

*In the name of Allah, most Gracious, most Merciful
This is by the Grace of Allah*

Contents

- 03** Company Information
- 04** Directors' Report
- 05** Condensed Interim Balance Sheet
- 06** Condensed Interim Profit and Loss Account
- 07** Condensed Interim Statement of Comprehensive Income
- 08** Condensed Interim Cash Flow Statement
- 09** Condensed Interim Statement of Changes in Equity
- 10** Notes to the Condensed Interim Financial Information

Blank

Company Information

Board of Directors

Chairman	Mr. Kemal Shoab	Independent Chairman
Managing Director & CEO	Mr. Towfiq H. Chinoy	Chief Executive Officer
Directors	Mr. Tariq Iqbal Khan	Independent Director
	Mr. Kamran Y. Mirza	Independent Director
	Syed Salim Raza	Independent Director
	Syed Hyder Ali	Non-Executive Director
	Mr. Mustapha A. Chinoy	Non-Executive Director
	Mr. Kamal A. Chinoy	Non-Executive Director
	Mr. Otomichi Yano	Non-Executive Director

Chief Financial Officer	Mr. Alee Arsalan
Company Secretary	Ms. Neelofar Hameed
External Auditors	KPMG Taseer Hadi & Co.
Internal Auditors	Ernst & Young Ford Rhodes Sidat Hyder
Bankers	Allied Bank Ltd. Bank Al Habib Ltd. Bank Alfalah Ltd. Barclays Bank PLC Dubai Islamic Bank (Pak) Ltd. Faysal Bank Ltd. Habib Bank Ltd. Habib Metropolitan Bank Ltd. HSBC Bank Middle East Ltd. MCB Bank Ltd Meezan Bank Ltd. NIB Bank Ltd. Standard Chartered Bank (Pakistan) Ltd. United Bank Ltd.

Legal Advisors	Mrs. Sana Shaikh Fikree
Registered Office	101, Beaumont Plaza, 10 Beaumont Road, Karachi – 75530 Telephone Nos: 35680045-54 UAN: 111-019-019 Fax: +9221-35680373, E-mail: neelofar.hameed@isl.com.pk

Branch Office	Lahore Chinoy House, 6 Bank Square, Lahore-54000 Phone: +9242-37229752-55 UAN: 042-111-019-019 Fax: +9242-37249755 E-mail: lahore@isl.com.pk	Islamabad Office # 2, First Floor, Ahmed Centre, I-8 Markaz, Islamabad. Phone: +9251-2524650, 4864601-2
----------------------	---	--

Factory	399 - 404, Rehri Road Landhi, Karachi. Telephone Nos: +9221 35013104-5 Fax: +9221 35013108 Email: info@isl.com.pk
----------------	--

Website	www.isl.com.pk
Shares Registrar	THK Associates (Pvt.) Ltd Ground Floor, State Life Building 3, Dr. Ziauddin Ahmed Road, Karachi-75530 Phone: +9221-111-000-322 Fax: +9221-35655595 Email: info@thk.com.pk

Directors' Report

The directors of your Company are pleased to present 1st quarter financial statements for the period ended September 30, 2014.

Your Company continues to face a significant challenge from imported products that are enjoying concessions under a Free Trade Agreement with China. The concessional duty allowed previously under SRO 565 on import of cold rolled and galvanized coils has been withdrawn in June 2014 but **5% import duty was imposed on our raw material**. Imports of China have risen substantially, replacing imports from other countries.

In addition, the recent political situation in the country and floods impacted the Company's operation adversely. Sales were lower than same period last year by 9%. Gross profit in line with sales, and a higher input cost as a result of imposition of duty also remained lower than last year.

The exchange rate fluctuation during the quarter also had a significant impact on LIBOR based borrowings and resulted in an exchange loss of Rs 156 million.

The profit after tax for the period was Rs 2.3 million as opposed to Rs 115.8 million in same period last year.

Despite challenging conditions, the Company expects to improve its performance in the future.

The expansion project announced and launched last year is on track and the Company expects to have increased capacity of cold rolling and galvanizing to 450,000 tons and 350,000 tons respectively by the close of current financial year.

We pray to Almighty Allah for the success of your Company.

