

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

## Contents

Corporate and Management Directory	02
Directors' Report	03
Review Report	04
Condensed Interim Balance Sheet	05
Condensed Interim Profit and Loss Account	06
Condensed Interim Statement of Comprehensive Income	07
Condensed Interim Cash Flow Statement	08
Condensed Interim Statement of Changes in Equity	09
Notes to the Condensed Interim Financial Information	10

## Company Information

### Board of Directors

<b>Chairman</b>	Mr. Kemal Shoaib	Independent Chairman
<b>Managing Director &amp; CEO</b>	Mr. Tawfiq H. Chinoy	Chief Executive Officer
<b>Directors</b>	Mr. Tariq Iqbal Khan	Independent Director
	Mr. Kamran Y. Mirza	Independent Director
	Syed Salim Raza	Independent Director
	Syed Hyder Ali	Independent Director
	Mr. Mustapha A. Chinoy	Non-Executive Director
	Mr. Kamal A. Chinoy	Non-Executive Director
	Mr. Otomichi Yano	Non-Executive Director

<b>Chief Financial Officer</b>	Mr. Alee Arsalan
<b>Company Secretary</b>	Ms. Neelofar Hameed
<b>External Auditors</b>	KPMG Taseer Hadi & Co.
<b>Internal Auditors</b>	Ernst & Young Ford Rhodes Sidat Hyder
<b>Bankers</b>	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.

<b>Legal Advisors</b>	Mrs. Sana Shaikh Fikree
<b>Registered Office</b>	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

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

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

<b>Website</b>	www.isl.com.pk
<b>Shares Registrar</b>	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 the half year financial statements for the period ended December 31, 2013

During first half year, your company has continued to grow and registered it's fourth consecutive profitable quarter since inception. This essentially is a reflection of consistent product quality, and increasing customer confidence in the domestic market. The product also competes well in the international market that accounted for 11% of total sales.

Net Sales for the period at Rs.9,932 million registered a healthy growth of 42% compared to same period last year driven by higher volumes of both galvanized and cold rolled products.

In line with higher sales and operational efficiency in the manufacturing processes, gross profit for the period was 108% higher than same period last year. Consequently, the company registered a pre-tax profit of Rs. 444.8 million as opposed to a loss of Rs. 97 million in same period last year. This represents earnings per share for the half year at Rs 0.86 against a loss of Rs 0.16 per share in the same period last year.

The Board of Directors has decided to launch an expansion plan at an estimated cost of Rs 2 billion, to enhance its galvanizing capacity to 300,000 tons and increase rolling capacity to 425,000 tons.

Your company continues to face challenges from imported products that are enjoying **concessions under a Free Trade Agreement with China, under invoiced and secondary materials cleared at incorrect low ITP values, import of carbon steel mis-declared as alloy steel at no Import Duty and through the misuse of SRO 565 (I) 2006.** We continue to raise these issues with Government authorities. In spite of this, the outlook for the remaining year seems encouraging in terms of the market demand and supply position. The uncertain economic outlook of the country and law and order situation could adversely impact operations.

Our sincere thanks to all stakeholders for their support and in particular the management and staff for their diligence.

We thank Almighty Allah for his blessings and pray for our continued prosperity and success.

For & behalf of  
International Steels Limited



Karachi  
Dated: 22 January, 2014

**Kemal Shoaib**  
Chairman



## Independent Auditors' Report to the Members on review of Condensed Interim Financial Information

### *Introduction*

We have reviewed the accompanying condensed interim balance sheet of International Steels Limited ("the Company") as at 31 December 2013 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim statement of changes in equity and notes to the condensed interim financial statements for the six months period then ended (here-in-after referred to as the "condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting.

### *Other matter*

The figures for the quarter ended 31 December 2013 in the condensed interim profit and loss account and condensed interim statement of comprehensive income have not been reviewed by us and we do not express a conclusion on them.

