014** | 2013 |
|---|---|---|
| Discount rate | **10.5%** | 13.0% |
| Expected return on plan assets | **10.5%** | 13.0% |
| Future salary increases - management staff | **12.0%** | 14.5% |
| Future salary increases - non-management staff | **8.4%** | 10.8% |
| Future pension increases | **5.2%** | 7.6% |
| Medical cost trend | **5.2%** | 7.6% |
| **Plan duration of defined benefit obligation:** | | |
| Pension | **3.2 years** | 4.2 years |
| Gratuity - Management | **7.9 years** | 8.4 years |
| Gratuity - Non management | **7.8 years** | 8.1 years |
| Pensioners' medical plan | **18.8 years** | 18.1 years |

As at December 31, 2014, the weighted average duration of the defined benefit obligation was 6.4 years (2013: 6.8 years).

***Mortality rate***

Mortality of active employees and pensioners is represented by the LIC (96-98) Table. The table has been rated down three years for mortality of female pensioners and widows. Non-management staff mortality is assumed to be 70% of the EFU(61-66) Table.

These figures are based on the actuarial valuation as at December 31, 2014. The valuation uses the Projected Unit Credit method.

**8.12 The plans expose the Company to the actuarial risks such as:**

**Salary risks**

The risk that the final salary at the time of cessation of service is higher than what was assumed. Since the benefit is calculated on the final salary, the benefit amount increases similarly.

**Mortality / withdrawal risks**

The risks that the actual mortality / withdrawal experiences is different. The effect depends upon beneficiaries' service / age distribution and the benefit.

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Investment risks**

The risk of the investment underperforming and not being sufficient to meet the liabilities. This is managed by formulating an investment policy and guidelines based on which investments are made after obtaining approval of trustees of funds.

**8.13** In case of the funded plans, it is ensured that the long-term investments are in line with the obligation under the retirement benefit plan. Duration and the expected yield of the investments are matched with the expected cash outflows arising from the retirement benefit plan obligations. The process used to manage its risks has not been changed from previous periods. Investments are well diversified and large portion plans' assets in 2014 consist of Government Securities.

**8.14** The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected return on equity investments reflect long-term real rates of return experienced in the market.

**8.15** Under the pension plan, management staff gratuity, non-management staff gratuity and pensioners' medical plan the normal retirement age is 60 years. For management staff who joined before February 1988, the normal retirement age is 58 years for men and 55 years for women. Currently the Company has following plans:

**Pension**

Pension scheme entitles the members to pension, subject to the conditions laid down in the rules, on reaching the normal retirement age of 60 years, disability, early retirement or death in which case the surviving spouse and the children under age of 25 shall be entitled.

Retirement benefit is a pension of 1.25% of final gross salary for each year of service less actuarial equivalent of any gratuity, if service is at least 10 years. Members may commute upto one-half of pension and the trustees may commute the balance.

The Trustees increase pensions in payment on an ad-hoc basis to provide some relief against inflation. The plan guarantees a minimum annual increase of 6%.

**Gratuity**

Gratuity scheme entitles the members to gratuity on resignation, termination, retirement, early retirement, retrenchment, death and dismissal based on the Company's Service rules.

Gratuity is based on the last month basic salary for each year of service.

**Pensioners' Medical Plan**

The pensioners' medical plan reimburses medical expense to retirees, their wives and widows and widows of management staff employees who died in service. Benefits are limited to a maximum amount depending on grade at retirement.

**8.16** The Pension and Gratuity management plans are fully funded. The funds are legally separate from the Company and are recognized by the Commissioner of Income Tax under Income tax rules, 2002. Members do not contribute to the pension and gratuity funds. The Company contributes at rates advised by the actuary. The contributions are equal to current service cost with adjustment for any deficit. If their is a surplus, the Company takes a contribution holiday.

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

**8.17 Sensitivity analysis**

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

| | Impact on defined benefit obligation | | |
|---|---|---|---|
| | **Change in assumption** | **Increase in assumption** | **Decrease in assumption** |
| Discount rate | 1% | (28,804) | 33,519 |
| Salary growth rate | 1% | 25,334 | (22,903) |
| Pension growth rate | 1% | - | - |
| Medical cost trend rate | 1% | 7,156 | (5,720) |

If life expectancy increases by 1 year, the obligation decreases by Rs. 0.17 million.
The impact of changes in assumption has been determined by revaluation of the obligations on different rates.

**8.18** The Company contributed Rs. 18.11 million (2013: Rs. 17.42 million) and Rs. 11.80 million (2013: Rs. 10.78 million) to the provident fund and the defined contribution superannuation fund respectively during the year.

**8.19 Employee provident fund**

| | **2014** | 2013 |
|---|---|---|
| Size of the fund - fund assets | **296,258** | 244,432 |

Break-up of investments made by the fund are as follows:

| | **2014 (Un-audited)** | | |
|---|---|---|---|
| | **Cost** | **Fair value** | **Percentage** |
| Government securities | **193,782** | **195,570** | **66.01%** |
| Listed securities | **40,135** | **68,645** | **23.17%** |
| | **233,917** | **264,215** | |

| | 2013 (Audited) | | |
|---|---|---|---|
| | Cost | Fair value | Percentage |
| Government securities | 160,162 | 161,705 | 66.16% |
| Listed securities | 40,890 | 57,272 | 23.43% |
| | 201,052 | 218,977 | |

The Company has complied with all the requirements set out by the provisions of Section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **9** | **Trade and other payables** | | | |
| | Creditors: | | | |
| | - local | | **561,793** | 486,463 |
| | - foreign | 9.1 | **116,620** | 236,061 |
| | | | **678,413** | 722,524 |
| | Royalty and technical service fee | 9.2 | **196,738** | 88,130 |
| | Accrued liabilities | | **202,161** | 253,978 |
| | Advances from customers | | **34,687** | 45,196 |
| | Sales tax, excise and custom duties | | **31,494** | 39,817 |
| | Workers' Profit Participation Fund | 9.3 | **35,844** | 49,312 |
| | Workers' Welfare Fund | 9.4 | **9,733** | 8,517 |
| | Payable for capital expenditure | | **1,717** | 1,633 |
| | Withholding tax payable | | **8,484** | 3,317 |
| | Unpaid dividend | | **2,156** | 1,746 |
| | Payable to employee retirement benefit funds | 8.1 | **76,469** | 114,695 |
| | Others | | **1,095** | 800 |
| | | | **1,278,991** | 1,329,665 |
| **9.1** | This includes balances due to following related parties: | | | |
| | AkzoNobel N.V. | | **39,424** | 46,806 |
| | AkzoNobel Car Refinishes B.V. | | **13,977** | 27,447 |
| | AkzoNobel Chemicals (Ningbo) Co. Ltd. | | **13,932** | 8,736 |
| | International Paint Saudi Arabia | | **5,727** | 14,410 |
| | AkzoNobel UAE Paints LLC | | **1,549** | 4,992 |
| | AkzoNobel Surface Chemistry AB | | **1,157** | - |
| | Imperial Chemical Industries Ltd. | | **554** | 1,077 |
| | AkzoNobel Packaging Coatings S.A | | **213** | 252 |
| | International Paint Netherlands | | **177** | 190 |
| | AkzoNobel (Asia Pacific) Pte Ltd. | | **17** | 19 |
| | AkzoNobel Functional Chemicals AB | | **-** | 23,223 |
| | | | **76,727** | 127,152 |
| **9.2** | This includes royalty and technical service fee payable to following related parties: | | | |
| | Imperial Chemical Industries Ltd. | | **163,899** | 80,683 |
| | AkzoNobel Coatings International B.V. | | **25,139** | 4,257 |
| | AkzoNobel Chemicals International B.V. | | **3,945** | 193 |
| | | | **192,983** | 85,133 |

# Notes to the Financial Statements
## For the year ended December 31, 2014

**Amounts in Rs '000**

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| 9.3 | **Workers' Profit Participation Fund** | | | |
| | Balance at beginning of the year | | **49,312** | 26,622 |
| | Allocation for the year | 28 | **35,844** | 49,312 |
| | Interest on funds utilized in the Company's business | 27 | **1,262** | 2,165 |
| | Payments made to the fund during the year | | **(50,574)** | (28,787) |
| | Balance at end of the year | | **35,844** | 49,312 |
| 9.4 | **Workers' Welfare Fund** | | | |
| | Balance at beginning of the year | | **8,517** | 3,671 |
| | Allocation for the year | 28 | **13,899** | 19,121 |
| | Payments made during the year | | **(12,683)** | (14,275) |
| | Balance at end of the year | | **9,733** | 8,517 |

**10 Contingencies and commitments**

| | | 2014 | 2013 |
|---|---|---|---|
| 10.1 | Claims against the Company not acknowledged as debts are as follows: | | |
| | Sales tax authorities | **91,087** | 91,087 |
| | Others | **10,887** | 11,973 |
| | | **101,974** | 103,060 |
| 10.2 | Commitments in respect of capital expenditure | **8,304** | 12,260 |

**10.3** The commitments of future payments under operating leases / Ijarah financing contracts in respect of vehicles in the year in which these payments shall become due are as follows:

| Year | 2014 | 2013 |
|---|---|---|
| **2014** | **-** | 18,727 |
| **2015** | **19,434** | 17,647 |
| **2016** | **18,724** | 13,476 |
| **2017** | **13,242** | 4,933 |
| **2018** | **6,563** | - |
| **2019** | **2,539** | - |
| | **60,502** | 54,783 |
| Payable not later than one year | **19,434** | 18,727 |
| Payable later than one year but not later than five years | **41,068** | 36,056 |
| | **60,502** | 54,783 |

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **11** | **Property, plant and equipment** | | | |
| | Operating property, plant and equipment | 11.1 | **1,247,850** | 1,346,921 |
| | Capital work-in-progress | 11.2 | **29,621** | 9,808 |
| | | | **1,277,471** | 1,356,729 |

