



**International
Steels Limited**

Shaping Tomorrow

**A part of
our lives**

Unaudited Financial Statements
First Quarter ended September 30, 2017

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Company Information

Chairman (Independent)

Mr. Kemal Shoaib

Independent Directors

Mr. Tariq Iqbal Khan

Mr. Kamran Y. Mirza

Syed Salim Raza

Non-Executive Directors

Mr. Towfiq H. Chinoy

Mr. Kamal A. Chinoy

Syed Hyder Ali

Mr. Riyaz T. Chinoy

Mr. Kazuteru Mihara

Executive Directors

Mr. Yousuf H. Mirza

(Chief Executive Officer)

Mr. Samir M. Chinoy

Chief Financial Officer

Mr. Tauqir Hasan

Company Secretary

Mrs. Fauzia Noorani

Chief Internal Auditor

Mr. Usman Ahmed

External Auditors

M/s KPMG Taseer Hadi & Co.

Bankers

Allied Bank Ltd.

Bank Al Habib Ltd.

Bank Alfalah Ltd.

Dubai Islamic Bank (Pak) Ltd.

Faysal Bank Ltd.

Habib Bank Ltd.

Habib Metropolitan Bank Ltd.

MCB Bank Ltd

Meezan Bank Ltd.

Samba Bank Ltd.

Standard Chartered Bank (Pakistan) Ltd.

United Bank Ltd.

Legal Advisor(s)

Mrs. Sana Shaikh Fikree

Registered Office

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e-mail: info@isl.com.pk

Website

www.isl.com.pk

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Shares Registrar

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Fax: +9221-34168271

e-mail: info@thk.com.pk

Assistant Company Secretary

Mr. Mohammad Irfan Bhatti

101 Beaumont Plaza,

10 Beaumont Road, Karachi.

UAN: +9221-111-019-019,

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Directors' Report

Directors of your company are pleased to present the financial statements for three months ended September 30, 2017.

The economic situation continued to demonstrate mixed patterns with the widening of current account deficit due to significant increase in imports, for which foreign exchange reserves were drawn down to plug the financing gap. Furthermore, the dollar-rupee parity remains largely stable and the central bank maintained the same policy rate. However, the anticipated GDP acceleration will push domestic demand, enhance investor's confidence and invoke high level investment activity in projects and allied steel industry.

Sales Revenue for the period ending September 30, 2017 reflected a growth of 62% and stood at Rs. 10.7 billion compared with Rs. 6.6 billion same period last year. Gross profit is Rs. 1.8 billion (16.5% of Sales) compared to Rs. 1.0 billion (16.2% of Sales) same period last year. The incremental gross profit is mainly due to robust sales volume, productivity and steady global steel prices. During the quarter, your Company has moved from Alternate Corporate Regime to Normal Tax Regime, resulting in higher tax charge for the quarter compared to same period last year. As a result, the profit after tax was Rs. 1.0 billion compared with Rs. 566 million, the EPS was Rs. 2.31 compared to Rs. 1.30 in the same period last year.

The capacity enhancement project announced last year is anticipated to be commissioned in the final quarter of current fiscal year. On completion, the Company will be able to meet the entire national demand of Galvanized Products and significantly meet growing Cold Rolled Steel needs.

National tariff Commission has accepted the submission made by the Company for the imposition of dumping duties against the import of Color coated sheets and coils from China and South Africa. The investigation is on-going and the decision of imposition of preliminary duties is expected to be announced in the coming months.

Volatility has been witnessed in the global steel prices in the last month of the quarter. The Company is closely monitoring these trends to mitigate the effect of fluctuating prices.

