

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

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Company Information

Board of Directors

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

Chief Financial Officer & Company Secretary External Auditors Chief Internal Auditor Bankers

Mr. Alee Arsalan
KPMG Taseer Hadi & Co.
Mr. Usman Ahmed
Allied Bank Ltd.
Bank Al Habib Ltd.
Bank Alfalah Ltd.
Dubai Islamic Bank (Pak) Ltd.
Faysal Bank Ltd.
Habib Bank Ltd.
Habib Metropolitan Bank Ltd.
MCB Bank Ltd
Meezan Bank Ltd.
NIB Bank Ltd.
Standard Chartered Bank (Pakistan) Ltd.
United Bank Ltd.
Samba Bank
Barclays Bank PLC

Legal Advisors Registered Office

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

Branch Office

Lahore

Chinoy House, 6 Bank Square, Lahore-54000
Phone: +9242-37229752-55
UAN: 042-111-019-019 Fax: +9242-37249755
E-mail: lahore@isl.com.pk

Islamabad

Office # 2, First Floor, Ahmed Centre, I-8 Markaz, Islamabad.
Phone: +9251-2524650, 4864601-2

Factory

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

Website Shares Registrar

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

Directors' Report

The directors of your Company are pleased to present financial statements for the half year ended December 31, 2014.

The period has been tumultuous as a result of a levy of import duty on our raw material at 5% despite a clear understanding from government to maintain a 10% difference in import duty between raw material and finished products.

The global commodity markets have touched new low levels resulting in a continuous decline in steel prices as there was excess steel manufacturing capacity particularly in China that produces over 50% of world's steel output. Pakistan has a Free Trade Agreement (FTA) with China, which results in almost 70% of total imports being made from China at a concessional rate of duty. The result is that both our raw materials and imports from China of finished goods produced by us were charged duty at a same level, which resulted in severe injury to local manufacturers who had to operate with virtually no protection. Subsequent to the reporting date, this issue has been belatedly (though only partly) addressed in January 2015 (see below).

Sales were lower than the same period last year by 15%. Gross profit in line with sales, and a higher input cost - the result of imposition of duty on raw materials - remained significantly lower than last year.

The exchange rate fluctuation during the half year also had an adverse impact resulted a net exchange loss of Rs. 109 million. The profit after tax for the period was Rs. 42 million as opposed to Rs 375 million in the same period last year.

We are grateful to the federal government (through Economic Coordination Committee (ECC) of the Cabinet at a meeting held on January 10th, 2015) for having imposed 5% regulatory duty on cold rolled and galvanized coils and sheets and for having partly addressed the anomaly in the duty structure. This modification in duty structure is likely to improve the business scenario in coming months. However, we continue to pay 5% duty on our raw materials, which is harsh for a nascent industry.

Your Company made a contribution of Rs 1,871 million to National Exchequer during the period compared to Rs 2,062 million during the same period last year.

The expansion projects announced and launched last year is on track. The Company expects to have increased capacity to cold roll 500,000 tons and galvanize 400,000 tons of this, which increased capacity will be available by the close of the current financial year. The increased capacity after expansion will be self sufficient to meet more than 50% of the country's demand.

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

Karachi
Dated: 20 January, 2015

For & behalf of
International Steels Limited



Kemal Shoib
Chairman



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

Introduction

We have reviewed the accompanying condensed interim balance sheet of International Steels Limited ("the Company") as at 31 December 2014, and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim statement of changes in equity and notes to the condensed interim financial information for the six-months period then ended (here-in-after referred to as the "condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

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

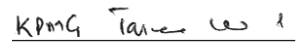
Conclusion

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

Other matter

The figures for the quarter ended 31 December 2014 in the condensed interim profit and loss account and condensed interim statement of comprehensive income have not been reviewed by us and we do not express a conclusion on them.

