International Steels Limited

Shaping Tomorrow

Turnover crossed 24 billion in 2014

Annual Report 2014

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

Contents

Sheet & Coil export to seven countries

Who we are

International Steels Limited has the most modern and state of the art plant to produce cold rolled and galvanized products.

The manufacturing facility located near Port Qasim, Karachi has various auxiliary plants and a 19.2MW co-generation power plant. Initially the plant was envisaged to produce 250,000 tons per annum, but we have raised the bar to produce internationally accepted quality products and successfully exceeded 270,000 tons in the third year of commercial operation.

Our quality products have not only been sought after but we are also recognized as an ethical supplier. The Company having a far sighted vision for sustainable operations launched an expansion project at an approximate cost of USD 30 million to enhance it's cold rolling capacity and to add a second galvanizing line, and country's first colour coating line. After the expansion the production capacity for cold rolling and galvanizing would exceed to 450,000 tons and 350,000 tons respectively.

Our Business

Cold Rolled Steel

Our Cold Rolling mill is a modern sophisticated and advanced mill and was designed and installed by SMS Siemag, Germany. The state of the art technology allows us to produce steel of the highest quality. Strict quality control, modern facility and innovative technology provide our product uniformity in thickness, outstanding finish and workability which is highly valued by customer in the automobile, home appliances, furniture, drum, tube, filter and various other industrial segment.

Cold rolled steel manufactured by ISL is available in thicknesses ranging from 0.25mm to 3.0mm and is offered in a maximum width of 1250mm. ISL's CRC is provided in a range of product specifications, ranging from drawing to structural and surface finishes from bright to matt to meet our customer specific requirements.

After the new expansion cold rolling mill capacity will exceed to 450,000 tons per annum.

281 thousand tons produced in 2014

Hot Dip Galvanized Steel

HDGS is manufactured in a state of the art Hot Dipped Galvanizing plant with the installed capacity of 150,000 tons per annum. The product 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. With the addition of a second Galvanizing line the installed capacity for Galvanized steel would reach 350,000 tons per annum.

After the expansion Galvanizing capacity will exceed to 350,000 tons per annum.

As part of the expansion plan, the Company will also be producing color coated sheets to diversify it's product range.

Steel Sheets

ISL also has the equipment to produce both Cut-to-Length, Profiled Sheets for industrial and commercial customers as per their requirements. 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.

Organizational Profile

International Steels Limited (ISL), a subsidiary of International Industries Limited (IIL), was incorporated in 2007 with the vision to be the foremost manufacturer of flat steel products in Pakistan. At that time, ISL was the largest private investor in the value-added flat-rolled and coated steel industry in the country. USD 130 million investment, with equity partnership from Sumitomo Corporation, JFE-Japan and the International Finance Corporation (A division of the World Bank) bought added impetus and confidence in the engineering and hi-tech manufacturing segment in country.

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ISL is the first large scale steel manufacturing unit with a capacity of 250,000 tons per annum out of which upto 150,000 tons will be converted into Hot Dipped Galvanized Coils (HDGC) or sheets to be marketed to industries for applications that require excellent corrosion resistance and for exposed outdoor applications. The remaining cold rolled and metal coated steel sheets conforming to international standards (ASTM, JIS, etc.) from imported hot rolled coils.

Over the last two years ISL has aligned it's industrial footprint with the market conditions and continues to upgrade its plants with the aim of improving product quality and cost competitiveness. The company has, therefore, committed in investing USD 30 million in additional capacity. This will include:

- Addition of Cold Rolling mill stand
- Addition of second and larger Galvanizing line
- Addition of Colour Coating Line, first of its type in Pakistan

Board of Directors

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

Company Information

Chief Financial Officer	Mr. Alee Arsalan
Company Secretary	Ms. Neelofar Hameed
External Auditors	KPMG Taseer Hadi & Co.
Internal Auditors	Ernst & Young Ford Rhodes Sidat Hyder

Bankers

Allied Bank Ltd.
Bank Al Habib Ltd.
Bank Alfalah Ltd.
Barclays Bank PLC
Dubai Islamic Bank Pakistan Ltd.
Faysal Bank Ltd.
Habib Bank Ltd.
Habib Metropolitan Bank Ltd.
HSBC Bank Middle East Ltd.
MCB Bank Ltd
Meezan Bank Ltd.
NIB Bank Ltd.
Standard Chartered Bank (Pakistan) Ltd.
United Bank Ltd.

Branch Office

Lahore

Chinoy House, 6 Bank Square
Lahore-54000, Pakistan
Phone: (92 42) 37229752-55
UAN: (92 42) 111-019-019
Fax: (92 42) 37249755
E-mail: lahore@isl.com.pk

Islamabad

Office # 2, First Floor, Ahmed Centre
I-8 Markaz, Islamabad, Pakistan
Phone: (92 51) 2524650, 4864601-2

Factory

399 - 404, Rehri Road, Landhi
Karachi, Pakistan
Telephone Nos: (92 21) 35013104-5
Fax: (92 21) 35013108
E-mail: info@isl.com.pk

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Legar Advisor

Mrs. Sana Shaikh Fikree

Registered Office

101, Beaumont Plaza
10, Beaumont Road
Karachi –75530, Pakistan
Telephone Nos: (92 21) 35680045-54
UAN: (92 21) 111-019-019
Fax: (92 21) 35680373
E-mail: neelofar.hameed@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, Pakistan
Phone: (92 21) 111-000-322
Fax: (92 21) 35655595
Email: info@thk.com.pk

Vision

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

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, safety of people and equipment and 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 non-discriminatory 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. 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 strict 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.

Milestones Achieved

2010

- Assets and liabilities of steel unit hived down from Internation Industries Limited

2011

- Commencement of Commercial Operation
- Certifications acquired
  ISO 9001 Quality Management System
  ISO 14001 Environmental Management Systems
  OHSAS 18001 Occupational Health & Safety Management System
- Listed as Public Company in Karachi Stock Exchange

2012

- Production exceeded 166,000 tons
- Turnover exceeded Rs 15 billion

2013

- Production exceeded 221,000 tons
- Turnover exceeded Rs 20 billion

2014

- Production exceeded 280,000 tons
- Sales Turnover exceeded Rs 24 billion

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 pages 18 to 21) 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 while there are three (3) independent directors and five (5) non- executive directors. The Board has constituted Audit Committee, HR 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 (5) meetings during this year, out of which Four (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, four (4) Directors have acquired the formal Directors Training Certificates, while all the other directors possess sufficient skills and experience of Board room as described in the Code of Corporate Governance.

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.

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 markets and serves on the Boards of several companies including Century Paper & Board Mills Ltd., Premier Box (Pvt.) Ltd., International Advertising (Pvt.) Ltd., Safeway Fund Ltd., Al-Aman Holdings (Pvt.) Ltd., Public Interest Law Association of Pakistan (where he was previously Chief Executive), and Mind Sports Association of Pakistan.

He has been a professional Executive for some 55 years in Banking and Industrial Organisations in several countries including UK and USA. He was Chairman and Chief Executive of Independence Bank, California. He has been associated as a Senior Executive with such prestigious organisations as Wyeth Laboratories (Pakistan) Ltd., Commerce Bank Limited, Pakistan, Bank of Credit and Commerce International S.A., London, and Indus Bank Ltd, Pakistan. He has served as a Consultant / Advisor to numerous Financial Sector organisations in Pakistan and abroad, including National Development Finance Corporation, NIT and NBP Fullerton Asset Management Ltd (NAFA).

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. and HBL Asset Management Ltd. He also holds directorship of IGI Investment Bank Ltd. He is also the Chairman Indus Valley School of Art & Architecture and Trustee of Mohatta Palace Gallery Trust and Habib University Foundation. Mr. Chinoy has served as the Member of the Engineering Development Board, Government of Pakistan, the Advisory Boards of Ports and Shipping Sector, Ministry of Communications, Director on the Boards of Port Qasim Authority, National Refinery Ltd. and Pakistan Business Council, Linde Pakistan Ltd., Jubilee Life Insurance Co. Ltd.

Mr. Kamal A. Chinoy
Director

Mr. Kamal A. Chinoy is a graduate of 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 is also the Past President of the Management Association of Pakistan (MAP). He is a 'Certified Director' from the Pakistan Institute of Corporate Governance.

He has served as the Chairman of the Aga Khan Foundation (Pakistan) and also as a Director of Pakistan Centre of Philanthropy, Pakistan Security Printing Corporation, and Atlas Insurance. Currently he is the Chairman of Jubilee Life Insurance Co, CEO of Pakistan Cables Ltd and director of Atlas Battery Ltd., NBP Fullerton Asset Management Ltd., International Industries Ltd., ICI Pakistan Ltd. and a member of the Board of Governors of Army Burn Hall Institutions. He is an advisor to Tharpak, a consortium of international companies.

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 Chairman Pakistan Cables Ltd., Security Papers Ltd. and a director on the Board of International Industries Ltd., Travel Solutions (Pvt) Ltd., Global E-Commerce Services (Pvt) Ltd., Crea8ive Bench (Pvt) Ltd., Universal Training & Development (Pvt) Ltd. and Global Reservation (Pvt) Ltd. He is the Chief Executive of Intermark (Private) Ltd.

He has previously served on the Board of Union Bank Ltd. until it was acquired by Standard Chartered Bank.

Profile of the Board of Directors

Mr.Tariq Iqbal Khan
Director

Mr. Tariq Iqbal 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 has served on prominent national level committees like Chairman of 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, Sanofi Aventis, ICI, PSO, OGDC, Mari Petroleum, SSGC, Siemens and remained Chairman of SNGPL and ARL etc. Presently he is a member of the Boards of eminent listed companies including Gillette Pakistan Limited, International Steels Limited, Lucky Cement Limited, National Refinery Limited, Pakistan Oil Fields Ltd., Packages Limited and Silk Bank Limited, while the non-listed company include FFC Energy (Pvt) Limited.

Mr. Kamran Y. Mirza
Director

Mr. Kamran Y. Mirza qualified as a Chartered Accountant from UK; started his career in Pakistan as an auditor with A. F. Ferguson & Co. He then joined Abbott Laboratories (Pakistan) Limited as CFO in 1970, where he rose to lead as MD in 1977 (the youngest Managing Director in that time) and remained in that position for 29 years.