For & behalf of
International Steels Limited



Kemal Shoaib
Chairman

Karachi
Dated: 21st October, 2014

Condensed Interim Balance Sheet

As at 30 September 2014

	Note	30 September 2014 (Unaudited)	30 June 2014 (Audited)
------(Rupees in '000)-----			
ASSETS			
Non Current Assets			
Property, plant and equipment	4	10,266,990	9,771,509
Intangible assets		2,347	3,821
Long term deposit with Central Depository Company Pakistan Limited		100	100
Total Non Current Assets		10,269,437	9,775,430
Current Assets			
Stores and spares		314,841	319,322
Stock in trade	5	5,245,562	3,667,240
Receivable from K-Electric Limited (KE)			
- unsecured, considered good		48,273	49,717
Trade debts - secured, unsecured and considered good	6	879,295	1,185,880
Advances - considered good	7	206,165	266,127
Trade deposits, short term prepayments and other receivables	8	22,341	11,717
Sales tax receivable		349,392	434,380
Taxation - net		1,297,296	1,132,133
Cash and bank balances		86,712	36,560
Total Current Assets		8,449,877	7,103,076
Total Assets		18,719,314	16,878,506
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Authorised Capital			
500,000,000 (2013: 500,000,000) ordinary shares of Rs. 10 each		5,000,000	5,000,000
Issued, subscribed and paid up capital		4,350,000	4,350,000
Unappropriated profit		426,570	856,325
Total shareholders' equity		4,776,570	5,206,325
Surplus on revaluation of property, plant and equipment		560,519	563,415
LIABILITIES			
Non Current Liabilities			
Long term finances - secured	9	3,455,509	3,000,990
Staff retirement benefit		14,698	14,698
Deferred taxation-net		339,588	365,480
Total Non Current Liabilities		3,809,795	3,381,168
Current Liabilities			
Trade and other payables	10	966,636	1,955,866
Short term borrowings - secured	11	7,720,034	4,876,307
Current portion of long term finances	9	749,877	749,877
Accrued mark-up		135,883	145,548
Total Current Liabilities		9,572,430	7,727,598
Contingencies and Commitments	12		
Total Equity and Liabilities		18,719,314	16,878,506

The annexed notes from 1 to 24 form an integral part of this condensed interim financial information.


Tariq Iqbal Khan
Director & Chairman
Board Audit Committee


Aleq Arsalan
Chief Financial
Officer


Towfiq H. Chinoy
Managing Director &
Chief Executive

Condensed Interim Profit and Loss Account (Unaudited)

For the quarter ended 30 September 2014

	Note	Quarter ended	
		30 September 2014	30 September 2013
		----- (Rupees in '000) -----	
Net sales	13	3,997,150	4,396,541
Cost of sales	14	(3,647,087)	(3,978,318)
Gross profit		350,063	418,223
Administrative expenses	15	35,739	33,207
Selling and distribution expenses	16	45,180	35,143
		(80,919)	(68,350)
Financial charges	17	359,602	265,668
Other operating charges	18	826	8,763
		(360,428)	(274,431)
Other income	19	73,471	31,682
(Loss) / profit before taxation		(17,813)	107,124
Taxation - net		20,162	8,724
Profit for the quarter		2,349	115,848
		----- (Rupees) -----	
Earnings per share - basic and diluted		0.01	0.27

The annexed notes from 1 to 24 form an integral part of this condensed interim financial information.


Tariq Iqbal Khan
Director & Chairman
Board Audit Committee


Aleq Arsalan
Chief Financial
Officer


Towfiq H. Chinoy
Managing Director &
Chief Executive

Condensed Interim Statement of Comprehensive Income (Unaudited)

For the quarter ended 30 September 2014

	Note	Quarter ended	
		30 September 2014	30 September 2013
		----- (Rupees in '000) -----	
Profit for the quarter		2,349	115,848
Other comprehensive income		-	-
Total comprehensive income for the quarter		<u>2,349</u>	<u>115,848</u>

The annexed notes from 1 to 24 form an integral part of this condensed interim financial information.