Karachi
Dated: 20 January, 2015


KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Taufiq

Condensed Interim Balance Sheet

As at 31 December 2014

	Note	31 December 2014 (Unaudited)	30 June 2014 (Audited)
----- (Rupees in '000) -----			
ASSETS			
Non Current Assets			
Property, plant and equipment	4	10,787,745	9,771,509
Intangible assets		872	3,821
Long term deposit with Central Depository Company Pakistan Limited		100	100
Total Non Current Assets		10,788,717	9,775,430
Current Assets			
Stores and spares		403,192	319,322
Stock-in-trade		5,455,567	3,667,240
Receivable from K-Electric Limited (KE) - unsecured, considered good	5	44,464	49,717
Trade debts - secured, unsecured and considered good	6	1,070,988	1,185,880
Advances - considered good	7	64,268	266,127
Trade deposits, short term prepayments and other receivables	8	30,098	11,717
Sales tax receivable		95,887	434,380
Taxation - net		1,312,311	1,132,133
Cash and bank balances		56,837	36,560
Total Current Assets		8,533,612	7,103,076
Total Assets		19,322,329	16,878,506
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Authorised Capital 500,000,000 (2014: 500,000,000) ordinary shares of Rs. 10 each		5,000,000	5,000,000
Issued, subscribed and paid up capital		4,350,000	4,350,000
Unappropriated profit		469,329	856,325
Total Shareholders' Equity		4,819,329	5,206,325
Surplus on revaluation of property, plant and equipment		557,620	563,415
LIABILITIES			
Non Current Liabilities			
Long term finances - secured	9	3,880,404	3,000,990
Staff retirement benefits		14,698	14,698
Deferred taxation - net	10	343,642	365,480
Total Non Current Liabilities		4,238,744	3,381,168
Current Liabilities			
Trade and other payables	11	2,248,380	1,955,866
Short term borrowings - secured	12	6,498,330	4,876,307
Current portion of long term finances	9	787,377	749,877
Accrued mark-up		172,549	145,548
Total Current Liabilities		9,706,636	7,727,598
Contingency and Commitments	13		
Total Equity and Liabilities		19,322,329	16,878,506

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



Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Alee Arsalan
Chief Financial Officer
& Company Secretary



Towfiq H. Chinoy
Managing Director &
Chief Executive Officer

Condensed Interim Profit and Loss Account (Unaudited)

For the six and three months period ended 31 December 2014

	Note	Six months period ended		Three months period ended	
		31 December 2014	31 December 2013	31 December 2014	31 December 2013
----- (Rupees in '000) -----					
Net sales	14	8,491,671	9,992,646	4,494,521	5,596,105
Cost of sales	15	7,778,888	8,883,308	4,131,800	4,904,990
Gross profit		712,783	1,109,338	362,721	691,115
Administrative expenses	16	72,750	69,972	37,011	36,765
Selling and distribution expenses	17	99,096	60,789	53,916	25,646
		(171,846)	(130,761)	(90,927)	(62,411)
Financial charges	18	575,513	544,766	215,911	279,098
Other operating charges	19	4,158	35,149	3,332	26,386
		(579,671)	(579,915)	(219,243)	(305,484)
Other income	20	75,678	46,158	2,207	14,422
Profit before taxation		36,944	444,820	54,758	337,642
Taxation		5,265	(70,287)	(14,897)	(79,011)
Profit for the period		42,209	374,533	39,861	258,631
----- (Rupees) -----					
Earnings per share - basic and diluted		0.10	0.86	0.09	0.59

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



Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Alee Arsalan
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& Company Secretary



Towfiq H. Chinoy
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Condensed Interim Statement of Comprehensive Income (Unaudited)

For the six and three months period ended 31 December 2014

	Six months period ended		Three months period ended	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
	------(Rupees in '000)-----			
Profit for the period	42,209	374,533	39,861	258,631
Other comprehensive income				
<i>Items that are or may be reclassified to profit or loss</i>				
Effective portion of changes in fair value of cash flow hedges	-	(105,508)	-	(105,508)
Recognition of tax	-	35,873	-	35,873
Total other comprehensive income - net of tax	-	(69,635)	-	(69,635)
Total comprehensive income for the period	42,209	304,898	39,861	188,996

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



Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Alew Arsalan
Chief Financial Officer
& Company Secretary



Towfiq H. Chinoy
Managing Director &
Chief Executive Officer

Condensed Interim Cash Flow Statement (Unaudited)

For the six months period ended 31 December 2014

	Note	Six months period ended	
		31 December 2014	31 December 2013
------(Rupees in '000)-----			
CASH FLOWS FOR OPERATING ACTIVITIES			
Profit before taxation		36,944	444,820
Adjustments for:			
Depreciation		262,687	250,368
Amortisation		2,949	2,948
Gain on disposal of property, plant and equipment		(3,820)	(2,596)
Provision for staff gratuity		6,201	4,360
Provision for compensated absences		1,520	775
Financial charges		575,513	544,766
		845,050	800,621
Movement in working capital	21	(980,294)	(414,576)
Net cash (used in) / generated from operations		(98,300)	830,865
Financial charges paid		(548,512)	(492,096)
Gratuity paid		(6,201)	(4,360)
Compensated absences paid		(159)	(1,586)
Taxes paid		(196,751)	(340,698)
		(751,623)	(838,740)
Net cash used in operating activities		(849,923)	(7,875)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		(1,280,469)	(89,130)
Proceeds from sale of property, plant and equipment		5,366	8,054
Net cash used in investing activities		(1,275,103)	(81,076)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net repayment of long term financing - Net cash used in financing activities		916,914	(130,895)
Dividend paid		(393,634)	-
Net cash generated / (used in) in financing activities		523,280	(130,895)
Net decrease in cash and cash equivalents		(1,601,746)	(219,846)
Cash and cash equivalents at beginning of the period		(4,839,747)	(4,107,684)
Cash and cash equivalents at end of the period		<u>(6,441,493)</u>	<u>(4,327,530)</u>
CASH AND CASH EQUIVALENTS COMPRISE			
Cash and bank balances		56,837	111,558
Short term borrowings		(6,498,330)	(4,439,088)
		<u>(6,441,493)</u>	<u>(4,327,530)</u>