Mr. Mirza held the position of Chairman EPZA from 2007 to 2009 and then joined Pakistan Business Council (PBC) as its CEO, a position he currently holds. PBC is a Think Tank cum Business Policy Advocacy Forum. He is serving as Director on the Boards of Abbott Laboratories and International Steels Ltd. (ISL). He is also the Chairman of the Unilever Pakistan Foods Ltd., Education Fund for Sindh (EFS), Safari & Outdoor Club of Pakistan and Karwan-e-Hayat. Previously, he served as Chairman of Pakistan Mercantile Exchange Ltd. (PMEX) - formerly National Commodity Exchange Ltd. (NCEL), Chairman of Karachi Stock Exchange (KSE), President of Overseas Chamber of Commerce & Industry (OICCI), President of American Business Council (ABC), Chairman of Pharma Bureau and Director on the Boards of State Bank of Pakistan (SBP), Pakistan State Oil (PSO), Pakistan Steels (PS), National Bank of Pakistan (NBP), Pakistan Textile City Limited, Competitive Support Fund (CSF), Genco Holding Company, Board of Investment (BOI) and NAVTEC. Mr. Mirza has also been a past Chairman of a Task Force set up by Planning Commission on Pharmaceutical Industry, a member of the Economic Advisory Board of the Federal Government and Sindh Wild Life Board. He also lectures regularly at the Pakistan Institute of Corporate Governance (PICG).

Syed Salim Raza
Director

Syed Salim Raza 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.

He 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. Currently he is serving on the Boards of Tameer Micro Finance Bank Ltd., Indus Earth (NGO) and Manzil (NGO).

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 Trading Business Department of Sumitomo Corporation, Tokyo Japan and has 31 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.

Syed Hyder Ali
Director

Syed 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. He became Managing Director and CEO of Packages Ltd. in 2005, 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 the Boards of IGI Insurance, IGI Life, ICCI Pakistan, Nestle Pakistan Limited, Pakistan Center for Philanthropy, Sanofi Aventis, Tetra Pak Limited, Tri Pack Films Ltd., Packages Lanka (Pvt) Ltd., KSB Pumps Company Ltd., and Bulleh Shah Packaging (Pvt) Ltd.

Engagement of Directors in Business Entities

Present name and surname in full	Other business occupation and directorship (if any)
Mr. Kemal Shoaib	**International Steels Ltd.**
Chairman	Century Paper & Board Mills Ltd.
	Al-Aman Holdings (Pvt) Ltd.
	Safeway Fund Ltd.
	International Advertising (Pvt) Ltd.
	Mind Sports Association of Pakistan
	Premier Box (Pvt) Ltd.
	Public Interest Law Association of Pakistan
Mr. Towfiq H. Chinoy	**International Steels Ltd.**
Managing Director & CEO	Jubilee General Insurance Co. Ltd.
	Packages Ltd.
	IGI Investment Bank Ltd.
	HBL Asset Management Ltd.
	Mohatta Palace Gallery Trust
	Indus Valley School of Art and Architecture
	Habib University Foundation
Mr. Mustapha A. Chinoy	**International Steels Ltd.**
Director	Pakistan Cables Ltd.
	International Industries Ltd.
	Security Papers Ltd.
	Intermark (Pvt) Ltd.
	Global e-Commerce Services (Pvt) Ltd.
	Travel Solutions(Pvt) Ltd.
	Crea8ive Bench (Pvt) Ltd.
	Universal Training & Development (Pvt) Ltd.
	Global Reservation (Pvt) Ltd.
Mr. Kamal A. Chinoy	**International Steels Ltd.**
Director	International Industries Ltd.
	Pakistan Cables Ltd.
	Jubilee Life Insurance Company Ltd.
	Atlas Battery Ltd.
	ICI Pakistan Ltd.
	NBP Fullerton Assets Mgmt. Ltd.

Present name and surname in full	Other business occupation and directorship (if any)
Mr. Tariq Iqbal Khan	**International Steels Ltd.**
Director	Lucky Cement Ltd.
	Gillete Pakistan Ltd.
	National Refinery Ltd.
	Packages Ltd.
	Silk Bank Ltd.
	FFC Energy Ltd.
Syed Salim Raza	**International Steels Ltd.**
Director	Tameer Micro Finance Bank
	Indus Earth - NGO
	Manzil - NGO
Mr. Kamran Y. Mirza	**International Steels Ltd.**
Director	Abbot Laboratories (Pak) Ltd.
	Unilever Pakistan Foods Ltd.
	Education Fund for Sindh (EFS)
	Karwan-e-Hayat
	Pakistan Business Council
	Safari & Outdoor Club of Pakistan
Syed Hyder Ali	**International Steels Ltd.**
Director	Packages Ltd.
	Nestle Pakistan Limited
	Sanofi Aventis Pakistan Ltd.
	Tri-Pack Films Limited
	KSB Pumps Company Ltd.
	IGI Insurance Limited
	IGI Life Insurance Ltd.
	Tetra Pak Pakistan Limited
	Bulleh Shah Packaging (Pvt) Ltd.
	Ali Institute of Education (AIE)
	Babar Ali Foundation (BAF)
	International Chamber of Commerce Pakistan
	Lahore University of Management Sciences (LUMS)
	National Management Foundation (NMF)
	Packages Lanka (Pvt) Limited
	Pakistan Centre for Philanthropy
	Pakistan Business Council
	Syed Maratib Ali Religious and Charitable Trust
Mr. Otomichi Yano	**International Steels Ltd.**
Director	Sumitomo Corporation, Japan

Directors' Report

The Directors of International Steels Limited are pleased to submit the 7th Annual Report accompanied by the audited accounts for the financial year ended June 30, 2014.

Global Steel Scenario

Although sentiments internationally have broadly improved, developed economies like EU are still facing the challenge of economic recovery and growth.

Prices within the global steel industry remain volatile. Steel prices are, by and large, dictated by iron ore, coking coal and various ferrous metal prices and subject to seasonality. The industry itself is incumbent with outdated technology, fragmentation and over capacity issues. The top 5 steel makers contributed only 17% to the global crude steel output in 2013. This fragmentation has resulted in competition and depressed prices. Over the last 15 years the Chinese steel making industry has increased its output roughly tenfold, resulting in the over-capacity that we see today.

Going forward, prices are expected to stabilize as the Chinese government has taken note of the over-capacity issue and announced elimination of 28.7 million tons of its steelmaking capacity during 2014. In addition, since iron ore prices fell sharply in March 2014, iron ore financing has become increasingly difficult for small to medium sized manufacturers, which will result in reduced supply.

Pakistan's Economy

Steel consumption in any country is one of the basic indicators to assess economic growth as it has multifarious uses in infrastructure development and industrial growth. The Government is today facing numerous challenges including power crises, law and order issues and low economic growth. The Government seems to have good governance and economic revival on their agenda and is focusing on public development schemes including projects like highways and dams which are likely to create demand for steel and allied industries.

The security situation in Karachi that houses ISL's manufacturing facility remains tenuous and unpredictable. Your company is however geared to meet the challenges in terms of technical capability, manufacturing capacity and market acceptance of its products.

Local manufacturers of Flat Steel Products are currently meeting approx. 50% of Pakistan's demand in Cold Rolled Flat Steel Products and 40% in Galvanized Steel Products. A further un-utilised capacity exists to fulfill some of the remaining demand. However, Government policies on imports need to be revisited including the FTA's and proposed MFN status to enable domestic manufacturers to meet a greater share of the domestic demand.

Business Review

During 2013-14, we directed all our energy in the direction of our mission to be the best flat steel producer in Pakistan and to create a fair value for our shareholders.

Your Company is regarded as amongst the best in the region with its well structured manufacturing facilities set-up with more than 40 years of experience in the steel industry, economies of processes and established marketing network.

The Company has improved and de-bottlenecked its manufacturing processes. During 2013-14, management focused on timely procurement of raw material at the right price so as to maintain an optimal level of inventory in order to improve the cash flow of the Company. Our strategy for procurement of raw material in a volatile market was to diversify supply sources and to manage opportunistic, spot purchases, which has helped tackle the volatile steel prices risk. During the year under review our sources for HR raw material includes Taiwan, China, South Africa and Japan.

Our initial investment in equipment to raise the bar for product quality enabled us to enter and establish our brand not only in the local market but also in South Africa, West Indies, Sri Lanka, United Arab Emirates, Jordan, Saudi Arabia and Afghanistan. In addition, judicious attention was given to decreasing cost, reducing wastage, improving operational efficiency, quality control as well as safety & environmental measures. Particular attention was paid to customer service via customized engagement in the backdrop of product development and trials at customer facilities.

Your Company continues to face challenges from lack of effective implementation of Government policies. Misuse of the China FTA, mis-declared and under-invoiced imports and incorrect fixation of ITP for secondary quality imports continue to adversely impact your Company's growth and profitability. The loop-holes therein are used by certain importers to benefit themselves at the cost of the National Exchequer and value added economic growth. Your Company's case for a level playing field for locally manufactured Flat Steel Products was regularly placed at the highest levels in the Ministry of Commerce, FBR, Pakistan Customs, and the Engineering Development Board. We continue to take up these issues alongside other manufacturers at various levels of Government, seeking redressal as this will not only benefit the local industry but the country's balance of payments.

Operations

During 2013-14 production of the 4 Hi Mill exceeded 281,000 tons, which is well beyond the initially envisaged capacity of 250,000 tons. This production translated into approximately 159,000 MT of Galvanized Steel and 122,000 tons of Cold Rolled products. We expanded the Annealing capacity and strengthened allied processes by adding a Tension Leveler, Electrostatic Oiler and a Roll Shot-blasting machine to meet market requirements. In order to attract high end product manufacturers, your company is in the process of adding a Color Coating Plant which is expected to come into operation in the second quarter of FY 14-15.

Sales

By the grace of Allah, the market's perception of the company's products is well established for quality, range and delivery. We have been recognized as an ethical supplier of a quality galvanized sheets for roofing, ducts and other uses as well as cold rolled sheets for further use in manufacturing by pipe makers, drum & container manufacturers, and the two wheeler & automobile industry. During 2013-14, volume sales increased by 18% over the preceding financial year exceeding

270,000 MT which comprised of 162,000 MT of Galvanised, 95,000 MT of Cold Rolled and 13,000 MT of miscellaneous products.

