INTERNATIONAL STEELS LIMITED

Shaping Tomorrow

AnnualReport 2011

In the name of Allah,
Most Gracious, Most Merciful.

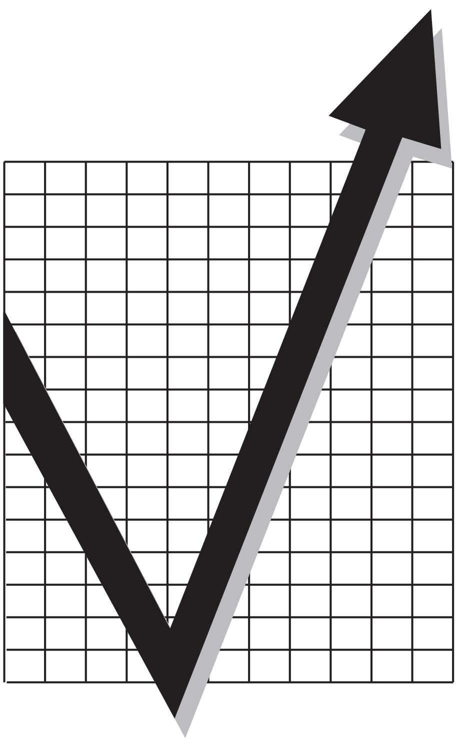
This is by the Grace of Allah.

Contents

Our Vision

Our Vision

To be the premium manufacturer of Flat Steel Products in Pakistan.



Our Mission

Our Mission

To establish our presence in the steel industry by providing superior quality products and reliable services, catering to the customers' needs, at competitive prices; thereby generating value and close partnership. We take pride in providing an environment which cultivates teamwork and leadership capabilities to manage our company as a model corporate citizen, complying with highest standards of business ethics.

Our Values

We share core set of values which incorporate:

Integrity:
We are committed to maintain highest ethical standards and ensure a culture of trust and openness internally as well as externally.

Diversity:
We are an equal opportunity employer with zero bias against gender, race, ethnicity and religion and encourage openness, expression of opinions etc.

Respect for People:
We are committed to foster a culture where people come first and we hire, develop and retain our people to work as synergized teams in line with our mission and vision.

Fairness:
We are committed to implement such policies and procedures which translate into fair and equitable treatment of all stakeholders, including selection, hiring, rewarding and compensating all employees.

Our Policy

International Steels Limited is a quality conscious company committed to economies of scale.

It shall continually enhance the effectiveness of its quality, environmental, occupational health and safety management systems. ISL shall be an ethical company and shall conform to all applicable legal requirements, as well as to fulfil and exceed the needs of all stakeholders.

Team work, continual improvement, prevention of pollution, waste reduction, protection of environment, care for health and safety of people and equipment, reduction of accidents, improvement in safety practices, a fair return to shareholders and fulfillment of social responsibility shall be the hallmark of all activities.

Code of Conduct & Ethical Practices

Code of Conduct & Ethical Practices

- The Company's policy is to conduct its business with honesty and integrity and be ethical in its dealings showing respect for the interest of those with whom it has a relationship.

- The Company is committed to comply with all laws and regulations. The Board and Management are expected to familiarize themselves with laws and regulations governing their individual areas of responsibility and not to transgress them. If in doubt they are expected to seek advice. The company believes in fair competition and supports appropriate competition laws.

- The Company does not support any political party or contributes funds to groups whose activities promote party interests. The company will promote its legitimate business interest through trade associations.

- The Company is committed to provide products, which consistently offer value in terms of price and quality and are safe for their intended use, to satisfy customer needs and expectations.

- The Company is committed to run its business in an environmentally sound and sustainable manner and promote preservation of the environment.

- The Company recognizes its social responsibility and will contribute to community activities as a good corporate citizen.

- The Company is committed and fully adheres to the reliability of financial reporting and transparent transactions.

- The Company is committed to recruit and promote employees on merit, and provides safe and healthy working conditions for all its employees. It also believes in maintaining good communications with employees.

- Employees must not use company information and assets for their personal advantage. Conflict of interest should be avoided and disclosed where they exist and guidance sought.

- It is the responsibility of The Board to ensure that the above principles are complied with, and Sub-committees constituted by the Board support their compliance.

- It is recognized that enforcement of laws and regulations is the responsibility of the Management.

Our Business

Cold Rolled Steel

Cold Rolled Steel Coils are manufactured under international quality control standards and offered in various varieties of properties. It is easily formable and best for chroming. Strict quality control, modern facilities and innovative technology provide the uniformity in thickness throughout the production run. Clean and smooth surface finish along with the outstanding workability allows it to be used in many industries such as automobile, home appliances, furniture, construction and many industrial machinery vending. The high quality Cold Rolled Steel is produced on the most advanced equipment imported from Europe and other parts of the world. The installed capacity of Cold Rolled steel is 250,000 tons per annum.

Hot Dip Galvanized Steel

Hot Dipped Galvanized Coils [HDGC] are manufactured in a state of art Hot dipped galvanizing plant and the installed capacity is 150,000 tons per annum. The HDGC is used in construction activities such as roofing, cladding, doors, manufacturing of electrical appliances such as ovens, refrigerators, freezers and elevators and in automotive parts etc.

Steel Sheets

ISL also has the equipment to produce both Cut-to-Length Sheets and Profiled Sheets for industrial and commercial customers. ISL's Steel Sheets, based on the latest construction technology, enables individuals and contractors to clad customized buildings quickly, efficiently, cost effectively and in an environment friendly manner.

Our Certifications

ISL is certified with the following International Standards:

- ISO 9001 Quality Management System
- ISO 14001 Environmental Management Systems
- OHSAS 18001 Occupational Health & Safety Management System

Corporate & Management Directory

Board of Directors

Chairman	Mr. Kemal Shoaib	Independent Chairman
Managing Director & CEO	Mr. Towfiq H. Chinoy	Executive Director
Directors	Mr. Mustapha A. Chinoy Mr. Kamal A. Chinoy Mr. Tariq Iqbal Khan Mr. Kamran Y. Mirza Syed Salim Raza Syed Hyder Ali Mr. Otomichi Yano	Non-Executive Director Non-Executive Director Independent Director Independent Director Independent Director Independent Director Non-Executive Director
Chief Financial Officer:	Mr. Liaquat Ali Tejani	
Company Secretary:	Ms. Neelofar Hameed	
External Auditors:	M/s KPMG Taseer Hadi & Co.	
Bankers:	Habib Bank Ltd. United Bank Ltd. Faysal Bank Ltd. Bank Al Habib Ltd. MCB Bank Ltd. Standard Chartered Bank Ltd. NIB Bank Ltd. Meezan Bank Ltd. Bank Alfalah Ltd. Dubai Islamic Bank (Pak) Ltd. Habib Metropolitan Bank Ltd. HSBC Bank Middle East Ltd. Allied Bank Ltd.	
Legal Advisor:	Mrs. Sana Shaikh Fikree	
Registered Office:	101, Beaumont Plaza 10, Beaumont Road, Karachi-75530 Phone: +9221-35680045-54 UAN: 021-111-019-019 Fax: +9221-35680373 E-mail: inquiries@isl.com.pk	
Branch Office:	Chinoy House, 6 Bank Square Lahore-54000 Phone: +9242-37229752-55 UAN: 042-111-019-019 Fax: +9242-37220384 E-mail: Lahore@isl.com.pk	
Website:	www.isl.com.pk	
Share Registrar:	THK Associates (Pvt.) Ltd. Ground Floor, State Life Building 3 Dr. Ziauddin Ahmed Road Karachi-75530 Phone: +9221-111-000-322 Fax: +9221-35655595 Email: secretariat@thk.com.pk	

Operating & Financial Highlights

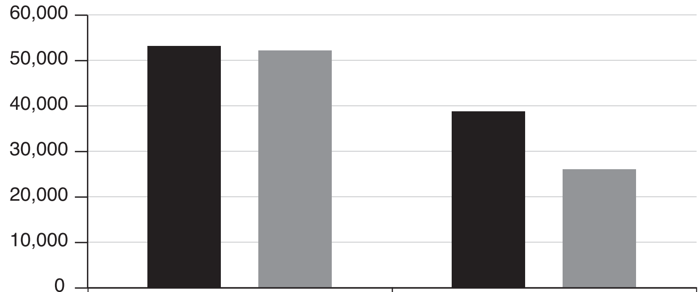
	2011	2010
	(Rupees in million)	
FINANCIAL POSITION		
Balance sheet		
Property, plant and equipment	8,788	-
Other non current assets	16	-
Current assets	5,495	0.37
Total assets	14,299	0.37
Share capital	4,350	0.3
Reserves	(92)	(13)
Total equity	4,258	(12)
Non current liabilities	4,432	-
Current liabilities	5,609	13
Total liabilities	10,041	13
Total equity & liabilities	14,299	0.37
Net current assets	(114)	(12)
OPERATING AND FINANCIAL TRENDS		
Profit and Loss		
Net turnover	3,691	-
Gross profit	359	-
EBITDA	483	(13)
Operating profit	241	(13)
Profit / (loss) before taxation	(62)	(13)
Profit / (loss) after taxation	(79)	(13)
Capital expenditure (addition during the year)	1,027	-
Cash Flows		
Operating activities	(4,799)	(12)
Investing activities	(997)	-
Financial activities	(1,000)	13
Cash & cash equivalents at the end of the year	(4,796)	(0.4)

KEY INDICATORS

		2011	2010
		(Rupees in million)	
Profitability			
Gross profit ratio	%	9.46	-
Net profit / (Loss) ratio	%	(2.15)	-
Return on Shareholders' Equity	%	(1.86)	102.08
Operating profit on Capital Employed	%	2.77	102.08
Return on total assets	%	(0.56)	(3,438.69)
Weight avg: cost of debts	%	6.25	-
EBITDA margin	%	13.08	-
Capital efficiency			
Inventory turnover ratio	(x)	0.88	-
Inventory turnover in days	days	207	-
Debtor turnover ratio (KESC)	(x)	1.99	-
Debtor turnover in days (KESC)	days	156	-
Creditor turnover ratio	(x)	18.33	-
Creditor turnover in days	days	10	-
Total assets turnover ratio	(x)	0.26	-
Fixed assets turnover ratio	(x)	0.42	-
Operating cycle in days	days	207	-
Capital employed turnover ratio	(x)	0.43	-
Investment			
Earnings per share - basic	Rs.	(0.22)	(424.80)
Earnings per share - diluted	Rs.	(0.22)	(424.80)
Break-up value per share	Rs.	9.79	(416)
Market value per share at the end of the year	Rs.	13.61	unlisted
Market value per share high during the year	Rs.	15.06	unlisted
Market value per share low during the year	Rs.	13.26	unlisted
Price earning ratio	(x)	(62.47)	-
Financial gearing			
Total debt : Equity ratio	(x)	70:30	-
Interest cover ratio	(x)	0.84	39.77
Liquidity			
Current ratio	(x)	0.98	0.03
Quick ratio / Acid test ratio	(x)	0.30	0.03
Value Addition			
Employees as remuneration	Rs. in million	147	-
Government as taxes	Rs. in million	1,432	-
Financial charges to providers of finance	Rs. in million	383	(0)

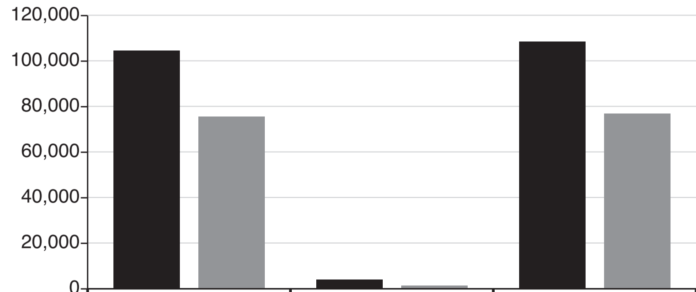
Key Financial Indicators

PRODUCTION (IN TONS)



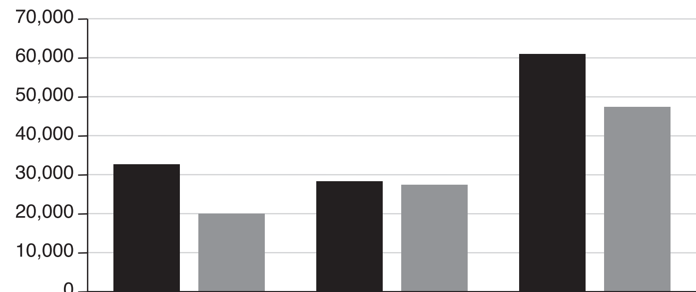
	Cold Rolled Coils	Galvanized Coils
Actual after Hive Down	53,228	38,796
Actual Jan to June 2011	52,230	26,027

RAW MATERIAL PURCHASES (IN TONS)



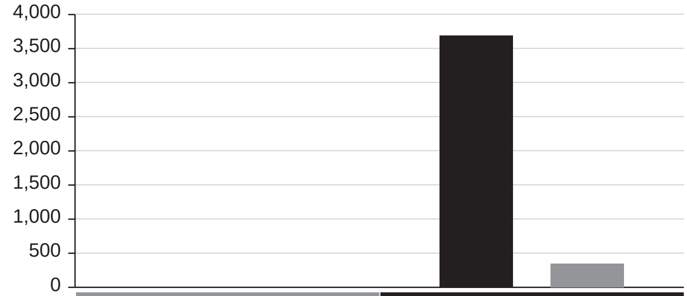
	Steel	Zinc	Total (Tons)
Actual after Hive Down	10,4571	4,050	108,621
Actual Jan to June 2011	75,651	1,387	77,038

SALES (IN TONS)