**Date: 22 January 2014**

**Karachi**

**KPMG Taseer Hadi & Co.  
Chartered Accountants  
Mohammed Nadeem**



## Condensed Interim Balance Sheet

As at 31 December 2013

	Note	31 December 2013 (Unaudited) (Rupees in '000)	30 June 2013 (Restated) (Audited)
<b>ASSETS</b>			
<b>Non current assets</b>			
Property, plant and equipment	4	9,736,936	9,905,282
Intangible assets		6,769	8,067
Long term deposit with Central Depository Company Pakistan Limited		100	100
<b>Total non current assets</b>		<b>9,743,805</b>	<b>9,913,449</b>
<b>Current assets</b>			
Stores and spares		375,222	370,320
Stock in trade	5	4,138,024	2,616,040
Receivable from Karachi Electric Supply Company Limited (KESC)			
- unsecured, considered good		91,434	35,743
Trade debts - secured, unsecured and considered good	6	555,776	550,880
Advances - considered good	7	55,119	297,901
Trade deposits, short term prepayments and other receivables	8	26,849	12,989
Sales tax receivable		316,890	165,678
Taxation - net		1,116,398	787,216
Cash and bank balances		111,558	13,694
<b>Total current assets</b>		<b>6,787,270</b>	<b>4,850,461</b>
<b>Total assets</b>		<b>16,531,075</b>	<b>14,763,910</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
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
Hedging reserve		(69,635)	-
Unappropriated profit		540,634	160,308
<b>Total shareholders' equity</b>		<b>4,820,999</b>	<b>4,510,308</b>
Surplus on revaluation of property, plant and equipment		567,093	572,886
<b>LIABILITIES</b>			
<b>Non current liabilities</b>			
Long term finances - secured	9	3,217,903	3,371,860
Staff retirement benefit		9,847	9,847
Deferred taxation - net	10	238,702	215,803
<b>Total non current liabilities</b>		<b>3,466,452</b>	<b>3,597,510</b>
<b>Current liabilities</b>			
Trade and other payables	11	2,115,694	1,021,318
Short term borrowings	12	4,439,088	4,121,378
Current portion of long term finances	9	806,347	783,285
Derivative financial instruments	13	105,508	-
Accrued markup		209,894	157,225
<b>Total current liabilities</b>		<b>7,676,531</b>	<b>6,083,206</b>
<b>Contingency and commitments</b>	14		
<b>Total equity and liabilities</b>		<b>16,531,075</b>	<b>14,763,910</b>

The annexed notes from 1 to 26 form an integral part of this condensed interim financial information.

  
Kamal A. Chinoy  
Director

  
Alee Arsalan  
Chief Financial  
Officer

  
Towfiq H. Chinoy  
Managing Director &  
Chief Executive

## Condensed Interim Profit and Loss Account (Unaudited)

For the six and three months period ended 31 December 2013

	Note	Six months period ended		Three months period ended	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012
(Rupees in '000)					
Net sales	15	9,992,646	7,056,342	5,596,105	3,827,553
Cost of sales	16	8,883,308	6,522,433	4,904,990	3,592,515
<b>Gross profit</b>		<b>1,109,338</b>	<b>533,909</b>	<b>691,115</b>	<b>235,038</b>
Administrative expenses	17	69,972	54,504	36,765	26,410
Selling and distribution expenses	18	60,789	39,273	25,646	18,044
		(130,761)	(93,777)	(62,411)	(44,454)
Financial charges	19	544,766	555,840	279,098	286,486
Other operating charges	20	35,149	13,560	26,386	11,352
		(579,915)	(569,400)	(305,484)	(297,838)
Other income	21	46,158	32,218	14,476	21,148
<b>Profit / (loss) before taxation</b>		<b>444,820</b>	<b>(97,050)</b>	<b>337,696</b>	<b>(86,106)</b>
Taxation		(70,287)	28,147	(79,011)	29,837
<b>Profit / (loss) for the period</b>		<b>374,533</b>	<b>(68,903)</b>	<b>258,685</b>	<b>(56,269)</b>
(Rupees)					
<b>Earnings / (loss) per share - basic and diluted</b>		<b>0.86</b>	<b>(0.16)</b>	<b>0.59</b>	<b>(0.13)</b>

The annexed notes from 1 to 26 form an integral part of this condensed interim financial information.

  
Kamal A. Chinoy  
Director

  
Aleo Arsalan  
Chief Financial  
Officer

  
Towfiq H. Chinoy  
Managing Director &  
Chief Executive



## Condensed Interim Statement of Comprehensive Income (Unaudited)

For the six and three months period ended 31 December 2013

Note	Six months period ended		Three months period ended	
	31 December 2013	31 December 2012 (Restated)	31 December 2013	31 December 2012
	----- (Rupees in '000) -----			
<b>Profit / (loss) for the period</b>	<b>374,533</b>	<b>(68,903)</b>	<b>258,685</b>	<b>(56,269)</b>
<b>Other comprehensive income</b>				
<i>Items that are or may be reclassified to profit or loss</i>				
Effective portion of changes in fair value of cash flow hedges	(105,508)	-	(105,508)	-
Recognition of tax	35,873	-	35,873	-
	(69,635)	-	(69,635)	-
<i>Items that will never be reclassified to profit or loss</i>				
Remeasurements of defined benefit liability	-	(2,349)	-	-
Recognition of tax	-	799	-	-
	-	(1,550)	-	-
Total other comprehensive income - net of tax	(69,635)	(1,550)	(69,635)	-
Total comprehensive income / (loss) for the period	<u>304,898</u>	<u>(70,453)</u>	<u>189,050</u>	<u>(56,269)</u>

The annexed notes from 1 to 26 form an integral part of this condensed interim financial information.