Tariq Iqbal Khan
Director & Chairman
Board Audit Committee


Aleq Arsalan
Chief Financial
Officer


Towfiq H. Chinoy
Managing Director &
Chief Executive

Condensed Interim Cash Flow Statement (Unaudited)

For the quarter ended 30 September 2014

	Note	Quarter ended	
		30 September 2014	30 September 2013
------(Rupees in '000)-----			
CASH FLOWS FOR OPERATING ACTIVITIES			
(Loss) / profit before taxation		(17,813)	107,124
Adjustments for:			
Depreciation		129,117	124,688
Amortisation		1,474	1,474
Gain on disposal of property, plant and equipment		(2,201)	(1,718)
Provision for staff gratuity		3,100	2,180
Provision for compensated absences		750	1,744
Financial charges		359,602	265,668
		491,842	394,036
Movement in working capital	20	(2,556,450)	(2,837,531)
Net cash used in operations		(2,082,421)	(2,336,371)
Financial charges paid		(369,267)	(230,496)
Gratuity paid		(3,100)	(2,180)
Compensated absences paid		(16)	(3,020)
Taxes paid		(170,893)	(322,019)
		(543,276)	(557,715)
Net cash used in operating activities		(2,625,697)	(2,894,086)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		(626,004)	(48,117)
Proceeds from sale of property, plant and equipment		3,607	6,036
Net cash used in investing activities		(622,397)	(42,081)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds / (repayment) of long term financing - Net cash used in financing activities		454,519	(231,673)
Net decrease in cash and cash equivalents		(2,793,575)	(3,167,840)
Cash and cash equivalents at beginning of the period		(4,839,747)	(4,107,684)
Cash and cash equivalents at end of the period		<u>(7,633,322)</u>	<u>(7,275,524)</u>
CASH AND CASH EQUIVALENTS COMPRISE			
Cash and bank balances		86,712	7,234
Short-term borrowings		(7,720,034)	(7,282,758)
		<u>(7,633,322)</u>	<u>(7,275,524)</u>

The annexed notes from 1 to 24 form an integral part of this condensed interim financial information.


Tariq Iqbal Khan
Director & Chairman
Board Audit Committee


Alee Arsalan
Chief Financial
Officer


Towfiq H. Chinoy
Managing Director &
Chief Executive

Condensed Interim Statement of Changes in Equity (Unaudited)

For the quarter ended 30 September 2014

	Issued, subscribed & paid up capital	Hedging reserve	Accumulated profit	Total
----- (Rupees in '000) -----				
Balance as at 01 July 2013	4,350,000	-	158,093	4,508,093
Profit for the quarter	-	-	115,848	115,848
Total other comprehensive income for the quarter	-	-	-	-
Total comprehensive income for the quarter	-	-	115,848	115,848
Transferred from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	2,897	2,897
Balance as at 30 Sep 2013	4,350,000	-	276,838	4,626,838
Balance as at 01 July 2014	4,350,000	-	856,325	5,206,325
Profit for the quarter	-	-	2,349	2,349
Total other comprehensive income for the quarter	-	-	-	-
Total comprehensive income for the quarter	-	-	2,349	2,349
Transactions with owners				
Dividend:				
- Final dividend @ 10% (Rs. 1 per share) or the year ended 30 June 2014				
	-	-	(435,000)	(435,000)
Total Transactions with owners	-	-	(435,000)	(435,000)
Transferred from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	2,896	2,896
Balance as at 30 September 2014	4,350,000	-	426,570	4,776,570

The annexed notes from 1 to 24 form an integral part of this condensed interim financial information.


Tariq Iqbal Khan
Director & Chairman
Board Audit Committee


Alee Arsalan
Chief Financial
Officer


Towfiq H. Chinoy
Managing Director &
Chief Executive

Notes to the Condensed Interim Financial Information (Unaudited)

For the quarter ended 30 September 2014

1 STATUS AND NATURE OF BUSINESS

International Steels Limited ('the Company') was incorporated on 03 September 2007 as a public unlisted company limited by shares under the Companies Ordinance, 1984 and is domiciled in the province of Sindh. The Company was listed on the Karachi Stock Exchange on 01 June 2011 as a result of divestment of shares by International Industries Limited (the Holding Company) (IIL). The Company is in the business of manufacturing of Cold Rolled and Galvanized Steel Coils and Sheets. The Company commenced commercial operation on 01 January 2011. The Company is a subsidiary of IIL. The registered office of the Company is situated at 101, Beaumont Plaza, 10 Beaumont Road, Civil Lines, Karachi.

2 BASIS OF PREPARATION

2.1 Statement of compliance

2.1.1 This condensed interim financial information of the Company for the quarter ended 30 September 2014 has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" and provision of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directive issued under the Companies Ordinance, 1984 have been followed.

2.1.2 This condensed interim financial information is presented in Pakistani Rupees which is also the Company's functional currency and all financial information presented has been rounded off to the nearest thousand except otherwise stated.

2.1.3 This condensed interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements as at and for the year ended 30 June 2014.