**11.1 Operating property, plant and equipment**

| | Note | Freehold land | Buildings on freehold land | Plant and machinery | Furniture and equipment | Vehicles | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance at January 01, 2013 | | 878,960 | 233,719 | 904,178 | 153,533 | 2,911 | 2,173,301 |
| Additions | | - | 31,352 | 69,496 | 18,517 | 732 | 120,097 |
| Disposals | | - | (8,652) | (25,355) | (9,866) | (732) | (44,605) |
| **Balance at December 31, 2013** | | 878,960 | 256,419 | 948,319 | 162,184 | 2,911 | 2,248,793 |
| Balance at January 01, 2014 | | **878,960** | **256,419** | **948,319** | **162,184** | **2,911** | **2,248,793** |
| Additions | | **-** | **5,571** | **23,877** | **8,995** | **461** | **38,904** |
| Disposals | | **-** | **(451)** | **(21,687)** | **(30,454)** | **-** | **(52,592)** |
| **Balance at December 31, 2014** | | **878,960** | **261,539** | **950,509** | **140,725** | **3,372** | **2,235,105** |
| **Accumulated depreciation** | | | | | | | |
| Balance at January 01, 2013 | | - | 133,259 | 574,574 | 81,132 | 2,911 | 791,876 |
| Depreciation for the year | 11.1.1 | - | 26,449 | 80,077 | 33,744 | 439 | 140,709 |
| Disposals | | - | (3,264) | (17,277) | (9,733) | (439) | (30,713) |
| **Balance at December 31, 2013** | | - | 156,444 | 637,374 | 105,143 | 2,911 | 901,872 |
| Balance at January 01, 2014 | | **-** | **156,444** | **637,374** | **105,143** | **2,911** | **901,872** |
| Depreciation for the year | 11.1.1 | **-** | **25,671** | **75,226** | **33,656** | **141** | **134,694** |
| Disposals | | **-** | **(451)** | **(18,673)** | **(30,187)** | **-** | **(49,311)** |
| **Balance at December 31, 2014** | | **-** | **181,664** | **693,927** | **108,612** | **3,052** | **987,255** |
| **Carrying amounts** | | | | | | | |
| At December 31, 2013 | | 878,960 | 99,975 | 310,945 | 57,041 | - | 1,346,921 |
| **At December 31, 2014** | | **878,960** | **79,875** | **256,582** | **32,113** | **320** | **1,247,850** |
| **Depreciation rate - (% per annum)** | | **-** | **5 - 25** | **3.33 - 20** | **10 - 33.3** | **10 - 25** | |

# Notes to the Financial Statements
## For the year ended December 31, 2014

**Amounts in Rs '000**

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **11.1.1** | The depreciation charge for the year has been allocated as follows: | | | |
| | Cost of sales | 24 | **82,848** | 91,758 |
| | Selling and distribution expenses | 25 | **16,107** | 14,620 |
| | Administrative and general expenses | 26 | **35,739** | 34,331 |
| | | | **134,694** | 140,709 |

**11.1.2** Depreciation for the year includes incremental depreciation due to revaluation, amounting to Rs. 4.54 million (2013: Rs. 4.54 million).

**11.1.3** Subsequent to transfer of property, plant and equipment (along with net revaluation surplus of Rs. 526.56 million) from ICI Pakistan Limited on the effective date (July 01, 2011) of the scheme of demerger, specific classes of property, plant and equipment (i.e. freehold land, buildings on freehold land and plant and machinery) of the Company were revalued by an independent valuer. The said revaluation resulted in a surplus of Rs. 371.02 million. Valuations for buildings on freehold land and plant and machinery were based on the estimated gross replacement cost, depreciated to reflect the residual service potential of the assets taking account of the age, conditions and obsolescence. Land was valued on the basis of fair market value.

**11.1.4** Had there been no revaluation, the net book value of specific classes of property, plant and equipment would have amounted to:

| | 2014 | 2013 |
|---|---|---|
| Freehold land | **6,259** | 6,259 |
| Buildings on freehold land | **72,728** | 90,180 |
| Plant and machinery | **252,183** | 304,657 |
| | **331,170** | 401,096 |

**11.1.5** Following assets were disposed-off during the year:

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | **Mode of sale** | **Cost** | **Accumulated depreciation** | **Net book value** | **Sale proceeds** | **Particulars of buyers** |
| **Plant and machinery** | | | | | | |
| Tinting machines | As per agreement | **4,753** | **1,771** | **2,982** | **-** | Fatimid Paints, Karachi, Saqib Traders, Lahore, Jabbar Paints, Sialkot, Sab Rang, Dudhyaal, Zeeshan Paints, Lahore, Milli Paints, Sarae Alamgir and Bismillah Paints, Multan. |
| **Furniture and equipment - Furniture and fixtures** | | | | | | |
| Steel racks | Write-off | **200** | **120** | **80** | **-** | Written-off |
| Other assets with book value less than Rs. 50,000 | | **47,639** | **47,420** | **219** | **609** | |
| | | **52,592** | **49,311** | **3,281** | **609** | |

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | Mode of sale | Cost | Accumulated depreciation | Net book value | Sale proceeds | Particulars of buyers |
|---|---|---|---|---|---|---|
| | | | | 2013 | | |
| **Buildings on freehold land** | | | | | | |
| D.P Warehouse | Negotiation | 8,652 | 3,264 | 5,388 | 1,180 | Al-Hammad Traders, Asim Town, Lahore, Maksons Engineering, Mall Plaza, Rawalpindi and Falcon International, Sheikhupura. |
| **Plant and machinery** | | | | | | |
| D.P Warehouse | Negotiation | 8,514 | 4,149 | 4,365 | 1,123 | Haseen Habib Corporation (Pvt.) Ltd., Kot Lakhpat, Lahore and Younas Kabaria, Spanwala Bazar, Chungi Amar Sidhu, Lahore. |
| Tinting machines | As per Agreement | 7,580 | 4,080 | 3,500 | - | Lasani Paint, Lahore, City Paint, Peshawar, R.K Paints, Rawalpindi, Zareen Paint House, Haripur, Royal Paint House, Sialkot, Raja Paints, Lahore, Zain Traders, Abbotabad, Mughal Paints, Depalpur, Shani Paints, Gujranwala, and M.Siddiq Paint Corner, Karachi. |
| Cold storage, compressors and ventilation system | Negotiation | 7,582 | 7,369 | 213 | 1,090 | Bismillah Traders, Gujjarpura, Lahore. |
| **Furniture and equipment - IT Equipments** | | | | | | |
| Laptop | Insurance claim | 108 | 27 | 81 | 80 | Adamjee Insurance Company Limited. |
| IT and miscellaneous | Write-off | 5,291 | 5,240 | 51 | - | Written-off |
| **Vehicles** | | | | | | |
| Toyota corolla | Entitlement | 732 | 439 | 293 | 322 | Waqar Mustafa Khan (Employee) |
| Other assets with book value less than Rs. 50,000 | | 6,167 | 6,145 | 22 | 715 | |
| | | **44,626** | **30,713** | **13,913** | **4,510** | |

| | | 2014 | 2013 |
|---|---|---|---|
| 11.2 | **Capital work-in-progress** | | |
| | Civil works and buildings | **5,324** | 1,534 |
| | Plant and machinery | **23,688** | 7,123 |
| | Equipments | **609** | 1,151 |
| | | **29,621** | 9,808 |

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

**12 Intangibles**

| | Software | Licenses | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at January 01, 2013 | 2,800 | 87,072 | 89,872 |
| Additions | 429 | 6,794 | 7,223 |
| **Balance at December 31, 2013** | 3,229 | 93,866 | 97,095 |
| Balance at January 01, 2014 | **3,229** | **93,866** | **97,095** |
| Additions | **730** | **2,689** | **3,419** |
| Written-off | **(2,800)** | **-** | **(2,800)** |
| **Balance at December 31, 2014** | **1,159** | **96,555** | **97,714** |
| **Accumulated amortization** | | | |
| Balance at January 01, 2013 | 2,660 | 44,192 | 46,852 |
| Amortization | 235 | 25,810 | 26,045 |
| **Balance at December 31, 2013** | 2,895 | 70,002 | 72,897 |
| Balance at January 01, 2014 | **2,895** | **70,002** | **72,897** |
| Amortization | **346** | **20,874** | **21,220** |
| Amortization on assets written-off | **(2,800)** | **-** | **(2,800)** |
| **Balance at December 31, 2014** | **441** | **90,876** | **91,317** |
| **Carrying amounts** | | | |
| At December 31, 2013 | 334 | 23,864 | 24,198 |
| **At December 31, 2014** | **718** | **5,679** | **6,397** |
| **Amortization rate - (% per annum)** | **20 - 50** | **20 - 50** | |

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **12.1** | The amortization charge for the year has been allocated as follows: | | | |
| | Selling and distribution expenses | 25 | **203** | - |
| | Administrative and general expenses | 26 | **21,017** | 26,045 |
| | | | **21,220** | 26,045 |

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **13** | **Long term loans** | | | |
| | Secured - considered good | | | |
| | - Directors and executives | 13.1 | **63,816** | 53,298 |
| | - Other employees | | **32,122** | 34,877 |
| | | | **95,938** | 88,175 |
| | Receivable within one year | 19 | **(31,347)** | (24,764) |
| | | | **64,591** | 63,411 |

| | | 2014 | 2013 |
|---|---|---|---|
| **13.1** | Reconciliation of the carrying amount of loans to directors and executives: | | |
| | Balance at beginning of the year | **53,298** | 43,730 |
| | Disbursements | **41,779** | 36,239 |
| | Repayments / adjustments | **(31,261)** | (26,671) |
| | Balance at end of the year | **63,816** | 53,298 |

**13.2** Loans to employees are provided for purchase of motorcycle, motor car and construction of house. Vehicle loans are secured against registration documents of vehicles and house building loans are secured against provident fund, gratuity, pension or any other dues payable to the employees.