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

For & on behalf of
International Steels Limited

Date: October 17, 2017
Karachi


Kemal Shoaib
Chairman

Condensed Interim Balance Sheet

As at 30 September 2017

	Note	30 September 2017 (Un-audited) (Rupees in '000)	30 June 2017 (Audited)
ASSETS			
Non Current Assets			
Property, plant and equipment	5	13,853,767	13,639,451
Intangible assets		3,568	3,903
Long term deposit		100	100
Total Non Current Assets		13,857,435	13,643,454
Current Assets			
Stores and spares		570,641	507,696
Stock-in-trade	6	8,290,872	9,537,846
Trade debts	7	915,614	764,043
Receivable from K-Electric Limited (KE) - unsecured, considered good		44,150	42,987
Advances - considered good	8	45,032	48,463
Trade deposits and short term prepayments	9	20,500	22,533
Sales tax receivable		717,536	1,134,288
Taxation - net		339,511	616,557
Cash and bank balances		47,687	53,228
Total Current Assets		10,991,543	12,727,641
Total Assets		24,848,978	26,371,095
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Authorized Capital 500,000,000 (2017: 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		3,823,827	3,250,374
Total shareholders' equity		8,173,827	7,600,374
Surplus on revaluation of property, plant and equipment		948,765	953,873
LIABILITIES			
Non Current Liabilities			
Long term finances - secured	10	3,307,860	3,621,272
Staff retirement benefits		-	23,578
Deferred taxation - net		1,507,709	1,456,421
Total Non Current Liabilities		4,815,569	5,101,271
Current Liabilities			
Trade and other payables	11	4,888,864	6,410,128
Short term borrowings - secured	12	4,767,144	5,039,236
Current portion of long term finances	10	1,197,073	1,197,073
Accrued mark-up		57,736	69,140
Total Current Liabilities		10,910,817	12,715,577
Total Equity and Liabilities		24,848,978	26,371,095
Contingencies and Commitments	13		

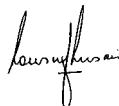
The annexed notes 1 to 25 form an integral part of this condensed interim financial information.



Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Tauqir Hasan
Chief Financial Officer



Yousuf H. Mirza
Chief Executive Officer

Condensed Interim Profit and Loss Account (Un-audited)

For the quarter ended 30 September 2017

	Note	Quarter ended	
		30 September 2017	30 September 2016
		(Rupees in '000)	
Net sales	14	10,708,086	6,585,807
Cost of sales	15	(8,939,132)	(5,522,188)
Gross Profit		1,768,954	1,063,619
Selling and distribution expenses	16	(103,688)	(65,640)
Administrative expenses	17	(53,987)	(44,448)
		(157,675)	(110,088)
Financial charges	18	(112,880)	(122,761)
Other operating charges	19	(127,288)	(86,712)
		(240,168)	(209,473)
Other income	20	25,948	31,842
Profit before taxation		1,397,059	775,900
Taxation	21	(393,714)	(210,182)
Profit after taxation for the period		1,003,345	565,718
		(Rupees)	
Earnings per share - basic and diluted		2.31	1.30

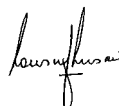
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Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Tauqir Hasan
Chief Financial Officer



Yousuf H. Mirza
Chief Executive Officer

Condensed Interim Statement of Comprehensive Income (Un-audited)

For the quarter ended 30 September 2017

	Quarter ended	
	30 September 2017	30 September 2016
	(Rupees in '000)	
Profit after taxation for the period	1,003,345	565,718
Other comprehensive income	-	-
Total comprehensive income for the period	<u>1,003,345</u>	<u>565,718</u>

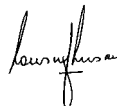
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Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



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Chief Financial Officer



Yousuf H. Mirza
Chief Executive Officer

Condensed Interim Cash Flow Statement (Un-audited)

For the quarter ended 30 September 2017

	Note	Quarter ended 30 September 2017	Quarter ended 30 September 2016
(Rupees in '000)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		1,397,059	775,900
Adjustments for:			
Depreciation and amortisation		211,102	204,347
Gain on sale of property, plant and equipment		(268)	(713)
Provision for staff gratuity		5,241	4,140
Provision for compensated absences		5,635	2,336
Financial charges		112,880	122,761
		334,590	332,871
Changes in working capital	22	(231,290)	71,091
Net cash generated from operations		1,500,359	1,179,862
Financial charges paid		(124,284)	(87,201)
Gratuity paid		(28,819)	(4,140)
Compensated absences paid		(4,135)	(4,458)
Taxes paid		(65,380)	(108,746)
		(222,618)	(204,545)
Net cash generated from operating activities		1,277,741	975,317
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		(427,820)	(184,983)
Proceeds from sale of property, plant and equipment		3,005	2,587
Net cash used in investing activities		(424,815)	(182,396)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term financing		-	1,011,592
Repayment of long term financing		(313,412)	(94,444)
Dividend paid		(272,963)	-
Net cash (used in) / generated from financing activities		(586,375)	917,148
Net increase in cash and cash equivalents		266,551	1,710,069
Cash and cash equivalents at beginning of the period		(4,986,008)	(3,486,140)
Cash and cash equivalents at end of the period		(4,719,457)	(1,776,071)
CASH AND CASH EQUIVALENTS COMPRISE:			
Cash and bank balances		47,687	47,124
Short term borrowings - secured		(4,767,144)	(1,823,195)
		(4,719,457)	(1,776,071)

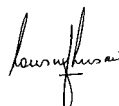
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Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Tauqir Hasan
Chief Financial Officer



