INTERNATIONAL STEELS LIMITED

Shaping Tomorrow

Invigorating Growth

Net Sales of Over 210,000 tons

Over 130,000 tons of Galvanized Coil sold

Over 75,000 tons of Cold Rolled Coil sold

Annual Report **2012**

International Steels Limited

Invigorating Growth
Annual Report 2012

بسم الله الرحمن الرحيم

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

Progress lies not in enhancing what is, but in advancing towards what will be. ~ Khalil Gibran

Invigorating Growth

Contents

Our Vision

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

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.

Overall Strategic Objectives

We are committed to continually enhance the effectiveness of its quality, environmental, occupational health and safety management systems.

We aim at creating fair value for the stakeholders through team work, continual improvement in technology, waste reduction, protection of environment, care for health and safety of people and equipment, improvement in safety practices.

Core 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.

Code of Conduct

- This Code of Conduct applies to all employees of M/s International Steels Ltd [ISL] - hereby termed as the "Company".
- For the purposes of this Code, "employees" refers to directors, executives, officers, and employees of the Company.
- The Board and Management are expected to familiarize themselves with laws and regulations governing their individual areas of responsibility and not to transgress them.
- All employees should be sure that they understand and abide by the spirit as well as the letter of this Code and that violation of any of the Code's provisions could result in disciplinary action.

- **Salient features of the company's code of conduct are as below:**

A. BUSINESS ETHICS

i. 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 all stakeholders.
ii. The Company is dedicated to providing a safe and nondiscriminatory working environment for all employees.
iii. The Company does not support any political party or contributes funds to groups whose activities promote political interests.
iv. 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.
v. The Company is committed to run its business in an environmentally sound and sustainable manner and promote preservation of the environment.

B. CONFLICTS OF INTEREST

i. Every employee should conduct his/ her personal and business affairs in a manner such that neither a conflict, nor the appearance of a conflict, arises between those interests and the interests of the Company.

ii. An employee should avoid any situation in which he or she, or a family member, might profit personally (directly or indirectly), from the Company's facilities, its products, or Company's relationship with its vendors or customers.

iii. An employee should not permit himself/ herself (or members of his/ her family) to be obligated (other than in the course of normal banking relationships) to any organization or individual with whom the Company has a business relationship. However, business lunches, dinners or social invitations, nominal giveaways like key chains, calendars, etc. and attendance at conferences and seminars would not be considered a violation of this Code.

iv. In case an employee is offered or receives something of value which he/she believes may be impermissible under this Code, he /she should disclose the matter.

v. All employees should avoid any kind of bribery, extortion and all other forms of corruption.

vi. Conflict of interest should be avoided and disclosed where they exist and guidance should be sought from superiors.

C. ACCOUNTING RECORDS , CONTROLS & STATEMENTS

i. All books, records, accounts and statements should conform to generally accepted and applicable accounting principles and to all applicable laws and regulations.

ii. Employees are expected to sign only documents or records which they believe to be accurate and truthful.

D. ENVIRONMENT

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

ii. All employees are required to adhere strictly to all applicable environmental laws and regulations that impact Company's operations.

E. REGULATORY COMPLIANCE

i. The Company is committed to make prompt public disclosure of "material information" regarding the Company as prescribed in the Karachi Stock Exchange Regulations and/ or any other Exchange where the Company is listed.

ii. Where an employee is privy to the information, which is generally referred to as "material inside information," the same must be held in the strictest confidence by the employee involved until it is publicly released.

iii. The employees shall abide by the appropriate Competition Laws and shall not enter into understandings, arrangements, or agreements with competitors which have the effect of fixing or controlling prices, dividing and allocating markets or territories, or boycotting suppliers or customers.

F. PERSONAL CONDUCT

i. All employees should conduct themselves with the highest degree of integrity and professionalism in the workplace or any other location while on Company business.

ii. All employees should avoid any kind of bribery, extortion and all other forms of corruption.

iii. Employees should always be cognizant of the need to adhere strictly to all safety policies and regulations.

iv. Any legally prohibited or controlled substances if found in the possession of any employee will be confiscated and where appropriate, turned over to the authorities.

Our Business

- **Cold Rolled Steel**

Cold Rolled Steel Coils are manufactured under international quality control standards and offered in various varieties of properties. It's 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.

The products are available in various finishes, sizes and thicknesses, to meet the exact need of the customers.

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

Company Information

Board of Directors		
Chairman	Mr. Kemal Shoaib	Independent Chairman
CEO	Mr. Towfiq H. Chinoy	Managing Director
	Mr. Mustapha A. Chinoy	Non-Executive Director
	Mr. Kamal A. Chinoy	Non-Executive Director
	Mr. Tariq Iqbal Khan	Independent Director
	Mr. Kamran Mirza	Independent Director
	Mr. S. Salim Raza	Independent Director
	Mr. S. Hyder Ali	Non-Executive Director
	Mr. Otomichi Yano	Non-Executive Director
Chief Financial Officer:	Mr. Liaquat Ali Tejani	email: liaquat.tejani@isl.com.pk
Company Secretary:	Ms. Neelofar Hameed	email:neelofar.hameed@isl.com.pk
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 (Pakistan) 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	
	Barclays Bank PLC	
Legal Advisor:	Mrs. Sana Shaikh Fikree	
Registered Office:	101- Beaumont Plaza,10 Beaumont Road, Karachi-75530.	
	Phone: +9221-35680045-54	UAN: 021-111-019-109
	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: +9242-37220348	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: info@thk.com.pk

Key Operating Highlights

FINANCIAL POSITION

Balance sheet			
Property, plant and equipment	8,898	8,788	-
Intangible Assets	13	-	-
Other non current assets	0	16	-
Current assets	6,922	5,495	0.37
Total assets	**15,834**	**14,299**	**0.37**
Share capital	4,350	4,350	0.30
Reserves	(197)	(92)	(13)
Total equity	**4,153**	**4,258**	**(12)**
Non current liabilities	3,915	4,432	-
Current liabilities	7,766	5,609	13
Total liabilities	11,680	10,041	13
Total equity & liabilities	**15,834**	**14,299**	**0.37**
Net current assets	**(843)**	**(114)**	**(12)**
OPERATING AND FINANCIAL TRENDS			
Profit and Loss			
Net turnover	13,249	3,691	-
Gross profit	1,206	349	-
EBITDA	1,265	483	(13)
Operating profit	1,056	241	(13)
Profit / (loss) before taxation	(120)	(62)	(13)
Profit / (loss) after taxation	(104)	(79)	(13)
Capital expenditure (addition during the year)	466	1,027	-
Cash Flows			
Operating activities	(1,069)	(4,799)	(12)
Investing activities	(466)	(997)	-
Financing activities	(113)	(1,000)	13
Cash & cash equivalents at the end of the year	**(6,444)**	**(4,796)**	**(0.4)**

Key Indicators

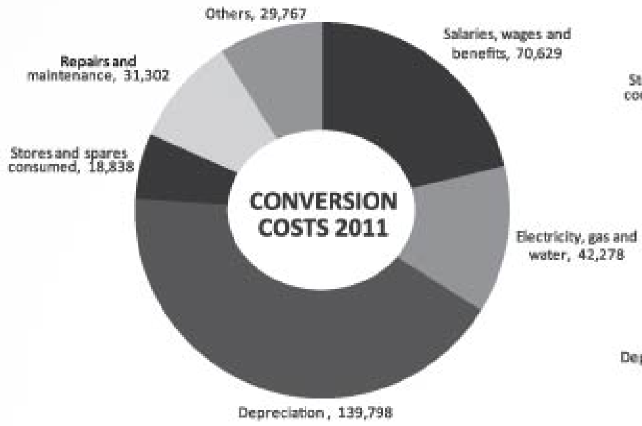
Profitability Ratios				
Gross profit ratio	%	9.10	9.46	-
Net profit / (loss) to Sales	%	(0.79)	(2.15)	-
EBITDA Margin to Sales	%	9.55	13.08	-
Operating Leverage	%	0.65	-	-
Weighted average cost of debt	%	6.69	6.25	-
Return on Shareholders' Equity	%	(2.52)	(1.86)	102.08
Operating profit on Capital Employed	%	11.2	2.77	102.08
Return on Total Assets	%	(0.66)	(0.56)	(3,438.69)
Liquidity Ratios				
Current ratio	(x)	0.89	0.98	0.03
Quick / Acid test ratio	(x)	0.21	0.30	0.03
Cash to Current Liabilities	(x)	0.00	0.05	-
Cash flow from Operations to Sales	(x)	(0.08)	(1.30)	-
Activity / Turnover Ratios				
Inventory turnover ratio	times	3.33	0.88	-
Inventory turnover in days	days	110	207	-
Debtor turnover ratio (KESC)	times	2.68	1.99	-
Debtor turnover in days (KESC)	days	136	156	-
Debtor turnover ratio (Other than KESC)	times	54.82	-	-
Debtor turnover in days (Other than KESC)	days	7	-	-
Creditor turnover ratio	times	162	18.33	-
Creditor turnover in days	days	2	10	-
Total assets turnover ratio	times	1.20	0.26	-
Fixed assets turnover ratio	times	0.67	0.42	-
Operating cycle in days	days	250	207	-
Capital employed turnover ratio	times	0.61	0.43	-
Investment / Market Ratios				
Earnings per share - basic and diluted	Rs	(0.24)	(0.22)	(424.80)
Price earning ratio	times	(49.80)	(62.47)	-
Market value per share at the end of the year	Rs	11.96	13.61	unlisted
Market value per share high during the year	Rs	14.29	15.06	unlisted
Market value per share low during the year	Rs	9.05	13.26	unlisted
Break-up value per share	Rs	9.55	9.79	(416.00)
Capital Structure Ratios				
Financial leverage ratio	(x)	2.63	2.27	-
Total Debt : Equity ratio	(x)	74:26	70:30	-
Interest cover	times	0.88	0.84	39.77
Value Addition				
Employees as remuneration	Rs. in million	305.50	147.00	-
Government as taxes	Rs. in million	3,092.00	1,432.00	-
Financial charges to providers of finance	Rs. in million	1,027.06	383.00	-

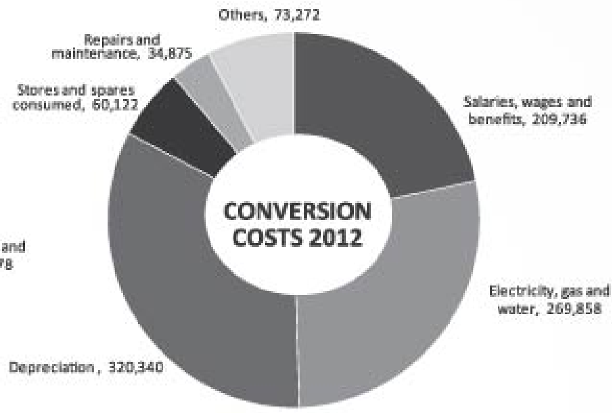
Vertical Analysis

Rs in Million

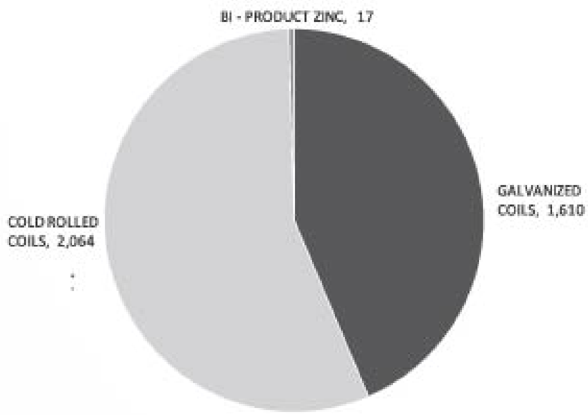
	2012	%	2011	%
OPERATING RESULTS				
Sales - Net	13,249.0	100.0	3,690.8	100.0
Cost of sales	12,043.1	90.9	3,341.7	90.5
Gross profit	1,205.9	9.1	349.2	9.5
Administrative, Selling and Distribution expenses	149.9	1.1	108.4	2.9
Other operating expenses	248.5	1.9	40.6	1.1
Other operating income	99.1	0.7	121.1	3.3
Operating Profit before finance costs	**906.6**	**6.8**	**321.3**	**8.7**
Finance costs	1,027.1	7.8	383.3	10.4
Loss before taxation	**120.5**	**0.9**	**62.0**	**1.7**
Taxation	16.0	0.1	17.4	0.5
Net Loss	**104.5**	**0.8**	**79.4**	**2.2**
BALANCE SHEET				
Property, plant and equipment	8,898.0	56.2	8,787.9	61.5
Intangible Assets	13.4	0.1	-	
Other non current assets	0.1	0.0	15.6	0.1
Current assets	6,922.2	43.7	5,495.1	38.4
Total assets	**15,833.8**	**100.0**	**14,298.6**	**100.0**
Shareholders' equity	4,153.3	26.2	4,257.8	29.8
Non current liabilities	3,914.8	-	4,432.1	31.0
Current portion of long term financing	638.8	4.0	263.2	1.8
Short term borrowings	6,447.8	40.7	5,057.9	35.4
Other current liabilities	679.1	4.3	287.6	2.0
Total equity and liabilities	**15,833.8**	**100.0**	**14,298.6**	**100.0**
CASH FLOWS:				
Net cash generated from/ (used in) operating activities	(1,069.2)	64.9	(4,798.7)	100.1
Net cash inflows/(outflows) from investing activities	(465.8)	28.3	(997.2)	20.8
Net cash (outflows)/inflows from financing activities	(113.1)	6.9	999.8	(20.8)
Net increase/ (decrease) in cash and cash equivalents	**(1,648.1)**	**100.0**	**(4,796.2)**	**100.0**

