

On a Roll



**INTERNATIONAL
STEELS LIMITED**

Shaping Tomorrow

Unaudited Financial Statements
First Quarter ended September 30, 2018

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

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International Steels Limited Company Information

As at 30 September 2018

Chairman (Non-Executive)

Mr. Kemal Shoaib

Independent Directors

Mr. Tariq Iqbal Khan
Mr. Kamran Y. Mirza
Syed Salim Raza

Non-Executive Directors

Mr. Kamal A. Chinoy
Mr. Mustapha A. Chinoy
Mr. Riyaz T. Chinoy
Mr. Kazuteru Mihara

Executive Directors

Mr. Towfiq H. Chinoy - Advisor
Mr. Samir M. Chinoy

Chief Executive Officer

Mr. Yousuf H. Mirza

Chief Financial Officer

Mr. Mujtaba Hussain

Group Company Secretary & Head of Legal

Ms. Uzma Amjad Ali

Group Chief Internal Auditor

Ms. Asema Tapal

External Auditors

M/s KPMG Taseer Hadi & Co.

Bankers

Allied Bank Limited
Bank Al Habib Limited
Bank Alfalah Limited
Dubai Islamic Bank Limited
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
MCB Islamic Bank Limited
Meezan Bank Limited
Samba Bank Limited
Standard Chartered Bank (Pakistan) Limited
United Bank Limited

Legal Advisor(s)

Ms. Sana Shaikh Fikree

Registered Office

101, Beaumont Plaza, 10 Beaumont Road,
Karachi – 75530
Phone: +9221-35680045-54, UAN: 021-111-019-019
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Multan Office

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Factory

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E-mail: info@isl.com.pk

Website

www.isl.com.pk

Investor Relations Contact

Shares Registrar

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40-C, Block-6, P.E.C.H.S,
Off Shahrah-e-Faisal, Karachi
UAN: +9221-111-000-322
Fax: +9221-34168271
E-mail: secretariat@thk.com.pk

Assistant Company Secretary

Mr. Mohammad Irfan Bhatti
101 Beaumont Plaza,
10 Beaumont Road, Karachi.
UAN: +9221-111-019-019,
Fax: +9221-35680373
E-mail : irfan.bhatti@isl.com.pk

International Steels Limited
Directors' Report

As at 30 September 2018

Directors of your company are pleased to present the condensed interim financial statements for three months ended September 30, 2018.

The national economy is facing multiple issues due to large current account deficit, declining foreign exchange reserves and slow-down of economic growth. Macro-economic developments such as interest rate increase by the State Bank along with the Government's decision to approach the International Monetary Fund to deal with current economic challenges may bring stability in the short to medium term. The PKR has remained under pressure and has depreciated by 27% since December 2017. The SBP discount rates are expected to rise further from the current 8.50% in the medium to long term.

Steel prices have shown some weakness recently and demand slowdown in key global markets weigh on prices in the near term. Moreover, the current wave of protectionism adds pressures on steel prices.

Sales during the quarter ended 30 September 2018 reflected a growth of 4.9% at Rs. 11.2 billion as compared to Rs.10.7 billion for the same period last year, inspite of serious economic challenges. Profit after tax for the quarter and earnings per share stood at Rs. 841 million and Rs. 1.93 per share compared to Rs. 1,003 million and Rs. 2.31 per share for the same period last year. The gross margin remained under pressure due to fluctuations in exchange rate and volatility in international steel prices. The finance cost for the quarter increased mainly due to hike in interest rates and increased inventory levels.

The Company has expanded its cold rolling capacity to 1,000,000 tons. The Continuous Pickling Line has also commenced operations. The expanded capacity will enable the company to meet the demand in both local and international market and will also assist the economy in terms of import substitution. The work on the additional annealing furnaces for Cold Rolled products is expected to be commissioned in Q3 2018-19.

On behalf of Directors, we would like to extend our gratitude to all our stakeholders for their continued support. We also thank management and staff for their commitment, hard work and pray to Almighty Allah for the continued success of your Company.