Yousuf H. Mirza
Chief Executive Officer

Condensed Interim Statement of Changes in Equity (Un-audited)

For the quarter ended 30 September 2017

	Issued, subscribed & paid-up capital	Unappropriated profit	Total
	(Rupees in '000)		
Balance as at 01 July 2016	4,350,000	1,818,328	6,168,328

Changes in equity for the period ended 30 September 2016:

Profit for the period	-	565,718	565,718
Total other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	565,718	565,718

Transactions with the owners of the Company - distribution

Dividend:

- Final dividend @ 12.50% (Rs. 1.25 per share) for the year ended 30 June 2016	-	(543,750)	(543,750)
Total transactions with owners of the Company - distribution		(543,750)	(543,750)

Transferred from surplus on revaluation of property, plant and equipment - net of deferred tax	-	5,108	5,108
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Balance as at 30 September 2016	4,350,000	1,845,404	6,195,404
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Balance as at 01 July 2017	4,350,000	3,250,374	7,600,374
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Changes in equity for the period ended 30 September 2017:

Profit for the period	-	1,003,345	1,003,345
Total other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	1,003,345	1,003,345

Transactions with the owners of the Company - distribution

Dividend:

- Final dividend @ 10% (Rs. 1.00 per share) for the year ended 30 June 2017	-	(435,000)	(435,000)
Total transactions with owners of the Company - distribution		(435,000)	(435,000)

Transferred from surplus on revaluation of property, plant and equipment - net of deferred tax	-	5,108	5,108
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Balance as at 30 September 2017	4,350,000	3,823,827	8,173,827
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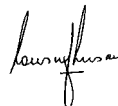
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Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Tauqir Hasan
Chief Financial Officer



Yousuf H. Mirza
Chief Executive Officer

Notes to the Condensed Interim Financial Information (Un-audited)

For the quarter ended 30 September 2017

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 net assets of the Steel Project Undertaking of International Industries Limited (the Holding Company), amounting to Rs. 4,177.167 million determined as at 23 August 2010 (day immediately preceding the completion date) in accordance with the Scheme of Arrangement, were transferred to the Company on 24 August 2010. In consideration of transferring to and vesting the Steel Project Undertaking in the Company, 417,716,700 fully paid up ordinary shares were issued at par value to the Holding Company.

The Company was listed on the Pakistan Stock Exchange Limited (formerly Karachi Stock Exchange Limited) on 01 June 2011. As at 30 September 2017, the Holding Company held 245,055,543 shares (2017: 245,055,543 shares) of the Company.

The primary activity of the Company is the business of manufacturing of cold rolled, galvanized and colour coated steel coils and sheets. The Company commenced commercial operations on 01 January 2011. 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 period ended 30 September 2017 has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance 1984 have been followed.
- 2.1.2 The Companies Ordinance, 1984 has been repealed after the enactment of the Companies Act, 2017. However, as allowed by the SECP vide its press release dated 06 October 2017, this condensed interim financial information has been prepared in accordance with the provisions of the repealed Companies Ordinance, 1984.
- 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 audited annual financial statements as at and for the year ended 30 June 2017.
- 2.1.4 The comparative Balance Sheet presented in this condensed interim financial information has been extracted from the audited annual separate financial statements of the Company for the year ended 30 June 2017, whereas the comparative condensed interim Profit and Loss Account, condensed interim Statement of Comprehensive Income, condensed interim Cash Flow Statement and condensed interim Statement of Changes in Equity are extracted from the unaudited condensed interim financial information for the period ended 30 September 2016.
- 2.1.5 This condensed interim financial information is un-audited and is being submitted to the shareholders as required by listing regulations of Pakistan Stock Exchange vide section 245 of the Companies Ordinance 1984.

2.2 Basis of measurement

This condensed interim financial information has been prepared under the historical cost convention except that the land and buildings are stated at fair values determined by an independent valuer and the Company's liability under its defined benefit plan (gratuity) which is determined on the present value of the defined benefit obligations determined by an independent actuary.

Notes to the Condensed Interim Financial Information (Un-audited)

For the quarter ended 30 September 2017

2.3 Functional and presentation currency

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 Rupee except where stated otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 The accounting policies and methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of audited annual financial statements of the Company as at and for the year ended 30 June 2017.

3.2 Certain amendments and interpretations to approved accounting standards effective during the period were not relevant to the Company's operations and did not have any impact on the accounting policies of the Company.

4. ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

The preparation of condensed interim financial information requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by the management in applying the Company's accounting policies and the key sources of estimating the uncertainty were the same as those that applied to the audited annual financial statements as at and for the year ended 30 June 2017.