Key Financial Indicators

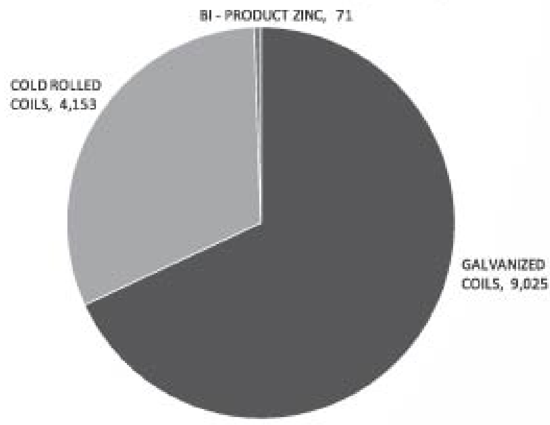




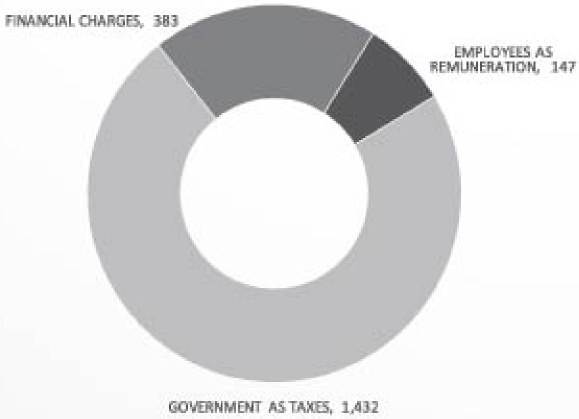
PRODUCT WISE SALES BREAK UP - 2011 (For six months) [Rs.in million]



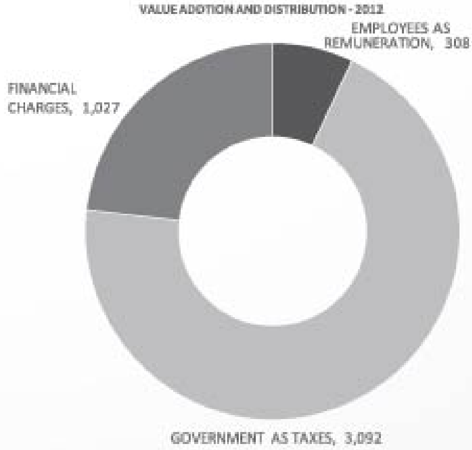
PRODUCT WISE SALES BREAK UP - 2012 [Rs. in million]



VALUE ADDITION AND DISTRIBUTION - 2011

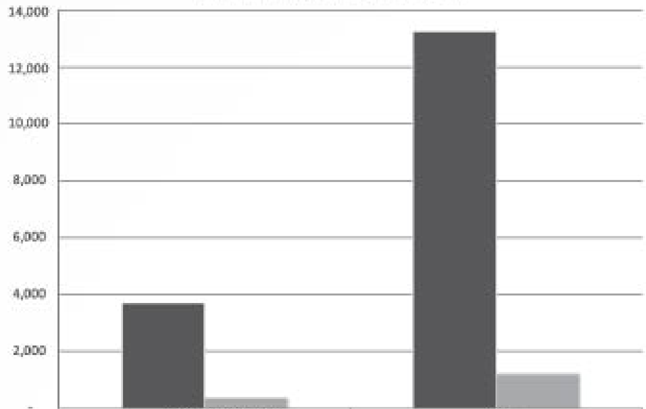


VALUE ADDTION AND DISTRIBUTION - 2012



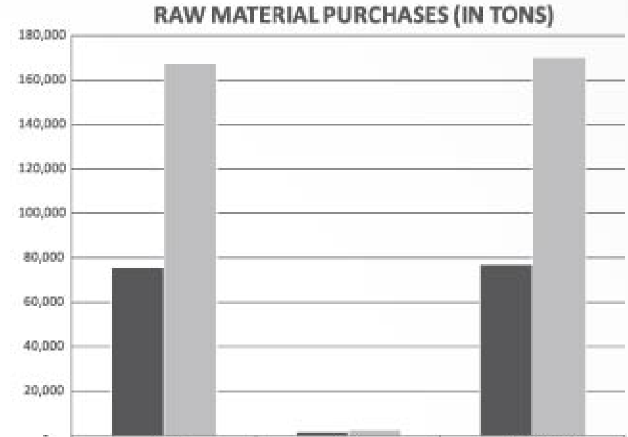
Key Financial Indicators

NET SALES/GROSS PROFIT



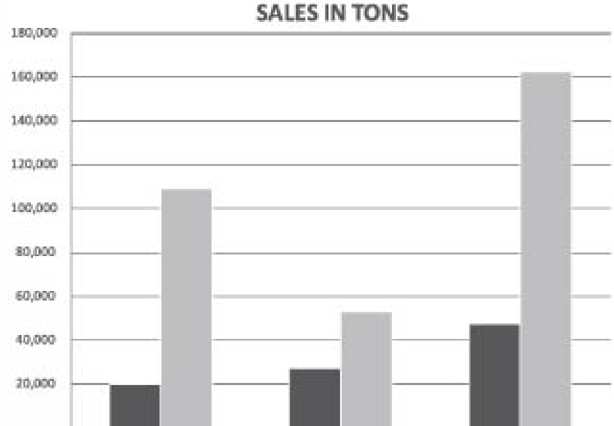
	2012 (For six months)	2011
NET SALES	3,691	13,249
GROSS PROFIT	349	1,208

RAW MATERIAL PURCHASES (IN TONS)



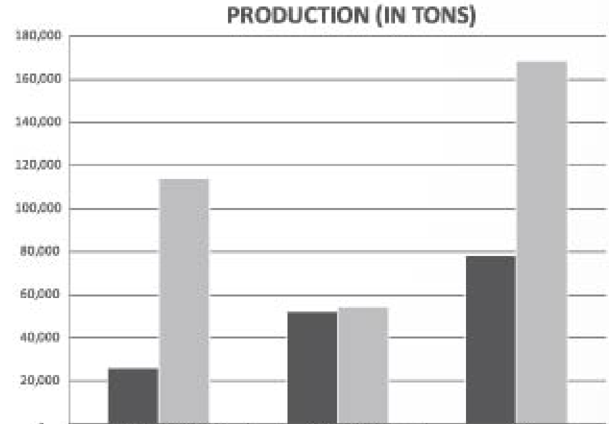
	Steel	Zinc	Total (Tons)
2012 (For six months)	75,651	1,387	77 ,038
2011	167,199	2,594	169,793

SALES IN TONS



	Galvanized Coils	Cold Rolled Coils	Total (Tons)
2012 (For six months)	20,087	27,419	47,506
2011	109,037	53,353	162,390

PRODUCTION (IN TONS)



	Galvanized Coils	Cold Rolled Coils	Total
2012 (For six months)	26,027	52,230	78,257
2011	113,851	54,353	168,204

Profile of the Board of Directors

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 Boards of several companies including ZIL Ltd., Century Paper & Board Mills Ltd., Premier Box (Pvt.) Ltd., International Advertising (Pvt.) Ltd., Safeway Fund Ltd. and Al-Aman Holdings (Pvt.) 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. Towfiq H. Chinoy
Chief Executive Officer & Managing Director

Mr. Towfiq Habib Chinoy, the Managing Director and CEO was associated with International Industries Ltd. since 1964 and retired after serving as MD for 35 years in 2011. He has been associated with International Steels Ltd since its inception.

He is presently the Non- Executive Chairman of Jubilee General Insurance Company Ltd., Packages Ltd., Pakistan Cables Ltd. and HBL Asset Management Ltd. He also holds directorship of Linde Pakistan Ltd., Jubilee Life Insurance Co. Ltd., IGI Investment Bank Ltd. He is also Trustee of Mohatta Palace Gallery Trust. 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. 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. He is the Honorary Consul General of the Republic of Cyprus. Mr. Kamal Chinoy is a member 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. NBP Fullerton Asset Management Ltd and International Industries Ltd. and a member of Board of Governors of Army Burn Hall Institutes.

He is a "Certified Director" having been certified by the Pakistan Institute of Corporate Governance. He is amongst the first 25 directors in Pakistan to be so certified.

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.

Mr. Tariq Iqbal Khan
Director

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 FFC Energy Limited, Interstate Gas Systems Limited , Silk Bank Ltd , Gadoon Textile, Pakistan Electric Agency (Pvt) Ltd, and PICIC Insurance Company Ltd.

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. Ferguson & 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, ICAP, Planning Commission (Pvt.Sector Development) 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.

Mr. S. 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 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. 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, ICCI Pakistan, Nestle Pakistan Limited, Packages Limited, Pakistan Center for Philanthropy, Sanofi Aventis, Tetra Pak Limited, WWF Pakistan, Bulleh Shah Papers Mills (Pvt) Ltd, LUMS, Pakistan Business Council and Tri Pack Flims Ltd.

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

The Directors are pleased to submit the 5th Annual Report for the Company accompanied by the audited financial statements for the year ended June 30, 2012.

GLOBAL STEEL SCENARIO

Average capacity utilization at the world's steel plants has remained significantly below the pre-global economic crisis levels of 2007. The global economic crisis of 2007-08 had caused world demand to contract sharply.

It is expected that the world would see an overall improvement in steel demand during 2012-13. This will be mostly driven by the economic performance of developing countries, which are quick in bouncing back after the global crisis of 2007-08. However, owing to the intensifying Eurozone sovereign crisis and the stock markets in decline, the steel prices are expected to have a fluctuating behavior during 2012. World's average per-capita use of steel is 212 kg / person and is likely to grow.The growth rate is expected to be a slower this year owing to the European crisis and to a slower growth rate in China.

The steel industry is the key driver of the world's economy. The per capita consumption has long been a reliable indicator of a country's level of development as it reflects building of modern infrastructure. Industrial material is the starting point for a host of consumer products such as automotive, construction, transport, power and machine goods.

PAKISTAN'S ECONOMY

Pakistan's economy remains highly vulnerable because of continued security challenges, political uncertainty and un-checked energy deficiency. This is compounded by the absence of clear and consistent industrial and investment policies.

Large and growing fiscal deficits keep inflation high and limit the growth. Pakistan requires funds for development of Infrastructure reconstruction. The government is handicapped owing to a shortage of resources and has to resort to short term borrowing from the local banks to manage the current account.

Given this backdrop, however, the demand for steel in Pakistan is likely to continue to increase. This is due to an already lower than world-average per-capita steel use, and a healthy parallel economy. Consequently, the automotive sector is showing consistent growth, and a good pace of development.

BUSINESS REVIEW

Your company is geared to perform its mission to be one of the best flat steel producers in the country and to create a fair value for its shareholders. It started commercial operations on January 01, 2011, and the production facilities were continuously improved through phased and well thought-out additions of various processes.

Additional Annealing Furnaces will be installed immediately upon arrival in the fourth quarter of 2012.The consequent enhanced annealing capacity would enable the company to meet the rising demand of Cold Rolled Steel from pipe manufacturers, drum manufacturers as well as from the automobile industry.

The Year 2011-12 was the first full year of Company operation. A strong focus was maintained on the areas within our control: improvement in safety and environmental performances, reduction in costs, efficient operations of facilities, production of highest quality value-added products, and provision of world-class service that our customers expect and deserve. As the steel prices remained highly volatile during the year, the Company was able to offset the steep rise by increase in sales volume, optimal inventory management and appropriate increase in sales prices.

OPERATIONS:

All the process units are fully operational; the Rolling Mill is now geared up for three shifts/ day. The Quality and Production groups are fully aligned with customer and product requirements. The processes, as well as the operation teams, have been properly organized to effectively respond to continuous customer and market feedback. Production efficiencies have been optimized through special focus on synchronization of all elements of the production process.

The Company has been able to diversify its sources of main raw material; it is now acquired from Russia,Spain, etc. in addition to Japan. Foreign experts have imparted intensive training to Company's engineers at the Karachi facility. In addition, engineers were also sent to Germany and Sweden with the objective of enhancing the production and operation standards to be at par with European norms.

SALES

Market's perception of the Company's products has shown a remarkable enhancement over the last year. Following the Company's commercial strategy of manufacturing high value-added steel products and meeting customers' evolving needs,confidence of retail customers as well as of industrial consumers has been gained. Building on this, the Company is focusing on a greater foot-hold in the industrial sector. This is expected to give the business, higher resilience through stable sales volumes and a lower vulnerability to short-term stocking/destocking cycles. The net turnover for this year is Rs 13,248 million. This also includes gradually increasing exports, as the Company has been able to make initial entries in South Africa and Asia.

The Company now has a reliable network of nationwide dealers appointed in all the cities and major towns. A new liaison office has been established in Islamabad to cater to the northern market.

Galvanized Steel Sheets:

We were able to stabilize the production of Galvanised Steel by second quarter of 2011-12, such that a production level of around 25,000 tons was delivered in the last two quarters of the financial year. The Company's products were acknowledged to be competitively priced for the international market. Galvanized sheets and coils were successfully exported to Afghanistan, South Africa, and Sri Lanka. Export sales are delivering superior prices as compared to domestic market; which is a clear indication of the Company's good product quality. The Company has been able to achieve more than 97% of our production as prime quality products; a benchmark.

Cold Rolled Steel:

The facility has achieved nameplate capacity on all specified rolled thicknesses. The Company has been gaining market in the commercial and industrial sectors by providing the consumers exact thickness and sizes per their requirement. This was possible by establishing competent dealers in specified markets and by targeting direct customers. The Company has expanded its direct customer network in the Pipe, Drum, Motorcycle, Cycle and Appliances segments. Exports of Cold Rolled Steel to Sri Lanka and Afghanistan have met with success.