2.2 Estimates, judgements and financial risk management

In preparing this condensed interim financial information, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements as at and for the year ended 30 June 2014.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation adopted in the preparation of this condensed

Notes to the Condensed Interim Financial Information (Unaudited)

interim financial information are the same as those applied in the preparation of annual financial statements of the Company as at and for the year ended 30 June 2014. Amendments to certain existing standards and interpretations on approved accounting standards effective during the period were not relevant to the Company's operations and did not have any significant impact on the accounting policies of the Company.

4	PROPERTY, PLANT AND EQUIPMENT	Operating Assets	Capital work in progress	Total
		----- (Rupees in '000) -----		
	Cost			
	Opening balance	10,877,320	351,741	11,229,061
	Additions - net of disposals	3,443	618,148	621,591
		<u>10,880,763</u>	<u>969,889</u>	<u>11,850,652</u>
	Accumulated depreciation			
	Opening balance	1,457,552	-	1,457,552
	For the period - net of disposal	126,110	-	126,110
		1,583,662	-	1,583,662
	Written down value as at 30 September 2014 (Unaudited)	<u>9,297,101</u>	<u>969,889</u>	<u>10,266,990</u>
	Written down value as at 30 June 2014 (Audited)	<u>9,419,768</u>	<u>351,741</u>	<u>9,771,509</u>
			30 September 2014 (Unaudited)	30 June 2014 (Audited)
			----- (Rupees in '000) -----	
5	STOCK IN TRADE			
	Raw material	5.1	3,332,346	1,254,244
	Work-in-process		796,221	1,134,423
	Finished goods		1,114,237	1,277,652
	Scrap material		2,758	921
			<u>5,245,562</u>	<u>3,667,240</u>
5.1	This includes raw material-in-transit amounting to Rs. 1,500 million (30 June 2014: Rs. Nil).			
6	TRADE DEBTS - Secured, unsecured and considered good			
	Secured	6.1	877,195	1,169,822
	Unsecured		2,100	16,058
			<u>879,295</u>	<u>1,185,880</u>

Notes to the Condensed Interim Financial Information (Unaudited)

- 6.1** This represents trade debts arising on account of Export sales of Rs. 849.98 million (30 June 2014: Rs 1,145.74 million) which are secured by way of Export Letters of Credit and Documents of Acceptance. Rs. 27.22 million (30 June 2014: Rs. 24.08 million) arising on account of domestic sales which are secured by way of Inland Letter of Credit.

	30 September 2014 (Unaudited)	30 June 2014 (Audited)
	------(Rupees in '000)-----	
7 ADVANCES - Considered good		
- to suppliers	98,884	122,139
- to clearing agents	107,060	143,488
- to employees	221	500
	<u>206,165</u>	<u>266,127</u>
8 TRADE DEPOSITS, SHORT TERM PREPAYMENTS AND OTHER RECEIVABLES		
Trade deposits	8,589	5,535
Short term prepayments	13,752	6,182
	<u>22,341</u>	<u>11,717</u>
9 LONG TERM FINANCES - secured		
Long Term Finance Facility (LTFF)	9.1 & 9.2 3,099,462	2,842,684
Long term finance	9.3, 9.4 & 9.5 1,105,924	908,183
	4,205,386	3,750,867
Current maturity of long term finances	(749,877)	(749,877)
	<u>3,455,509</u>	<u>3,000,990</u>

- 9.1** The syndicated LTFF amounting to Rs. 2,699.1 million (30 June 2014 Rs. 2,842.7 million) is secured by way of mortgage of land located at Survey No. 399-404, Landhi Town, Karachi, and joint hypothecation of all present and future fixed assets (excluding land and building), as per the terms of syndicated term financing agreement. It is repayable in sixteen half yearly instalments which commenced from March 2011. The rate of mark-up on these finance is 1.5% over SBP rate (30 June 2014: 1.5% over SBP rate).

- 9.2** During the quarter first tranche of a new bilateral LTFF amounting to Rs. 400.3 million for expansion project is obtained from participating banks and is secured by way of mortgage of land located at Survey No. 399-404, Landhi Town, Karachi, and joint hypothecation of all present and future fixed assets (excluding land and building), as per the terms of syndicated term financing agreement. It is repayable in sixteen half yearly instalments which will commence from December 2016. The rate of mark-up on these finance is 1.0% over SBP rate. The remaining portion of LTFF will be drawn at the time of payment against plant and machinery.

