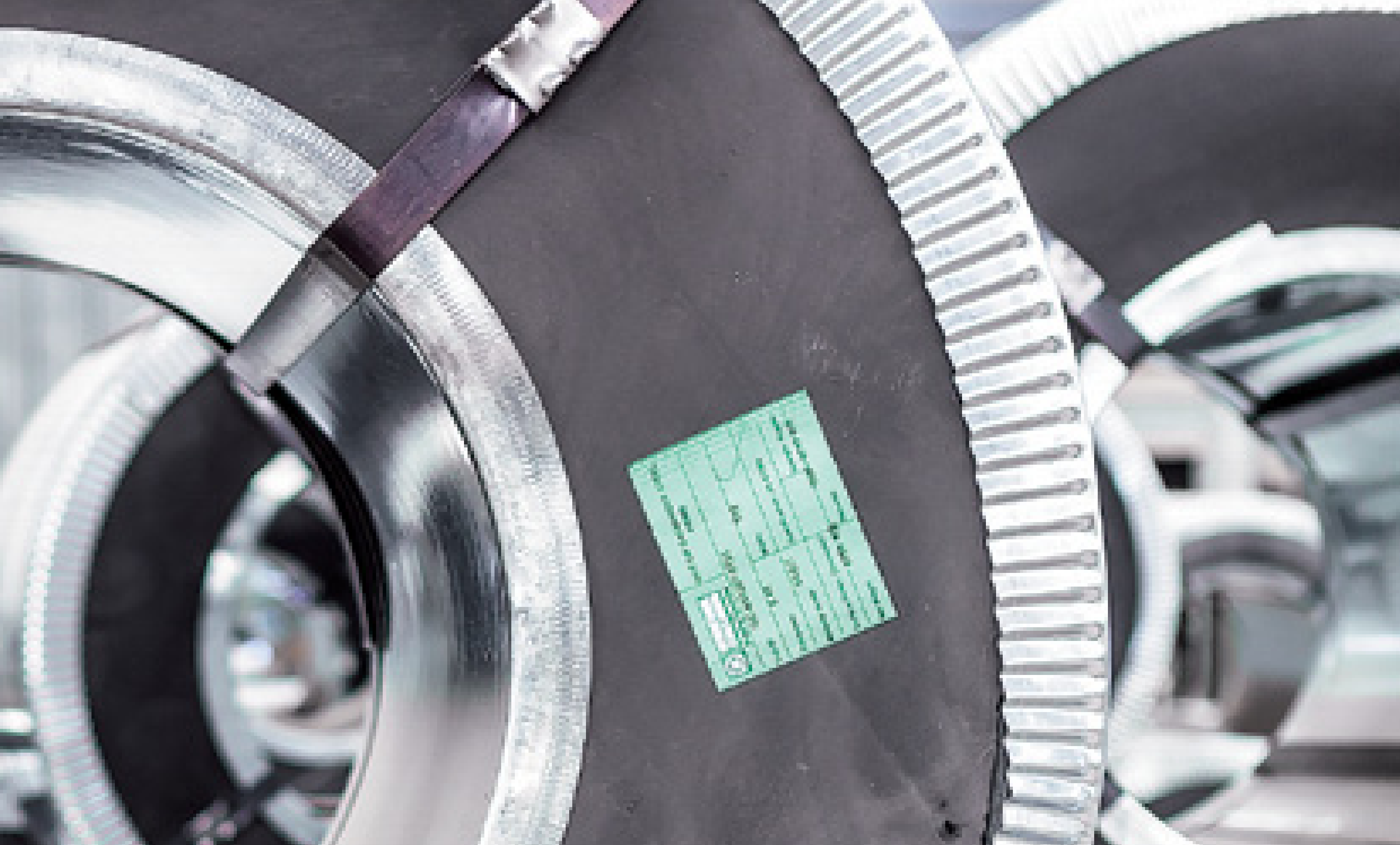

Financial Statements

Contents

Auditors' Report to the Members

We have audited the annexed balance sheet of International Steels Limited ("the Company") as at 30 June 2017 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the repealed Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of accounts have been kept by the Company as required by the repealed Companies Ordinance, 1984;

b) in our opinion:

i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the repealed Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;

ii) the expenditure incurred during the year was for the purpose of the Company's business; and

iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the repealed Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2017 and of the profit, its cash flows and changes in equity for the year then ended; and

d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Date: 15 August 2017
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

Balance Sheet

As at June 30, 2017

	Note	2017	2016
		(Rupees in ‘000)	
ASSETS			
Non Current Assets			
Property, plant and equipment	4	**13,639,451**	12,620,022
Intangible assets	5	**3,903**	-
Long term deposit with Central Depository Company of Pakistan Limited		**100**	100
Total Non Current Assets		**13,643,454**	12,620,122
Current Assets			
Stores and spares	6	**507,696**	442,597
Stock-in-trade	7	**9,537,846**	5,314,131
Trade debts - considered good	8	**764,043**	520,801
Receivable from K-Electric Limited (KE) - unsecured, considered good		**42,987**	40,513
Advances - considered good	9	**48,463**	35,069
Trade deposits and prepayments	10	**22,533**	12,324
Sales tax receivable		**1,134,288**	410,259
Taxation - net	11	**616,557**	1,550,697
Cash and bank balances	12	**53,228**	37,615
Total Current Assets		**12,727,641**	8,364,006
Total Assets		**26,371,095**	20,984,128
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Authorized Capital			
500,000,000 (2016: 500,000,000) ordinary shares of Rs. 10 each		**5,000,000**	5,000,000
Issued, subscribed and paid-up capital	13	**4,350,000**	4,350,000
Unappropriated profit		**3,250,374**	1,818,328
Total shareholders’ equity		**7,600,374**	6,168,328
Surplus on revaluation of property, plant and equipment - net of tax	14	**953,873**	974,298
LIABILITIES			
Non Current Liabilities			
Long term finances - secured	15	**3,621,272**	4,044,973
Staff retirement benefits	30.2	**23,578**	24,496
Deferred taxation - net	16	**1,456,421**	810,748
Total Non Current Liabilities		**5,101,271**	4,880,217
Current Liabilities			
Trade and other payables	17	**6,410,128**	4,694,800
Short term borrowings - secured	18	**5,039,236**	3,523,755
Current portion of long term finances	15	**1,197,073**	699,016
Accrued mark-up		**69,140**	43,714
Total Current Liabilities		**12,715,577**	8,961,285
Contingencies and Commitments	19		
Total Equity and Liabilities		**26,371,095**	20,984,128

The annexed notes 1 to 40 form an integral part of these financial statements.

Tariq Iqbal Khan
Director & Chairman
Board Audit Committee

Tauqir Hasan
Chief Financial
Officer

Yousuf H. Mirza
Chief Executive
Officer

Profit And Loss Account
For the year ended 30 June 2017

	Note	2017	2016
		(Rupees in '000)	
Net sales	20	33,732,622	20,492,097
Cost of sales	21	(27,826,505)	(17,585,833)
Gross Profit		5,906,117	2,906,264
Administrative expenses	22	(214,876)	(161,479)
Selling and distribution expenses	23	(333,794)	(206,862)
		(548,670)	(368,341)
Financial charges	24	(455,500)	(731,525)
Other operating charges	25	(424,951)	(264,675)
		(880,451)	(996,200)
Other income	26	131,778	112,773
Profit before taxation		4,608,774	1,654,496
Taxation - net	27	(1,564,752)	(475,532)
Profit after taxation for the year		3,044,022	1,178,964
		(Rupees)	
Earnings per share - basic and diluted	28	7.00	2.71

The annexed notes 1 to 40 form an integral part of these financial statements.

Tariq Iqbal Khan
Director & Chairman
Board Audit Committee

Tauqir Hasan
Chief Financial
Officer

Yousuf H. Mirza
Chief Executive
Officer

Statement of Comprehensive Income
For the year ended 30 June 2017

	2017	2016
	(Rupees in '000)	
Profit for the year	**3,044,022**	1,178,964
Other Comprehensive Income		
Items that will never be reclassified to profit and loss account		
Remeasurements of defined benefit liability	**(1,645)**	(1,043)
Recognition of tax	**494**	313
Total other comprehensive income - net of tax	**(1,151)**	(730)
Total Comprehensive Income for the year	**3,042,871**	1,178,234

The annexed notes 1 to 40 form an integral part of these financial statements.

Tariq Iqbal Khan	**Tauqir Hasan**	**Yousuf H. Mirza**
Director & Chairman Board Audit Committee	Chief Financial Officer	Chief Executive Officer

Cash Flow Statement

For the year ended 30 June 2017

	Note	2017	2016
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**4,608,774**	1,654,496
Adjustments for:			
Depreciation		**768,598**	710,551
Amortisation		**112**	551
Gain on sale of property, plant and equipment		**(4,874)**	(8,121)
Provision for staff gratuity		**16,226**	14,139
Provision for compensated absences		**9,219**	5,354
Financial charges		**455,500**	731,525
		5,853,555	3,108,495
Changes in working capital	29	**(3,844,200)**	955,841
Net cash from operations		**2,009,355**	4,064,336
Payment of compensated absences		**(7,291)**	(14,113)
Financial charges paid		**(430,074)**	(900,349)
Gratuity paid		**(18,789)**	(11,372)
Taxes refund / (paid) - net		**15,555**	(266,902)
Net cash from operating activities		**1,568,756**	2,871,600
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		**(1,811,873)**	(492,383)
Proceeds from sale of property, plant and equipment		**24,705**	13,037
Net cash used in investing activities		**(1,787,168)**	(479,346)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds / (repayment) of long term financing - net		**74,356**	(1,846,656)
Dividend paid		**(1,355,812)**	(7)
Net cash used in financing activities		**(1,281,456)**	(1,846,663)
Net (decrease) / increase in cash and cash equivalents		**(1,499,868)**	545,591
Cash and cash equivalents at beginning of the year		**(3,486,140)**	(4,031,731)
Cash and cash equivalents at end of the year		**(4,986,008)**	(3,486,140)
CASH AND CASH EQUIVALENTS COMPRISE:			
Cash and bank balances	12	**53,228**	37,615
Short term borrowings	18	**(5,039,236)**	(3,523,755)
		(4,986,008)	(3,486,140)

The annexed notes 1 to 40 form an integral part of these financial statements.