Dated: 16th October 2018
Karachi

For & behalf of
International Steels Limited



Kemal Shoib
Chairman


International Steels Limited
Condensed Interim Statement of Financial Position

As at 30 September 2018

	Note	30 September 2018 (Un-audited)	30 June 2018 (Audited)
----(Rupees in '000)----			
ASSETS			
Non-current assets			
Property, plant and equipment	5	18,400,211	18,262,610
Intangible assets		2,230	2,565
Long term deposit with Central Depository Company of Pakistan Limited		100	100
		18,402,541	18,265,275
Current Assets			
Stores and spares		519,155	438,997
Stock-in-trade	6	19,320,206	14,132,742
Trade debts - considered good	7	396,731	644,790
Receivable from K-Electric Limited (KE) - unsecured, considered good		28,189	32,663
Advances, trade deposits and short-term prepayments	8	64,249	65,761
Sales tax receivable		2,545,906	1,485,402
Taxation		89,260	427,137
Cash and bank balances		191,308	99,822
		23,155,004	17,327,314
Total Assets		41,557,545	35,592,589
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorised capital		5,000,000	5,000,000
500,000,000 (2018: 500,000,000) ordinary shares of Rs. 10 each			
Share capital			
Issued, subscribed and paid-up capital		4,350,000	4,350,000
Revenue reserve			
Unappropriated profit		6,074,153	6,532,704
Capital Reserve			
Revaluation Surplus on property, plant and equipment		937,198	942,304
Total Shareholders' equity		11,361,351	11,825,008
LIABILITIES			
Non-current liabilities			
Long term financing - secured	9	6,801,456	6,768,281
Deferred taxation		1,637,570	1,708,232
		8,439,026	8,476,513
Current liabilities			
Trade and other payables	10	5,188,712	5,458,133
Short term borrowings - secured	11	13,770,278	8,462,310
Unpaid dividend		1,313,180	9,540
Unclaimed dividend		2,917	2,917
Current portion of long term financing - secured	9	1,198,832	1,201,679
Accrued markup		283,249	156,489
		21,757,168	15,291,068
Total Liabilities		30,196,194	23,767,581
Contingencies and Commitments	12		
TOTAL EQUITY AND LIABILITIES		41,557,545	35,592,589

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


Tariq Iqbal Khan
Director & Chairman
Board Audit Committee


Mujtaba Hussain
Chief Financial Officer


Yousuf H. Mirza
Chief Executive Officer

International Steels Limited

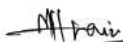
Condensed Interim Statement Of Profit and Loss Account (Un-audited)

For the quarter ended 30 September 2018

	Note	Quarter ended	
		30 September 2018	30 September 2017
		————(Rupees in '000)————	
Net Sales	13	11,231,542	10,708,086
Cost of sales	14	(9,612,454)	(8,939,132)
Gross profit		1,619,088	1,768,954
Selling and distribution expenses	15	(109,629)	(103,688)
Administrative expenses	16	(65,870)	(53,987)
		(175,499)	(157,675)
Finance cost	17	(285,357)	(112,880)
Other operating charges	18	(94,836)	(127,288)
		(380,193)	(240,168)
Other income	19	78,252	25,948
Profit before taxation		1,141,648	1,397,059
Taxation	20	(300,305)	(393,714)
Profit after taxation for the period		841,343	1,003,345
		————(Rupees)————	
Earnings per share - basic and diluted		1.93	2.31

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Director & Chairman
Board Audit Committee


Mujtaba Hussain
Chief Financial Officer


Yousuf H. Mirza
Chief Executive Officer

International Steels Limited

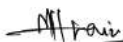
Condensed Interim Statement of Comprehensive Income (Un-audited)

For the quarter ended 30 September 2018

	Quarter ended	
	30 September 2018	30 September 2017
	(Rupees in '000)	
Profit for the period	841,343	1,003,345
Other comprehensive income	-	-
Total comprehensive income for the period	841,343	1,003,345

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


Tariq Iqbal Khan
Director & Chairman
Board Audit Committee


Mujtaba Hussain
Chief Financial Officer


Yousuf H. Mirza
Chief Executive Officer


International Steels Limited
Condensed Interim Statement Of Cash Flows (Un-audited)