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



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Director & Chairman
Board Audit Committee



Alee Arsalan
Chief Financial Officer
& Company Secretary



Towfiq H. Chinoy
Managing Director &
Chief Executive Officer

Condensed Interim Statement of Changes in Equity (Unaudited)

For the six months period ended 31 December 2014

	Issued, subscribed & paid up capital	Hedging reserve	Unappropriated profit	Total
----- (Rupees in '000) -----				
Balance as at 01 July 2013	4,350,000	-	158,093	4,508,093
Profit for the period	-	-	374,533	374,533
Total other comprehensive income for the period	-	(69,635)	-	(69,635)
Total comprehensive income for the period	-	(69,635)	374,533	304,898
Transferred from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	5,793	5,793
Balance as at 31 December 2013	4,350,000	(69,635)	538,419	4,818,784
Balance as at 01 July 2014	4,350,000	-	856,325	5,206,325
Profit for the period	-	-	42,209	42,209
Total other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	42,209	42,209
Transactions with owners				
Dividend:				
- Final dividend @ 10% (Rs. 1 per share) for the year ended 30 June 2014				
	-	-	(435,000)	(435,000)
Total Transactions with owners	-	-	(435,000)	(435,000)
Transferred from surplus on revaluation of property, plant and equipment - net of deferred tax	-	-	5,795	5,795
Balance as at 31 December 2014	4,350,000	-	469,329	4,819,329

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



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Director & Chairman
Board Audit Committee



Alew Arsalan
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& Company Secretary



Towfiq H. Chinoy
Managing Director &
Chief Executive Officer

Notes to the Condensed Interim Financial Information (Unaudited)

For the six and three months period ended 31 December 2014

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 Company was listed on the Karachi Stock Exchange on 01 June 2011 as a result of divestment of shares by International Industries Limited ('the Holding Company') ('IIL'). The Company is in the business of manufacturing of Cold Rolled and Galvanized Steel Coils and Sheets. The Company commenced commercial operation on 01 January 2011. The Company is a subsidiary of IIL. The registered office of the Company is situated at 101, Beaumont Plaza, 10 Beaumont Road, Civil Lines, Karachi.

2. BASIS OF PREPARATION

2.1 Statement of compliance

2.1.1 This condensed interim financial information of the Company for the six month period ended 31 December 2014 has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" and provision of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directive issued under the Companies Ordinance, 1984 have been followed.

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

2.1.3 This condensed interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements as at and for the year ended 30 June 2014.

2.1.4 This condensed interim financial information is unaudited and is being submitted to the shareholders as required by listing regulations of Karachi Stock Exchange vide section 245 of the Companies Ordinance, 1984. The figures for the six months period ended 31 December 2014 have, however, been subjected to limited scope review by the auditors as required by the Code of Corporate Governance.

2.2 Estimates and judgements

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

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimating the uncertainty were the same as those that applied to the annual financial statements as at and for the year ended 30 June 2014.

Notes to the Condensed Interim Financial Information (Unaudited)

2.3 Financial risk management

The financial risk management objectives and policies adopted by the Company are consistent with those disclosed in the annual financial statements as at and for the year ended 30 June 2014.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of audited annual financial statements of the Company as at and for the year ended 30 June 2014. Amendments to certain existing standards and interpretations on approved accounting standards effective during the period were not relevant to the Company's operations and did not have any impact on the accounting policies of the Company.

4. PROPERTY, PLANT AND EQUIPMENT

		Operating Assets	Capital work in progress	Total
		----- (Rupees in '000) -----		
Cost				
Opening balance		10,877,320	351,741	11,229,061
Addition / (disposal) - net	4.1 & 4.2	268,472	1,005,068	1,273,540
		<u>11,145,792</u>	<u>1,356,809</u>	<u>12,502,601</u>
Accumulated depreciation				
Opening balance		1,457,552	-	1,457,552
For the period - net of disposal		257,304	-	257,304
		<u>1,714,856</u>	<u>-</u>	<u>1,714,856</u>
Written down value as at 31 December 2014 (Unaudited)				
		<u>9,430,936</u>	<u>1,356,809</u>	<u>10,787,745</u>
Written down value as at				
		<u>9,419,768</u>	<u>351,741</u>	<u>9,771,509</u>

4.1 Total additions in operating assets amounted to Rs. 275.4 million (30 June 2014: Rs. 357.7 million) and disposals amounted to Rs. 6.9 million (30 June 2014: Rs. 8.9 million).