  
Kamal A. Chinoy  
Director

  
Aleo Arsalan  
Chief Financial  
Officer

  
Towfiq H. Chinoy  
Managing Director &  
Chief Executive

## Condensed Interim Cash Flow Statement (Unaudited)

For the six months period ended 31 December 2013

	Note	Six months period ended 31 December 2013	31 December 2012
(Rupees in '000)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit / (loss) before taxation		444,820	(97,050)
Adjustments for:			
Depreciation		250,368	208,575
Amortisation		2,948	2,673
Gain on disposal of property, plant and equipment		(2,596)	(3,069)
Provision for staff gratuity		4,360	3,338
Provision for compensated absences		775	-
Financial charges		544,766	555,840
		800,621	767,357
Movement in working capital	22	(414,576)	1,324,438
<b>Net cash generated from operations</b>		<b>830,865</b>	<b>1,994,745</b>
Financial charges paid		(492,096)	(620,832)
Gratuity paid		(4,360)	(3,638)
Compensated absences paid		(1,586)	(8,568)
Taxes paid		(340,698)	(156,768)
		(838,740)	(789,806)
<b>Net cash (used in) / generated from operating activities</b>		<b>(7,875)</b>	<b>1,204,939</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditure incurred		(89,130)	(422,019)
Proceeds from sale of property, plant and equipment		8,054	6,830
<b>Net cash used in investing activities</b>		<b>(81,076)</b>	<b>(415,189)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net repayment of long term financing - Net cash used in financing activities		(130,895)	(88,482)
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(219,846)</b>	<b>701,268</b>
Cash and cash equivalents at beginning of the period		(4,107,684)	(6,443,865)
Cash and cash equivalents at end of the period		(4,327,530)	(5,742,597)
<b>CASH AND CASH EQUIVALENTS COMPRISE</b>			
Cash and bank balances		111,558	9,837
Short term borrowings		(4,439,088)	(5,752,434)
		(4,327,530)	(5,742,597)

The annexed notes from 1 to 26 form an integral part of this condensed interim financial information.

  
Kamal A. Chinoy  
Director

  
Aleo Arsalan  
Chief Financial  
Officer

  
Towfiq H. Chinoy  
Managing Director &  
Chief Executive





## Condensed Interim Statement of Changes in Equity (Unaudited)

For the six months period ended 31 December 2013

	Issued, subscribed & paid up capital	Hedging reserve	Accumulated (losses) / profit (Restated)	Total
	(Rupees in '000)			
<b>Balance as at 1 July 2012 as previously reported</b>	4,350,000	-	(196,657)	4,153,343
Impact of change in accounting policy - note 3.2	-	-	(3,539)	(3,539)
<b>Balances as at 1 July 2012 - restated</b>	4,350,000	-	(200,196)	4,149,804
Loss for the period	-	-	(68,903)	(68,903)
Total other comprehensive income for the period - note 3.2	-	-	(1,550)	(1,550)
Total comprehensive income for the period - restated	-	-	(70,453)	(70,453)
<b>Balance as at 31 December 2012 - restated</b>	<u>4,350,000</u>	<u>-</u>	<u>(270,649)</u>	<u>4,079,351</u>
<b>Balance as at 1 July 2013 as previously reported</b>	4,350,000	-	166,807	4,516,807
Impact of change in accounting policy - note 3.2	-	-	(6,499)	(6,499)
<b>Balances as at 1 July 2013 - restated</b>	4,350,000	-	160,308	4,510,308
Profit for the period	-	-	374,533	374,533
Total other comprehensive income for the period	-	(69,635)	-	(69,635)
Total comprehensive income for the period	-	(69,635)	374,533	304,898
Transferred from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	5,793	5,793
<b>Balance as at 31 December 2013</b>	<u>4,350,000</u>	<u>(69,635)</u>	<u>540,634</u>	<u>4,820,999</u>

The annexed notes from 1 to 26 form an integral part of this condensed interim financial information.

  
Kamal A. Chinoy  
Director

  
Aleo Arsalan  
Chief Financial  
Officer

  
Towfiq H. Chinoy  
Managing Director &  
Chief Executive

## Notes to the Condensed Interim Financial Information (Unaudited)

For the six and three months period ended 31 December 2013

### 1 STATUS AND NATURE OF BUSINESS

International Steels Limited ("the Company") was incorporated on 3 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 1 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 1 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 six month period ended 31 December 2013 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 2013.

**2.1.4** This condensed interim financial information is unaudited and is being submitted to the shareholders as required by listing regulations of Karachi Stock Exchange vide section 245 of the Companies Ordinance, 1984. The figures for the six months period ended 31 December 2013 have, however, been subjected to limited scope review by the auditors as required by the Code of Corporate Governance.

#### 2.2 Estimates, judgements and financial risk management

In preparing these 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 2013 except for the estimation of fair value of forward exchange contracts entered in to during the six months period ended 31 December 2013 that are derived from inputs other than quoted prices (i.e., categorised under level 2 of fair value hierarchy).

### **3 SIGNIFICANT ACCOUNTING POLICIES**

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 annual financial statements of the Company as at and for the year ended 30 June 2013 except for adoption and changes in accounting policies as described in note 3.1 and 3.2 below.

#### **3.1 Adoption of accounting policy for cash flow hedges**

During the six months period ended 31 December 2013, the Company has entered into forward exchange contracts (derivative financial instruments) to hedge its foreign currency exposure on firm commitment of raw material. Based on the formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy following accounting policy has been adopted for these contracts.