For the quarter ended 30 September 2018

	Note	Quarter ended	
		30 September 2018	30 September 2017
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		1,141,648	1,397,059
Adjustments for:			
Depreciation	5	243,937	210,767
Amortization		335	335
Gain on disposal of property, plant and equipment	19	(685)	(268)
Provision for staff gratuity		4,779	5,241
Provision for compensated absences		1,900	5,635
Income on bank deposits	19	(55)	-
Finance cost	17	285,357	112,880
		535,568	334,590
Changes in working capital	21	(6,339,811)	(231,290)
Cash (used in) / generated from operations		(4,662,595)	1,500,359
Finance cost paid		(158,597)	(124,284)
Income on bank deposits received		55	-
Payment for staff gratuity		(4,779)	(28,819)
Compensated absences paid		(5,591)	(4,135)
Income tax paid		(33,090)	(65,380)
		(202,002)	(222,618)
Net cash (used in) / generated from operating activities		(4,864,597)	1,277,741
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(383,135)	(427,820)
Proceeds from disposal of property, plant and equipment		2,282	3,005
Net cash used in investing activities		(380,853)	(424,815)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term financing		350,000	-
Repayment of long term financing		(319,672)	(313,412)
Change in short term borrowings		997,159	(766,829)
Dividend paid		(1,360)	(272,963)
Net cash generated from / (used in) financing activities		1,026,127	(1,353,204)
Net decrease in cash and cash equivalents		(4,219,323)	(500,278)
Cash and cash equivalents at beginning of the period		(5,075,660)	(2,378,005)
Cash and cash equivalents at end of the period		<u>(9,294,983)</u>	<u>(2,878,283)</u>
CASH AND CASH EQUIVALENTS COMPRISE OF:			
Cash and bank balances		191,308	47,687
Short term borrowings - secured	11	(9,486,291)	(2,925,970)
		<u>(9,294,983)</u>	<u>(2,878,283)</u>

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


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Chief Executive Officer

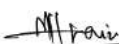
International Steels Limited
Condensed Interim Statement of Changes in Equity (Un-audited)

For the quarter ended 30 September 2018

Note	Issued, subscribed & paid-up capital	Revenue Reserve Unappropriated profit / (loss)	Capital Reserve Revaluation surplus on property, plant and equipment (Rupees in '000)	Total Equity
Balance as at 01 July 2017	4,350,000	3,246,005	958,242	8,554,247
Profit for the period	-	1,003,345	-	1,003,345
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	1,003,345	-	1,003,345
Transactions with owners recorded directly in equity - distributions				
Dividend:				
- Final dividend @ 10% (Rs. 1.00 per share) for the year ended 30 June 2017	-	(435,000)	-	(435,000)
Total transactions with owners - distributions	-	(435,000)	-	(435,000)
Transferred from revaluation surplus on property, plant and equipment on account of incremental depreciation - net of tax	-	5,108	(5,108)	-
Balance as at 30 September 2017	<u>4,350,000</u>	<u>3,819,458</u>	<u>953,134</u>	<u>9,122,592</u>
Balance as at 01 July 2018	4,350,000	6,532,704	942,304	11,825,008
Profit for the period	-	841,343	-	841,343
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	841,343	-	841,343
Transactions with owners recorded directly in equity - distributions				
Dividend:				
- Final dividend @ 30% (Rs. 3.00 per share) for the year ended 30 June 2018	-	(1,305,000)	-	(1,305,000)
Total transactions with owners - distributions	-	(1,305,000)	-	(1,305,000)
Transferred from revaluation surplus on property, plant and equipment on account of incremental depreciation - net of tax	-	5,106	(5,106)	-
Balance as at 30 September 2018	<u>4,350,000</u>	<u>6,074,153</u>	<u>937,198</u>	<u>11,361,351</u>

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


Tariq Iqbal Khan
 Director & Chairman
 Board Audit Committee


Mujtaba Hussain
 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 repealed Companies Ordinance, 1984 and is domiciled in the province of Sindh. The Company was listed on the Pakistan Stock Exchange Limited on 01 June 2011. The Company is subsidiary of International Industries Limited (Holding Company) which holds 245,055,543 shares (2018: 245,055,543 shares) of the Company as at 30 September 2018 representing 56.3% (2018: 56.3%) of the shareholding of the Company.

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 primary activity of the Company is the business of manufacturing of cold rolled, galvanized and colour coated steel coils and sheets. The Company commenced commercial operations on 01 January 2011. The registered office of the Company is situated at 101, Beaumont Plaza, 10 Beaumont Road, Civil Lines, Karachi - 75530.

The manufacturing facility of the Company is situated at 399-405, Rehri Road, Landhi Industrial Area, Karachi and having sales offices located at Lahore, Islamabad and Multan.

2. BASIS OF PREPARATION

2.1 Statement of compliance

This condensed interim financial information of the Company for the period ended 30 September 2018 has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 'Interim Financial reporting. This condensed interim financial information has been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34 'Interim Financial Reporting issued by the International Accounting Standard Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act 2017.

Where the provisions of and directives issued under the Companies Act 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act 2017 have been followed.

2.2 Basis of measurement

This condensed interim financial information has 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, freehold land & buildings thereon 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

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

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 The accounting policies and methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of audited annual financial statements of the Company as at and for the year ended 30 June 2018.

