

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

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Company Information

Board of Directors

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

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

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

Branch Office	Lahore	Islamabad
	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	

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

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

Directors' Report

I am pleased to present the condensed interim financial information for the nine months ended March 31, 2014.

The quarter has recorded an all time high output of the Rolling mills at 77,000 tons and the Galvanising plant nearing 45,000 tons.

Your Board has approved plans for the enhancing of the rolling mill capacities by 40% to 60% and the addition of a sheet galvanizing line with a capacity of 150,000 tons. Your management is hopeful that these plants together with ancillary facilities will be in operation prior to the end of financial year 2014 ~ 2015.

Sales of your Company's product remains under pressure by duty free imports under various concessionary SROs, Free trade agreements and Secondary under invoiced or misdeclared imports. No effort is being spared in approaching the Government of Pakistan to reverse these anomalies and support Industry and employment.

Sales including export sales of Rs. 2.18 billion were at Rs. 15.2 billion and 25% higher than the same period last year. Profit at Rs. 546 million was substantially higher than the 109 million earned in the same period last year. Variation of the Pak Rupee / USD parity adversely affected our raw material costs leading to lower margins in the quarter.

Prospects for the last quarter remain uncertain owing to the volatile foreign exchange parity and unfair imports. Your management Inshallah will make every attempt to enhance output and sales in an effort to reduce costs.

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

For & behalf of
International Steels Limited



Kemal Shoaib
Chairman

Karachi
Dated: 16th April, 2014



Condensed Interim Balance Sheet

As at 31 March 2014

	Note	31 March 2014 (Unaudited)	30 June 2013 (Restated) (Audited)
----- (Rupees in '000) -----			
ASSETS			
Non current assets			
Property, plant and equipment	4	9,676,082	9,905,282
Intangible assets		5,295	8,067
Long term deposit with Central Depository Company Pakistan Limited		100	100
Total non current assets		9,681,477	9,913,449
Current assets			
Stores and spares		401,368	370,320
Stock in trade	5	6,308,447	2,616,040
Receivable from K-Electric Limited (KE) - unsecured, considered good		48,435	35,743
Trade debts - secured, unsecured and considered good	6	891,580	550,880
Advances - considered good	7	108,434	297,901
Trade deposits, short term prepayments and other receivables	8	13,407	12,989
Sales tax receivable		653,450	165,678
Taxation - net		1,120,900	787,216
Cash and bank balances		37,511	13,694
Total current assets		9,583,532	4,850,461
Total assets		19,265,009	14,763,910
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorised capital			
500,000,000 (2013: 500,000,000) ordinary shares of Rs. 10 each		5,000,000	5,000,000
Issued, subscribed and paid up capital		4,350,000	4,350,000
Unappropriated profit		715,016	160,308
Total shareholders' equity		5,065,016	4,510,308
Surplus on revaluation of property, plant and equipment		564,196	572,886
LIABILITIES			
Non current liabilities			
Long term finances - secured	9	3,039,033	3,371,860
Staff retirement benefit		9,847	9,847
Deferred taxation - net		303,150	215,803
Total non current liabilities		3,352,030	3,597,510
Current liabilities			
Trade and other payables	10	3,486,449	1,021,318
Short term borrowings	11	5,917,054	4,121,378
Current portion of long term finances	9	725,098	783,285
Accrued markup		155,166	157,225
Total current liabilities		10,283,767	6,083,206
Contingencies and commitments	12		
Total equity and liabilities		19,265,009	14,763,910

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


Tariq Iqbal Khan
Director & Chairman
Board Audit Committee


Alea Arsalan
Chief Financial
Officer


Towfiq H. Chinoy
Managing Director &
Chief Executive

Condensed Interim Profit and Loss Account (Unaudited)

For the nine and three months period ended 31 March 2014

	Note	Nine months period ended		Three months period ended	
		31 March 2014	31 March 2013	31 March 2014	31 March 2013
(Rupees in '000)					
Net sales	13	15,169,465	12,170,250	5,176,819	5,113,908
Cost of sales	14	13,526,847	11,102,217	4,643,539	4,579,784
Gross profit		1,642,618	1,068,033	533,280	534,124
Administrative expenses	15	101,836	81,281	31,864	26,775
Selling and distribution expenses	16	104,101	56,396	43,312	17,123
		(205,937)	(137,677)	(75,176)	(43,898)
Financial charges	17	736,675	780,910	191,909	225,071
Other operating charges	18	92,559	32,531	73,663	18,970
		(829,234)	(813,441)	(265,572)	(244,041)
Other income	19	47,285	52,820	17,380	20,601
Profit before taxation		654,732	169,735	209,912	266,786
Taxation		(108,714)	(60,371)	(38,427)	(88,518)
Profit for the period		546,018	109,364	171,485	178,268
(Rupees)					
Earnings per share - basic and diluted		1.26	0.25	0.39	0.41