Tariq Iqbal Khan	**Tauqir Hasan**	**Yousuf H. Mirza**
Director & Chairman Board Audit Committee	Chief Financial Officer	Chief Executive Officer

Statement of Changes in Equity
For the year ended 30 June 2017

	Issued, subscribed & paid-up capital	Un-appropriated profit	Total
	----------------	(Rupees in '000)	----------------
Balances as at 01 July 2015	4,350,000	628,114	4,978,114
Profit for the year	-	1,178,964	1,178,964
Other comprehensive income	-	(730)	(730)
Total comprehensive income for the year	-	1,178,234	1,178,234
Transferred from surplus on revaluation of property, plant and equipment - net of deferred tax	-	11,980	11,980
Balance as at 30 June 2016	4,350,000	1,818,328	6,168,328
Profit for the year	-	3,044,022	3,044,022
Other comprehensive income	-	(1,151)	(1,151)
Total comprehensive income for the year	-	3,042,871	3,042,871
Transaction with the owners of the Company - Distribution			
Dividend:			
- Final dividend @ 12.5% (Rs. 1.25 per share) for the year ended 30 June 2016	-	(543,750)	(543,750)
- Interim dividend @ 25% (Rs. 2.50 per share) for the year ended 30 June 2017	-	(1,087,500)	(1,087,500)
Total transactions with the owners of the Company	-	(1,631,250)	(1,631,250)
Transferred from surplus on revaluation of property, plant and equipment - net of deferred tax	-	20,425	20,425
Balance as at 30 June 2017	**4,350,000**	**3,250,374**	**7,600,374**

The annexed notes 1 to 40 form an integral part of these financial statements.

Tariq Iqbal Khan
Director & Chairman
Board Audit Committee

Tauqir Hasan
Chief Financial
Officer

Yousuf H. Mirza
Chief Executive
Officer

1. STATUS AND NATURE OF BUSINESS

International Steels Limited ('the Company') was incorporated on 03 September 2007 as a public unlisted company limited by shares under the Companies Ordinance, 1984 and is domiciled in the province of Sindh.

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

The Company was listed on the Pakistan Stock Exchange Limited (formerly Karachi Stock Exchange Limited) on 01 June 2011. As at 30 June 2017, the Holding Company held 245,055,543 shares (2016: 245,055,543 shares) of the Company.

The primary activity of the Company is the business of manufacturing of cold rolled steel coils and galvanized coils. 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

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions of, or directives issued under the Companies Ordinance, 1984 shall prevail.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for the Company's liability under defined benefit plan (gratuity) that is determined based on the present value of defined benefit obligation less fair value of plan assets, land & buildings that are stated at fair values determined by an independent valuer and derivative financial instruments which are stated at fair value.

2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2.4 Use of significant estimates and judgments

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgments made by the management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with significant risk of material adjustment in the next year are described in the following:

- Property, plant and equipment and Intangible assets (notes 3.1 and 3.2).
- Trade debts (note 3.3.1.1)
- Derivative financial instruments (note 3.3.3 and 3.3.4)
- Inventories (note 3.4)
- Taxation (note 3.5)
- Measurement of staff retirement benefits (note 3.6)
- Impairment (note 3.9)
- Provisions (note 3.10)

2.5 Standards, Interpretations and Amendments which became effective during the year

During the year, amendments to certain standards became effective which were not relevant to the Company's accounting policies.

2.6 Standards, Interpretations and Amendments not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2017:

- Amendments to IAS 12 'Income Taxes' are effective for annual periods beginning on or after 01 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments further clarify that when calculating deferred tax asset in respect of insufficient taxable temporary differences, the future taxable profit excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are not likely to have an impact on Company's financial statements.

- Amendments to IAS 7 'Statement of Cash Flows' are part of IASB's broader disclosure initiative and are effective for annual periods beginning on or after 01 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

- Amendments to IFRS 2 - Share-based Payment clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 01 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on Company's financial statements.

- Transfers of Investment Property (Amendments to IAS 40 'Investment Property' - effective for annual periods beginning on or after 01 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on Company's financial statements.

- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 01 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 01 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax.

- Annual improvements to IFRS standards 2014-2016 cycle. The new cycle of improvements addresses improvements to following approved accounting standards:

  - Amendments to IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual periods beginning on or after 01 January 2017) clarify that the requirements of IFRS 12 apply to an entity's interests that are classified as held for sale or discontinued operations in accordance with IFRS 5 - 'Non-current Assets Held for Sale and Discontinued Operations'. The amendments are not likely to have an impact on Company's financial statements.

  - Amendments to IAS 28 'Investments in Associates and Joint Ventures' (effective for annual periods beginning on or after 01 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Company's financial statements.

  The above improvements to standards are not likely to have material / significant impact on Company's financial statements.

- In addition, the Companies Act, 2017 was enacted on 30 May 2017 and SECP vide its circular 17 of 2017 has clarified that the companies whose financial year closes on or before 30 June 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. The Companies Act, 2017 applicable for financial year beginning on 01 July 2017 requires certain additional disclosures. Section 235 of the repealed Companies Ordinance, 1984 relating to treatment of surplus arising out of revaluation of assets has not been carried forward in the Companies Act, 2017. This would require change in accounting policy relating to surplus on revaluation of fixed assets to bring it in line with the requirements of IAS 16 – Property, plant and equipment. The change will decrease the unappropriated profit by Rs. 6.16 million with the corresponding increase in surplus on revaluation of property, plant and equipment. Further, surplus on revaluation of property, plant and equipment will form part of equity.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies as set out below are consistently applied for all periods presented in these financial statements.

3.1 Property, plant and equipment

3.1.1 Operating assets and depreciation

Initial Recognition

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that future economic benefits associated with the item will flow to the entity and the cost of such item can be measured reliably.

Recognition of the cost in the carrying amount of an item of plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

Measurement

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Freehold land are stated at revalued amounts and buildings on freehold land are stated at revalued amounts less accumulated depreciation. The costs of property, plant and equipment include:

(a) its purchase price including import duties, non-refundable purchase taxes after deducting trade discounts and rebates; and

(b) any other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) Borrowing costs, if any.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent expenditure

Expenditure incurred to replace a significant component of an item of plant and equipment is capitalised and the asset so replaced is retired. Other subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the items can be measured reliably. All other expenditure (including repairs and normal maintenance) is recognised in the profit and loss account as an expense when it is incurred.

Depreciation

Depreciation on all items except for freehold land is charged on straight line method at the rates specified in respective note to the financial statements and is generally recognised in profit and loss account.

Depreciation on addition is charged from the month the asset is available for use up to the month prior to disposal.

Depreciation methods, useful lives and residual values of each part of property, plant and equipment that is significant in relation to the total cost of the asset are reviewed, and adjusted if appropriate, at each balance sheet date.

Surplus on revaluation

Revaluation of freehold land and building on freehold land is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. Surplus on revaluation of free hold land and buildings on free hold land is credited to the surplus on revaluation account each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit and loss account and depreciation based on the asset's original cost, net of tax is reclassified from revaluation account to retained earnings.

Gains and losses on disposal

Gains and losses on disposal of assets are taken to the profit and loss account, and the related surplus on revaluation of property, plant and equipment, if any, is transferred directly to retained earnings.

3.1.2 Capital work-in-progress

Capital work-in-progress is stated at cost less impairment loss, if any and consists of expenditure incurred (including any borrowing cost, if applicable) and advances made in the course of their construction and installation. Transfers are made to relevant asset category as and when assets are available for intended use.

3.2 Intangible assets

An intangible asset is recognised as an asset if it is probable that future economic benefits attributable to the asset will flow to the entity and the cost of such asset can be measured reliably.

Costs directly associated with identifiable software that will have probable economic benefits exceeding, beyond one year, are recognised as an intangible asset.

Infinite Intangible

These are stated at cost less impairment, if any.

Definite Intangible

a) These are stated at cost less accumulated amortisation and impairment, if any.

b) Intangible assets are amortised on straight line basis over its estimated useful life(s) (refer note 5).

c) Amortisation on additions during the financial year is charged from month in which the asset is put to use, whereas no amortisation is charged from the month the asset is disposed-off.

3.3 Financial Instruments

3.3.1 Non-derivative Financial assets

All non-derivative financial assets are initially recognised on trade date i.e. date on which the Company becomes party to the respective contractual provisions. Non-derivative financial assets comprise loans and receivables that are financial assets with fixed or determinable payments that are not quoted in active markets and includes trade debts, advances, other receivables and cash and cash equivalent. The Company derecognises the financial assets when the contractual rights to the cash flows from the asset expires or it transfers the rights to receive the contractual cashflows in a transaction in which substantially all of the risk and rewards of ownership of the financial assets are transferred or it neither transfers nor retain substantially all of the risks and rewards of ownership and does not retain control over the transferred asset.