3.2 Certain amendments and interpretations to approved accounting standards effective during the period were not relevant to the Company's operations and did not have any impact on the accounting policies of the Company.

4. ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

4.1 The preparation of condensed interim financial information requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

4.2 The significant judgements made by management in applying the Company's accounting policies and the key sources of estimating the uncertainty were the same as those that applied to the audited annual financial statements as at and for the year ended 30 June 2018.

4.3 The financial risk management objectives and policies adopted by the Company are consistent with those disclosed in the audited annual financial statements as at and for the year ended 30 June 2018.

International Steels Limited
Notes to the Condensed Interim Financial Information (Un-audited)
For the quarter ended 30 September 2018

5. PROPERTY, PLANT AND EQUIPMENT	Operating assets	Capital work in progress	Total
	(Rupees in '000)		
Cost / revalued amount			
Opening balance	18,784,955	3,551,329	22,336,284
Additions	15,886	386,151	402,037
Disposal / transfer / adjustment	(6,050)	(15,886)	(21,936)
	<u>18,794,791</u>	<u>3,921,594</u>	<u>22,716,385</u>
Accumulated depreciation			
Opening balance	(4,073,674)	-	(4,073,674)
Charge for the period	(243,937)	-	(243,937)
Disposal / transfer / adjustment	1,437	-	1,437
	<u>(4,316,174)</u>	<u>-</u>	<u>(4,316,174)</u>
Written down value as at 30 September 2018 (Un-audited)	<u>14,478,617</u>	<u>3,921,594</u>	<u>18,400,211</u>
Written down value as at 30 June 2018 (Audited)	<u>14,711,281</u>	<u>3,551,329</u>	<u>18,262,610</u>
6. STOCK-IN-TRADE		30 September 2018 (Un-audited)	30 June 2018 (Audited)
		(Rupees in '000)	
Raw material - in hand		10,728,658	5,930,245
- in transit		2,840,321	4,453,970
Work-in-process		1,461,386	1,187,243
Finished goods		4,143,426	2,504,609
By Products		8,460	7,292
Scrap material		137,955	49,383
		<u>19,320,206</u>	<u>14,132,742</u>
7. TRADE DEBTS - considered good			
- Secured	7.1	220,289	183,933
- Unsecured		176,442	460,857
		<u>396,731</u>	<u>644,790</u>
7.1 Related party from whom debt is due is as under:			
-Sumitomo Corporation		<u>116,269</u>	<u>43,320</u>
8. ADVANCES, TRADE DEPOSITS AND SHORT TERM PREPAYMENTS			
Advances to suppliers- considered good		44,586	29,629
Trade deposits		11,152	10,904
Margin against shipping guarantee		-	13,949
Short term prepayments		8,511	11,279
		<u>64,249</u>	<u>65,761</u>

International Steels Limited
Notes to the Condensed Interim Financial Information (Un-audited)
For the quarter ended 30 September 2018

		30 September 2018 (Un-audited)	30 June 2018 (Audited)
		(Rupees in '000)	
9. LONG TERM FINANCES - secured			
<i>Conventional</i>			
Long Term Finance Facility (LTFF)	9.1	1,629,455	1,708,848
Long term finance	9.2 & 9.3	450,000	544,445
<i>Islamic</i>			
Long term finance	9.4, 9.5, 9.6 & 9.7	5,920,833	5,716,667
		8,000,288	7,969,960
Current portion of long term finances shown under current liabilities			
<i>Conventional</i>			
Long Term Finance Facility (LTFF)		(237,721)	(240,568)
Long term finance		(227,778)	(277,778)
<i>Islamic</i>			
Long term finance		(733,333)	(683,333)
		(1,198,832)	(1,201,679)
		6,801,456	6,768,281

- 9.1** This finance has been obtained from commercial banks and is secured by way of pari passu charge over fixed assets of the Company.
- 9.2** Long term finance amounting to Rs. 400 million (2018: Rs. 444 million) has been obtained from a commercial bank and is secured by way of pari passu charge over fixed assets of the Company.
- 9.3** Long term finance amounting to Rs. 50 million (2018: Rs.100 million) has been obtained from a commercial bank and is secured by way of pari passu charge over fixed assets of the Company.
- 9.4** Long term finance amounting to Rs. 437.5 million (2018: Rs.500 million) has been obtained from Islamic window of a commercial bank and is secured by way of pari passu charge over fixed assets of the Company.
- 9.5** Long term finance amounting to Rs. 333.33 million (2018: 416.67 million) has been obtained from Islamic window of a commercial bank and is secured by way of pari passu charge over fixed assets of the Company.
- 9.6** Long term finance amounting to Rs. 500 million (2018: 500 million) has been obtained from Islamic window of a commercial bank and is secured by way of pari passu charge over fixed assets of the Company.
- 9.7** Long term finance amounting to Rs. 4,650 million (2018: 4,300 million) has been obtained from Islamic window of a commercial bank and is secured by way of ranking charge over fixed assets of the Company.