##### *Cash flow hedges*

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in fair value of the derivative is recognised in other comprehensive income and accumulated in hedging reserve. Any ineffective portion of changes in fair value of derivative is recognised immediately in profit or loss. The amount accumulated in equity is retained in other comprehensive income is removed from equity and included in the initial carrying amount of non-financial asset (inventory) upon recognition of non-financial asset (inventory).

The fair value of forward exchange contracts is estimated using appropriate valuation techniques. These are carried as assets when the fair value is positive and liabilities when the fair value is negative.

There is no effect on the prior period's financial statements as a result of adoption of this accounting policy, as contracts have been made during six months period ended 31 December 2013.

#### **3.2 Change in accounting policy for employee benefits - defined benefit plan**

IAS-19 (revised) "Employee benefits" amends the accounting for employment benefits which became effective to the Company from 1 July 2013. The changes introduced by the IAS-19 (revised) are as follows:

## Notes to the Condensed Interim Financial Information (Unaudited)

- (a) The standard requires past service cost to be recognised immediately in profit or loss;
- (b) The standard replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit assets or liability and the discount rate, measured at the beginning of the year;
- (c) There is a new term "remeasurement". This is made up of actuarial gains and losses, the differences between actual investment returns and return implied by the net interest cost; and
- (d) The amendment requires an entity to recognise remeasurements immediately in other comprehensive income. Actuarial gains or losses beyond corridor limits were previously amortised over the expected future services of the employees.

The management believes that the effects of these changes would not have significant effect on this condensed interim financial information except for the changes referred to in ( d ) above that has been accounted for retrospectively in accordance with International Accounting Standard - 8 "Accounting Policies, Changes in Accounting Estimates and Errors", resulting in restatement of financial statements of prior periods.

As a result of the above mentioned changes, the cumulative balance for unrecognised actuarial losses that existed as at 1 July 2012 have been presented and disclosed as part of the statement of changes in equity, while the corresponding period adjustment through other comprehensive income is restated and disclosed as part of the Statement of Comprehensive Income. The Balance Sheet also presents the prior year numbers as restated, due to the said change.

The effect of the change in accounting policy has been demonstrated below:

	30 June 2013	1 July 2012
	(Rupees in '000)	
<b>Effect on balance sheet</b>		
<i>Unappropriated profit / accumulated (losses)</i>		
As previously reported	166,807	(196,657)
Effect of change in accounting policy	(6,499)	(3,539)
As restated	<u>160,308</u>	<u>(200,196)</u>
<i>Staff retirement benefit</i>		
As previously reported	-	-
Effect of change in accounting policy	9,847	5,444
As restated	<u>9,847</u>	<u>5,444</u>



## Notes to the Condensed Interim Financial Information (Unaudited)

	30 June 2013 (Rupees in '000)	1 July 2012
<i>Deferred taxation</i>		
As previously reported	219,151	67,867
Effect of change in accounting policy	(3,348)	(1,905)
As restated	<u>215,803</u>	<u>65,962</u>

	Six months period ended 31 December 2012 (Rupees in '000)	Prior to 1 July 2012
<b>Effect on Other Comprehensive Income</b>		
Remeasurement of defined benefit liability recognised in other comprehensive income (decrease)	(2,349)	(5,444)
Recognition of tax	799	1,905
	<u>(1,550)</u>	<u>(3,539)</u>

The effect on profit and loss account in the current and prior period being immaterial has not been determined and presented. The management is in process of determining the effect of this change, if any, to the amount to be recognised through Comprehensive Income for the full year ending 30 June 2014. In the absence of such full year valuation, the management has not considered any amount as an adjustment for the purposes of the condensed interim financial information for the current period. The amount is not expected to be materially significant for the current period.

#### 4 PROPERTY, PLANT AND EQUIPMENT

	Operating Assets	Capital work in progress (Rupees in '000)	Total
<b>Cost</b>			
Opening balance	10,481,107	376,025	10,857,132
Additions - net of disposals	270,227	(192,295)	77,932
	<u>10,751,334</u>	<u>183,730</u>	<u>10,935,064</u>
<b>Accumulated depreciation</b>			
Opening balance	951,850	-	951,850
For the period - net of disposal	246,278	-	246,278
	<u>1,198,128</u>	<u>-</u>	<u>1,198,128</u>
Written down value as at 31 December 2013 (Unaudited)	<u>9,553,206</u>	<u>183,730</u>	<u>9,736,936</u>
Written down value as at 30 June 2013 (Audited)	<u>9,529,257</u>	<u>376,025</u>	<u>9,905,282</u>

## Notes to the Condensed Interim Financial Information (Unaudited)

5	STOCK IN TRADE	31 December 2013 (Unaudited) (Rupees in '000)	30 June 2013 (Audited)
---	----------------	--	------------------------------

Raw material	5.1	2,251,953	1,410,479
Work-in-process		520,363	360,724
Finished goods		1,365,148	841,816
Scrap material		560	3,021
		<u>4,138,024</u>	<u>2,616,040</u>

5.1 This includes raw material-in-transit amounting to Rs. Nil (30 June 2013: Rs. 552.25 million).

## 6 TRADE DEBTS - Secured, unsecured and considered good

Secured	6.1	551,154	544,237
Unsecured		4,622	6,643
		<u>555,776</u>	<u>550,880</u>

6.1 This represents trade debts arising on account of export sales of Rs. 517.41 million (30 June 2013: Rs. 521.26 million) which are secured by way of Export Letters of Credit and Documents of Acceptance. Rs. 33.75 million (30 June 2013: Rs. 22.98 million) arising on account of domestic sales which are secured by way of Inland Letter of Credit or post dated cheques.