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


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Chief Executive



Condensed Interim Statement of Comprehensive Income (Unaudited)

For the nine and three months period ended 31 March 2014

Note	Nine months period ended		Three months period ended	
	31 March 2014	31 March 2013 (Restated)	31 March 2014	31 March 2013
(Rupees in '000)				
Profit for the period	546,018	109,364	171,485	178,268
Other comprehensive income				
<i>Items that are or may be reclassified to profit or loss</i>				
Effective portion of changes in fair value of cash flow hedges	-	-	-	-
Recognition of tax	-	-	-	-
<i>Items that will never be reclassified to profit or loss</i>				
Remeasurements of defined benefit liability	-	(3,524)	-	-
Recognition of tax	-	1,198	-	-
	-	(2,326)	-	-
Total other comprehensive income - net of tax	-	(2,326)	-	-
Total comprehensive income / (loss) for the period	546,018	107,038	171,485	178,268

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


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Condensed Interim Cash Flow Statement (Unaudited)

For the nine months period ended 31 March 2014

	Note	Nine months period ended	
		31 March 2014	31 March 2013
----- (Rupees in '000) -----			
CASH FLOWS FOR OPERATING ACTIVITIES			
Profit before taxation		654,732	169,735
Adjustments for:			
Depreciation		377,448	315,358
Amortisation		4,422	3,995
Gain on disposal of property, plant and equipment		(2,637)	(4,075)
Provision for staff gratuity		6,540	5,007
Provision for compensated absences		1,375	-
Financial charges		736,675	780,910
		1,123,823	1,101,195
Movement in working capital	20	(1,910,052)	2,949,208
Net cash generated from operations		(131,497)	4,220,138
Financial charges paid		(738,734)	(829,810)
Gratuity paid		(6,540)	(5,257)
Compensated absences (paid) / reversed		(1,761)	(9,005)
Taxes paid		(355,052)	(45,145)
		(1,102,087)	(889,217)
Net cash (used in) / generated from operating activities		(1,233,584)	3,330,921
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		(156,037)	(579,762)
Proceeds from sale of property, plant and equipment		8,775	10,649
Net cash used in investing activities		(147,262)	(569,113)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net repayment of long term financing			
- Net cash used in financing activities		(391,013)	(227,174)
Net (decrease) / increase in cash and cash equivalents		(1,771,859)	2,534,634
Cash and cash equivalents at beginning of the period		(4,107,684)	(6,443,865)
Cash and cash equivalents at end of the period		(5,879,543)	(3,909,231)
CASH AND CASH EQUIVALENTS COMPRISE			
Cash and bank balances		37,511	16,201
Short term borrowings		(5,917,054)	(3,925,432)
		(5,879,543)	(3,909,231)

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


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Director & Chairman
Board Audit Committee


Aleq Arsalan
Chief Financial
Officer


Towfiq H. Chinoy
Managing Director &
Chief Executive



Condensed Interim Statement of Changes in Equity (Unaudited)

For the nine months period ended 31 March 2014

	Issued, subscribed & paid up capital	Hedging reserve	Accumulated (losses) / profit (Restated)	Total
	----- (Rupees in '000) -----			
Balance as at 1 July 2012 as previously reported	4,350,000	-	(196,657)	4,153,343
Impact of change in accounting policy - note 3.	-	-	(3,539)	(3,539)
Balance as at 1 July 2012 - restated	4,350,000	-	(200,196)	4,149,804
Profit for the period	-	-	109,364	109,364
Total other comprehensive income for the period - note 3.2	-	-	(2,326)	(2,326)
Total comprehensive income for the period - restated	-	-	107,038	107,038
Balance as at 31 March 2013 - restated	4,350,000	-	(93,158)	4,256,842
Balance as at 1 July 2013 as previously reported	4,350,000	-	166,807	4,516,807
Impact of change in accounting policy - note 3.2	-	-	(6,499)	(6,499)
Balance as at 1 July 2013 - restated	4,350,000	-	160,308	4,510,308
Profit for the period	-	-	546,018	546,018
Total other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	546,018	546,018
Transferred from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	8,690	8,690
Balance as at 31 March 2014	4,350,000	-	715,016	5,065,016

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


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Director & Chairman
Board Audit Committee


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Chief Financial
Officer


Towfiq H. Chinoy
Managing Director &
Chief Executive

Notes to the Condensed Interim Financial Information (Unaudited)

For the nine and three months period ended 31 March 2014

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 nine month period ended 31 March 2014 has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" and provision of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directive issued under the Companies Ordinance, 1984 have been followed.

