



**International
Steels Limited**

Shaping Tomorrow

**A part of
our lives**

Unaudited Financial Statements
Half Year ended December 31, 2017

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

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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. Uzma Amjad Ali

Chief Internal Auditor

Mr. Usman Ahmed

External Auditors

M/s KPMG Taseer Hadi & Co.

Bankers

Allied Bank Limited

Bank Al Habib Limited

Bank Alfalah Limited

Dubai Islamic Bank (Pak) Limited

Faysal Bank Limited

Habib Bank Limited

Habib Metropolitan Bank Limited

MCB Bank Limited

MCB Islamic Bank Limited

Meezan Bank Limited

Samba Bank Limited

Standard Chartered Bank (Pakistan) Limited

United Bank Limited

Legal Advisor(s)

Mrs. Sana Shaikh Fikree

Registered Office

101, Beaumont Plaza, 10 Beaumont Road,
Karachi – 75530

Tel: +9221-35680045-54, UAN: 021-111-019-019

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I-8 Markaz, Islamabad.

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e-mail: info@isl.com.pk

Website

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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,

Fax: +9221-35680373

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Directors' Report

Directors of your company are pleased to present the financial statements for the half year ended December 31st 2017.

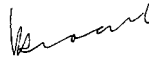
The economic situation continued to send mixed signals, with increasing oil prices, widening current account deficit and increased pressure on the foreign exchange rate resulted in PKR losing 5.5% of its value against USD. These pressures if continued may impact the growth. However GDP and large scale manufacturing grew at 5.0% and 8.1% reflected the underlying strength of the economy.

Sales Revenue for the half year reflected a healthy growth of 45% at Rs.22.2 billion compared with Rs.15.22 billion for the same period last year. It was largely on back of growth in key industry segments like automobiles, construction, home appliances and infrastructure. The gross profit at Rs. 3.7 billion (17% of sales) grew by 33% over last year Rs.2.8 billion. During the period the company moved from Alternate corporate tax regime (ACT) to normal tax regime (NTR) resulting in a higher tax charge as compared to the last year. As a consequence tax charge was Rs. 858 million vs Rs.1,046 million. PAT was Rs. 2.12 billion compared with last year's Rs.1.15 billion. Similarly the EPS was Rs. 5.02 vs Rs. 2.67 in first half of last year. The improved performance of the company was achieved by strong focus on meeting and exceeding customer expectations, stability in international steel prices as well as relentless focus on productivity based initiatives.

The capacity enhancement project initiated late last year is on track for commissioning in the final quarter of the current financial year. On completion of the project the company will be able to add significantly to its cold rolling capacity besides meeting the entire national demand of Galvanized and color coated steel. The completion of the project will result in major import substitution opportunity resulting in increased savings in foreign exchange for the country.

We pray to almighty Allah for the continued success of your company.

For & on behalf of
International Steels Limited



Kemal Shoaib
Chairman

Date: 23 January 2018
Karachi



Auditors' Report to the Members on Review of Interim Financial Information

Introduction

We have reviewed the accompanying condensed interim balance sheet of International Steels Limited ("the Company") as at 31 December 2017, 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 information for the six-month 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 condensed 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 2017 and 31 December 2016 in the condensed interim financial information have not been reviewed and we do not express a conclusion on them.