3.3.1.1 Trade debts, advances and other receivables

Trade debts, advances and other receivables are recognised initially at fair value and subsequently measured at amortised cost or cost, as the case may be, less provision for impairment, if any. A provision for impairment is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Receivables considered irrecoverable are written-off.

3.3.1.2 Cash and cash equivalents

Cash and cash equivalents for cash flow purposes include cash in hand and balances with banks. Short term borrowings availed by the Company, which are payable on demand and form an integral part of the Company's cash management are included as part of cash and cash equivalents for the purpose of statement of cash flows.

3.3.2 Financial Liabilities

Financial liabilities are initially recognised on trade date i.e. date on which the Company becomes party to the respective contractual provisions. Financial liabilities include mark-up bearing borrowings and trade and other payables. The Company derecognises the financial liabilities when contractual obligations are discharged or cancelled or expire. Financial liability other than at fair value through profit or loss are initially measured at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these liabilities are measured at amortised cost using effective interest rate method.

3.3.2.1 Mark-up bearing borrowings and borrowing costs

Mark-up bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at amortized cost, while the difference between the cost (reduced for periodic payments) and redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowing costs are recognized as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalized as part of the cost of the relevant asset.

3.3.2.2 Trade and other payables

Trade and other payables are recognised initially at fair value plus directly attributable costs, if any, and subsequently measured at amortised costs.

3.3.3 Derivative financial instruments - other than hedging

Derivatives that do not qualify for hedge accounting are recognized in the balance sheet at estimated fair value with corresponding effect to profit and loss account. Derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative.

3.3.4 Derivative financial instruments - 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 removed therefrom and included in the initial carrying amount of non-financial asset upon recognition of non-financial asset.

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.

3.3.5 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when the Company has currently legally enforceable right to set-off the recognised amounts and the Company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in normal course of business and in the event of default, insolvency or winding up of the Company or the counter parties.

3.4 Inventories

These are valued at lower of cost and net realizable value. Cost is determined under the weighted average basis. Cost comprises all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value signifies the estimated selling price in the ordinary course of the business less net estimated cost of completion and selling expenses. Scrap is valued at estimated realizable value.

3.5 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in equity or in other comprehensive income, in which case it is recognised in equity or in other comprehensive income respectively. In making the estimates for income taxes currently payable by the Company, the management considers the current income tax law and the decisions of appellate authorities on certain issues in the past.

Current

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years.

Provisions for current taxation is based on taxability of certain income streams of the Company under presumptive / final tax regime at the applicable tax rates and remaining income streams chargeable at current rate of taxation under the normal tax regime and / or minimum tax liability or alternate corporate tax as applicable, after taking into account tax credits and tax rebates available, if any.

Deferred tax

Deferred tax is recognised using balance sheet liability method, providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the tax rates enacted or substantively enacted at the balance sheet date.

The Company recognises a deferred tax asset to the extent that it is probable that taxable profits for the foreseeable future will be available against which the assets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.6 Staff retirement benefits

3.6.1 Defined benefit plan

The Company provides gratuity benefits to all its permanent employees who have completed their minimum qualifying period of service i.e. three year (except in case of workers where minimum qualifying period of service is six months). For executives and officers having total service of over twenty years, the benefit is available at one month's basic salary (eligible salary) for each completed year of service.

For executives and officers having total service of less than twenty years, the benefit is available at half month's basic salary (eligible salary) for each completed year of service. For workers, the benefit is available at one month's gross salary less conditional allowances (eligible salary) for each completed year of service. The Company's obligation is determined through actuarial valuations carried out under the 'Projected Unit Credit Method'. Remeasurements which comprise actuarial gains and losses and the return on plan assets (excluding interest) are recognised immediately in other comprehensive income.

The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments. Net interest expense and current service cost are recognised in profit and loss account. The latest Actuarial valuation was conducted at the balance sheet date by a qualified professional firm of actuaries.

3.6.2 Defined contribution plan

The Company provides provident fund benefits to all its officers. Equal contributions are made, both by the Company and the employees, at the rate of 8.33% of basic salary and cost of living allowance and the same is charged to the profit and loss account.

3.6.3 Compensated absences

The liability for accumulated compensated absences of employees is recognised in the period in which employees render service that increases their entitlement to future compensated absences.

3.7 Foreign currency translation

Transactions in foreign currencies are translated into Pak Rupees at the rates of exchange approximating those prevailing on the date of transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange ruling on the balance sheet date. Exchange differences are included in the profit and loss account currently.

3.8 Revenue recognition

- Domestic sales are recognised as revenue when invoiced with the transfer of significant risks and rewards of ownership, which coincides with delivery.

- Export sales are recognised as revenue when invoiced with the transfer of significant risks and rewards of ownership, which coincides either with date of shipping bill or upon delivery to customer or its representative, based on terms of arrangement.

- Revenue from power generation plant on account of sales of surplus electricity is recognised on transmission of electricity to K-Electric Limited.

- Mark-up on bank deposit accounts is recognised on time proportion basis taking into account effective yield.

- Partial manufacturing income is recognised when related services are rendered.

- Miscellaneous income is recognised on receipt basis.

3.9 Impairment

3.9.1 Financial assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

3.9.2 Non-Financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets and inventories are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount, being higher of value in use and fair value less costs to sell, is estimated. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

3.10 Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are measured at the present value of expected expenditure, discounted at a pre-tax rate reflects current market assessment of the time value of money and the risk specific to the obligation. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

3.11 Segment reporting

Segment results that are reported to the Company's Chief Executive Officer ('CEO') - the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items, if any, comprise mainly corporate assets, head office expenses, and tax assets and liabilities. Management has determined that the Company has a single reportable segment and therefore it has only presented entity wide disclosures.

3.12 Dividend and appropriations

Dividend distribution to the Company's shareholders and appropriations to / from reserves are recognised in the period in which these are approved.

4 PROPERTY, PLANT AND EQUIPMENT

	Note	2017	2016
		(Rupees in '000)	
Operating assets	4.1	**12,549,357**	12,446,381
Capital work-in-progress	4.2	**1,090,094**	173,641
		13,639,451	12,620,022

4.1 Operating assets

	2017												
	Cost / Revaluation						Depreciation					Net book value as at 30 June 2017	Rate %
	As at 01 July 2016	Additions / Transfers	Revaluation surplus	Other adjustments	(Disposals)	As at 30 June 2017	As at 01 July 2016	For the year	Revaluation surplus	(Disposal)	As at 30 June 2017		
	(Rupees in '000)												
Freehold land	1,460,250	-	-	-	-	1,460,250	-	-	-	-	-	1,460,250	-
Buildings on freehold land	1,450,725	22,846	-	-	-	1,473,571	-	84,619	-	-	84,619	1,388,952	2% - 5%
Plant and machinery*	11,884,236	765,252	-	37,337	(6,217)	12,680,608	2,414,477	660,812	-	(1,895)	3,073,394	9,607,214	3% - 33%
Furniture, fixture, computer and office equipment	44,911	27,806	-	-	-	72,717	32,389	5,627	-	-	38,016	34,701	10% - 33%
Vehicles	96,224	38,164	-	-	(40,835)	93,553	43,099	17,540	-	(25,326)	35,313	58,240	20%
	14,936,346	854,068	-	37,337	(47,052)	15,780,699	2,489,965	768,598	-	(27,221)	3,231,342	12,549,357	

	2016												
	Cost / Revaluation						Depreciation					Net book value as at 30 June 2016	Rate %
	As at 01 July 2015	Additions/ Transfers	Revaluation surplus	Other adjustments	(Disposals)	As at 30 June 2016	As at 01 July 2015	For the year	Revaluation surplus	(Disposal)	As at 30 June 2016		
	(Rupees in '000)												
Free hold land	1,216,875	-	243,375	-	-	1,460,250	-	-	-	-	-	1,460,250	-
Buildings on freehold land	1,201,903	79,882	72,450	96,490	-	1,450,725	124,073	71,165	(195,238)**	-	-	1,450,725	3% - 5%
Plant and machinery *	10,169,223	1,811,503	-	(96,490)	-	11,884,236	1,798,038	616,439	-	-	2,414,477	9,469,759	3% - 33%
Furniture, fixture, computer and office equipment	39,517	5,394	-	-	-	44,911	26,453	5,936	-	-	32,389	12,522	10% - 33%
Vehicles	82,487	31,527	-	-	(17,790)	96,224	38,962	17,011	-	(12,874)	43,099	53,125	20%
	12,710,005	1,928,306	315,825	-	(17,790)	14,936,346	1,987,526	710,551	(195,238)	(12,874)	2,489,965	12,446,381	

* Includes capital spares having cost of Rs.143 million (2016: 106 million) and net book value of Rs. 93 million (2016: Rs 85 million).

** This represents adjustment to accumulated depreciation by eliminating it against gross carrying amount of the assets using elimination approach to incorporate revaluation impact.

4.2 Capital Work-In-Progress

	2017				2016			
	Cost As at 01 July 2016	Additions	(Transfers)	As at 30 June 2017	Cost As at 01 July 2015	Additions	(Transfers)	As at 30 June 2016
	(Rupees in '000)							
Building	-	22,846	(22,846)	-	-	79,882	(79,882)	-
Plant and machinery	172,138	1,673,118	(765,252)	1,080,004	1,608,871	374,770	(1,811,503)	172,138
Furniture, fixture, computer and office equipment	-	30,124	(27,806)	2,318	693	4,701	(5,394)	-
Vehicle	1,503	44,433	(38,164)	7,772	-	33,030	(31,527)	1,503
	173,641	1,770,521	(854,068)	1,090,094	1,609,564	492,383	(1,928,306)	173,641

4.2.1 Additions to plant and machinery include interest and other charges on loan obtained for expansion project amounting to Rs. Nil (2016: Rs. 24 million). Rate of mark-up capitalisation ranges from Nil to Nil per annum (2016: 5.5% to 8.98%).