Your Company continued to consolidate and leverage its nation-wide dealer network, which has been integral in reaching smaller commercial stockists as well as industrial end-consumers.

Sale of Electricity to K- Electric

Company's 19 MW power plant continued to operate satisfactorily and in line with our practice **we continued to supply excess energy to K- Electric at a price that probably remains amongst the cheapest by any I.P.P. in the country.**

However, the production of electricity was lower than last year on account of gas curtailment by SSGC and frequent tripping of the 11 KV circuit. The management has invested Rs. 85 million in installing a 132 KV interconnection to replace the 11 KV and overcome the frequent tripping.

Health, Safety & Environment

Being a responsible corporate citizen, the company carries out annual environmental testing for air emissions, noise, drinking water and industrial effluents to evidence that the Company remains compliant to the NEQS.

Your company continues to operate an effective ISO certified mechanism for production with adequate focus on implementing HSE standards, improved processes and higher awareness levels of employees' has resulted in a safe and healthy workplace environment with minimum accidents.

The factory is operated with fully functional effluent and sewage treatment facilities; acid regeneration plant and acid fume scrubbing units, which also provide manufacturing cost reduction benefits.

Human Resource

The Company continued its operations with an optimal headcount. The headcount at end 2013-14 was 447, which was increased by ONLY 1% over the preceding year despite the additional annealing capacity and additional allied processes.

The Company maintained industrial peace, and a positive and enabling work-environment for all employees in the organization by promoting candor and fairness. Your Company continues its efforts on development of personnel at all levels, proactively building capabilities and retaining talent for business continuity.

Risk Management

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.

Financials

Net Sales for the FYE June 30, 2014 were Rs. 21.28 billion, registering a healthy growth of 21% over the last financial year. Despite continued pressure on margins on domestic **sales owing to availability of under invoiced and secondary materials being imported into the country,** the company earned a gross profit of Rs. 2,237 million at 10.5% to net sales as against 9.1% at the last Fiscal Year. This was, however, adversely impacted by lower PKR / USD parity in the second half of the year, thereby, putting pressure on margins to cover inventory purchased at the higher exchange rate. Foreign exchange losses arising owing to fluctuation in exchange rates and in-effective portion on forward cover amounted to Rs. 142 million. In spite of this, your Company has recorded a profit before and after tax of Rs. 874 million and Rs. 690 million respectively as against Rs. 441 million and Rs. 362 million last year.

Earnings per share at June 30, 2014 was Rs. 1.59 as opposed to Rs. 0.83 per share at June 30, 2013.

Dividend

The Board of Directors has recommended a maiden dividend of 10% (Rs.1 per share).

Your Company is focused on continued working capital and cash flow management. During Fiscal 2013-14, your company generated a net cash flow from operations of Rs.1,384 million. Rs. 704 million of this was used to repay long term loans.

Contribution to National Exchequer and the Economy

The Company made a contribution of Rs. 3.9 billion to the National Exchequer during the year under review. This comprises income tax, sales tax, custom duties and other taxes.

Future Prospects

The company has a far-sighted plan for sustainable operations. **In line with this plan during the year, the Company launched an expansion project at an approximate cost of Rs. 3 billion, to enhance its cold rolling capacity and add a second galvanizing line.** These expansion projects were planned at the conceptual stage of ISL and foundations of the reversing mill constructed to incorporate the 'second stand', which at a fraction of the cost of the mill and with no additional operational man-power would lead to a 50% to 60% increase in capacity. Adequate space for the 2nd galvanizing plant was provided for in the master plan and we are confident to bring this on stream within the year 2014-15.

The expansion is expected to be completed in 2015-16, wherein the Cold Rolling capacity of your Company would exceed to 450,000 tons of premium flat steel products. The galvanizing capacity is also being enhanced with the addition of a second line.

We have been successful in establishing our name as the preferred product in the local market commanding a premium as well as creating a niche in selected international markets. **The most significant challenge remains the pressure on domestic margins due to under invoiced imports; import of secondary quality material under SROs; smuggling and China FTA. The management continues to raise this issue at all appropriate forums and is hopeful that the government will consider this matter fairly and favorably.**

Acknowledgement

The Board would like to thank all of their stakeholders; employees, customers, suppliers, shareholders, bankers and any others for their support and loyalty. Such support has enabled the Company to not only meet normal commercial challenges but also those posed by security issues and tough economic conditions. The confidence and goodwill of the stakeholders has allowed the Company to perform and grow showing positive results in a difficult business environment.

We continue to pray to Allah for the continued success of your Company and for the benefit of all stakeholders, and the country in general.

Kemal Shoaib
Chairman
Karachi : 12 August, 2014

Key Operating Highlights

	2014	2013	2012	2011
FINANCIAL POSITION				
Balance sheet				
Property, plant and equipment	9,772	9,952	8,898	8,788
Other non current assets	4	8	14	16
Current assets	7,103	4,801	6,922	5,495
Total assets	16,879	14,761	15,834	14,299
Share capital	4,350	4,350	4,350	4,350
Reserves	856	158	(197)	(92)
Surplus on revaluation of fixed assets	563	573	-	-
Total equity	5,769	5,081	4,153	4,258
Non current liabilities	3,381	3,597	3,915	4,432
Current liabilities	7,729	6,083	7,766	5,609
Total liabilities	11,110	9,680	11,681	10,041
Total equity & liabilities	16,879	14,761	15,834	14,299
Net current assets	(626)	(1,282)	(844)	(114)
OPERATING AND FINANCIAL TRENDS				
Profit and Loss				
Net turnover	21,280	17,603	13,249	3,691
Gross profit	2,237	1,606	1,206	349
EBITDA	2,369	1,868	1,406	533
Operating profit	1,959	1,409	1,056	241
Profit / (Loss) before taxation	874	441	(120)	(62)
Profit / (Loss) after taxation	690	363	(104)	(79)
Capital expenditure (addition during the year)	344	797	466	1,027
Cash Flows				
Operting activities	7	3,449	(1,069)	(4,799)
Investing activities	(335)	(782)	(466)	(997)
Financial activities	(404)	(331)	(113)	1,000
Cash & cash equivalents at the end of the year	(4,840)	(4,108)	(6,443)	(4,796)

Key Indicators

		2014	2013	2012	2011
Profitability Ratios					
Gross profit ratio	%	10.51	9.12	9.10	9.46
Net profit to Sales	%	3.24	2.06	(0.79)	(2.15)
EBITDA Margin to Sales	%	11.13	10.61	10.61	14.44
Operating Leverage	%	1.28	1.00	0.63	-
Return on Shareholders' Equity	%	11.95	7.14	(2.52)	(1.86)
Operating profit on Capital Employed	%	21.41	16.23	13.09	2.77
Return on Total Assets	%	4.09	2.46	(0.66)	(0.56)
Liquidity Ratios					
Current ratio	(x)	0.92	0.79	0.89	0.98
Quick / Acid test ratio	(x)	0.44	0.36	0.21	0.30
Cash to Current Liabilities	(x)	0.005	0.002	0.001	0.05
Cash flow from Operations to Sales	(x)	0.07	0.28	0.03	(1.17)
Activity / Turnover Ratios					
Inventory turnover ratio	times	5.19	6.11	3.33	1.75
Inventory turnover in days	days	70	47	110	209
Debtor turnover ratio (KE)	times	11.29	14.81	2.68	1.98
Debtor turnover in days (KE)	days	32	25	136	185
Total assets turnover ratio	times	1.26	1.19	0.84	0.26
Fixed assets turnover ratio	times	2.18	1.77	1.49	0.42
Capital employed turnover ratio	times	2.33	2.03	1.64	0.42
Investment / Market Ratios					
Earnings / Loss per share - basic and diluted	Rs.	1.59	0.83	(0.24)	0.22
Price earning ratio	times	14.54	21.22	(49.83)	61.31
Market value per share at the end of the year	Rs.	23.05	17.69	11.96	13.61
Market value per share high during the year	Rs.	26.00	19.35	14.29	15.06
Market value per share low during the year	Rs.	15.30	11.25	9.05	13.26
Break-up value per share		13.26	11.68	9.55	9.79
Capital Structure Ratios					
Financial leverage ratio	(x)	1.50	1.63	2.63	2.27
Total Debt : Equity ratio	(x)	60:40	62:38	72:28	70:30
Interest cover	times	1.89	1.44	0.90	0.86
Value Addition					
Employees as remuneration	Rs. in million	392	328	308	133
Government as taxes	Rs. in million	3,906	3,468	3,092	1,432
Financial charges to providers of finance	Rs. in million	982	993	1,169	433