Sale of Electricity to KESC

The Company's 19 MW combined cycle gas-based power plant continues to operate satisfactorily. The power plant is synchronized with the KESC grid, and all excess power is automatically sold to KESC. The net earnings during the year from KESC, amount to Rs.54 million.The management entered into an agreement with KESC to reschedule the Company's outstanding receivables for settlement as well as current bills. This rescheduled payment plan is being adhered to by KESC.

During the year the Company faced a considerable number of electricity interruptions owing to faults in the KESC 11KV Grid. This adversely affected the capacity and equipment. The Management has made arrangements for synchronization at the 132 KV level by mid-August 2012 at a capital cost ofRs 85 million. Resultant smooth operations are expected.

HEALTH, SAFETY & ENVIRONMENT

Annual environmental testing is also done for Air Emissions, Noise, Drinking Water and Industrial Effluent as per National Environmental Quality Standards. This is achieved through the Company's ISO certified production facilities and continuous focus on implementing HSE standards,energy reduction strategies, implementation of efficient energy sources and waste reduction management. Through its efficiency drive, the operation team has been able to bring down wastage.

Health and Safety of employees, contractors and visitors remains the Company's top priority. The Company-wide safety program of Zero Accidents is based on a continuous improvement mechanism. Regular HSE Trainings have been imparted to the employees, and during this year 237 employees were trained. As a result, the Loss Time Incident Frequency Rate, for the year ended June 30, 2012, is 3.9 bringing the Company closer to the Global Standard of 3.5 in similar industries.

The Acid Regeneration Plant has been installed this year which effectively recovers and regenerates waste acid, from pickling line which brings significant reduction in acid usage and costs, and is also safe for the environment. The treated water from the Effluent Treatment Plant is re-used for neutralization of waste acid etc.

The production facilities have been designed to optimize day light, and to minimize reliance on artificial illumination. Also, the waste water from the Sewerage Treatment Plan is recycled for gardening within the factory premises.

HUMAN RESOURCE

The operations continued to be carried out maintaining a fair environment, ensuring industrial peace, not losing any productive operation time. In addition, The Company continues its efforts in the area of capacity building and retention of talent for business sustainability.

FINANCIALS

During this Financial Year 2011-12, the Company achieved a Net Turnover of Rs 13,248 million with a Gross Profit is 9.1 % and an Operating Profit of 6.8 %. The Company suffered an exchange loss of Rs 246 million, during this period,owing to the sudden slide of Pakistan Rupee against the US Dollar. This has affected the Profit before Tax, which works out at 0.91%. There is a Sales Tax refund claim of Rs 279 million which is being actively pursued by the management.

The financial costs have been curtailed to the minimum level owing to prudent use of credit lines.
The financial expenses for the period were Rs. 1,027million. The average overall cost of the short term borrowings is 10.78%. Additionally the Company also has long term loans of Rs 4,486 million at the end of reporting period. The repayment of Long Term Financing Facility has commenced and an amount of Rs. 181 million has been repaid on this account. .

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 21:79 for the reporting period.

CONTRIBUTION TO NATIONAL EXCHEQUER AND THE ECONOMY

The Company made a contribution of Rs. 3,092 million to the National Exchequer during the year. This comprises total of income tax, sales tax, custom duties and other taxes and levies.

RISK MANAGEMENT

The Board has overall responsibility for risk oversight, with a focus on the most significant risks facing the Company. The Board's Audit Committee is responsible for assisting the Board in its oversight of the risk management strategies and policies, including overseeing the management of market, credit, liquidity risks and oversight of financial policies, strategies, and capital structure. While the Board is ultimately responsible for risk oversight, our management is responsible for day-to-day risk management processes. We believe that this division of responsibilities is the most effective risk management approach.

INTERNAL CONTROLS AND THEIR ADEQUACY

The Audit Committee monitors the Company's risk management process quarterly, or more frequently if required, focusing primarily on financial and regulatory compliance risks. The report of the Board Audit Committee relating to controls and their adequacy is given on page 29.

GRATUITY AND PROVIDENT FUNDS

The value of investments in employee retirement funds as of 30 June, 2012 are as follows:
Fund Amount

- Provident Fund 38.9 million
- Gratuity Fund Rs 15.1 million

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, 2012 is placed on Page 74, 75.

FUTURE PROSPECTS

By the grace of Allah your Company has stabilized output at or above the nameplate capacities and the product has made its name in the market for international level product quality. This is also evident by exports.

The major problem being faced is pressure on margins on domestic sales, owing to underinvoiced materials being imported into the country; import of secondary quality material under SROs; disguised commercial imports under SROs by spurious "manufacturers"; and smuggling/ misuse of the Afghan Transit Trade. Your management is raising this issue at all levels with the concerned authorities and is hopeful of having at least some degree of success.

Barring the impact of an uneven playing field, your Company, in its second year of operation, is poised to operate satisfactorily.

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 times of economic pressures, security issues and the unfair practices by importers to improve operations and strengthen the overall performance of the Company.

We pray to Allah for the success of your company.

Kemal Shoaib
Chairman
Karachi
13-Aug-2012

Corporate Governance

We believe in ethical business practices, sustainable manufacturing processes and transparent reporting to the shareholders and that the best practices of Corporate Governance ensure success and better results for all stakeholders.

The Board of Directors provides the overall direction for the Company operations , provides oversight for various policies and monitors the management in the light of the operational and financial plans.

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 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.

The Board of Directors

We continue to believe in adequate representation of majority Independent directors and have a good mix of independent directors, non-executive directors, while there is only one executive director on Board i.e. the MD. The Board consists of Nine [09] eminent directors (as detailed on page 14, 15) 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 & R Committee and Strategic Planning Committee. The composition, role and responsibilities of the Committees are clearly defined in their Terms of References.

The frequency of the Board Meetings is kept to at least review each quarter's results; the Board had Five meetings during this year, out of which 4 were held for the quarter results, while one was held to consider business and budget planning for the ensuing year.

All our directors are highly qualified and experienced professionals, with many years of experience as Directors, and are fully aware of their duties and responsibilities under the Code of Corporate Governance. At present, three Directors have acquired the formal Directors Training Certificates as well.

Board Changes

The Board of Directors' of the Company has nine (09) positions and was elected on November 22, 2010. During the year, there has been there has been no change in the board.

Roles 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 over all 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 operations of the company.

Governance Framework

The Board has throughout the year FY 2011-12, discharged its responsibilities as defined by the "Code of Corporate Governance", listing requirements of Karachi Stock Exchange and the "Corporate Financial Reporting Framework" of Securities & Exchange Commission of Pakistan. A Board Meeting Calendar is issued annually to reflect the dates planned for the Board and Audit Committee Meetings. All the Board members are given appropriate documentation in advance of each meeting, which normally includes a detailed analysis of business and on matters, where the Board will be requested to make a decision or give its approval. The Directors take active participation in discussions during the Board meetings; the average attendance of the directors during the year has been 89%.

THE BOARD COMMITTEES

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 - HOD Corporate affairs

Terms of Reference of Audit Committee:

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

1. Review responsibilities :

a) Periodically review its Charter and improve/ amend it according to changes in the laws and regulations and global best practices from time to time.

b) Review from time to time its responsibilities in terms of revisions in the laws, rules, regulations and Code of Corporate Governance.

2. Financial Reporting:

a) Review the quarterly, half yearly and annual financial statements of the company, prior to approval by the Board, focusing on significant issues like:

   i. Disclosures and judgmental areas, used in preparing the same especially those regarding valuation of assets, liabilities,
   ii. Significant related party transactions,
   iii. Assumptions on the basis of going concern
   iv. Any significant legal matters etc.

b) Discuss with the management and asses that the financial statements been prepared as per prevailing rules and regulations, accounting principles etc. including any significant changes in the accounting policies etc.

c) Consider and review any material changes in the financial statements which may have any significant effect on the profitability of the company.

3. External Audit :

a) Review the scope of the External Auditors including but not limited to the independence, objectivity and effectiveness of the audit process.

b) Review and recommend the terms of appointment of the External Auditors annually, ensure that the selection of the audit firm and / or rotation of the partner of such a firm is as per existing rules and regulations.

c) Review, no less than annually with the External Auditors about significant issues regarding financial reporting and major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management if needed).

d) Develop and review the policy on engagement of the external auditors in any non-audit services for the company, its associated concerns and subsidiaries.

e) 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;

f) Review and discuss with External Auditors at least once in a year the major aspects of their report without the management and Internal Auditors being present.

4. Internal Audit and Risk Controls:

a) Review the scope of the Internal Audit function; ensure that the scope and extent of internal audit has sufficient resources.
b) Ensure co-ordination between the Internal and External Auditors.
c) Ascertain that the internal control systems including financial and operational controls, accounting systems and the reporting structure are adequate and effective.
d) Review the internal control systems and internal audit report prior to endorsement by the Board of Directors.
e) Review and ensure that the regulatory compliance system is effective.
f) 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.
g) Review and recommend to the Board of Directors, a Policy for transactions with the Related Parties, based on the existing agreements / policies.
h) Provide guidance to prepare a Risk Policy; ensure that a robust system is in place in the form of well -defined policies and procedures.
i) Overview the Risk Policy periodically.
j) Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees, concerns regarding questionable accounting or auditing matters.
k) Review and provide oversight to prepare the "Code of Conduct" annually and oversee that the same is signed and adopted by the Directors as well as the employees.
l) Review and discuss with Internal Auditors at least once in a year the major aspects of their report without the management being present.

5. Any Other Responsibility

a) Monitoring compliance with the best practices of corporate governance and identification of significant violations thereof.
b) Assist the Board in any other task assigned.

The Audit Committee met Four (04) times, during the financial year ended June 30, 2012, and the attendance was 100 %.

HUMAN RESOURCE & 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 – Non Executive Director
- Mr. Raheel Ahmed
  Secretary - HOD Human Resources

Terms of Reference of Human Resource & Remuneration Committee[HR & RC]:

The role of the Human Resource & Remuneration Committee is to assist the Board of Directors' in its oversight of the evaluation and approval of the employee benefit plans etc. The salient features of the terms of HR & RC are as follows:

1. The HR & RC shall recommend Human Resource Management Policies to the Board.
2. Recommendations on selection, appointment, remuneration and succession of the CEO , to the Board.
3. Recommendations on selection, appointment, remuneration and succession of the DMD, CFO, Company Secretary and Head of Internal Audit, to the Board.
4. Set the Policy framework including compensation structures of various levels of executives.
5. Recommend compensation structure of the Board of Directors and its sub-committees.
6. Ensure implementation of the development needs of new Directors.
7. Review and ensure that a robust employee evaluation system is in place.

The Human Resource Committee met Three (03) times, during the financial year ended June 30, 2012, and the attendance was 66 %.

STRATEGIC PLANNING 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,which is circulated before each fiscal year to ensure Directors availability.

During the year, Five [05] Board meetings took place and Four [04] Audit Committee Meeting were held. The Human Resource & Remuneration Committee held Three [03] meetings. All meetings of the Board and its sub Committees had minimum quorum attendance prescribed by the prevailing rules and regulations and Terms of Reference of respective Sub Committees.

DIRECTORS' PARTCIPATION IN BOARD AND SUB-COMMITTEE MEETINGS:

Board / Sub Committee(s)	Board Meetings	Audit Committee	Human Resource & Remuneration Committee
	Total number of meetings held during the year/Attendance		
	5	4	3
Mr. Kemal Shoaib	5	–	3
Mr. Towfiq. H. Chinoy	5	–	2
Mr. Kamal A. Chinoy	5	4	–
Mr. Mustapha A. Chinoy	5	–	3
Mr. Tariq Iqbal Khan	5	4	–
Mr. Kamran Y. Mirza	4	4	–
Syed Salim Raza	4	–	–
Syed Hyder Ali	4	–	–
Mr. Otomichi Yano	3	–	–

Since there has been no change in the Board of Directors during the current year, there was no formal orientation needed. The new Code of Corporate Governance was discussed in the Board at length and salient features were noted down. Additionally the Board is briefed on various developments in the business fields in each meeting.

Engagement of Directors in other Companies/ Entities

NAME	OTHER BUSINESS OCCUPATION AND DIRECTORSHIP (IF ANY)
Mr. Kemal Shoaib Chairman	International Steels Ltd. Al-Aman Holdings (Pvt) Ltd. Century Paper & Board Mills Ltd. International Advertising (Pvt) 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	**International Steels Ltd.** HBL Asset Management Ltd. IGI Investment Bank Ltd. Jubilee General Insurance Co. Ltd. Jubilee Life Insurance Co. Ltd. Linde Pakistan Ltd. (Formerly BOC Pakistan Ltd.) Mohatta Palace Gallery Trust Packages Ltd. Pakistan Cables Ltd.
Mr. Mustapha A. Chinoy Director	**International Steels Ltd** Global e-Commerce Services (Pvt) Ltd. Intermark (Pvt) Ltd. International Industries Ltd. Pakistan Cables Ltd. Security Papers Ltd. Travel Solutions (Pvt) Ltd.
Mr. Kamal A. Chinoy Director	**International Steels Ltd.** Atlas Battery Ltd. International Industries Ltd. NBP Fullerton Assets Mgmt. Ltd. Pakistan Cables Ltd. Pakistan Security Printing Corp. (Pvt) Ltd.
Mr. Tariq Iqbal Khan Director	**International Steels Ltd.** FFC Energy Ltd. Gadoon Textile Mills Ltd. Interstate Gas System (Pvt) Ltd. Pakistan Electric Agency (Pvt) Ltd. PICIC Insurance Company Silkbank Ltd.