Date: 23 January 2018

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

Condensed Interim Balance Sheet

As at 31 December 2017

	Note	31 December 2017 (Un-audited) (Rupees in '000)	30 June 2017 (Audited) (Rupees in '000)
ASSETS			
Non current assets			
Property, plant and equipment	5	14,782,024	13,639,451
Intangible assets		3,234	3,903
Long term deposit with Central Depository Company of Pakistan Limited		100	100
Total non current assets		14,785,358	13,643,454
Current assets			
Stores and spares		601,271	507,696
Stock-in-trade	6	12,158,587	9,537,846
Trade debts - considered good	7	307,270	764,043
Advance to suppliers - considered good		30,467	48,463
Trade deposits and short term prepayments	8	41,781	22,533
Other receivable from K-Electric Limited (KE) - unsecured, considered good		39,381	42,987
Sales tax receivable		676,316	1,134,288
Taxation - net		93,039	616,557
Cash and bank balances		63,054	53,228
Total current assets		14,011,166	12,727,641
Total Assets		28,796,524	26,371,095
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Authorised 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		5,007,131	3,250,374
Total shareholders' equity		9,357,131	7,600,374
Surplus on revaluation of property, plant and equipment		943,659	953,873
LIABILITIES			
Non current liabilities			
Long term finances - secured	9	3,008,293	3,621,272
Staff retirement benefits		-	23,578
Deferred taxation - net		1,596,167	1,456,421
Total non current liabilities		4,604,460	5,101,271
Current liabilities			
Trade and other payables	10	10,511,415	6,410,128
Short term borrowings - secured	11	2,121,706	5,039,236
Current portion of long term finances	9	1,213,740	1,197,073
Accrued mark-up		44,413	69,140
Total current liabilities		13,891,274	12,715,577
Total Equity and Liabilities		28,796,524	26,371,095
Contingencies and Commitments	12		

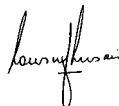
The annexed notes from 1 to 24 form an integral part of this condensed interim financial information.



Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Tauqir Hasan
Chief Financial Officer



Yousuf H. Mirza
Chief Executive Officer

Condensed Interim Profit and Loss Account (Un-audited)

For the six and three months period ended 31 December 2017

	Note	Six months period ended		Three months period ended	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
----- (Rupees in '000) -----					
Net sales	13	22,189,671	15,220,084	11,481,585	8,634,277
Cost of sales	14	(18,417,178)	(12,386,709)	(9,478,046)	(6,864,521)
Gross profit		3,772,493	2,833,375	2,003,539	1,769,756
Selling and distribution expenses	15	(206,207)	(152,043)	(102,519)	(86,403)
Administrative expenses	16	(116,879)	(88,725)	(62,892)	(44,277)
		(323,086)	(240,768)	(165,411)	(130,680)
Financial charges	17	(232,316)	(236,759)	(119,436)	(113,998)
Other operating charges	18	(252,028)	(203,845)	(134,765)	(117,133)
		(484,344)	(440,604)	(254,201)	(231,131)
Other income	19	75,055	53,968	59,132	22,126
Profit before taxation		3,040,118	2,205,971	1,643,059	1,430,071
Taxation - net	20	(858,575)	(1,046,231)	(464,861)	(836,049)
Profit after taxation for the period		2,181,543	1,159,740	1,178,198	594,022
----- (Rupees) -----					
Earnings per share - basic and diluted		5.02	2.67	2.71	1.37

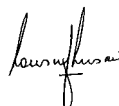
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Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Tauqir Hasan
Chief Financial Officer



Yousuf H. Mirza
Chief Executive Officer

Condensed Interim Statement of Comprehensive Income (Un-audited)

For the six and three months period ended 31 December 2017

	Six months period ended		Three months period ended	
	31 December	31 December	31 December	31 December
	2017	2016	2017	2016
	----- (Rupees in '000) -----			
Profit after taxation for the period	2,181,543	1,159,740	1,178,198	594,022
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	<u>2,181,543</u>	<u>1,159,740</u>	<u>1,178,198</u>	<u>594,022</u>

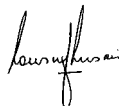
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Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Tauqir Hasan
Chief Financial Officer



Yousuf H. Mirza
Chief Executive Officer

Condensed Interim Cash Flow Statement (Un-audited)