4.2 Total additions in capital work in progress amounted to Rs. 1,266.3 million (30 June 2014: Rs. 308.9 million) and transfers amounted to Rs. 261.3 million (30 June 2014: Rs. 333.3 million).

Notes to the Condensed Interim Financial Information (Unaudited)

		31 December 2014 (Unaudited)	30 June 2014 (Audited)
------(Rupees in '000)-----			
5. STOCK-IN-TRADE			
Raw material	5.1	2,884,701	1,254,244
Work-in-process		757,983	1,134,423
Finished goods		1,664,474	1,277,652
Scrap material		148,409	921
		<u>5,455,567</u>	<u>3,667,240</u>
5.1	This includes raw material-in-transit amounted to Rs. 1,745.3 million (30 June 2014: Rs. Nil).		
6. TRADE DEBTS - Secured, unsecured and considered good			
Secured	6.1	1,065,027	1,169,822
Unsecured		5,961	16,058
		<u>1,070,988</u>	<u>1,185,880</u>
6.1	This represents trade debts arising on account of export sales of Rs. 1,041.57 million (30 June 2014: Rs. 1,145.74 million) which are secured by way of Export Letters of Credit and Documents of Acceptance. Rs. 23.46 million (30 June 2014: Rs. 24.08 million) arising on account of domestic sales which are secured by way of Inland Letter of Credit and Post Dated Cheques.		
7. ADVANCES - Considered good			
Advances:			
- to suppliers		60,739	122,139
- to clearing agents		2,119	143,488
- to employees		1,410	500
		<u>64,268</u>	<u>266,127</u>
8. TRADE DEPOSITS, SHORT TERM PREPAYMENTS AND OTHER RECEIVABLES			
Trade deposits		13,490	5,535
Short term prepayments		11,327	6,182
Others	8.1	5,281	-
		<u>30,098</u>	<u>11,717</u>

Notes to the Condensed Interim Financial Information (Unaudited)

8.1 This represents an amount receivable from an associated company.

		31 December 2014 (Unaudited)	30 June 2014 (Audited)
----- (Rupees in '000) -----			
9. LONG TERM FINANCES - secured			
Long Term Finance Facility (LTFF)	9.1 & 9.2	3,372,098	2,842,684
Long term finance	9.3, 9.4 & 9.5	1,295,683	908,183
		4,667,781	3,750,867
Current maturity of long term finances		(787,377)	(749,877)
		<u>3,880,404</u>	<u>3,000,990</u>

9.1 The syndicated LTFF amounting to Rs. 2,592 million (30 June 2014: Rs. 2,842.7 million) is secured by way of mortgage of land located at Survey No. 399-404, Landhi Town, Karachi, and joint hypothecation of all present and future fixed assets (excluding land and building), as per the terms of syndicated term financing agreement. It is repayable in sixteen half yearly instalments which commenced from March 2011. The rate of mark-up on these finance is 1.5% over SBP rate (30 June 2014: 1.5% over SBP rate).

9.2 During the period first tranche of a new bilateral LTFF amounting to Rs. 780 million for expansion project is obtained from participating banks and is secured by way of mortgage of land located at Survey No. 399-404, Landhi Town, Karachi, and joint hypothecation of all present and future fixed assets (excluding land and building), as per the terms of syndicated term financing agreement. It is repayable in sixteen half yearly instalments which will commence from December 2016. The rate of mark-up on these finance is 1.0% over SBP rate, the remaining portion of LTFF will be drawn at the time of payment against plant and machinery.

9.3 Long term Finance amounting to Rs. 495.68 million (30 June 2014: Rs. 608.2 million) are secured by way of mortgage of land located at Survey No. 399-404, Landhi Town, Karachi and other fixed assets of the Company against ranking charge. It is repayable in eight half yearly instalments which commenced from December 2012. The rate of mark-up is 1.25% over 6 months KIBOR (30 June 2014: 1.25% over 6 months KIBOR).

9.4 Long term Finance is obtained amounting to Rs. 300 million (30 June 2014: Rs. 300 million) from various banks for plant and machinery and is secured by way of first pari passu charge over the fixed assets of the Company. It is repayable in eight half yearly instalments which will commence from June 2015. The rate of mark-up is 1.25% over 6 months KIBOR (30 June 2014: 1.25% over 6 months KIBOR).