Notes to the Condensed Interim Financial Information (Unaudited)

- 9.3** Long term finance amounting to Rs. 505.9 million (30 June 2014 Rs. 608.2 million) are secured by way of mortgage of land located at Survey No. 399-404, Landhi Town, Karachi and other fixed assets of the Company against ranking charge. It is repayable in eight half yearly instalments which commenced from December 2012. The rate of mark-up is 1.25% over 6 months KIBOR (30 June 2014: 1.25% over 6 months KIBOR).
- 9.4** Long term finance is obtained amounting to Rs. 300 million (30 June 2014: Rs. 300 million) from various banks for plant and machinery and is secured by way of first pari passu charge over the fixed assets of the Company. It is repayable in eight half yearly instalments which will commence from June 2015. The rate of mark-up is 1.25% over 6 months KIBOR (30 June 2014: 1.25% over 6 months KIBOR).
- 9.5** During the quarter additional long term finance facility of Rs. 300 million for expansion project is obtained from a bank for plant and machinery and is secured by way of first pari passu charge over the fixed assets of the Company. It is repayable in ten half yearly instalments which will commence from March 2016. The rate of mark-up is 1.0% over 6 months KIBOR.

	30 September 2014 (Unaudited)	30 June 2014 (Audited)
	----- (Rupees in '000) -----	
10 TRADE AND OTHER PAYABLES		
Trade creditors	34,481	1,354,184
Dividend Payable	435,000	-
Payable to provident fund	1,564	1,550
Sales commission payable	19,570	24,316
Accrued expenses	142,395	116,606
Advance from customers	72,430	164,109
Provision for infrastructure cess	228,125	211,800
Provision for government levies	742	742
Short term compensated absences	2,345	1,611
Workers' Profit Participation Fund	-	46,998
Workers' Welfare Fund	28,342	28,321
Others	1,642	5,629
	<u>966,636</u>	<u>1,955,866</u>

- 10.1** This represents provision against fifty percent amount guaranteed to Excise and Taxation Officer (Refer note 12.1.1).

11 SHORT TERM BORROWINGS - secured

Running finance under mark-up arrangement	11.1	3,886,241	979,538
Running finance under FE-25 Import Scheme	11.2	2,209,341	2,093,869
Running finance under Export Refinance Scheme	11.3	1,225,000	612,000
Short term finance under Murabaha and Istisna	11.4	399,452	397,194
Short term finance under Musharakah	11.5	-	793,706
		<u>7,720,034</u>	<u>4,876,307</u>

- 11.1** The facilities for running finance available from various commercial banks are for the purpose of meeting working capital requirements. The rates of mark-up on these finances range from KIBOR + 0.25% to KIBOR + 1.75% (30 June 2014: KIBOR + 0.30% to KIBOR + 1.75%) per annum. These facilities mature within twelve months and are renewable.

Notes to the Condensed Interim Financial Information (Unaudited)

- 11.2** The facilities for short term running finance under Foreign Exchange Circular No.25 dated 20 June 1998 available from various commercial banks are for the purpose of meeting import requirements. The rates of mark-up on these finances ranges from 2.25% to 3.82% (30 June 2014: 2.75% to 3.82%) per annum. These facilities mature within six months and are renewable. The facilities availed is for an amount of USD 21.8 million equivalent to Rs. 2,239.9 million (30 June 2014: USD 21.2 million equivalent to Rs. 2,094.9 million).
- 11.3** The Company has borrowed short term running finance under Export Refinance Scheme of the State Bank of Pakistan from a commercial bank. This facility is available as a sub limit of short term finance facility. The rate of mark-up on this facility is 7.05% per annum (30 June 2014: 8.96%). This facility matures within six months and is renewable.
- 11.4** The Company has obtained facilities for short term finance under Murabaha and Istisna under Islamic financing arrangement. The rate of profit is KIBOR + 0.30% (30 June 2014: KIBOR + 0.30%). This facility matures within six months and is renewable.
- 11.5** This represents Islamic Term Musharakah available from a commercial bank for the purpose of meeting working capital requirements. The facility is availed for an amount of Rs. Nil (30 June 2014: Rs. 794 million). It carries mark-up at the rate of 3 months KIBOR + 0.45% (30 June 2014: 3 months KIBOR + 0.45%). This facility matures within one year and is renewable.
- 11.6** As at 30 September 2014, the unavailed facilities from the above borrowings amounted to Rs. 2,165 million (30 June 2014: Rs. 5,123.69 million).
- 11.7** The above facilities are secured by way of joint and first pari passu charges over current assets of the Company.

