

# Akzo Nobel Pakistan Limited

Condensed Interim Financial Information

For the quarter ended 31 March 2013

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# Company Information

## Board of Directors

Mueen Afzal	<i>Chairman (Non-Executive)</i>	James Thick	<i>Non-Executive</i>
Jehanzeb Khan	<i>Chief Executive</i>	Peter Tomlinson	<i>Non-Executive</i>
Bart Kaster	<i>Non-Executive</i>	Zia U Syed	<i>Executive</i>
Asad I A Khan	<i>Non-Executive</i>		

## Audit Sub Committee

Asad I A Khan	<i>Chairman (Non-Executive)</i>
Mueen Afzal	<i>Non-Executive</i>
Bart Kaster	<i>Non-Executive</i>

## Human Resource & Remuneration Sub Committee

Mueen Afzal	<i>Chairman (Non-Executive)</i>
Peter Tomlinson	<i>Non-Executive</i>
Jehanzeb Khan	<i>Chief Executive</i>

## Share Transfer Committee

Jehanzeb Khan	<i>Chief Executive</i>
Zia U Syed	<i>Chief Financial Officer</i>
Saira Soofi	<i>Company Secretary</i>

## Chief Financial Officer

Zia U Syed

## Company Secretary

Saira Soofi

## Executive Management Team

Jehanzeb Khan	<i>Chief Executive</i>	Mohsin Raza Naqvi	<i>Business Manager - Performance Coatings and Specialty Chemicals</i>
Rizwan Afzal	<i>Operations Manager</i>	Imran Qureshi	<i>Business Manager - Decorative Business</i>
Shahid Sultan Butt	<i>Technical Manager (R&amp;D)</i>	Bashar Rasheed	<i>Supply Chain Manager</i>
Muddassir Khalid	<i>HR Business Partner</i>	Zia U Syed	<i>Chief Financial Officer</i>
Fawad A A Mirza	<i>Business Excellence Manager</i>		

## Bankers

Citibank N.A.  
Deutsche Bank Limited A.G

Habib Metropolitan Bank Limited  
United Bank Limited

## 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](http://www.akzonobel.com/pk/paints)

## Shares Registrar

FAMCO Associates (Pvt) Ltd  
1st Floor, State Life Building 1-A,  
I. I. Chundrigar Road, Karachi - 74000  
Tel: (021) 32427012, 32426597, 32420755  
Fax: (021) 32426752

# Review of the Directors

For the quarter ended 31 March 2013

The Directors are pleased to present their review together with the un-audited financial statements of the Company for the quarter ended 31 March 2013.

## Overview

Net sales income for the quarter was higher by 16% on the back of higher volumes. Profit before tax was significantly higher than last year due higher sales, strict control on costs and higher interest on short term deposits.

	For the quarter ended 31 March	
	2013	2012
Turnover (Rs million)	1,733	1,475
Net Sales Income (Rs million)	1,282	1,105
Profit Before Tax (Rs million)	182	53
Profit After Tax (Rs million)	114	35
Earnings Per Share (Rs)	2.46	0.76

## Business Performance

The decorative industry showed signs of recovery despite unprecedented rains at the start of the year. The arrival of the painting season increased consumer footfall in markets across the country towards the end of the quarter and was supported by various promotional schemes.

Tractors and commercial vehicles industry on the other hand continued to be impacted by slower market conditions resulting in lower number of vehicles built. The Company continued its focus on cost controls, new business development of AkzoNobel's Specialty Chemicals portfolio and customer engagement to mitigate the negative impact of lower volumes.

## Future Outlook

The paint markets are expected to continue the momentum that was demonstrated towards the end of the last quarter in the short term. However, any adverse law and order situation ahead of the general elections to be held in May can impact this momentum. To maintain its position, the business plans to launch a number of initiatives aimed at strengthening its brand awareness and engagement of key influencers, including a new media campaign.