	Galvanized Coils	Cold Rolled Coils	Total (Tons)
Actual after Hive Down	32,764	28,310	61,074
Actual Jan to June 2011	20,087	27,419	47,506

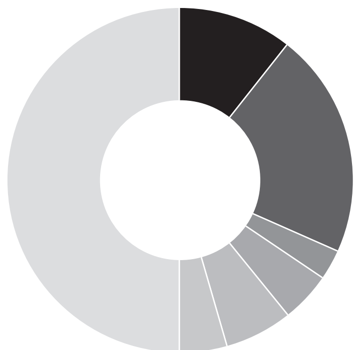
NET SALES / GROSS PROFIT



	2010	2011
Net Sales	-	3,691
Gross Profit	-	349

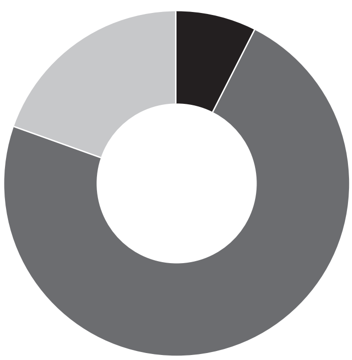
CONVERSION COSTS

Salaries , Wages	70,629
Depreciation	139,798
Store and Spr's Cons'd	18,838
Repairs and Maintanance	31,302
Electric, Gas and Water	42,278
Others	29,767
Total	332,612



VALUE ADDITION AND DISTRIBUTION DURING 2011

Rs. 1,947 Million



Employees as remuneration	147
Government as Taxes	1,432
Retained within the Business	-
Financial Charges	383

PRODUCT WISE SALES BREAK UP DURING 2011

Rs. 3,691 Million

Galvanized Coils	1,610
Cold Rolled Coils	2,064
Bi-product zinc	17

Financial Calendar

RESULTS		
Third quarter ended 31 March 2011	Announced on	9-May-11
Year ended 30 June 2011	Announced on	8-Aug-11

OFFER FOR SALE OF SHARES		
Hive Down from International Industries Ltd. as per Scheme of Arrangement approved by the High Court of Sindh.		24-Aug-10
Approval by SECP for Offer for Sale of Shares		1-April-11
Book Building	Started	12-April-11
	Closed	14-April-11
Public Subscription	Started	3-May-11
	Closed	4-May-11
Gong Ringing & Listing at Karachi Stock Exchange		1-June-11
ISSUANCE OF ANNUAL REPORT		17-Aug-11
4TH ANNUAL GENERAL MEETING		8-Sep-11

Investor Relations Contact
Ms. Neelofar Hameed (Company Secretary)
Email:neelofar.hameed@isl.com.pk **UAN:** +9221 111 019 019 **Fax:** +9221 3568 0373

Enquiries concerning lost share certificates, changes of address, verification of transfer deeds and share transfers should be directed to the Shares registrar at the following address:

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:** secretariat@thk.com.pk

Board of Directors

Board of Directors

Mr. Kamal A. Chinoy
Director

Mr. Kamal A. Chinoy is the C.E.O. of Pakistan Cables. He has a 'B.Sc. Economics' degree from The Wharton School, University of Pennsylvania, USA. After an internship with Banque Rothschild in Paris he worked in London and UAE, returning to Pakistan in 1980. He is Honorary Consul General of Cyprus. Mr. Kamal Chinoy is the President of the executive committee of the International Chamber of Commerce (ICC), Pakistan and also the President of the Management Association of Pakistan.

He has served as the Chairman of the Aga Khan Foundation (Pakistan), NGO Resource Centre and Aga Khan University Foundation (Pakistan) and also as a Director of Pakistan Centre of Philanthropy. He is a Director of Atlas Battery Ltd., Pakistan Security Printing Corp. (Pvt.) Ltd. and International Industries Ltd.

Mr. Kemal Shoaib
Chairman

Mr. Kemal Shoaib holds a M.S. degree in Chemical Engineering from M.I.T., Cambridge, Massachusetts. He is currently a consultant on the capital market and serves on the Board of several companies including ZIL Ltd., Century Paper & Board Mills Ltd., Premier Box (Pvt.) Ltd., International Advertising (Pvt.) Ltd., Safeway Fund Ltd., Al-Aman Holdings (Pvt.) Ltd. and International Industries Ltd. He has been associated with such prestigious organizations such as Wyeth Laboratories (Pakistan) Ltd., Bank of Credit and Commerce Intl., S.A. London, Independence Bank, California Commerce Bank Limited, Karachi, Indus Bank Ltd. and Sana Industries Ltd.

Mr. Mustapha A. Chinoy
Director

Mr. Mustapha A. Chinoy is a B.Sc in Economics from Wharton School of Finance, University of Pennsylvania, USA with majors in Industrial Management and Marketing. Upon return from United States he took up the position of Marketing Manager at International Industries Ltd. He is currently the Chief Executive of Intermark (Private) Ltd. He is also on the Board of Pakistan Cables Ltd., Travel Solutions (Pvt.) Ltd., Global E-Commerce Services (Pvt.) Ltd., International Industries Ltd. and Security Papers Ltd. He has previously served on the Board of Union Bank Ltd. until it was acquired by Standard Chartered Bank. He is the Honorary Consul General of Greece in Pakistan.

Board of Directors

Syed Salim Raza
Director

He served as Governor of the State Bank of Pakistan from January, 2009 to June, 2010. From February 2006 to January 2009, Mr. Raza has been the Chief Executive Officer of the Pakistan Business Council (PBC) which is an organization established by some of Pakistan's largest business houses focusing on expanding the capacity of Pakistan's businesses through development of Corporate Law, Capital Markets and Business Practice Infrastructure. Previously Mr. Raza had spent 36 years with Citibank in positions that included Country and Regional Management, across the Middle East, Africa and the UK, Central and Eastern Europe, based in London from 1989 to 2006. His business experience covers Credit and Corporate Finance, Real Estate and Global Asset (Bonds & Equities) Management. Mr. Raza was Country Head for Citibank in Pakistan from 1983 - 1987.

Mr. Towfiq H. Chinoy
Chief Executive Officer & Managing Director

Mr. Towfiq Habib Chinoy, the Managing Director and CEO has been associated with International Industries Ltd. since 1964. He is presently the Non- Executive Chairman of New Jubilee Insurance Company Ltd., Packages Ltd., Pakistan Cables Ltd. and HBL Asset Management Ltd. He holds directorship of BOC Pakistan Ltd., New Jubilee Life Insurance Co. Ltd., IGI Investment Bank Ltd. and He is also Trustee of Mohatta Palace Gallery Trust and Director of the Pakistan Centre of Philanthropy. Mr. Chinoy has served as the Member of the Engineering Development Board, Government of Pakistan, the Advisory Board of Ports and Shipping Sector, Ministry of Communications, Director on Board of Port Qasim Authority, National Refinery Ltd and Pakistan Business Council. He has held various appointments at the Aga Khan Economic Planning Board.

Mr. Kamran Y. Mirza
Director

Mr. Mirza is a fellow Chartered Accountant of the Institute of Chartered Accountants in England & Wales. After serving at A.F. Fergusons & Co. for 2 years, he joined Abbott Laboratories, where he rose to CEO in 1977, and remained in that post for 29 years. Presently he is the CEO of Pakistan Business Council and is also a member of the Boards of Abbott Laboratories, Chairman-Pak Mercantile Exchange Ltd. (formerly; NCEL), Board of Investment, Competitive Support Fund, ICAP and Planning Commission Government of Pakistan. He is also the Chairman of the Task Force for the Pharmaceutical Industry set up by Planning Commission. Previously he served as Chairman KSE, Chairman EPZA, President OICCI, American Business Council and as a director on the Boards of PSO, NBP, Pakistan Textile City and NAVTEC etc. He has also remained on Economic Advisory Board of Federal Govt. and Sindh Wild Life Board.

Syed Hyder Ali
Director

Mr. Hyder Ali is a Chemical Engineer from University of Michigan, after which he has done his M.S in Paper Technology from The Institute of Paper Chemistry, Appleton, Wisconsin, USA; and subsequently also attended the Program for Management Development from Harvard Business School, Boston, MA, USA. In 1995 he joined IGI Insurance as MD where he served for 10 years, after which he joined Packages Limited, Lahore as Managing Director and CEO, a position which is held by him till date. He is also a Co-author of two USA patents for recycling of milk cartons and drink boxes as well as being the Honorary Consul-General of Sweden in Lahore since 1998. He is also member of Boards of IGI Insurance, ICC Pakistan, Nestle Pakistan Limited, Packages Limited, Pakistan Center for Philanthropy, Sanofi Aventis, Tetra Pak Limited, WWF Pakistan etc.

Mr. Tariq Iqbal Khan
Director & Chairman Board Audit Committee

Mr. Khan is a fellow of Institute of Chartered Accountants, Pakistan, with diversified experience of more than 40 years. He was pivotal in founding Islamabad Stock Exchange where he subsequently served as President as well. He has also served as the Member Tax Policy & Co-ordination in the Central Board of Revenue, followed by being appointed as Commissioner SECP, where he was instrumental in restructuring the SECP. He also held the charge of Chairman SECP (acting) for a brief period. He served on prominent national level committees like Committee for formulation of Take Over law. CLA Committee for review of Security and Exchange Ordinance 1969, Committee for formulation of CDC law and regulations and Prime Minister's Committee for Revival of Stock Market. He served as the Chairman and MD of NIT for more than 8 years, which played the role of a catalyst in establishing, strengthening and stabilizing the capital markets. Additionally, during this period, he held the charge of Chairman & MD of ICP for almost 5 years. He has served on Boards of the top companies like CDC, Faysal Bank, Bank Al Habib, GSK, ICI, Siemens, and Packages etc. Presently he is a member of the Boards of Attock Refinery, Fauji Energy Limited, Interstate Gas Systems Limited and Silk Bank.

Mr. Otomichi Yano
Director

Mr. Otomichi Yano majored in Metallurgy at Nagoya Institute of Technology. He is presently the General Manager of International Steel Sheet & Slab Business Department of Sumitomo Corporation, Tokyo Japan and has 29 years of diversified experience in working in Metal Division, Rolled Steel Division, and Steel Sheet & Strip International Trade etc. He has also held international assignments in Thailand, Indonesia and USA while representing Sumitomo Corporation as well as Nichimen Corporation.

Directors' Report

We are pleased to submit our 4th Annual Report which is the first Report as a public listed concern, along with the audited financial statements for the year ended June 30, 2011.

GLOBAL STEEL SCENARIO

Subsequent to the global financial meltdown in 2008-09, the recovery in steel sector showed a significant shift in demand from the developed world to Asian countries. The associated production in the BRICK (Brazil, Russia, India, China and Korea) countries continued to be a key driver in growth of steel sector. The prices of raw material [Iron Ore and Coke] fluctuated heavily due to demand fluctuation and floods in Brazil and Australia, the two significant raw material providers. The scarcity of supply of raw material resulted in increase of price of steel and the cost of Hot Rolled Steel spiked to well over USD 825/= per ton in 2011. The prices however have relatively stabilized shortly after this spike. In 2011-12, the emerging markets of Asia are expected to witness strong growth in their steel industries due to robust demand for construction and civil engineering, automotive and mechanical engineering especially in India and China; however the developed world may not see the same growth rate. In 2011, crude steel production costs are likely to increase due to forecast price increases for iron ore, coking coal and energy. The main criteria for profitability of all steel players would however remain same i.e. well managed operations and adequate capital expenditure in line with market trends. The world forecast of GDP growth for 2011-12 is at 4.5%; the mature economies are expected to grow at 2.6% while the emerging economies (led by China and India) are expected to grow at 6.5%.

PAKISTAN ECONOMY

As a whole, 2010 was one of the worst years in economic history of Pakistan. The poor performance of the economy due to poor planning and governance was aggravated further by floods in summer. Pakistan needs billions of rupees for the rehabilitation of affected people and for the reconstruction of infrastructure but government is handicapped due to shortage of resources. The demand for steel is likely to increase with the pace of development which is picking up.

THE COMPANY

The concept of this project was conceived in 2007 and a company was incorporated on 3rd September 2007, registered at Karachi as a public unlisted company as CRGS Limited. On 8th November 2007, the name of the company was changed to its present name International Steels Limited.

The project proposal was approved by the Board of International Industries Ltd (IIL) (the parent Company) in July 2008, to meet the rising demand of steel in the engineering, automobile and construction industries, then being met through exports. IIL then invested in a Steel Project with a capacity of 250,000 tpa cold rolling mill and a 150,000 tpa metal coating steel plant, located at plot of 32 acres in Landhi Town, Karachi. The project was completed at a cost of PKR 8.700 billion, which includes Rolling Mills, Galvanizing Line, Pickling Line, Acid Regeneration unit, Reverse Osmosis Plant and a 19.2MW combined cycle co-generation gas fired power plant.

In March 2009, the Company implemented a Scheme of Arrangement for reconstruction of IIL by hive down of the Steel project from IIL and vesting of the Steel Project in International Steels Ltd (ISL), under the orders of Sindh High Court. The hive down scheme also included acquisition of shares of ISL by IIL, equivalent to the net asset value of ISL as on completion date. The certificate of commencement of business for ISL was issued on 11th February 2009. IFC and Sumitomo Corporation, Japan are the two strategic Pre-IPO investors in ISL. In April 2011 the share price of ISL was determined at Rs 14.06 per share through a Book building exercise, when IIL offered 14.22 % shares to Institutional Investors and High Net worth individuals through a Dutch auction process, which was approved by SECP & KSE. JFE Steel Corp, Japan, purchased 4.74 % shares reserved for foreign investors at the price determined through Book building. The Offer for general Public for 6.32% shares was held in May 2011, which completed this divestment scheme, with IIL retaining 56.33% shares of ISL.ISL was listed on Karachi Stock exchange on June 1, 2011.