For the six months period ended 31 December 2017

	Note	Six months period ended	
		31 December 2017	31 December 2016
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		3,040,118	2,205,971
Adjustments for:			
Depreciation and amortisation		421,338	391,544
Gain on disposal of property, plant and equipment		(2,424)	(1,744)
Provision for staff gratuity		10,482	9,395
Provision for compensated absences		8,063	5,075
Financial charges		232,316	236,759
		669,775	641,029
Movement in working capital	21	2,573,666	(1,620,909)
Net cash generated from operations		6,283,559	1,226,091
Financial charges paid		(257,043)	(205,720)
Gratuity paid		(34,060)	(9,395)
Compensated absences paid		(5,063)	(5,847)
Tax paid		(195,311)	(22,976)
		(491,477)	(243,938)
Net cash generated from operating activities		5,792,082	982,153
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		(1,569,190)	(516,394)
Proceeds from disposal of property, plant and equipment		8,372	9,321
Net cash used in investing activities		(1,560,818)	(507,073)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term financing		500,000	1,011,592
Repayment of long term financing		(1,096,312)	(403,370)
Dividend paid		(707,596)	(543,101)
Net cash (used in) / from financing activities		(1,303,908)	65,121
Net increase in cash and cash equivalents		2,927,356	540,201
Cash and cash equivalents at beginning of the period		(4,986,008)	(3,486,140)
Cash and cash equivalents at end of the period		<u>(2,058,652)</u>	<u>(2,945,939)</u>
CASH AND CASH EQUIVALENTS COMPRISE:			
Cash and bank balances		63,054	45,815
Short term borrowings		(2,121,706)	(2,991,754)
		<u>(2,058,652)</u>	<u>(2,945,939)</u>

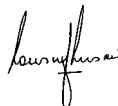
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Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Tauqir Hasan
Chief Financial Officer



Yousuf H. Mirza
Chief Executive Officer

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

For the six months period ended 31 December 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
Total comprehensive income for the six months period ended 31 December 2016			
Profit for the period	-	1,159,740	1,159,740
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	1,159,740	1,159,740
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	-	(543,750)	(543,750)
Transferred from surplus on revaluation of property, plant and equipment - net of deferred tax	-	10,214	10,214
Balance as at 31 December 2016	<u>4,350,000</u>	<u>2,444,532</u>	<u>6,794,532</u>
Balance as at 01 July 2017	4,350,000	3,250,374	7,600,374
Total comprehensive income for the six months period ended 31 December 2017			
Profit for the period	-	2,181,543	2,181,543
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	2,181,543	2,181,543
Transactions with the owners of the Company - distribution			
Dividend:			
- Final dividend @ 10.00% (Rs. 1.00 Per Share) for the year ended 30 June 2017	-	(435,000)	(435,000)
Total transactions with owners of the Company	-	(435,000)	(435,000)
Transferred from surplus on revaluation of property, plant and equipment - net of deferred tax	-	10,214	10,214
Balance as at 31 December 2017	<u>4,350,000</u>	<u>5,007,131</u>	<u>9,357,131</u>

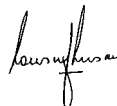
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Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Tauqir Hasan
Chief Financial Officer



Yousuf H. Mirza
Chief Executive Officer

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

For the six months period ended 31 December 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 repealed 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 on 01 June 2011. As at 31 December 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 six months period ended 31 December 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 repealed Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the repealed 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 Securities and Exchange Commission of Pakistan (SECP) vide its circular no 23/2017 dated 04 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 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 31 December 2016.

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.

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.