## 7 ADVANCES - Considered good

Advances to:			
- to suppliers	7.1	49,609	204,288
- to clearing agents		2,119	-
- against sales tax		-	85,000
- to service providers		2,773	7,174
- to employees		618	1,439
		<u>55,119</u>	<u>297,901</u>

7.1 This includes Rs. Nil (30 June 2013: Rs. 186.54 million) advance paid under Murabaha Master Agreement which has been settled during six months period ended 31 December 2013.

## 8 TRADE DEPOSITS, SHORT TERM PREPAYMENTS AND OTHER RECEIVABLES

Trade deposits		5,393	3,837
Short term prepayments		17,193	8,625
Others		4,263	527
		<u>26,849</u>	<u>12,989</u>



## Notes to the Condensed Interim Financial Information (Unaudited)

### 9 LONG TERM FINANCES - secured

		31 December 2013 (Unaudited) (Rupees in '000)	30 June 2013 (Audited)
Syndicated LTFF term finance	9.1	3,103,567	3,344,803
Long term finance from banks	9.2	920,683	810,342
		4,024,250	4,155,145
Current maturity of long term finances		(806,347)	(783,285)
		3,217,903	3,371,860

**9.1** The syndicated LTFF term finance facility 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 markup on these finance is 1.5% over SBP refinance rate (30 June 2013: 1.5% over SBP refinance rate).

**9.2** The term finance facilities 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 markup ranges from 1.25 % to 1.8% over 6 months KIBOR (30 June 2013: 1.8% over 6 months KIBOR). During the period ended 31 December 2013, the Company has obtained long term finance from banks having limit of Rs. 300 million and out of which Rs. 200 million was availed as at 31 December 2013.

### 10 DEFERRED TAXATION - net

#### Taxable temporary difference

Accelerated tax depreciation		1,595,000	1,659,272
Surplus on revaluation of buildings		89,131	91,895

#### Deductible temporary differences

Provision for unavailed leaves		(233)	(487)
Staff retirement benefit	3.2	(3,348)	(3,348)
Unrealised exchange losses		-	(2,371)
Derivative financial instruments	3.1	(35,873)	-
Pre-commencement expenditure		(7,838)	(10,650)
Tax loss		(1,398,137)	(1,518,508)
		238,702	215,803

## Notes to the Condensed Interim Financial Information (Unaudited)

11	TRADE AND OTHER PAYABLES	31 December 2013 (Unaudited) (Rupees in '000)	30 June 2013 (Audited)
	Trade creditors	11.1 1,528,228	23,128
	Bills payable	-	573,830
	Payable to provident fund	1,172	1,237
	Sales commission payable	25,676	36,462
	Accrued expenses	91,162	84,697
	Advance from customers	11.2 236,670	146,911
	Provision for infrastructure cess	11.3 162,500	118,000
	Provision for government levies	947	947
	Short term compensated absences	771	1,582
	Workers' Profit Participation Fund	47,721	23,806
	Workers' Welfare Fund	19,088	9,522
	Others	1,759	1,196
		<u>2,115,694</u>	<u>1,021,318</u>

**11.1** This includes Rs. 1,504 million payable to an associated company, a related party, against which the Company has entered into a forward exchange contract for hedging purposes (Refer note 3.1 and 13).

**11.2** This includes advance of Rs. 45.87 million (June 2013 Rs. Nil) received from IIL (the Holding company) on account of supply of goods.

**11.3** This represents provision against fifty percent amount guaranteed to Excise and Taxation Officer (Refer note 14.1.1).

## 12 SHORT TERM BORROWINGS - Secured

Running finance under mark-up arrangement	12.1	2,925,664	2,626,159
Running finance under FE-25 Import Scheme	12.2	158,657	697,277
Running finance under Export Refinance Scheme	12.3	612,000	398,000
Short term finance under Murabaha and Istisna	12.4	742,767	399,942
		<u>4,439,088</u>	<u>4,121,378</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 KIBOR + 0.80% to KIBOR + 1.75% (30 June 2013: KIBOR + 0.50% to KIBOR + 2.00%) per annum. These facilities mature within twelve months and are renewable.

**12.2** 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 1.34% to 3.00% (30 June 2013: 1.25% to 1.79%) per annum. These facilities mature within six months and are renewable. The facilities availed is for an amount of USD 1.50 million equivalent to Rs. 158.65 million (30 June 2013: USD 6.99 million equivalent to Rs. 697.27 million).