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

2.1.3 This condensed interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements as at and for the year ended 30 June 2013.

2.2 Estimates, judgements and financial risk management

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

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements as at and for the year ended 30 June 2013 except for the estimation of fair value of forward exchange contracts entered in to during the nine months period ended 31 March 2014 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 nine months period ended 31 March 2014, 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 nine months period ended 31 March 2014.

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:

- (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

Notes to the Condensed Interim Financial Information (Unaudited)

- (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 un-recognised 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 re-stated 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) -----	
Effect on balance sheet		
<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	160,308	(200,196)
<i>Staff retirement benefit</i>		
As previously reported	-	-
Effect of change in accounting policy	9,847	5,444
As restated	9,847	5,444
<i>Deferred taxation</i>		
As previously reported	219,151	67,867
Effect of change in accounting policy	(3,348)	(1,905)
As restated	215,803	65,962



Notes to the Condensed Interim Financial Information (Unaudited)

	Nine months period ended 31 March 2013	Prior to 1 July 2012
	----- (Rupees in '000) -----	
Effect on Other Comprehensive Income		
Remeasurement of defined benefit liability recognised in other comprehensive income (decrease)	(3,524)	(5,444)
Recognition of tax	1,198	1,905
	<u>(2,326)</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	Total
	----- (Rupees in '000) -----		
Cost			
Opening balance	10,481,107	376,025	10,857,132
Additions - net of disposals	274,195	(130,223)	143,972
	<u>10,755,302</u>	<u>245,802</u>	<u>11,001,104</u>
Accumulated depreciation			
Opening balance	951,850	-	951,850
For the period - net of disposal	373,172	-	373,172
	<u>1,325,022</u>	<u>-</u>	<u>1,325,022</u>
Written down value as at 31 March 2014 (Unaudited)	<u>9,430,280</u>	<u>245,802</u>	<u>9,676,082</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 March 2014 (Unaudited)	30 June 2013 (Audited)
			----- (Rupees in '000) -----	
	Raw material	5.1	3,130,506	1,410,479
	Work-in-process		1,003,926	360,724
	Finished goods		2,063,563	841,816
	Scrap material		110,452	3,021
			<u>6,308,447</u>	<u>2,616,040</u>
5.1	This includes raw material-in-transit amounting to Rs. 1,333 million (30 June 2013: Rs. 552.25 million).			
6	TRADE DEBTS - Secured, unsecured and considered good			
	Secured	6.1	882,176	544,237
	Unsecured		9,404	6,643
			<u>891,580</u>	<u>550,880</u>
6.1	This represents trade debts arising on account of export sales of Rs. 841.58 million (30 June 2013: Rs 521.26 million) which are secured by way of export letters of credit and documents of acceptance. Rs.40.60 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 suppliers	7.1	104,738	204,288
	- to clearing agents		2,119	-
	- against sales tax		-	85,000
	- to service providers		-	7,174
	- to employees		1,577	1,439
			<u>108,434</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 after June 30, 2013.			
8	TRADE DEPOSITS, SHORT TERM PREPAYMENTS AND OTHER RECEIVABLES			
	Trade deposits		5,416	3,837
	Short term prepayments		7,991	8,625
	Others		-	527
			<u>13,407</u>	<u>12,989</u>



Notes to the Condensed Interim Financial Information (Unaudited)

9 LONG TERM FINANCES - secured

		31 March 2014 (Unaudited)	30 June 2013 (Audited)
		------(Rupees in '000)-----	
Syndicated LTFF term finance	9.1	2,945,707	3,344,803
Long term finance from banks	9.2	818,424	810,342
		3,764,131	4,155,145
Current maturity of long term finances		(725,098)	(783,285)
		3,039,033	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 finances 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 March 2014 the Company has obtained long term finance from banks having limit of Rs. 300 million and out of which Rs. 200 million was availed.