12 CONTINGENCIES AND COMMITMENTS

12.1 Contingencies

- 12.1.1** The Sindh Finance Act, 1994 prescribed in the position of an infrastructure fee at the rate of 0.50% of the C&F value of all goods entering or leaving the province of Sindh via sea or air. The High Court on petition filed, passed an interim order directing that every Company subsequent to 27 December 2006 is required to clear the goods on paying 50% of the fee amount involved and furnishing a guarantee / securities for the balance amount as directed. Bank guarantees issued as per the above mentioned interim order amount to Rs. 236.50 million (30 June 2014: Rs. 216.50 million), have been provided to the Department. However, a provision to the extent of amount utilized from the limit of guarantee has also been provided for by the Company on prudent basis (note 10.1).
- 12.1.2** As per the Gas Infrastructure and Development Cess Act 2011 ('the Act'), certain companies as specified in the Act (including Sui Southern Gas Company ('SSGC')) shall collect and pay Gas infrastructure and Development Cess ('GIDC') in such manner as the Federal Government may prescribe. As per the second schedule of the Act, GIDC of Rs. 13 per MMBTU was applicable on International Steels Limited. Through Finance Bill 2012 – 2013, an amendment was made to the Act

Notes to the Condensed Interim Financial Information (Unaudited)

whereby the rate of GIDC applicable on International Steels Limited was increased to Rs. 100 per MMBTU. On 01 August 2012, the Company filed a suit bearing number 859/2012 wherein it impugned the Act on the ground that the rate of GIDC has been enhanced without any lawful justification and authority. The Honorable High Court of Sindh at Karachi vide its ad-interim order dated 06 September 2012 has restrained SSGC from charging GIDC above Rs. 13 per MMBTU. As a result, SSGC invoiced GIDC to the Company at Rs. 13 per MMBTU, which has been recorded and paid.

Peshawar High Court vide order dated 13 June 2013 declared that the provisions of the Act, imposing, levying and recovering the impugned cess, are absolutely expropriatory and exploitative and being constitutionally illegitimate, having no sanction there for under the constitution, hence, are declared as such and set at naught. The judgement was referred in the Supreme Court and Supreme Court of Pakistan vide its order dated 22 August 2014 has upheld the decision of the Peshawar High Court stating that the GIDC Act 2011 to be unconstitutional and ultra vires on the grounds that GIDC is a 'Fee' and not a 'Tax' and in the alternative it is not covered by any entry relating to imposition or levy of tax under Part-I of the Federal Legislative list and on either counts the 'cess' could not have been introduced through a money bill under the Constitution.

In order to circumvent the decision of the Supreme Court, the Federal Government during the first quarter promulgated GIDC Ordinance No. VI of 2014, imposing GIDC at Rs. 200 per MMBTU for captive power plants and at Rs. 150 per MMBTU for industrial units. The Company, once again filed a Suit against the Ordinance on the plea that the Hon'ble Supreme Court has already held that GIDC or any Fee on Gas is not covered by any entry relating to imposition or levy of tax under Part-I of the Federal Legislative list and thus the Federal Government has no powers to impose GIDC. The Ordinance included the application of GIDC as defined in the Act. In view of Supreme Court's order declaring GIDC as unconstitutional and ultra vires, the Company has not recorded the differential of GIDC of Rs. 87 per MMBTU (from October 2012 to June 2014) amounting to Rs. 194.192 million in these condensed interim financial information.

- 12.1.3 Section 113(2)(c) was interpreted by a Divisional Bench of the Sindh High Court (SHC) in the Income Tax Reference Application (ITRA) No. 132 of 2011 dated 07 May 2013, whereby it was held that the benefit of carry forward of Minimum Tax is only available in the situation where the actual tax payable (on the basis of net income) in a tax year is less than Minimum Tax. Therefore, where there is no tax payable due to brought forward tax losses, minimum tax could not be carried forward for adjustment with future tax liability.

The Company based on legal councils' advices considered that certain strong grounds are available whereby the aforesaid decision can be challenged in a Larger Bench of the SHC or the Supreme Court of Pakistan. A leave to appeal against the aforesaid decision has already been filed before the Supreme Court of Pakistan by other companies which is pending for hearing. In view of above, the Company is confident that the ultimate outcome in this regard would be favourable. Accumulated minimum tax liability of Rs. 219.51 million was determined for the tax years 2012 and 2013.