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

For the six months period ended 31 December 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

- 4.1 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 and liabilities, income and expenses. Actual results may differ from these estimates.
- 4.2 The significant judgements made by 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.
- 4.3 The financial risk management objectives and policies adopted by the Company 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	Total
	(Rupees in '000)		
Cost / revalued amount			
Opening balance	15,780,699	1,090,094	16,870,793
Additions	69,592	1,544,237	1,613,829
Disposal / transfer / adjustment	14,422	(69,592)	(55,170)
	<u>15,864,713</u>	<u>2,564,739</u>	<u>18,429,452</u>
Accumulated depreciation			
Opening balance	(3,231,342)	-	(3,231,342)
Charge for the period	(420,669)	-	(420,669)
Disposal / transfer / adjustment	4,583	-	4,583
	<u>(3,647,428)</u>	<u>-</u>	<u>(3,647,428)</u>
Written down value as at 31 December 2017 (Un-audited)	<u>12,217,285</u>	<u>2,564,739</u>	<u>14,782,024</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>

6. STOCK-IN-TRADE

	Note	31 December 2017 (Un-audited)	30 June 2017 (Audited)
		(Rupees in '000)	
Raw material - in hand		1,750,429	3,028,194
- in transit		7,017,053	1,813,193
Work-in-process		1,435,984	1,190,872
Finished goods		1,955,121	3,505,587
		<u>12,158,587</u>	<u>9,537,846</u>

7. TRADE DEBTS - considered good

- Secured	7.1	203,003	274,168
- Unsecured		<u>104,267</u>	<u>489,875</u>
		<u>307,270</u>	<u>764,043</u>

- 7.1 Related party from whom debt is due is as under:
-Sumitomo Corporation

	-	9,553
	<u>-</u>	<u>9,553</u>

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

For the six months period ended 31 December 2017

	Note	31 December 2017 (Un-audited) (Rupees in '000)	30 June 2017 (Audited)
8. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS			
Trade deposits		11,734	7,894
Short term prepayments		30,047	14,639
		<u>41,781</u>	<u>22,533</u>

9. LONG TERM FINANCES - secured

Conventional

Long Term Finance Facility (LTFF)
Long term finance

9.1	1,824,811	1,940,567
9.2 & 9.3	688,889	1,377,778

Islamic

Long term finance

9.4, 9.5 & 9.6	1,708,333	1,500,000
	4,222,033	4,818,345

Current portion of long term finances shown under current liabilities:

Conventional

Long Term Finance Facility (LTFF)
Long term finance

(235,962)	(235,962)
(377,778)	(450,000)

Islamic

Long term finance

(600,000)	(511,111)
(1,213,740)	(1,197,073)

<u>3,008,293</u>	<u>3,621,272</u>
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Conventional

9.1 This finance has been obtained from commercial banks and is secured by way of pari passu charge over fixed assets of the Company.

9.2 Long term finance amounting to Rs. 489 million (2017: Rs. 578 million) has been obtained from a commercial bank and is secured by way of pari passu charge over fixed assets of the Company.

9.3 Long term finance amounting to Rs. 200 million (2017: Rs. 800 million) has been obtained from a commercial bank and is secured by way of pari passu charge over fixed assets of the Company.

Islamic

9.4 Long term finance amounting to Rs. 625 million (2017: Rs. 750 million) has been obtained from Islamic window of a commercial bank and is secured by way of pari passu charge over fixed assets of the Company.

9.5 Long term finance amounting to Rs. 583 million (2017: Rs. 750 million) has been obtained from Islamic window of a commercial bank and is secured by way of pari passu charge over fixed assets of the Company.

9.6 During the period, the Company converted its long term loan (conventional) amounting to Rs. 500 million (2017: Nil) to long term finance (Islamic) under Diminishing Musharakah which is secured by pari passu charge over fixed assets of the Company.