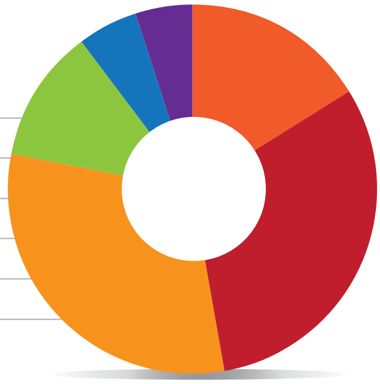
Vertical Analysis

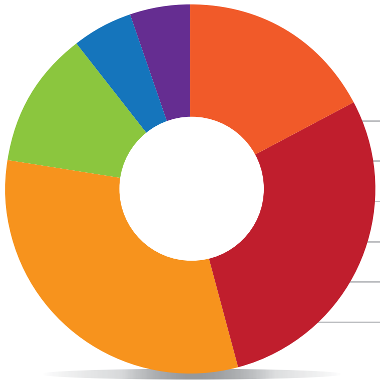
	2014		2013		2012		2011	
	Rs. million	%	Rs. million	%	Rs. million	%	Rs. million	%
OPERATING RESULTS								
Sales - Net	21,280	100	17,603	100	13,249	100	3,691	100
Cost of sales	19,043	89	15,997	91	12,043	91	3,342	91
Gross profit	2,237	11	1,606	9	1,206	9	349	9
Administrative, Selling and Distribution expenses	278	1	197	1	150	1	108	3
Other operating expenses	186	1	44	0	106	1	2	0
Other operating income	83	0	69	0	99	1	133	4
Operating Profit before finance costs	1,856	9	1,434	8	1,048	8	371	10
Finance costs	982	5	993	6	1,169	9	433	12
Profit / (Loss) before taxation	874	4	441	3	(120)	(1)	(62)	(2)
Taxation	184	1	79	0	(16)	(0)	17	0
Net Profit / Loss	690	3	362	2	(104)	(1)	(79)	(2)
BALANCE SHEET								
Property, plant and equipment	9,772	58	9,952	67	8,928	56	8,788	61
Intangible Assets	4	0	8	0	13	0	0	0
Other non current assets	0	0	0	0	0	0	16	0
Current assets	7,103	42	4,801	33	6,891	44	5,495	39
Total assets	16,879	100	14,761	100	15,833	100	14,299	100
Shareholders' equity	5,206	31	4,508	31	4,149	26	4,258	30
Revaluation reserves	563	3	573	4	0	0	0	0
Non current liabilities	3,381	20	3,597	24	3,918	25	4,432	31
Current portion of long term financing	750	4	783	5	639	4	263	2
Short term borrowings	4,877	29	4,121	28	6,448	41	5,058	35
Other current liabilities	2,102	12	1,179	8	679	4	288	2
Total equity and liabilities	16,879	100	14,761	100	15,833	100	14,299	100
CASH FLOWS								
Net cash generated from/ (used in) operating activities	7	(1)	3,449	147	(1,069)	65	(4,799)	100
Net cash outflows from investing activities	(335)	46	(782)	(33)	(466)	28	(997)	21
Net cash (outflows)/inflows from financing activities	(404)	55	(331)	(14)	(113)	7	1,000	(21)
Net increase/ (decrease) in cash and cash equivalents	(732)	100	2,336	100	(1,648)	100	(4,796)	100

Key Financial Indicators

Conversion cost

	2013-2014 Rs in Million
Salaries, wages and benefits	232
Electricity, gas and water	445
Depreciation and amortisation	439
Stores and spares consumed	168
Repairs and maintenance	76
Others	68
Total	**1,427**



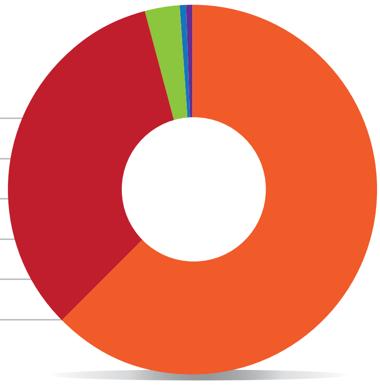


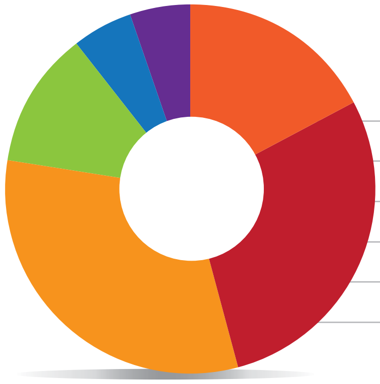
Conversion cost

	2012-2013 Rs in Million
Salaries, wages and benefits	200
Electricity, gas and water	330
Depreciation and amortisation	364
Stores and spares consumed	139
Repairs and maintenance	61
Others	58
Total	1,152

Product wise sales break up

	2013-2014 Rs in Million
Galvanized Coils	13,359
Cold rolled Coils	7,125
End cuts	608
Bi-Product Zinc	163
Bi-Product Remeltable Scrap	25
TOTAL	**21,280**



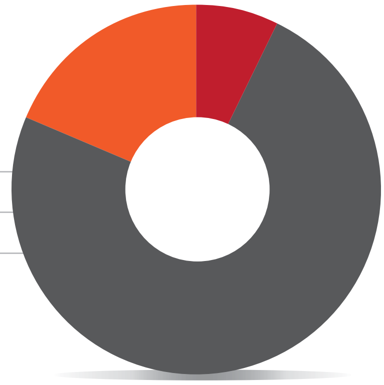


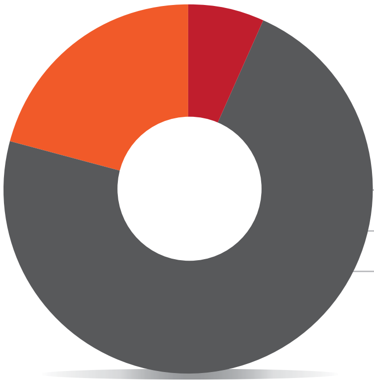
Product wise sales break up

	2012-2013 Rs in Million
Galvanized Coils	11,168
Cold rolled Coils	5,739
End cuts	633
Bi-Product Zinc	61
Bi-Product Remeltable Scrap	2
TOTAL	**17,603**

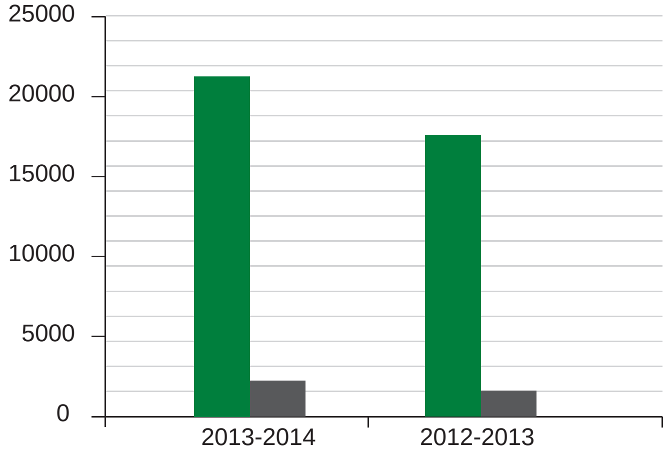
Key Financial Indicators

Value addition & distribution	2013-2014 Rs in Million
Employees as remuneration	392
Government as taxes	3,906
Financial charges	982
TOTAL	**5,280**



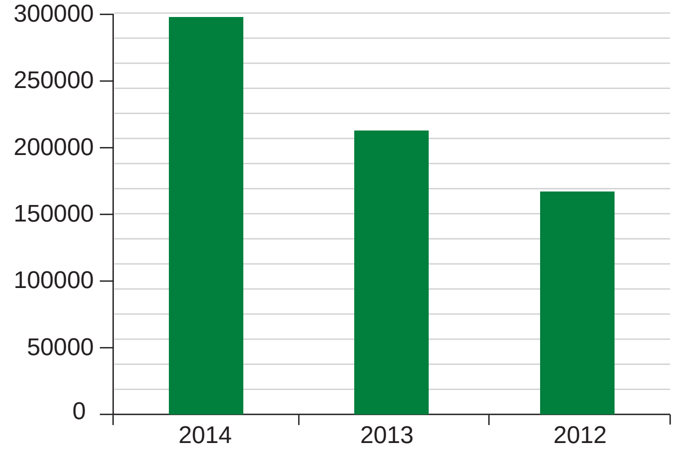


Value addition & distribution	2012-2013 Rs in Million
Employees as remuneration	329
Government as taxes	3,468
Financial charges	993
TOTAL	**4,789**



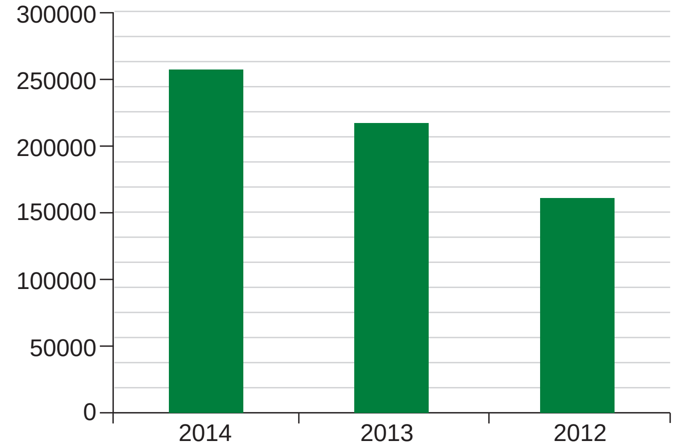
Net sales / gross profit	2013-2014	2012-2013
	Rs in Million	
Net sales	21,280	17,603
Gross profit	2,237	1,606

Key Financial Indicators



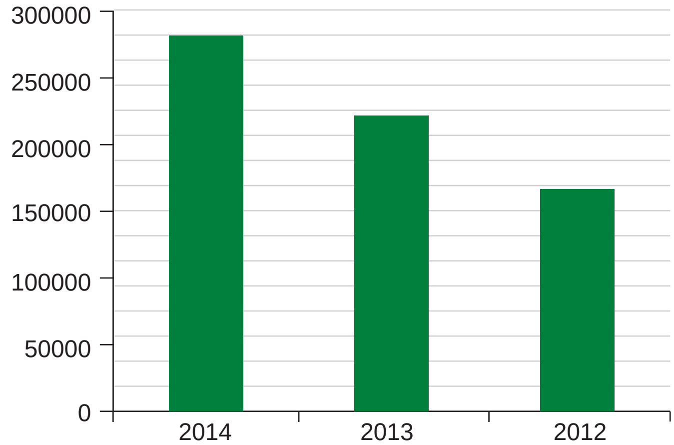
Raw material purchases (in tons)

	2014	2013	2012
Tons	297,913	212,632	167,199



Sales (in tons)

	2014	2013	2012
Tons	257,562	217,420	161,149



Production (in tons)

	2014	2013	2012
Tons	281,772	221,859	166,826

Corporate Governance

Statement of Directors, responsibility:

- 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.

Roles and Responsibilities of the Chairman and Chief Executive

The Chairman and the Chief Executive/ Managing Director 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. He is responsible for preparing business strategy, overall control and operation of the company as well as for implementing the business plans approved by the Board.

Business Philosophy

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 roles of Board and the Chief Executive / Managing Director have been clearly defined clearly defined where the Board is responsible for strategic guidance and providing directions for sustainable business while the Managing Director is responsible for day to day operations and execution of the business strategy by devising business plans and monitoring the same.

Governance Framework

Our Governance strategy is to ensure that the Company follows the direction defined by its Core Values, current regulatory framework and global best practices. The Board, discharges 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. Our approach towards corporate governance ensures ethical behaviour, transparency, accountability in all that we do and to attain a fair value for the shareholders.