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Mueen Afzal  
*Chairman / Director*

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Jehanzeb Khan  
*Chief Executive*

Akzo Nobel Pakistan Limited  
Condensed Interim Balance Sheet (Unaudited)  
As at 31 March 2013

Amounts in Rs '000

		(Unaudited)	(Audited)
	Note	31 March 2013	31 December 2012 (Restated)
<b>ASSETS</b>			
Non-current assets			
Fixed assets	2	1,444,332	1,469,589
Long term loans	3	60,556	58,717
Long term deposits and prepayments		5,199	2,196
Deferred tax asset - net		199,815	211,485
		<u>1,709,902</u>	<u>1,741,987</u>
Current assets			
Stores and spares		31,745	32,101
Stock-in-trade	4	513,159	533,626
Trade debts		499,021	332,488
Loans and advances		51,322	43,332
Trade deposits and short-term prepayments		17,322	5,583
Tax refund due from government		27,988	-
Other receivables	5	103,333	112,129
Cash and bank balances		4,612,408	4,560,719
		<u>5,856,298</u>	<u>5,619,978</u>
Total assets		<u><u>7,566,200</u></u>	<u><u>7,361,965</u></u>
<b>EQUITY AND LIABILITIES</b>			
Share capital and reserves			
Authorised capital			
100,000,000 (2012: 100,000,000) ordinary shares of Rs. 10 each		<u>1,000,000</u>	<u>1,000,000</u>
Issued, subscribed and paid-up capital			
46,443,320 (2012: 46,443,320) ordinary shares of Rs. 10 each		464,433	464,433
Capital reserves		156,202	156,202
Unappropriated profit		4,600,536	4,485,743
Total equity		<u>5,221,171</u>	<u>5,106,378</u>
Surplus on revaluation of fixed assets			
		885,403	886,140
Non-current liabilities			
Deferred liabilities - Staff retirement benefits		47,409	46,549
Current liabilities			
Trade and other payables		1,412,217	1,313,610
Provision for taxation		-	9,288
		<u>1,412,217</u>	<u>1,322,898</u>
Contingencies and commitments	6		
Total equity and liabilities		<u><u>7,566,200</u></u>	<u><u>7,361,965</u></u>

The annexed notes from 1 to 14 form an integral part of this condensed interim financial information.

Mueen Afzal  
Chairman / Director

Jehanzeb Khan  
Chief Executive

Zia U Syed  
Chief Financial Officer

Akzo Nobel Pakistan Limited  
Condensed Interim Profit and Loss Account (Unaudited)  
For the quarter ended 31 March 2013

Amounts in Rs '000

	Note	For the quarter ended 31 March 2013	For the quarter ended 31 March 2012
Turnover		1,733,455	1,474,601
Sales tax, excise duty and discounts		(451,107)	(369,339)
Net Sales		<u>1,282,348</u>	<u>1,105,262</u>
Cost of sales	8	(846,034)	(769,434)
Gross profit		<u>436,314</u>	<u>335,828</u>
Selling and distribution expenses		(226,328)	(206,681)
Administrative and general expenses		(104,261)	(141,831)
Operating result		<u>105,725</u>	<u>(12,684)</u>
Finance cost		(5,271)	(3,888)
Other operating charges		(14,903)	(6,144)
		<u>(20,174)</u>	<u>(10,032)</u>
Other operating income		96,556	75,994
Profit before taxation		<u>182,107</u>	<u>53,278</u>
Taxation	9	(68,052)	(18,200)
Profit after taxation		<u>114,055</u>	<u>35,078</u>
Earnings per share - Basic and diluted - Rupees		<u>2.46</u>	<u>0.76</u>

The annexed notes from 1 to 14 form an integral part of this condensed interim financial information.

Mueen Afzal  
Chairman / Director

Jehanzeb Khan  
Chief Executive

Zia U Syed  
Chief Financial Officer

Akzo Nobel Pakistan Limited  
 Condensed Interim Statement of Comprehensive Income (Unaudited)  
 For the quarter ended 31 March 2013

	Amounts in Rs '000	
	For the quarter ended 31 March 2013	For the quarter ended 31 March 2012 (Restated)
Profit for the period	114,055	35,078
Other comprehensive income		
Items not to be reclassified to profit or loss in subsequent periods:		
Actuarial gains / (losses) on defined benefit plans	-	(7,496)
Income tax effect	-	2,624
	-	(4,872)
Total comprehensive income for the period	114,055	30,206

The annexed notes from 1 to 14 form an integral part of this condensed interim financial information.