COMPANY'S OPERATIONS

The company commenced trial production in the last quarter of 2010. The commercial operations started from 01 January 2011.

Sales

Galvanized Steel:

Galvanizing started operations and made available over 12,000 tons in various thickness up to December 2010. Sampling of the product was done and sold whatever quantities were available. The market response was good. The product is acceptable in the market both in terms of quality and pricing. Supply position from January 2011 improved and quality stabilized. The company has sold 20,000 tons of Galvanized coils all over Pakistan through newly appointed dealers' network during the period January 2011 to June 2011. The company now has a reliable network of nationwide dealers appointed in all the cities and major towns. So far we have 30 appointed dealers, 12 in South and 18 in North. We are in the process of selecting more dealers to further strengthen our distribution network and improve product availability.

Cold Rolled Steel:

The company has sold 27,500 tons of cold rolled coils to the holding company, International Industries Limited during the period January 2011 to June 2011. We have done sampling for other major clients such as, National Refinery, PEL, Dawlance, Atlas Honda and Pak Suzuki etc. Demand for CR is strong from industrial users.

The company is exploring the export markets of Afghanistan, Sri Lanka, South Africa and Iraq. The efforts have borne fruits and the first export has been made to Afghanistan in

July 2011. With the increase in production capacity in the coming years, the exports are likely to grow.

Production

All the plants have been fully commissioned. They are expected to be completed in the first quarter of the next financial year. The company produced 39,000 tons of galvanized coils since inception to June 2011. Of the above quantity, 22,000 tons have been produced from our own cold rolled coils, the balance 17,000 tons have been produced from imported cold rolled coils. The quality continues to improve, with prime production increasing to 93%. The cold rolling mill has produced 53,200 tons since commencing operations in December 2010. Of the above quantity 34,700 tons has been produced in the April ~ June 2011 quarter, thus achieving a production capacity of approximately 60% within a short span of three months. The mill is operating satisfactorily and we hope substantial increase in production capacity.

Financial

The net turnover for the post commercial operations was Rs. 3,691 million with a gross profit of 9.5%. The loss before taxation for the year is Rs.62 million. The loss before taxation for the period up to 31 December 2010 of Rs. 60 million consists of expenses related to increase in authorized share capital and stamp duty for issuance of shares and financial charges on purchase of raw materials.

The financial expenses for the period were Rs. 383 million. At year end 86 % of the short term borrowings were LIBOR based with a weighted average cost of borrowings of 3.56%. Balance of short term borrowings (14 % of total) were at a weighted average cost of borrowings of 14.76%. During the year the company incurred an exchange loss of Rs. 38.6 million because of the USD based borrowings. However this loss was more than compensated by the reduced interest cost of LIBOR based borrowings.

The repayment of Long Term Financing Facility (LTFF) has commenced. An amount of Rs. 50.3 has been repaid on account of LTFF.

The net turnover for the post commercial operations (January - June 2011) was Rs. 3,691 million with a gross profit of 9.5%. **The net loss before taxation for the post commercial operations was Rs. 2.4 million.** The loss before taxation for the year is Rs. 62 million. The loss before taxation for the period up to 31 December 2010 of Rs. 60 million consists of expenses related to increase in authorized share capital and stamp duty for issuance of shares and financial charges on purchase of raw materials.

CASH FLOW STRATEGY

The company projects cash inflows and outflows on a regular basis as well as maintains cash positions on a daily basis.

To keep the weighted average cost of borrowings at the minimal, the company keeps a close watch on the LIBOR and KIBOR rates of borrowings. The ratio of LIBOR based and KIBOR based borrowings as mentioned above was 86: 14.

SALE OF ELECTRICITY TO KESC

The power plant continues to operate satisfactorily. As the power plant is synchronized with the KESC grid all excess power is automatically sold to KESC. The net earnings during the year amount to Rs. 117.7 million. We are having problems with the recovery of dues from KESC in recent months due to on-going strike at KESC.

We are also having a considerable number of electricity interruptions with our generators owing to faults in the KESC grid. Synchronization at the 132 KV level seems to be the only option and the management is in dialogue with KESC to arrange this.

CONTRIBUTION TO NATIONAL EXCHEQUER

The company has made total contribution of Rs. 1,417 million during the year towards National Exchequer comprising of income tax, sales tax, duties and other taxes.

SOCIAL RESPONSIBILITIES

12 scholarships were awarded to the deserving students of NED Engineering University.

ETP (Effluent Treatment Plant) and STP (Sewerage Treatment Plant) were commissioned to have a greener environment by treating the waste of the factory. The items which pose a potential hazard for the humans and environment are banned in ISL premises. Smoking is only allowed in designated areas. The Acid regeneration plant ensures almost 100% recovery of the spent acid hence there are effectively no sludge disposed, ensuring a green environment.

HEALTH, SAFETY & ENVIRONMENT

Lloyds has issued ISL the ISO 9001, ISO 14001 & OHSAS 18001 certificate against the following scope in after the completion of “Manufacturing & Marketing of Cold Rolled Steel Coils & Sheets, Galvanized Steel Coils, Galvanized Steel Sheets (Plain & Profile) & Generation of Electricity”.

HUMAN RESOURCES

ISL has been registered with concerned organizations, like EOBI, SESSI, Labor Directorate, Employers' Federation of Pakistan, Education CESS, Training Directorate for Apprenticeship Scheme, hospitals, etc.

The management's main focus is on keeping and maintaining Industrial Peace, so as not lose any productive operational time. Most of the workforce was hired from the nearby vicinity to have a continuity of operations.

As the company started hiring the relevant staff in FY 2010-11, in the initial phase the emphasis was on “Selection &

Directors' Report

Recruitment"; but now, the focus will be on "Training & Development".

BUSINESS RISKS AND CONCERNS

Raw Material Supply / Price Risk

The major risk that the company faces is the adverse price movement or non-availability of raw materials. It may hinder smooth production.

The Group has been in the steel industry for more than 45 years and has a credible market reputation. The company is expected to capitalize on the expertise of management to procure raw material and enjoy established contacts with key suppliers. This combination will assist the company to effectively plan and manage inventory levels, which is the key to success in the steel sector.

The company will also benefit from presence of Sumitomo Corporation, one of the largest Japanese corporate and JFE Steels which is the largest steel producer in Japan. Since inventory management is key to success in the steel sector, the company will capitalize on the expertise of its foreign shareholders for inventory procurement and management.

Operational Risk

The cold rolling mill and the galvanized sheet plant is first of its kind project in Pakistan.

The Company's management has adequate experience to manage the operations. Further, the Company has procured services of two foreign experts, one to manage the operations of the Cold Rolling Mill and the other to manage the operations of the Sheet Galvanizing Plant of the Company for a period of two years. During this time, they will train local engineers thus ensuring preparation of indigenous resource for the Company.

Internal controls and their adequacy

The Board Audit Committee has been entrusted with the task to assess the company's processes relating to its risk and control environment. The report of the Board Audit Committee relating to controls and their adequacy is given on page 23.

GRATUITY AND PROVIDENT FUNDS

All employees of IIL who were employed wholly or principally for the purpose of the Steel Project and who have signed letters agreeing to accept the employment with the Company in lieu of their employment with IIL were transferred to the Company on 24 August 2010. The company is in the process of establishing approved funded gratuity scheme and recognized provident fund for the benefit of its employees as it is expected that the same would be established in near future.

Pending the establishment of the Provident Fund Trust and Gratuity Fund Trust of the Company the contributions are being paid to Provident Fund Trust and Gratuity Fund Trust of IIL.

PATTERN OF SHAREHOLDING

A statement on the pattern of shareholding along with a pattern of shareholding of certain classes of shareholders, where disclosure is required under the reporting framework and the statement of shares held by the directors and executives as on June 30, 2011 is placed on Page 62.

BOARD CHANGES

The Board of Directors of the Company has nine (09) positions and was elected on November 22, 2010. Mr. Ateequllah however resigned in May 2011 and Mr. Otomichi Yano of Sumitomo Corporation, Japan, was appointed as a Director within the prescribed limit to fill in the vacant position on the Board.

FUTURE OUTLOOK

IIL has been the leading manufacturer and seller of GI pipes, steel tubes, API pipes and polyethylene pipes for more than 40 years. Your company shall have huge benefits of having senior management mostly with IIL experience, established distribution networks, technical expertise, established contacts with key raw material suppliers and unmatched reputation in the steel industry.

The company started commercial operation in January 2011 and within six months has achieved gross profit of 9.5%. The management envisages expansion of its Cold Rolled Manufacturing Line as well as Galvanizing Line in near future, after which production capacity would enhance by almost 40%. The management has already taken care to install / plan for the necessary infrastructure for future expansion.

ACKNOWLEDGEMENTS

The Board would like to thank all employees, customers, suppliers, shareholders, bankers and other stakeholders for their support and loyalty which has helped the company through the difficult phase of hive down operations, initial public offering, trial productions and finally the six months of commercial operations. We have a good and solid start and hope to capitalize on it in the future. We pray to Allah for the continuous prosperity of your company.

For and on behalf of International Steels Limited

Kemal Shoaib
Chairman
Board of Directors

Karachi:
8 August, 2011

Corporate Governance

Compliance Statement

The Board of Directors has complied with the Code of Corporate Governance, the listing requirements of Karachi Stock exchange and the Financial Reporting framework of Securities & Exchange Commission of Pakistan.

The Directors confirm that that the following have been complied:

- The financial statements have been prepared which fairly represent the state of affairs of the company, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the company have been maintained as required under Companies Ordinance, 1984.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable prudent business judgment.
- International Accounting Standards as applicable in the country have been followed.
- The system of internal control has been effectively placed.
- There are no significant doubts upon company's ability to continue as a going concern.
- There is no material departure from the best practices of corporate governance as per regulations.

The Board

The Board of Directors originally comprised of three (03) directors which was increased to nine (09) members in November 2010, prior to application to SECP for being listed as a public company. Presently the Board consists of Nine [09] eminent directors possessing knowledge, experience, and skills in various professions, with the leadership and vision to provide oversight to the company. The Board is headed by an Independent Chairman and out of 9 directors, 6 are independent directors, including the Chairman. The Board has constituted Audit Committee, HR Committee and Strategic Committee. The composition, role and responsibilities of the Committees are clearly defined in their Terms of References.

Role and Responsibilities of the Chairman and Chief Executive:

The Chairman and the Chief Executive have separate distinct roles. The Chairman has all the powers vested under the Code of Corporate Governance and presides the Board Meetings. The Chief Executive performs his duties under the powers vested by the law and the Board recommends and implements the business plans and is responsible for overall control and operation of the company.

Audit Committee

The Audit Committee comprises of the following:

- **Mr. Tariq Iqbal Khan**
  Chairman - Independent Director
- **Mr. Kamal A. Chinoy**
  Member - Non Executive Director
- **Mr. Kamran Y. Mirza**
  Member - Independent Director
- **Ms. Neelofar Hameed**
  Secretary - Company Secretary

Terms of Reference of Audit Committee:

The salient features of Audit Committee's Terms of Reference are:

- The Audit Committee [AC] shall comprise three members, with majority being independent directors who will be appointed / nominated by the Board.
- The members of the Audit Committee shall preferably be financially literate, have the necessary experience working and at least one of the members shall possess the accounting or financial management qualification of an expert in this field.

Corporate Governance

- The AC shall be reconstituted after each term of Board in the following meeting of the Board after its election.
- The Chairman/ Chairperson of the Audit Committee shall be appointed by the Board of Directors, while the Secretary to the Audit Committee shall be the Company Secretary.
- The Committee shall meet at least four [4] times in a financial year or more frequently as the circumstances may dictate.
- The Chairman AC shall ensure that all the decisions of the AC have been recorded properly and communicated to the Board.
- The Audit Committee shall periodically review its Charter and improve/ amend it according to changes in the laws and regulations and global best practices from time to time.
- The AC shall review the quarterly, half yearly and annual financial statements of the company, including company's significant issues, specific disclosures and judgments used in preparing the same especially those regarding valuation of assets, liabilities and any significant legal matters etc and consider and review any material changes in the financial statements which may have any significant effect on the bottom line of the company.
- The AC shall review the scope of the External Auditors including but not limited to the independence, objectivity and effectiveness of the audit process, the terms of appointment of the External Auditors annually and recommend the findings to the Board for onward approval from the shareholders of the company.
- Review, no less than annually with the External Auditors, Internal Auditors and the management about significant issues regarding financial reporting and judgments regarding preparation of financial statements, the flags raised by the external auditors in their report and any suggestions made in the said report for improving the flow of information and disclosures.
- Review the External auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- Review and discuss with External auditors at least once in a year the major aspects of their report without the management being present.
- Review the scope of the Internal Audit function, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- Review and prepare report on any investigative matters where flags have been raised by the Board of Directors and/or external auditors and/ or internal auditors and/ or management.
- Review and provide oversight to prepare the “Code of Conduct and Ethical Practices” annually and ensure that the same is signed and adopted by the Directors as well as the employees.
- The Audit Committee shall also assist the Board in any other task assigned.