10. TRADE AND OTHER PAYABLES

Trade creditors	10.1	2,070,268	2,029,925
Payable to provident fund		2,944	3,164
Sales commission payable		70,539	60,868
Accrued expenses		1,455,040	1,360,709
Advances from customers		333,140	893,511
Provision for infrastructure cess	10.2	864,201	774,813
Provision for government levies		230	230
Short term compensated absences		8,237	11,928
Workers' Profit Participation Fund		61,379	24,171
Workers' Welfare Fund		289,894	265,342
Others		32,840	33,472
		5,188,712	5,458,133

International Steels Limited

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

For the quarter ended 30 September 2018

		30 September 2018 (Un-audited)	30 June 2018 (Audited)
		—————(Rupees in '000)—————	
10.1	Related party to whom payment is due is as under: -Sumitomo Corporation	<u>1,485,143</u>	<u>1,072,790</u>
10.2	Movement of infrastructure cess		
	Opening balance	774,813	519,204
	Provided during the period	<u>89,388</u>	<u>255,609</u>
	Closing balance	<u>864,201</u>	<u>774,813</u>
11.	SHORT TERM BORROWINGS - secured		
	<i>Conventional</i>		
	Running finance under mark-up arrangement	11.1 7,432,570	3,919,725
	Running finance under Export Refinance Scheme	11.2 1,984,265	1,861,675
	<i>Islamic</i>		
	Short term finance under Running Musharakah	11.3 2,053,721	1,255,757
	Short term finance under Term Musharakah	11.4 2,299,722	1,425,153
		<u>13,770,278</u>	<u>8,462,310</u>

11.1 The facilities for running finance available from various commercial banks are for the purpose of meeting working capital requirements. The rate of mark-up on these finances ranges from 7.12% to 9.51% (2018: 6.62% to 8.42%) per annum.

11.2 The Company has short term running finance facility under Export Refinance Scheme of the State Bank of Pakistan from a commercial bank. The rate of mark-up on this facility ranges from 2.10% to 2.75% (2018: 2.10% to 2.15%) per annum.

11.3 The Company has obtained facilities for short term finance under Running Musharakah. The rate of mark-up ranges from 7.12% to 8.21% (2018: 6.34% to 6.63%) per annum. This facility matures within twelve months and is renewable.

11.4 The Company has obtained facilities for short term finance under Term Musharakah. The rate of mark-up ranges from 6.99% to 8.37% (2018: 6.09% to 6.47%) per annum. This facility matures within twelve months and is renewable.

11.5 As at 30 September 2018, the unavailed facilities from the above borrowings amounted to Rs. 4,129.72 million (2018: Rs. 4,594 million).

11.6 The above facilities are secured by way of joint pari passu charge and ranking over current and future moveable assets of the Company.

12. CONTINGENCIES AND COMMITMENTS

12.1 Contingencies

12.1.1 The Sindh Finance Act, 1994 prescribed an infrastructure fee at the rate of 1% of the C&F value of all goods entering or leaving the province of Sindh via sea or air. The Sindh High Court 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. 891.5 million (2018: Rs. 791.5 million), have been provided to the Department. However, a provision to the extent of amount utilized from the limit of guarantee has also been provided for by the Company on prudent basis (Note 10.2). Subsequently through Sindh Finance Act 2015 and 2016, the legislation has doubled the rate of Sindh infrastructure cess. The Company has obtained stay against these and the ultimate dispute has been linked with the previous infrastructure cess case.

12.1.2 In 2011, the Gas Infrastructure Development Cess was levied via GIDC Act 2011 and further the rate of cess was amended via Finance Bill 2012 - 2013 which was challenged in the Supreme Court of Pakistan. The Supreme Court of Pakistan declared GIDC Act 2011 to be unconstitutional and ultra vires on the grounds that GIDC is a 'Fee' and not a 'Tax' and in the alternative it is not covered by any entry relating to imposition or levy of tax under Part-I of the Federal Legislative list and on either counts the 'cess' could not have been introduced through a money bill under the Constitution.