However, based on the assessment and estimation for availability of sufficient taxable profits on the basis of 5 years projections and tax credits available to the Company under section 65B of the Income Tax Ordinance, 2001. Accordingly, accumulated minimum tax liability amounting to Rs. 445.12 million has not been recorded on the same basis in these condensed interim financial information.

Notes to the Condensed Interim Financial Information (Unaudited)

12.1.4 Guarantee issued by the Company to Sui Southern Gas Company Limited of Rs. 177.2 million (30 June 2014: Rs. 177.2 million) as a security for supply of gas.

12.2 Commitments

12.2.1 Capital expenditure commitments outstanding as at 30 September 2014 amounted to Rs. 2,204 million (30 June 2014: Rs. 2,020.32 million).

12.2.2 Commitments under Letter of Credit for raw materials and spares as at 30 September 2014 amounted to Rs. 674 million (30 June 2014: Rs. 2,976.72 million).

12.2.3 The unavailed facilities for opening Letters of Credit and Guarantees from banks as at 30 September 2014 amounted to Rs. 12,772 million (30 June 2014: Rs. 6,503 million) and Rs. 314 million (30 June 2014: Rs. 362.30 million).

	Quarter ended	
	30 September 2014	30 September 2013
	----- (Unaudited) -----	
	----- (Rupees in '000) -----	
13 NET SALES		
Local	4,037,821	4,530,390
Export	572,874	593,939
	4,610,695	5,124,329
Toll manufacturing	72,782	-
	4,683,477	5,124,329
Sales tax	599,319	681,951
Trade discount	41,900	1,563
Sales commission	45,108	44,274
	686,327	727,788
	<u>3,997,150</u>	<u>4,396,541</u>
14 COST OF SALES		
Opening stock of raw material and work-in-process	2,388,667	1,218,957
Purchases	3,388,032	6,297,771
Salaries, wages and benefits	62,010	57,406
Electricity, gas and water	128,817	102,214
Insurance	4,541	5,132
Security and janitorial	4,266	4,721
Depreciation	110,413	106,646
Amortisation	1,474	1,474
Stores and spares consumed	11,458	33,247
Repairs and maintenance	18,241	24,245
Postage, telephone and stationery	988	998
Vehicle, travel and conveyance	3,313	3,321
Internal material handling	567	998
Environment controlling expense	172	323
Computer stationery and software support fees	1,527	740
Others	1,379	1,233
Recovery from sale of scrap	(13,338)	(13,568)
	<u>6,112,527</u>	<u>7,845,858</u>

Notes to the Condensed Interim Financial Information (Unaudited)

	Quarter ended	
	30 September 2014	30 September 2013
	----- (Unaudited) -----	
	----- (Rupees in '000) -----	
Closing stock of raw material and work-in-process	(2,628,855)	(3,560,390)
Cost of goods manufactured	3,483,672	4,285,468
Finished goods:		
Opening stock	1,277,652	841,816
Closing stock	(1,114,237)	(1,148,966)
	163,415	(307,150)
	<u>3,647,087</u>	<u>3,978,318</u>
15 ADMINISTRATIVE EXPENSES		
Salaries, wages and benefits	25,565	23,054
Rent, rates and taxes	1,252	1,120
Electricity, gas and water	467	441
Insurance	294	184
Security and janitorial	82	27
Depreciation	1,203	1,259
Printing and stationery	851	16
Postage and communication	152	162
Vehicle, travel and conveyance	1,066	811
Legal and professional charges	3,371	4,910
Certification and registration charges	113	101
Directors' fee	720	640
Others	603	482
	<u>35,739</u>	<u>33,207</u>
16 SELLING AND DISTRIBUTION EXPENSES		
Salaries, wages and benefits	12,540	13,440
Rent, rates and taxes	1,370	1,206
Electricity, gas and water	180	221
Insurance	171	319
Depreciation	590	569
Postage, telephone and stationery	-	215
Vehicle, travel and conveyance	1,069	1,054
Freight and forwarding charges	27,926	17,050
Advertising and sales promotion	124	344
Others	1,210	725
	<u>45,180</u>	<u>35,143</u>
17 FINANCIAL CHARGES		
Mark-up on:		
- Long term finances	86,498	93,623
- Short term borrowings	112,928	145,175
	199,426	238,798
Exchange loss / (gain) on FE financing	156,749	26,238
Bank charges	3,427	632
	<u>359,602</u>	<u>265,668</u>