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

For the six months period ended 31 December 2017

10. TRADE AND OTHER PAYABLES

		31 December 2017 (Un-audited) (Rupees in '000)	30 June 2017 (Audited)
Note			
	Trade creditors	10.1 7,349,191	4,081,902
	Payable to provident fund	-	1,229
	Sales commission payable	81,197	52,509
	Accrued expenses	1,116,375	935,228
	Advances from customers	952,022	390,740
	Provision for infrastructure cess	10.2 610,047	519,204
	Provision for government levies	257	257
	Dividend payable	2,570	275,166
	Unclaimed dividend	656	656
	Short term compensated absences	8,928	5,928
	Workers' Profit Participation Fund	163,447	-
	Workers' Welfare Fund	205,831	140,452
	Others	20,894	6,857
		<u>10,511,415</u>	<u>6,410,128</u>

- 10.1 Related party to whom payments is due is as under:
-Sumitomo Corporation

4,259,172 3,011,880

10.2 Movement of infrastructure cess

Opening balance	519,204	362,076
Provided during the period	90,843	157,128
Closing balance	<u>610,047</u>	<u>519,204</u>

11. SHORT TERM BORROWINGS - secured

Conventional

Running finance under mark-up arrangement	11.1 215,031	1,570,864
Running finance under Export Refinance Scheme	11.2 1,861,675	1,118,500

Islamic

Short term finance under Running Musharakah	11.3 45,000	860,369
Short term finance under Term Musharakah	11.4 -	1,489,503
	<u>2,121,706</u>	<u>5,039,236</u>

- 11.1 The facilities for running finance available from various commercial banks are for the purpose of meeting working capital requirements. The rate of mark-up on these finances ranges from 6.08% to 8.00% (2017: 6.08% to 8.00%) per annum. These facilities mature within twelve months and are renewable.
- 11.2 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.
- 11.3 The Company has obtained facilities for short term finance under Running Musharakah. The rate of mark-up ranges from 6.34% to 6.36% (2017: 6.33% to 6.53%) per annum. This facility matures within twelve months and is renewable.
- 11.4 The Company has obtained facilities for short term finance under Term Musharakah. The rate of mark-up ranges from 6.08% to 6.12% (2017: 6.07% to 6.14%) per annum. This facility matures within twelve months and is renewable.
- 11.5 As at 31 December 2017, the unavailed facilities from the above borrowings amounted to Rs. 9,478.29 million (2017: Rs. 6,360.76 million).

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

For the six months period ended 31 December 2017

- 11.6 The above facilities are secured by way of hypothecation of current and future moveable assets of the Company.

12. CONTINGENCIES AND COMMITMENTS

12.1 Contingencies

- 12.1.1 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. 616.5 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 10.2). Subsequently through Sindh Finance Act 2015 and 2016, the legislation has doubled the rate of said cess. The Company has obtained stay against these and the ultimate dispute has been linked with the previous infrastructure cess case.

- 12.1.2 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.

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. 795 million (2017: Rs. 739 million) pertaining to period from 01 July 2011 to 31 December 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).

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

For the six months period ended 31 December 2017

- 12.1.3** 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. 151 million (2017: Rs. 157 million) has not been recorded in this condensed interim financial information.

- 12.1.4** 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. 223.7 million (2017: Rs. 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.
- 12.1.5** Sindh Revenue Board (SRB) issued separate notices to the Company for payment of Sindh Workers Welfare Fund and Sindh Workers' Participation Fund under their respective statute. The Company filed constitutional petition in the High Court of Sindh, challenging the said unlawful demands on the ground that the Company is a trans-provincial establishment operating industrial and commercial establishment across Pakistan. The High Court of Sindh, accepting the arguments, granted stay order in favour of the Company. Based on the legal consultation, management expects favourable outcome in the petition.
- 12.1.6** 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.
- 12.1.7** 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.
- 12.1.8** Guarantees issued in favour of Pakistan State Oil Company Limited issued by bank on behalf of the Company amounted to Rs. 12.0 million (2017: Rs. 5.5 million).

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

For the six months period ended 31 December 2017

12.1.9 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).

12.1.10 Guarantees issued in favour of Wah Industries issued by bank on behalf of the Company amounted to Rs. 50.18 million (2017: Rs. Nil).

12.2 Commitments

12.2.1 Capital expenditure commitments outstanding as at 31 December 2017 amounted to Rs. 2,882.7 million (2017: Rs. 3,016.6 million).