During 2015, the Government passed a new law 'Gas Infrastructure Development Cess Act 2015' ('the Act'), by virtue of which all prior enactments have been declared infructuous. The said Act levies GIDC at Rs. 100 per MMBTU on industrial consumption and Rs. 200 per MMBTU on captive power consumption, effective 01 July 2011. The Company has obtained a stay order on the retrospective application of the Act from the Sindh High Court. The Company is confident of favourable outcome and therefore has not recorded, to the extent of self consumption, a provision of Rs. 380.8 million (from 01 July 2011 till 22 May

2015) in this condensed interim financial information. However, the Company made a provision of GIDC to the extent of its self consumption from May 2015 onwards. On 26 October 2016, the Sindh High Court 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 Sindh High Court. This appeal filed before the Divisional Bench of Sindh High Court was dismissed on the ground that Learned Single Judge while passing the impugned judgement has considered all the material facts and also the relevant provisions of Oil and Gas Regulatory Authority (OGRA) and has correctly applied the factual position. On 31 May 2017, separate petition filed by another company in the Peshawar High Court challenging the vires of the GIDC Act 2015 was dismissed for the reason that the Act has been passed by the Parliament strictly in accordance with the legislative procedures contained in the Constitution of Pakistan and therefore no procedural defect in the Act which could be made as a ground for its annulment. Such decision has been challenged on appeal before Supreme Court of Pakistan, wherein the Company is not the party and decision is pending. In light 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. 873.78 million (2018: Rs. 850 million) pertaining to period from 01 July 2011 to 30 September 2018 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).

- 12.1.3** 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 Sindh High Court (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. 406.3 million (2018: Rs. 348.3 million) as post dated cheques with the Nazir of the Court. The Company, on prudent basis, has also accrued this amount in this condensed interim financial information.
- 12.1.4** Sindh Revenue Board (SRB) issued a notice to the Company for payment of Sindh Workers Welfare Fund under the Sindh Workers Welfare Fund Act, 2014. The Company filed a constitutional petition in the Sindh High Court, challenging the said unlawful demand on the ground that the Company is a trans-provincial establishment operating industrial and commercial activities across Pakistan. The Sindh High Court granted stay order in favor of the Company declaring exemption on the basis that the Company being a trans-provincial establishment is liable to pay Workers Welfare Fund under Federal Workers Welfare Fund Ordinance, 1971. In a separate case, the Sindh High Court has dealt on the subject of trans-provincial establishment in its judgement. A similar view is likely to be taken in this case as well where the liability will have to be discharged in the respective province.
- 12.1.5** The Model Collectorate of Customs (MCC), Peshawar stopped the exports of the Company goods to Afghanistan under the pretext that SRO 190(l) / 2002 dated 2 April 2002 on the account of non-payment of 17% sales tax. A Constitutional Petition in the Sindh High Court (SHC) has been filed on 1 October 2015 arguing that there is no sales tax on exports to Afghanistan as per manufacturing bond rules SRO 450(l) / 2015 and that SRO 190 issued in 2002 were implemented and hence under the Sales Tax Act 1990 no such liability could be raised at this stage. The Court granted a stay order by allowing Company's exports to Afghanistan subject to depositing bank guarantees worth Rs. 2.65 million (2018: Rs. 2.65 million) (i.e. value of disputed sales tax amount) before the Nazir of the Court. On 30 October 2015 the tax authority issued a clarification as to the applicability of SRO 190(l) / 2002 and stated that exports made to Afghanistan do not attract the levy of sales tax. The same has already been filed before the Court and disposal of the case along with return of the said bank guarantees is awaited.
- 12.1.6** Guarantees issued in favour of Sui Southern Gas Company Limited by the bank amounted to Rs. 269.74 million (2018: Rs. 269.74 million) as a security for supply of gas.
- 12.1.7** Guarantees issued in favour of Pakistan State Oil Company Limited issued by bank on behalf of the Company amounted to Rs. 12 million (2018: Rs. 12 million).
- 12.1.8** Guarantees issued in favour of K-Electric Limited issued by bank on behalf of the Company amounted to Rs. 8.67 million (2018: Rs. 8.67 million).
- 12.1.9** Guarantees issued in favour of Wah Industries issued by bank on behalf of the Company amounted to Rs. 21.80 million (2018: Rs. 21.80 million).
- 12.1.10** Guarantees issued in favour of Collector of Customs issued by bank on behalf of the Company amounted to Rs. 4.61 million (2018: Rs. 4.61 million).