9.5 During the period additional long term finance facility of Rs. 500 million for expansion project is obtained from a bank for plant and machinery and is secured by way of first pari passu charge over the fixed assets of the Company. It is repayable in ten half yearly instalments which will commence from March 2016. The rate of mark-up is 1.0% over 6 months KIBOR.

Notes to the Condensed Interim Financial Information (Unaudited)

	31 December 2014 (Unaudited)	30 June 2014 (Audited)
	----- (Rupees in '000) -----	
10. DEFERRED TAXATION - NET		
Taxable temporary difference		
Accelerated tax depreciation	1,688,544	1,712,419
Deductible temporary differences		
Provision for unavailed leaves	(864)	(508)
Unrealised exchange gain / (losses)	5,310	(4,716)
Pre-commencement expenditure	(2,617)	(5,234)
Staff retirement benefits	(4,949)	(4,949)
Tax loss	(1,341,782)	(1,331,532)
	<u>343,642</u>	<u>365,480</u>
11. TRADE AND OTHER PAYABLES		
Trade creditors	1,780,833	1,354,184
Payable to provident fund	1,593	1,550
Sales commission payable	14,788	24,316
Accrued expenses	139,424	116,606
Advance from customers	16,426	164,109
Unclaimed dividend	41,366	-
Provision for infrastructure cess	241,250	211,800
Provision for government levies	742	742
Short term compensated absences	2,972	1,611
Workers' Profit Participation Fund	1,986	46,998
Workers' Welfare Fund	1,481	28,321
Others	5,519	5,629
	<u>2,248,380</u>	<u>1,955,866</u>
11.1	This represents provision against fifty percent amount guaranteed to Excise and Taxation Officer.	
12. SHORT TERM BORROWINGS - Secured		
Running finance under mark-up arrangement	12.1 1,864,946	979,538
Running finance under FE-25 Import Scheme	12.2 2,030,062	2,093,869
Running finance under Export Refinance Scheme	12.3 1,225,000	612,000
Short term finance under Murabaha and Istisna	12.4 449,445	397,194
Short term finance under running Musharakah	12.5 928,877	793,706
	<u>6,498,330</u>	<u>4,876,307</u>

12.1 The facilities for running finance available from various commercial banks are for the purpose of meeting working capital requirements. The rates of mark-up on these finances range from KIBOR + 0.18% to KIBOR + 1.75% (30 June 2014: KIBOR+0.30% to KIBOR+ 1.75%) per annum. These facilities mature within twelve months and are renewable.

Notes to the Condensed Interim Financial Information (Unaudited)

- 12.2** The facilities for short term running finance under Foreign Exchange Circular No.25 dated 20 June 1998 available from various commercial banks are for the purpose of meeting import requirements. The rates of mark-up on these finances ranges from 2.85% to 4.00% (30 June 2014: 2.75% to 3.82%) per annum. These facilities mature within six months and are renewable. The facilities availed is for an amount of USD 20.2 million equivalent to Rs. 2,030.0 million (30 June 2014: USD 21.2 million equivalent to Rs. 2,094.9 million).
- 12.3** The Company has borrowed short term running finance under Export Refinance Scheme of the State Bank of Pakistan from a commercial bank. This facility is available as a sub limit of short term finance facility. The rate of mark-up on this facility is 7.06% per annum (30 June 2014: 8.96% per annum). This facility matures within six months and is renewable.
- 12.4** The Company has obtained facilities for short term finance under Murabaha and Istisna under Islamic financing arrangement. The rate of profit is KIBOR + 0.25% (30 June 2014: KIBOR + 0.30%). This facility matures within six months and is renewable.
- 12.5** This represents Islamic Term Musharakah available from a commercial bank for the purpose of meeting working capital requirements. The facility is availed for an amount of Rs. Nil (30 June 2014: Rs. 794 million). It carries mark-up at the rate of 3 months KIBOR + 0.20% (30 June 2014: 3 months KIBOR + 0.45%). This facility matures within one year and is renewable.
- 12.6** As at 31 December 2014, the unavailed facilities from the above borrowings amounted to Rs. 3,855 million (30 June 2014: Rs. 5,123.69 million).
- 12.7** The above facilities are secured by way of joint and first pari passu charges over current assets of the Company.