**12.3** 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 8.88% per annum (30 June 2013: 8.88%). This facility matures within six months and is renewable.





## Notes to the Condensed Interim Financial Information (Unaudited)

**12.4** The Company has obtained facilities for short term finance under Murabaha and Istisna under Islamic financing arrangement. The rate of profit is KIBOR + 0.25% to KIBOR + 0.50% (30 June 2013: KIBOR + 0.72%). This facility matures within six months and is renewable.

**12.5** As at 31 December 2013, the unavailed facilities from the above borrowings amounted to Rs. 3,954 million (30 June 2013: Rs. 5,390.49 million).

**12.6** The above facilities are secured by way of joint and first pari passu charges over current assets of the Company.

### **13 DERIVATIVE FINANCIAL INSTRUMENTS**

The Company has entered into forward exchange contracts for USD 58.79 million to hedge its foreign currency exposure arising on firm commitments for purchase of inventory (raw material). As at 31 December 2013 the fair value of these contracts is negative Rs. 105.51 million resulting in recognition of liability.

### **14 CONTINGENCY AND COMMITMENTS**

#### **14.1 Contingencies**

**14.1.1** 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 of Sindh has granted an interim relief on an application of petitioners on certain terms including discharge and return of bank guarantees / security furnished on consignment released upto 27 December, 2006 and any bank guarantee / security furnished for consignment released after 27 December 2006 shall be encashed to extent of 50% of the guaranteed or secured amount only with balance kept intact till the disposal of petition. In case the High Court upholds the applicability of fifth version of the law and its retrospective application the authorities are entitled to claim the amounts due under the said law with the right to appeal available to petitioner.

The High Court on petition filed, passed an interim order directing that any bank guarantee / securities furnished for consignments cleared up to 27 December 2006 are to be returned and for the period there after guarantees and securities furnished for consignments cleared are to be in cash to the extent of 50% and the remaining balance is to be retained till the disposal of petitions (refer note 11.3). For future clearances, the Company 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 by High Court. Bank guarantees issued as per the above mentioned interim order amount to Rs.166.50 million (30 June 2013: Rs. 126.50 million), have been provided to the Department. However, a provision to the extent of amount of guarantee has also been provided for by the Company on prudent basis.

## Notes to the Condensed Interim Financial Information (Unaudited)

- 14.1.2** As per the Gas Infrastructure and Development Cess Act 2011 (the Act), certain companies as specified in the Act (including Sui Southern Gas Company) shall collect and pay Gas infrastructure and Development Cess (GID Cess) in such manner as the Federal Government may prescribe. As per the second schedule of the Act, GID Cess of Rs. 13 per MMBTU was applicable on International Steels Limited. Through Finance Bill 2012 – 2013, an amendment was made to the Act whereby the rate of GID Cess applicable on International Steels Limited was increased to Rs. 100 per MMBTU. On 1 August 2012, the Company filed a suit bearing number 859/2012 wherein it has impugned the Act on the ground that the rate of GID Cess has been enhanced without any lawful justification and authority. The Honourable High Court of Sindh at Karachi vide its ad-interim order dated 6 September 2012 has restrained Sui Southern Gas Company Limited (SSGC) from charging GID Cess above Rs. 13 per MMBTU. As a result, SSGC invoices to the Company at Rs. 13 per MMBTU which has been recorded.

In view of above and opinion of legal advisor, the Company is confident of a favourable outcome and therefore has not recorded differential of GID Cess of Rs. 87 per MMBTU (from October 2012 to December 2013) amounting to Rs. 136.81 million in these condensed interim financial information.

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. However, Supreme Court of Pakistan vide its order dated 30 December 2013 has suspended the judgment of Peshawar High Court.

The management is of the view that the Supreme Court of Pakistan suspended the order of the Peshawar High Court and leave is granted to consider various other aspects stated in the order. Therefore, a final decision is pending for adjudication.

- 14.1.3** 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 7 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. 219.26 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 approved by the Board, the same was not recognised in the financial statements for the year ended 30 June 2013. Therefore, accumulated minimum tax liability amounting to Rs. 298.10 million has not been recorded on the same basis in the condensed interim financial information for the six months period ended 31 December 2013.

- 14.1.4** Guarantee issued by the Company to Sui Southern Gas Company Limited of Rs. 198.20 million (30 June 2013: Rs. 198.20 million) as a security for supply of gas.

- 14.1.5** The Company issued a bid bond guarantee to Jamshoro Power Company Limited amounting to Rs. 0.07 million (30 June 2013: Rs. 0.05 million).



## Notes to the Condensed Interim Financial Information (Unaudited)

### 14.2 Commitments

**14.2.1** Capital expenditure commitments outstanding as at 31 December 2013 amounted to Rs. 48.4 million (30 June 2013: Rs. 7.35 million).

**14.2.2** Commitments under Letter of Credit for raw materials and spares as at 31 December 2013 amounted to Rs. 4,861.9 million (30 June 2013: Rs.4,792.22 million).