12.2.2 Commitments under Letters of Credit for raw materials and spares as at 31 December 2017 amounted to Rs. 14,882.38 million (2017: Rs. 4,616.45 million).

12.2.3 The unavailed facilities for opening Letters of Credit and Guarantees from banks as at 31 December 2017 amounted to Rs. 4,669.91 million (2017: Rs. 13,501.95 million) and Rs. 125 million (2017: Rs. 190 million) respectively.

13. NET SALES

	Six months period ended		Three months period ended	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	(Un-audited)			
	(Rupees in '000)			
Local	23,848,316	15,693,516	12,509,364	8,824,907
Export	2,206,733	2,060,111	1,015,157	1,227,998
	26,055,049	17,753,627	13,524,521	10,052,905
Sales tax	(3,580,609)	(2,367,789)	(1,876,111)	(1,328,901)
Trade discounts	(17,083)	(4,361)	(16,914)	(488)
Sales commission	(267,686)	(161,393)	(149,911)	(89,239)
	(3,865,378)	(2,533,543)	(2,042,936)	(1,418,628)
	22,189,671	15,220,084	11,481,585	8,634,277

14. COST OF SALES

Opening stock of raw material and work-in-process	4,219,066	2,739,463	3,601,035	3,807,485
Purchases	15,319,619	13,113,667	8,311,212	6,698,574
Salaries, wages and benefits	226,891	185,745	113,984	94,226
Electricity, gas and water	507,650	480,520	265,028	236,957
Insurance	10,753	9,133	5,219	4,160
Security and janitorial	11,234	9,433	4,768	4,812
Depreciation and amortisation	374,457	360,463	186,749	176,088
Operating supplies and consumables	49,632	37,960	23,397	21,446
Repairs and maintenance	43,662	34,128	24,737	15,906
Postage, telephone and stationery	3,085	2,563	1,569	1,415
Vehicle, travel and conveyance	5,699	7,672	2,982	4,071
Internal material handling	6,584	7,541	5,107	3,218
Environment controlling expense	954	886	426	391
Computer stationery and software support fees	2,526	3,923	1,328	2,264
Others	6,669	4,395	3,596	1,264
Sale of scrap generated during production	(735,356)	(465,639)	(393,854)	(270,711)
	20,053,125	16,531,853	12,157,283	10,801,566
Closing stock of raw material and work-in-process	(3,186,413)	(4,360,604)	(3,186,413)	(4,360,604)
Cost of goods manufactured	16,866,712	12,171,249	8,970,870	6,440,962
Finished goods:				
Opening stock	3,505,587	1,602,250	2,462,297	1,810,349
Closing stock	(1,955,121)	(1,386,790)	(1,955,121)	(1,386,790)
	1,550,466	215,460	507,176	423,559
	18,417,178	12,386,709	9,478,046	6,864,521