\_\_\_\_\_  
 Mueen Afzal  
 Chairman / Director

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 Jehanzeb Khan  
 Chief Executive

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 Zia U Syed  
 Chief Financial Officer

**Akzo Nobel Pakistan Limited**  
**Condensed Interim Statement of Changes in Equity (Unaudited)**  
**For the quarter ended 31 March 2013**

Amounts in Rs '000

	Share capital	Allocated share capital pursuant to the Scheme	Capital reserves		Revenue reserve	Total
			Share premium	Capital receipts	Unappropriated profit	
Balance at 01 January 2012						
- As previously reported	1	464,432	156,006	196	4,206,787	4,827,422
Effect of retrospective change in accounting policy with respect to accounting for actuarial gains and losses referred in Note 1.1	-	-	-	-	(69,933)	(69,933)
Balance at 01 January 2012 - Restated	1	464,432	156,006	196	4,136,854	4,757,489
Profit for the period	-	-	-	-	35,078	35,078
Other comprehensive income for the period	-	-	-	-	(4,872)	(4,872)
Total comprehensive income for the quarter ended 31 March 2012	-	-	-	-	30,206	30,206
Incremental depreciation charge during the period - net of deferred taxation	-	-	-	-	738	738
Balance at 31 March 2012 - Restated	1	464,432	156,006	196	4,167,798	4,788,433
Profit for the period	-	-	-	-	341,045	341,045
Other comprehensive income for the period	-	-	-	-	(25,310)	(25,310)
Total comprehensive income for the nine months period ended 31 December 2012	-	-	-	-	315,735	315,735
Incremental depreciation charge during the period - net of deferred taxation	-	-	-	-	2,210	2,210
Transactions with owners of the Company recognised directly in equity						
Issuance of ordinary shares	464,432	(464,432)	-	-	-	-
Balance at 31 December 2012 - Restated	464,433	-	156,006	196	4,485,743	5,106,378
Profit for the period	-	-	-	-	114,055	114,055
Other comprehensive income for the period	-	-	-	-	-	-
Total comprehensive income for the quarter ended 31 March 2013	-	-	-	-	114,055	114,055
Incremental depreciation charge during the period - net of deferred taxation	-	-	-	-	738	738
Balance at 31 March 2013	464,433	-	156,006	196	4,600,536	5,221,171

The annexed notes from 1 to 14 form an integral part of this condensed interim financial information.

Mueen Afzal  
*Chairman / Director*

Jehanzeb Khan  
*Chief Executive*

Zia U Syed  
*Chief Financial Officer*



Akzo Nobel Pakistan Limited  
Condensed Interim Cash Flow Statement (Unaudited)  
For the quarter ended 31 March 2013

Amounts in Rs '000

	For the quarter ended 31 March 2013	For the quarter ended 31 March 2012 (Restated)
Cash flows from operating activities		
Profit before taxation	182,107	53,278
Adjustments for:		
Depreciation and amortisation	42,529	40,157
Loss on disposal of fixed assets	590	-
Provision for employee benefits	860	3,846
Provision for doubtful debts	1,146	5,200
Reversal of provision against stock-in-trade	(4,082)	(5,595)
Interest income	(80,787)	(67,222)
	<u>142,363</u>	<u>29,664</u>
Movement in:		
Working capital	(53,978)	(85,891)
Long term loans	(1,839)	(7,546)
Long term deposits and prepayments	(3,003)	(4,208)
Net cash generated from / (used in) operations	<u>83,543</u>	<u>(67,981)</u>
Tax paid	(93,657)	-
Net cash used in operating activities	<u>(10,114)</u>	<u>(67,981)</u>
Cash flows from investing activities		
Payments for capital expenditure	(19,064)	(48,431)
Proceeds from disposal of fixed assets	80	-
Interest received	80,787	67,222
Net cash generated from investing activities	<u>61,803</u>	<u>18,791</u>
Net cash generated / (utilised) during the period	<u>51,689</u>	<u>(49,190)</u>
Cash and cash equivalents at the beginning of the period	4,560,719	223,175
Cash and cash equivalents at the end of the period	<u>4,612,408</u>	<u>173,985</u>
Movement in working capital		
<i>Decrease / (increase) in current assets</i>		
Stores and spares	356	16,682
Stock-in-trade	24,549	43,077
Trade debts	(167,679)	(129,251)
Loans and advances	(7,990)	11,801
Trade deposits and short-term prepayments	(11,739)	11,243
Other receivables	8,796	(60,979)
	<u>(153,707)</u>	<u>(107,427)</u>
<i>Increase / (decrease) in current liabilities</i>		
Trade and other payables	99,729	21,536
	<u>(53,978)</u>	<u>(85,891)</u>

The annexed notes from 1 to 14 form an integral part of this condensed interim financial information.