4.3 The depreciation charge for the year has been allocated as follows:

	Note	2017	2016
		(Rupees in '000)	
Cost of sales	21	**710,769**	633,671
Administrative expenses	22	**5,527**	5,951
Selling and distribution expenses	23	**4,030**	3,321
Income from power generation	26.1	**48,272**	67,608
		768,598	710,551

4.4 The Company had carried out valuation of freehold land and buildings on freehold land as at 30 June 2016. The resulting revaluation surplus was credited to revaluation surplus account net of related tax effect and disclosed in note 14 to these financial statements. The valuation was conducted by an independent valuer. In determining the valuations for land and buildings, the valuer refers to current market conditions, structure, current replacement cost, sale prices of comparable land in similar location adjusted for differences in key attributes such as land size and inquires with numerous independent local estate agents / realtors in the vicinity to establish the present market value.

Had these assets been carried at historical cost at 30 June 2017, the carrying amount would have been as follows:

	Cost	Accumulated depreciation	Net book value
	----------	(Rupees in '000)	----------
Freehold land	836,599	-	836,599
Buildings on freehold land	1,239,880	322,673	917,207
As at 30 June 2017	**2,076,479**	**322,673**	**1,753,806**
As at 30 June 2016	2,053,633	267,233	1,786,400

4.5 Details of property, plant and equipment disposed off during the year are:

	Original cost	Accumulated depreciation	Book value	Proceeds	Mode of disposal	Purchaser
	----------	(Rupees in '000)	----------			
Plant and machinery	6,217	1,895	4,322	5,217	Insurance Claim	Jubilee General Insurance
Vehicles						
Toyota Corolla	1,768	177	1,591	1,620	As per Company policy	Mr. Imran Taj
Honda City	1,418	1,134	284	968	As per Company policy	Mr. Mirza Aftab Baig
Suzuki Mehran	667	400	267	405	As per Company policy	Mr. Syed Suleman
Toyota Corolla	1,642	164	1,478	1,506	As per Company policy	Mr. Jahangir Ali Khan
Suzuki Mehran	683	250	433	484	Negotiation	Mrs. Sheeba Danish
Honda Civic Prosmatic	2,207	1,288	919	-	As per Company policy	Mr. Zaka Ullah Khan
Honda Civic Prosmatic	2,476	454	2,022	2,160	As per Company policy	Mr. Rashid Umer Siddiqui
Suzuki Cultus	990	808	182	612	As per Company policy	Mr. Nabeel Ganatra
Suzuki Cultus	1,048	646	402	800	As per Company policy	Mr. Muhammad Uzair
Suzuki Cultus	1,039	433	606	700	As per Company policy	Mrs. Sheeba Danish
Toyota Corolla	2,303	1,036	1,267	1,500	As per Company policy	Mr. Waqas Zubair
Toyota Corolla	1,628	787	841	1,450	Insurance Claim	Jubilee General Insurance
Suzuki Cultus	1,039	346	693	828	As per Company policy	Mr. Ashar Sartaj
Suzuki Cultus	1,039	277	762	-	As per Company policy	Mr. Akhtar Ali
Toyota Corolla	1,552	1,112	440	1,080	As per Company policy	Mr. Usman Ahmed
Toyota Corolla	1,537	333	1,204	1,525	As per Company policy	Mr. Yasir Sohail
Suzuki Cultus	1,039	571	468	790	As per Company policy	Mr. Shahid M. Sajid
Suzuki Cultus	1,019	764	255	750	As per Company policy	Mr. Muhammad Ashfaq
Honda City	1,537	154	1,383	1,530	Negotiation	Mr. Mubashir Ahmed
Various vehicles of book value up to Rs.50,000/- each	14,204	14,192	12	780	Negotiation	Various
	40,835	25,326	15,509	19,488		
Total	47,052	27,221	19,831	24,705		

5 INTANGIBLE ASSETS

	2017							
	Cost			Amortisation			Net book value as at 30 June 2017	Rate% / Life
	As at 01 July 2016	Additions	As at 30 June 2017	As at 01 July 2016	For the year	As at 30 June 2017		
	(Rupees in '000)							
Computer software	**17,691**	**4,015**	**21,706**	**17,691**	**112**	**17,803**	**3,903**	**33% / 3 years**

	2016							
	Cost			Amortisation			Net book value as at 30 June 2016	Rate% / Life
	As at 01 July 2015	Additions	As at 30 June 2016	As at 01 July 2015	For the year	As at 30 June 2016		
	(Rupees in '000)							
Computer software	17,691	-	17,691	17,140	551	17,691	-	33% / 3 years

5.1 Total amount of amortisation has been charged to cost of sales in these financial statements.

6 STORES AND SPARES

	Note	2017	2016
		(Rupees in '000)	
Stores		**64,722**	91,230
Spares		**437,447**	345,657
Loose tools		**5,527**	5,710
		507,696	442,597

7 STOCK-IN-TRADE

	Note	2017	2016
Raw material - in hand		**3,028,194**	2,192,576
Raw material - in transit		**1,813,193**	932,278
Work-in-process		**1,190,872**	546,887
Finished goods	21	**3,505,587**	1,602,250
Scrap Material		**-**	40,140
		9,537,846	5,314,131

8 TRADE DEBTS - considered good

	Note	2017	2016
- Secured	8.1	**274,168**	289,106
- Unsecured		**489,875**	231,695
		764,043	520,801

8.1 This represents trade debts arising on account of export sales of Rs. 183.52 million (2016: Rs. 239.09 million) which are secured by way of Export Letters of Credit and Rs. 90.65 million (2016: Rs. 50.02 million) arising on account of domestic sales which are secured by way of Inland Letter of Credit.

8.2 Trade debts includes Rs. 9.56 million (2016: Rs. 91.40 million) receivable from related party. The balance is receivable from M/s. Sumitomo Corporation and is not over due as at 30 June 2017.

		2017	2016
		(Rupees in '000)	
9	**ADVANCES - considered good**		
	Advances:		
	- to suppliers	**48,463**	35,059
	- to employees	**-**	10
		48,463	35,069

9.1 These advances are non-interest bearing.

		2017	2016
10	**TRADE DEPOSITS AND PREPAYMENTS**		
	Trade deposits	**7,894**	3,948
	Short term prepayments	**14,639**	6,280
	Other receivable	**-**	2,096
		22,533	12,324

10.1 The trade deposits and other receivable are non-interest bearing.

10.2 Other receivable includes rent receivable from related party amounting to Rs. Nil (2016: Rs. 0.472 million).

		Note	2017	2016
11	**TAXATION - net**		(Rupees in '000)	
	Tax receivable as at 01 July		**1,550,697**	1,396,122
	Tax (refunds) / payments during the year - net of adjustments		**(15,555)**	266,902
			1,535,142	1,663,024
	Less: Provision for tax - current year	27	**(918,585)**	(112,327)
			616,557	1,550,697

		Note	2017	2016
12	**CASH AND BANK BALANCES**			
	Cash in hand		**84**	145
	Cash at bank - in current accounts in local currency		**38,130**	9,121
	Cash at bank - in deposit accounts in foreign currency	12.1	**15,014**	28,349
			53,228	37,615

12.1 Mark-up rate on bank accounts ranges from 4% to 4.75% per annum (2016: 5% to 8% per annum). The deposits account are placed with bank under conventional banking arrangements.

13 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2017	2016		2017	2016
(Number of shares)			(Rupees in '000)	
30,000	30,000	Fully paid ordinary shares of Rs. 10 each issued for cash	**300**	300
417,716,700	417,716,700	Fully paid ordinary shares of Rs. 10 each issued against transfer of net assets	**4,177,167**	4,177,167
17,253,300	17,253,300	Fully paid ordinary shares of Rs. 10 each issued as right shares	**172,533**	172,533
435,000,000	435,000,000		**4,350,000**	4,350,000

13.1 As at 30 June 2017, the Holding Company and associated companies held 245,055,543 (2016: 245,055,543) and 39,477,659 (2016: 59,707,057) ordinary shares respectively of Rs. 10 each.