Syed Salim Raza Director	**International Steels Ltd.**
Mr. Kamran Y. Mirza Director	**International Steels Ltd.** Abbot Laboratories (Pak) Ltd. Board of Investment (BOI) Institute of Chartered Accountants of Pakistan Pak. Mercantile Exch. Ltd. (Formerly NCEL) Pakistan Business Council Planning Comm., Govt. of Pak. (Task Force Pharama Sector) Planning Comm., Govt. of Pak. (Task Force Pvt. Sector) Safari & Outdoor Club of Pakistan
Syed Hyder Ali Director	**International Steels Ltd.** Ali Institute of Education (AIE) Babar Ali Foundation (BAF) Bulleh Shah Paper Mill (Private) Limited IGI Insurance Limited International Chamber of Commerce Pakistan Lahore University of Management Sciences (LUMS) National Management Foundation (NMF) Nestle Pakistan Limited Packages Ltd. Packages Lanka (Pvt) Limited Pakistan Centre for Philanthropy Pakistan 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 Ltd.** Sumitomo Corporation, Japan

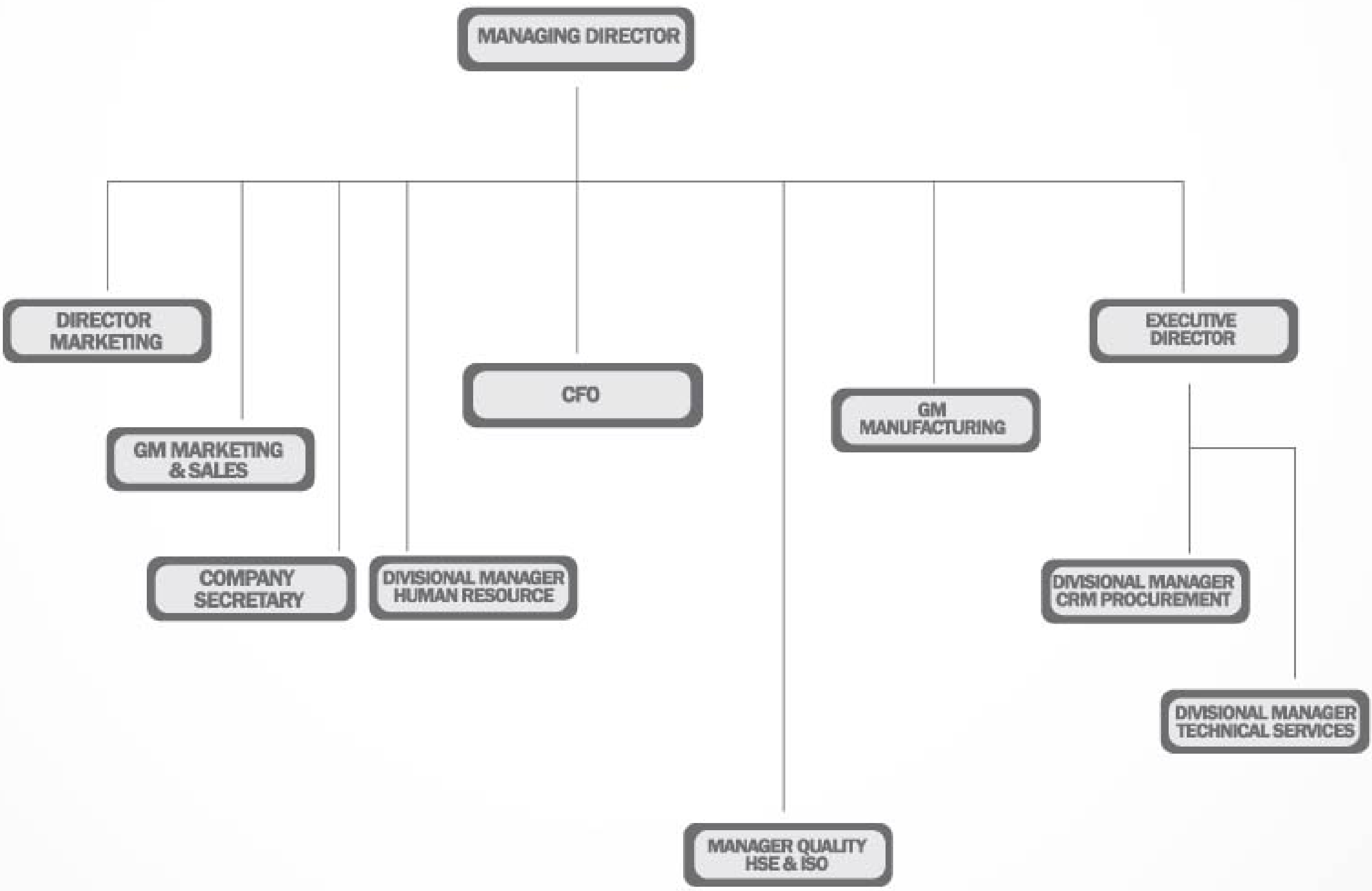
MANAGEMENT TEAM

Good corporate governance is the basis ofour decision making and control processes. The management's decision making is based on long term strategic objectives in which the Board, comprising of majority independent directors, provides strategic oversight and guidance to the management and monitors the performance of the company regarding business objectives, share holders' interests and regulatory compliance.

The Management Team is headed by the Chief Executive Officer / Managing Director and the Functional Heads are:

• Mr. Towfiq Chinoy	Managing Director & CEO
• Mr. Zaka Ullah Khan	Director Marketing
• Mr. Muhammad Ateequllah	Executive Director
• Mr. Liaquat Ali Tejani	Chief Financial Officer
• Mr. Mehdi Hasnain	GM Manufacturing
• Ms. Neelofar Hameed	Company Secretary
• Mr.Raheel Ahmed	HOD Human Resource

Organization Chart



Audit Committee

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 2012 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 Exchange (Guarantee) Ltd., Company's Code of conduct and the international best practices of Corporate 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 2012, 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 outsourcing the function to M/s Ernst & Young Ford Rhodes Sidat Hyder.
- 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 2012 and shall retire on the conclusion of the 5th 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 2013 on remeuneration as negotiated by the Managing Director.

Karachi:
Dated: August 13, 2012

Tariq Iqbal Khan
Chairman – Board Audit Committee

Statement Of Compliance With The Best Practices Of The Code Of Corporate Governance

INTERNATIONAL STEELS LIMITED
30 June 2012

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

The company has applied the principles contained in the CCG in the following manner:

1. The company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes:

Category	Names
Independent Directors	• Mr. Kemal Shoaib • Mr. Tariq Iqbal Khan • Syed Salim Raza • Mr. Kamran Y. Mirza
Executive Director	• Mr. Towfiq H. Chinoy
Non-Executive Directors	• Mr. Kamal A. Chinoy • Mr. Mustapha A. Chinoy • Syed Hyder Ali • Mr. Otomichi Yano

2. None of the directors is serving as a director on more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).

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 DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. No casual vacancy occurred on the Board during this period.

5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures. The process of signing such Code of Conduct by all Directors and employees of the Company is under process.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. The Company is in the process of developing the significant policies which will then be adopted by the Board of Directors. A complete record of particulars of significant policies have been developed and adopted during the year. The Company has documented the following policies and statements in compliance with the Code of Corporate Governance:
   a) Our Vision
   b) Our Mission
   c) Code of Conduct & Ethical Practices
   d) Our Values
   e) Budgetary Control Policy
   f) Profit Appropriation Policy
   g) Acquisition of Fixed Assets
   h) Related Party Transaction Policy
   i) Delegation of Financial Authority Policy
   j) Human Resource Policies

.

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

8. All 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 at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. Orientation Program for the Board of Directors was conducted in 2010, when the BOD met after elections. No training program was arranged for the directors during the year. The directors have been provided with copies of Listing Regulations of the Karachi Stock Exchange, Memorandum and Articles of Association and the Code of Corporate Governance and they are well conversant with their duties and responsibilities. Three directors have acquired the formal training certificates in earlier years. The Company intends to facilitate further training for the directors in near future as per defined in the Code of Corporate Governance.

10. The existing CFO & Company Secretary continue to serve as per their respective terms of employment duly approved by the Board of Directors. The Company has designated one of its employees as 'Head of Internal Audit' to act as coordinator between the firm providing internal audit services and the Board of Directors.

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

- The Company has not disclosed the information as required under clause (xvi) and sub-clauses (J-iii) directors and their spouse(s) and minor children, (J-vii) shareholders holding five percent or more voting rights in the listed company (all above are name vise details) and clause (xvi)(L) all trade in the shares of the listed company, carried out by its directors, executives and their spouses and minor children as mentioned in the Code of Corporate Governance due to security reasons. The Holding Company has applied for relaxation before Securities and Exchange Commission of Pakistan for the above in May 22, 2012. However, reply is yet to be received.

12. The financial statements of the company were duly endorsed by CEO and CFO before approval of 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 has complied with all the corporate and financial reporting requirements of the CCG.

15. The Board has formed an Audit Committee. It comprises 3 members; of whom all are Non-Executive Directors, out of which the Chairman and one member are Independent Directors.

16. The meetings of the Audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the CCG. The Terms of Reference of the committee have been formed and noted by the committee for compliance.

17. The Board has formed a Human Resource & Remuneration Committee. It comprises 4 members; the Chairman of the committee and one other member are independent directors, whereas the remaining members comprise one executive director and one non- executive director.The Terms of Reference of Human Resource & Remuneration Committee has been approved by the BOD and noted by the Human Resource & Remuneration Committee for compliance

18. The Board has outsourced the Internal audit function and appointed M/s Ernst & Young Ford Rhodes Sidat Hyder & Co, as Internal Auditors of the Company during the year, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.

19. The Statutory Auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the 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 ICAP.

20. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchange(s).

22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).

23. 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.

Tariq Iqbal Khan
Chairman –Audit Committee

Towfiq Chinoy
Chief Executive Officer/ MD

KPMG

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, Listing Regulations notified by the Karachi Stock Exchange (Guarantee) Limited requires the Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions 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.

As more fully explained in paragraphs 6 and 11 which describes non-compliances in respect of formulation of significant policies and requirements relating to Directors' report for disclosure of pattern of shareholding held by certain persons respectively. However, the Company is making reasonable progress to seek compliances by the end of next accounting year.

Based on our review, except for the matter as explained in the above paragraph, 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 2012.

Date: 13 Aug. 2012

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

Financial Statements of the Company

KPMG

Auditors' Report to the Members

We have audited the annexed balance sheet of International Steels Limited ("the Company") as at 30 June 2012 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the 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;

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 consistently applied;

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, 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 respectively give a true and fair view of the state of the Company's affairs as at 30 June 2012 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 (XVIII of 1980).

Date: 13 Aug. 2012

Karachi

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants
Mohammad Nadeem

BALANCE SHEET
As at 30 June 2012

	Note	2012	2011
		(Rupees in '000)	
ASSETS			
Non current assets			
Property, plant and equipment	4	**8,898,047**	8,787,923
Intangible assets	5	**13,414**	-
Long term advance and deposit	6	**100**	15,579
Total non current assets		**8,911,561**	8,803,502
Current assets			
Stores and spares	7	**372,982**	139,563
Stock-in-trade	8	**5,273,767**	3,817,918
Receivable from Karachi Electric Supply Company Limited - Unsecured Considered good		**228,705**	259,430
Trade debts	9	**287,498**	351
Advances	10	**18,692**	266,880
Trade deposits and short term prepayments	11	**11,334**	12,049
Other receivables - sales tax receivable		**279,248**	584,266
Taxation-net	12	**446,036**	152,512
Cash and bank balances	13	**3,957**	262,077
Total current assets		**6,922,219**	5,495,046
Total assets		**15,833,780**	14,298,548
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorised capital			
500,000,000 (2011: 500,000,000) ordinary shares of Rs. 10 each		**5,000,000**	5,000,000
Issued, subscribed and paid up capital	14	**4,350,000**	4,350,000
Accumulated losses		**(196,657)**	(92,186)
Total shareholders' equity		**4,153,343**	4,257,814
LIABILITIES			
Non current liabilities			
Long term finances	15	**3,846,883**	4,335,519
Deferred taxation-net	16	**67,867**	96,559
Total non current liabilities		**3,914,750**	4,432,078
Current liabilities			
Trade and other payables	17	**468,130**	129,911
Short term borrowings	18	**6,447,822**	5,057,881
Current portion of long term finances	15	**638,775**	263,201
Accrued markup		**210,960**	157,663
Total current liabilities		**7,765,687**	5,608,656
Contingency and commitments	19		
Total equity and liabilities		**15,833,780**	14,298,548

The annexed notes 1 to 37 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 2012

	Note	2012	2011
		(Rupees in '000)	
Net sales	*20*	**13,248,983**	3,690,824
Cost of sales	*21*	**(12,043,061)**	(3,341,648)
Gross profit		**1,205,922**	349,176
Administrative expenses	*22*	**(73,355)**	(80,621)
Selling and distribution expenses	*23*	**(74,898)**	(27,785)
		(150,253)	(108,406)
Financial charges	*24*	**(1,027,062)**	(383,314)
Other operating charges	*25*	**(248,154)**	(40,558)
		(1,275,216)	(423,872)
Other operating income	*26*	**99,057**	121,070
Loss before taxation		**(120,490)**	(62,032)
Taxation - net	*27*	**(16,019)**	(17,370)
Loss for the year		**(104,471)**	(79,402)
		(Rupees)	
Loss per share - basic and diluted	*28*	**(0.24)**	(0.22)