**14.2.3** The unavailed facilities for opening Letters of Credit and Guarantees from banks as at 31 December 2013 amounted to Rs. 3,753 million (30 June 2013: Rs. 3,262.43 million) and Rs. 439.8 million (30 June 2013: Rs. 425.25 million).

### 15 NET SALES

	Six months period ended		Three months period ended	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
	(Unaudited)			
	(Rupees in '000)			
Local	10,510,561	7,753,129	5,980,171	4,299,879
Export	1,166,250	458,092	572,311	169,857
	11,676,811	8,211,221	6,552,482	4,469,736
Sales tax	1,569,769	1,068,697	887,818	592,329
Trade discount	9,377	1,836	7,814	1,152
Sales commission	105,019	84,346	60,745	48,702
	1,684,165	1,154,879	956,377	642,183
	9,992,646	7,056,342	5,596,105	3,827,553

### 16 COST OF SALES

Opening stock of raw material and work-in-process	1,218,957	2,802,092	3,560,390	3,468,758
Purchases	10,306,597	7,020,969	3,997,810	3,151,699
Salaries, wages and benefits	114,382	100,920	56,976	45,109
Electricity, gas and water	213,836	153,431	111,622	77,808
Insurance	10,415	10,727	5,283	5,782
Security and janitorial	8,745	5,565	4,024	2,716
Depreciation	213,355	173,792	106,709	88,711
Amortisation	2,948	2,673	1,474	1,336
Stores and spares consumed	73,308	38,664	40,061	14,352
Repairs and maintenance	25,394	18,534	12,055	3,646
Postage, telephone and stationery	1,887	1,986	889	915
Vehicle, travel and conveyance	7,213	5,316	3,892	2,848
Internal material handling	1,902	2,456	904	462
Environment controlling expense	570	573	247	150
Computer stationery and software support fees	1,646	2,739	906	1,382
Others	4,762	3,505	3,639	2,926
Recovery from sale of scrap	(26,961)	(4,006)	(13,393)	(5,564)
	12,178,956	10,339,936	7,893,488	6,863,036

## Notes to the Condensed Interim Financial Information (Unaudited)

	Six months period ended		Three months period ended	
	31 December	31 December	31 December	31 December
	2013	2012	2013	2012
	(Unaudited)			
	(Rupees in '000)			
Closing stock of raw material and work-in-process	(2,772,316)	(3,005,336)	(2,772,316)	(3,005,336)
Cost of goods manufactured	9,406,640	7,334,600	5,121,172	3,857,700
Finished goods:				
Opening stock	841,816	752,307	1,148,966	1,299,289
Closing stock	(1,365,148)	(1,564,474)	(1,365,148)	(1,564,474)
	(523,332)	(812,167)	(216,182)	(265,185)
	8,883,308	6,522,433	4,904,990	3,592,515

### 17 ADMINISTRATIVE EXPENSES

	Six months period ended		Three months period ended	
	31 December	31 December	31 December	31 December
	2013	2012	2013	2012
	(Unaudited)			
	(Rupees in '000)			
Salaries, wages and benefits	47,902	39,769	24,848	19,758
Rent, rates and taxes	2,219	2,109	1,099	1,010
Electricity, gas and water	750	893	309	457
Insurance	421	323	237	163
Security and janitorial expenses	75	28	48	28
Depreciation	2,737	2,095	1,478	1,072
Printing and stationery	607	470	591	139
Postage and communication	320	228	158	132
Vehicle, travel and conveyance	2,016	2,818	1,205	1,618
Legal and professional charges	9,394	4,324	4,484	1,283
Certification and registration charges	206	145	105	61
Directors' fee	1,240	920	600	440
Others	2,085	382	1,603	249
	69,972	54,504	36,765	26,410

### 18 SELLING AND DISTRIBUTION EXPENSES

Salaries, wages and benefits	25,467	15,232	12,027	6,276
Rent, rates and taxes	2,429	2,326	1,223	1,103
Electricity, gas and water	356	391	135	198
Insurance	619	221	300	122
Depreciation	1,126	1,169	557	601
Postage, telephone and stationery	373	253	158	117
Vehicle, travel and conveyance	2,215	1,761	1,161	1,119
Freight and forwarding charges	25,618	16,226	8,568	8,083
Advertising and sales promotion	1,231	1,199	887	279
Others	1,355	495	630	146
	60,789	39,273	25,646	18,044