Mueen Afzal  
Chairman / Director

Jehanzeb Khan  
Chief Executive

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Chief Financial Officer

Akzo Nobel Pakistan Limited  
Notes to the Condensed Interim Financial Information (Unaudited)  
For the quarter ended 31 March 2013

1. This condensed interim financial information has been presented in condensed form in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting and is being submitted to the shareholders in accordance with the requirements of section 245 of the Companies Ordinance, 1984. This condensed interim financial information does not include all the information required for full annual financial statements and should be read in conjunction with annual audited financial statements as at and for the year ended 31 December 2012.
- 1.1 These financial statements have been prepared on the basis mentioned in Note 3.2 to the financial statements for the year ended 31 December 2012.

The accounting policies and methods of computation adopted for the preparation of this condensed interim financial information are the same as those applied in the preparation of the financial statements for the preceding year ended 31 December 2012, except for the following:

Employee benefit plan - Amendment to IAS 19

The Company applies, for the first time IAS 19 (Revised 2011) Employee Benefits, that requires restatement of previous financial statements. The amendment requires an entity to recognise actuarial gains or losses immediately in "Other Comprehensive Income" (OCI) when they occur with no subsequent recycling to profit and loss account. Consequently, unrecognised actuarial gains and losses from periods prior to December 31, 2011 are recognized directly in equity. Actuarial gains or losses were previously amortised over the expected average remaining working lives of employees. The impact of amendment is described below:

		Amounts in Rs '000	
		As at 31 December 2012	As at 01 January 2012
Impact on Balance Sheet			
Increase in defined benefit obligation		137,574	107,589
		31 March 2013	31 December 2012
Impact on Profit and Loss account			
Increase in profit before tax		-	16,450
Income tax effect		-	(5,758)
Net impact on profit and loss		-	10,692
Impact on Other Comprehensive Income			
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains / (losses) on defined benefit plans		-	46,434
Tax effect on actuarial movements		-	(16,252)
Impact in other comprehensive income - net of tax		-	30,182
		(Unaudited)	(Audited)
2. Fixed assets			
Property, plant and equipment	2.1	1,380,366	1,381,425
Capital work-in-progress	2.2	27,106	45,144
Intangibles	2.3	36,860	43,020
		1,444,332	1,469,589

**Akzo Nobel Pakistan Limited**  
**Notes to the Condensed Interim Financial Information (Unaudited)**  
**For the quarter ended 31 March 2013**

Amounts in Rs '000

- 2.1 This includes the cost of operating property, plant and equipment that have been added / disposed off during the quarter ended 31 March 2013, detail of which is as follows:

	Additions		Disposals	
	For the quarter ended 31 March 2013	For the quarter ended 31 March 2012	For the quarter ended 31 March 2013	For the quarter ended 31 March 2012
Buildings on freehold land	11,941	5,877	-	-
Plant and machinery	16,979	54,284	808	-
Rolling stock and vehicles	732	-	-	-
Furniture and equipment	6,268	2,052	236	-
	<u>35,920</u>	<u>62,213</u>	<u>1,044</u>	<u>-</u>

	Note	(Unaudited)	(Audited)
		31 March 2013	31 December 2012
2.2 The following is a detail of capital work-in-progress:			
Civil works and buildings		19,527	25,617
Plant and machinery		7,496	18,980
Equipments		83	547
		<u>27,106</u>	<u>45,144</u>

- 2.3 This includes additions of intangible assets amounting to Rs. 0.057 million during the quarter ended 31 March 2013 (31 March 2012: Rs. Nil).

3. Long term loans - Considered good

Due from executives and employees	3.1	80,651	79,310
Less: recoverable within one year	3.1	20,095	20,593
		<u>60,556</u>	<u>58,717</u>

- 3.1 These include loans to key management personnel for the purchase of motor cars and house building assistance and are repayable between two to ten years. These loans are interest free and granted to the employees of the Company in accordance with their terms of employment.

4. Stock-in-trade

Out of the total carrying value of inventory Rs. 8.314 million (2012: Rs. 6.031 million) is measured at net realizable value. As at 31 March 2013 stock has been written down by Rs. 1.828 million (2012: Rs. 1.743 million) to arrive at its net realizable

5. Other receivables

This includes balances amounting to Rs. 14.641 million (2012: Rs. 14.641 million) and Rs. 0.102 million (2012: Rs. 0.101 million) receivable from AkzoNobel N.V. and ICI Swire Paints (Shanghai) Limited - associated undertakings, respectively.