12.2 Commitments

- 12.2.1** Capital expenditure commitments outstanding as at 30 September 2018 amounted to Rs. 653.32 million (2018: Rs. 581.3 million).
- 12.2.2** Commitments under Letters of Credit for raw materials and spares as at 30 September 2018 amounted to Rs. 4,396.8 million (2018: Rs. 9,538 million).
- 12.2.3** The unavailed facilities for opening Letters of Credit and Guarantees from banks as at 30 September 2018 amounted to Rs. 16,409.84 million (2018: Rs. 10,199.52 million) and Rs. 859.31 million (2018: Rs. 59.31 million) respectively.

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

For the quarter ended 30 September 2018

13. NET SALES

	Quarter ended	
	30 September 2018	30 September 2017
	----- (Un-audited) -----	
	----- (Rupees in '000) -----	
Local	12,356,041	11,345,879
Export	864,718	1,191,576
	13,220,759	12,537,455
Sales tax	(1,854,714)	(1,704,498)
Trade discounts	(7,637)	(7,096)
Sales commission	(126,866)	(117,775)
	(1,989,217)	(1,829,369)
	11,231,542	10,708,086

14. COST OF SALES

Opening stock of raw material and work-in-process	7,117,488	4,219,066
Purchases	16,071,951	7,008,407
Salaries, wages and benefits	151,584	112,907
Electricity, gas and water	287,014	242,622
Insurance	7,193	5,534
Security and janitorial	6,078	6,466
Depreciation and amortisation	218,292	187,708
Operating supplies and consumables	23,783	26,235
Repairs and maintenance	23,098	18,925
Postage, telephone and stationery	1,875	1,516
Vehicle, travel and conveyance	6,818	2,717
Internal material handling	5,307	1,477
Environment controlling expense	562	528
Computer stationery and software support fees	1,265	1,198
Sundries	5,045	3,073
Recovery from sale of scrap	(396,298)	(341,502)
	23,531,055	11,496,877
Closing stock of raw material and work-in-process	(12,190,044)	(3,601,035)
Cost of goods manufactured	11,341,011	7,895,842
<i>Finished goods:</i>		
Opening stock	2,561,284	3,505,587
Closing stock	(4,289,841)	(2,462,297)
	(1,728,557)	1,043,290
	9,612,454	8,939,132

15. SELLING AND DISTRIBUTION EXPENSES

Salaries, wages and benefits	23,355	20,028
Rent, rates and taxes	3,626	2,760
Electricity, gas and water	809	748
Insurance	148	148
Depreciation	1,878	1,508
Postage, telephone and stationery	710	465
Vehicle, travel and conveyance	9,308	1,990
Freight and forwarding charges	49,763	67,413
Sales promotion	18,736	6,464
Others	1,296	2,164
	109,629	103,688

International Steels Limited
Notes to the Condensed Interim Financial Information (Un-audited)
For the quarter ended 30 September 2018

16. ADMINISTRATIVE EXPENSES	Quarter ended	
	30 September 2018	30 September 2017
	----- (Un-audited) -----	
	----- (Rupees in '000) -----	
Salaries, wages and benefits	45,910	35,027
Rent, rates and taxes	1,335	1,352
Electricity, gas and water	658	666
Insurance	590	454
Security and janitorial services	143	128
Depreciation	1,382	1,462
Printing and stationery	1,268	2,450
Postage and communication	189	632
Vehicle, travel and conveyance	1,745	1,689
Legal and professional charges	9,483	7,879
Certification and registration charges	101	447
Directors' fee	825	600
Others	2,241	1,201
	<u>65,870</u>	<u>53,987</u>
17. FINANCIAL CHARGES		
<i>Conventional</i>		
- Interest on long term finances	12,469	37,534
- Interest on short term borrowings	137,399	18,458
	<u>149,868</u>	<u>55,992</u>
<i>Islamic</i>		
- Mark-up on long term finances	82,747	34,583
- Mark-up on short term borrowings	47,427	21,651
	<u>130,174</u>	<u>56,234</u>
Bank charges	5,315	654
	<u>285,357</u>	<u>112,880</u>
18. OTHER OPERATING CHARGES		
Auditors' remuneration	1,005	666
Donations	7,900	9,400
Workers Welfare Fund	24,552	75,111
Workers Profit Participation Fund	61,379	30,044
Loss on derivative financial instruments	-	2,042
Exchange loss	-	10,025
	<u>94,836</u>	<u>127,288</u>
19. OTHER INCOME		
Income from non-financial assets		
Income from power generation	6,933	11,695
Recovery of shared resources cost	56	10,925
Gain on sale of property, plant and equipment	685	268
Rental income	487	481
Exchange gain	61,262	-
Others	8,774	2,579
	<u>78,197</u>	<u>25,948</u>
Income / return from financial assets		
Interest on bank deposits	55	-
	<u>78,252</u>	<u>25,948</u>