Human Resources & Remuneration Committee:
The Human Resource & Remuneration Committee of the Board is as follows:

- **Mr. Kemal Shoaib**
  Chairman - Independent Director
- **Mr. Towfiq. H. Chinoy**
  Member - Managing Director & CEO
- **Mr. Mustapha A. Chinoy**
  Member - Non-Executive Director
- **Syed Hyder Ali**
  Member - Independent Director
- **Mr. Raheel Ahmed**
  Secretary - Head of Human Resources

Strategic Committee :
The Strategic Committee of the Board is as follows:

- **Syed Salim Raza**
  Chairman - Independent Director

- **Mr. Towfiq. H. Chinoy**
  Member - Managing Director & CEO

- **Mr. Mustapha A. Chinoy**
  Member - Non-Executive Director

- **Mr. Otomichi Yano**
  Member - Non-Executive Director

Board & Sub-Committee Meetings:

Meetings of the Board are held according to an annual schedule circulated before each fiscal year to ensure Directors availability.

During the year Five (05)Board meetings took place and one [01] Audit Committee Meeting was held, while the other two Committee meetings are to take place in July /August 2011.

BOARD / Sub committee	BOD	Audit
Meetings held during FY 2010-11	5	1
Mr. Kemal Shoaib	3	--
Mr. Towfiq. H. Chinoy**	5	---
Mr. Mustapha A. Chinoy**	5	--
Mr. Kamal A. Chinoy**	5	1
Mr. Tariq Iqbal Khan	3	1
Syed Salim Raza	3	---
Mr. Kamran Y. Mirza	3	1
Syed Hyder Ali	0	---
Mr. Otomichi Yano	1	--
Mr. Muhammad Ateequllah*	2	---

*Mr. Muhammad Ateequllah- resigned from the Board on May 9, 2011, while Mr. Otomichi Yano was elected as a director on the vacant post so created.

The Board **earlier comprised three directors namely Mr. Towfiq Chinoy, Mr. Mustapha A. Chinoy and Mr. Kamal A. Chinoy till November 2010, and 2 meetings were held till that time when the number of directors was increased to nine (09).

Subsequently the Board held three meetings.

Engagement of Directors

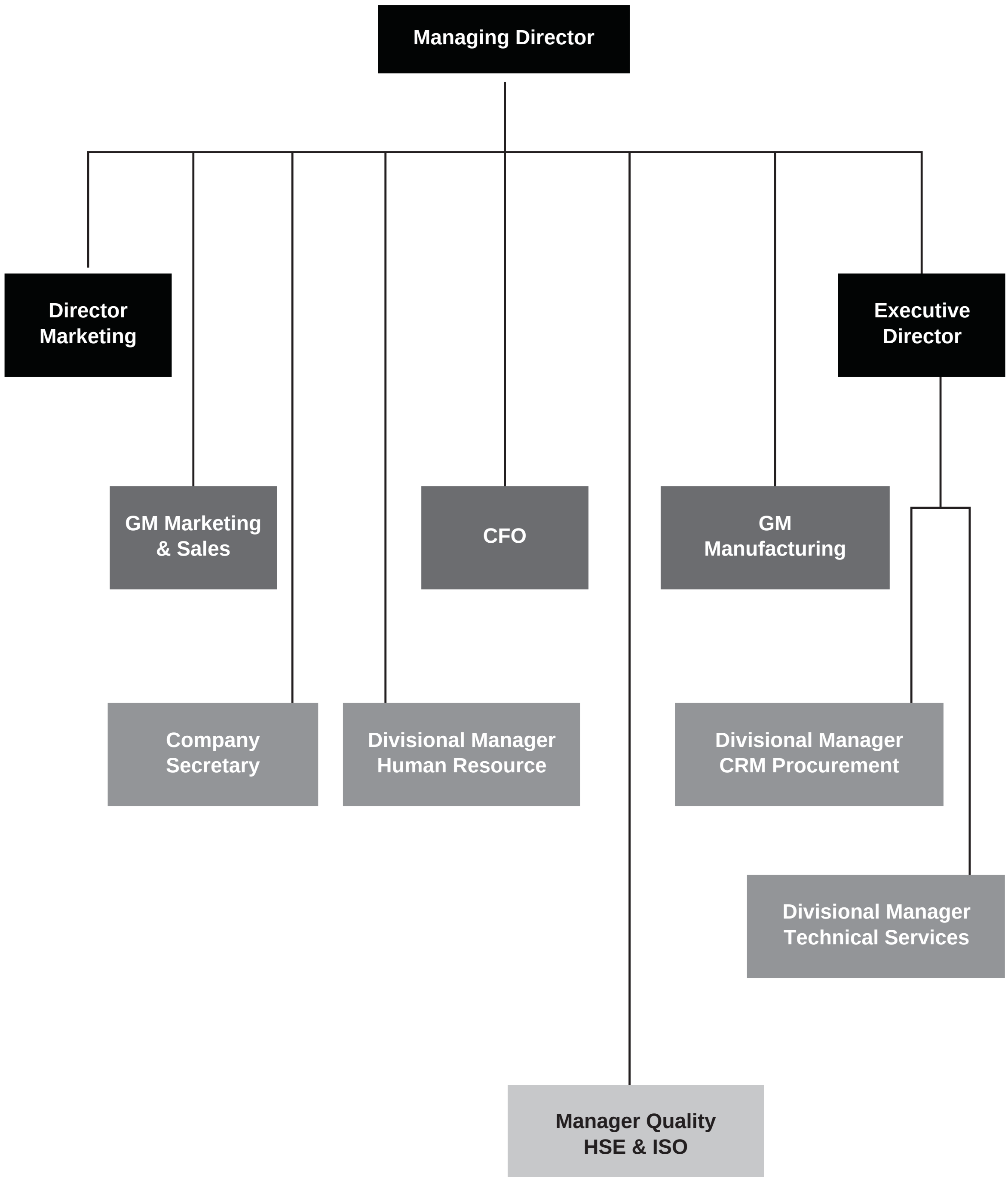
in Other Companies / Entities

Name of Director	Directorships
Mr. Kemal Shoaib Chairman	Al-Aman Holdings (Pvt) Ltd. Century Paper & Board Mills Ltd. International Advertising (Pvt) Ltd. International Industries Limited International Steels Ltd. Mind Sports Association of Pakistan Premier Box (Pvt) Ltd. Public Interest Law Association of Pakistan Safeway Fund Ltd. ZIL Ltd. (Formerly Zulfiqar Ind. Ltd.)
Mr. Towfiq H. Chinoy Managing Director & CEO	BOC Pakistan Ltd. HBL Asset Management Ltd. IGI Investment Bank Ltd. International Industries Limited International Steels Ltd. Mohatta Palace Gallery Trust New Jubilee Insurance Co. Ltd. New Jubilee Life Insurance Co. Ltd. Packages Ltd. Pakistan Cables Ltd. Pakistan Centre for Philanthropy
Mr. Kamal A. Chinoy Director	Atlas Battery Ltd. International Industries Limited International Steels Ltd. National Fullerton Assets Mgmt. Ltd. (NAFA) Pakistan Cables Ltd. Pakistan Security Printing Corp. (Pvt) Ltd.
Mr. Mustapha A. Chinoy Director	Travel Solutions (Pvt) Ltd. Global e-Commerce Services (Pvt) Ltd. Intermark (Pvt) Ltd. International Industries Limited International Steels Ltd. Pakistan Cables Ltd. Security Papers Ltd.

Syed Salim Raza Director	International Steels Ltd.
Mr. Tariq Iqbal Khan Director	Attock Refinery Ltd. Fauji Energy Ltd. International Steels Limited Interstate Gas System Ltd. Pakistan Electric Agency (Pvt) Ltd. Silkbank Ltd.
Mr. Kamran Y. Mirza Director	Abbot Laboratories (Pak) Ltd. Board of Investment (BOI) Competitive Support Fund (CSF) Institute of Chartered Accountants of Pakistan International Steels Limited Pak. Mercanitle Exch. Ltd. (Formerly NCEL) Paksitan Business Council Planning Comm., Govt. of Pak.
Syed Hyder Ali Director	Ali Institute of Education (AIE) Babar Ali Foundation (BAF) Bulleh Shah Paper Mill (Private) Limited IGI Insurance Limited International Chamber of Commerce Pakistan International Steels Limited National Management Foundation (NMF) Nestle Pakistan Limited Packages Lanka (Pvt) Limited Packages Ltd. Pakistan Centre for Philanthropy Paksitan Business Council Sanofi Aventis Pakistan Ltd. Syed Maratib Ali Religious and Charitable Trust Tetra Pak Pakistan Limited Tri-Pack Films Limited WWF- Pakistan
Mr. Otomichi Yano Director	International Steels Limited

Organization Chart

Organization Chart



Report of The Board Audit Committee

on Adherence to The Code Of Corporate Governance

The Board Audit Committee has concluded its annual review of the conduct and operations of the Company for the year ended 30 June 2011 and reports that:

- The Company has adhered in full, without any material departure, with both the mandatory and voluntary provisions of the listing regulations of the Karachi Stock Exchange (Guarantee) Ltd., Company's statement of ethics and values and the international best practices of Governance throughout the year.

- Compliance has been confirmed from the members of the Board, the Management and employees of the Company. Equitable treatment of shareholders has also been ensured.

- The Company has issued a “Statement of Compliance with the Code of Corporate Governance” which has also been reviewed and certified by the Auditors of the Company.

- Appropriate accounting policies have been consistently applied. Applicable accounting standards were followed in preparation of the financial statements of the Company on a going concern basis, for the financial year ended 30 June 2011, which present fairly the state of affairs, results of operations, profits, cash flows and changes in equity of the Company for the year under review.

- The Chief Executive Officer and the Chief Financial Officer have reviewed the financial statements of the Company and the Directors' Report. They acknowledge their responsibility for true and fair presentation of the financial statements, compliance with regulations and applicable accounting standards and establishment and maintenance of internal controls and systems of the Company.

- Accounting estimates are based on reasonable and prudent judgment. Proper and adequate accounting records have been maintained by the Company in accordance with the Companies Ordinance, 1984.

- The financial statements comply with the requirements of the Fourth Schedule to the Companies Ordinance 1984 and applicable “International Accounting Standards (IAS / IFRS) notified by the SECP.

- All direct and indirect trading and holdings of the Company's shares by Directors and Executives or their spouses were notified in writing to the Company Secretary along with the price, number of shares, form of share certificates and nature of transaction. All such holdings have been disclosed in the Pattern of Shareholdings.

INTERNAL AUDIT FUNCTION

- The internal control framework has been effectively implemented through assigning the function to a qualified chartered accountant.

- The Company's system of internal control is sound in design and has been continually evaluated for effectiveness and control.

EXTERNAL AUDITORS

- The statutory Auditors of the Company, M/s KPMG Taseer Hadi & Co., Chartered Accountants, have completed their Audit Assignment of the “Company's Financial Statements” and the “Statement of Compliance with the Code of Corporate Governance for the financial year ended 30 June 2011 and shall retire on the conclusion of the 4th Annual General Meeting.

- The Board Audit Committee has reviewed and discussed Audit observations with the External Auditors.

- The Audit Firm has been given a satisfactory rating under the Quality Control Review Programme of the Institute of Chartered Accountants of Pakistan (ICAP) and the firm is fully compliant with the International Federation of Accountants (IFAC) Guidelines on Code of Ethics, as adopted by the ICAP. The Auditors have indicated their willingness to continue as Auditors.

- Being eligible for reappointment under the listing regulations, the Board Audit Committee recommends their reappointment for the financial year ending 30 June 2012 with enhancement in the audit fee.

Tariq Iqbal Khan - Chairman
Board Audit Committee

Karachi:
Dated: 8 August 2011

Statement of Compliance

with The Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance as contained in the Listing Regulations of Karachi Stock Exchange for the purpose of establishing a frame work of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

International Steels Limited ("the Company") was incorporated on September 03, 2007 as a public unlisted company limited by shares under the Companies Ordinance, 1984 and is domiciled in the province of Sindh. Subsequent to the divestment of shares by International Industries Limited ('IIL') to general public under Initial Public Offer (refer note 1.1 and 12.1 to the financial statements), the Company is listed on the Karachi Stock Exchange on 01 June 2011. The Company has applied the principles contained in the Code in the following manner:

1. The company encourages representation of independent non-executive directors and directors. Presently, none of directors represent minority interests on its Board of Directors except a director representing Sumitomo Corporation Japan - a related party.

2. The directors have confirmed that none of them is serving as director in more than ten listed companies, including this company.

3. All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution or a Non-Banking Financial Institution. None of the directors is a member of a stock exchange.

4. The number of directors on the Board was enhanced from three (03) to nine (09) and accordingly all nine (09) directors were elected by the shareholders on 22 November 2010.

5. The Company has prepared a “Code of Conduct and Ethical Practices” which has been approved by the Board in its meeting held on 8 August 2011. The process of signing of such statement by all Directors, managerial and secretarial staff of the Company has been started.

6. The Board has developed and approved a vision and mission statement and the same have been adopted. The significant policies and overall corporate strategy are being developed and will be adopted after approval of Board.

7. All the powers of the Board have been duly exercised and decisions on transactions considered material, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

8. Subsequent to the election, the meetings of the Board were presided over by the Chairman who is an Independent non-executive director. The Board met Five times which includes meeting in at least once in every quarter. Written notices of the Board meetings, along with agenda, were circulated at least seven days before the meetings except in case of emergency meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The company intends to conduct an orientation course for the directors in near future. However, the directors have been provided with copies of the Listing Regulations of the Karachi Stock Exchange, Company's Memorandum and Articles of Association and the Code of Corporate Governance and they are well conversant with their duties and responsibilities.

10. The Board has approved the appointment of Chief Financial Officer and Company Secretary. The Board has approved the remuneration and terms and conditions of employment of CFO and Company Secretary as determined by the CEO.

11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval by the Board.

13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company maintains a list of related parties which is updated on a regular basis. All transactions with related parties in last quarter have been placed before the Audit Committee and have been approved by the Board based on Audit Committee's recommendations.