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

For the six months period ended 31 December 2017

	Six months period ended		Three months period ended	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	(Un-audited)			
	(Rupees in '000)			
15. SELLING AND DISTRIBUTION EXPENSES				
Salaries, wages and benefits	39,668	27,925	19,640	13,739
Rent, rates and taxes	5,635	5,279	2,875	2,691
Electricity, gas and water	1,425	1,127	677	676
Insurance	404	291	256	175
Depreciation	3,086	1,757	1,578	906
Postage, telephone and stationery	955	985	490	392
Vehicle, travel and conveyance	6,637	4,897	4,647	2,673
Freight and forwarding charges	127,075	96,524	59,662	60,280
Sales promotion	16,820	7,033	10,356	2,754
Others	4,502	6,225	2,338	2,117
	<u>206,207</u>	<u>152,043</u>	<u>102,519</u>	<u>86,403</u>
16. ADMINISTRATIVE EXPENSES				
Salaries, wages and benefits	71,866	57,493	36,839	29,953
Rent, rates and taxes	2,487	3,564	1,135	1,471
Electricity, gas and water	1,262	1,194	596	767
Insurance	946	905	492	431
Security and janitorial services	281	262	153	120
Depreciation	2,994	2,825	1,532	1,230
Printing and stationery	3,817	1,410	1,367	238
Postage and communication	1,588	364	956	178
Vehicle, travel and conveyance	3,469	3,403	1,780	1,572
Legal and professional charges	18,935	11,867	11,056	5,684
Certification and registration charges	3,558	546	3,111	443
Directors' fee	2,100	1,200	1,500	660
Others	3,576	3,692	2,375	1,530
	<u>116,879</u>	<u>88,725</u>	<u>62,892</u>	<u>44,277</u>
17. FINANCIAL CHARGES				
<i>Conventional</i>				
- Interest on long term finances	84,746	125,419	47,212	67,774
- Interest on short term borrowings	59,630	41,663	41,172	12,914
	<u>144,376</u>	<u>167,082</u>	<u>88,384</u>	<u>80,688</u>
<i>Islamic</i>				
- Mark-up on long term finances	55,901	40,107	21,318	18,817
- Mark-up on short term borrowings	29,704	25,793	8,053	12,859
	<u>85,605</u>	<u>65,900</u>	<u>29,371</u>	<u>31,676</u>
	<u>229,981</u>	<u>232,982</u>	<u>117,755</u>	<u>112,364</u>
Interest on Workers Profit Participation Fund	-	85	-	-
Bank charges	2,335	3,692	1,681	1,634
	<u>232,316</u>	<u>236,759</u>	<u>119,436</u>	<u>113,998</u>

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

For the six months period ended 31 December 2017

Note	Six months period ended		Three months period ended	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	(Un-audited)			
	(Rupees in '000)			
18. OTHER OPERATING CHARGES				
Auditors' remuneration	1,348	1,275	682	666
Donations	19,800	5,040	10,400	4,690
Workers Welfare Fund	65,379	47,442	35,335	30,754
Workers Profit Participation Fund	163,447	118,605	88,336	76,885
Loss on derivative financial instruments	2,054	31,483	12	4,138
	<u>252,028</u>	<u>203,845</u>	<u>134,765</u>	<u>117,133</u>
19. OTHER INCOME				
Income from non-financial assets				
Income from power generation	19,240	19,624	7,545	10,287
Recovery of shared resources cost	26,329	19,241	15,404	11,028
Gain on disposal of property, plant and equipment	2,424	1,744	2,156	1,031
Rental income	971	970	490	596
Exchange gain / (loss) - net	16,755	6,427	26,780	(5,376)
Others	9,336	5,476	6,757	4,074
	<u>75,055</u>	<u>53,482</u>	<u>59,132</u>	<u>21,640</u>
Income / return from financial assets				
Interest on bank deposits	-	486	-	486
	<u>75,055</u>	<u>53,968</u>	<u>59,132</u>	<u>22,126</u>
19.1 Income from power generation				
Net sales	218,367	206,275	103,606	106,954
Cost of electricity produced	(199,127)	(186,651)	(96,061)	(96,667)
	<u>19,240</u>	<u>19,624</u>	<u>7,545</u>	<u>10,287</u>
20. TAXATION - net				
- Current	(710,979)	(344,580)	(371,553)	(336,283)
- Prior	(7,850)	(136,320)	(4,850)	(136,320)
- Deferred	(139,746)	(565,331)	(88,458)	(363,446)
	<u>(858,575)</u>	<u>(1,046,231)</u>	<u>(464,861)</u>	<u>(836,049)</u>
20.1	Under section 5A of the Income Tax Ordinance 2001 a tax shall be imposed at the rate of 7.5% of the accounting profit before tax on every public company, other than schedule bank or modaraba, that drives profit for a tax year but does not distribute atleast 40% of its after tax profit within six months of the end of the tax year through cash or bonus shares. However, no provision has been made for tax on undistributed profit as the Board of Directors of the Company intend to distribute sufficient dividend for the year ending 30 June 2018, so that such tax is not required to be paid.			