13. CONTINGENCY AND COMMITMENTS

13.1 Contingency

- 13.1.1** The Sindh Finance Act, 1994 prescribed in the position of an infrastructure fee at the rate of 0.50% of the C&F value of all goods entering or leaving the province of Sindh via sea or air. The High Court on petition filed, 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 / securities for the balance amount as directed. Bank guarantees issued as per the above mentioned interim order amount to Rs. 256.50 million (30 June 2014: Rs. 216.50 million), have been provided to the Department. However, a provision to the extent of amount utilized from the limit of guarantee has also been provided for by the Company on prudent basis (note 11.1).
- 13.1.2** As per the Gas Infrastructure and Development Cess Act 2011 ('the Act'), certain companies as specified in the Act (including Sui Southern Gas Company ('SSGC')) shall collect and pay Gas Infrastructure and Development Cess ('GIDC') in such manner as the Federal Government may prescribe. As per the second schedule of the Act, GIDC of Rs. 13 per MMBTU was applicable on

Notes to the Condensed Interim Financial Information (Unaudited)

International Steels Limited. Through Finance Bill 2012 – 2013, an amendment was made to the Act whereby the rate of GIDC applicable on International Steels Limited was increased to Rs. 100 per MMBTU. On 01 August 2012, the Company filed a suit bearing number 859/2012 wherein it impugned the Act on the ground that the rate of GIDC has been enhanced without any lawful justification and authority. The Honourable High Court of Sindh at Karachi vide its ad-interim order dated 06 September 2012 has restrained SSGC from charging GIDC above Rs. 13 per MMBTU. As a result, SSGC invoiced GIDC to the Company at Rs. 13 per MMBTU, which has been recorded and paid.

Peshawar High Court vide order dated 13 June 2013 declared that the provisions of the Act, imposing, levying and recovering the impugned cess, are absolutely expropriatory and exploitative and being constitutionally illegitimate, having no sanction there for under the constitution, hence, are declared as such and set at naught. The judgement was referred in the Supreme Court and Supreme Court of Pakistan vide its order dated 22 August 2014 has upheld the decision of the Peshawar High Court stating that the 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.

In order to circumvent the decision of the Supreme Court, the Federal Government during the first quarter promulgated GIDC Ordinance No. VI of 2014, imposing GIDC at Rs. 200 per MMBTU for captive power plants and at Rs. 150 per MMBTU for industrial units. The Company, once again filed a Suit against the Ordinance on the plea that the Hon'ble Supreme Court has already held that GIDC or any Fee on Gas is not covered by any entry relating to imposition or levy of tax under Part-I of the Federal Legislative list and thus the Federal Government has no powers to impose GIDC. The Ordinance included the application of GIDC as defined in the Act. In view of Supreme Court's order declaring GIDC as unconstitutional and ultra vires, the Company has not recorded GIDC amounting to Rs. 248.992 million in these condensed interim financial information.

- 13.1.3** Section 113(2)(c) was interpreted by a Divisional Bench of the Sindh High Court (SHC) in the Income Tax Reference Application (ITRA) No. 132 of 2011 dated 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 councils' advices considered that certain strong grounds are available whereby the aforesaid decision can be challenged in a Larger Bench of the SHC or the Supreme Court of Pakistan. A leave to appeal against the aforesaid decision has already been filed before the Supreme Court of Pakistan by other companies which is pending for hearing. In view of above, the Company is confident that the ultimate outcome in this regard would be favourable. Accumulated minimum tax liability of Rs. 408.8 million was determined for the tax years 2012, 2013 and 2014.

Notes to the Condensed Interim Financial Information (Unaudited)

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 65B of the Income Tax Ordinance, 2001. Accumulated minimum tax liability amounting to Rs. 479.69 million has not been recorded on the same basis in these condensed interim financial information.

13.1.4 Guarantee issued by the Company to Sui Southern Gas Company Limited of Rs. 201.65 million (30 June 2014: Rs. 177.2 million) as a security for supply of gas.

13.2 Commitments

13.2.1 Capital expenditure commitments outstanding as at 31 December 2014 amounted to Rs. 2,039.2 million (30 June 2014: Rs. 2,020.32 million).

13.2.2 Commitments under Letter of Credit for raw materials and spares as at 31 December 2014 amounted to Rs. 3,649.2 million (30 June 2014: Rs. 2,976.72 million).

13.2.3 The unavailed facilities for opening Letters of Credit and Guarantees from banks as at 31 December 2014 amounted to Rs. 8,911.8 million (30 June 2014: Rs. 6,503 million) and Rs. 293 million (30 June 2014: Rs. 362.30 million).