14 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - net of tax

	Note	2017	2016
		(Rupees in '000)	
Freehold land			
Balance as at 01 July		623,651	380,276
Revaluation during the year		-	243,375
		623,651	623,651
Buildings on freehold land			
Balance as at 01 July		500,924	250,350
Revaluation during the year		-	267,688
Transferred to retained earnings in respect of incremental depreciation charged during the year		(29,179)	(17,114)
		471,745	500,924
Related deferred tax liability		(141,523)	(150,277)
		953,873	974,298

15 LONG TERM FINANCES - secured

	Note	2017	2016
Long-term finances utilised under mark-up arrangements	15.1	4,818,345	4,743,989
Current portion of long term finances shown under current liabilities		(1,197,073)	(699,016)
		3,621,272	4,044,973

15.1 Long term finances utilised under mark-up arrangements

	Sale price	Purchase price	Number of instalments and commencement date	Date of maturity / repayment	Rate of mark-up per annum	2017	2016
	(Rupees in '000)					(Rupees in '000)	
Conventional							
i) **Long Term Finance Facility (LTFF) - Local currency**							
Assistance for plant and machinery (note 15.1.1)	1,000,000	4,675,000	32 quarterly instalments 16 October 2016	11 November 2026	1.00% over SBP Refinance rate	988,012	1,000,000
Assistance for plant and machinery (note 15.1.1)	1,000,000	2,501,562	16 half yearly instalments 12 December 2016	28 November 2026	1.00% over SBP Refinance rate	952,555	988,433
ii) **Long Term Finance - Local currency**							
Assistance for plant and machinery (note 15.1.2)	800,000	1,112,512	18 quarterly instalments 30 June 2016	01 September 2020	0.15% over 06 months KIBOR	577,778	755,556
iii) **Long Term Finance - Local currency**							
Assistance for plant and machinery (note 15.1.3)	1,000,000	1,610,411	60 equal monthly instalments 28 July 2016	28 June 2021	0.15% over 03 months KIBOR	800,000	1,000,000
Islamic							
iv) **Long Term Finance - Local currency**							
Assistance for plant and machinery (note 15.1.4)	1,000,000	1,743,300	01 half yearly & 14 quarterly instalments 26 December 2016	26 June 2020	0.20% over 06 months KIBOR	750,000	1,000,000
v) **Long Term Finance - Local currency** Assistance for plant and machinery (note 15.1.5)	1,000,000	1,098,867	36 equal monthly instalments 01 October 2016	01 September 2019	0.20% over 01 months KIBOR	750,000	-
						4,818,345	4,743,989

15.1.1 This represents Long Term Finance Facility (LTFF) obtained from United Bank Limited and Bank AL Habib Limited and is secured by way of pari passu charge over fixed assets of the Company.

15.1.2 This finance has been obtained from MCB Bank Limited and is secured by way of pari passu charge over fixed assets of the Company.

15.1.3 This finance has been obtained from Bank AL Habib Limited and is secured by way of pari passu over fixed assets of the Company.

15.1.4 This finance has been obtained from Meezan Bank Limited and is secured by way of pari passu over fixed assets of the Company.

15.1.5 This finance has been obtained from Islamic window of Standard Chartered Bank (Pakistan) Limited and is secured by way of pari passu charge over fixed assets of the Company.

16 DEFERRED TAXATION - net

Deferred tax liability comprises of (deductible) / taxable temporary differences in respect of the following:

	2017	2016
	(Rupees in '000)	
Taxable temporary difference		
Accelerated tax depreciation	**1,856,752**	1,798,700
Deductible temporary differences		
Provision for unavailed leaves	**(1,573)**	(1,055)
Staff retirement benefits	**(6,499)**	(6,464)
Unrealised exchange losses	**(292)**	(2,166)
Provision for Infrastructure Cess and Government levies	**(61,427)**	(19,677)
Tax loss	**-**	(958,590)
Alternate corporate taxation	**(330,540)**	-
	1,456,421	810,748

17 TRADE AND OTHER PAYABLES

	Note	2017	2016
		(Rupees in '000)	
Trade creditors	17.1	**4,081,902**	3,622,348
Derivative financial liabilities		**-**	8,286
Payable to provident fund		**1,229**	-
Sales commission payable		**52,509**	34,653
Accrued expenses		**935,228**	426,750
Advances from customers	17.2	**390,740**	177,170
Provision for infrastructure cess	17.3	**519,204**	362,076
Provision for government levies	17.4	**257**	409
Dividend payable		**275,166**	-
Unclaimed dividend		**656**	384
Short term compensated absences		**5,928**	4,000
Workers' Profit Participation Fund	17.5	**-**	13,817
Workers' Welfare Fund		**140,452**	41,337
Others		**6,857**	3,570
		6,410,128	4,694,800

17.1 Trade creditors includes Rs. 3,011.88 million (2016: Rs. 3,299.72 million) payable to a related party.

17.2 Advance from customers includes Rs. 0.15 million (2016: Rs. Nil) received from a related party.

17.3 This represents provision against fifty percent amount guaranteed to Excise and Taxation Officer (refer note 19.1.1).

	Note	2017	2016
		(Rupees in '000)	
Opening balance		**362,076**	287,508
Provided during the year		**157,128**	74,568
Closing balance		**519,204**	362,076

17.4 Provision for government levies

Opening balance		**409**	568
Payment during the year		**(152)**	(159)
Closing balance		**257**	409

17.5 Movement of Workers' Profit Participation Fund

Opening balance		**13,817**	12,664
Allocation for the year	25	**247,788**	88,963
Interest on workers' profit participation fund		**85**	221
Payment during the year		**(261,690)**	(88,031)
Closing balance		**-**	13,817

18 SHORT TERM BORROWINGS - secured

Conventional			
Running finance under mark-up arrangement	18.1	**1,570,864**	2,663,844
Running finance under Export Refinance Scheme	18.2	**1,118,500**	-
Islamic			
Short term finance under Running Musharakah	18.3	**860,369**	39,102
Short term finance under Term Musharakah	18.4	**1,489,503**	820,809
		5,039,236	3,523,755

18.1 The facilities for running finance available from various commercial banks are for the purpose of meeting working capital requirements. The rates of mark-up on these finances range from 6.08% to 8.00% (2016: 6.04% to 9.68%) per annum. These facilities mature within twelve months and are renewable.

18.2 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 is 2.15% (2016: 3.96%) per annum. These facilities mature within twelve months and are renewable.

18.3 The Company has obtained facilities for short term finance under Running Musharakah. The rate of profit is 6.33% to 6.53% (2016: 6.55% to 7.18%) per annum. This facility matures within twelve months and is renewable.

18.4 The Company has obtained facilities for short term finance under Term Musharakah. The rate of profit is 6.07% to 6.14% (2016: 6.07% to 6.58%) per annum. This facility matures within twelve months and is renewable.

18.5 As at 30 June 2017, the unavailed facilities from the above borrowings amounted to Rs. 6,360.76 million (2016: Rs. 7,876.24 million).

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

19 CONTINGENCIES AND COMMITMENTS

19.1 Contingencies

19.1.1 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. 536.5 million (2016: Rs. 376.5 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 17.3).

19.1.2 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 Honorable 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 these financial statements. 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 and is pending for adjudication. 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. 739 million (2016: Rs. 633 million) pertaining to period from 01 July 2011 to 30 June 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).

19.1.3 Section 113(2)(c) of the Income Tax Ordinance, 2001 was interpreted by a Divisional Bench of the High Court of Sindh in the Income Tax Reference Application (ITRA) No. 132 of 2011 dated 07 May 2013, whereby it was held that the benefit of carry forward of minimum tax is only available in the situation where the actual tax payable (on the basis of net income) in a tax year is less than minimum tax. Therefore, where there is no tax payable due to brought forward tax losses, minimum tax could not be carried forward for adjustment with future tax liability.

The Company, based on legal counsels' advice, considered that certain strong grounds are available whereby the aforesaid decision can be challenged in a Larger Bench of the High Court of Sindh or the Supreme Court of Pakistan. A leave to appeal against the aforesaid decision has already been filed before the Supreme Court of Pakistan by other companies which is pending for hearing. In view of above, the Company is confident that the ultimate outcome in this regard would be favourable.

Further, based on the tax expert's advice obtained during the year, accumulated minimum tax liability under Section 113 of the Income Tax Ordinance, 2001 (the Ordinance) of Rs. 431 million was determined from the tax years 2013 till 2015 and an amount of Rs. 248 million on account of Alternate Corporate Tax (ACT) for the tax year 2016 under Section 113(C) of the Ordinance. However, based on the assessment and estimation for availability of sufficient taxable profits on the basis of 5 years projections and tax credits available to the Company under section 65(B) of the Income Tax Ordinance, 2001, accumulated minimum tax liability and alternate corporate tax net of tax credit under section 65(B) amounting to Rs. 157 million has not been recorded in the financial statements for the year ended 30 June 2017.

19.1.4 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. 107.7 million as post dated cheques with the Nazir of the Court. The Company, on prudent basis, has also accrued this amount in these financial statements.

19.1.5 Guarantees issued in favour of Sui Southern Gas Company Limited by the bank amounted to Rs. 268.7 million (2016: Rs. 262.7 million) as a security for supply of gas.

19.1.6 Guarantees issued in favour of Pakistan State Oil Company Limited issued by bank on behalf of the Company amounted to Rs. 5.5 million (2016: Rs. 5.5 million).

19.1.7 Guarantees issued in favour of K-Electric Limited issued by bank on behalf of the Company amounted to Rs. 8.67 million (2016: Rs. 8.67 million).

19.1.8 Guarantees issued in favour of Nazir High Court issued by bank on behalf of the Company amounted to Rs. 2.65 million (2016: Rs. 2.65 million).

19.2 Commitments

19.2.1 Capital expenditure commitments outstanding as at 30 June 2017 amounted to Rs. 3,016.6 million (2016: Rs. 320.07 million).

19.2.2 Commitments under Letters of Credit for raw materials and spares as at 30 June 2017 amounted to Rs. 4,616.45 million (2016: Rs. 6,578.36 million).

19.2.3 The unavailed facilities for opening Letters of Credit and Guarantees from banks as at 30 June 2017 amounted to Rs. 13,501.95 million (2016: Rs. 7,934.6 million) and Rs. 190 million (2016: Rs. 194 million) respectively.