**13.3** Loans for purchase of motor cars and house building are repayable between two to ten years. These loans are interest free and granted to the employees including executives of the Company in accordance with their terms of employment.

**13.4** The maximum aggregate amount of long term loans due from the executive directors and other executives at the end of any month during the year was Rs. 0.89 million (2013: Rs. 3.57 million) and Rs. 74.21 million (2013: Rs. 59.09 million) respectively.

| | | 2014 | 2013 |
|---|---|---|---|
| **14** | **Long term deposits and prepayments** | | |
| | Deposits | **4,470** | 4,087 |
| | Prepayments | **1,284** | 1,768 |
| | | **5,754** | 5,855 |

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

**15 Deferred tax asset - net**

| | 2014 | | | |
|---|---|---|---|---|
| | **Balance at beginning of the year** | **Recognized in profit and loss** | **Recognized in other comprehensive income** | **Balance at end of the year** |
| **Deductible temporary differences** | | | | |
| Provisions and tax credits | **178,074** | **36,208** | **-** | **214,282** |
| **Taxable temporary differences** | | | | |
| Property, plant and equipment and intangibles | **(54,349)** | **24,168** | **-** | **(30,181)** |
| | **123,725** | **60,376** | **-** | **184,101** |

| | 2013 | | | |
|---|---|---|---|---|
| | Balance at beginning of the year | Recognized in profit and loss | Recognized in other comprehensive income | Balance at end of the year |
| **Deductible temporary differences** | | | | |
| Provisions and tax credits | 274,613 | (48,388) | (48,151) | 178,074 |
| **Taxable temporary differences** | | | | |
| Property, plant and equipment and intangibles | (63,128) | 8,779 | - | (54,349) |
| | 211,485 | (39,609) | (48,151) | 123,725 |

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **16** | **Stores and spares** | | | |
| | Stores | | **5,729** | 7,003 |
| | Spares | | **22,922** | 24,723 |
| | | | **28,651** | 31,726 |
| | Provision for slow moving and obsolete stores and spares | 16.1 | **(9,283)** | (7,444) |
| | | | **19,368** | 24,282 |
| **16.1** | Provision for slow moving and obsolete stores and spares | | | |
| | Balance at beginning of the year | | **7,444** | 7,444 |
| | Charge for the year | 24 | **1,839** | - |
| | Balance at end of the year | | **9,283** | 7,444 |

**16.2** Stores and spares does not include any item that has been purchased for the purpose of capital expenditure.

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **17** | **Stock-in-trade** | | | |
| | Raw and packing material | 17.1 | **200,373** | 329,229 |
| | Work-in-process | | **10,069** | 18,498 |
| | Finished goods | 17.2 & 17.3 | **184,168** | 292,545 |
| | | | **394,610** | 640,272 |
| | Provision for slow moving and obsolete stocks: | | | |
| | - Raw material | | **(16,679)** | (14,794) |
| | - Finished goods | | **(18,342)** | (31,768) |
| | | 17.4 | **(35,021)** | (46,562) |
| | | | **359,589** | 593,710 |

**17.1** Raw and packing material includes items in-transit as at December 31, 2014 amounting to Rs. 50.48 million (2013: Rs. 158.14 million).

**17.2** Finished goods include items in-transit as at December 31, 2014 aggregating to Rs. 2.58 million (2013: Rs. 16.68 million).

**17.3** Finished goods include trading items amounting to Rs. 65.98 million (2013: Rs. 63.96 million).

| | | 2014 | 2013 |
|---|---|---|---|
| **17.4** | **Provision for stock-in-trade** | | |
| | Balance at beginning of the year | **46,562** | 98,697 |
| | Stock written-off against provision | **(9,020)** | (32,566) |
| | Provision written back | **(2,521)** | (19,040) |
| | Transfers / reclassification | **-** | (529) |
| | Balance at end of the year | **35,021** | 46,562 |

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **18** | **Trade debts** | | | |
| | **Considered good** | | | |
| | - Secured | 18.1 | **42,050** | 17,124 |
| | - Unsecured | | **823,042** | 786,601 |
| | | | **865,092** | 803,725 |
| | Considered doubtful | | **248,173** | 242,276 |
| | | | **1,113,265** | 1,046,001 |
| | Provision for | | | |
| | - Doubtful debts | 18.2 | **(248,173)** | (242,276) |
| | - Discounts | 18.3 | **(355,116)** | (256,776) |
| | | | **(603,289)** | (499,052) |
| | | | **509,976** | 546,949 |

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **18.1** | These debts are secured against letters of credit. | | | |
| **18.2** | **Provision for doubtful debts** | | | |
| | Balance at beginning of the year | | **242,276** | 272,782 |
| | Charge for the year | 26 | **50,471** | 8,175 |
| | Debts written-off against provision | | **(44,574)** | (77,508) |
| | Transfers / reclassification | | **-** | 38,827 |
| | Balance at end of the year | | **248,173** | 242,276 |
| **18.3** | **Provision for discounts** | | | |
| | Balance at beginning of the year | | **256,776** | 268,050 |
| | Charge for the year | | **791,084** | 750,020 |
| | Provision written back | | **(16,300)** | - |
| | Discounts paid during the year | | **(676,444)** | (747,706) |
| | Transfers / reclassification | | **-** | (13,588) |
| | Balance at end of the year | | **355,116** | 256,776 |
| **19** | **Loans and advances** | | | |
| | **Secured - considered good** | | | |
| | Current portion of loans to: | | | |
| | - Directors and executives | | **22,565** | 17,616 |
| | - Other employees | | **8,782** | 7,148 |
| | | | **31,347** | 24,764 |
| | Advances to: | | | |
| | - Executives | 19.1 | **137** | 244 |
| | - Other employees | | **-** | 218 |
| | | | **137** | 462 |
| | **Unsecured - considered good** | | | |
| | Advances to contractors and suppliers | | **1,614** | 26,928 |
| | | | **33,098** | 52,154 |

**19.1** These are advances to executives in respect of travelling expenses. The maximum aggregate amount of advances due from the executives at the end of any month during the year was Rs. 2.46 million (2013: Rs. 0.94 million).

| | | | 2014 | 2013 |
|---|---|---|---|---|
| **20** | **Trade deposits and short term prepayments** | | | |
| | Trade deposits | | **4,817** | 1,350 |
| | Short term prepayments | | **12,530** | 6,826 |
| | | | **17,347** | 8,176 |

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **21** | **Other receivables** | | | |
| | **Unsecured - considered good** | | | |
| | Due from related parties | 21.1 | **6,804** | 18,202 |
| | Insurance claims | | **506** | 37 |
| | Others | | **5,327** | 17,214 |
| | | | **12,637** | 35,453 |
| **21.1** | These represent receivable from following related parties: | | | |
| | AkzoNobel UAE Paints LLC | | **2,020** | - |
| | AkzoNobel N.V. | | **1,833** | 17,780 |
| | AkzoNobel Car Refinishes B.V. | | **1,683** | 313 |
| | AkzoNobel Chemicals (Ningbo) Co. Ltd. | | **970** | - |
| | AkzoNobel Functional Chemicals LLC | | **196** | - |
| | ICI Swire Paints (Shanghai) Ltd. | | **102** | 109 |
| | | | **6,804** | 18,202 |
| | Aging of receivables from related parties is as follows: | | | |
| | 1 - 30 days | | **1,858** | 3,139 |
| | 31 - 90 days | | **2,610** | - |
| | 91 - 120 days | | **607** | - |
| | more than 120 days | | **1,729** | 15,063 |
| | | | **6,804** | 18,202 |
| **22** | **Cash and bank balances** | | | |
| | Cash in hand | | **8,927** | 17,412 |
| | Cash at bank - current accounts | 22.1 | **333,077** | 324,583 |
| | Short term deposits | 22.2 | **1,137,918** | 1,062,511 |
| | | | **1,479,922** | 1,404,506 |

**22.1** This includes US dollars amounting USD 140,013.32 (2013: USD 101,617.17).

**22.2** These represent Term Deposit Receipts placed with commercial banks, having maturity period ranging from 2 to 33 days (2013: 2 weeks to 3 months). The mark-up on these deposits ranges between 7% to 8.47% (2013: 7.75% to 8.25%) per annum.

**22.3** The facility for running finance and issuance of letters of credit is available from Deutsche Bank amounting to Rs. 391 million (2013: 391 million). The facility carries mark-up at the rate of 1 month KIBOR plus 1% per annum (2013: 1 month KIBOR plus 1% per annum) and is secured by parental guarantee from AkzoNobel N.V., first pari passu hypothecation charge over the current assets of the Company amounting to Rs. 90 million, demand promissory note and counter guarantee / indemnity duly signed and stamped by the Company.

## Notes to the Financial Statements
## For the year ended December 31, 2014

**Amounts in Rs '000**

**22.4** The facility for issuance of letters of credit and discounting of local documentary bills payable is available from Habib Metropolitan Bank Limited amounting to Rs. 300 million (2013: 300 million) carrying commission / mark-up at the rate of 0.075% (2013: 0.075%) and relevant KIBOR per annum, respectively. The facility is secured by lien on import bills of lading / local documents and goods, import or local documents made to the order of the bank, trust receipt and accepted local documentary bills drawn under local letters of credit of approved banks without recourse to the Company.