The annexed notes 1 to 37 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 2012

	2012	2011
	(Rupees in '000)	
Loss for the year	**(104,471)**	(79,402)
Other comprehensive income	**-**	-
Total comprehensive income for the year - loss for the year	**(104,471)**	(79,402)

The annexed notes 1 to 37 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 2012

	Note	2012	2011
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		**(120,490)**	(62,032)
Adjustments for:			
Depreciation		**355,499**	161,627
Amortisation		**2,627**	-
Gain on sale of property, plant and equipment		**(378)**	(867)
Provision for staff gratuity		**5,335**	2,486
Provision for compensated absences		**,6,682**	4,997
Financial charges		**1,027,062**	383,314
		1,276,337	489,525
Movement in:			
Working capital	*29*	**(1,063,555)**	(4,795,155)
Payment of compensated absences		**(2,012)**	(27)
Long term deposits		**-**	(15,579)
Net cash from / (used in) operations		**210,770**	(4,321,236)
Financial charges paid		**(973,765)**	(281,533)
Taxes paid		**(306,197)**	(195,932)
Net cash (used in) / from operating activities		**(1,069,192)**	(4,798,701)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		**(466,470)**	(1,027,446)
Proceeds from sale of property, plant and equipment		**663**	30,217
Net cash (used in) investing activities		**(465,807)**	(997,229)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		**-**	172,533
(Repayment) / Proceeds of long term finances - net off		**(113,062)**	839,722
(Repayment) of loan from a director		**-**	(12,500)
Net cash (used in) / from financing activities		**(113,062)**	999,755
Net (decrease) in cash and cash equivalents		**(1,648,061)**	(4,796,175)
Cash and cash equivalents at beginning of the year		**(4,795,804)**	371
Cash and cash equivalents at end of the year		**(6,443,865)**	(4,795,804)
CASH AND CASH EQUIVALENTS COMPRISE			
Cash and bank balances	*13*	**3,957**	262,077
Short term borrowings	*18*	**(6,447,822)**	(5,057,881)
		(6,443,865)	(4,795,804)

The annexed notes 1 to 37 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

Statement of Changes in Equity
For the Year ended 30 June 2012

	Issued, Subcribed and Paid Up Capital	Accumulated losses	Total
		(Rupees in '000)	
Balance as at 1 July 2010	300	(12,784)	(12,484)
Issue of shares against transfer of steel project undertaking (refer note 1.1)	4,177,167	-	4,177,167
Issue of shares for cash	172,533	-	172,533
Total comprehensive income for the year - loss for the year	-	(79,402)	(79,402)
Balance as at 30 June 2011	4,350,000	(92,186)	4,257,814
Total comprehensive income for the year - loss for the year	-	(104,471)	(104,471)
Balance as at 30 June 2012	**4,350,000**	**(196,657)**	**4,153,343**

The annexed notes 1 to 37 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 2012

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 International Industries Limited (the Holding Company) (refer note 14.1) . 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 International Industries Limited. 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 International Industries Limited in its meeting held on 23 July 2009 approved the Scheme of Arrangement ("the Scheme") for the reconstruction of the International Industries Limited 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.

Under the Scheme, assets and liabilities of International Industries Limited 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. 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.

The Scheme was approved by 99.998% shareholders of International Industries Limited 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 approved Scheme, 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 day when the Scheme becomes effective i.e., 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 at Rs. 10 each of the Company thereagainst were issued to International Industries Limited accordingly. The net assets transferred were as follows:

	(Rupees in '000)
Assets	
Non-current assets	**7,951,454**
Current assets	**1,548,115**
Total Assets	**9,499,569**
Liabilities	
Non-current liabilities	**(3,831,103)**
Current liabilities	**(1,491,299)**
Total liabilities	**(5,322,402)**
Net assets of the Project as at 23 August 2010	**4,177,167**

Notes to the Financial Statements

For the Year ended 30 June 2012

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 described in the following:

- Property, plant and equipment and Intangible assets (notes 3.1 and 3.2).
- Trade debts and other receivables (note 3.3.1.1)
- Stores and spares stock in trade (notes 3.4 and 3.5)
- Income taxes (note 3.6)
- Staff retirement benefits (notes 3.7)
- Impairment (note 3.10)

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.

Notes to the Financial Statements

For the Year ended 30 June 2012

2.6 Standards, Interpretations and Amendments not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2012:

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Company.

- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The Company's policy was to account for actuarial gains and losses using the corridor method and with the change unrecognized actuarial losses amounting to Rs. 5.44 million at 30 June 2012 would need to be recognized in other comprehensive income with revised actuarial estimate in 2013.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Company.

- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no significant impact on financial statements of the Company.

- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Company.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement.

Notes to the Financial Statements

For the Year ended 30 June 2012

- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.

Annual Improvements 2009–2011 (effective for annual periods beginning on or after 1 January 2013). The new cycle of improvements contains amendments to the following five standards, with consequential amendments to other standards and interpretations.

- IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period i.e. 30 June 2011 which is the preceding period of 30 June 2012 is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the 'third statement of financial position', when required, is only required if the effect of restatement is material to statement of financial position.

- IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories.

- IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.

- IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Property, plant and equipment

3.1.1 Operating assets and depreciation

Initial Recognition

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

Notes to the Financial Statements

For the Year ended 30 June 2012

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

Measurement

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Freehold land are stated at revalued amounts and buildings on freehold land are stated at revalued amounts less accumulated depreciation, in case of revaluation. The cost of Property, plant and equipment includes:

(a) its purchase price including import duties, non refundable purchase taxes after deducting trade discounts and rebates; and
(b) any other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
(c) Borrowing costs, if any.

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

Subsequent expenditure (including normal repairs and maintenance)

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

Depreciation

Depreciation on all items except for freehold land is charged on straight line method. 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 upto 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.

Notes to the Financial Statements

For the Year ended 30 June 2012

Surplus on revaluation

Revaluation of Freehold land and Building on Free hold land is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. Surplus on revaluation of 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 / accumulated losses.

Gains and losses on disposal

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

3.1.2 Capital work in progress

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

3.2 Intangible assets

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

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

Infinite Intangible

These are stated at cost less impairment, if any.

Definite Intangible

a) These are stated at cost less accumulated amortisation and impairment, if any.
b) Intangible assets are amortised on straight line basis over its estimated useful life(s) refer note 5.
c) Amortisation on additions during the financial year is charged from month in which the asset is put to use, whereas no amortisation is charged from the month the asset is disposed off.

3.3 Financial Instruments

3.3.1 Non-derivative Financial assets:

All non-derivative financial assets are initially recognised on trade date i.e. date on which the company becomes party to the respective contractual provisions. Non-derivative financial assets comprise loans and receivables that are financial assets with fixed or determinable payments that are not quoted in active markets and includes trade debts, advances, other receivables and cash and cash equivalent. The Company derecognizes the financial assets when it ceases to be a party to such contractual provisions of the instruments.

Notes to the Financial Statements

For the Year ended 30 June 2012

3.3.1.1 Trade debts, Advances and other receivables

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

3.3.1.2 Cash and cash equivalents

Cash and cash equivalents for cash flow purposes include cash in hand and balances 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.

3.3.2 Financial Liabilities

Financial liabilities are initially recognised on trade date i.e. date on which the company becomes party to the respective contractual provisions. Financial liabilities represents markup bearing borrowings and trade and other payables. Financial liabilities are initially recognised on trade date i.e. the date on which the company becomes party to the respective contractual provisions of the instruments. The Company derecognizes the financial liabilities when it ceases to be a party to such contractual provisions of the instruments.

3.3.2.1 Markup bearing borrowings and borrowing costs

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

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

3.3.2.2 Trade and other payables

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

3.3.3 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.

3.3.4 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.

Notes to the Financial Statements

For the Year ended 30 June 2012

3.4 Stores and spares

Stores and spares are stated at lower of cost and net realisable value less impairment loss (to record any diminution in the carrying values), 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 Taxation

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

Current

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

3.7 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

Notes to the Financial Statements

For the Year ended 30 June 2012

one month's basic salary (eligible salary) for each completed year of service. For executives and officers having total service of less than twenty years, the benefit is available at half month's basic salary (eligible salary) for each completed year of service. For workers, the benefit is available at one month's gross salary less conditional allowances (eligible salary) for each completed year of service. The Company's obligation is determined through actuarial valuations carried out under the "Projected Unit Credit Method". The Company is using corridor approach' to recognise actuarial gains and losses. The latest Actuarial valuation was conducted at the balance sheet date. The separate gratuity fund has been established during the year and contributions have been made to the separate fund.

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. The separate fund of the Company has been established during the year and the contributions are now being paid to the separate fund.

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.

3.8 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.

3.9 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 significant risks and rewards of ownership is transferred i.e. either with date of shipping bill or upon delivery to customer or its representative, based on terms of arrangement.
- Revenue from power generation plant on account of sales of surplus electricity is recognized on transmission of electricity to Karachi Electric Supply Company Limited (KESC).

3.10 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

Notes to the Financial Statements

For the Year ended 30 June 2012

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.

3.11 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.

3.12 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 36).

3.13 Dividend and appropriation

Dividend distribution to the Company's shareholders and appropriation to / from reserves is recognized in the period in which these are approved.

4 PROPERTY, PLANT AND EQUIPMENT

		2012	2011
		(Rupees in '000)	
Operating assets	*4.1*	**8,532,676**	8,353,933
Capital work-in-progress	*4.2*	**365,371**	428,991
Stores and spares held for capital expenditure		**-**	4,999
		8,898,047	8,787,923

Notes to the Financial Statements

For the Year ended 30 June 2012

4.1 Operating assets

	2012										
	Cost					Depreciation				Net book value as at 30 June 2012	Rate %
	As at 01 July 2011	Additions	Transfer from capital work in progress	Disposals)	As at 30 June 2012	As at 01 July 2011	For the year	Disposal	As at 30 June 2012		
	(Rupees in '000)										
Free hold land	836,599	-	-	-	**836,599**	-	-	-	-	**836,599**	
Buildings on freehold land	1,008,584	-	-	-	1,008,584	33,581	44,879	-	78,460	930,124	3% - 5%
Plant and machinery	6,760,367	-	508,496	-	7,268,863	252,921	297,780	-	550,701	6,718,162	3%-10%
Furniture,fixture, computer and office equipment	14,017	8,472	-	-	22,489	4,020	3,606	-	7,626	14,863	10%-33%
Vehicles	37,953	17,559	-	(763)	54,749	13,065	9,234	(478)	21,821	32,928	20%
	8,657,520	26,031	508,496	(763)	9,191,284	303,587	355,499	(478)	658,608	8,532,676	

	2011											
	Cost					Depreciation					Net book Value as at 30 June 2011	Rate %
	As at 01July 2010	Transfer under Hive Down (Note 1.1)	Transfer from Capital work in Progress	(Diposals)	As at 30June 2011	As at 01 July 2010	Transfer Under Hive Down (Note 1.1)	For the Year	Diposals	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	(3,909)	37,953	-	11,042	5,504	(3,481)	13,065	24,888	20%
	-	1,548,245	7,113,184	(3,909)	8,657,520	-	135,550	171,518	(3,481)	303,587	8,353,933	

4.2 Capital work-in-progress

	2012					2011					
	Cost					Cost					
	As at 01July 2011	Additions refer (4.2.1)	(Sale)	(Transfers)	As at 30 June 2012	As at 01July 2011	Transfer from Hive Down (note 1.1)	Addition (note 4.2.1 and 4.2.2)	(Sale)	(Transfers)	As at 30 June 2011
	(Rupees in '000)										
Freefold Land	-	-	-	-	-	-	27,200	2,724	(27,332)	(2,592)	-
Building on Freehold land	-	-	-	-	-	-	786,377	169,291	-	(955,668)	-
Plant and machinery	428,991	444,876	-	(508,496)	365,371	-	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)	-
	428,991	444,876	-	(508,496)	365,371	-	6,534,032	1,035,475	(27,332)	(7,113,184)	428,991

Notes to the Financial Statements

For the Year ended 30 June 2012

4.2.1 Borrowing costs capitalised during the year amounted to Rs. 6.98 million (2011: Rs. 126.931 million general and specific borrowing) which is related to specific borrowings.