20 NET SALES

	2017	2016
	(Rupees in '000)	
Local	**35,625,125**	21,577,681
Export	**3,911,843**	2,477,153
	39,536,968	24,054,834
Sales tax	**(5,361,282)**	(3,283,515)
Trade discounts	**(20,950)**	(50,019)
Sales commission	**(422,114)**	(229,203)
	(5,804,346)	(3,562,737)
	33,732,622	20,492,097

21 COST OF SALES

	Note	2017	2016
		(Rupees in '000)	
Opening stock of raw material and work-in-process		**2,739,463**	2,576,275
Purchases		**29,651,958**	16,292,785
Salaries, wages and benefits	21.1	**401,788**	327,394
Electricity, gas and water		**975,516**	912,178
Insurance		**19,298**	18,783
Security and janitorial		**18,565**	20,588
Depreciation	4.3	**710,769**	633,671
Amortisation	5	**112**	551
Stores and spares consumed		**87,095**	93,496
Repairs and maintenance		**81,011**	100,465
Postage, telephone and stationery		**6,367**	4,959
Vehicle, travel and conveyance		**18,799**	16,518
Internal material handling		**16,789**	13,782
Environment controlling expense		**1,585**	1,326
Computer stationery and software support fees		**6,078**	3,217
Partial manufacturing expenses	21.2	**285,068**	10,768
Sundries		**18,301**	8,902
Recovery from sale of scrap		**(1,089,654)**	(660,455)
		33,948,908	20,375,203
Closing stock of raw material and work-in-process		**(4,219,066)**	(2,739,463)
Cost of goods manufactured		**29,729,842**	17,635,740
Finished goods:			
Opening stock		**1,602,250**	1,552,343
Closing stock	7	**(3,505,587)**	(1,602,250)
		(1,903,337)	(49,907)
		27,826,505	17,585,833

21.1 Salaries, wages and benefits include Rs. 18.08 million (2016: Rs. 18.24 million) in respect of staff retirement benefits.

21.2 Due to undergoing expansion during the year, the Company has entered into a partial manufacturing arrangement with its Holding Company.

22 ADMINISTRATIVE EXPENSES

	Note	2017	2016
		(Rupees in '000)	
Salaries, wages and benefits	22.1	**129,910**	98,712
Rent, rates and taxes		**5,821**	4,124
Electricity, gas and water		**2,118**	1,223
Insurance		**1,657**	2,064
Depreciation	4.3	**5,527**	5,951
Security and janitorial services		**491**	513
Printing and stationery		**2,250**	1,775
Computer stationery and software support fees		**48**	104
Postage and communication		**701**	688
Vehicle, travel and conveyance		**5,468**	5,285
Legal and professional charges		**43,902**	33,475
Certification and registration charges		**6,033**	540
Directors' fee		**3,660**	3,540
Others		**7,290**	3,485
		214,876	161,479

22.1 Salaries, wages and benefits include Rs. 5.91 million (2016: Rs. 3.28 million) in respect of staff retirement benefits.

23 SELLING AND DISTRIBUTION EXPENSES

	Note	2017	2016
		(Rupees in '000)	
Salaries, wages and benefits	23.1	68,612	48,836
Rent, rates and taxes		10,514	8,674
Electricity, gas and water		2,174	1,331
Insurance		673	821
Depreciation	4.3	4,030	3,321
Postage, telephone and stationery		2,063	1,722
Vehicle, travel and conveyance		11,358	10,493
Freight and forwarding charges		206,722	110,436
Sales promotion		17,065	15,350
Others		10,583	5,878
		333,794	206,862

23.1 Salaries, wages and benefits include Rs. 3.83 million (2016: Rs. 3.1 million) in respect of staff retirement benefits.

24 FINANCIAL CHARGES

	Note	2017	2016
		(Rupees in '000)	
Mark-up on:			
- long term borrowings		323,501	438,616
- short term borrowings		122,921	214,916
	24.1	446,422	653,532
Bank charges		9,963	8,957
Interest on WPPF		85	221
Exchange (gain) / loss on FE financing		(970)	68,815
		455,500	731,525

24.1 It includes mark-up under shariah compliant arrangements amounting to Rs. 145.99 million (2016: Rs. 71.28 million).

25 OTHER OPERATING CHARGES

	Note	2017	2016
		(Rupees in '000)	
Auditors' remuneration	25.1	2,106	2,063
Donations	25.2	44,459	8,690
Workers' Profit Participation Fund	17.5	247,788	88,963
Workers' Welfare Fund		99,115	35,585
Loss on derivative financial instruments		31,483	27,572
Exchange loss - net		-	101,802
		424,951	264,675

25.1 Auditors' remuneration

	2017	2016
Audit fee	1,336	1,254
Half yearly review	381	358
Other services including certifications	117	110
Sales tax	147	184
Out of pocket expenses	125	157
	2,106	2,063

25.2 Donations

Donations in which directors are interested, are as follows:

Name of Director	Interest in Donee	Name and address of the Donee	Amount donated 2017	2016
			(Rupees in '000)	
Mr. Samir M. Chinoy	Chairman	Amir Sultan Chinoy Foundation 101, Beaumont Plaza, 10 Beaumont Road, Karachi	**5,000**	5,833
Mr. Kemal Shoaib	Director	Public Interest Law Association of Pakistan-PILAP 18-C, Office No. 202, Zamzama Commercial Lane No. 2, Phase V, D.H.A, Karachi	**500**	-
Syed Salim Raza	Trustee	Layton Rehmatullah Benevolent Trust 37-C, Sunset Lane No. 4 Phase II Extension, 24th Commercial Street D.H.A, Karachi	**2,000**	-
Mr. Riyaz T. Chinoy	Trustee	LITE Development and Management Company Plot No. HG-9D Improvement Scheme No. 3 Landhi Industrial Area, Karachi	**-**	88
			7,500	5,921

26 OTHER INCOME

	Note	2017	2016
		(Rupees in '000)	
Income from non financial assets			
Income from power generation	26.1	**42,594**	38,241
Recovery of shared resources cost	26.2	**40,961**	32,920
Gain on sale of property, plant and equipment		**4,874**	8,121
Rental income	26.3	**1,932**	1,962
Exchange gain - net		**11,331**	-
Others		**28,578**	31,162
		130,270	112,406
Income / return on financial assets			
- Interest on bank deposit - conventional		**1,508**	367
		131,778	112,773

26.1 Income from power generation

	Note	2017	2016
Net sales		**422,898**	444,205
Cost of electricity produced:			
Salaries, wages and benefits	26.1.1	**19,854**	18,010
Electricity, gas and water		**798,540**	750,873
Depreciation	4.3	**48,272**	67,608
Stores and spares consumed		**21,783**	21,046
Repairs and maintenance		**23,685**	45,797
Sundries		**1,606**	1,336
		913,740	904,670
Less: Self consumption		**(533,436)**	(498,706)
		380,304	405,964
Income from power generation		**42,594**	38,241

26.1.1 Salaries, wages and benefits include Rs. 0.96 million (2016: Rs. 0.68 million) in respect of staff retirement benefits.

26.1.2 The Company has electricity power generation facility at its premises. The Company has generated electricity in excess of its requirements which is supplied to K-Electric Limited under an agreement. The agreement is valid for period up to 20 years w.e.f 31 August 2007.

26.2 This represents utilities supplied to Holding Company and is recognised based on the terms of the agreement with the Holding Company.

26.3 This represents rental income earned through renting of office premise to associated concern and recognize on straight line basis over the terms of the arrangement.

	Note	2017	2016
		(Rupees in '000)	
27 TAXATION - net			
Current - for the year		782,265	112,327
- for prior years		136,320	-
	11	918,585	112,327
Deferred		646,167	363,205
		1,564,752	475,532

27.1 Relationship between income tax expense and accounting profit

	2017	2016
Profit before taxation	4,608,774	1,654,496
Tax at the enacted tax rate of 31% (2016: 32%)	1,428,720	529,439
Effect on income under final tax regime	(126,259)	(30,575)
Effect of adjustments on account of change in rates and proportionate etc.	(26,153)	(23,203)
Effect of tax on reduced rate	570,583	-
Effect of super tax	(126,434)	-
Effect of prior year taxation	(136,320)	-
Others	(19,385)	(129)
	1,564,752	475,532

27.2 Under section 5A of Income Tax Ordinance, 2001 (as amended by the finance act 2017), 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 profits within six months of the end of the tax year through cash or bonus shares.

The Board of Directors in their meeting held on 15 August 2017 have recommended sufficient cash dividend for the year ended 30 June 2017 for the consideration and approval of the shareholders of the Company in the forthcoming annual general meeting which complies with the above stated requirements. Accordingly, no provision for tax on undistributed profit has been recognised in these financial statements for the year ended 30 June 2017.

28 EARNINGS PER SHARE - BASIC AND DILUTED	2017	2016
	(Rupees in '000)	
Profit after taxation for the year	3,044,022	1,178,964
	(Number)	
Weighted average number of ordinary shares in issue during the year	435,000,000	435,000,000
	(Rupees)	
Earnings per share	7.00	2.71

29 CHANGES IN WORKING CAPITAL

	2017	2016
	(Rupees in '000)	
(Increase) / decrease in current assets		
Stores and spares	(65,099)	(93,020)
Stock-in-trade	(3,342,800)	(238,078)
Trade debts	(243,242)	(158,337)
Receivable from K-Electric Limited ('KE')	(2,474)	16,382
Advances	(13,394)	12,849
Trade deposits, short term prepayments and other receivables	(10,209)	2,811
Sales tax receivable	(724,029)	(371,964)
	(4,401,247)	(829,357)
Increase in current liabilities		
Trade and other payables	557,047	1,785,198
	(3,844,200)	955,841

30 STAFF RETIREMENT BENEFITS

30.1 Staff Provident fund

Salaries, wages and benefits include Rs. 12.56 million (2016: Rs. 11.26 million) in respect of provident fund contribution.