6. Contingencies and commitments

- 6.1 Claims against the Company not acknowledged as debts are as follows:

Local bodies		453	453
Sales Tax authorities		91,087	91,087
Others		28,640	34,435
		<u>120,180</u>	<u>125,975</u>

Akzo Nobel Pakistan Limited  
Notes to the Condensed Interim Financial Information (Unaudited)  
For the quarter ended 31 March 2013

Amounts in Rs '000

6.2 Commitments in respect of capital expenditure 79,106 28,787

6.3 A notice was issued by the Environmental Protection Authority (EPA) against the Company. Pursuant to this an order was passed by the EPA for violation of certain provisions of the 'Act'. The Company is of the opinion that the order was not justified and has filed an appeal against the order in the Environmental Tribunal in Lahore, which is pending. Management in consultation with its legal council is confident that the decision will be made in favour of the Company, hence no provision is recognized in this condensed interim financial information.

6.4 Commitments for rentals under operating lease / Ijarah contracts in respect of vehicles are as follows:

Year		
2013	11,303	12,634
2014	14,807	11,501
2015	13,287	9,940
2016	8,659	5,281
2017	845	-
	<u>48,901</u>	<u>39,356</u>
Payable not later than one year	15,005	12,634
Payable later than one year but not later than five years	33,896	26,722
	<u>48,901</u>	<u>39,356</u>

7. Turnover

Turnover includes export sales of Rs. 18.692 million made to Afghanistan during the quarter ended 31 March 2013 (31 March 2012: Rs. 11.547 million).

	Unaudited	
	For the quarter ended 31 March 2013	For the quarter ended 31 March 2012
8. Cost of sales		
Opening stock of raw and packing materials	289,964	438,071
Purchases	668,619	618,743
	<u>958,583</u>	<u>1,056,814</u>
Closing stock of raw and packing materials	(272,410)	(426,756)
Raw and packing materials consumed	<u>686,173</u>	<u>630,058</u>
Manufacturing costs	113,396	89,966
	<u>799,569</u>	<u>720,024</u>
Opening stock of work-in-process	23,353	35,692
	<u>822,922</u>	<u>755,716</u>
Closing stock of work-in-process	(21,060)	(34,213)
Cost of goods manufactured	<u>801,862</u>	<u>721,503</u>
Opening stock of finished goods	220,309	283,402
Finished goods purchased	35,968	23,243
	<u>1,058,139</u>	<u>1,028,148</u>
Closing stock of finished goods	(212,105)	(258,714)
	<u>846,034</u>	<u>769,434</u>

Akzo Nobel Pakistan Limited  
Notes to the Condensed Interim Financial Information (Unaudited)  
For the quarter ended 31 March 2013

Amounts in Rs '000

9. Taxation		
Current	56,383	-
Deferred	11,669	18,200
	<u>68,052</u>	<u>18,200</u>

10. Transactions with related parties

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

Associates

Purchase of goods, materials and services	53,698	23,207
Indenting commission income	955	-
Sale of good and services	655	-
Contribution to staff retirement benefit plans	20,083	-
	<u>75,391</u>	<u>23,207</u>

10.1 Transactions with key management personnel

During the quarter ended 31 March 2013, key management personnel received an amount of Rs. 33.117 million (31 March 2012: Rs. 32.364 million) on account of remuneration out of which Rs. 3.412 million (31 March 2012: Rs. 2.833 million) relates to post employment benefits.

11. Financial risk management

The Company's financial risk management objective and policies are consistent with that disclosed in the financial statements for the year ended 31 December 2012.

12. Non-adjusting event after the reporting date

The Board of Directors of the Company in its meeting held on 24 February 2013 has proposed cash dividend of Rs. 2.50 per share to be paid out of earnings from normal trading. The directors have also announced a special dividend of Rs. 76.10 per share which is non-recurring one off payment, to be paid out of the unappropriated profits. These appropriations will be approved in the forthcoming Annual General Meeting of the Company. The financial statements of the Company for the quarter ended 31 March 2013 do not include the effect of these appropriations which will be accounted for in the financial statements for the quarter and six months period ending 30 June 2013.

13. Date of authorization

The condensed interim financial information was authorized for issue in the Board of Directors meeting held on 26 April

14. General

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

14.2 Corresponding figures have been rearranged / reclassified wherever necessary. However, no major rearrangement / reclassification has been made during the quarter ended 31 March 2013.

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Mueen Afzal  
Chairman / Director

\_\_\_\_\_  
Jehanzeb Khan  
Chief Executive

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Zia U Syed  
Chief Financial Officer