10 TRADE AND OTHER PAYABLES

Trade creditors		2,931,541	23,128
Bills payable		-	573,830
Payable to provident fund		1,194	1,237
Sales commission payable		22,525	36,462
Accrued expenses		127,803	84,697
Advance from customers	10.1	124,653	146,911
Provision for infrastructure cess	10.2	192,500	118,000
Provision for government levies		947	947
Short term compensated absences		1,196	1,582
Workers' Profit Participation Fund		59,007	23,806
Workers' Welfare Fund		23,602	9,522
Others		1,481	1,196
		3,486,449	1,021,318

10.1 This includes advance of Rs. 23.85 million (30 June 2013: Rs. Nil) received from IIL (the Holding Company) under a contract on account of supply of goods.

Notes to the Condensed Interim Financial Information (Unaudited)

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

		31 March 2014 (Unaudited)	30 June 2013 (Audited)
		------(Rupees in '000)-----	
11	SHORT TERM BORROWINGS - secured		
	Running finance under mark-up arrangement	11.1 4,906,742	2,626,159
	Running finance under FE-25 Import Scheme	11.2 -	697,277
	Running finance under Export Refinance Scheme	11.3 612,000	398,000
	Short term finance under Murabaha and Istisna	11.4 398,312	399,942
		5,917,054	4,121,378

11.1 The facilities for running finance available from various commercial banks are for the purpose of meeting working capital requirements. The rates of mark-up on these finances range from KIBOR + 0.30% 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.

11.2 The facilities for short term running finance under Foreign Exchange Circular No.25 dated 20 June 1998 available from various commercial banks are for the purpose of meeting import requirements. The rates of mark-up on these finances ranges from 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 Nil equivalent to Rs. Nil (30 June 2013: USD 6.99 million equivalent to Rs. 697.27 million).

11.3 The Company has borrowed short term running finance under Export Refinance Scheme of the State Bank of Pakistan from a commercial bank. This facility is available as a sub limit of short term finance facility. The rate of mark-up on this facility is 8.88% per annum (30 June 2013: 8.88%). This facility matures within six months and is renewable.

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

11.5 As at 31 March 2014, the unavailed facilities from the above borrowings amounted to Rs. 2,476 million (30 June 2013: Rs. 5,390.49 million).

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

12 CONTINGENCIES AND COMMITMENTS

12.1 Contingencies

12.1.1 The Sindh Finance Act, 1994 prescribed in the position of an infrastructure fee at the rate of 0.50% of the C&F value of all goods entering or leaving the province of Sindh via sea or air. The High Court 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.



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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 10.2). 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.196.50 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.

- 12.1.2** As per the Gas Infrastructure and Development Cess Act 2011 (the Act), certain companies as specified in the Act (including Sui Southern Gas Company) 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 March 2014) amounting to Rs. 164.74 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.

- 12.1.3** Section 113(2)(c) was interpreted by a Divisional Bench of the Sindh High Court (SHC) in the Income Tax Reference Application (ITRA) No. 132 of 2011 dated 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

Notes to the Condensed Interim Financial Information (Unaudited)

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. 354.77 million has not been recorded on the same basis in the condensed interim financial information for the nine months period ended 31 March 2014.

12.1.4 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.

12.1.5 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).

12.2 Commitments

12.2.1 Capital expenditure commitments outstanding as at 31 March 2014 amounted to Rs. 1,053 million (30 June 2013: Rs. 7.35 million).

12.2.2 Commitments under letter of credit for raw materials and spares as at 31 March 2014 amounted to Rs. 5,462 million (30 June 2013: Rs. 4,792.22 million).

12.2.3 The unavailed facilities for opening letters of credit and guarantees from banks as at 31 March 2014 amounted to Rs. 8,605 million (30 June 2013: Rs. 3,262.43 million) and Rs. 410 million (30 June 2013: Rs. 425.25 million).

13 NET SALES

	Nine months period ended		Three months period ended	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013
	(Unaudited)			
	(Rupees in '000)			
Local	15,543,723	12,941,480	5,033,162	5,188,351
Export	2,136,807	1,140,654	970,557	682,562
	17,680,530	14,082,134	6,003,719	5,870,913
Sales tax	2,314,842	1,784,792	745,073	716,095
Trade discount	35,132	3,660	25,755	1,824
Sales commission	161,091	123,432	56,072	39,086
	2,511,065	1,911,884	826,900	757,005
	15,169,465	12,170,250	5,176,819	5,113,908



Notes to the Condensed Interim Financial Information (Unaudited)