	Six months period ended		Three months period ended	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
14. NET SALES	----- (Rupees in '000) -----			
Local	8,076,867	10,510,561	4,039,046	5,980,171
Export	1,661,085	1,166,250	1,088,211	572,311
	9,737,952	11,676,811	5,127,257	6,552,482
Toll manufacturing	97,696	-	24,914	-
	9,835,648	11,676,811	5,152,171	6,552,482
Sales tax	1,187,891	1,569,769	588,572	887,818
Trade discount	62,709	9,377	20,809	7,814
Sales commission	93,377	105,019	48,269	60,745
	1,343,977	1,684,165	657,650	956,377
	8,491,671	9,992,646	4,494,521	5,596,105

Notes to the Condensed Interim Financial Information (Unaudited)

	Six months period ended		Three months period ended	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
15. COST OF SALES	----- (Rupees in '000) -----			
Opening stock of raw material and work-in-process	2,388,667	1,218,957	2,628,855	3,560,390
Purchases	7,078,827	10,306,597	3,690,795	3,997,810
Salaries, wages and benefits	130,200	114,382	68,190	56,976
Electricity, gas and water	222,157	213,836	93,340	111,622
Insurance	9,225	10,415	4,684	5,283
Security and janitorial	8,904	8,745	4,638	4,024
Depreciation	225,245	213,355	114,831	106,709
Amortisation	2,949	2,948	1,476	1,474
Stores and spares consumed	19,538	73,308	8,080	40,061
Repairs and maintenance	33,870	25,394	15,629	12,055
Postage, telephone and stationery	2,278	1,887	1,290	889
Vehicle, travel and conveyance	8,919	7,213	5,606	3,892
Internal material handling	3,152	1,902	2,585	904
Environment controlling expense	528	570	356	247
Computer stationery and software support fees	2,338	1,646	811	906
Others	2,808	4,762	1,428	3,639
Recovery from sale of scrap	(76,485)	(26,961)	(63,147)	(13,393)
	10,063,120	12,178,956	6,579,447	7,893,488
Closing stock of raw material and work-in-process	(1,897,410)	(2,772,316)	(1,897,410)	(2,772,316)
Cost of goods manufactured	8,165,710	9,406,640	4,682,037	5,121,172
Finished goods:				
Opening stock	1,277,652	841,816	1,114,237	1,148,966
Closing stock	(1,664,474)	(1,365,148)	(1,664,474)	(1,365,148)
	(386,822)	(523,332)	(550,237)	(216,182)
	7,778,888	8,883,308	4,131,800	4,904,990
16. ADMINISTRATIVE EXPENSES				
Salaries, wages and benefits	52,941	47,902	27,376	24,848
Rent, rates and taxes	2,462	2,219	1,210	1,099
Electricity, gas and water	840	750	373	309
Insurance	420	421	126	237
Security and janitorial	135	75	53	48
Depreciation	2,373	2,737	1,170	1,478
Printing and stationery	939	607	88	591
Postage and communication	318	320	166	158
Vehicle, travel and conveyance	2,930	2,016	1,864	1,205
Legal and professional charges	5,873	9,394	2,502	4,484
Certification and registration charges	180	206	67	105
Directors' fee	1,440	1,240	720	600
Others	1,899	2,085	1,296	1,603
	72,750	69,972	37,011	36,765

Notes to the Condensed Interim Financial Information (Unaudited)

	Six months period ended		Three months period ended	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
----- (Rupees in '000) -----				
17. SELLING AND DISTRIBUTION EXPENSES				
Salaries, wages and benefits	24,294	25,467	11,754	12,027
Rent, rates and taxes	2,722	2,429	1,352	1,223
Electricity, gas and water	345	356	165	135
Insurance	421	619	250	300
Depreciation	1,251	1,126	661	557
Postage, telephone and stationery	540	373	540	158
Vehicle, travel and conveyance	2,336	2,215	1,267	1,161
Freight and forwarding charges	63,020	25,618	35,094	8,568
Advertising and sales promotion	2,235	1,231	2,111	887
Others	1,932	1,355	722	630
	<u>99,096</u>	<u>60,789</u>	<u>53,916</u>	<u>25,646</u>
18. FINANCIAL CHARGES				
Mark-up on:				
- Long term finances	175,102	179,913	88,604	86,290
- Short term borrowings	260,378	337,634	147,450	192,459
	<u>435,480</u>	<u>517,547</u>	<u>236,054</u>	<u>278,749</u>
Exchange loss / (gain) on FE financing	135,653	25,377	(21,096)	(861)
Bank charges	4,380	1,842	953	1,210
	<u>575,513</u>	<u>544,766</u>	<u>215,911</u>	<u>279,098</u>
19. OTHER OPERATING CHARGES				
Auditors' remuneration	1,103	1,068	552	668
Donations	275	600	-	300
Workers' Profit Participation Fund	1,986	23,915	1,986	18,156
Workers' Welfare Fund	794	9,566	794	7,262
	<u>4,158</u>	<u>35,149</u>	<u>3,332</u>	<u>26,386</u>
20. OTHER INCOME				
Income from non-financial assets				
Income from power generation	20.1 20,072	13,286	7,747	7,909
Recovery of shared cost	9,880	10,450	5,050	4,000
Gain on sale of property, plant and equipment	3,820	2,596	1,619	878
Rent income	858	858	429	429
Exchange gain / (loss) - net	26,960	16,253	(12,638)	-
Others	14,088	2,715	-	1,206
	<u>75,678</u>	<u>46,158</u>	<u>2,207</u>	<u>14,422</u>