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **23** | **Net sales** | | | |
| | Export sales to Afghanistan | | **47,374** | 63,280 |
| | Local sales and commission income | | **6,868,100** | 7,061,532 |
| | | | **6,915,474** | 7,124,812 |
| | Sales tax and excise duty | | **(1,069,301)** | (1,011,707) |
| | Discounts | | **(944,382)** | (847,961) |
| | | | **(2,013,683)** | (1,859,668) |
| | | | **4,901,791** | 5,265,144 |
| **24** | **Cost of sales** | | | |
| | Raw and packing materials consumed | | **2,379,242** | 2,720,502 |
| | Salaries, wages and benefits | 24.1 | **100,880** | 104,721 |
| | Fuel and power | | **45,558** | 48,999 |
| | Stores and spares consumed | | **12,720** | 8,712 |
| | Rent, rates and taxes | | **-** | 9,701 |
| | Insurance | | **20,213** | 15,300 |
| | Repairs and maintenance | | **14,807** | 13,795 |
| | Royalties and technical assistance | 24.2 | **162,495** | 127,305 |
| | Depreciation | 11.1.1 | **82,848** | 91,758 |
| | Communication expenses | | **2,155** | 2,368 |
| | Contractual services | | **35,300** | 35,380 |
| | Security, safety, health and environment | | **8,008** | 11,205 |
| | Provision for slow moving and obsolete stores and spares | 16.1 | **1,839** | - |
| | General expenses | | **17,439** | 16,323 |
| | | | **504,262** | 485,567 |
| | Opening work-in-process | | **18,498** | 23,353 |
| | Closing work-in-process | 17 | **(10,069)** | (18,498) |
| | **Cost of goods manufactured** | | **2,891,933** | 3,210,924 |
| | Opening finished goods | | **260,777** | 220,309 |
| | Finished goods purchased | | **142,746** | 155,722 |
| | Closing finished goods | 17 | **(165,826)** | (260,777) |
| | | | **3,129,630** | 3,326,178 |

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

**24.1** Salaries, wages and benefits include Rs. 3.13 million (2013: Rs. 3.17 million) in respect of provident fund contributions, Rs. 4.82 million (2013: Rs. 4.45 million) in respect of pensions, Rs. 4.71 million (2013: Rs. 4.13 million) in respect of gratuity and Rs. 0.79 million (2013: Rs. 0.84 million) in respect of pensioners' medical plan.

**24.2** Royalties and technical assistance includes expenses against royalties and technical services obtained from the related parties; Imperial Chemical Industries Ltd. amounting to Rs. 124.76 million (2013: Rs. 101 million), AkzoNobel Coatings International B.V. amounting to Rs. 26.41 million (2013: Rs. 18.28 million) and AkzoNobel Chemicals International B.V. amounting to Rs. 3.94 million (2013: Rs. 1 million).

**24.3** Salaries, wages and benefits and general expenses include Ijarah rentals amounting to Rs. 2.27 million (2013: Rs. 2.24 million).

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **25** | **Selling and distribution expenses** | | | |
| | Salaries and benefits | 25.1 | **269,168** | 269,336 |
| | Advertising and publicity expenses | | **279,900** | 334,367 |
| | Outward freight and handling | | **136,160** | 173,136 |
| | Fuel and power | | **6,280** | 5,050 |
| | Rent, rates and taxes | | **22,131** | 19,020 |
| | Repairs and maintenance | | **2,003** | 3,168 |
| | Depreciation | 11.1.1 | **16,107** | 14,620 |
| | Amortization | 12.1 | **203** | - |
| | Travelling expenses | | **34,256** | 34,323 |
| | Communication charges | | **8,366** | 8,816 |
| | Contractual services | | **24,901** | 23,839 |
| | Training and recruitment | | **4,646** | 5,921 |
| | Security, safety, health and environment | | **8,077** | 8,950 |
| | General expenses | | **8,123** | 10,722 |
| | | | **820,321** | 911,268 |

**25.1** Salaries and benefits include Rs. 9.87 million (2013: Rs. 9.13 million) in respect of provident fund contributions, Rs. 11.98 million (2013: Rs. 9.95 million) in respect of pensions, Rs. 11.60 million (2013: Rs. 8.93 million) in respect of gratuity and Rs. 2.44 million (2013: Rs. 2.13 million) in respect of pensioners' medical plan.

**25.2** Salaries and benefits and general expenses include Ijarah rentals amounting to Rs. 7.43 million (2013: Rs. 6.85 million).

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **26** | **Administrative and general expenses** | | | |
| | Salaries and benefits | 26.1 | **157,990** | 160,483 |
| | Fuel and power | | **5,702** | 6,794 |
| | Rent, rates and taxes | | **9,969** | 8,277 |
| | Insurance | | **2,212** | 2,194 |
| | Repairs and maintenance | | **8,121** | 10,517 |
| | Depreciation | 11.1.1 | **35,739** | 34,331 |
| | Amortization | 12.1 | **21,017** | 26,045 |
| | Provision for doubtful debts | | **50,471** | 8,175 |
| | Travelling expenses | | **6,837** | 9,390 |
| | Communication charges | | **11,535** | 10,787 |
| | IT services | | **34,676** | 42,842 |
| | Contractual services | | **18,183** | 15,765 |
| | Training and recruitment | | **4,912** | 6,880 |
| | General expenses | | **27,558** | 40,773 |
| | | | **394,922** | 383,253 |

**26.1** Salaries and benefits include Rs. 5.11 million (2013: Rs. 5.12 million) in respect of provident fund contributions, Rs. 10.05 million (2013: Rs. 7.45 million) in respect of pensions, Rs. 7.33 million (2013: Rs. 5.61 million) in respect of gratuity and Rs. 1.53 million (2013: Rs. 1.55 million) in respect of pensioners' medical plan.

**26.2** Salaries and benefits and general expenses include Ijarah rentals amounting to Rs. 8.65 million (2013: Rs. 6.21 million).

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **27** | **Finance cost** | | | |
| | Discounting charges on receivables | | **1,694** | 11,173 |
| | Interest on Workers' Profit Participation Fund | 9.3 | **1,262** | 2,165 |
| | Exchange loss | | **-** | 14,757 |
| | Bank charges | | **6,778** | 7,124 |
| | | | **9,734** | 35,219 |
| **28** | **Other charges** | | | |
| | Auditors' remuneration | 28.1 | **2,000** | 2,679 |
| | Workers' Profit Participation Fund | 9.3 | **35,844** | 49,312 |
| | Workers' Welfare Fund | 9.4 | **13,899** | 19,121 |
| | Loss on disposal of property, plant and equipment | | **2,672** | 9,403 |
| | | | **54,415** | 80,515 |

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| 28.1 | **Auditors' remuneration** | | | |
| | Audit fee | | **1,500** | 1,500 |
| | Other assurances and certifications | | **300** | 1,090 |
| | Out of pocket expenses | | **200** | 89 |
| | | | **2,000** | 2,679 |
| 29 | **Other income** | | | |
| | ***Income from financial assets*** | | | |
| | Profit on short-term and call deposits | | **74,687** | 176,500 |
| | Exchange gain - net | | **19,538** | - |
| | ***Income from non-financial assets*** | | | |
| | Scrap sales | | **10,688** | 10,937 |
| | ***Others*** | | | |
| | Provisions no longer required written back: | | | |
| | - Employee retirement benefits | | **-** | 65,666 |
| | - Obsolete stocks | | **2,521** | 19,040 |
| | - Others | | **58,720** | 122,812 |
| | Miscellaneous | | **19,576** | 13,269 |
| | | | **185,730** | 408,224 |
| 30 | **Taxation** | | | |
| | Current year | | **278,769** | 250,542 |
| | Prior year | | **1,250** | 41,058 |
| | Deferred | 15 | **(60,376)** | 39,609 |
| | | | **219,643** | 331,209 |
| 30.1 | **Tax charge reconciliation** | | | |
| | Profit before taxation | | **678,499** | 936,935 |
| | Tax using domestic rates | | **223,905** | 318,558 |
| | Effect of prior year change | | **1,250** | 41,058 |
| | Tax impact on income under FTR of the current year | | **10,768** | 11,162 |
| | Tax impact due to reversal of other comprehensive income related deferred tax assets | | **-** | (48,151) |
| | Others | | **(16,280)** | 8,582 |
| | Net tax charged | | **219,643** | 331,209 |

# Notes to the Financial Statements
# For the year ended December 31, 2014

Amounts in Rs '000

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **31** | **Earnings per share** | | | |
| **31.1** | **Basic earnings per share** | | | |
| | Profit after taxation | | **458,856** | 605,726 |
| | | | **Number of shares** | |
| | Weighted average number of ordinary shares | | **46,443,320** | 46,443,320 |
| | | | **Rupees** | |
| | Earnings per share | 31.2 | **9.88** | 13.04 |

**31.2** **Diluted earnings per share**

There is no dilutive effect as the Company does not have any convertible instruments in issue as at December 31, 2014 and December 31, 2013.

**32** **Operating segments**

**32.1** These financial statements have been prepared on the basis of single reportable segment.

**32.2** Revenue from sale of paints represents 98.76% (2013: 99.25%) of the total revenue of the Company.

**32.3** 99.31% (2013: 99.11%) sales of the Company relate to customers in Pakistan.

**32.4** All non-current assets of the Company as at December 31, 2014 are located in Pakistan.

**33** **Remuneration of chief executive, directors and executives**

| | Chief executive | | Executive director | | Executives | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| Managerial remuneration | **15,301** | 13,172 | **8,479** | 7,155 | **161,199** | 143,746 |
| Medical | **123** | 60 | **312** | 936 | **8,729** | 7,719 |
| Utilities | **1,360** | 1,157 | **694** | 587 | **11,363** | 10,285 |
| Retirement benefits | **7,027** | 5,463 | **3,929** | 3,039 | **55,783** | 45,881 |
| Group insurance | **49** | 49 | **31** | 31 | **1,300** | 1,151 |
| Rent and house maintenance | **5,441** | 4,629 | **3,122** | 2,643 | **45,369** | 41,562 |
| | **29,301** | 24,530 | **16,567** | 14,391 | **283,743** | 250,344 |
| Number of persons | **1** | 1 | **1** | 1 | **117** | 111 |

* The chief executive and the executive director hold 10 shares each of the Company.