4.2.2 This includes trial production loss after tax of Rs. 86.478 million incurred during the trial production period which was completed on 31 December 2010 to achieve desired results such as targeted quality, rate of production etc. The details are as follows:

		For six months period ended 31 December 2010 (Rupees in '000)
Cost of goods sold		**1,194,897**
Less: sale of finished goods		**(1,118,035)**
Loss before tax		**76,862**
Taxation-net		
- Current	12.1	**11,178**
- Deferred	16.1	**(1,562)**
		9,616
Loss after taxation		**86,478**

4.3 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)					
Vehicles						
Suzuki Mehran	443	158	285	430	Insurance claim	M/s New Jubilee Insurance Co.
Suzuki Mehran VX	320	320	-	233	As per company policy	Mr Shakeel Mushtaq (Deputy Manager -Admin)
	763	478	285	663		

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

	2012	2011
	(Rupees in '000)	
Cost of sales	**317,713**	139,798
Administrative expenses	**3,463**	2,724
Selling and distribution expenses	**1,853**	934
Income from power generation	**32,470**	18,171
Trial production loss	**-**	9,891
	355,499	171,518

Notes to the Financial Statements

For the Year ended 30 June 2012

5 **INTANGIBLE ASSETS**

	Cost			Amortization			
	Additions	Transfer from long term advances	As at 30 June 2012	For the year	As at 30 June 2012	Net Book Value as at 30 June 2012	Rate % / life
	(Rupees in '000)						
Computer software	562	15,479	16,041	2,627	2,627	13.414	33% / 3years

		2012	2011
		(Rupees in '000)	
6 LONG TERM ADVANCE AND DEPOSIT			
Advance for computer software - ERP Oracle System		**-**	15,479
Deposit to Central Depository Company of Pakistan Limited		**100**	100
		100	15,579
7 STORES AND SPARES			
Stores		**144,107**	46,205
Spares in transit		**26,890**	-
Spares		**200,207**	93,094
Loose tools		**1,778**	264
		372,982	139,563
8 STOCK-IN-TRADE			
Raw material - in hand		**2,495,907**	2,687,405
Raw material - in transit		**1,656,394**	-
Work-in-process		**306,185**	414,336
Finished goods		**752,307**	632,880
Scrap Material		**62,974**	83,297
		5,273,767	3,817,918
9 TRADE DEBTS - secured,unsecured and considered good			
- Secured	*9.1*	**267,119**	-
- Unsecured		**20,379**	351
		287,498	351

9.1 These are secured by way of letters of credit and post dated cheques.

	2012	2011
10 ADVANCES - Considered good		
Advances to:		
- suppliers	**15,260**	261,260
- service providers	**3,172**	5,307
- employees	**260**	313
	18,692	266,880

Notes to the Financial Statements

For the Year ended 30 June 2012

			2012	2011
			(Rupees in ' 000)	
11	**TRADE DEPOSITS AND SHORT TERM PREPAYMENTS**			
	Trade deposits		**2,987**	6,290
	Short term prepayments		**8,347**	5,759
			11,334	12,049
12	**TAXATION - net**			
	Tax receivable as at 1 July		**152,512**	-
	Tax payments / adjustments during the year		**306,197**	205,548
			458,709	205,548
	Less: Provision for tax	12.1	**(12,673)**	(53,036)
			446,036	152,512
12.1	**Provision for tax**			
	Profit and loss account	27	**12,673**	41,858
	Trial production loss		**-**	11,178
			12,673	53,036
13	**CASH AND BANK BALANCES**			
	Cash in hand		**17**	-
	Cash at banks - in current accounts in local currency		**3,229**	262,077
	Cash at bank - in deposit accounts in foreign currency		**711**	-
			3,957	262,077

14 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2012	2011		2012	2011
(Number of Shares)				
30,000	30,000	Fully paid ordinary shares of Rs. 10 each issued for cash	**300**	300
417,716,700	417,716,700	Fully paid ordinary shares of Rs. 10 each issued against transfer of net assets (refer note 1.1)	**4,177,167**	4,177,167
17,253,300	17,253,300	Fully paid ordinary shares of Rs. 10 each issued as right shares	**172,533**	172,533
435,000,000	435,000,000		**4,350,000**	4,350,000

Notes to the Financial Statements

For the Year ended 30 June 2012

14.1 417,716,700 shares of Rs. 10 each were issued by the Company to the Holding Company against transfer of Steel Project Undertaking under approved Scheme of Arrangement (refer note 1.1) and 30,000 shares were also transferred to the Holding Company on purchase of shares by the Holding Company from individuals. Resultantly, the Company became a wholly owned subsidiary of the Holding Company. Further, 17,253,300 right shares were also issued to the Holding Company. Subsequently, the Holding Company 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 2012, the Holding Company and other associates held 245,055,543 (2011: 245,055,543) and 79,936,457 (2011: 79,936,457) ordinary shares respectively of Rs. 10 each.

		2012	2011
15 LONG TERM FINANCES - secured		(Rupees in ' 000)	
Long-term finances utilised under mark-up arrangements	*15.1*	**4,485,658**	4,598,720
Current portion of long term finances shown under current liabilities		**(638,775)**	(263,201)
		3,846,883	4,335,519

15.1 Long term finances utilised under mark-up arrangements

		Sale price	Purchase price	Number of installments and commencement date	Date of maturity	Rate of mark-up per annum	2012	2011
		(Rupees in '000)					(Rupees in '000)	
i)	**Syndicated Term Financing under LTFF Scheme** Local currency assistance for plant and machinery of Cold Rolled and Galvanized Sheet Project (Note 15.1.1)	4,000,000	9,376,718	16 half yearly installments 19 Mar, 11	11-Jun-21	1.50% over SBP Refinance rate	**3,768,391**	3,948,720
ii)	**Long Term Finance** Local currency assistance for Plant and Machinery (Note 15.1.2)	900,000	1,046,259	8 half yearly installments 27 Dec, 12	27-Jun-16	1.8% over 6 months KIBOR	**717,267**	650,000
							4,485,658	4,598,720

15.1.1 The syndicated term financing is obtained for plant and machinery of Cold Rolling Mill and Galvanising Plant and is secured by way of mortgage of land located at Survey No. 399-404, Landhi Town, Karachi and joint hypothecation of all present and future fixed assets (excluding land and building), as per the terms of syndicated term financing agreement.

15.1.2 This finance is obtained from Faysal Bank Limited for plant & machinery and is secured by way of first pari passu charge over fixed assets of the Company.

Notes to the Financial Statements

For the Year ended 30 June 2012

16 **DEFERRED TAXATION - net**

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

	2012			2011			
	Opening	Charge/ (reversal)	Closing	Opening	Transfer Under Hive Down (note 1.1)	Charge/ (reversal)	Closing
	(Rupees in '000)						
Taxable temporary difference							
Accelerated tax depreciation	**1,492,448**	**154,984**	**1,647,432**	-	122,609	1,369,839	1,492,448
Deductible temporary differences							
Provision for unavailed leaves	**(1,749)**	**(1,635)**	**(3,384)**	-	-	(1,749)	(1,749)
Unrealised exchange losses	**-**	**(1,903)**	**(1,903)**	-	-	-	-
Pre-commencement expenditure	-	**(18,161)**	**(18,161)**	-	-	-	-
Tax loss	**(1,394,140)**	**(161,977)**	**(1,556,117)**	-	-	(1,394,140)	(1,394,140)
	96,559	**(28,692)**	**67,867**	-	122,609	(26,050)	96,559

16.1 **Reversal of Deferred Tax**

	2012	2011
	(Rupees in '000)	
Deferred tax reversal to:		
- Profit and Loss account	**28,692**	24,488
- Trial production loss	**-**	1,562
	28,692	26,050

17 **TRADE AND OTHER PAYABLES**

Trade creditors		**71,716**	4,434
Bills payable		**207,840**	-
Payable to provident fund		**-**	832
Payable to gratuity fund		**-**	2,489
Advances from customers		**38,752**	74,778
Provision for infrastructure cess	*17.1*	**55,000**	21,588
Provision for government levies		**811**	-
Due to staff		**19,651**	17,409
Short term compensated absences		**9,668**	4,997
Utilities		**54,087**	-
Sales commission		**10,000**	2,501
Others		**605**	883
		468,130	129,911

Notes to the Financial Statements

For the Year ended 30 June 2012

17.1 This represents provision against fifty percent amount guaranteed to Excise and Taxation Officer.

18 SHORT TERM BORROWINGS: secured

Running finance under mark-up arrangement	*18.1*	**4,507,805**	710,333
Running finance under FE-25 Import Scheme	*18.2*	**1,371,262**	4,347,548
Running finance under Export Refinance Scheme	*18.3*	**108,755**	-
Short term finance under Murabaha and Istisna	*18.4*	**460,000**	-
		6,447,822	5,057,881

18.1 The facilities for running finance available from various commercial banks are for the purpose of meeting working capital requirements. The rates of mark-up on these finances range from KIBOR + 0.5% to KIBOR + 1.75% (2011: KIBOR+0.80% to KIBOR+ 2%) per annum. These facilities mature within twelve months and are renewable.

18.2 The facilities for short term running finance under Foreign Exchange Circular No.25 dated 20 June 1998 available from various commercial banks are for the purpose of meeting import requirements. The facilities availed is for an amount of USD 14.47 million equivalent to Rs. 1,371.26 million (2011: USD 50.537 million equivalent to Rs. 4,347.54 million). The rates of mark-up on these finances range from 2.05% to 2.65% (2011: 2.75% to 5.46%) per annum. These facilities mature within six months and are renewable.

18.3 The Company has borrowed short term running finance under Export Refinance Scheme of the State Bank of Pakistan from a commercial bank. This facility is available as a sub limit of short term running finance facility. The facility availed is for an amount of Rs. 108.755 million (2011: Nil). The rate of markup on this facility is 10.65% per annum (2011: Nil). This facility matures within six months and is renewable.

18.4 The Company has obtained facilities for short term finance under Murabaha and Istisna from an islamic bank. The rate of profit is KIBOR + 1%. This facility matures within six months and is renewable.

18.5 As at 30 June 2012, the unavailed facilities from the above borrowings amounted to Rs. 1,927.18 million.

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

19 CONTINGENCY AND COMMITMENTS

19.1 Contingency

Bank guarantees have been issued to Sui Southern Gas Company Limited and Excise and Taxation Officer aggregating Rs. 211.7 million (2011: Rs.166.2 million).

19.2 Commitments

19.2.1 Capital expenditures commitments outstanding as at 30 June 2012 amounted to Rs. 307.63 million (2011: Rs.17.48 million).

19.2.2 Commitments under letters of credit for raw materials and spares as at 30 June 2012 amounted to Rs. 2,721.35 million (2011: Rs. 3,999.36 million).

Notes to the Financial Statements

For the Year ended 30 June 2012

			2012	2011
			(Rupees in ‘ 000)	
22	**ADMINISTRATIVE EXPENSES**			
	Salaries, wages and benefits		**51,504**	37,691
	Rent, rates and taxes		**3,629**	2,946
	Electricity, gas and water		**1,808**	2,548
	Insurance		**560**	125
	Depreciation	*4.4*	**3,463**	2,724
	Stamp duty on issuance of shares		**-**	20,886
	Security and janitorial services		**58**	3,516
	Repairs and maintenance		**32**	1,170
	Printing and stationery		**863**	1,039
	Computer stationery and office supplies		**17**	463
	Postage and communication		**602**	2,106
	Vehicle, travel and conveyance		**4,028**	4,048
	Legal and professional charges		**5,279**	435
	Certification and registration charges		**568**	-
	Director’s fee		**2,040**	840
	Others		**904**	84
			75,355	80,621
23	**SELLING AND DISTRIBUTION EXPENSES**			
	Salaries, wages and benefits		**37,549**	18,806
	Rent, rates and taxes		**3,913**	2,080
	Electricity, gas and water		**869**	54
	Insurance		**367**	151
	Depreciation	*4.4*	**1,853**	934
	Postage, telephone and stationery		**601**	202
	Vehicle, travel and conveyance		**3,946**	3,254
	Freight and forwarding charges		**21,551**	-
	Sales Promotion		**3,140**	-
	Others		**1,109**	2,304
			74,898	27,785
24	**FINANCIAL CHARGES**			
	Mark-up on:			
	- long term finances		**437,637**	139,041
	- short term borrowings		**585,464**	162,506
	Mark - up on inventory transferred from IIL		**-**	79,944
	Bank charges		**3,961**	1,823
			1,027,062	383,314

Notes to the Financial Statements

For the Year ended 30 June 2012

			2012	2011
			(Rupees in ' 000)	
25	**OTHER OPERATING CHARGES**			
	Auditors' remuneration	*25.1*	**1,450**	1,889
	Donations	*25.2*	**85**	50
	Provision for government levies		**811**	-
	Penalty imposed by Stamp Board of Revenue, Sindh		**10**	-
	Exchange loss - net		**245,798**	38,619
			248,154	40,558
25.1	**Auditors' remuneration**			
	Audit fee		**1,070**	925
	Half yearly review		**250**	-
	Other services including certifications		**95**	871
	Out of pocket expenses		**35**	93
			1,450	1,889

25.2 None of the directors and their spouses had any interest in the donees.

			2012	2011
26	**OTHER OPERATING INCOME**			
	Income from non-financial assets			
	Income from power generation	*26.1*	**54,324**	117,765
	Toll manufacturing income		**5,274**	1,181
	Electrical consultancy charges		**27,300**	-
	Gain on sale of property, plant and equipment		**378**	867
	Rent Income		**1,620**	1,255
	Others		**6,040**	2
			94,936	121,070
	Income/return on financial assets:			
	Interest on bank deposit		**4,121**	-
			99,057	121,070
26.1	**Income from power generation**			
	Net sales		**528,606**	441,989
	Cost of electricity produced:			
	Salaries, wages and benefits		**9,664**	5,787
	Electricity, gas and water		**590,962**	295,261
	Security and janitorial		**-**	767
	Depreciation	*4.4*	**32,470**	18,171
	Stores and spares consumed		**16,526**	13,230
	Repairs and maintenance		**27,092**	34,091
	Vehicle, travel and conveyance		**-**	50
	Sundries		**1,012**	284
			677,726	367,641
	Less: Self consumption		**(203,444)**	(43,417)
			474,282	324,224
	Income from power generation		**54,324**	117,765

Notes to the Financial Statements

For the Year ended 30 June 2012

19.2.3 The unavailed facilities for opening letters of credit and guarantees from banks as at the year end amounted to Rs. 3,845.56 million (2011: Rs.2,097.74 million) and Rs.338.30 million (2011: Rs 83.8 million) respectively.