Notes to the Condensed Interim Financial Information (Unaudited)

	Six months period ended		Three months period ended	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
20.1 Income from power generation	----- (Rupees in '000) -----			
Net sales	244,130	234,636	115,017	124,754
Cost of electricity produced	(224,058)	(221,350)	(107,270)	(116,846)
Income from power generation	<u>20,072</u>	<u>13,286</u>	<u>7,747</u>	<u>7,908</u>

31 December 2014 (Unaudited) 30 June 2014 (Audited)
----- (Rupees in '000) -----

21. MOVEMENT IN WORKING CAPITAL

Increase in current assets:

Stores and spares	(83,870)	(4,902)
Stock in trade	(43,053)	(1,521,984)
Receivable from KE	5,253	(55,691)
Trade debts	114,892	(4,896)
Advances	201,859	242,782
Trade deposits, short term prepayments and other receivables	(18,381)	(13,860)
Sales tax receivable / (payable)	338,493	(151,212)
	<u>515,193</u>	<u>(1,509,763)</u>

Increase in current liabilities:

Trade and other payables	(1,495,487)	1,095,187
	<u>(1,495,487)</u>	<u>1,095,187</u>
	<u>(980,294)</u>	<u>(414,576)</u>

22. TRANSACTIONS WITH RELATED PARTIES

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

Notes to the Condensed Interim Financial Information (Unaudited)

	Six months period ended		Three months period ended	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
----- (Rupees in '000) -----				
Transactions				
Holding Company				
Sales	479,376	885,341	394,431	733,683
Purchases	6,899	1,468	2,019	852
Toll Manufacturing	97,696	-	24,914	-
Office rent	4,798	4,362	2,399	2,181
Recovery of shared cost	9,880	10,450	5,050	4,000
Corporate affairs management expenses	2,104	1,904	983	979
Associated Companies				
Purchases	6,176,651	5,747,624	1,903,966	3,210,059
Insurance premium expense	16,086	27,298	10,482	20,699
Insurance claim / adjustments	33,291	-	33,291	-
Rent income	858	858	429	429
Donations	-	300	-	300
Associated Person				
Sales commission expense	1,962	2,542	975	920
Key Management Personnel				
Remuneration and benefits	64,954	70,517	32,210	32,623
Staff retirement benefits	2,752	2,717	1,675	1,609
Staff Retirement Fund				
Contribution paid - Provident Fund	4,322	3,660	2,187	1,729
Contribution paid - Gratuity Fund	6,201	4,360	3,101	2,180
Balances				
Associated Companies				
Trade Creditors	1,252,546	1,511,971	1,252,546	1,511,971
Associated Person				
Sales Commission Payable	1,769	2,605	1,769	2,605

23. OPERATING SEGMENT

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

Notes to the Condensed Interim Financial Information (Unaudited)

- 23.1** Revenue from sales of steel products represents 97% (30 June 2014: 97%) of total revenue whereas remaining represent revenue from sale of surplus electricity to KE. The Company does not consider sale of electricity to KE as separate reportable segment as the power plant of the Company is installed primarily to supply power to its Galvanizing Plant and Cold Rolling Plant and currently any excess electricity is sold to KE.
- 23.2** All non current assets of the Company as at 31 December 2014 are located in Pakistan.
- 23.3** 17% of the sales are export sales that are made to customers outside Pakistan.
- 23.4** Single major customer of the Company is Newcastle Steelworks which represents 9% of total revenue of the Company.
- 23.5 Geographical information**
The Company's gross revenue from external customers by geographical location is detailed below:

	Note	Six months period ended		Three months period ended	
		31 December 2014	31 December 2013	31 December 2014	31 December 2013
----- (Rupees in '000) -----					
Domestic sales		8,174,563	10,510,561	4,063,960	5,980,171
Export sales	23.5.1	1,661,085	1,166,250	1,088,211	572,311
	14	<u>9,835,648</u>	<u>11,676,811</u>	<u>5,152,171</u>	<u>6,552,482</u>

- 23.5.1** The Company exports its products to numerous countries.

24. DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information were authorized for issue by the Board of Directors on **20 January 2015**.


Tariq Iqbal Khan
Director & Chairman
Board Audit Committee


Alee Arsalan
Chief Financial Officer
& Company Secretary


Towfiq H. Chinoy
Managing Director &
Chief Executive Officer