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

**33.1** In addition to above, an amount of Rs. 39.28 million (2013: Rs. 53.08 million) on account of variable pay to employees has been recognized in the current year. This is payable in the year 2015 after verification of achievements against target.

**33.2** Out of variable pay recognized for 2013, payments of Rs. 8.53 million (2013: Rs. 5.21 million) and Rs. 56.58 million (2013: Rs. 19.40 million) were made to chief executive and executives respectively.

**33.3** The chief executive, one director and certain executives are provided with free use of Company maintained cars in accordance with their entitlement.

**33.4** Fees paid to chairman and non-executive director amounted to Rs. 1.7 million (2013: Rs. 1.7 million) for attending board and other meetings. The total non-executive directors of the Company as at December 31, 2014 are 5 (2013: 5).

**33.5** Executives are employees whose basic salaries exceed Rs. 500,000 in a financial year.

## 34 Transactions with related parties

The related parties comprise parent company (ICI Omicron B.V.), ultimate parent company (AkzoNobel N.V.), related group companies, directors of the Company, companies where directors also hold directorship, key employees and staff retirement funds. Detail of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements is as follows:

| | **2014** | 2013 |
|---|---|---|
| **Holding Company** | | |
| Dividend paid - net of tax | **522,864** | 2,490,732 |
| **Associates** | | |
| Purchase of goods, materials and services | **222,190** | 195,965 |
| Indenting commission income | **11,284** | 5,668 |
| Sale of goods and services | **2,355** | 1,912 |
| Reimbursement of expenses | **11,835** | 10,289 |
| Royalty | **181,659** | 74,311 |

**34.1** The above transactions were carried out at, in accordance with the Company's accounting policy.

## 35 Fair value of financial assets and liabilities

The carrying amounts of the financial assets and financial liabilities approximate their fair values and are determined on the basis of non observable market data.

## 36 Financial risk management

The Company's activities expose it to a variety of financial risks:
- Credit risk
- Liquidity risk
- Market risk  (including currency risk, interest rate risk and price risk)

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

The Company's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

## 36.1 Risk management framework

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

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

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

## 36.2 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted, without taking into account the fair value of any collateral. The Company does not have significant exposure to any individual counter party. To reduce exposure to credit risk the Company has developed a formal approval process whereby credit limits are applied to its customers. The management also continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery. To mitigate the risk, the Company has a system of assigning credit limits to its customers based on an extensive evaluation based on customer profile and payment history. Outstanding customer receivables are regularly monitored. Some customers are also secured, where possible, by way of inland letters of credit.

### 36.2.1 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the balance sheet date was:

| | Note | 2014 | 2013 |
|---|---|---|---|
| Long term loans | 13 | **64,591** | 63,411 |
| Current portion of long term loans | 19 | **31,347** | 24,764 |
| Long term deposits | 14 | **4,470** | 4,087 |
| Trade debts | 18 | **509,976** | 546,949 |
| Advances to employees | 19 | **137** | 462 |
| Trade deposits | 20 | **4,817** | 1,350 |
| Other receivables | 21 | **12,637** | 35,453 |
| Interest accrued | | **3,116** | 9,482 |
| Bank balances and short term deposits | 22 | **1,470,995** | 1,387,094 |
| | | **2,102,086** | 2,073,052 |

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Secured** | | | |
| Long term loans | 13 | **64,591** | 63,411 |
| Current portion of long term loans | 19 | **31,347** | 24,764 |
| Trade debts | 18 | **42,050** | 17,124 |
| Advances to employees | 19 | **137** | 462 |
| | | **138,125** | 105,761 |
| **Unsecured** | | **1,963,961** | 1,967,291 |
| | | **2,102,086** | 2,073,052 |

**36.2.2 Credit quality of financial assets**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty.

**36.2.2.1 Bank balances and accrued interest on short term deposits**

The Company's exposure to credit risk against balances with various commercial banks is as follows:

| | Note | 2014 | 2013 |
|---|---|---|---|
| - Bank balances and short term deposits | 22 | **1,470,995** | 1,387,094 |
| - Interest accrued | | **3,116** | 9,482 |
| | | **1,474,111** | 1,396,576 |

| | Ratings | | | | |
|---|---|---|---|---|---|
| | **Short term** | **Long term** | **Rating agency** | | |
| Barclays Bank Pakistan | P-1 | A2 | Moody's | **838,272** | - |
| United Bank Limited | A-1+ | AA+ | JCR-VIS | **312,763** | 307,815 |
| Citi Bank Lahore | P-1 | A2 | Moody's | **284,886** | 15,066 |
| Deutsche Bank | P-1 | A3 | Moody's | **38,140** | 1,073,646 |
| Habib Metropolitan Bank | A1+ | AA+ | PACRA | **50** | 49 |
| | | | | **1,474,111** | 1,396,576 |

**36.2.2.2 Trade debts**

The trade debts as at the balance sheet date are classified in Pak Rupees. The aging of trade debts which are past due at the reporting date is as follows:

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Neither past due nor impaired** | | **720,747** | 751,912 |
| **Past due** | | | |
| 1 - 30 days | | **118,494** | 59,914 |
| 31 - 90 days | | **54,398** | 49,972 |
| 91 - 120 days | | **19,736** | 6,793 |
| more than 120 days | | **199,890** | 177,410 |
| | | **392,518** | 294,089 |
| | | **1,113,265** | 1,046,001 |
| Provision for doubtful debts | 18.2 | **(248,173)** | (242,276) |
| Provision for discounts | 18.3 | **(355,116)** | (256,776) |
| | | **509,976** | 546,949 |

The maximum exposure to credit risk for past due and impaired at the reporting date by type of counterparty is:

| | Note | 2014 | 2013 |
|---|---|---|---|
| Wholesale customers | | **71,548** | 41,954 |
| Retail customers | | **256,010** | 215,581 |
| End-user customers | | **64,960** | 36,554 |
| | | **392,518** | 294,089 |
| Provision for doubtful debts | 18.2 | **(248,173)** | (242,276) |
| | | **144,345** | 51,813 |

The approach for provision is to assess the top layer (covering 50%) of trade receivables on an individual basis and apply, dynamic approach to the remainder of receivables. The procedure introduces a company-standard for dynamic provisioning:

- Provide impairment loss for 50% of the outstanding receivable when overdue more than 90 days, and

- Provide an impairment loss for 100% when overdue more than 120 days.

**36.2.2.3 Other receivables and deposits**

Other receivables include balance of Rs. 6.80 million (2013: Rs. 18.20 million) receivable from related parties as mentioned in Note 21.1. The remaining other receivables and deposits mainly pertain to balances due from government authorities and employees which are expected to be received in due course. Based on past experience the credik risk related to these finanacial assets is not material.

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | Note | 2014 | 2013 |
|---|---|---|---|

### 36.2.3 Concentration risk

Concentration of credit risk exists when the changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial assets is broadly diversified and all other transactions are entered into with credit-worthy counterparties there-by mitigating any significant concentrations of credit risk.

| | Note | 2014 | 2013 |
|---|---|---|---|
| Textile | | **1,987** | 843 |
| Paper and Board | | **1,118** | 1,294 |
| Chemicals | | **900** | 2,090 |
| Pharmaceuticals | | **255** | 55 |
| Construction | | **2,708** | 3,891 |
| Transport | | **27,569** | 21,117 |
| Dealers | | **945,782** | 902,542 |
| Banks | | **1,474,111** | 1,396,576 |
| Employees | | **96,075** | 88,637 |
| Others | | **154,870** | 155,059 |
| | | **2,705,375** | 2,572,104 |
| Provision for doubtful debts | 18.2 | **(248,173)** | (242,276) |
| Provision for discounts | 18.3 | **(355,116)** | (256,776) |
| | | **(603,289)** | (499,052) |
| | | **2,102,086** | 2,073,052 |

### 36.3 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure as far as possible to always have sufficient liquidity to meet its liabilities when due. The Company is not materially exposed to liquidity risk as substantially all obligations / commitments of the Company are short term in nature and are restricted to the extent of available liquidity. In addition, the Company has obtained running finance facilities from Deutsche Bank to meet any deficit, if required, to meet the short term liquidity commitments.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the maturity date. The following are contractual maturities of financial liabilities at December 31, 2014:

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

| | Carrying amount | Contractual cash flows | Up to one year or less |
|---|---|---|---|
| ***Non-derivative financial liabilities*** | | | |
| Trade and other payables | **1,278,991** | **1,278,991** | **1,278,991** |
| Provision for taxation | **55,888** | **55,888** | **55,888** |
| ***Derivative financial liabilities*** | | | |
| Forward foreign exchange contracts | **(55)** | **7,290** | **7,290** |
| | **1,334,824** | **1,342,169** | **1,342,169** |

The following are contractual maturities of financial liabilities at December 31, 2013:

| | Carrying amount | Contractual cash flows | Up to one year or less |
|---|---|---|---|
| ***Non-derivative financial liabilities*** | | | |
| Trade and other payables | 1,329,665 | 1,329,665 | 1,329,665 |
| Provision for taxation | 5,802 | 5,802 | 5,802 |
| ***Derivative financial liabilities*** | | | |
| Forward foreign exchange contracts | (3,022) | 97,782 | 97,782 |
| | 1,332,445 | 1,433,249 | 1,433,249 |

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

**36.4 Market risk**

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

**36.4.1 Interest rate risk**

Interest rate risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At the reporting date the interest rate profile of Company's interest-bearing financial instruments were:

| | | Effective rate | | Carrying amount | |
|---|---|---|---|---|---|
| | **Note** | **2014** | 2013 | **2014** | 2013 |
| **Fixed rate instruments** | | | | | |
| Financial assets | 22 | **7% to 8.47%** | 7.75% to 8.25% | **1,137,918** | 1,062,511 |

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

***Sensitivity analysis for fixed rate instruments***

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

## 36.4.2 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency risk arises mainly where receivables and payables exist due to transactions entered into are denominated in foreign currencies. The Company is exposed to foreign currency risk on sales and purchases, which are entered in a currency other than Pak Rupees. To hedge this risk, the Company has entered into forward foreign exchange contracts in accordance with instructions of State Bank of Pakistan and the Company's Treasury policy. The policy allows the Company to take currency exposure within predefined limits while open exposures are rigorously monitored.