The Board meets at least once after every quarter to review the financial performance and to provide oversight to the management to achieve key performance indicators. 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.

During the year under consideration, the Board met Five (05) times and the Directors, like always took active participation in discussions during the Board meetings to add value and to provide strategic leadership to the Company. The average attendance of the directors during the year has been 82%.

The Board Committees

The Board has formed three Committees to assist its operational functions, which are:

A. AUDIT COMMITTEE

The Audit Committee comprises of the following:

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

Terms of Reference of Audit Committee:

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

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 agreements / policy already defined and existing between IIL & ISL.

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 of concerns regarding questionable accounting or auditing matters.

k) Review and provide oversight to prepare the "Statement of Ethics and Business practices" 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 six (06) times, during the financial year ended June 30, 2014, and the attendance was 77.%.

B. HUMAN RESOURCES & REMUNERATION COMMITTEE:

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

- **Mr. Kemal Shoaib**
  Chairman - Independent Director
- **Mr. Towfiq. H. Chinoy**
  Member - Managing Director & CEO
- **Mr. Mustapha A. Chinoy**
  Member - Non-Executive Director
- **Syed Hyder Ali**
  Member – Non Executive Director

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

The role of the Human Resources Committee is to assist the Board of Director 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 COO, 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, 2014, and the attendance was 91%.

C. 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
- **Ms. Neelofar Hameed**
  Secretary

The Meetings of this Committee take place as and when the Board desires a focused strategic oversight, while the strategic guideline is discussed in the Board Meetings frequently. This year the Committee held one prolonged meeting to consider strategic direction and expansion plans of the company, which was attended by all the members.

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 Six [06] 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 Members	Board Meetings	Audit Committee	HR&R Committee	Strategic Planning Committee
Number of Meetings held	**5**	**6**	**3**	**1**
Mr. Kemal Shoaib	5		3	1
Mr. Towfiq. H. Chinoy	5		3	1
Mr. Kamal A. Chinoy	4	4		
Mr. Mustapha A. Chinoy	5		3	1
Mr. Tariq Iqbal Khan	4	5		
Mr. Kamran Y. Mirza	5	5		
Syed Salim Raza	5			1
Syed Hyder Ali	2		2	
Mr. Otomichi Yano	2	-	-	

Since all the retiring directors were re-elected in the Annual General Meeting held on October 02, 2013, no formal orientation was felt needed. Additionally the Board is regularly briefed on various developments in the business fields in each meeting.

Election of Directors

As the term of the Board was completed, all retiring directors offered their services as directors for a period of 3 more years. The Shareholders re-elected all Nine (09) directors in the general meeting held on October 02, 2013 at Karachi.

Stakeholders and Social Responsibility

Our role as a corporate citizen is as important to us as satisfaction of our customers and earning a fair return for our shareholders. We are committed to work for the betterment and prosperity of our stakeholders. Management has endeavored to provide a safe and healthy work atmosphere by adopting practices and creating working conditions which are safe and healthy for our employees, vendors, contractors, suppliers and customers.

We are committed to provide better educational and health facilities to the less fortunate people especially those who are our stakeholders. In line with our philosophy of CSR we regularly maintain and support TCF school – Chinoy Campus in the vicinity of Landhi along with offering need based scholarships to NED University students for a better tomorrow of our younger generation. We also support NGOs like SIUT, LRBT and Kidney Center to help the deserving patients for their treatment.

Board Performance Evaluation

The Board has adopted a mechanism for self-evaluation of its performance evaluation, which encompasses the evaluation of the Board as an entity. The annual review of the Board is aimed at evaluation in the following:-

• Board composition • Skill and experience • Board functions • Internal controls • Statutory obligation • Corporate Governance • Operational performance • Strategic guidance • Risk Management etc.

Whistle Blowing Policy

In order to ensure accountability and integrity in our conduct, we have placed an effective whistleblowing mechanism for sounding of alerts against deviations from policies, applicable regulations or the code of professional conduct.

Pattern of Shareholding

On June 30, 2014 there were 1,688 holders on record of the Company's ordinary shares.

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, 2014 is placed on Page 86.

Management Team

Good corporate governance is the basis of our 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, shareholders' 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. Alee Arsalan
Chief Financial Officer

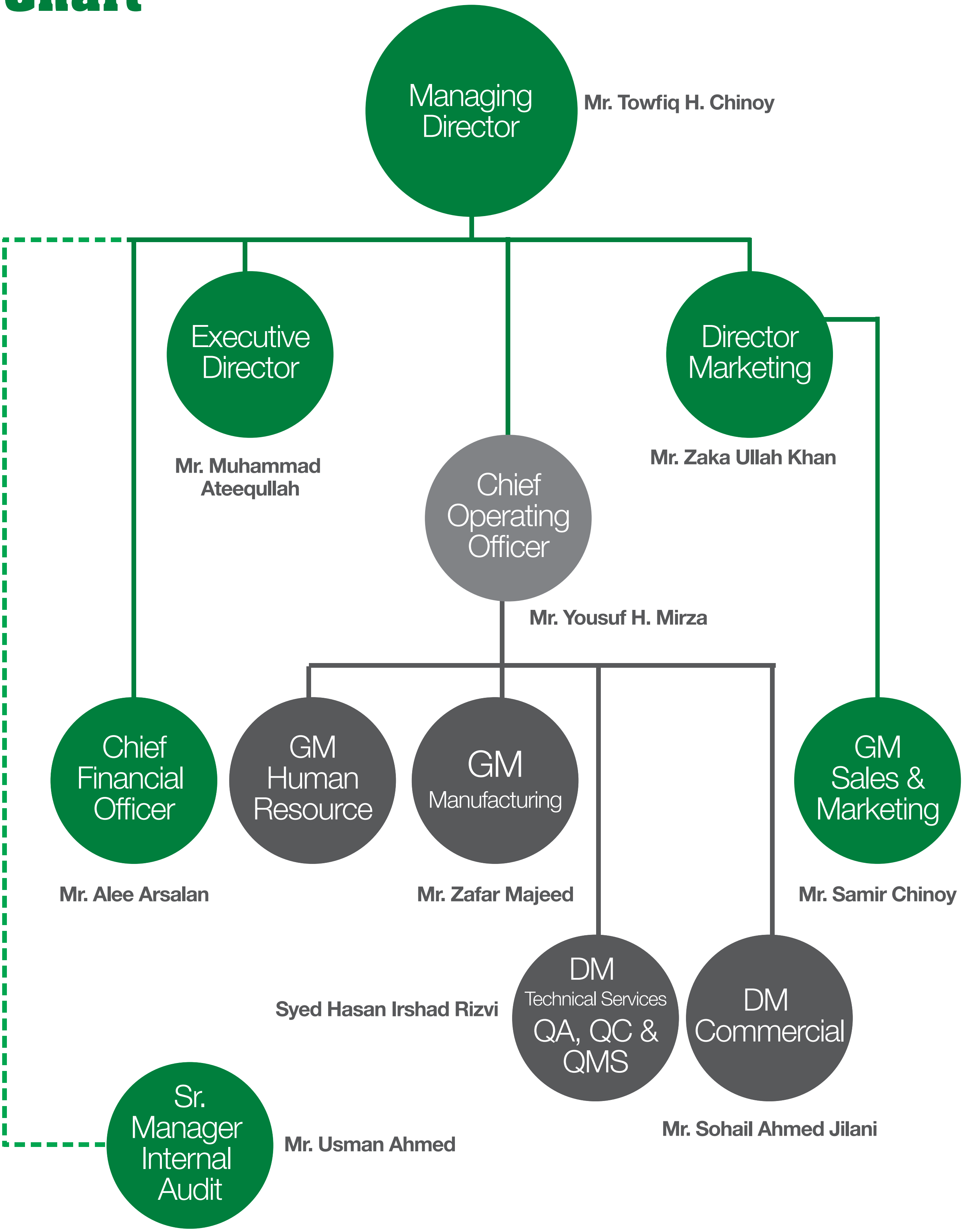
Ms. Neelofar Hameed
Company Secretary

Mr. Yousuf H. Mirza
Chief Operating Officer

Mr. Muhammad Ateequllah
Executive Director

Mr. Samir Chinoy
GM Sales & Marketing

Organization Chart



Report of the Board Audit Committee on Adherence to the Code of Corporate Governance

The Board Audit Committee has concluded its annual review of the conduct and operations of the Company for the year ended 30 June 2014 and reports that:

- The Company has adhered in full, without any material departure, with both the mandatory and voluntary provisions of the listing regulations of the Karachi Stock Exchange (Guarantee) Ltd., Company's Code of ethics 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 2014, 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 a hybrid model with the in house Head of Internal Audit supported by resources from M/s Ernst & Young Ford Rhodes Sidat Hyder. The Head of Internal Audit supervised and coordinated internal audit assignments during the year.
- 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 2014 and shall retire on the conclusion of the 7th Annual General Meeting.
- 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 the reappointment of M/s KPMG Taseer Hadi & Co for the financial year ending 30 June 2015 on remuneration, as negotiated by the Managing Director.

Tariq Iqbal Khan
Chairman – Board Audit Committee

Karachi
Dated: 12 August, 2014

Statement of Compliance with the Best Practices of the Code of Corporate Governance

INTERNATIONAL STEEL LIMITED
June 30, 2014

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	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

The independent directors meet the criteria of independence under clause i(b) of the Code of Corporate Governance.

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. All the directors on Board were re-elected by the Shareholders in the Annual General Meeting held on October 02, 2013 and there was no casual vacancy during the year.

5. The Company has prepared and updated 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.

6. The Board has developed a vision/mission statement and reviews and approves business plans and overall corporate strategy. The Company has also developed significant policies which were approved by the Board of Directors after due consideration. A complete record of particulars of significant policies and procedures, where needed, have been developed and adopted during the year. Whereas the policies and procedures in respect of delegation of financial authority and health, safety and environment are in the process of preparation and adoption. 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) Human Resource Policies
    j) Speak Up Policy
    k) Investment Policy
    l) Policy for Write Off of Bad Debts , Advances and Receivables
    m) Borrowing Policy
    n) Investment policy
    o) Policy for CSR
    p) Board Evaluation Policy
    q) Board Evaluation Procedure
    r) Stores and Spares Policy
    s) Credit Policy
    t) Investors Relations Policy

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. A detailed briefing session was also conducted for the Board when the revised Code of Corporate Governance was implemented by SECP in 2012. The Directors have also 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. All the Directors have been re-elected in October 2013; the management keeps the Board abreast with the latest changes in the business environment and regulatory framework.