## Notes to the Condensed Interim Financial Information (Unaudited)

		Six months period ended		Three months period ended	
		31 December	31 December	31 December	31 December
		2013	2012	2013	2012
		(Unaudited)			
		(Rupees in '000)			
<b>19</b>	<b>FINANCIAL CHARGES</b>				
	Mark-up on:				
	- Long term finances	179,913	219,911	86,290	110,294
	- Short term borrowings	337,634	296,407	192,459	138,481
		517,547	516,318	278,749	248,775
	Exchange loss / (gain) on				
	FE financing 19.1	25,377	36,866	(861)	37,058
	Bank charges	1,842	2,656	1,210	653
		544,766	555,840	279,098	286,486
<b>19.1</b>	Exchange loss on foreign exchange borrowing amounting to Rs. 36.866 million (three months period ended December 2012: Rs. 37.06 million) has been reclassified from 'Other operating charges'.				
<b>20</b>	<b>OTHER OPERATING CHARGES</b>				
	Auditors' remuneration	1,068	850	668	490
	Donations	600	-	300	-
	Workers' Profit Participation Fund	23,915	-	18,156	-
	Workers' Welfare Fund	9,566	-	7,262	-
	Provision for government levies	-	315	-	194
	Exchange loss - net	-	12,395	-	10,668
		35,149	13,560	26,386	11,352
<b>21</b>	<b>OTHER INCOME</b>				
	<b>Income from non-financial assets</b>				
	Income from power generation 21.1	13,286	23,458	7,909	15,765
	Income on supply of utilities	10,450	2,150	4,000	2,150
	Gain on sale of property, plant and equipment	2,596	3,069	878	1,713
	Rent income	858	871	429	436
	Exchange gain - net	16,253	-	54	-
	Others	2,715	2,453	1,206	976
	<b>Income / return from financial assets</b>				
	Interest on bank deposits	-	217	-	108
		46,158	32,218	14,476	21,148
<b>21.1</b>	<b>Income from power generation</b>				
	Net sales	234,636	240,972	124,754	121,746
	Cost of electricity produced	(221,350)	(217,514)	(116,845)	(105,981)
	Income from power generation	13,286	23,458	7,909	15,765

## Notes to the Condensed Interim Financial Information (Unaudited)

### 22 MOVEMENT IN WORKING CAPITAL

31 December 31 December  
2013 2012  
(Unaudited)  
(Rupees in '000)

(Increase) / decrease in current assets:

Stores and spares	(4,902)	32,926
Stock in trade	(1,521,984)	685,608
Receivable from KESC	(55,691)	185,926
Trade debts	(4,896)	19,241
Advances	242,782	(147,821)
Trade deposits, short term prepayments and other receivables	(13,860)	(4,813)
Sales tax receivable	(151,212)	279,248
	(1,509,763)	1,050,315

Increase in current liabilities:

Trade and other payables	1,095,187	253,747
Sales tax payable	-	20,376
	1,095,187	274,123
	(414,576)	1,324,438

### 23 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 are as follows:

Six months period ended Three months period ended  
31 December 31 December 31 December 31 December  
2013 2012 2013 2012  
(Unaudited)  
(Rupees in '000)

#### TRANSACTIONS

##### Holding Company

Sales	885,341	576,708	733,683	229,877
Purchases	1,468	1,326	852	469
Office rent	4,362	3,986	2,181	1,993
Income on supply of utilities	10,450	2,150	4,000	2,150
Corporate & legal services	1,904	1,587	979	795
Payroll services	-	435	-	265
IT services	-	2,250	-	1,125
Sales of fixed assets	-	1,423	-	1,300
Sale of store items	-	123	-	-
Purchase of fixed assets	-	72	-	-

##### Associated Companies

Purchases	5,747,624	3,008,429	3,210,059	1,616,570
Insurance premium expense	27,298	31,780	20,699	13,663
Insurance claim received	-	1,087	-	1,079
Rent Income	858	870	429	435
Donations	300	-	300	-



## Notes to the Condensed Interim Financial Information (Unaudited)

	Six months period ended 31 December 2013	31 December 2012	Three months period ended 31 December 2013	31 December 2012
	(Unaudited)			
	(Rupees in '000)			
<b>Associated Person</b>				
Sales commission expense	2,542	-	920	-
<b>Key Management Personnel</b>				
Remuneration and benefits	70,517	62,451	32,623	31,888
Staff retirement benefits	2,717	1,015	1,609	477
<b>Staff Retirement Fund</b>				
Contribution paid - Provident Fund	3,660	3,030	1,729	1,494
Contribution paid - Gratuity Fund	4,360	3,638	2,180	1,969
<b>BALANCES</b>				
<b>Holding Company</b>				
Advances against sale of goods	45,866	-	45,866	-
<b>Associated Companies</b>				
Trade Creditors	1,511,971	9,397	1,511,971	9,397
<b>Associated Person</b>				
Sales Commission Payable	2,605	-	2,605	-

### 24 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 2013 except for currency risk exposure (refer note 3.1).

### 25 OPERATING SEGMENTS

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

- 25.1** Revenue from sales of steel products represents 97% (30 June 2013: 97%) of total revenue whereas remaining represent revenue from sale of surplus electricity to KESC. The Company does not consider sale of electricity to KESC 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 KESC.
- 25.2** All non current assets of the Company as at 31 December 2013 are located in Pakistan.
- 25.3** 10% of the sales are export sales that are made to customers outside Pakistan.
- 25.4** Single major customer of the Company is International Industries Limited which represents 7.5% of total revenue of the Company.

### 26 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information were authorized for issue by the Board of Directors on 22 January 2014

  
Kamal A. Chinoy  
Director

  
Aleo Arsalan  
Chief Financial  
Officer

  
Towfiq H. Chinoy  
Managing Director &  
Chief Executive