15. The Company has complied with significant corporate and financial reporting requirements of the Code.

16. The Internal Auditor has been recommended by the Board Audit Committee which has been appointed by the Board in their meeting held on 27 June 2011.

17. The Board has formed Board Audit Committee on 20 January 2011. It comprises three members, of whom all are Non-Executive Directors, out of which the Chairman and one member are Independent Directors.

18. The meeting of Board Audit Committee was held after third quarter of the fiscal year as this was the only quarter after establishment of Board Audit Committee. Further, the Board Audit Committee met on 2 August 2011 for the approval of final results of the Company as required by the Code. The draft terms of reference of the Board Audit Committee have been formed.

19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.

20. The Statutory Auditors or the persons associated with them have not been appointed to provide any services other than permissible.

21. We confirm that all other material principles contained in the Code have been complied with except for those stated above towards which reasonable progress is being made by the company to seek compliance by the end of next accounting year.

Review Report

to the Members on Statement of Compliance with the Best Practices of the Code of Corporate Governance

KPMG

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi 75530 Pakistan

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Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance
We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of International Steels Limited ("the Company") to comply with the Listing Regulations of Karachi Stock Exchange where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate-Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks

Further, Sub-regulation (xiii a) of Listing Regulation No. 35 notified by the Karachi Stock Exchange (Guarantee) Limited vide circular no. KSE/N-269 dated January 19, 2009 requires the Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transaction carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification .for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 30 June 2011.

Dated: 8 August 2011

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

Financial Statements

Financial Statements

Auditors' Report to the Members

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi 75530 Pakistan

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

We have audited the annexed balance sheet of International Steels Limited ("the Company") as at 30 June 2011 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 financial statements in conformity with the approved accounting standards and the requirements of the 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 account have been kept by the Company as required by the Companies Ordinance, 1984;

KPMG Taseer Hadi & Co., a partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Coperative ("KPMG International") a Swiss entity

Members

KPMG Taseer Hadi & Co.

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 Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies stated therein;

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 Companies Ordinance, 1984, in the manner so required and give a true and fair view of the state of the Company's affairs as at 30 June 2011 and respectively of the loss, its cash flows and changes in equity for the year then ended; and

d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

Dated: 8 August 2011
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Mohammad Nadeem

Balance Sheet
as at 30 June 2011

	Note	2011	2010
		(Rupees in '000)	
ASSETS			
Non Current Assets			
Property, plant and equipment	4	8,787,923	-
Long term advance and deposit	5	15,579	-
Total Non Current Assets		8,803,502	-
Current Assets			
Stores and spares	6	139,563	-
Stock-in-trade	7	3,817,918	-
Receivable from Karachi Electric Supply Company Limited	8	259,430	-
Trade debts - unsecured, considered good		351	-
Advances	9	266,880	-
Trade deposits and short term prepayments	10	12,049	-
Other receivables - sales tax receivable		584,266	-
Taxation-net	11	152,512	-
Bank balances - current accounts		262,077	371
Total Current Assets		5,495,046	371
Total Assets		14,298,548	371
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Authorised capital			
500,000,000 (2010: 500,000,000) ordinary shares of Rs. 10 each		5,000,000	5,000,000
Issued, subscribed and paid up capital	12	4,350,000	300
Accumulated Losses		(92,186)	(12,784)
Total Shareholders' Equity		4,257,814	(12,484)
LIABILITIES			
Non Current Liabilities			
Long term financing	13	4,335,519	-
Deferred taxation-net	14	96,559	-
Total Non Current Liabilities		4,432,078	-
Current Liabilities			
Trade and other payables	15	129,911	12,855
Short term borrowings	16	5,057,881	-
Current portion of long term financing	13	263,201	-
Accrued markup		157,663	-
Total Current Liabilities		5,608,656	12,855
Contingency and Commitments	17		
Total Equity and Liabilities		14,298,548	371

The annexed notes 1 to 36 form an integral part of these financial statements.

Tariq Iqbal Khan	**Liaquat Ali Tejani**	**Towfiq H. Chinoy**
Director & Chairman Board Audit Committee	Chief Financial Officer	Managing Director & Chief Executive

Profit & Loss Account
for the year ended 30 June 2011

	Note	2011	2010
		(Rupees in '000)	
Net sales	18	3,690,824	-
Cost of sales	19	(3,341,648)	-
Gross profit		349,176	-
Administrative expenses	20	(80,621)	(12,394)
Selling and distribution expenses	21	(27,785)	-
		(108,406)	(12,394)
Financial charges	22	(383,314)	(320)
Other operating charges	23	(40,558)	(30)
		(423,872)	(350)
Other operating income	24	121,070	-
Loss before taxation		(62,032)	(12,744)
Taxation - net	25	(17,370)	-
Loss for the year		(79,402)	(12,744)
		(Rupees)	
Loss per share - basic and diluted	26	(0.22)	(424.81)

The annexed notes 1 to 36 form an integral part of these financial statements.

Tariq Iqbal Khan
Director & Chairman
Board Audit Committee

Liaquat Ali Tejani
Chief Financial Officer

Towfiq H. Chinoy
Managing Director &
Chief Executive

Statement of Comprehensive Income
for the year ended 30 June 2011

	Note	2011	2010
		(Rupees in '000)	
Loss for the year		(79,402)	(12,744)
Other comprehensive income		-	-
Total comprehensive loss for the year		(79,402)	(12,744)

The annexed notes 1 to 36 form an integral part of these financial statements.

Tariq Iqbal Khan
Director & Chairman
Board Audit Committee

Liaquat Ali Tejani
Chief Financial Officer

Towfiq H. Chinoy
Managing Director &
Chief Executive

Cash Flow Statement

for the year ended 30 June 2011

	Note	2011	2010
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(62,032)	(12,744)
Adjustments for:			
Depreciation and amortisation		161,627	-
Gain on sale of property, plant and equipment		(867)	-
Provision for staff gratuity		2,486	-
Provision for compensated absences		4,997	-
Financial charges		383,314	-
		489,525	(12,744)
Movement in:			
Working capital	27	(4,795,155)	320
Payment of compensated absences		(27)	-
Long term deposits		(15,579)	-
Net cash (used in) / from operations		(4,321,236)	(12,424)
Financial charges paid		(281,533)	-
Taxes paid		(195,932)	-
Net cash (used in) / from operating activities		(4,798,701)	(12,424)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		(1,027,446)	-
Proceeds from sale of property, plant and equipment		30,217	-
Net cash (used in) investing activities		(997,229)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		172,533	-
Proceeds of long term financings		839,722	-
(Repayment) / Proceeds of loan from a director		(12,500)	12,500
Net cash from financing activities		999,755	12,500
Net (decrease) / increase in cash and cash equivalents		(4,796,175)	76
Cash and cash equivalents at beginning of the year		371	295
Cash and cash equivalents at end of the year		(4,795,804)	371
CASH AND CASH EQUIVALENTS COMPRISE			
Bank balances - current accounts		262,077	371
Short term borrowings	16	(5,057,881)	-
		(4,795,804)	371

The annexed notes 1 to 36 form an integral part of these financial statements.

Tariq Iqbal Khan
Director & Chairman
Board Audit Committee

Liaquat Ali Tejani
Chief Financial Officer

Towfiq H. Chinoy
Managing Director &
Chief Executive

Statement of Changes in Equity

for the year ended 30 June 2011

	Issued, subscribed and Paid up capital	Accumulated loss	Total
	(Rupees in '000)		
Balance as at 1 July 2009	300	(40)	260
Total comprehensive loss for the year ended 30 June 2010	-	(12,744)	(12,744)
Balance as at 30 June 2010	300	(12,784)	(12,484)
Issue of shares against transfer of steel project undertaking (refer note 1.1 and 12)	4,177,167	-	4,177,167
Issue of shares for cash (refer note 12)	172,533	-	172,533
Total comprehensive loss for the year ended 30 June 2011	-	(79,402)	(79,402)
Balance as at 30 June 2011	4,350,000	(92,186)	4,257,814

The annexed notes 1 to 36 form an integral part of these financial statements.

Tariq Iqbal Khan
Director & Chairman
Board Audit Committee

Liaquat Ali Tejani
Chief Financial Officer

Towfiq H. Chinoy
Managing Director &
Chief Executive

Notes to the Financial Statements
for the year ended 30 June 2011

1. STATUS AND NATURE OF BUSINESS

International Steels Limited ("the Company") was incorporated on September 03, 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 IIL (refer note 12.1). The primary activities of the Company are business of manufacturing of cold rolled steel coils and galvanized sheets. The Company commenced commercial operations 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.

1.1 Transfer of steel project undertaking

The Board of Directors of IIL in its meeting held on 23 July 2009 approved the Scheme of Arrangement ("the Scheme") for the reconstruction of the IIL by separation ("the Hive down") of the Steel Project Undertaking ("the Project"), and vesting of the Project in the Company through issuance of ordinary shares of the Company equal to the value of net assets transferred under the Scheme.

The Project comprised of a Cold Rolling Mill having capacity of 250,000 tons per annum and a Metal Coating Steel Plant of 150,000 tons per annum located at Landhi, Karachi and the 18 MW gas fired power plant already constructed and operational at effective date of Scheme inclusive of assets and liabilities relating to the Project.

Under the Scheme, assets and liabilities of IIL relating exclusively or primarily to the Project including without limitation, properties of all kinds and by whatever title held and whether movable or immovable or tangible or intangible, and without limiting the generality of the foregoing in particular and relating liabilities including loans, creditors etc. were required to be transferred to the Company in accordance with the Scheme.

In consideration of transferring to and vesting the Steel Project Undertaking in the Company, the Company was required to issue its fully paid up ordinary shares at par value to IIL. The number of shares to be issued was required to be determined based on the net assets of the project.

The Scheme was approved by 99.998% shareholders of IIL present and voting at the Extra Ordinary General Meeting, held on 16 April 2010 pursuant to order dated 9 March 2010 passed by High Court in Judicial Miscellaneous Application No. 1 of 2010. The Sindh High Court vide its order dated 12 August 2010 approved the Scheme of Arrangement under section 284 of the Companies Ordinance, 1984.

As per the Scheme, the Statement of Assets and Liabilities - Net Assets ("the Statement") was required to be prepared on a date immediately preceding the completion date. The completion date is the day on which the Scheme becomes effective. The Scheme became effective on 24 August 2010 when a certified copy of the order of the High Court sanctioning the Scheme was filed with the Registrar of Companies Karachi.

Accordingly, the net assets of the Steel Project Undertaking amounted to Rs. 4,177.167 million were determined as at 23 August 2010 (day immediately preceding the completion date) in accordance with the Scheme and net assets of the Steel Project Undertaking were transferred to the Company on 24 August 2010 and 417,716,700 shares of Rs. 10 each of the Company thereagainst were issued to IIL accordingly.

The detail of assets and liabilities of IIL relating exclusively or primarily to the Project transferred to the Company are as follows.

	(Rupees in '000)
Non current assets	
Operating assets- Net book value	
- Freehold land-revalued	834,007
- Building	42,319
- Plant and machinery	519,072
- Furniture, fixtures and office equipment	3,331
- Vehicles	13,966
	1,412,695
Capital work-in-progress	
- Land	27,200
- Buildings	786,377
- Plant and machinery	5,717,147
- Furniture, fixtures and office equipment	3,308
	6,534,032
Stores held for capital expenditure	4,727
Total Non Current Assets	7,951,454
Current Assets	
Stores and spares	34,827
Stock in trade - raw material	1,217,001
Receivable from Karachi Electric Supply Company Limited	241,573
Loans and advances	
- Advances to suppliers	42,435
- Advances to employees	126
	42,561
Trade deposits	12,153
Total Current Assets	1,548,115
Total assets	9,499,569
Non-current Liabilities	
Long term financing	(3,708,494)
Deferred taxation	(122,609)
Total non current liabilities	(3,831,103)
Current Liabilities	
Trade and other payables	
- Trade creditors	(21,090)
- Due to non-steel project	(1,217,001)
- Advance from customers	(128,550)
- Accrued expenses	18,268)
- Others	(4)
	(1,384,913)
Current portion of long term financing	50,504)
Accrued markup	(55,882)
Total current liabilities	(1,491,299)
Total liabilities	(5,322,402)
Total current liabilities	(1,491,299)
Total liabilities	5,322,402)
Net assets of the Project as at 23 August 2010	4,177,167

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.

2.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Pakistani Rupees, which is also the Company's functional currency. All figures have been rounded off to the nearest thousand of rupees, unless otherwise stated.

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 amount 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 underlying the 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 judgment in the next year are discussed in note 35 to these financial statements.

2.5 Standards, amendments and interpretations which became effective during the year

During the year, certain amendments to standards became effective. However, they did not have material affect on these financial statements.

2.6 Standards, Interpretations and Amendments not yet effective

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning from the dates specified below:

- IAS 24 Related Party Disclosures (revised 2009) – (effective for annual periods beginning on or after 1 January 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment may result in certain changes in disclosures.

- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Fund's financial statements.

- Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2011). These amendments add an explicit statement that qualitative disclosure should be made in the contact of the quantitative disclosures to better enable users to evaluate an entity’s exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendment may result in certain changes in disclosures.

- Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2011). These amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendment may result in certain changes in disclosures.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below.

3.1 **Property, plant and equipment**

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, in case of revaluation. Cost includes expenditure that is directly attributable to the acquisition of the asset. 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 costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and its cost can be reliably measured.

Cost incurred to replace a component of an item of property, plant and equipment is capitalized and the asset so replaced is retired from use. Normal repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Depreciation on all items except for freehold land is charged on straight line method. The rates of depreciation are indicated in note 4.1.