The Company's financial risk management objectives and policies are consistent with those disclosed in the audited annual financial statements as at and for the year ended 30 June 2017.

5. PROPERTY, PLANT AND EQUIPMENT

	Operating Assets	Capital work- in-progress (Rupees in '000)	Total
Cost / revalued amount			
Opening balance	15,780,699	1,090,094	16,870,793
Additions	28,582	430,570	459,152
Disposal / transfer / adjustments	(5,743)	(28,582)	(34,325)
	<u>15,803,538</u>	<u>1,492,082</u>	<u>17,295,620</u>
Accumulated depreciation			
Opening balance	(3,231,342)	-	(3,231,342)
Charge for the period	(210,767)	-	(210,767)
Disposal / adjustments	256	-	256
	<u>(3,441,853)</u>	<u>-</u>	<u>(3,441,853)</u>
Written down value as at 30 September 2017 (Un-audited)	<u>12,361,685</u>	<u>1,492,082</u>	<u>13,853,767</u>
Written down value as at 30 June 2017 (Audited)	<u>12,549,357</u>	<u>1,090,094</u>	<u>13,639,451</u>

Notes to the Condensed Interim Financial Information (Un-audited)

For the quarter ended 30 September 2017

	Note	30 September 2017 (Un-audited) (Rupees in '000)	30 June 2017 (Audited)
6. STOCK-IN-TRADE			
Raw material - in hand		2,894,879	3,028,194
- in transit		2,227,540	1,813,193
Work-in-process		706,156	1,190,872
Finished goods		2,462,297	3,505,587
		<u>8,290,872</u>	<u>9,537,846</u>
7. TRADE DEBTS			
Considered good			
- Secured	7.1	457,576	274,168
- Unsecured		458,038	489,875
		<u>915,614</u>	<u>764,043</u>
7.1 Related party from whom debts is due is as under:			
-Sumitomo Corporation		233,994	9,553
		<u>233,994</u>	<u>9,553</u>
8. ADVANCES			
Considered good:			
Suppliers		45,032	48,463
		<u>45,032</u>	<u>48,463</u>
9. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS			
Trade deposits		8,374	7,894
Short term prepayments		12,126	14,639
		<u>20,500</u>	<u>22,533</u>
10. LONG TERM FINANCES - secured			
<i>Conventional</i>			
Long Term Finance Facility (LTFF)	10.1	1,867,432	1,940,567
Long term finance	10.2 & 10.3	1,283,334	1,377,778
<i>Islamic</i>			
Long term finance	10.4 & 10.5	1,354,167	1,500,000
		4,504,933	4,818,345
Current portion of long term finances shown under current liabilities:			
<i>Conventional</i>			
Long Term Finance Facility (LTFF)		(235,962)	(235,962)
Long term finance		(450,000)	(450,000)
<i>Islamic</i>			
Long term finance		(511,111)	(511,111)
		(1,197,073)	(1,197,073)
		<u>3,307,860</u>	<u>3,621,272</u>

Notes to the Condensed Interim Financial Information (Un-audited)

For the quarter ended 30 September 2017

Conventional

- 10.1 This finance has been obtained from United Bank Limited and Bank AL Habib Limited and is secured by way of pari passu charge over fixed assets of the Company.
- 10.2 Long term finance amounting to Rs. 533 million (2017: Rs.578 million) has been obtained from MCB Bank Limited and is secured by way of pari passu charge over fixed assets of the Company.
- 10.3 Long term finance amounting to Rs. 750 million (2017: Rs.800 million) has been obtained from Bank AL Habib Limited and is secured by way of pari passu charge over fixed assets of the Company.

Islamic

- 10.4 Long term finance amounting to Rs. 688 million (2017: Rs.750 million) has been obtained from Meezan Bank Limited and is secured by way of pari passu charge over fixed assets of the Company.
- 10.5 Long term finance amounting to Rs. 666 million (2017: 750 million) has been obtained from Standard Chartered Bank (Pakistan) Limited and is secured by way of pari passu charge over fixed assets of the Company.