10. Four Directors have acquired the formal training certificates in earlier years. Majority of the Directors have more than 14 years of education and 15 years of experience on the Board of at least one listed company, in terms of section (xi) of the Code of Corporate Governance. The Company however intends to facilitate further training for the directors in near future as per defined in the Code of Corporate Governance

11. The existing CFO and Company Secretary continue to serve as per their respective terms of employment duly approved by the Board of Directors. The Company has appointed 'Head of Internal Audit' to act as coordinator between M/s Ernst & Young Ford Rhodes Sidat Hyder & Co (the firm providing internal audit services) and the Board Audit Committee, which shall be taken up by the in-house Internal Audit department from 2014-15.

12. 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 the information required under clause (xvi) and sub clauses (J iii), (J iv) and (xvi) -(l) of the Code of Corporate Governance regarding name-wise details of Directors, their spouses and minor children and executives of the company who have traded in the shares of the listed company due to security reasons. The Holding

Company International Industries Ltd has applied for relaxation before SECP for the same vide letter dated August 4, 2014, the reply of which is awaited.

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

14. 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.

15. The Company has complied with all the corporate and financial reporting requirements of the CCG.

16. 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.

17. 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.

18. The Board has formed a Human Resource & Remuneration Committee. It comprises 4 members; the Chairman of the committee is an independent director, whereas the remaining members comprise one executive director and two non- executive directors. 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.

19. The Board approved a hybrid system of Internal Audit where the Head of Internal Audit was appointed, who was supported by M/s Ernst & Young Ford Rhodes Sidat Hyder & Co, as Internal Auditors of the Company during the year. This model was considered satisfactory as the Head of Internal Audit was able to provide much more focused reports supported by E&Y, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.

20. 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.

21. 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.

22. 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).

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

24. 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 – Board Audit Committee

Towfiq H. Chinoy
Managing Director / CEO

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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of International Steels Limited ("the Company") for the year ended 30 June 2014 to comply with the requirements of Listing Regulations of Karachi Stock Exchange where the Company is listed.

The responsibility for compliance with the Code 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 and report if it does not and to highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of the 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 of Directors' 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.

The Code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its 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 and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended 30 June 2014.

Further, we highlight below instances of non-compliances with the requirements of the Code as reflected in paragraphs 6 and 11 where these are stated in the Statement of Compliance.

- Paragraph 6 which describes the status in respect of formulation of significant policies towards which reasonable progress is being made by the Company; and

- Paragraph 10 which describes the non-disclosure of pattern of shareholding held by certain persons in the director's report.

Date: 12 August 2014
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Mohammed Nadeem

Financial Statements

Contents

Auditors' Report to the Members

We have audited the annexed balance sheet of International Steels Limited ("the Company") as at 30 June 2014 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 except for the changes in accounting policies as disclosed in note 2.5.1 to the accompanying financial statements, with which we concur;

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2014 and of the profit, 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.

Date: 12 August 2014
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Mohammed Nadeem

Balance Sheet
As at 30 June 2014

	Note	2014	2013 (Restated)	1 July 2012 (Restated)
		(Rupees in '000)		
ASSETS				
Non Current Assets				
Property, plant and equipment	4	9,771,509	9,952,234	8,927,689
Intangible assets	5	3,821	8,067	13,414
Long term deposit with Central Depository Company Pakistan Limited		100	100	100
Total Non Current Assets		9,775,430	9,960,401	8,941,203
Current Assets				
Stores and spares	6	319,322	320,691	342,318
Stock-in-trade	7	3,667,240	2,616,040	5,273,767
Receivable from K-Electric Limited (KE) - unsecured, considered good		49,717	35,743	228,705
Trade debts - secured, unsecured and considered good	8	1,185,880	550,880	287,498
Advances - considered good	9	266,127	297,901	18,692
Trade deposits, prepayments and others receivables	10	11,717	12,989	11,334
Sales tax receivable		434,380	165,678	279,248
Taxation - net	11	1,132,133	787,216	446,036
Cash and bank balances	12	36,560	13,694	3,957
Total Current Assets		7,103,076	4,800,832	6,891,555
Total Assets		16,878,506	14,761,233	15,832,758
EQUITY AND LIABILITIES				
Share Capital and Reserves				
Authorised Capital				
500,000,000 (2013: 500,000,000) ordinary shares of Rs. 10 each		5,000,000	5,000,000	5,000,000
Issued, subscribed and paid up capital	13	4,350,000	4,350,000	4,350,000
Unappropriated profit / (loss)		856,325	158,093	(201,218)
Total shareholders' equity		5,206,325	4,508,093	4,148,782
Surplus on revaluation of property, plant and equipment	14	563,415	572,886	-
LIABILITIES				
Non Current Liabilities				
Long term finances - secured	15	3,000,990	3,371,860	3,846,883
Staff retirement benefits	30.2.6	14,698	9,847	5,444
Deferred taxation - net	16	365,480	215,341	65,962
Total Non Current Liabilities		3,381,168	3,597,048	3,918,289
Current Liabilities				
Trade and other payables	17	1,955,866	1,021,318	468,130
Short term borrowings - secured	18	4,876,307	4,121,378	6,447,822
Current portion of long term finances	15	749,877	783,285	638,775
Accrued mark-up		145,548	157,225	210,960
Total Current Liabilities		7,727,598	6,083,206	7,765,687
Contingencies and Commitments	19			
Total Equity and Liabilities		16,878,506	14,761,233	15,832,758

The annexed notes 1 to 39 form an integral part of these financial statements.

Tariq Iqbal Khan
Director & Chairman
Board Audit Committee

Alee Arsalan
Chief Financial Officer

Towfiq H. Chinoy
Managing Director &
Chief Executive

Profit and Loss Account

For the year ended 30 June 2014

	Note	2014	2013 (Restated)
		(Rupees in '000)	
Net sales	20	21,280,155	17,602,670
Cost of sales	21	(19,043,439)	(15,997,025)
Gross profit		2,236,716	1,605,645
Administrative expenses	22	(135,116)	(114,330)
Selling and distribution expenses	23	(142,512)	(82,613)
		(277,628)	(196,943)
Financial charges	24	(981,530)	(992,695)
Other operating charges	25	(186,177)	(43,546)
		(1,167,707)	(1,036,241)
Other income	26	82,785	68,970
Profit before taxation		874,166	441,431
Taxation - net	27	(184,431)	(78,865)
Profit for the year		689,735	362,566
		(Rupees in '000)	
Earnings per share - basic and diluted	28	1.59	0.83

The annexed notes 1 to 39 form an integral part of these financial statements.

Tariq Iqbal Khan
Director & Chairman
Board Audit Committee

Alee Arsalan
Chief Financial Officer

Towfiq H. Chinoy
Managing Director &
Chief Executive

Statement of Comprehensive Income

For the year ended 30 June 2014

	Note	2014	2013 (Restated)
		(Rupees in '000)	
Profit for the year		689,735	362,566
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability		(4,851)	(4,698)
Recognition of tax		1,601	1,443
Total other comprehensive income - net of tax		(3,250)	(3,255)
Total comprehensive income for the year		686,485	359,311

The annexed notes 1 to 39 form an integral part of these financial statements.

Tariq Iqbal Khan
Director & Chairman
Board Audit Committee

Alee Arsalan
Chief Financial Officer

Towfiq H. Chinoy
Managing Director &
Chief Executive

Cash Flow Statement

For the year ended 30 June 2014

	Note	2014	2013 (Restated)
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		874,166	441,431
Adjustments for:			
Depreciation		507,402	428,243
Amortisation		5,896	5,347
Gain on sale of property, plant and equipment		(2,669)	(5,722)
Plant and machinery charged-off		8,995	-
Provision for staff gratuity		8,720	6,381
Provision for compensated absences		1,791	919
Financial charges		981,530	992,695
		2,385,831	1,869,294
Movement in working capital	29	(999,942)	3,002,914
Payment of compensated absences		(1,763)	(9,005)
Net cash from operations		1,384,126	4,863,203
Financial charges paid		(993,207)	(1,046,430)
Gratuity paid		(8,720)	(6,676)
Taxes paid - net		(375,332)	(361,118)
Net cash from operating activities		6,867	3,448,979
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		(344,078)	(797,202)
Proceeds from sale of property, plant and equipment		9,426	14,917
Net cash used in investing activities		(334,652)	(782,285)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities - (Repayments) of long term finances - net		(404,278)	(330,513)
Net (decrease) / increase in cash and cash equivalents		(732,063)	2,336,181
Cash and cash equivalents at beginning of the year		(4,107,684)	(6,443,865)
Cash and cash equivalents at end of the year		(4,839,747)	(4,107,684)
CASH AND CASH EQUIVALENTS COMPRISE			
Cash and bank balances	12	36,560	13,694
Short term borrowings	18	(4,876,307)	(4,121,378)
		(4,839,747)	(4,107,684)

The annexed notes 1 to 39 form an integral part of these financial statements.

Tariq Iqbal Khan	**Alee Arsalan**	**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 2014

	Issued, subscribed & paid up capital	Accumulated (losses) / profit	Total
		(Restated)	
		(Rupees in '000)	
Balance as at 01 July 2012 as previously reported	4,350,000	(196,657)	4,153,343
Effect of change in accounting policy - note 2.5.1.3	-	(4,561)	(4,561)
Balances as at 01 July 2012 - restated	4,350,000	(201,218)	4,148,782
Profit for the year	-	362,566	362,566
Total other comprehensive income for the year - note 2.5.1.3	-	(3,255)	(3,255)
Total comprehensive income for the year - restated	-	359,311	359,311
Balance as at 30 June 2013 - restated	4,350,000	158,093	4,508,093
Balance as at 01 July 2013 as previously reported	4,350,000	166,807	4,516,807
Effect of change in accounting policy - note 2.5.1.3	-	(8,714)	(8,714)
Balances as at 01 July 2013 - restated	4,350,000	158,093	4,508,093
Profit for the year	-	689,735	689,735
Total other comprehensive income for the year	-	(3,250)	(3,250)
Total comprehensive income for the year	-	686,485	686,485
Transferred from surplus on revaluation of property, plant and equipment - net of deferred tax	-	11,747	11,747
Balance as at 30 June 2014	4,350,000	856,325	5,206,325

The annexed notes 1 to 39 form an integral part of these financial statements.