The individual foreign currency wise exposure in Pak Rupees is as follows:

| | 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **AED** | **JPY** | **SAR** | **SGD** | **EUR** | **USD** | **GBP** | **Total** |
| **Financial assets** | | | | | | | | |
| Due from related parties | - | - | - | - | 3,516 | 3,288 | - | 6,804 |
| Cash and bank balances | - | - | - | - | - | 14,069 | - | 14,069 |
| | - | - | - | - | 3,516 | 17,357 | - | 20,873 |
| **Financial liabilities** | | | | | | | | |
| Trade and other payables | - | 18,166 | - | - | 7,525 | 24,048 | 2,741 | 52,480 |
| Due to related parties | - | - | - | 17 | 54,772 | 21,386 | 554 | 76,729 |
| | - | (18,166) | - | (17) | (62,297) | (45,434) | (3,295) | (129,209) |
| **Gross balance sheet exposure** | - | (18,166) | - | (17) | (58,781) | (28,077) | (3,295) | (108,336) |
| Forward foreign exchange contracts | - | - | - | - | - | 7,290 | - | 7,290 |
| | - | (18,166) | - | (17) | (58,781) | (20,787) | (3,295) | (101,046) |

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | AED | JPY | SAR | SGD | EUR | USD | GBP | Total |
| **Financial assets** | | | | | | | | |
| Due from related parties | 1,448 | - | - | - | 3,139 | 14,750 | - | 19,337 |
| Cash and bank balances | - | - | - | - | - | 10,736 | - | 10,736 |
| | 1,448 | - | - | - | 3,139 | 25,486 | - | 30,073 |
| **Financial liabilities** | | | | | | | | |
| Trade and other payables | - | 1,172 | - | - | 1,406 | 22,582 | 1,765 | 26,925 |
| Due to related parties | 811 | - | 1,077 | 19 | 73,173 | 52,443 | 1,077 | 128,600 |
| | (811) | (1,172) | (1,077) | (19) | (74,579) | (75,025) | (2,842) | (155,525) |
| **Gross balance sheet exposure** | 637 | (1,172) | (1,077) | (19) | (71,440) | (49,539) | (2,842) | (125,452) |
| Forward foreign exchange contracts | - | - | - | - | - | 97,782 | - | 97,782 |
| | 637 | (1,172) | (1,077) | (19) | (71,440) | 48,243 | (2,842) | (27,670) |

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

**36.4.2.1** Significant exchange rates applied during the year were as follows:

| | Average rate for the year | | Spot rate as at December 31, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| AED | **27.61** | 27.64 | **27.36** | 28.62 |
| JPY | **0.95** | 2.07 | **0.84** | 1.00 |
| SAR | **26.95** | 27.21 | **26.77** | 28.18 |
| SGD | **79.64** | 81.41 | **76.04** | 83.30 |
| EUR | **133.50** | 135.94 | **122.12** | 145.24 |
| USD | **101.11** | 102.06 | **100.48** | 105.69 |
| GBP | **166.25** | 159.97 | **156.56** | 174.18 |

**Sensitivity analysis**

Every 1% increase or decrease in exchange rate, with all other variables held constant, will increase or decrease profit for the year by Rs. 1.16 million (2013: Rs. 2.23 million).

The sensitivity analysis prepared is not necessarily indicative of the effects on profit / (loss) for the year and assets / liabilities of the Company.

**36.5 Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within the Company. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

# Notes to the Financial Statements
# For the year ended December 31, 2014

**Amounts in Rs '000**

**36.6 Capital risk management**

The Company's objective when managing capital is to safe guard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders or issue new shares.

| | | **2014** | 2013 |
|---|---|---|---|
| **36.7** | **Classification of financial instruments** | | |
| | **Non-derivative financial assets** | | |
| | **Loans and advances** | | |
| | Long term loans | **64,591** | 63,411 |
| | Current portion of long term loans | **31,347** | 24,764 |
| | Long term deposits | **4,470** | 4,087 |
| | Trade debts | **509,976** | 546,949 |
| | Advances to employees | **137** | 462 |
| | Trade deposits | **4,817** | 1,350 |
| | Other receivables | **12,637** | 35,453 |
| | Interest accrued | **3,116** | 9,482 |
| | Bank balances and short term deposits | **1,470,995** | 1,387,094 |
| | **Non-derivative financial liabilities** | | |
| | Trade and other payables | **1,278,991** | 1,329,665 |
| | Provision for taxation | **55,888** | 5,802 |
| | **Derivative financial liabilities** | | |
| | Forward foreign exchange contracts | **7,290** | 97,782 |
| **37** | **Plant capacity and annual production** | | |
| | Annual production - *thousands of liters* | **19,136** | 23,014 |

The capacity of the plant is indeterminable because this is a multi-product plant.

# Notes to the Financial Statements
# For the year ended December 31, 2014

**38 Number of employees**

The number of employees of the Company as at December 31, 2014 were 261 (2013: 270) and the average number of employees were 263 (2013: 271).

**39 Non-adjusting event after reporting date**

The Board of Directors of the Company in its meeting held on February 25, 2015 has recommended a special dividend of Rs. 4.50 per share. On the basis of the Company's full year performance a final dividend of Rs. 0.50 per share is also proposed. This will imply a total final dividend of Rs. 5.00 per share in addition to the interim dividend paid earlier. The financial statements of the Company for the year ended December 31, 2014 do not include the effect of the final dividend which will be accounted for in the year in which it is approved.

**40 General**

**40.1** These financial statements were authorized for issue in the Board of Directors meeting held on February 25, 2015.

**40.2** Corresponding figures have been rearranged or reclassified wherever necessary for the purpose of comparison. However, no significant rearrangement or reclassification has been made during the year ended December 31, 2014.

**Mueen Afzal**
Chairman / Director

**Jehanzeb Khan**
Chief Executive

**Harris Mahmood**
Chief Financial Officer

# Comparison of Results
# For the year ended December 31, 2014

Amounts in Rs '000

| | 2014 | 2013 | 2012 Restated | 2011 Restated |
|---|---|---|---|---|
| **Balance Sheet** | | | | |
| Equity and revaluation reserve | **2,594,261** | 2,878,346 | 5,992,518 | 5,646,577 |
| Non-current liabilities | **44,227** | 34,817 | 46,549 | 28,985 |
| Current liabilities | **1,334,879** | 1,335,467 | 1,322,898 | 1,003,951 |
| **Total equity and liabilities** | **3,973,367** | 4,248,630 | 7,361,965 | 6,679,513 |
| Non-current assets | **1,538,314** | 1,573,918 | 1,741,987 | 1,685,275 |
| Current assets | **2,435,053** | 2,674,712 | 5,619,978 | 4,994,238 |
| **Total assets** | **3,973,367** | 4,248,630 | 7,361,965 | 6,679,513 |

| | 2014 | 2013 | 2012 Restated | Six months period from July 01, 2011 to December 31, 2011 Restated |
|---|---|---|---|---|
| **Profit and Loss Account** | | | | |
| Turnover | **6,915,474** | 7,124,812 | 6,335,301 | 3,288,511 |
| Net sales | **4,901,791** | 5,265,144 | 4,764,191 | 2,446,420 |
| Cost of sales | **3,129,630** | 3,326,178 | 3,189,510 | 1,646,325 |
| Gross profit | **1,772,161** | 1,938,966 | 1,574,681 | 800,095 |
| Operating profit | **556,918** | 644,445 | 259,818 | 154,903 |
| Profit before taxation | **678,499** | 936,935 | 522,268 | 284,952 |
| Profit after taxation | **458,856** | 605,726 | 376,123 | 187,681 |
| **Summary of Cash Flows** | | | | |
| Cash generated / (used in) from operations | **1,101,634** | 689,798 | 4,529,779 | (281,872) |
| Net cash generated from / (used in) operating activities | **821,713** | 340,979 | 4,354,469 | (77,175) |
| Net cash generated from / (used in) investing activities | **19,610** | 151,507 | (16,925) | 58,079 |
| Net cash (used in) / generated from financing activities | **(765,907)** | (3,648,699) | - | 1 |
| Cash and cash equivalents at 31 December | **1,479,922** | 1,404,506 | 4,560,719 | 223,175 |
| **Ratios** | | | | |
| **Profitability Ratios** | | | | |
| Gross margin | **36.15%** | 36.83% | 33.05% | 32.70% |
| Gross profit turnover | **25.63%** | 27.21% | 24.86% | 24.33% |
| Operating profit | **11.36%** | 12.24% | 5.45% | 6.33% |
| Net profit margin | **9.36%** | 11.50% | 7.89% | 7.67% |
| Profit markup | **56.63%** | 58.29% | 49.37% | 48.60% |
| Profit before tax margin | **13.84%** | 17.80% | 10.96% | 11.65% |
| Return on equity * | **26.77%** | 30.36% | 7.37% | 7.89% |
| Return on capital employed * | **25.72%** | 32.16% | 8.65% | 10.04% |
| Return on assets * | **11.55%** | 14.26% | 5.11% | 5.62% |
| Return on fixed assets * | **35.74%** | 43.86% | 25.59% | 26.37% |