11. TRADE AND OTHER PAYABLES

	Note	30 September 2017 (Un-audited) (Rupees in '000)	30 June 2017 (Audited)
Trade creditors	11.1	2,077,290	4,081,902
Derivative financial liabilities		152	-
Payable to provident fund		-	1,229
Sales commission payable		55,462	52,509
Accrued expenses		1,003,445	935,228
Advances from customers		484,697	390,740
Provision for infrastructure cess	11.2	557,535	519,204
Provision for government levies		257	257
Dividend payable	11.3	437,203	275,166
Unclaimed dividend		656	656
Short term compensated absences		7,428	5,928
Workers' Profit Participation Fund		75,111	-
Workers' Welfare Fund		170,496	140,452
Others		19,132	6,857
		<u>4,888,864</u>	<u>6,410,128</u>
11.1 Related party to whom payments is due is as under:			
-Sumitomo Corporation		45,580	3,011,880
		<u>45,580</u>	<u>3,011,880</u>
11.2 Movement of infrastructure cess			
Opening balance		519,204	362,076
Provided during the period		38,331	157,128
Closing balance		<u>557,535</u>	<u>519,204</u>

- 11.3 Dividend payable includes amount payable to Holding Company Rs. 245 million (2017: Rs. Nil) and Rs.60 million (2017: Rs. Nil) payable to Associated Companies.

Notes to the Condensed Interim Financial Information (Un-audited)

For the quarter ended 30 September 2017

12. SHORT TERM BORROWINGS - secured	Note	30 September 2017 (Un-audited) (Rupees in '000)	30 June 2017 (Audited)
<i>Conventional</i>			
Running finance under mark-up arrangement	12.1	1,426,613	1,570,864
Running finance under Export Refinance Scheme	12.2	1,841,174	1,118,500
<i>Islamic</i>			
Short term finance under Running Musharakah	12.3	1,499,357	860,369
Short term finance under Term Musharakah	12.4	-	1,489,503
		<u>4,767,144</u>	<u>5,039,236</u>
12.1 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 6.06% to 7.37% (2017: 6.08% to 8.00%) per annum. These facilities mature within twelve months and are renewable.			
12.2 The Company has short term running finance facility under Export Refinance Scheme of the State Bank of Pakistan from a commercial bank. The rate of mark-up on this facility ranges from 2.10% to 2.15% (2017: 2.15%) per annum. These facilities mature within twelve months and are renewable.			
12.3 The Company has obtained facilities for short term finance under Running Musharakah. The rate of mark-up ranges from 6.06% to 6.15% (2017: 6.33% to 6.53%) per annum. This facility matures within twelve months and is renewable.			
12.4 The Company has obtained facilities for short term finance under Term Musharakah. The rate of mark-up ranges from 6.32% to 6.35% (2017: 6.07% to 6.14%) per annum. This facility matures within twelve months and is renewable.			
12.5 As at 30 September 2017, the unavailed facilities from the above borrowings amounted to Rs. 6,632.86 million (2017: Rs. 6,360.76 million).			
12.6 The above facilities are secured by way of joint and pari passu charges over current assets of the Company.			
13. CONTINGENCIES AND COMMITMENTS			
13.1 Contingencies			
13.1.1 The Sindh Finance Act, 1994 prescribed an infrastructure fee at the rate of 1% of the C&F value of all goods entering or leaving the province of Sindh via sea or air. The High Court of Sindh on petition filed by the petitioner, 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 / security for the balance amount. Bank guarantees issued as per the above mentioned interim order amount to Rs. 576.5 million (2017: Rs. 536.5 million), have been provided to the Department. However, a provision to the extent of amount utilized from the limit of guarantee has also been made for by the Company on prudent basis (Note 11.2).			
13.1.2 In 2011, the Gas Infrastructure Development Cess was levied via GIDC Act 2011 and further the rate of cess was amended via Finance Bill 2012 - 2013 which was challenged in the Supreme Court of Pakistan. The Supreme Court of Pakistan declared 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.			

Notes to the Condensed Interim Financial Information (Un-audited)

For the quarter ended 30 September 2017

During 2015, the Government passed a new law 'Gas Infrastructure Development Cess Act 2015' (the Act'), by virtue of which all prior enactments have been declared infructuous. The said Act levies GIDC at Rs. 100 per MMBTU on industrial consumption and Rs. 200 per MMBTU on captive power consumption, effective 01 July 2011. The Company has obtained a stay order on the retrospective application of the Act from the Honourable High Court of Sindh. The Company is confident of favourable outcome and therefore has not recorded, to the extent of self consumption, a provision of Rs. 380.8 million (from 01 July 2011 till 22 May 2015) in this condensed interim financial information. However, the Company made a provision of GIDC to the extent of its self consumption from May 2015 onwards. On 26 October 2016, the High Court of Sindh held that enactment of GIDC Act 2015 is ultra-vires to the Constitution of Pakistan. Sui Southern Gas Company Limited has filed an intra-court appeal before the Divisional Bench of High Court of Sindh. This appeal filed before the Divisional Bench of High Court of Sindh was dismissed on the ground that Learned Single Judge while passing the impugned judgement has considered all the material facts and also the relevant provisions of OGRA and has correctly applied the factual position. On 31 May 2017, separate petition filed by another company in the Peshawar High Court challenging the vires of the GIDC Act 2015 was dismissed for the reason that the Act has been passed by the Parliament strictly in accordance with the legislative procedures contained in the Constitution of Pakistan and therefore no procedural defect in the Act which could be made as a ground for its annulment. In view of aforementioned developments, the Company on prudent basis, continue to recognise provision after the passage of the Act.