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

For the six months period ended 31 December 2017

21. MOVEMENT IN WORKING CAPITAL

	31 December 2017	31 December 2016
	----- (Un-audited) -----	----- (Un-audited) -----
	(Rupees in '000)	
Increase / (decrease) in current assets:		
Stores and spares	(93,575)	(47,084)
Stock-in-trade	2,583,119	(1,382,619)
Trade debts	456,773	(208,247)
Advances	17,996	(20,021)
Trade deposits and short term prepayments	(19,248)	(15,988)
Other receivable from K-Electric Limited	3,606	(718)
Sales tax receivable	457,972	(24,122)
	<u>3,406,643</u>	<u>(1,698,799)</u>
(Decrease) / increase in current liabilities:		
Trade and other payables	(832,977)	77,890
	<u>2,573,666</u>	<u>(1,620,909)</u>

22. 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:

	Six months period ended		Three months period ended	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	----- (Un-audited) -----			
	----- (Rupees in '000) -----			
TRANSACTIONS				
Holding company				
Sales	3,524,720	1,931,178	1,307,837	1,288,552
Purchases	204,330	2,696	173,545	1,585
Partial Manufacturing - sales	23	28	23	28
Dividend paid	245,056	306,319	245,056	306,319
Office rent	4,038	5,278	2,019	2,639
Recovery of shared resources cost	26,329	19,241	15,404	11,028
Corporate, legal and marketing services	7,044	4,186	3,340	2,151
Reimbursement of expenses	3,326	1,476	1,882	988
Associated Companies / undertaking				
Sales	722,149	325,180	292,677	152,559
Purchases	9,683,369	6,391,489	4,693,720	1,479,577
Rental Income	971	970	490	596
Donations	1,500	-	1,500	-
Dividend paid	39,478	49,347	39,478	49,347
Key Management Personnel				
Remuneration and benefits	125,909	81,802	62,091	41,849
Staff Retirement Fund				
Contribution paid	20,222	22,463	6,666	11,811
Non Executive Directors				
Directors' fee	2,100	1,200	1,500	660

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

For the six months period ended 31 December 2017

23. OPERATING SEGMENTS

- 23.1 This condensed interim financial information have been prepared on the basis of a single reportable segment.
- 23.2 Revenue from sales of steel products represents 99% (2016: 99%) of total revenue whereas remaining represents 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 Cold Rolling, Galvanizing and Colour Coating Plants and currently any excess electricity is sold to KE.
- 23.3 All non current assets of the Company as at 31 December 2017 are located in Pakistan.
- 23.4 92% (2016: 88%) of sales of steel sheets are domestic sales whereas 8% (2016: 12%) of sales are export / foreign sales.

24. GENERAL

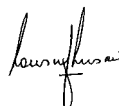
- 24.1 Corresponding figures have been reclassified for the purposes of comparison and better presentation. These reclassifications have no impact on previously reported profit or equity.
- 24.2 In September 2017 sales revenue and sales tax erroneously included Rs. 5,361 million with no impact on gross profit same has been rectified in this condensed interim financial information.
- 24.3 The Board of Directors have declared an interim cash dividend of Rs. 1.50 per share for the year ending 30 June 2018 amounting to Rs. 652.5 million in their meeting held on 23 January 2018. This condensed interim financial information does not include the effect of interim cash dividend announced on 23 January 2018, which will be accounted for in the financial statement for the year ending 30 June 2018.
- 24.4 This condensed interim financial information was authorised for issue by the Board of Directors on 23 January 2018.



Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Tauqir Hasan
Chief Financial Officer



Yousuf H. Mirza
Chief Executive Officer



Shaping Tomorrow



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