Depreciation on additions to buildings and plant and machinery, furniture, fixture and office equipment and vehicles 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.

Revaluation 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 land and buildings is credited to the surplus on revaluation account. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of property, plant and equipment (net of deferred taxation) is transferred directly to retained earnings / unappropriated profit.

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 / unappropriated profits.

Capital work in progress is stated at cost less impairment loss, if any and consists of expenditure incurred 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 recognized 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 costs beyond one year, are recognized as an intangible asset. Direct costs include the purchase costs of software and other directly attributable costs of preparing the software for its intended use.

Computer software subsequent to capitalisation is measured initially at cost and subsequently stated at cost less accumulated amortization and impairment losses, if any. These are amortized on straight line basis over its estimated useful life (three years).

3.3 **Borrowings and their costs**

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

3.4 **Stores and spares**

Stores and spares are stated at lower of cost and net realisable value less impairment loss, if any. Cost is determined using weighted average method.

3.5 **Stock-in-trade**

These are valued at lower of cost and net realisable value less impairment loss, if any. Cost is determined under the weighted average basis. Cost comprises all costs of purchases, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable 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 realisable value.

3.6 **Trade debts and other receivables**

Trade debts and other receivables are recognized initially at fair value and subsequently measured at amortized cost 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. Trade debts and other receivables considered irrecoverable are written off.

3.7 **Derivative financial instruments**

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. Derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative.

3.8 **Cash and cash equivalents**

Cash and cash equivalents for cash flow purposes include cash in hand, current and deposit accounts held 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.

3.9 **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.

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 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 after taking into account tax credits and tax rebates available, if any.

Deferred tax

Deferred tax is recognized 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 realization 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 recognizes 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.

3.10 **Staff retirement benefits**

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. Company's obligation is determined through actuarial valuations carried out under the "Projected Unit Credit Method". The Company is using 'corridor approach' to recognise actuarial gains and losses. The latest Actuarial valuation was conducted at the balance sheet date.

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. Pending the establishment of the Provident fund Trust of the Company the contributions are being paid to Provident Fund Trust of IIL.

All employees of IIL who were employed wholly or principally for the purpose of the Steel Project and who have signed letters agreeing to accept the employment with the Company in lieu of their employment with IIL were transferred to the Company on 24 August 2010. The Company is in the process of establishing approved funded gratuity scheme and recognised provident fund for the benefit its employees as it is expected that the same would be established in near future.

Compensated absences

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

3.11 **Trade and other payables**

Trade and other payables are recognized initially at fair value plus directly attributable cost, if any, and subsequently measured at amortized cost.

3.12 **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.

3.13 **Revenue recognition**

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

- Export sales are recognized as revenue when invoiced with the transfer of significant risks and rewards of ownership, which coincides with date of shipping bill.

- Revenue from power generation plant on account of sales of surplus electricity is recognized on transmission of electricity to Karachi Electric Supply Company Limited (KESC).

3.14 **Financial instruments**

All financial assets and liabilities apart from trade debts, other receivables and trade payables which are disclosed in notes 3.6 and 3.11, are initially measured at fair value, and subsequently measured at fair value or amortized cost as the case may be. The Company derecognizes the financial assets and financial liabilities when it ceases to be a party to such contractual provisions of the instruments.

3.15 **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 there is legally enforceable right to set-off the recognized amounts and the Company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

3.16 **Impairment**

Financial assets

A financial asset is 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.

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 of 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.

3.17 **Provisions**

A provision is recognized 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 that 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.

3.18 **Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company’s other components, whose operating results are reviewed regularly by the chief operating decision maker i.e. the chief executive officer to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Management has determined that the Company has a single reportable segment and therefore it has only presented entity wide disclosures (refer note 34).

Notes to the Financial Statements
for the year ended 30 June 2011

4. PROPERTY, PLANT AND EQUIPMENT

	Note	2011	2010
		(Rupees in '000)	
Operating assets	4.1	8,353,933	-
Capital work-in-progress	4.2	428,991	-
Stores and spares held for capital expenditure	4.3	4,999	-
		8,787,923	-

4.1 Operating assets

	2011											
	COST					DEPRECIATION					Net book value as at 30 June 2011	Rate %
	As at 01 July 2010	Transfer Under Hive Down (note 1.1)	Transfer from capital work in progress	(Disposals)	As at 30 June 2011	As at 01 July 2010	Transfer Under Hive Down (note 1.1)	For the Year	(Disposals)	As at 30 June 2011		
	(Rupees in 000)											
Free hold land	-	834,007	2,592	-	836,599	-	-	-	-	-	836,599	
Buildings on freehold land	-	52,916	955,668	-	1,008,584	-	10,597	22,984	-	33,581	975,003	3% - 5%
Plant and machinery	-	630,637	6,129,730	-	6,760,367	-	111,565	141,356	-	252,921	6,507,446	3%-10%
Furniture, fixture and office equipment	-	5,677	8,340	-	14,017	-	2,346	1,674	-	4,020	9,997	10% - 33%
Vehicles	-	25,008	16,854	(3,910)	37,953	-	11,042	5,504	(3,481)	13,065	24,888	20%
	-	1,548,245	7,113,184	(3,910)	8,657,520	-	135,550	171,518	(3,481)	303,587	8,353,933	

4.1.1 IIL as a co-borrower with the Company was entered into an agreement with International Finance Corporation ("IFC") in financial year 2008. Under this agreement IFC had extended a loan amounting to US$ 6,400,000 to IIL. This loan was secured by first ranking security interest over the fixed and immovable assets of steel project of the Company including the Cold Rolling Mill, Galvanising plant located at plot bearing Survey No. 399-405, Landhi Town, Karachi and 18 MW gas fired power plant. During the year ended, the said loan has been settled by IIL by transferring the shares of the Company held by IIL (refer note 13.1) and the vacation of charge is in process at the balance sheet date.

4.2 Capital work-in-progress

	Cost					
	As at 01 July 2010	Transfer under Hive Down (note 1.1)	Additions	(Sales)	(Transfers)	As at 30 June 2011
	(Rupees in '000)					
Free Hold Land	-	27,200	2,724	(27,332)	(2,592)	-
Buildings on Freehold Land	-	786,377	169,291	-	(955,668)	-
Plant and machinery 4.2.1	-	5,717,147	841,574	-	(6,129,730)	428,991
Furniture, fixture and office equipment	-	3,308	5,032	-	(8,340)	-
Vehicles	-	-	16,854		(16,854)	-
	-	6,534,032	1,035,475	(27,332)	(7,113,184)	428,991

4.2.1 Plant and machinery represents Galvanizing Plant and Cold Rolling Mill and associated equipment and facilities. Installation and erection of plant and machinery for Cold Rolling Mill and Galvanizing plant were completed on 31 December 2010 after ensuring that the products are within the specific parameters such as targeted quality, rate of production etc. Accordingly trial production was ceased and these items were transferred to operating assets. The expenditure amounted to Rs. 86.478 million incurred during the trial production period to achieve desired results have been considered as trial production loss and included in additions to plant and machinery. Details of such costs are as follows:

	Note	For six months period ended 31 December 2010	Year ended 30 June 2010
		(Rupees in '000)	
Raw material transferred under Hive down (refer note 1.1)		1,217,001	-
Raw material purchases during the period		1,626,762	-
2,843,763	-		
Less: closing stock of raw material		(1,351,522)	-
Raw material consumed		1,492,241	-
Salaries, wages and other benefits		14,246	-
Fuel, power and water charges		40,125	-
Stores and spares consumed		686	-
Depreciation		9,891	-
Packing charges		1,040	-
Repairs and maintenance		1,935	-
Insurance		1,901	-
Miscellaneous		1,888	-
71,712	-		
Total cost of manufacturing		1,563,953	-
Less: closing stock of work in process		(132,968)	-
Cost of goods sold		1,430,985	-
Less: closing stock of finished goods		(236,088)	-
1,194,897	-		
Less: sale of finished goods		(1,118,035)	-
Loss before tax		76,862	-
Taxation-net			
- Current	11.1	11,178	-
- Deferred	14.1	(1,562)	-
		9,616	-
Loss after taxation		86,478	-

4.2.2 Borrowing costs capitalized during the year in the capital amounted to Rs. 126.931 million (2010: Nil). Borrowing costs were relating to both specific and general borrowings and were capitalized @ 10.84% per annum (2010: Nil).

4.3 Stores and spares held for capital expenditure

	Cost				
	Transfer under Hive Down (note 1.1)	Additions	(Transfers)	As at 01 July 2010	As at 30 June 2011
	(Rupees in '000)				
In store	4,727	14,303	(14,031)	4,999	-

4.4 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)					
Land	27,332	-	27,332	27,332	Negotiation	International Industries Limited
Vehicles						
Suzuki Mehran VX	484	56	428	450	Insurance claim	M/s New Jubilee Insurance Co.
Honda Civic	1,267	1,267	-	845	Negotiation	Mr. Riaz Alam
Various vehicles of book value less than Rs.50,000 each	2,158	2,158	-	1,600	Insurance claim	M/s New Jubilee Insurance Co.
	31,241	3,481	27,760	30,227		

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

	Note	2011	2010
		(Rupees in '000)	
Cost of sales	19	139,798	-
Administrative expenses	20	2,724	-
Selling and distribution expenses	21	934	-
Income from power generation	24.1	18,171	-
Pre-operating expenses		9,891	-
		171,518	-

5 LONG TERM ADVANCE AND DEPOSIT

	Note	2011	2010
		(Rupees in '000)	
Advance for computer software - ERP Oracle System		15,479	-
Deposit to Central Depository Company of Pakistan Limited		100	-
		15,579	-

6. STORES AND SPARES

Stores		46,205	-
Spares		93,094	-
Loose tools		264	-
		139,563	-

7. STOCK-IN-TRADE

Raw material - in hand		2,687,405	-
Work-in-process		414,336	-
Finished goods		632,880	-
Scrap Material		83,297	
		3,817,918	-

8. RECEIVABLE FROM KARACHI ELECTRIC SUPPLY COMPANY LIMITED - unsecured, considered good

This represents receivable against sale of electricity to Karachi Electric Supply Company Limited (KESC). The amount is unsecured and considered good.

9 ADVANCES

Advances - considered good			
- suppliers		261,260	-
- service providers		5,307	-
- employees		313	-
		266,880	-

10. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS

Trade deposits		6,290	-
Short term prepayments		5,759	-
		12,049	-

Notes to the Financial Statements
for the year ended 30 June 2011

11. TAXATION - net

	Note	2011	2010
		(Rupees in '000)	
Tax receivable as at 1 July		-	-
Tax payments / adjustments during the year		205,548	-
		205,548	-
Less: Provision for tax	11.1	(53,036)	
		152,512	-

11.1 Provision for tax

	Note	2011	2010
Profit and loss account	25	41,858	-
Trial production loss	4.2.1	11,178	-
		53,036	-

12. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2011	2010		2011	2010
(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	-	Fully paid ordinary shares of Rs. 10 each issued against transfer of net assets (refer note 1.1)	4,177,167	-
17,253,300	-	Fully paid ordinary shares of Rs. 10 each issued as right shares	172,533	-
435,000,000	30,000		4,350,000	300

12.1 417,716,700 shares of Rs. 10 each were issued by the Company to IIL against transfer of Steel Project Undertaking under approved Scheme of Arrangement (refer note 1.1) and 30,000 shares were also transferred to IIL on purchase of shares by IIL from individuals. Resultantly, the Company became a wholly owned subsidiary of IIL. Further, 17,253,300 right shares were also issued to IIL. Subsequently, IIL through IPO on 12th-14th April 2011 has divested 27,506,000 shares at Rs. 14.06 per share to general public and 40,458,800 shares to IFC and 39,477,657 shares to Sumitomo Corporation at Rs. 13.248 per share. As at 30 June 2011, IIL and other associates held 245,055,543 (2010: Nil) and 79,936,457 (2010: 30,000) ordinary shares respectively of Rs. 10 each.

13. LONG TERM FINANCING - secured

	Note	2011	2010
		(Rupees in '000)	
Long-term finances utilised under mark-up arrangements	13.1	4,598,720	-
Current portion of long term finances shown under current liabilities		(263,201)	-
		4,335,519	-

13.1 Long term finances utilised under mark-up arrangements

	Sale price	Purchase price	Number of instalments & commencement date	Date of maturity	Rate of mark-up per annum	2011	2010
						(Rupees in '000)	
i) Syndicated Term Financing							
Local currency assistance of Rs. 4,000 million for plant and machinery of Cold Rolled and Galvanized Sheet Project	4,000,000	9,376,178	16 half yearly installments 19-03-2011	11-Jun-21	1.50% over SBP Refinance rate	3,948,720	-
ii) Faysal Bank Limited							
Local currency assistance of Rs. 900 million for Plant and Machinery	900,000	1,046,259	8 half yearly 27-12-2012	27-Jun-16	1.8% over 6 months KIBOR	650,000	-
						4,598,720	-

13.1.1 The syndicated term financing is obtained for plant and machinery of Cold Rolling Mills and Galvanising Plant and is secured by way of mortgage of land located at Survey No. 399-405, Landhi Town, Karachi, joint *pari passu* charge, joint supplemental memorandum of deposit of title deeds as per the terms of syndicated term financing agreement.

13.1.2 The Long term finance is obtained for Plant & Machinery and is secured by way of mortgage of Land located at survey # 399-405, Landhi Town, Karachi and other fixed assets of the Company against ranking charge.