Further the Company has not recognized GIDC amounting to Rs. 768 million (2017: Rs. 739 million) pertaining to period from 01 July 2011 to 30 September 2017 with respect to its captive power plant from which power generation is supplied to K-Electric Limited. Management considers that, in the event such levy is imposed, it shall recover GIDC from K-Electric Limited through fuel adjustments after getting requisite approval from National Electric Power Regulatory Authority (NEPRA).

- 13.1.3** Section 113(2)(c) of the Income Tax Ordinance, 2001 was interpreted by a Divisional Bench of the High Court of Sindh 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 counsels' advice, considered that certain strong grounds are available whereby the aforesaid decision can be challenged in a Larger Bench of the High Court of Sindh 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.

Further, based on the tax expert's advice obtained during the year, accumulated minimum tax liability under Section 113 of the Income Tax Ordinance, 2001 (the Ordinance) of Rs. 431 million was determined from the tax years 2013 till 2015 and an amount of Rs. 248 million on account of Alternate Corporate Tax (ACT) for the tax year 2016 under Section 113(C) of the Ordinance. 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 65(B) of the Income Tax Ordinance, 2001, accumulated minimum tax liability and alternate corporate tax net of tax credit under section 65(B) amounting to Rs. 157 million (2017: Rs. 157 million) has not been recorded in this condensed interim financial information.

Notes to the Condensed Interim Financial Information (Un-audited)

For the quarter ended 30 September 2017

- 13.1.4** Oil and Gas Regulatory Authority (OGRA) has issued notification for increase in gas tariff disregarding the protocol laid down in OGRA Ordinance, 2002. The Company has filed a suit in the High Court of Sindh (the Court) challenging the gas tariff increase. The Court has granted a stay order, subject to security deposit of the differential amount with the Nazir of the Court. The Company has deposited amount of Rs. 166.2 million (2017: 107.7 million) as post dated cheques with the Nazir of the Court. The Company, on prudent basis, has also accrued this amount in this condensed interim financial information.
- 13.1.5** Sindh Revenue Board (SRB) issued a notice to the Company for payment of Sindh Workers Welfare Fund under the Sindh Workers Welfare Fund Act, 2014. The Company filed a constitutional petition in the High Court of Sindh, challenging the said unlawful demand on the grounds that the Company is a trans-provincial establishment operating industrial and commercial establishments across Pakistan. The High Court of Sindh granted stay order in favour of the Company, declaring exemption on the basis that the Company being a trans-provincial establishment is paying Workers Welfare Fund under Federal Workers Welfare Fund Ordinance, 1971.
- 13.1.6** The Model Collectorate of Customs (MCC), Peshawar stopped the exports of the Company goods to Afghanistan under the pretext that SRO 190(I) / 2002 dated 2 April 2002 on the account of non-payment of 17% Sales Tax. A Constitutional Petition in the Sindh High Court (SHC) on 1 October 2015 arguing that there is no sales tax on exports to Afghanistan as per manufacturing bond rules SRO 450(I) / 2015 and that SRO 190 issued in 2002 was never implemented and hence under the Sales Tax Act 1990 no such liability could be raised at this stage. The SHC granted a stay order by allowing our exports to Afghanistan subject to depositing bank guarantees worth Rs. 2.65 million (2017: Rs. 2.65 million) (i.e. value of disputed sales tax amount) before the Nazir of the SHC. On 30 October 2015 FBR issued a clarification as to the applicability of SRO 190(I) / 2002 and stated that exports made to Afghanistan does not attract the levy of sales tax. The same has already been filed before the SHC and disposal of the case along with return of the said bank guarantees is awaited.
- 13.1.7** Guarantees issued in favour of Sui Southern Gas Company Limited by the bank amounted to Rs. 273.7 million (2017: Rs. 268.7 million) as a security for supply of gas.
- 13.1.8** Guarantees issued in favour of Pakistan State Oil Company Limited issued by bank on behalf of the Company amounted to Rs. 5.5 million (2017: Rs. 5.5 million).
- 13.1.9** Guarantees issued in favour of K-Electric Limited issued by bank on behalf of the Company amounted to Rs. 8.67 million (2017: Rs. 8.67 million).
- 13.1.10** Guarantees issued in favour of Wah Industries issued by bank on behalf of the Company amounted to Rs. 50.18 million (2017: Rs. Nil).
- 13.2 Commitments**
- 13.2.1** Capital expenditure commitments outstanding as at 30 September 2017 amounted to Rs. 2,704.23 million (2017: Rs. 3,016.6 million).
- 13.2.2** Commitments under Letters of Credit for raw materials and spares as at 30 September 2017 amounted to Rs. 6,518.59 million (2017: Rs. 4,616.45 million).
- 13.2.3** The unavailed facilities for opening Letters of Credit and Guarantees from banks as at 30 September 2017 amounted to Rs. 10,216.82 million (2017: Rs. 13,501.95 million) and Rs. 212.74 million (2017: Rs. 190 million) respectively.