The following information is based on un-audited financial statements of the Fund:

	2017	2016
	(Rupees in '000)	
Size of the fund - Total assets	114,399	91,374
Cost of investments made	98,183	81,114
Percentage of investments made	96.8%	99.7%
Fair value of investments	110,742	91,059

The break-up of fair value of investments is:

	2017		2016	
	(Rupees in '000)	Percentage	(Rupees in '000)	Percentage
Government securities	86,024	77.68%	69,729	76.58%
Debt securities	-	0.00%	-	0.00%
Equity shares	24,718	22.32%	21,330	23.42%
	110,742	100%	91,059	100%

The investments out of provident fund have been made in accordance with the provisions of Section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

30.2 Staff Gratuity fund

The actuarial valuation of gratuity was carried out during the year by an independent actuary under projected unit credit method.

The following significant assumptions has been used:

	2017	2016
Financial assumptions		
Rate of discount	9.25%	9.00%
Expected rate of salary increase	8.25%	8.00%
Demographic assumptions		
Mortality rate	SLIC 2001-2005	SLIC 2001-2005
Rates of employee turnover	Moderate	Moderate
Retirement assumption	Age 60 years	Age 60 years

	2017	2016
	(Rupees in '000)	
The amounts recognised in balance sheet are as follows:		
Present value of defined benefit obligation	98,758	75,829
Fair value of plan assets	(75,180)	(51,333)
Liability as at 30 June	23,578	24,496
Movements in the present value of defined benefit obligation		
Present value of defined benefit obligation - beginning of the year	75,829	58,676
Current service cost	14,867	12,566
Interest cost	6,638	5,976
Remeasurements: Actuarial losses on obligation	5,569	2,094
Benefits paid	(4,145)	(3,483)
Present value of defined benefit obligation	98,758	75,829
Movements in the fair value of plan assets		
Fair value of plan assets - beginning of the year	51,333	37,990
Interest income on plan assets	5,279	4,403
Return on plan assets, excluding interest income	3,924	1,051
Benefits paid	(4,145)	(3,483)
Contribution to fund	18,789	11,372
Fair value of plan assets	75,180	51,333
Movement in net defined benefit liability		
Opening balance	24,496	20,686
Re-measurements recognised in other comprehensive income during the year	1,645	1,043
Expense chargeable to profit and loss account	16,226	14,139
Contribution paid during the year	(18,789)	(11,372)
Closing balance	23,578	24,496

Amount recognised in total comprehensive income

The following amounts have been charged in respect of these benefits to profit and loss account and other comprehensive income:

	2017	2016
	(Rupees in '000)	
Component of defined benefit costs recognized in profit and loss account		
Current service cost	14,867	12,566
Net interest cost		
- Interest cost on defined benefit obligation	6,638	5,976
- Return on plan assets	(5,279)	(4,403)
	16,226	14,139
Component of defined benefit costs (re-measurement) recognised in other comprehensive income		
Re-measurements: Actuarial (gain) / loss on obligation		
- Loss due to change in experience adjustments	5,569	2,094
- Return on plan assets	(3,924)	(1,051)
Net re-measurement recognised in other comprehensive income	1,645	1,043
Total defined benefit cost recognised in profit and loss account and other comprehensive income	17,871	15,182

Components of defined benefit cost for the next year

	2017	2016
Current service cost	17,446	14,867
Interest expense on defined benefit obligation	8,829	6,580
Return on plan assets	(5,312)	(4,887)
Net interest cost	3,517	1,693
Cost for the next year to be recognised in profit and loss	20,963	16,560

Composition of fair value of plan assets

	2017		2016	
	Fair value (Rupees in '000)	Percentage	Fair value (Rupees in '000)	Percentage
Government securities	51,901	69%	35,311	69%
Shares - Listed	18,882	25%	15,104	29%
Bank deposits	4,397	6%	918	2%
Fair value of plan net assets	75,180	100%	51,333	100%

Sensitivity analysis on significant actuarial assumptions: Actuarial Liability

	2017	2016
	(Rupees in '000)	
Discount rate + 100 basis points	88,358	67,775
Discount rate - 100 basis points	111,167	85,465
Salary increases + 100 basis points	111,362	85,621
Salary increases - 100 basis points	88,008	67,499
	(Number in years)	
Weighted average duration of the Defined Benefit Obligation	12	12

The sensitivity analysis prepared presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

31 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2017			2016		
	Chief Executive	**Directors**	**Executives**	Chief Executive	Directors	Executives
	(Rupees in '000)					
Managerial remuneration	**17,182**	**42,359**	**126,709**	18,916	18,797	107,521
Bonus	**5,727**	**2,192**	**33,285**	4,849	-	30,313
Retirement benefits	**2,352**	**833**	**12,200**	1,835	-	10,888
Rent, utilities, leave encashment etc.	**8,800**	**3,719**	**55,923**	7,438	198	48,825
	34,061	**49,103**	**228,117**	33,038	18,995	197,547
Number of persons	**1**	**2**	**83**	2*	1	70

* As at 30 June 2016 number of Chief Executive was one.

31.1 In addition to the above, Chief Executive, Directors and certain Executives are provided with free use of Company maintained vehicles in accordance with the Company's policy.

31.2 Fee paid to non-executive directors is Rs. 3.66 million (2016: Rs. 3.54 million).

32 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Financial risk management

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

The Board meets frequently throughout the year for developing and monitoring the Company's risk management policies. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

32.1 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations without considering the fair value of the collateral available there against.

Exposure to credit risk

The Carrying amount of respective financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

	2017	2016
	(Rupees in '000)	
Trade debts - secured	**274,168**	289,106
Trade debts - unsecured	**489,875**	231,695
Receivable from K-Electric Limited (KE)	**42,987**	40,513
Trade deposits and other receivables	**7,894**	6,044
Bank balances	**53,144**	37,470
	868,068	604,828

The Company's principal credit risk arises from trade debts, K-Electric Limited (KE) and bank balances. Receivable from K-Electric Limited (KE) is monitored on an on going basis in accordance with settlement agreement. The Company does not expect to incur loss there against. The Company's exposure to credit risk arising from trade debtors is mainly influenced by the individual characteristics of each customer. The Company has no major concentration of credit risk with any single customer. The majority of the customers have been transacting with the Company for several years. The Company establishes an allowance for impairment where it considers recoveries are not probable.

32.1.1 Trade debts and receivable from K-Electric (KE) amounting to Rs. 142.4 million (2016: Rs. 93.3 million) at the balance sheet date belong only to domestic region whereas trade debts amounting to Rs. 664.7 million (2016: Rs. 467.95 million) belong to foreign customers.

32.1.2 Impairment losses

The aging of trade debtors and receivable from K-Electric Limited (KE) at the balance sheet date was:

	2017		2016	
	Gross	**Impairment**	Gross	Impairment
	------------------------ (Rupees in '000) ------------------------			
Not past due	**795,605**	**-**	553,958	-
Past due 1-60 days	**11,425**	**-**	4,148	-
Past due 61 days -1 year	**-**	**-**	3,208	-
Total	**807,030**	**-**	561,314	-

32.1.3 Based on the past experience, consideration of financial position, past track records and recoveries of trade debts including subsequent recoveries and receivable from K-Electric Limited (KE) in accordance with the settlement agreement, the Company believes that receivables that are past due do not require any impairment.

32.1.4 Cash is held only with reputable banks with high quality external credit enhancements. Following are the credit ratings of banks within which balances are held or credit lines available:

Bank	Rating Agency	Rating	
		Short term	Long term
Habib Bank Limited	JCR-VIS	A-1+	AAA
United Bank Limited	JCR-VIS	A-1+	AAA
Faysal Bank Limited	PACRA	A1+	AA
Bank AL Habib Limited	JCR-VIS	A-1+	AA
	PACRA	A1+	AA+
MCB Bank Limited	PACRA	A1+	AAA
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA
NIB Bank Limited	PACRA	A1+	AA-
Meezan Bank Limited	JCR-VIS	A-1+	AA
Bank Al Falah Limited	PACRA	A1+	AA+
Dubai Islamic Bank Limited	JCR-VIS	A-1	AA-
Habib Metropolitan Bank Limited	PACRA	A1+	AA+
Allied Bank Limited	PACRA	A1+	AA+
Samba Bank Limited	JCR-VIS	A-1	AA

Concentration of credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry. In order to avoid excessive concentrations of risk, management focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Management does not consider that it has any concentration of credit risk at reporting date.

32.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company ensures that it has sufficient cash to meet expected working capital requirements by having credit lines available. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

	2017					
	Carrying amount	Contractual cash flows	Six months or less	Six to twelve months	One to five years	More than five years
	(Rupees in '000)					
Non-derivative financial liabilities						
Long term financing	4,818,345	(6,753,591)	(818,578)	(1,706,204)	(3,849,988)	(378,821)
Short-term borrowings	5,039,236	(5,039,236)	(5,039,236)	-	-	-
Accrued mark-up	69,140	(69,140)	(69,140)	-	-	-
Trade and other payables	4,081,902	(4,081,902)	(4,081,902)	-	-	-
	14,008,623	(15,943,869)	(10,008,856)	(1,706,204)	(3,849,988)	(378,821)
Derivative financial liabilities	-	-	-	-	-	-
	14,008,623	(15,943,869)	(10,008,856)	(1,706,204)	(3,849,988)	(378,821)

	2016					
	Carrying amount	Contractual cash flows	Six months or less	Six to twelve months	One to five years	More than five years
	(Rupees in '000)					
Non-derivative financial liabilities						
Long term financing	4,743,989	(6,207,983)	(516,637)	(511,496)	(3,950,134)	(1,229,716)
Short-term borrowings	3,523,755	(3,523,755)	(3,523,755)	-	-	-
Accrued mark-up	43,714	(43,714)	(43,714)	-	-	-
Trade and other payables	3,622,732	(3,622,732)	(3,622,732)	-	-	-
	11,934,190	(13,398,184)	(7,706,838)	(511,496)	(3,950,134)	(1,229,716)
Derivative financial liabilities	8,286	(8,286)	(8,286)	-	-	-
	11,942,476	(13,406,470)	(7,715,124)	(511,496)	(3,950,134)	(1,229,716)

32.2.1 The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rate effective as at 30 June. The rate of mark-up have been disclosed in respective notes to these financial statements.