* 2011: Annualized

# Comparison of Results
# For the year ended December 31, 2014

Amounts in Rs '000

| | | 2014 | 2013 | 2012 Restated | Six months period from July 01, 2011 to December 31, 2011 Restated |
|---|---|---|---|---|---|
| **Efficiency Ratios *** | | | | | |
| Asset turnover | Times | **1.23** | 1.24 | 0.65 | 0.73 |
| Fixed asset turnover | Times | **3.82** | 3.81 | 3.24 | 3.44 |
| Inventory turnover | Times | **6.28** | 5.62 | 4.69 | 2.07 |
| Current asset turnover | Times | **2.01** | 1.97 | 0.85 | 0.98 |
| Capital employed turnover | Times | **1.86** | 1.81 | 0.79 | 0.86 |
| Debtor turnover ratio | Days | **39** | 31 | 23 | 20 |
| Creditor turnover ratio | Days | **152** | 144 | 122 | 91 |
| Inventory turnover ratio | Days | **58** | 65 | 78 | 176 |
| Operating cycle | Days | **(55)** | (49) | (49) | (15) |
| Revenue per employee | Rs. '000 | **2,600** | 3,470 | 1,978 | 2,134 |
| Net income per employee | Rs. '000 | **1,758** | 2,243 | 1,425 | 1,406 |
| **Cost Ratios** | | | | | |
| Operating costs (as % of sales) | | **24.79%** | 24.59% | 27.60% | 26.37% |
| Administration costs (as % of sales) | | **8.06%** | 7.28% | 10.32% | 8.94% |
| Selling costs (as % of sales) | | **16.74%** | 17.31% | 17.28% | 17.43% |
| **Equity Ratios** | | | | | |
| Price earning ratio | Rs. | **36.19** | 9.56 | 10.68 | - |
| Earnings per share* | Rs. | **9.88** | 13.04 | 8.10 | 8.08 |
| Dividend per share | Rs. | **19.00** | 2.50 | 78.60 | - |
| Dividend cover | Times | **0.52** | 5.22 | 0.10 | - |
| Dividend yield | | **5.31%** | 2.00% | 90.86% | - |
| Market value per share | Rs. | **357.53** | 124.69 | 86.51 | - |
| Break-up value per share with surplus on revaluation | Rs. | **55.86** | 61.98 | 129.03 | 123.09 |
| Break-up value per share excluding surplus on revaluation | Rs. | **36.91** | 42.96 | 109.95 | 103.94 |
| **Liquidity Ratios** | | | | | |
| Current ratio | Ratio | **1.82:1** | 2.00:1 | 4.25:1 | 4.97:1 |
| Quick ratio | Ratio | **1.54:1** | 1.54:1 | 3.82:1 | 4.18:1 |
| Cash ratio | Ratio | **1.11:1** | 1.05:1 | 3.45:1 | 0.22:1 |
| **Leverage Ratios** | | | | | |
| Total debt to capital ratio | Ratio | **0:100** | 0:100 | 0:100 | 0:100 |

* 2011: Annualized

# Pattern of Shareholding
# As at December 31, 2014

| No. of Shareholders | Categories | | No. of Shares |
|---|---|---|---|
| | From | To | |
| 7,684 | 1 | 100 | 224,290 |
| 2,283 | 101 | 500 | 562,226 |
| 537 | 501 | 1,000 | 415,183 |
| 436 | 1,001 | 5,000 | 940,940 |
| 63 | 5,001 | 10,000 | 467,244 |
| 21 | 10,001 | 15,000 | 252,132 |
| 10 | 15,001 | 20,000 | 174,247 |
| 7 | 20,001 | 25,000 | 166,838 |
| 5 | 25,001 | 30,000 | 139,475 |
| 4 | 30,001 | 35,000 | 136,060 |
| 2 | 35,001 | 40,000 | 73,609 |
| 1 | 40,001 | 45,000 | 41,800 |
| 4 | 45,001 | 50,000 | 191,600 |
| 2 | 55,001 | 60,000 | 114,673 |
| 3 | 60,001 | 65,000 | 182,957 |
| 1 | 65,001 | 70,000 | 65,500 |
| 1 | 75,001 | 80,000 | 76,800 |
| 1 | 80,001 | 85,000 | 84,669 |
| 1 | 90,001 | 95,000 | 94,300 |
| 2 | 95,001 | 100,000 | 200,000 |
| 1 | 105,001 | 110,000 | 110,000 |
| 1 | 115,001 | 120,000 | 118,427 |
| 1 | 150,001 | 155,000 | 154,518 |
| 1 | 190,001 | 195,000 | 191,795 |
| 1 | 330,001 | 335,000 | 331,882 |
| 1 | 410,001 | 415,000 | 414,900 |
| 1 | 465,001 | 470,000 | 466,917 |
| 1 | 620,001 | 625,000 | 621,500 |
| 1 | 1,070,001 | 1,075,000 | 1,070,673 |
| 1 | 3,145,001 | 3,150,000 | 3,148,500 |
| 1 | 35,205,001 | 35,210,000 | 35,209,665 |
| **11,079** | | | **46,443,320** |

# Pattern of Shareholding
# As at December 31, 2014
## Information as required under Code of Corporate Governance

| Shareholder's category | | Number of shareholders | Number of shares held |
|---|---|---|---|
| **i. Associated Companies, Undertakings and Related Parties (name wise details)** | | | |
| ICI OMICRON B.V. | | 1 | 35,209,665 |
| | **Total :** | **1** | **35,209,665** |
| **ii. Mutual Funds (name wise details)** | | | |
| CDC - TRUSTEE FIRST CAPITAL MUTUAL FUND | | 1 | 2,300 |
| CDC - TRUSTEE NAFA ISLAMIC ASSET ALLOCATION FUND | | 1 | 29,900 |
| CDC - TRUSTEE NAFA ISLAMIC PRINCIPAL PROTECTED FUND - I | | 1 | 62,400 |
| CDC - TRUSTEE NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II | | 1 | 45,500 |
| CDC - TRUSTEE NAFA MULTI ASSET FUND | | 1 | 41,800 |
| CDC - TRUSTEE NAFA STOCK FUND | | 1 | 94,300 |
| CDC - TRUSTEE NATIONAL INVESTMENT (UNIT) TRUST | | 1 | 331,882 |
| CDC - TRUSTEE NIT-EQUITY MARKET OPPORTUNITY FUND | | 1 | 191,795 |
| CONFIDENCE MUTUAL FUND LTD | | 1 | 3 |
| DOMINION STOCK FUND LIMITED | | 1 | 92 |
| GOLDEN ARROW SELECTED STOCKS FUND | | 1 | 3 |
| GROWTH MUTUAL FUND LIMITED | | 1 | 9 |
| SAFEWAY MUTUAL FUND LIMITED | | 1 | 128 |
| SECURITY STOCK FUND LIMITED | | 1 | 18 |
| | **Total :** | **14** | **800,130** |
| **iii. Directors and their spouse(s) and minor children (name wise details)** | | | |
| MR. ASAD I. A. KHAN | | 1 | 10 |
| MR. BART KASTER | | 1 | 10 |
| MR. JEHANZEB KHAN | | 1 | 10 |
| MR. MICHIEL FRANSE | | 1 | 10 |
| MR. MUEEN AFZAL | | 1 | 10 |
| MR. PETER TOMLINSON | | 1 | 10 |
| MR. ZIAUDDIN SYED | | 1 | 10 |
| | **Total :** | **7** | **70** |
| **iv. Executives** | | 12 | 585 |
| | **Total :** | **12** | **585** |
| **v. Public Sector Companies and Corporations** | | 4 | 1,071,325 |
| | **Total :** | **4** | **1,071,325** |
| **vi. Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Takaful, Modaraba and Pension Funds** | | | |
| | | 41 | 1,030,933 |
| | **Total :** | **41** | **1,030,933** |
| **vii. Shareholders Holding five percent or more Voting Rights in the Listed Company (name wise details)** | | | |
| ICI OMICRON B.V. | | 1 | 35,209,665 |
| WASATCH FRONTIER EMERGING SMALL COUNTRIES FUND | | 1 | 3,148,500 |
| | **Total :** | **2** | **38,358,165** |

# Categories of Shareholding
# As at December 31, 2014

| Sr No. | Shareholders Category | No. of Shareholders | No. of Shares | Percentage |
|---|---|---|---|---|
| 1 | Directors, Chief Executive Officer, and their spouse and minor children | 7 | 70 | 0.00 |
| 2 | Associated Companies, undertakings and related parties | 1 | 35,209,665 | 75.81 |
| 3 | NIT & ICP | - | - | - |
| 4 | Banks Development Financial Institutions, Non-Banking Financial Institutions | 22 | 657,886 | 1.42 |
| 5 | Insurance Companies | 16 | 1,402,808 | 3.02 |
| 6 | Modarabas and Mutual Funds | 17 | 814,584 | 1.75 |
| 7 | Shareholders holding 10% | 1 | 35,209,665 | 75.81 |
| 8 | General Public : | | | |
| | a. Local | 10,869 | 3,600,086 | 7.75 |
| | b. Foreign | - | - | - |
| 9 | Others | 147 | 4,758,221 | 10.25 |
| | **Total** (excluding shareholders holding 10%) | **11,079** | **46,443,320** | **100.00** |

**Akzo Nobel Pakistan Limited**

# NOTICE OF 4th ANNUAL GENERAL MEETING

NOTICE is hereby given that the 4th Annual General Meeting of AkzoNobel Pakistan Limited will be held on Tuesday, April 28, 2015, at 10:30 a.m. at its Registered Office, 346, Ferozepur Road, Lahore, to transact the following business:

1. To confirm the minutes of the 3rd Annual General Meeting held on April 23, 2014.

2. To receive, consider and adopt the accounts of Akzo Nobel Pakistan Limited, for the year ended December 31, 2014, together with the Auditors Report and the Directors Report thereon.

3. To declare and approve final cash dividend @ 50% i.e. Rs. 5.00 per ordinary share of Rs.10/- each for the year ended December 31, 2014, as recommended by the Directors, payable to the Members whose names appear in the Register of Members as at April 20, 2015.