Notes to the Condensed Interim Financial Information (Un-audited)

For the quarter ended 30 September 2017

14. NET SALES

	Quarter ended	
	30 September 2017	30 September 2016
	(Un-audited)	
	(Rupees in '000)	
Local	16,700,234	6,868,609
Export	1,191,576	832,113
	<u>17,891,810</u>	<u>7,700,722</u>
Sales tax	(7,065,780)	(1,038,888)
Trade discounts	(169)	(3,873)
Sales commission	(117,775)	(72,154)
	<u>(7,183,724)</u>	<u>(1,114,915)</u>
	<u>10,708,086</u>	<u>6,585,807</u>

15. COST OF SALES

Opening stock of raw material and work-in-process	4,219,066	2,739,463
Purchases	7,008,407	6,415,093
Salaries, wages and benefits	112,907	91,519
Electricity, gas and water	242,622	243,563
Insurance	5,534	4,973
Security and janitorial	6,466	4,621
Depreciation and amortisation	187,708	184,375
Operating supplies and consumables	26,235	16,514
Repairs and maintenance	18,925	18,222
Postage, telephone and stationery	1,516	1,148
Vehicle, travel and conveyance	2,717	3,601
Internal material handling	1,477	4,323
Environment controlling expense	528	495
Computer stationery and software support fees	1,198	1,659
Sundries	3,073	3,131
Sale of scrap generated during production	(341,502)	(194,928)
	<u>11,496,877</u>	<u>9,537,772</u>
Closing stock of raw material and work-in-process	(3,601,035)	(3,807,485)
Cost of goods manufactured	<u>7,895,842</u>	<u>5,730,287</u>
Finished goods:		
Opening stock	3,505,587	1,602,250
Closing stock	(2,462,297)	(1,810,349)
	<u>1,043,290</u>	<u>(208,099)</u>
	<u>8,939,132</u>	<u>5,522,188</u>

Notes to the Condensed Interim Financial Information (Un-audited)

For the quarter ended 30 September 2017

16. SELLING AND DISTRIBUTION EXPENSES

	Quarter ended	
	30 September 2017	30 September 2016
	(Un-audited)	
	(Rupees in '000)	
Salaries, wages and benefits	20,028	14,186
Rent, rates and taxes	2,760	2,588
Electricity, gas and water	748	451
Insurance	148	116
Depreciation	1,508	851
Postage, telephone and stationery	465	593
Vehicle, travel and conveyance	1,990	2,224
Freight and forwarding charges	67,413	36,244
Sales promotion	6,464	4,279
Sundries	2,164	4,108
	<u>103,688</u>	<u>65,640</u>

17. ADMINISTRATIVE EXPENSES

Salaries, wages and benefits	35,027	27,540
Rent, rates and taxes	1,352	2,093
Electricity, gas and water	666	427
Insurance	454	474
Security and janitorial services	128	142
Depreciation	1,462	1,595
Printing and stationery	2,450	1,172
Postage and communication	632	186
Vehicle, travel and conveyance	1,689	1,831
Legal and professional charges	7,879	6,183
Certification and registration charges	447	103
Directors' fee	600	540
Sundries	1,201	2,162
	<u>53,987</u>	<u>44,448</u>

18. FINANCIAL CHARGES

Conventional

- Interest on Long term finances	37,534	57,645
- Interest on Short term borrowings	18,458	28,749
	<u>55,992</u>	<u>86,394</u>