32.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Company is exposed to currency risk and interest rate risk only.

32.3.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Exposure to currency risk

The Company is exposed to currency risk on trade debts, borrowings, accrued mark-up and trade creditors that are denominated in a currency other than the respective functional currency of the Company, primarily U.S. Dollar. The Company's exposure to foreign currency risk is as follows:

	2017		2016	
	Rupees	**US Dollars**	Rupees	US Dollars
	(Amounts in '000)			
Trade debts and bank balance in foreign currency	**679,696**	**6,486**	496,297	4,742
Trade creditors	**(3,129,838)**	**(29,814)**	(3,452,192)	(32,925)
Balance sheet exposure	**(2,450,142)**	**(23,328)**	(2,955,895)	(28,183)

The following significant exchange rates applied during the year:

	Average rates		Balance sheet date rate	
	2017	2016	**2017**	2016
	(Rupees)			
US Dollars to PKR	**104.98**	104.37	**104.79/104.98**	104.67/104.85

Sensitivity analysis

A 10 percent strengthening / (weakening) of the Pak Rupee against the US Dollar at 30 June would have (decreased) / increased the profit by Rs. 161.8 million (2016: Rs. 380.54 million). This analysis assumes that all other variables, in particular interest rates, remain constant and the analysis is performed on the same basis as done in prior year.

32.3.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate exposure arises from short and long term borrowings from bank.

a) Cash flow sensitivity analysis for variable rate instruments

The Company holds various variable rate financial instruments amounting to Rs. 7,917 million (2016: Rs. 6,279 million) exposing the Company to cashflow interest rate risk. A change of 100 basis points as at 30 June 2017 would have increased / (decreased) profit after tax and equity for the year by Rs. 55.43 million (2016: Rs. 44.74 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

b) Cash flow sensitivity analysis for Fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

33 MEASUREMENT OF FAIR VALUES

A number of the Company's accounting policies and disclosure require the measurement of fair values, for both financial, if any and non-financial assets and financial liabilities.

Management engaged an independent external expert / valuer to carry out valuation of its non-financial assets (i.e. Land and Building) and obtain rate from financial institution to value derivative financial instruments. Involvement of external valuers is decided upon by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

When measuring the fair value of an asset or a liability, the Company uses valuation techniques that are appropriate in the circumstances and uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the management recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There were no transfers between different levels of fair values mentioned above.

	30 June 2017					
	Carrying amount			Fair Value		
	Loan and receivables	Liabilities at fair value through profit or loss	Other financial liabilities	Level 1	Level 2	Level 3
	(Rupees in '000)					
Financial assets not measured at fair value						
Trade debts	**807,030**	-	-	-	-	-
Deposits and other receivable	**7,894**	-	-	-	-	-
Cash and bank balances	**53,228**	-	-	-	-	-
Financial liabilities not measured at fair value						
Long term financing	-	-	**3,621,272**	-	-	-
Current maturity of long term financing	-	-	**1,197,073**	-	-	-
Trade and other payables	-	-	**4,082,558**	-	-	-
Short term borrowings	-	-	**5,039,236**	-	-	-

	30 June 2016					
	Carrying amount			Fair Value		
	Loan and receivables	Liabilities at fair value through profit or loss	Other financial liabilities	Level 1	Level 2	Level 3
	(Rupees in '000)					
Financial assets not measured at fair value						
Trade debts	561,314	-	-	-	-	-
Deposits and other receivable	6,044	-	-	-	-	-
Cash and bank balances	37,615	-	-	-	-	-
Financial liabilities not measured at fair value						
Long term financing	-	-	4,044,973	-	-	-
Current maturity of long term financing	-	-	699,016	-	-	-
Trade and other payables	-	8,286	3,622,732	-	8,286	-
Short term borrowings	-	-	3,523,755	-	-	-

Management assessed that the fair values of cash & cash equivalent and short-term deposits, other receivable, trade receivables, trade payables, short term borrowing and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. For long term deposit asset and long term liabilities, management consider that their carrying values approximates fair value owing to credit standing of counterparties.

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities measured at fair value:

Assets measured at fair value:	Date of valuation	Valuation approach and inputs used	Inter-relationship between significant unobservable inputs and fair value measurement
Revalued property, plant and equipment			
Land and Building	30 June 2016	The valuation model is based on price per square meter and current replacement cost method adjusted for depreciation factor for the existing assets in use. In determining the valuations for land and buildings, the valuer refers to current market conditions, structure, current replacement cost, sale prices of comparable land in similar location adjusted for differences in key attributes such as land size and inquires with numerous independent local estate agents / realtors in the vicinity to establish the present market value. The fair valuation of land and building are considered to represent a level 3 valuation based on significant non-observable inputs being the location and condition of the assets.	The fair value are subject to change owing to changes in input. However, management does not expect material sensitivity to the fair values arising from the non-observable inputs.
Liabilities measured at fair value			
Derivative financial liabilities			
Forward exchange contract		The fair value of forward exchange contracts is determined based on the forward exchange rates as at reporting date. The fair value of forward exchange contract are included in level 2 in the fair value hierarchy.	Management does not expect material sensitivity to the fair values arising from the non-observable inputs.

The fair value of land and buildings is a level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value is provided below:

	2017	2016
	(Rupees in '000)	
Opening net book value	**2,910,975**	2,294,705
Additions / adjustment during the year	**22,846**	176,372
Depreciation for the year	**(84,619)**	-
Revaluation during the year	**-**	439,898
Closing net book value	**2,849,202**	2,910,975

34 CAPITAL MANAGEMENT

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its businesses. The Company intends to manage its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions.

35 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise 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 are entered into at commercial terms, approved policy and at rate agreed under a contract / arrangement / agreement. 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:

	2017	2016
	(Rupees in '000)	
Holding Company		
Transactions		
Sales	7,091,011	2,495,708
Purchases	62,050	3,933
Office rent	10,125	10,556
Recovery of shared resources cost	40,961	32,920
Reimbursement of expenses	3,484	2,761
Partial manufacturing - Sales	28	4,593
Partial manufacturing - Purchases	304,009	12,599
Corporate ,legal, marketing & IT services	10,161	4,493
Dividend paid	918,958	-
Associated companies / undertaking		
Sales	662,432	428,211
Purchases	15,483,463	9,697,194
Dividend paid	138,172	-
Rental income	1,932	1,962
Associated Person		
Sales commission	210	446
Key Management Personnel		
Remuneration	182,710	118,787
Staff retirement benefits	16,138	5,782
Staff Retirement Fund		
Contribution paid - Provident Fund	12,556	11,265
Contribution paid - Gratuity Fund	18,789	11,372

36 ANNUAL PRODUCTION CAPACITY

	2017	2016
	(Metric Tonnes)	
The production capacity at the year end was as follows:		
Galvanizing	462,000	462,000
Cold rolled steel strip	550,000	550,000
Colour coated	84,000	84,000
The actual production for the year was:		
Galvanizing	312,886	252,910
Cold rolled steel strip	464,023	370,811
Colour coated	9,345	9,963

The name-plate capacities of the plants are determined based on a certain product mix. The actual production mix is different.

37 OPERATING SEGMENT

37.1 These financial statements have been prepared on the basis of a single reportable segment.

37.2 Revenue from sales of steel products represents 99% (2016: 98%) of total revenue whereas remaining represent revenue from sale of surplus electricity to K-Electric Limited (KE). The Company does not consider sale of electricity to KE as separate reportable segment as the power plant of the Company is installed primarily to supply power to its Galvanizing plant and Cold Rolling Plant and currently any excess electricity is sold to KE.

37.3 All non current assets of the Company as at 30 June 2017 are located in Pakistan.

37.4 90% (2016: 90%) of sales of steel are domestic sales whereas 10% (2016: 10%) of sales are export / foreign sales.

37.5 Geographic Information

	2017	2016
	(Rupees in '000)	
Domestic Sales	35,625,125	21,577,681
Export Sales	3,911,843	2,477,153
	39,536,968	24,054,834

38 NUMBER OF EMPLOYEES

The detail of number of employees are as follows:

	2017	2016
	(Number of employees)	
Average number of employees during the year	563	551
Number of employees as at 30 June	567	570

39 GENERAL

39.1 Non-adjusting event after balance sheet date

The Board of Directors of the Company in their meeting held on 15 August 2017 has proposed a final cash dividend of Rs. 1.00 per share amounting to Rs. 435 million (2016: Rs. 1.25 per share amounting to Rs. 543.75 million) for the year ended 30 June 2017. The approval of the shareholders of the Company for the dividend shall be obtained at the upcoming Annual General Meeting for the year ended 30 June 2017. The financial statements for the year ended 30 June 2017, do not include the effect of the proposed final cash dividend which will be accounted for in the year ending 30 June 2018.

39.2 Corresponding figures

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. There have been no significant rearrangements and reclassifications in these financial statements.

40 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 15 August 2017 by the Board of Directors of the Company.

Tariq Iqbal Khan	**Tauqir Hasan**	**Yousuf H. Mirza**
Director & Chairman Board Audit Committee	Chief Financial Officer	Chief Executive Officer