14. DEFERRED TAXATION - net

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

	Opening	Transfer under hive down (note 1.1)	Charge / (Reversal)	Closing
	(Rupees in '000)			
Taxable temporary difference				
Accelerated tax depreciation	-	122,609	1,369,839	1,492,448
Deductible temporary differences				
Provision for unavailed leaves	-	-	(1,749)	(1,749)
Tax Loss	-	-	(1,394,140)	(1,394,140)
	-	122,609	(26,050)	96,559

Notes to the Financial Statements
for the year ended 30 June 2011

14.1 Reversal of Deferred Tax

	Note	2011	2010
		(Rupees in '000)	
Deferred tax (reversal) charge to:			
- Profit and Loss account		24,488	-
- Trial production loss (Refer 4.2.1)		1,562	-
		26,050	-

15. TRADE AND OTHER PAYABLES

	Note	2011	2010
Trade creditors		4,434	-
Payable to provident fund		832	-
Payable to gratuity fund		2,489	-
Advances from customers		74,778	-
Retention money		21,588	-
Due to a related party - unsecured	15.1	-	12,825
Accrued expenses		25,790	30
		129,911	12,855

15.1 Due to related party - unsecured

	Note	2011	2010
Unsecured non interest bearing loan from a director		-	5
Unsecured interest bearing loan from a director		-	12,500
Accrued interest on loan from a director		-	320
		-	12,825

16. SHORT TERM BORROWINGS

	Note	2011	2010
Running finance under mark-up arrangement from banks - secured	16.1	710,333	-
Running finance under FE-25 Import Scheme	16.2	4,347,548	-
		5,057,881	-

16.1 The facilities for running finance available from various banks amounting to Rs. 2,627.46 million (2010: Rs. Nil) are secured by way of hypothecation of stock-in-trade and book debts. The rates of mark-up on these finances range from KIBOR + 0.80% to KIBOR + 2% per annum (2010: Nil). The facility for short term running finance mature within twelve months.

16.2 The facilities for short term running finance under Foreign Exchange Circular No.25 dated 20 June 1998 available from various banks are for the purpose of meeting import requirements. The facilities availed is for an amount of USD 50.537 million equivalent to Rs. 4,347.54 million (2010: Nil). The rates of mark-up on these finances range from 2.75% to 5.46% (2010: Nil) per annum. These facilities are secured against the first *pari passu* hypothecation charge over the Company's present and future current assets. The facilities for short term running finance under FE-25 mature within twelve months.

17. CONTINGENCY AND COMMITMENTS

17.1 Contingency

17.1.1 Bank guarantees have been issued to Sui Southern Gas Company Limited and Excise and Taxation Officer aggregating Rs.166.2 million (2010: Nil).

17.2 Commitments

17.2.1 Capital expenditures commitments outstanding as at 30 June 2011 amounted to Rs. 17.48 million (2010: Nil).

17.2.2 Commitments under letters of credit for raw materials and spares as at 30 June 2011 amounted to Rs 3,999.36 million (2010: Nil).

17.2.3 The unavailed facilities for opening letters of credit and guarantees from banks as at the year end amounted to Rs. 2,097.74 million (2010: Nil) and Rs 83.8 million (2010: Nil) respectively.

18. NET SALES

	Note	2011	2010
		(Rupees in '000)	
Local		4,529,870	-
		4,529,870	-
Sales tax and special excise duty		(795,213)	-
Trade discount		(9,003)	-
Sales commission		(34,830)	-
		(839,046)	-
		3,690,824	-

19. COST OF SALES

	Note	2011	2010
Opening stock of raw material and work-in-process		1,484,490	-
Purchases		5,270,201	-
Salaries, wages and benefits		70,629	-
Electricity, gas and water		42,278	-
Insurance		8,706	-
Security and janitorial		4,170	-
Depreciation	4.5	139,798	-
Stores and spares consumed		18,838	-
Repairs and maintenance		31,302	-
Postage, telephone and stationery		1,960	-
Vehicle, travel and conveyance		5,180	-
Internal material handling		403	-
Environment controlling expense		2,052	-
Computer stationery and software		1,774	-
Sundries		5,522	-
Recovery from sale of scrap		(163,824)	-
		6,923,479	-
Closing stock of raw material and work-in-process		(3,101,742)	-
Cost of goods manufactured		3,821,737	-
Finished goods and scrap material:			
Opening stock		236,088	-
Closing stock	7	(716,177)	-
		(480,089)	-
		3,341,648	-

Notes to the Financial Statements
for the year ended 30 June 2011

	Note	2011	2010
		(Rupees in '000)	
20. ADMINISTRATIVE EXPENSES			
Salaries, wages and benefits		37,691	-
Rent, rates and taxes		2,946	-
Electricity, gas and water		2,548	-
Insurance		125	-
Depreciation	4.5	2,724	-
Stamp duty on issuance of shares		20,886	-
Security and janitorial services		3,516	-
Repairs and maintenance		1,170	-
Printing and stationery		1,039	-
Computer stationery and office supplies		463	-
Postage and communication		2,106	-
Vehicle, travel and conveyance		4,048	-
Legal and professional charges		435	15
Certification and registration charges		-	12,376
Others		924	3
		80,621	12,394
21. SELLING AND DISTRIBUTION EXPENSES			
Salaries, wages and benefits		18,806	-
Rent, rates and taxes		2,080	-
Electricity, gas and water		54	-
Insurance		151	-
Depreciation	4.5	934	-
Postage, telephone and stationery		202	-
Vehicle, travel and conveyance		3,254	-
Others		2,304	-
		27,785	-
22. FINANCIAL CHARGES			
Mark-up on:			
- long term financing		139,041	-
- short term borrowings		162,506	-
Mark-up on inventory transferred from IIL		79,944	-
Interest on loan from a director		-	320
Bank charges		1,823	-
		383,314	320

	Note	2011	2010
		(Rupees in '000)	

23. OTHER OPERATING CHARGES

	Note	2011	2010
Auditors' remuneration	23.1	1,889	30
Donations		50	-
Exchange loss - net		38,619	-
		40,558	30

23.1 Auditors' remuneration

	Note	2011	2010
Audit fee		925	30
Other services including certifications		871	-
Out of pocket expenses		93	-
		1,889	30

24. OTHER OPERATING INCOME

	Note	2011	2010
Income from non-financial assets			
Income from power generation	24.1	117,765	
Toll manufacturing income		1,181	-
Gain on sale of property, plant and equipment		867	-
Rent Income		1,255	-
Others		2	-
		121,070	-

24.1 Income from power generation

	Note	2011	2010
Net sales		441,989	-
Cost of electricity produced:			
Salaries, wages and benefits		5,787	-
Electricity, gas and water		295,261	-
Security and janitorial		767	-
Depreciation	4.5	18,171	-
Stores and spares consumed		13,230	-
Repairs and maintenance		34,091	-
Vehicle, travel and conveyance		50	-
Sundries		284	-
		367,641	-
Less: Self consumption		(43,417)	-
		324,224	-
Income from power generation		117,765	-

24.1.1 The Company has electricity power generation facilities at its premises. Such electricity power generation facility was transferred from IIL under the Scheme (refer note 1.1). Currently, the Company has excess electricity power which it is selling to the KESC under an agreement. The agreement is valid for period up to 20 years w.e.f. 31st August 2007.

25. TAXATION - net

	Note	2011	2010
		(Rupees in '000)	
Current			
- for the year		41,858	-
- for prior years		-	
	13	41,858	-
Deferred		(24,488)	-
		17,370	-

25.1 Relationship between income tax expense and accounting profit

	2011	2010	2011	2010
	Effective tax rate			
Profit before taxation			(62,032)	(12,744)
Tax at the enacted tax rate of 35% (2010: 35%)	35.00	35.00	(21,711)	(4,461)
Effect on income under final tax regime	0.56	0.00	(348)	-
Effect of minimum tax liability	(67.33)	0.00	41,766	-
Others	3.77	(35.00)	(2,337)	4,461
Tax effective rate / tax charge	(28.00)	0.00	17,370	-

25.2 Income tax assessments of the Company have been finalised up to and including the tax year 2009. Income Tax return for the year 2010 has been filed by the Company in December 2010 and is deemed to be assessed u/s 120 of the Income Tax Ordinance, 2001.

26. LOSS PER SHARE - BASIC AND DILUTED

	2011	2010
Loss after taxation for the year	(79,402)	(12,744)
	(Number)	
Weighted average number of ordinary shares in issue during the year	364,465,959	30,000
	(Rupees)	
Loss per share	(0.22)	(424.81)

27. MOVEMENT IN WORKING CAPITAL

	2011	2010
(Increase) / decrease in current assets:		
Stores and spares	(104,736)	-
Stock-in-trade	(2,600,917)	-
Trade debts	(351)	-
Receivable from KESC	(17,857)	-
Advances	(224,319)	-
Trade deposits and short term prepayments	104	-
Other receivables - sales tax receivable	(584,266)	-
	(3,532,342)	-
Increase / (decrease) in current liabilities:		
Trade and other payables	(1,262,813)	320
	(4,795,155)	320

28. STAFF RETIREMENT BENEFITS

28.1 Provident fund

Salaries, wages and benefits include Rs. 3.383 million (2010: Rs. Nil) in respect of provident fund contribution.

28.2 Gratuity fund

Principal actuarial assumptions used in the actuarial valuation of the scheme carried out under Projected Unit Credit Method as at 30 June 2011 are as follows:

- Discount rate at 14% per annum (2010: Nil).
- Expected rate of return on plan assets at 12% per annum (2010: Nil).
- Expected rate of increase in salary level at 13% per annum (2010: Nil).

The amount recognised in the balance sheet is as follows:	Note	2011	2010
		(Rupees in '000)	
Present value of defined benefit obligation		15,369	-
Fair value of plan assets		(9,582)	-
		5,787	-
Unrecognised actuarial loss		(3,301)	-
Liability as at 30 June		2,486	-
Movement in the present value of defined benefit obligation			
Obligation as at 23rd August 2010		10,929	-
Current service costs		2,150	-
Interest cost		1,118	-
Actuarial loss		1,172	-
Benefits paid		-	-
Obligation as at 30 June		15,369	-
Movement in the fair value of plan assets			
Fair value as at 23rd August 2010		8,587	-
Expected return on plan assets		878	-
Net actuarial gain		117	-
Benefits paid		-	-
Contribution to the fund		-	-
Fair value as at 30 June		9,582	-

Movement in (assets) / liabilities	Note	2011	2010
		(Rupees in '000)	
Balance as at 1 July		15,369	-
Expense recognised		(12,883)	-
Payments during the year		-	-
Liability as at 30 June		2,486	-
The amount recognised in the profit and loss account is as follows:			
Current service cost		2,150	-
Interest cost		1,118	-
Expected return on plan assets		(878)	-
Net actuarial loss recognised in the year		96	-
		2,486	-

Composition of plan assets

Plan assets represents receivable from IIL Gratuity Fund amounting to Rs. 9.582 million.

Return on plan assets is as follows:		
Expected return on plan assets	878	-
Net actuarial gain / (loss) on plan assets	117	-
	995	-
Historical information		
Present value of defined benefit obligation	15,369	-
Fair value of plan assets	(9,582)	-
Deficit	5,787	-
Unrecognised actuarial loss	(3,301)	-
Liability in balance sheet	2,486	-
Experience adjustments on plan liabilities	14,545	-
Experience adjustments on plan assets	117	-

29. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2011				2010			
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executives	Total
	(Rupees in '000)							
Managerial remuneration	-	2,572	47,422	49,994	-	-	-	-
Retirement benefits	-	-	2,006	2,006	-	-	-	-
Rent, utilities, leave encashment etc.	-	1,286	18,166	19,452	-	-	-	-
	-	3,858	67,594	71,452	-	-	-	-
Number of persons	1	1	21	23	-	-	-	-

29.1 Chief Executive Officer was appointed at a token amount of remuneration by the Board of Directors.

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

29.3 Fee paid to non-executive directors is Rs. 0.84 million (2010: Rs. Nil million).

30. 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 training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee established on 20 January 2011 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.

30.1 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. Concentration of credit risk arises from financial instruments that have similar characteristics and are "affected similarly by changes in economic or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry. Credit risk arising on account of trade debts and receivable from KESC belong to corporate sector only.

Exposure to credit risk

Credit risk arises when changes in economic or industry factors similarly affects counter parties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. Credit risk of the Company arises principally from the receivable from KESC, loans and advances, trade deposits and other receivables. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

	Note	2011	2010
		(Rupees in '000)	
Trade debts		351	-
Receivable from KESC		259,430	-
Advances		313	-
Trade deposits		6,290	-
Bank balances		262,077	-
		528,461	-

The Company's principal credit arises from receivable from KESC and bank balances. Bank balances are held only with reputable banks with high quality credit ratings. Receivable from KESC is monitored on an ongoing basis. Age Analysis is disclosed in note 30.1.2 to these financial statements.

30.1.1 Trade debts and receivable from KESC at the balance sheet date belong only to domestic region.

30.1.2 **Impairment losses**

The aging of trade debtors and receivable from KESC at the balance sheet date was:

	2011		2010	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)			
Not past due	43,942	-	-	-
Past due 1-60 days	89,510	-	-	-
Past due 61 days -1 year	126,329	-	-	-
More than one year	-	-	-	-
Total	259,781	-	-	-

30.1.3 Based on the past experience, consideration of financial position, past track records and recoveries, the Company believes that receivable from KESC that are past due do not require any impairment.