4. To appoint the auditors of the Company and to fix their remuneration.

5. To elect 7 Directors as fixed by the Board in accordance with the provisions of the Companies Ordinance 1984 for a period of three years commencing from the date of election. The retiring directors are Mr. Mueen Afzal, Mr. Bart Kaster, Mr. Peter Barry Tomlinson, Mr. Jehanzeb Khan, Mr. Asad I. A. Khan, Mr. Michiel Franse and Mr. Harris Mahmood.

6. Any other business with the permission of the Chairman.

April 03, 2015
Lahore

By order of the Board

Saira Soofi
Company Secretary

**NOTES**

1. Share Transfer Books of the Company will remain closed from April 21, 2015 to April 28, 2015 (both days inclusive). Transfers received in order at the office of our Shares Registrar, FAMCO Associates (Pvt) Ltd. 8-F, Next to Hotel Faran Nursery, Block 6, P.E.C.H.S. Shahra-e-Faisal Karachi, by the close of business on April 20, 2015, will be in time to entitle the transferees to the final dividend and to attend the Annual General Meeting.

2. All Members are entitled to attend and vote at the Meeting. A Member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend, speak and vote for him/her. A proxy must be a Member of the Company.

3. An instrument of proxy applicable for the Meeting is being provided with the notice sent to Members. Further copies of the instrument of proxy may be obtained from the Registered Office of the Company during normal office hours. Proxy Form may also be downloaded from the Company's website: www.akzonobel.com/pk/paints.

4. An instrument of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must, to be valid, be deposited at the Registered Office of the Company not less than 48 hours before the time of the Meeting.

5. Members are requested to submit a copy of their Computerized National Identity Card (CNIC), if not already provided and notify immediately changes, if any, in their registered address to our Share Registrar, FAMCO Associates (Pvt) Ltd.

6. CDC Account Holders will further have to follow the under mentioned guidelines as laid down in Circular 1 dated January 26, 2000 issued by the SECP:

**A. For Attending the Meeting:**

i. In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his/her identity by showing his/her original CNIC or original passport at the time of attending the meeting.

ii. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.

**B. For Appointing Proxies:**

i. In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.

ii. The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

iii. Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.

iv. The proxy shall produce his original CNIC or original passport at the time of the Meeting.

v. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

7. Pursuant to the notification of the SECP (SRO 634(I)/2014) the financial statements of the Company have been placed on Company's website.

8. Pursuant to the SECP Circular No. 19/2014 dated October 24, 2014, the following information is being provided to the shareholders regarding deduction of withholding tax on the amount of dividend:

(i) The Government of Pakistan through Finance Act, 2014, has made certain amendments in section 150 of the Income Tax Ordinance, 2001 whereby different rates are prescribed for deduction of withholding tax on the amount of dividend paid by the companies. These tax rates are as under:

(a) For filers of income tax returns: 10%
(b) For non-filers of income tax returns: 15%

To enable the company to make tax deduction on the amount of cash dividend @ 10% instead of 15%, all the shareholders whose names are not entered into the Active Tax-payers List (ATL) provided on the website of FBR, despite the fact that they are filers, are advised to make sure that that their names are entered in ATL before the date for approval of the cash dividend i.e. April 28, 2015, otherwise tax on their cash dividend will be deducted @ 15% instead @ 10%.

ii. For any query/problem/information, the investors may contact the Company Secretary at phone: 042-111-551-111 and email address saira.soofi@akzonobel.com and/or FAMCO Associates (Pvt) Ltd. at phone 021-34380101-5 and email address: info.shares@famco.com.pk

iii. The corporate shareholders having CDC accounts are required to have their National Tax Number (NTN) updated with their respective participants, whereas corporate physical shareholders should send a copy of their NTN certificate to the company or FAMCO Associates (Pvt) Ltd. The shareholders while sending NTN or NTN certificates, as the case may be, must quote company name and their respective folio numbers.

9. According to clarification received from FBR with-holding tax will be determined separately on 'Filer/Non-Filer' status of Principal shareholder as well as Joint Holder(s) based on their shareholding proportions, in case of joint accounts. All shareholders who hold shares jointly are requested to provide shareholding proportions of Principal shareholder and Joint-Holder(s) in respect of shares held by them to our Share Registrar, in writing as follows:

| Company Name | Folio/CDS Account # | Total Shares | Principal Shareholder | | Joint Shareholder | |
|---|---|---|---|---|---|---|
| | | | Name and CNIC # | Shareholding Proportion (No. of Shares) | Name and CNIC # | Shareholding Proportion (No. of Shares) |

The required information must reach our Share Registrar by April 20, 2015, otherwise it will be assumed that the shares are equally held by Principal shareholder and Joint Holder(s).

10. SECP through its Notification SRO 787(I)/2014 dated September 8, 2014, has allowed the circulation of Audited Financial Statements along with the Notice of Annual General Meeting to the Members of the Company through email. Therefore, all Members who wish to receive the soft copy of Annual Report are requested to send their email addresses. The consent form for electronic transmission can be downloaded from the Company's website. The Company shall, however, provide hard copy of the Audited Financial Statements to its shareholders, on request, free of cost, within seven days of receipt of such request.

AkzoNobel

# Admission Slip

The 4th Annual General Meeting of Akzo Nobel Pakistan Limited will be held on Tuesday, April 28, 2015, at 10:30 a.m. at its Registered Office, 346, Ferozepur Road, Lahore.

Kindly bring this slip duly signed by you for attending the Meeting.

**Company Secretary**

Name: ____________________ Holding: ____________________

Shareholder No: ______________ Signature: ____________________

**Note:**

i) The signature of the shareholder must tally with the specimen on the Company's record.

ii) Shareholders are requested to hand over duly completed admission slips at the counter before the Meeting premises.

**CDC Account Holders / Proxies / Corporate Entities:**

a) The CDC Account Holder / Proxy shall authenticate his identity by showing his / her original Computerized National Identity Card (CNIC) or original passport at the time of attending the Meeting.

b) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced at the time of the Meeting (unless it has been provided earlier).

**This Admission Slip is Not Transferable**

## FORM OF PROXY
## 4th ANNUAL GENERAL MEETING

I/We ______________________________________________ of

______________________________________________ being member/(s) of

Akzo Nobel Pakistan Limited holding ______________ ordinary shares hereby appoint ______________

or failing him/her ______________________ of ______________ who is/are also members(s) of AkzoNobel Pakistan Limited as my/our proxy in my/our absence to attend and vote for me/us and on my/our behalf at the 4th Annual General Meeting of the Company to be held at its Registered Office, 346, Ferozepur Road, Lahore, Pakistan, on Tuesday, April 28, 2015, at 10.30 a.m., and at any adjournment thereof.

As witness my/our hand(s) this __________ day of _________ 2015.

Signed in the presence of:

| (Signature of Witness 1) | (Signature of Witness 2) | Signature across Revenue Stamp of appropriate value |
|---|---|---|
| Name of Witness: | Name of Witness: | |
| CNIC No.: | CNIC No.: | |
| Address: | Address: | |

Signed by

Shareholder's Folio No./CDC Account No.

This signature should agree with the specimen registered with the Company

**Notes:**

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Company, at 346, Ferozepur Road, Lahore, not less than 48 hours before the time of holding the Meeting.

2. No person shall act as proxy unless he himself is a member of the Company, except that a corporation may appoint a person who is not a member.

3. If a member appoints more than one proxy and more than one instrument of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.

4. Any alteration made in this instrument of proxy should be initialed by the person who signs it.

5. In the case of joint holders any one may vote either personally or by proxy but if more than one of such joint holders be present either personally or by proxy that one of the said joint holders whose name stands first on the Register of Members in respect of such share shall alone be entitled to vote.

**For CDC Account Holders/Corporate Entities:**

In addition to the above the following requirements have to be met:

(i) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

(ii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.

(iii) The proxy shall produce his original CNIC or original passport at the time of the Meeting.

(iv) In case of a corporate entity, the Board of Directors resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

AkzoNobel

AFFIX
CORRECT
POSTAGE

Akzo Nobel Pakistan Limited
346, Ferozepur Road
Lahore - 54600
Tel: (042) 111-551-111
Fax: (042) 35835011
www.akzonobel.com/pk/paints

Akzo Nobel Pakistan Limited

AkzoNobel

# Mandate Letter

Dear Shareholder,

SUBMISSION OF COPY OF CNIC (Mandatory)
Pursuant to the directives of the Securities and Exchange Commission of Pakistan, CNIC number is mandatorily required to be mentioned on dividend warrants, members register and other statutory returns. You are therefore requested to submit a copy of your CNIC (if not already provided) to Akzo Nobel Pakistan Limited, 346, Ferozepur Road, Lahore or FAMCO Associates (Pvt) Limited, 8-F, Next to Hotel Faran Nursery, Block 6, P.E.C.H.S. Shahra-e-Faisal Karachi.

DIVIDEND MANDATE (Optional)
We wish to inform you that according to the provisions of the Companies Ordinance, 1984, shareholders are also entitled to receive their dividends by way of credit to their bank account instead of receiving them through dividend warrants (crossed as A/c Payee only).

In case you wish to receive your future dividends directly in your bank account, please complete the particulars as mentioned below and return this letter to us duly signed along with a copy of your CNIC.

CDC shareholders are requested to submit their dividend mandate and CNIC directly to their broker (participant) CDC.

Yours faithfully

Saira Soofi
Company Secretary

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## SHAREHOLDER'S SECTION

I hereby wish to communicate my desire to receive my future dividends directly in my bank account as detailed below:

Name of Shareholder : ----------------------------------------

Folio Number : ----------------------------------------

Contact Number of Shareholder : ----------------------------------------

Bank Account No. : ----------------------------------------

Title of Account : ----------------------------------------

Name of Bank and Address : ----------------------------------------

It is stated that the above particulars given by me are correct to the best of my knowledge and I shall keep the Company informed in case of any changes in the said particulars in the future.

_____________________
Shareholder's signature

CNIC No: _____________________
(copy attached)