Tariq Iqbal Khan
Director & Chairman
Board Audit Committee

Alee Arsalan
Chief Financial Officer

Towfiq H. Chinoy
Managing Director &
Chief Executive

Notes to the Financial Statements

For the year ended 30 June 2014

1. STATUS AND NATURE OF BUSINESS

International Steels Limited ('the Company') was incorporated on 03 September 2007 as a public unlisted company limited by shares under the Companies Ordinance, 1984 and is domiciled in the province of Sindh. The net assets of the Steel Project Undertaking amounted to Rs. 4,177.167 million were determined as at 23 August 2010 (day immediately preceding the completion date) in accordance with the Scheme of Arrangement and net assets of the Steel Project Undertaking were transferred to the Company on 24 August 2010 and 417,716,700 shares of Rs. 10 each of the Company there against were issued to International Industries Limited ('the Holding Company'). The Company was listed on the Karachi Stock Exchange on 01 June 2011. As at 30 June 2014, the Holding Company held 245,055,543 shares (2013: 245,055,543 shares) of the Company.

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of measurement

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

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 recognised 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)
- Derivative financial instruments - cash flow hedges (note 3.3.4)
- Inventories (note 3.4)
- Taxation (note 3.5)
- Staff retirement benefits (note 3.6)
- Impairment (note 3.9)

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 except for the revised International Accounts Standard (IAS) 19 'Employees Benefits' and amendments to IAS 16 'Property, plant and equipment' detail of which are stated in note 2.5.1.1 and 2.5.1.2 respectively.

2.5.1 Changes in accounting policies

2.5.1.1 Employee Benefits

With effect from 01 January 2013, the revised IAS 19 'Employee Benefits' became effective. The revised IAS 19 requires actuarial gains and losses to be recognized immediately in other comprehensive income. Previously, actuarial gains and losses over and above the corridor limit were amortized over the expected average remaining working lives of employees as allowed under the relevant provision of previous IAS 19. Further, any past service cost is now recognized immediately in the profit and loss as soon as the change in the benefit plans are made and previously, only vested past service cost was recognized immediately in profit and loss account and non-vested cost was amortised to profit and loss account over the vesting period. The standard also replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit assets or liability and the discount rate, measured at the begining of the year. Refer note 3.6.1 for revised accounting policy.

2.5.1.2 Property, plant and equipment

Annual Improvements to IFRS 2009-2011 amended IAS 16 'Property, Plant and Equipment' to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of property, plant and equipment as 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, they are accounted for as consumable spares under IAS 2 'Inventories'. The change became effective to the Company from 01 July 2013 and is to be applied retrospectively. Accordingly accounting policy of the Company has been revised.

As per the revised accounting policy spare parts, stand-by equipment and servicing equipment which qualify as property, plant and equipment when an entity expects to use them during more than one year are classified as property, plant and equipment under category of major stores and spares and will be carried at cost less accumulated depreciation and accumulated impairment, if any. These will be transferred to relevant operating assets category as and when such items are available for use.

2.5.1.3 Effect of changes

The effects of changes stated in notes 2.5.1.1 and 2.5.1.2 have been accounted for retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', resulting in restatement of financial statements of prior periods. Resultantly, the cumulative effect of adjustments that arose as at 01 July 2012 have been presented and disclosed as part of the statement of changes in equity, while the corresponding period adjustment through other comprehensive income and profit or loss is restated and disclosed as part of the Statement of Comprehensive Income and Profit and Loss Account respectively. The Balance Sheet also presents the prior year numbers as restated, due to the said change.

	30 June 2013			01 July 2012		
	As previously reported	Impact due to change in policy	As restated	As previously reported	Impact due to change in policy	As restated
	(Rupees in '000)					
Effect on balance sheet						
Staff retirement benefit	-	9,847	9,847	-	5,444	5,444
Deferred taxation	219,151	(3,810)	215,341	67,867	(1,905)	65,962
Property, plant and equipment	9,905,282	46,952	9,952,234	8,898,047	29,642	8,927,689
Stores and spares	370,320	(49,629)	320,691	372,982	(30,664)	342,318
Unappropriated profit	166,807	(8,714)	158,093	(196,657)	(4,561)	(201,218)

	2014	2013
	(Rupees in '000)	
Effect on profit and loss account		
(Increase) / decrease in profit before tax due to reclassification of actuarial gains, losses and depreciation on stores capitalised	(3,043)	1,360
Deferred taxation	780	(462)
	(2,263)	898
Effect on other comprehensive income		
Recognition of actuarial (gain) / loss	4,851	4,698
Recognized tax charge	(1,601)	(1,443)
	3,250	3,255

The effect of above changes on earnings per share is immaterial.

2.6 Standards, Interpretations and Amendments not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2014:

- IFRIC 21- 'Levies, an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 01 January 2014). IFRIC 21 is an interpretation of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation is not likely to have an impact on the Company.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 01 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments clarify the meanin of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not likely to have an impact on the Company's financial statements.

- Amendment to IAS 36 'Impairment of Assets' Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 01 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are not likely to have an impact on the Company's financial statements.

- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after 01 January 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are not likely to have an impact on the Company's financial statements.

- Amendments to IAS 19 'Employee Benefits' Employee contributions – a practical approach (effective for annual periods beginning on or after 01 July 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. The amendments are not likely to have an impact on the Company's financial statements.

- Amendments to IAS 38 'Intangible Assets' and IAS 16 'Property, Plant and Equipment' (effective for annual periods beginning on or after 01 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on the Company's financial statements.

- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 01 January 2016). Bearer plants are now in the scope of IAS 16 'Property, Plant and Equipment' for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 'Agriculture'. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction. The amendments are not likely to have an impact on the Company's financial statements.

  Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 01 July 2014). The new cycle of improvements contain amendments to the following standards:

- IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.

- IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves.

- IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition, this amendment clarifies that a reconciliation of the total of the reportable segment's assets to the entity assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.

- Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.

- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies as set out below are consistently applied for all periods presented in these financial statements except for changes in accounting policies as stated in note 2.5.1.

3.1 Property, plant and equipment

3.1.1 Operating assets and depreciation

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

Recognition of the cost in the carrying amount of an item of plant and equipment ceases when the 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. The costs of Property, plant and equipment include:

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

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

(c) Borrowing costs, if any.

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

Subsequent expenditure (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 up to the month prior to disposal.

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

Surplus on revaluation
Revaluation of freehold land and building on freehold land is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. Surplus on revaluation of land, buildings is credited to the surplus on revaluation account. To the extent of the incremental depreciation charged on the revalue assets, the related surplus on revaluation of property, plant and equipment (net of deferred taxation) is transferred directly to retained earnings.

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

3.1.2 Capital work-in-progress

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

3.2 Intangible assets

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

Costs directly associated with identifiable software that will have probable economic benefits exceeding 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 derecognises the financial assets when it ceases to be a party to such contractual provisions of the instruments.

3.3.1.1 Trade debts 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 current accounts held with banks. Short term borrowings availed by the Company, which are payable on demand and form an integral part of the Company's cash management are included as part of cash and cash equivalents for the purpose of statement of cash flows.

3.3.2 Financial Liabilities

Financial liabilities are initially recognised on trade date i.e. date on which the Company becomes party to the respective contractual provisions. Financial liabilities include mark-up bearing borrowings and trade and other payables. The Company derecognises the financial liabilities when it ceases to be a party to such contractual provisions of the instruments.

3.3.2.1 Mark-up bearing borrowings and borrowing costs

Mark-up bearing borrowings are recognised 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 recognised 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 capitalised as part of the cost of the relevant asset.

3.3.2.2 Trade and other payables

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

3.3.3 Derivative financial instruments - other than hedging

Derivatives that do not qualify for hedge accounting are recognised 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 Derivative financial instruments - cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in fair value of the derivative is recognised in other comprehensive income and accumulated in hedging reserve. Any ineffective portion of changes in fair value of derivative is recognised immediately in profit or loss. The amount accumulated in equity is removed therefrom and included in the initial carrying amount of non-financial asset upon recognition of non-financial asset.

The fair value of forward exchange contracts is estimated using appropriate valuation techniques. These are carried as assets when the fair value is positive and liabilities when the fair value is negative.

3.3.5 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when there is legally enforceable right to set-off the recognised amounts and the Company intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously.

3.4 Inventories

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.

3.5 Taxation

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

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

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

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

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

3.6 Staff retirement benefits

3.6.1 Defined benefit plan

The Company provides gratuity benefits to all its permanent employees who have completed their minimum qualifying period of service i.e. three year (except in case of workers where minimum qualifying period of service is six months). For executives and officers having total service of over twenty years, the benefit is available at one month's basic salary (eligible salary) for each completed year of service. For executives and officers having total service of less than twenty years, the benefit is available at half month's basic salary (eligible salary) for each completed year of service. For workers, the benefit is available at one month's gross salary less conditional allowances (eligible salary) for each completed year of service. The Company's obligation is determined through actuarial valuations carried out under the 'Projected Unit Credit Method'. Remeasurements which comprise actuarial gains and losses and the return on plan assets (excluding interest) are recognized immediately in other comprehensive income.

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

3.6.2 Defined contribution plan

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

3.6.3 Compensated absences

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

3.7 Foreign currency translation

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

3.8 Revenue recognition

- Domestic sales are recognised as revenue when invoiced with the transfer of significant risks and rewards of ownership, which coincides with delivery.
- Export sales are recognised as revenue when invoiced with the transfer of significant risks and rewards of ownership, which coincides either with date of shipping bill or upon delivery to customer or its representative, based on terms of arrangement.
- Revenue from power generation plant on account of sales of surplus electricity is recognised on transmission of electricity to K-Electric Limited (formerly Karachi Electric Supply Company Limited - KESC).

3.9 Impairment

3.9.1 Financial assets

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

3.9.2 Non-Financial assets

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

3.10 Provisions

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

3.11 Segment reporting

Segment results that are reported to the Company's CEO (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items, if any, comprise mainly corporate assets, head office expenses, and tax assets and liabilities. Management has determined that the Company has a single reportable segment and therefore it has only presented entity wide disclosures (refer note 36).