20 NET SALES

		2012	2011
		(Rupees in '000)	
Local		**14,737,471**	4,529,870
Export		**1,023,993**	-
		15,761,464	4,529,870
Sales tax and special excise duty		**(2,372,565)**	(795,213)
Trade discount		**(1,689)**	(9,003)
Sales commission		**(138,227)**	(34,830)
		(2,512,481)	(839,046)
		13,248,983	3,690,824

21 COST OF SALES

		2012	2011
Opening stock of raw material and work-in-process		**3,101,741**	1,484,490
Purchases		**11,597,231**	5,270,201
Salaries, wages and benefits		**209,736**	70,629
Electricity, gas and water		**269,858**	42,278
Rent, rates and taxes		**3,700**	-
Insurance		**21,395**	8,706
Security and janitorial		**8,462**	4,170
Depreciation	*4.4*	**317,713**	139,798
Amortization	*5*	**2,627**	-
Stores and spares consumed		**60,122**	18,838
Repairs and maintenance		**34,875**	31,302
Postage, telephone and stationery		**3,298**	1,960
Vehicle, travel and conveyance		**14,608**	5,180
Internal material handling		**3,860**	403
Environment controlling expense		**1,227**	2,052
Computer stationery and software		**4,741**	1,774
Freight and forwarding charges		**2,795**	-
Sundries		**9,186**	5,522
Recovery from sale of scrap		**(702,595)**	(247,122)
		14,964,580	6,840,181
Closing stock of raw material and work-in-process		**(2,802,092)**	(3,101,741)
Cost of goods manufactured		**12,162,488**	3,738,440
Finished goods:			
Opening stock		**632,880**	236,088
Closing stock	*8*	**(752,307)**	(632,880)
		(119,427)	(396,792)
		12,043,061	3,341,648

Notes to the Financial Statements

For the Year ended 30 June 2012

26.1.1 The Company has electricity power generation facilities at its premises. Currently, the Company has excess electricity power which is selling to the KESC under an agreement. The agreement is valid for period upto 20 years w.e.f. 31st August 2007.

		2012	2011
27	**TAXATION - net**	(Rupees in ' 000)	
	Current		
	- for the year	**10,359**	41,858
	- for prior years	**2,314**	-
		12,673	41,858
	Deferred	**(28,692)**	(24,488)
		(16,019)	17,370

Minimum tax liability of Rs. 128 million has not been recognized in view of expectation of availability of sufficient future taxable profits resulting in tax liability under normal tax regime in next five years against which such liability would be adjusted.

		2012	2011
27.1	**Relationship between income tax expense and accounting profit**		
	Loss before taxation	**(120,490)**	(62,032)
	Tax at the enacted tax rate of 35% (2011: 35%)	**(42,171)**	(21,711)
	Effect on income under final tax regime	**12,973**	(348)
	Effect of minimum tax liability	**-**	41,766
	Effect of adjustments	**5,415**	-
	Prior year's charge	**2,314**	-
	Others	**5,450**	(2,337)
	-	**(16,019)**	17,370
28	**LOSS PER SHARE - BASIC AND DILUTED**		
	Loss after taxation for the year	**(104,471)**	(79,402)
		(Number)	
	Weighted average number of ordinary shares in issue during the year	**435,000,000**	364,465,959
		(Rupees)	
	Loss per share	**(0.24)**	(0.22)

Notes to the Financial Statements

For the Year ended 30 June 2012

29 MOVEMENT IN WORKING CAPITAL

	2012	2011
	(Rupees in '000)	
(Increase) / decrease in current assets:		
Stores and spares	**(233,419)**	(104,736)
Stock-in-trade	**(1,455,849)**	(2,600,917)
Trade debts	**(287,147)**	(351)
Receivable from KESC	**30,725**	(17,857)
Advances	**248,188**	(224,319)
Trade deposits and short term prepayments	**715**	104
Other receivables - sales tax receivable	**305,018**	(584,266)
	(1,391,769)	(3,532,342)
Increase / (decrease) in current liabilities:		
Trade and other payables	**328,214**	(1,262,813)
	(1,063,555)	(4,795,155)

30 STAFF RETIREMENT BENEFITS

30.1 Provident fund

Salaries, wages and benefits include Rs. 5.488 million (2011: Rs. 3.383 million) in respect of provident fund contribution.

30.2 Gratuity fund

Principal actuarial assumptions used in the actuarial valuation of the scheme carried out under Projected Unit Credit Method as at 30 June 2012 are as follows:

- Discount rate at 13% per annum (2011: 14%).
- Expected rate of return on plan assets at 14% per annum (2011: 12%).
- Expected rate of increase in salary level at 12% per annum (2011: 13%).

The amount recognised in the balance sheet is as follows:

	2012	2011
Present value of defined benefit obligation	**22,019**	15,369
Fair value of plan assets	**(16,575)**	(9,582)
Surplus in the fund	**5,444**	5,787
Unrecognised actuarial loss	**(5,444)**	(3,301)
Liability as at 30 June	**-**	2,486

Movement in the present value of defined benefit obligation

	2012	2011
Obligation as at beginning of year / 23 Aug, 2010	**15,369**	10,929
Current service costs	**4,365**	2,150
Interest cost	**2,152**	1,118
Actuarial loss	**916**	1,172
Benefits paid	**(783)**	-
Obligation as at 30 June	**22,019**	15,369

Notes to the Financial Statements
For the Year ended 30 June 2012

	2012	2011
	(Rupees in ‘ 000)	
Movement in the fair value of plant assets		
Fair value as at beginning of year / 23 Aug, 2010	**9,582**	8,587
Expected return on plan assets	**1,342**	878
Actuarial (loss) / gain	**(1,387)**	117
Benefits paid	**(783)**	-
Contribution to the fund	**7,821**	-
Fair value as at 30 June	**16,575**	9,582
Movement in liability		
Balance as at 1 July	**2,486**	15,369
Expense recognised	**5,335**	(12,883)
Payments during the year	**(7,821)**	-
Liability as at 30 June	**-**	2,486
The amount recognised in the profit and loss account is as follows:		
Current service cost	**4,365**	2,150
Interest cost	**2,152**	1,118
Expected return on plan assets	**(1,342)**	(878)
Net actuarial loss recognised in the year	**160**	96
	5,335	2,486
Composition of Plan assets		
Receivable from the International Industries Limited‘s Gratuity fund	**-**	9,582
Equity instruments	**7,802**	-
Debt instruments	**7,297**	-
Other assets	**1,476**	-
	16,575	**9,582**
Return on plan assets is as follows:		
Expected return on plan assets	**1,342**	878
Net actuarial (loss) / gain on plan assets	**(1,387)**	117
	(45)	995
Experience adjustments on plan liabilities	**916**	14.545
Experience adjustments on plan assets	(1,387)	117

Notes to the Financial Statements

For the Year ended 30 June 2012

31 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2012				2011			
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executives	Total
	(Rupees in '000)							
Managerial remuneration	[redacted]	-	96,468	114,210	-	2,572	47,422	49,994
Retirement benefits	-	-	3,505	3,505	-	-	2,006	2,006
Rent, utilities, leave encashment etc.	[redacted]	-	40,148	49,019	-	1,286	18,166	19,452
	[redacted]	-	140,121	166,734	-	3,858	67,594	71,452
Number of persons	1	-	31	32	1	1	21	23

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

31.2 Fee paid to non-executive directors is Rs. 2.04 million (2011: Rs. 0.84 million).

32 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

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

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

Notes to the Financial Statements

For the Year ended 30 June 2012

32.1 CREDIT RISK

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Concentration of credit risk arises from financial instruments that have similar characteristics and are 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, trade debts, trade deposits and bank balances. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

	2012	2011
	(Rupees in '000)	
Trade debts - secured	267,119	-
Trade debts - unsecured	20,379	351
Receivable from KESC	228,705	259,430
Trade deposits	2,987	6,290
Bank balances	3,229	262,077
	522,419	528,148

The Company's principal credit risk arises from receivable from trade debts, KESC and bank balances. Bank balances are held and trade debts are secured with reputable banks with high quality credit ratings. Receivable from KESC is monitored on an ongoing basis in accordance with settlement agreement with KESC made during the year for recovery of dues on agreed time basis. Age Analysis is disclosed in note 32.1.2 to these financial statements.

32.1.1 Trade debts amounting to Rs. 363.50 million and receivable from KESC at the balance sheet date belong only to domestic region whereas as trade debts amounting to Rs.152.70 million belong to foreign customers.

32.1.2 Impairment losses

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

	2012		2011	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)			
Not past due	152,243	-	43,942	-
Past due 1-60 days	169,645	-	89,510	-
Past due 61 days -1 year	194,315	-	126,329	-
Total	516,203	-	259,781	-

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

Notes to the Financial Statements

For the Year ended 30 June 2012

32.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company ensures that it has sufficient cash on demand to meet expected working capital requirements by having credit lines available as disclosed in note 18 to these financial statements. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

	2012					
	Carrying amount	Contractual cash flows	Six months or less	Six to twelve months	Two to five years	More than five years
	(Rupees in '000)					
Non-derivative financial liabilities						
Long term financing	4,485,658	(6,064,804)	(526,014)	(532,643)	(3,524,123)	(1,482,024)
Short-term borrowings	6,447,822	(6,447,822)	(1,940,017)	(4,507,805)	-	-
Accrued markup	210,960	(210,960)	(210,960)	-	-	-
Trade and other payables	457,651	(457,651)	(457,651)	-	-	-
	11,602,091	(13,181,237)	(3,134,642)	(5,040,448)	(3,524,123)	(1,482,024)

	2011					
	Carrying amount	Contractual cash flows	Six months or less	Six to twelve months	Two to five years	More than five years
	(Rupees in '000)					
Non-derivative financial liabilities						
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)	(4,347,548)	(710,333)	-	-
Accrued markup	157,663	(157,663)	(157,663)			
Trade and other payables	51,812	(51,812)	(51,812)	-	-	-
	9,866,076	(11,693,499)	(4,932,987)	(1,112,800)	(3,599,034)	(2,048,678)

32.2.1 The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rate effective as at 30 June. The rate of mark-up have been disclosed in notes 15 and 18 to these financial statements.

32.3 Market risk

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

Notes to the Financial Statements

For the Year ended 30 June 2012

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.

32.3.2 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. 10,937,344 million (2011: Rs. 9,656.601 million).

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. 109.37 million (2011: Rs.13.99 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

32.4 Fair value of financial assets and liabilities

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

33 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 2012, the shareholders' equity amounts to Rs 4,153.34 million (30 June 2011: Rs 4,257.81 million).

34 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise IIL, 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. 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

For the Year ended 30 June 2012

32.3.1 Currency risk

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

Exposure to currency risk

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

	2012		2011	
	Rupees	Us Dollars	Rupees	Us Dollars
	(Amount in '000)			
Trade debts and bank balance in foreign currency	**152,187**	**1,610**	-	-
Short term borrowings	**(1,371,262)**	**(14,477)**	(4,347,548)	(50,537)
Accrued mark-up	**(3,163)**	**(33)**	(35,709)	(415)
Balance sheet exposure	**(1,222,238)**	**(12,900)**	(4,383,257)	(50,952)

The following significant exchange rates applied during the year:

	2012	2011	2012	2011
	Average rates		Balance sheet date rate	
	Rupees			
US Dollars to PKR	90	85	94.53 / 94.72	85.85 / 86.05

Sensitivity analysis

A 10 percent strengthening of the Rupee against US Dollar at 30 June would have increased 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 2011.

	2012	2011
	(Rupees in '000)	
As at 30 June		
Effect in Profit and loss account	**122,071**	437,932
Effect in Equity	**79,346**	284,656

Notes to the Financial Statements
For the Year ended 30 June 2012

	2012	2011
	(Rupees in '000)	
Holding Company		
Transactions		
Sales	**1,445,060**	2,984,373
Purchases (including inventory transferred at cost in 2011 of Rs. 1,373,535)	**5,545**	1,938,403
Mark-up paid on inventory transferred at cost	**-**	79,944
Office rent	**7,258**	5,658
Electrical consultancy charges	**28,788**	9,750
Toll manufacturing	**6,118**	1,182
Sale of store items / land	**7,838**	27,332
IT Services	**3,648**	-
Purchase of Fixed Asset / car	**1,715**	951
Associated Companies		
Purchases	**9,063,247**	2,767,873
Insurance premium expense	**51,196**	25,702
Insurance claims received	**430**	12,286
Rent income	**1,620**	1,255
Key management personnel		
Purchase of vehicles	**9,000**	-
Remuneration	**99,657**	55,192
Staff retirement benefits	**2,161**	5,935
Staff retirement fund		
Contribution paid - Provident Fund	**5,488**	3,383
Contribution paid - Gratuity Fund	**7,821**	2,486

35 ANNUAL PRODUCTION CAPACITY

	(Metric Tonnes)	
The production capacity at the year end was as follows:		
Galvanising	**150,000**	150,000
Cold rolled steel strip	**250,000**	250,000
The actual production for the year was:		
Galvanising	**113,851**	38,796
Cold rolled steel strip	**166,826**	53,228

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

Notes to the Financial Statements

For the Year ended 30 June 2012

36 OPERATING SEGMENT

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

36.2 Revenue from sales of steel products represents 97% (30 June 2011: 92.60%) of total revenue whereas remaining represent revenue from sale of surplus electricity to KESC. 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.

36.3 All non current assets of the Company as at 30 June 2012 are located in Pakistan.

36.4 94% of sales of steel sheets are domestic sales whereas 6% of sales are export/foreign sales. All ales were made to external customers.

36.5 Single major customer of the Company is Holding Company which represents 9% (30 June 2011: 61.4%) of total revenue of the Company.

37 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue in the meeting of Board of Directors held on 13 August 2012.