Islamic

- Mark-up on Long term finances	34,583	21,290
- Mark-up on Short term borrowings	21,651	12,934
	<u>56,234</u>	<u>34,224</u>
	112,226	120,618
Interest on Workers Profit Participation Fund	-	85
Bank charges	654	2,058
	<u>112,880</u>	<u>122,761</u>

19. OTHER OPERATING CHARGES

Auditors' remuneration	666	609
Donations	9,400	350
Workers Profit Participation Fund	75,111	16,688
Workers Welfare Fund	30,044	41,720
Loss on derivative financial instruments	2,042	27,345
Exchange loss - net	10,025	-
	<u>127,288</u>	<u>86,712</u>

Notes to the Condensed Interim Financial Information (Un-audited)

For the quarter ended 30 September 2017

20. OTHER INCOME

Note	Quarter ended	
	30 September 2017	30 September 2016
	(Un-audited)	
	(Rupees in '000)	

Income from non-financial assets

Income from power generation	20.1	11,695	9,337
Cost of shared resources		10,925	8,213
Gain on sale of property, plant and equipment		268	713
Rental income		481	374
Exchange gain - net		-	11,803
Others - scrap		2,579	1,402
		<u>25,948</u>	<u>31,842</u>

20.1 Income from power generation

Net sales	114,761	99,321
Cost of electricity produced	(103,066)	(89,984)
Income from power generation	<u>11,695</u>	<u>9,337</u>

21. TAXATION

- Current	(342,426)	(8,297)
- Deferred	(51,288)	(201,885)
	<u>(393,714)</u>	<u>(210,182)</u>

22. CHANGES IN WORKING CAPITAL

(Increase) / decrease in current assets:

Store and spares	(62,945)	(255,970)
Stock-in-trade	1,661,321	(1,278,371)
Receivable from K-Electric Limited	(1,163)	842
Trade debts	(151,571)	(8,772)
Advances	3,431	(31,612)
Trade deposits and short term prepayments	2,033	(18,354)
Sales tax receivable	416,752	42,078
	<u>1,867,858</u>	<u>(1,550,159)</u>

(Decrease) / Increase in current liabilities:

Trade and other payables	(2,099,148)	1,621,250
	<u>(231,290)</u>	<u>71,091</u>

23. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise associated undertakings, directors of the Company and its subsidiary company, key management personnel and staff retirement funds. The Company continues to have a policy whereby all transactions with related parties are entered into at commercial terms and conditions. Contributions to its defined contribution plan (Provident Fund) are made as per the terms of employment and contributions to its defined benefit plan (Gratuity Fund) are in accordance with actuarial advice. Remuneration of key management personnel is in accordance with their terms of employment and Company's policy.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company considers its Chief Executive Officer, Chief Financial Officer, Company Secretary, Non-Executive Directors and departmental heads to be its key management personnel. There are no transactions with key management personnel other than their terms of employment / entitlement.

Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in this condensed interim financial information, are as follows:

Notes to the Condensed Interim Financial Information (Un-audited)

For the quarter ended 30 September 2017

	Quarter ended	
	30 September 2017	30 September 2016
	(Un-audited)	
	(Rupees in '000)	
TRANSACTIONS		
Holding Company		
Sales	2,216,883	642,626
Purchases	30,785	1,111
Office rent	2,019	2,639
Cost of shared resources	10,925	8,213
Corporate, legal, marketing and IT services	3,704	2,035
Reimbursement of expenses	1,444	488
Associated Companies / undertaking		
Sales	429,472	172,621
Purchases	4,989,649	4,911,912
Rental Income	481	374
Key Management Personnel		
Remuneration	63,818	39,953
Staff Retirement Fund		
Contribution paid	13,556	10,652
Directors' fee	600	540

24. OPERATING SEGMENTS

- 24.1 This condensed interim financial information have been prepared on the basis of a single reportable segment.
- 24.2 Revenue from sales of steel products represents 99% (2017: 99%) of total revenue whereas remaining represent revenue from sale of surplus electricity to K-Electric Limited (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.
- 24.3 All non current assets of the Company as at 30 September 2017 are located in Pakistan.
- 24.4 93% (2017: 89%) of sales of steel sheets are domestic sales whereas 7% (2017: 11%) of sales are export / foreign sales.

25. GENERAL

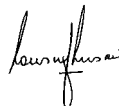
- 25.1 Corresponding figures have been reclassified for the purposes of comparison and better presentation. These reclassifications have no impact on previously reported profit or equity.
- 25.2 This condensed interim financial information was authorised for issue by the Board of Directors on 17 October 2017.



Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Tauqir Hasan
Chief Financial Officer



Yousuf H. Mirza
Chief Executive Officer

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Shaping Tomorrow



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