

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

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Company Information

Board of Directors

| | | |
|------------------------------------|------------------------|-------------------------|
| Chairman | Mr. Kemal Shoaib | 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


Alea 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


Alea 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


Alea 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


Alew 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 | <u>4,350,000</u> | <u>-</u> | <u>276,838</u> | <u>4,626,838</u> |
| 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 | <u>4,350,000</u> | <u>-</u> | <u>426,570</u> | <u>4,776,570</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

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 |
| | <u>1,583,662</u> | <u>-</u> | <u>1,583,662</u> |
| 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 |
| | 3,997,150 | 4,396,541 |
| 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) |
| | 6,112,527 | 7,845,858 |

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 |
| | | ----- (Unaudited) ----- | |
| | | ----- (Rupees in '000) ----- | |
| 18 | OTHER OPERATING CHARGES | | |
| | 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 | 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


Aleem Arsalan
Chief Financial
Officer


Tawfiq H. Chinoy
Managing Director &
Chief Executive