30.2 **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 on demand to meet expected working capital requirements. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

	2011					
	Carrying Amount	Contractual cash flows	Six months or less	Six to twelve months	Two to five years	More than five years
Non-derivative financial liabilities	(Rupees in '000)					
Long term financing	4,598,720	(6,426,143)	(375,964)	(402,467)	(3,599,034)	(2,048,678)
Short-term borrowings	5,057,881	(5,057,881)	(5,057,881)	-	-	-
Trade and other payables						
Accrued markup	157,663	(157,663)	(157,663)	-	-	-
Trade and other payables	51,812	(51,812)	(51,812)			
	9,866,076	(11,693,498)	(5,643,320)	(402,467)	(3,599,034)	(2,048,678)

	2010					
	Carrying Amount	Contractual cash flows	Six months or less	Six to twelve months	Two to five years	More than five years
Non-derivative financial liabilities	(Rupees in '000)					
Long term financing	-	-	-	-	-	-
Short-term borrowings	-	-	-	-	-	-
Accrued markup						
Trade and other payables	12,855	(12,855)	(12,855)	-	-	-
	12,855	(12,855)	(12,855)	-	-	-

30.2.1 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 notes 13 and 16 to these financial statements.

30.3 **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.

30.3.1 **Currency risk**

Exposure to currency risk

The Company is exposed to currency risk on trade debts, borrowings and sales 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:

	2011		2010	
	Rupees	US Dollars	Rupees	US Dollars
	(In '000)			
Short term borrowings as FE 25 Import.	(4,347,548)	(50,537)	-	-
Accrued mark-up on FE 25 Import loans	(35,709)	(415)		
Balance sheet exposure	(4,383,257)	(50,952)	-	-

The following significant exchange rates applied during the year:

	2011	2010	2011	2010
	Average rates		Balance sheet date rate	
US Dollars to PKR	85	83	85.85 / 86.05	85.40 / 85.60

Sensitivity analysis

A 10 percent strengthening of the Rupee against US Dollar at 30 June would have increased / (decreased) equity and profit and loss account by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

	Note	2011	2010
		Profit and Loss (Rupees in '000)	
As at 30 June			
Effect in US Dollars-Gain		3,312	-

A 10 percent weakening of the Rupees against the above currency at 30 June would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

30.3.2 Interest rate risk

Interest rate risk is the risk that the fair value on 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. At reporting date, the Company did not held any fixed rate financial instruments whereas variable rate financial instruments amounted Rs. 9,656.601 million (2010: Nil).

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and loss for the year by Rs. 13.99 million (2010: Rs. Nil). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

30.4 Fair value of financial assets and liabilities

The carrying values of financial assets and financial liabilities reported in balance sheet approximate their fair values.

31 CAPITAL MANAGEMENT

The objective of the Company when managing capital i.e., its shareholders' equity and plant and equipment, 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. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to the shareholders or issue bonus shares. As at 30 June 2011, the shareholders' equity amounts to Rs 4,257.813 million (30 June 2010: Rs. 12.484 million).

32. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise IIL, being the holding company, associated undertakings, directors of the Company, key management employees and staff retirement funds. The Company continues to have a policy whereby all transactions with related parties undertakings are entered into at commercial terms and conditions. The price for selling of goods to IIL is determined based on prices quoted by Pakistan Steels Mills. Further, contribution to defined contribution plan (provident fund) are made as per the terms of employment and contribution to the defined benefit plan (gratuity scheme) are in accordance with the actuarial advice. Remuneration of key management personnel are in accordance with their terms of engagements. Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

Notes to the Financial Statements
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	Note	2011	2010
		(Rupees in '000)	
Holding Company			
Transactions			
Sales		2,984,373	-
Purchases (including inventory transferred at cost Rs. 1,373,535)		1,938,403	
Mark-up paid on inventory transferred at cost		79,944	
Office rent		5,658	-
Electrical consultancy charges		9,750	-
Toll manufacturing		1,182	-
Interest on loan from director		-	320
Sale of land		27,332	-
Purchase of a car		951	-
Balances			
Loan from a director		-	12,505
Accrued interest on loan from a director		-	320
Associated Companies			
Purchases		2,767,873	-
Insurance premium expense		25,702	-
Insurance claims received		12,286	-
Rent income		1,255	-
Key management personnel			
Remuneration		55,192	-
Staff retirement benefits		5,935	-
Staff retirement fund			
Contribution paid - Provident Fund		3,383	-
Contribution paid - Gratuity Fund		2,486	-

33. PRODUCTION CAPACITY

	(Metric Tonnes)	
The production capacity at the year end was as follows:		
Galvanising	150,000	-
Cold rolled steel strip	250,000	-
The actual production for the year was:		
Galvanising (10 months)	38,796	-
Cold rolled steel strip (7 months)	53,228	-

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

34. **OPERATING SEGMENT**

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

34.1 Revenue from sales of steel products represents 92.60% (30 June 2010: Nil) of total revenue whereas remaining represent revenue from sale of surplus electricity to KESC. This includes 18.57% revenue capitalised as part of trail production cost as disclosed in note 4.2.1. The Company does not consider sale of electricity to KESC 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 KESC.

34.2 All non current assets of the Company as at 30 June 2011 are located in Pakistan.

34.3 All sales of the Company are made to customers located in Pakistan.

34.4 Single major customer of the Company is IIL which represents 61.4% of total revenue of the Company.

35. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

35.1 Income taxes

In making the estimates for income taxes currently payable by the Company, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past.

35.2 **Staff retirement benefits**

Certain actuarial assumptions have been adopted as disclosed in these financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect unrecognised gains and losses in those years.

35.3 **Trade debts and other receivables**

Impairment loss against doubtful trade and other debts including receivable from KESC is made on a judgemental basis, which provision may differ in the future years based on the actual experience. The difference in provision if any, is recognised in the future period.

35.4 **Property, plant and equipment**

The Company's management determines the estimated useful lives and related depreciation charge for its plant and equipment. The estimates for revalued amounts, if any, of different classes of property, plant and equipment, are based on valuation performed by external professional valuers and recommendation of technical teams of the Company. Further, the Company reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carryin amounts of the respective items of property, plant and equipment.

35.5 Stock-in-trade and stores and spares

The Company's management reviews the net realisable value (NRV) and impairment of stock-in-trade and stores and spares to assess any diminution in the respective carrying values and wherever required provision for NRV / impairment is made. The difference in provision, if any, is recognised in the future period.

36. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue in the meeting of Board of Directors held on 08 August 2011.

Tariq Iqbal Khan Director & Chairman Board Audit Committee	**Liaquat Ali Tejani** Chief Financial Officer	**Towfiq H. Chinoy** Managing Director & Chief Executive

Pattern of Shareholding
as of 30 June 2011

NO. OF SHAREHOLDERS	HAVING SHARES FROM	HAVING SHARES TO	SHARES HELD	PERCENTAGE
43	1	100	1589	0.00037
492	101	500	241647	0.05555
200	501	1000	198708	0.04568
183	1001	5000	524995	0.12069
48	5001	10000	415483	0.09551
28	10001	15000	338976	0.07793
19	15001	20000	355839	0.08180
14	20001	25000	333646	0.07670
31	25001	50000	1313020	0.30184
23	50001	75000	1585933	0.36458
14	75001	100000	1302679	0.29947
19	105001	200000	3139180	0.72165
9	205001	300000	2331262	0.53592
5	345001	385000	1801976	0.41425
7	440001	500000	3312000	0.76138
8	995001	1000000	6144200	1.41246
3	1050001	1200000	3435000	0.78966
4	1240001	1380000	5208681	1.19740
2	1400001	1475000	2873600	0.66060
3	1505001	1985000	5467024	1.25679
6	2005001	2200000	12641148	2.90601
5	2545001	2985000	13973310	3.21226
1	3360001	3365000	3364056	0.77335
1	3565001	3570000	3565171	0.81958
1	4795001	4800000	4800000	1.10345
1	10710001	10715000	10712386	2.46262
1	20625001	20630000	20626500	4.74172
1	39475001	39480000	39477657	9.07532
1	40455001	40460000	40458800	9.30087
1	245055001	245060000	245055534	56.33461
1,174			**435,000,000**	**100.0000**

Categories of Shareholders as of 30-06-2011

Particulars	No. of Shareholders	No. of Shares Held	Percentage
Directors, CEO, Sponsors and Family Members	18	253,872,036	58.3614
Govt. Financial Institutions	1	4,800,000	1.1034
Banks, DFI & NBFI	5	22,366,408	5.1417
Modarabas & Mutual Funds	7	8,828,222	2.0295
Public Companies/Trusts & Others	25	10,051,998	2.3108
Strategic Investors	2	79,936,457	18.3762
Foreign Companies	4	28,074,671	6.4539
General Public	1,112	27,070,208	6.2230
TOTAL	1,174	435,000,000	100.0000

Key Shareholding

Key Shareholding

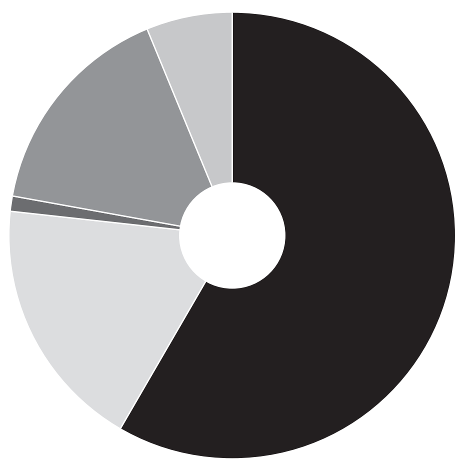
Information on shareholding required under reporting framework is as follows:

	Shares held	Percentage
Sponsor & Nominee Directors		
International Industries Ltd.	245,055,534	56.335
Nominee Directors of International Industries Ltd.	9	0.000
Director(s)		
Mr. Kemal Shoaib	1,000	0.000
Mr. Towfiq H. Chinoy	2,983,344	0.686
Mr. Kamran Y. Mirza	68,000	0.016
Government Financial Institutions		
National Bank Of Pakistan-Trustee Department Ni(U)T Fund	4,800,000	1.103
Strategic Investors		
International Finance Corporation (IFC)	40,458,800	9.301
Sumitomo Corporation	39,477,657	9.075
Foreign Investors		
JFE Steel Corporation	20,626,500	4.742
Others	7,448,171	1.712
Executives	163,276	0.038

Shareholders Composition

Shareholders Composition

Sponsors/Directors	58.36
Strategic Investors	18.38
Govt. Fin. Institution	1.10
Other Companies	15.94
Individuals	6.22



Notice of Meeting

Notice is hereby given to the Members that the 4th Annual General Meeting of the Company will be held on 8 September 2011 at 10.00 a.m. at the Jinnah Auditorium, Institute of Bankers Pakistan, M.T. Khan Road, Karachi to transact the following business:

Ordinary Business

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended 30 June 2011 and the Reports of the Directors' and Auditors' thereon.

2. To appoint Auditors for the year 2011-2012 and fix their remuneration.

3. To transact with the permission of the Chair any other business which may be transacted at an Annual General Meeting.

By Order of the Board

NEELOFAR HAMEED
Company Secretary

Karachi
Dated: 17 August 2011

Notes:

1. The Share Transfer Books of the Company shall remain closed from 29 August, 2011 to 8 September 2011 (both days inclusive).

2. A Member entitled to attend, speak and vote at the General Meeting is entitled to appoint another member as his/her proxy to attend, speak and vote on his/her behalf.

3. Instrument appointing proxy and the power of attorney or other authority under which it is signed or a notarially certified copy of the power or authority must be deposited at the registered office of the Company at least 48 hours before the time of the meeting. Form of proxy is enclosed.

   CDC Account Holders will further have to follow the under-mentioned guide lines as laid down in Circular 1 dated 26 January 2000 issued by the Securities and Exchange Commission of Pakistan:

a) **For Attending AGM**

   In case of individuals, the account holder or sub-account holder whose securities and their registration details are uploaded as per the Regulations, shall produce proof of his / her identity by showing original National Identity Card (NIC) at the time of attending the meeting.

   In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

b) **For Appointing Proxy**

   In case of individuals, the account holder or sub-account holder whose securities and their registration details are uploaded as per the Regulations shall submit the proxy form as per the above requirement.

   Attested copies of NIC of the beneficial owners and the proxy shall be furnished with the proxy form.

   The proxy shall produce his original NIC at the time of the meeting.

4. Members are requested to submit declaration for zakat on the required format and to advise change in address, if any.

5. Members are requested to submit a copy of the Computerized National Identity Card (CNIC) to update our records.

Proxy Form

INTERNATIONAL STEELS LIMITED

Shaping Tomorrow

I / We ____

of ____

being a member of INTERNATIONAL STEELS LIMITED and holder of ____________ ordinary shares as per Share Register Folio No. ________________ and / or CDC Participant I.D. No. _____________ and Sub Account No. ____________________ hereby appoint __________________________________of ___________________ _____________________________failing him______________________________ of ____

as my proxy to vote for me and on my behalf at the annual general meeting of the Company to be held on 8 September 2011 and at any adjournment thereof. Signed this ________________________ day of ________________________ 2011.

WITNESSES:

1. Signature: ____________________
   Name: ____________________
   Address: ____________________

   NIC or
   Passport No. ____________________

2. Signature: ____________________
   Name: ____________________
   Address: ____________________

   NIC or
   Passport No. ____________________

Signature

Revenue
Stamp
Rs.5/-

(Signature should agree with the specimen signature registered with the Company)

Note: Proxies in order to be effective must be received by the Company not less than 48 hours before the meeting. A proxy must be a member of the Company. CDC Shareholders and their proxies are each requested to attach an attested photocopy of their National Identity Card or Passport with this proxy form before submission to the Company.

Shaping Tomorrow

CORPORATE OFFICE
101 Beaumont Plaza
10 Beaumont Road
Karachi 75530 - Pakistan

PLANT
399 - 405, Rehri Road
Landhi Industrial Area
Karachi 75160 - Pakistan