14 COST OF SALES

	Nine months period ended		Three months period ended	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013
	(Unaudited)			
	(Rupees in '000)			
Opening stock of raw material and work-in-process	1,218,957	2,802,092	2,772,316	3,005,336
Purchases	15,425,686	9,108,941	5,119,089	2,087,972
Salaries, wages and benefits	174,959	151,294	60,577	50,374
Electricity, gas and water	332,990	231,069	119,154	77,638
Insurance	15,216	16,055	4,801	5,328
Security and janitorial	12,160	8,640	3,415	3,075
Depreciation	321,588	263,128	108,233	89,336
Amortisation	4,422	3,995	1,474	1,322
Stores and spares consumed	122,868	80,255	49,560	41,591
Repairs and maintenance	50,817	35,265	25,423	16,731
Postage, telephone and stationery	2,855	2,874	968	888
Vehicle, travel and conveyance	11,769	8,901	4,556	3,585
Internal material handling	3,171	2,852	1,269	396
Environment controlling expense	818	1,000	248	427
Computer stationery and software support fees	2,618	4,157	972	1,418
Others	6,348	3,884	1,586	379
Recovery from sale of scrap	(46,320)	(16,233)	(19,359)	(12,227)
	17,660,922	12,708,169	8,254,282	5,373,569
Closing stock of raw material and work-in-process	(2,802,270)	(1,339,660)	(2,802,270)	(1,339,660)
Cost of goods manufactured	14,858,652	11,368,509	5,452,012	4,033,909
Finished goods:				
Opening stock	841,816	752,307	1,365,148	1,564,474
Closing stock	(2,173,621)	(1,018,599)	(2,173,621)	(1,018,599)
	(1,331,805)	(266,292)	(808,473)	545,875
	13,526,847	11,102,217	4,643,539	4,579,784

15 ADMINISTRATIVE EXPENSES

Salaries, wages and benefits	72,017	60,122	24,115	20,353
Rent, rates and taxes	3,446	3,095	1,227	986
Electricity, gas and water	976	1,178	226	285
Insurance	586	430	165	107
Security and janitorial expenses	91	33	16	5
Depreciation	4,089	3,181	1,352	1,086
Printing and stationery	742	527	135	57
Postage and communication	478	345	158	117
Vehicle, travel and conveyance	3,982	5,166	1,966	2,347
Legal and professional charges	10,671	5,018	1,277	694
Certification and registration charges	422	181	216	36
Directors' fee	1,640	1,360	400	440
Others	2,696	645	611	262
	101,836	81,281	31,864	26,775

Notes to the Condensed Interim Financial Information (Unaudited)

16 SELLING AND DISTRIBUTION EXPENSES

	Nine months period ended		Three months period ended	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013
	(Unaudited)			
	(Rupees in '000)			
Salaries, wages and benefits	37,589	23,352	12,122	8,120
Rent, rates and taxes	3,658	3,449	1,229	1,123
Electricity, gas and water	476	536	120	145
Insurance	1,252	308	633	87
Depreciation	1,698	1,714	572	545
Vehicle, travel and conveyance	2,965	2,479	750	718
Freight and forwarding charges	51,972	21,524	26,354	5,298
Advertising and sales promotion	2,377	1,743	1,146	544
Others	2,114	1,291	386	543
	<u>104,101</u>	<u>56,396</u>	<u>43,312</u>	<u>17,123</u>

17 FINANCIAL CHARGES

Mark-up on:				
- Long term finances	266,637	318,843	86,724	98,932
- Short term borrowings	447,374	421,755	109,740	125,348
	<u>714,011</u>	<u>740,598</u>	<u>196,464</u>	<u>224,280</u>
Exchange loss / (gain) on				
FE financing	19,720	36,865	(5,657)	-
Bank charges	2,944	3,447	1,102	791
	<u>736,675</u>	<u>780,910</u>	<u>191,909</u>	<u>225,071</u>

18 OTHER OPERATING CHARGES

Auditors' remuneration	1,909	1,227	841	377
Donations	2,240	-	1,640	-
Workers' Profit Participation Fund	35,201	9,126	11,286	9,126
Workers' Welfare Fund	14,080	3,650	4,514	3,650
Provision for government levies	-	315	-	-
Exchange loss - net	32,711	18,213	48,964	5,817
Loss on Derivative Financial Instruments	6,418	-	6,418	-
	<u>92,559</u>	<u>32,531</u>	<u>73,663</u>	<u>18,970</u>



Notes to the Condensed Interim Financial Information (Unaudited)