International Steels Limited

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

For the quarter ended 30 September 2018

	Quarter ended	
	30 September 2018	30 September 2017
	----- (Un-audited) -----	
	----- (Rupees in '000) -----	
19.1 Income from power generation		
Net sales	95,078	114,761
Cost of electricity produced	(88,145)	(103,066)
	<u>6,933</u>	<u>11,695</u>
20. TAXATION		
- Current	(370,967)	(342,426)
- Deferred	70,662	(51,288)
	<u>(300,305)</u>	<u>(393,714)</u>
21. CHANGES IN WORKING CAPITAL		
<i>(Increase) / decrease in current assets:</i>		
Stores and spares	(80,158)	(62,945)
Stock-in-trade	(5,187,464)	1,661,321
Receivable from K-Electric Limited	4,474	(1,163)
Trade debts	248,059	(151,571)
Advances, trade deposits and short-term prepayments	1,512	5,464
Sales tax receivable	(1,060,504)	416,752
	<u>(6,074,081)</u>	1,867,858
<i>Increase / (decrease) in current liabilities:</i>		
Trade and other payables	(265,730)	(2,099,148)
	<u>(6,339,811)</u>	<u>(231,290)</u>

22. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise associated undertakings, directors of the Company and its subsidiary company, key management personnel and staff retirement funds. The Company continues to have a policy whereby all transactions with related parties are entered into at commercial terms and conditions. Contributions to its defined contribution plan (Provident Fund) are made as per the terms of employment and contributions to its defined benefit plan (Gratuity Fund) are in accordance with actuarial advice. Remuneration of key management personnel is in accordance with their terms of employment and Company's policy.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company considers its Chief Executive Officer, Chief Financial Officer, Company Secretary, Non-Executive Directors and departmental heads to be its key management personnel. There are no transactions with key management personnel other than their terms of employment / entitlement.

Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in this condensed interim financial information, are as follows:

TRANSACTIONS

Holding company

Sales	2,212,082	2,216,883
Purchases	4,887	30,785
Rent	2,220	2,019
Shared resources cost	20,099	14,629
Reimbursement of expenses	3,402	1,444
Partial manufacturing - sales	54	-

International Steels Limited**Notes to the Condensed Interim Financial Information (Un-audited)***For the quarter ended 30 September 2018*

	Quarter ended	
	30 September 2018	30 September 2017
	----- (Un-audited) -----	
	----- (Rupees in '000) -----	
Other related parties		
Sales	<u>334,119</u>	<u>429,472</u>
Purchases	<u>12,535,123</u>	<u>4,989,649</u>
Rental income	<u>487</u>	<u>481</u>
Services*	<u>4,823</u>	<u>4,567</u>
Remuneration to Key Management Personnel	<u>51,193</u>	<u>63,818</u>
Payment to staff retirement funds	<u>10,741</u>	<u>13,556</u>

* Services includes premium against insurance policies

23. OPERATING SEGMENTS

23.1 This condensed interim financial information has been prepared on the basis of a single reportable segment.

23.2 Revenue from sales of steel products represents 99% (2018: 99%) 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 Cold Rolling, Galvanizing and Colour Coating Plants and currently any excess electricity is sold to KE.

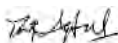
23.3 93% (2018: 92%) of sales of steel sheets are domestic sales whereas 7% (2018: 8%) of sales are export / foreign sales.

23.4 All non-current assets of the company as at 30 September 2018 are located in Pakistan.

24. DATE OF AUTHORISATION FOR ISSUE

24.1 Corresponding figures have been reclassified for the purposes of comparison and better presentation. These reclassifications have no impact on previously reported profit or equity.

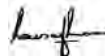
24.2 This condensed interim financial information was authorised for issue by the Board of Directors on 16 October 2018.



Tariq Iqbal Khan
Director & Chairman
Board Audit Committee



Mujtaba Hussain
Chief Financial Officer



Yousuf H. Mirza
Chief Executive Officer



Shaping Tomorrow

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