Notes to the Condensed Interim Financial Information (Unaudited)

	Quarter ended	
	30 September 2014	30 September 2013
18 OTHER OPERATING CHARGES	------(Unaudited)----- ------(Rupees in '000)-----	
Auditors' remuneration	551	400
Donations	275	300
Workers' Profit Participation Fund	-	5,759
Workers' Welfare Fund	-	2,304
	<u>826</u>	<u>8,763</u>
19 OTHER INCOME		
Income from non-financial assets		
Income from power generation	19.1 12,325	5,377
Recovery of shared resources cost	4,830	6,450
Gain on sale of property, plant and equipment	2,201	1,718
Rent income	429	429
Exchange gain - net	39,598	16,199
Others	14,088	1,509
	<u>73,471</u>	<u>31,682</u>
19.1 Income from power generation		
Net sales	129,113	109,882
Cost of electricity produced	(116,788)	(104,505)
Income from power generation	<u>12,325</u>	<u>5,377</u>
20 MOVEMENT IN WORKING CAPITAL		
<i>Increase in current assets:</i>		
Stores and spares	4,481	(3,727)
Stock in trade	(1,578,322)	(3,975,296)
Receivable from KE	1,444	(49,948)
Trade debts	306,585	(44,948)
Advances	59,962	195,923
Trade deposits, short term prepayments and other receivables	(10,624)	5,053
Sales tax receivable	84,988	(247,675)
	<u>(1,131,486)</u>	<u>(4,120,618)</u>
<i>(Decrease) / increase in current liabilities:</i>		
Trade and other payables	(1,424,964)	1,283,087
	<u>(1,424,964)</u>	<u>1,283,087</u>
	<u>(2,556,450)</u>	<u>(2,837,531)</u>

Notes to the Condensed Interim Financial Information (Unaudited)

21 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise IIL (the Holding Company), associated undertakings, directors of the Company, key management personnel and staff retirement funds. The Company continues to have a policy whereby transactions with related parties undertakings are entered into at commercial terms, approved policy / under a contract. The contribution to defined contribution plan (provident fund) are made as per the terms of employment and contribution to the defined benefit plan (gratuity fund) are made on the basis of latest actuarial advice. Remuneration of key management personnel are in accordance with their terms of engagements. Details of transactions with related parties are as follows:

	Quarter ended	
	30 September 2014	30 September 2013
	------(Unaudited)-----	
	------(Rupees in '000)-----	
TRANSACTIONS		
Holding Company		
Sales	84,945	151,658
Purchases	4,880	655
Toll Manufacturing	72,782	-
Office rent	2,399	2,181
Recovery of shared resources cost	4,830	6,450
Corporate affairs management expenses	1,121	886
Associated Companies		
Purchases	4,272,685	2,537,565
Insurance premium expense	5,604	6,599
Rent Income	429	429
Associated Person		
Sales commission expense	987	1,622
Key Management Personnel		
Remuneration and benefits	32,744	37,894
Staff retirement benefits	1,077	1,108
Staff Retirement Fund		
Contribution paid - Provident Fund	2,135	1,931
Contribution paid - Gratuity Fund	3,100	2,180
BALANCES		
Associated Companies		
Trade creditors	1,981	2,026
Associated Person		
Sales commission payable	3,383	1,622

Notes to the Condensed Interim Financial Information (Unaudited)

22 FINANCIAL RISK MANAGEMENT

Other aspects of the Company's risk management policies are consistent with those disclosed in the financial statements for the year ended 30 June 2014.

23 OPERATING SEGMENTS

These condensed interim financial information have been prepared on the basis of a single reportable segment.

23.1 Revenue from sales of steel products represents 97% (30 June 2014: 98%) of total revenue whereas remaining represent revenue from sale of surplus electricity to KE. The Company does not consider sale of electricity to KE as separate reportable segment as the power plant of the Company is installed primarily to supply power to its Galvanizing Plant and Cold Rolling Plant and currently any excess electricity is sold to KE.

23.2 All non current assets of the Company as at 30 September 2014 are located in Pakistan.

23.3 14.3% of the net sales are export sales.

24 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information were authorized for issue by the Board of Directors on **21 October 2014**.


Tariq Iqbal Khan
Director & Chairman
Board Audit Committee


Alee Arsalan
Chief Financial
Officer


Towfiq H. Chinoy
Managing Director &
Chief Executive