19 OTHER INCOME

	Nine months period ended		Three months period ended	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013
	(Unaudited)			
	(Rupees in '000)			
Income from non-financial assets				
Income from power generation	19.1 22,408	36,237	9,122	12,778
Income on supply of utilities	15,610	7,507	5,160	5,357
Gain on sale of property, plant and equipment	2,637	4,075	41	1,006
Rent income	1,287	1,306	429	435
Exchange gain - net	-	-	-	-
Others	5,343	3,459	2,628	1,006
Income / return from financial assets				
Interest on bank deposits	-	236	-	19
	<u>47,285</u>	<u>52,820</u>	<u>17,380</u>	<u>20,601</u>
19.1 Income from power generation				
Net sales	356,856	345,140	122,220	104,168
Cost of electricity produced	(334,448)	(308,903)	(113,098)	(91,390)
Income from power generation	<u>22,408</u>	<u>36,237</u>	<u>9,122</u>	<u>12,778</u>

20 MOVEMENT IN WORKING CAPITAL

	31 March 2014	31 March 2013
	(Unaudited)	
	(Rupees in '000)	
<i>(Increase) / decrease in current assets:</i>		
Stores and spares	(31,048)	15,569
Stock in trade	(2,359,132)	2,809,624
Receivable from KE	(12,692)	188,221
Trade debts	(340,700)	(251,359)
Advances	189,467	(44,634)
Trade deposits, short term prepayments and other receivables	(418)	3,280
Sales tax receivable	(487,772)	279,248
	<u>(3,042,295)</u>	<u>2,999,949</u>
<i>Increase / (decrease) in current liabilities:</i>		
Trade and other payables	1,132,243	(126,141)
Sales tax payable	-	75,400
	<u>1,132,243</u>	<u>(50,741)</u>
	<u>(1,910,052)</u>	<u>2,949,208</u>

Notes to the Condensed Interim Financial Information (Unaudited)

21 TRANSACTIONS WITH RELATED PARTIES

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

	Nine months period ended		Three months period ended	
	31 March	31 March	31 March	31 March
	2014	2013	2014	2013
	(Unaudited)			
	(Rupees in '000)			
TRANSACTIONS				
Holding Company				
Sales	1,251,954	1,153,061	366,613	576,353
Purchases	1,831	2,993	363	1,667
Office rent	6,543	5,979	2,181	1,993
Income on supply of utilities	15,610	7,507	5,160	5,357
Corporate & legal services	3,326	2,379	1,422	792
Payroll services	-	633	-	198
IT services	253	3,375	253	1,125
Sales of fixed assets	-	1,423	-	-
Sale of store items	-	123	-	-
Purchase of fixed assets	490	157	490	85
Associated Companies				
Purchases	8,814,553	6,399,920	3,067,517	3,391,491
Insurance premium expense	27,960	38,474	662	6,694
Insurance claim received	-	1,223	-	136
Rent Income	1,287	1,306	429	436
Donations	300	-	-	-
Associated Person				
Sales commission expense	5,590	-	3,048	-
Key Management Personnel				
Remuneration and benefits	103,485	94,235	32,968	31,784
Staff retirement benefits	4,037	1,480	1,320	465
Staff Retirement Fund				
Contribution paid - Provident Fund	5,476	4,686	1,816	1,656
Contribution paid - Gratuity Fund	6,540	5,257	2,180	1,619
BALANCES				
Holding Company				
Advances against sale of goods	23,845	-	23,845	-
Associated Companies				
Trade creditors	1,361,978	7,352	1,361,978	7,352
Associated Person				
Sales commission payable	3,233	-	3,233	-



Notes to the Condensed Interim Financial Information (Unaudited)

22 FINANCIAL RISK MANAGEMENT

Other aspects of the Company's risk management policies are consistent with those disclosed in the financial statements for the year ended 30 June 2013 except for currency risk exposure (refer note 3.1).

23 OPERATING SEGMENTS

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

23.1 Revenue from sales of steel products represents 98% (30 June 2013: 97%) of total revenue whereas remaining represent revenue from sale of surplus electricity to KE. The Company does not consider sale of electricity to KE as separate reportable segment as the power plant of the Company is installed primarily to supply power to its Galvanizing Plant and Cold Rolling Plant and currently any excess electricity is sold to KE.

23.2 All non current assets of the Company as at 31 March 2014 are located in Pakistan.

23.3 14.1% of the sales are export sales.

24 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information were authorized for issue by the Board of Directors on 16th April 2014.



Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Alee Arsalan
Chief Financial
Officer



Towfiq H. Chinoy
Managing Director &
Chief Executive