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

Financial Calendar

First quarter ended 30 September 2011	Announced on	13-Oct-11
Half year ended 31 December 2011	Announced on	30-Jan-12
Third quarter ended 31 March 2012	Announced on	24-Apr-12
Year ended 30 June 2012	Announced on	13 -Aug -12
Last Annual Report issued on		27-Aug-12
5th Annual General meeting		18-Sep-12

Tentative Dates of financial results

1st Quarter	15-10-2012
2nd Quarter	28-01-2013
3rd Quarter	22-04-2013
Annual Accounts	August 2013

Investor Relations Contact
Mr. M. Irfan Bhatti (Assistant Company Secretary)
Email: irfan.bhatti@isl.com.pk
UAN: +9221 111 019 019 Fax: +9221 3568 0373

Enquiries concerning lost share certificates, dividend payments, 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
Address: Ground Floor, State Life Building 3, Dr. Ziauddin Ahmed Road Karachi-75530
Phone:+9221-111-000-322
Fax: +9221-35655595
Email: info@thk.com.pk

Pattern of Shareholding

June 30, 2012

NO. OF SHAREHOLDERS	HAVING SHARES		SHARES HELD	PERCENTAGE
	FROM	TO		
142	1	100	2,384	0.0005
419	101	500	203,534	0.0468
181	501	1,000	178,491	0.0410
225	1,001	5,000	673,850	0.1549
61	5,001	10,000	526,878	0.1211
32	10,001	15,000	395,857	0.0910
17	15,001	20,000	317,262	0.0729
22	20,001	25,000	522,507	0.1201
20	25,001	35,000	597,542	0.1374
23	35,001	50,000	1,053,295	0.2421
25	50,001	75,000	1,665,090	0.3828
17	75,001	100,000	1,607,386	0.3695
6	105,001	125,000	689,775	0.1586
5	135,001	150,000	712,200	0.1637
7	150,001	200,000	1,282,597	0.2948
4	200,001	250,000	900,762	0.2071
3	265,001	285,000	825,500	0.1898
7	345,001	385,000	2,512,476	0.5776
6	445,001	500,000	2,817,000	0.6476
2	550,001	600,000	1,146,500	0.2636
3	615,000	700,000	2,019,108	0.4642
5	700,001	950,000	4,296,320	0.9877
4	995,001	1,185,000	4,235,000	0.9736
2	1,240,001	1,245,000	2,483,566	0.5709
1	1,345,001	1,350,000	1,345,669	0.3093
1	1,375,001	1,380,000	1,379,446	0.3171
1	1,400,001	1,405,000	1,402,000	0.3223
1	1,470,001	1,475,000	1,471,600	0.3383
1	1,505,001	1,510,000	1,506,600	0.3463
1	1,980,001	1,985,000	1,980,212	0.4552
1	2,065,001	2,070,000	2,066,522	0.4751
1	2,105,001	2,110,000	2,110,000	0.4851
1	2,110,001	2,115,000	2,110,149	0.4851
1	2,125,001	2,130,000	2,126,150	0.4888
1	2,180,001	2,185,000	2,183,373	0.5019
1	2,195,001	2,200,000	2,200,000	0.5057
1	2,545,001	2,550,000	2,550,000	0.5862
1	2,695,001	2,700,000	2,700,000	0.6207
1	2,820,001	2,825,000	2,824,488	0.6493
1	2,915,001	2,920,000	2,915,478	0.6702
1	2,980,001	2,985,000	2,983,344	0.6858
1	3,360,001	3,365,000	3,364,056	0.7733
1	3,565,001	3,570,000	3,565,171	0.8196
1	4,795,001	4,800,000	4,800,000	1.1034
1	10,130,001	10,135,000	10,132,371	2.3293
1	20,625,001	20,630,000	20,626,500	4.7417
1	39,475,001	39,480,000	39,477,657	9.0753
1	40,455,001	40,460,000	40,458,800	9.3009
1	245,055,001	245,060,000	245,055,534	56.3346
1,263			**435,000,000**	**100.0000**

Categories Of Shareholders

As Of June 30,2012

PARTICULARS	NO. OF SHAREHOLDERS	NO. OF SHARES HELD	PERCENTAGE
Sposor / Holding Company	1	245,055,534	56.3346
Directors, CEO and their Family Members	21	9,569,402	2.1999
Govt. Financial Institutions	1	4,800,000	1.1034
Banks, DFI & NBFI	6	21,809,897	5.0138
Modarabas & Mutual Funds	6	8,478,722	1.9491
Public Companies/Trusts & Others	29	8,897,729	2.0455
Strategic Investors	2	79,936,457	18.3762
Foreign Companies	4	28,074,671	6.4539
General Public	1,193	28,377,588	6.5236
TOTAL	**1,263**	**435,000,000**	**100.0000**

Key Shareholding

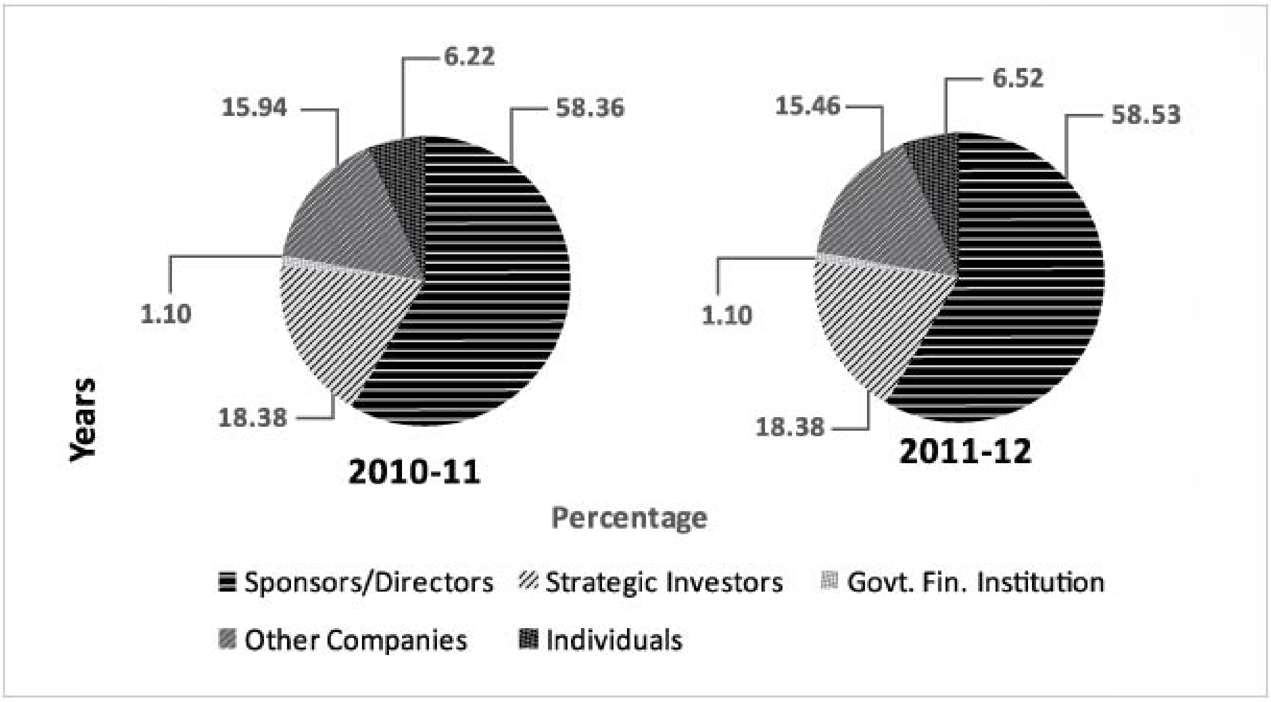
As Of June 30,2012

Information on shareholding required under reporting framework is as follows:

Sponsor / Holding Company		
International Industries Ltd.	245,055,543	56.335
Directors & spouses	3,751,344	0.862
Government Financial Institutions		
National Bank Of Pakistan-Trustee Department Ni(U)T Fund	4,800,000	1.103
Strategic Investors		
International Finance Corporation	40,458,800	9.301
Sumitomo Corporation	39,477,657	9.075
Foreign Corporate Investors		
JFE Steel Corporation	20,626,500	4.742
Others	7,448,171	1.712
Executives	1,039,874	0.239

Shares Traded by Directors & their spouses / executives	**699,000**

Shareholders Composition



Share Prices

Notice of Annual General Meeting

For the year ended June 30, 2012

Notice is hereby given to the Members that the 5th Annual General Meeting of the Company will be held on 18th September, 2012 at 10.00 a.m. at the Auditorium, Institute of Chartered Accountants of Pakistan, Chartered Accountants Avenue, Clifton, Karachi to transact the following business:

Ordinary Business

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2012 and the Directors' and Auditors' Reports thereon.

2. To appoint Auditors for the year 2012-2013 and fix their remuneration.

Special Business

3. To consider and approve a new set of Articles of Association in substitution of the existing Articles of Association for which it is proposed that the following resolution be passed as and by way of a Special Resolution:

   "RESOLVED THAT the regulations contained in the printed document submitted to this meeting, be approved and adopted as the Articles of Association of the Company, in substitution for, and to the exclusion of, all the existing Articles of the Company thereof."

4. To consider and if thought fit, approval of the placement of quarterly accounts and financial statements on Company's website instead of sending the same by mail to the members as Ordinary Resolution:

   "RESOLVED THAT subject to the approval of the Securities and Exchange Commission of Pakistan, the Company be and is hereby authorized to transmit its quarterly accounts by placing the same on its website."

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

   A statement as required by Section 160(1)(b) of the Companies Ordinance 1984 in respect of the special business to be considered at the meeting as required by Section 164(1) of the Companies Ordinance 1984 is being sent to the Members, along with a copy of this notice.

By Order of the Board

NEELOFAR HAMEED
Company Secretary

Karachi
Dated: August 13, 2012

Notes:

1. The Share Transfer Books of the Company shall remain closed from 11 September, 2012 to 18 September 2012 (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 computersied original National Identity Card (CNIC) 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 CNIC of the beneficial owners and the proxy shall be furnished with the proxy form.
- The proxy shall produce his original CNIC at the time of the meeting.
- Members are requested to submit declaration for zakat on the required format and to advise change in address, if any.
- Members are requested to submit a copy of the Computerized National Identity Card (CNIC) to update our records.

Statement U/s 160 of the Companies Ordinance, 1984

This statement is annexed to the Notice of the Fifth Annual General Meeting of International Steels Ltd to be held on 18 September, 2012, at which certain Special Business is to be transacted. The purpose of this Statement is to set forth the material facts concerning such Special Business.

Item No. 3 of the Agenda

As per scheme approved by SECP vide its letter No SMD/CO.62/01/2011 dated April 1, 2011 the principal shareholder of the Company (i.e. International Industries Limited) disposed of up to 45% of its shareholding in the Company (i.e. International Steels Ltd) partly through a sale to certain strategic investors, and partly by sale to local and foreign institutional investors and high net worth individuals through a book building process and the remainder through a public offer for sale of shares As a consequence of the above, the Company now desires to revise the Articles of Association so as to amend provisions inter alia relating to quorum of General Meetings and Board Meetings, Independent Directors and enabling the Company to hold Board Meetings through video conferencing.

A copy of the new set of Articles of Association is attached.

The resolution required for the above purpose is set forth at item No. 3 in the notice convening the Annual General Meeting and that resolution will be proposed and passed as a Special Resolution.

Item No. 4 of the Agenda

As placement on website is time and cost effective method of disseminating the material information to the shareholders, the Board of Directors of the Company has recommended that the quarterly accounts of the Company should be transmitted to the Members by placing the same on the website of the Company in terms of and in accordance with the requirements of Circular No. 19 of 2004 dated 14 April 2004 of the Securities and Exchange Commission of Pakistan, which transmittal will be treated as full compliance of the provisions of section 245 of the Companies Ordinance 1984. Such transmittal through the website is subject to requisite authorization being given by the Members and is subject to the approval of the Securities and Exchange Commission of Pakistan Limited.

The Company maintains a website www.isl.com.pk and intends to place its quarterly accounts on the website for the information of the Members and general public in terms of and in accordance with the aforesaid Circular. This will result in prompt disclosure of information to the Members besides saving of costs associated with printing and dispatch of the accounts by post. The Company will however, supply copies of the accounts to the stock exchange in accordance with the Listing Regulations and to the Members on demand at their registered address free of charge, within one week of receiving such request.

Accordingly, it is proposed that the resolution be passed as and by way of an ordinary resolution, set forth in Item 4 of the notice convening the Annual General Meeting authorizing the transmittal of quarterly accounts through the Company's website.

Proxy Form

INTERNATIONAL STEELS LIMITED

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 ______________

or 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 18 September 2012 and at any adjournment thereof.

Signed this ______________ day of ______________ 2012

WITNESS:

1 Signature ______________
Name ______________
Address ______________

NIC or ______________
Passport No. ______________

Signature

Revenue Stamp Rs.5/-

2 Signature ______________
Name ______________
Address ______________

NIC or ______________
Passport No. ______________

(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 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.

International Steels Limited
UAN: +9221-111-019-019

Registered Office:
101 Beaumont Plaza, 10 Beaumont Road, Karachi-75530
Tel: (92 21) 111 019 019, Fax: (92 21) 3568 0373
Website: www.isl.com.pk, E-mail: info@isl.com.pk

Lahore Office:
Chinoy House, 6-Bank Square, Lahore
Tel: (92 42) 111 019 019, Fax: (92 42) 3722 0384

Islamabad Office:
Office #2, First Floor, Ahmed Centre, I-8 Markaz, Islamabad
Tel: (92 51) 252 4650, 486 4601-2

Designed by **creativedge** 35864208

Website: www.isl.com.pk