3.12 Dividend and appropriations

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

	Note	2014	2013
			(Restated)
4 PROPERTY, PLANT AND EQUIPMENT		(Rupees in '000)	
Operating assets	4.1	9,419,768	9,576,209
Capital work-in-progress	4.2	351,741	376,025
		9,771,509	9,952,234

4.1 Operating assets

	2014													
	Cost						Depreciation							
	As at 01 July 2013	Additions/ transfers *	Revaluation surplus (note 4.4) / (adjustment)	Other adjustment	(Disposals)	As at 30 June 2014	As at 01 July 2013	For the year	Revaluation surplus (note 4.4) / (adjustment)	Other adjustment	(Disposals)	As at 30 June 2014	Net book value as at 30 June 2014	Rate %
	(Rupees in '000)													
Freehold land	1,216,875	-	-	-	-	1,216,875	-	-	-	-	-	-	1,216,875	-
Buildings on freehold land	1,169,752	-	-	-	-	1,169,752	-	61,992	-	-	-	61,992	1,107,760	3% - 5%
Plant and machinery**	8,058,952	333,272*	-	(8,995)	-	8,383,229	918,647	425,776	-	-	-	1,344,423	7,038,806	3%-33%
Furniture, fixture, computer and office equipment	29,453	6,452	-	19	(55)	35,869	13,295	6,555	-	-	(11)	19,839	16,030	10% - 33%
Vehicles	55,704	26,844	-	125	(11,078)	71,595	22,585	13,079	-	-	(4,366)	31,298	40,297	20%
	10,530,736	366,568	-	(8,851)	(11,133)	10,877,320	954,527	507,402	-	-	(4,377)	1,457,552	9,419,768	
		333,272*	-											

	2013 (Restated)													
	Cost						Depreciation							
	As at 01 July 2012	Additions/ transfers *	Revaluation surplus (note 4.4) / (adjustment)	Other adjustment	(Disposals)	As at 30 June 2013	As at 01 July 2012	For the year	Revaluation surplus (note 4.4) / (adjustment)	Other adjustment	(Disposals)	As at 30 June 2013	Net book value as at 30 June 2013	Rate %
	(Rupees in '000)													
Freehold land	836,599	-	380,276	-	-	1,216,875 -	-	-	-	-	-	-	1,216,875	
Buildings on freehold land	1,008,584	-	284,505 (123,337)	-	-	1,169,752	78,460	44,877	(123,337)	-	-	-	1,169,752	3%-5%
Plant and machinery **	7,299,527	740,615*	-	18,810	-	8,058,952	551,723	366,954	-	(30)	-	918,647	7,140,305	3%-33%
Furniture, fixture, computer and office equipment	22,489	6,983	-	155	(174)	29,453	7,626	5,691	-	30	(52)	13,295	16,158	10% - 33%
Vehicles	54,749	19,985	-	-	(19,030)	55,704	21,821	10,721	-	-	(9,957)	22,585	33,119	20%
	9,221,948	26,968	664,781	18,965	(19,204)	10,530,736	659,630	428,243	(123,337)	-	(10,009)	954,527	9,576,209	
		740,615*	(123,337)											

*This represents transfers from capital work in progress.

**Includes capital spares having cost of Rs. 122 million (2013: Rs. 50 million) with net book value of Rs. 111 million (2013: Rs. 47 million) capitalised due to change in accounting policy as stated in note 2.5.1.2.

4.2 Capital work-in-progress

	2014				2013			
	Cost As at 01 July 2013	Additions	(Transfers)	As at 30 June 2014	Cost As at 01 July 2012	Additions	(Transfers)	As at 30 June 2013
Plant and machinery	376,025	308,988	(333,272)	351,741	365,371	751,269	(740,615)	376,025
	376,025	308,988	(333,272)	351,741	365,371	751,269	(740,615)	376,025

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

	Note	2014	2013 (Restated)
		(Rupees in '000)	
Cost of sales	21	432,698	358,577
Administrative expenses	22	5,443	4,267
Selling and distribution expenses	23	2,253	2,218
Income from power generation	26.1	67,008	63,181
		507,402	428,243

4.4 The Company had carried out valuation of freehold land and buildings on freehold land as at 30 June 2013. The resulting revaluation surplus was credited to revaluation surplus account net of related tax effect and disclosed in note 14 to the financial statement. The valuation was conducted by an independent valuer who is located in Karachi. Land was valued on the basis of inquiries made about the cost of land of similar nature, size and location. Buildings on freehold land was valued based on the current cost of construction and building finishes, keeping in view the condition of buildings. The resultant surplus on revaluation of land and buildings is not distributable to the shareholders as per requirements of the Companies Ordinance,1984.

Had these assets been carried at historical cost, at 30 June 2014 the carrying amount would have been as follows:

	Cost	Accumulated depreciation	Net book value
	(Rupees in '000)		
Freehold land	836,599	-	836,599
Buildings on freehold land	1,008,584	168,214	840,370
As at 30 June 2014	1,845,183	168,214	1,676,969
As at 30 June 2013	1,845,183	123,337	1,721,846

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

	Original cost	Accumulated depreciation	Book value	Proceeds	Mode of disposal	Purchaser
	(Rupees in '000)					
Computers						
Laptop	55	11	44	32	Insurance claim	Jubilee General Insurance - a related party
	55	**11**	**44**	**32**		
Vehicles						
Suzuki Mehran	581	194	387	456	Negotiation	Mr. Hafiz Saeed Mubashir Ahmed
Suzuki Mehran	560	187	373	505	Negotiation	Mr. S. Riaz Ahmed
Suzuki Mehran	560	84	476	530	Negotiation	Mr. Kashif Muhammad Hashmi
Honda City	847	847	-	645	As per company policy	Mr. Zafar Majeed (Employee)
Honda City	1,049	1,049	-	570	As per company policy	Mr. Irshad Rizvi (Employee)
Suzuki Mehran	484	298	186	401	Negotiation	Mr. Syed Riaz Ahmed
Suzuki Mehran	663	99	564	595	Negotiation	Mr. Mohsin Abbas
Suzuki Mehran	504	269	235	450	Negotiation	Mr. Gulbaz
Suzuki Cultus	824	567	257	680	Negotiation	Mr. Shaikh Muhammad Sajid
Toyota Corolla	1,673	307	1,366	1,480	Negotiation	Mr. Syed Riaz Ahmed
Suzuki Mehran	580	106	474	510	Negotiation	Mr. Asif Moten (Employee)
Suzuki Mehran	362	-	362	272	As per company policy	Mr. Mairaj Zia (Employee)
Honda Civic	2,392	359	2,033	2,300	As per company policy	Mr. Hasan Ansari (Employee)
	11,079	4,366	6,713	9,394		
Grand total	**11,134**	**4,377**	**6,757**	**9,426**		

5 INTANGIBLE ASSETS

	2014							
	Cost			Amortisation			Net book value as at 30 June 2014	Rate % / Life
	As at 01 July 2013	Additions	As at 30 July 2014	As at 01 July 2013	For the Year	As at 30 July 2014		
	(Rupees in '000)							
Computer software	**16,041**	**1,650**	**17,691**	**7,974**	**5,896**	**13,870**	**3,821**	**33% / 3 years**
Computer software as at 30 June 2013	16,041	-	16,041	2,627	5,347	7,974	8,067	33% / 3 years

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

6 STORES AND SPARES

	Note	2014	2013 (Restated)
		(Rupees in '000)	
Stores		117,636	48,711
Spares - in transit		-	21,584
Spares		198,825	192,358
Loose tools		2,861	58,038
		319,322	320,691

7 STOCK-IN-TRADE

Raw material - in hand		1,254,244	858,233
Raw material - in transit		-	552,246
Work-in-process		1,134,423	360,724
Finished goods		1,277,652	841,816
Scrap Material		921	3,021
		3,667,240	2,616,040

8 TRADE DEBTS - secured, unsecured and considered good

- Secured	8.1	1,169,822	544,237
- Unsecured		16,058	6,643
		1,185,880	550,880

8.1 This represents trade debts arising on account of export sales of Rs. 1,145.74 million (2013: Rs. 521.26 million) which are secured by way of Export Letters of Credit and Documents of Acceptance and Rs. 24.08 million (2013: Rs. 22.98 million) arising on account of domestic sales which are secured by way of Inland Letter of Credit.

9 ADVANCES - Considered good

Advances:			
- to suppliers		122,139	204,288
- to clearing agents		143,488	-
- against sales tax		-	85,000
- to service providers		-	7,174
- to employees		500	1,439
		266,127	297,901

10 TRADE DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2014	2013
		(Rupees in '000)	
Trade deposits		5,535	3,837
Short term prepayments		6,182	8,625
Others		-	527
		11,717	12,989

11 TAXATION - net

	Note	2014	2013
Tax receivable as at 01 July		787,216	446,036
Tax refund during the year		-	(275,319)
Tax payments / adjustments during the year		375,332	636,437
		1,162,548	807,154
Less: Provision for tax - current and prior years	27	(30,415)	(19,938)
		1,132,133	787,216

12 CASH AND BANK BALANCES

		2014	2013
Cash at bank	- current accounts in local currency	34,292	12,815
	- deposit account in foreign currency	2,268	879
		36,560	13,694

13 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2014	2013		2014	2013
(Number of shares)			(Rupees in '000)	
30,000	30,000	Fully paid ordinary shares of Rs. 10 each issued for cash	300	300
417,716,700	417,716,700	Fully paid ordinary shares of Rs. 10 each issued against transfer of net assets	4,177,167	4,177,167
17,253,300	17,253,300	Fully paid ordinary shares of Rs. 10 each issued as right shares	172,533	172,533
435,000,000	435,000,000		4,350,000	4,350,000

13.1 As at 30 June 2014, the Holding Company and other associates held 245,055,543 (2013: 245,055,543) and 79,936,457 (2013: 79,936,457) ordinary shares respectively of Rs. 10 each.

14 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

	Note	2014	2013
Freehold land			
Balance as at 01 July		380,276	-
Revaluation surplus	4.1	-	380,276
		380,276	380,276
Buildings on freehold land			
Balance as at 01 July		284,505	-
Revaluation surplus	4.1	-	284,505
Transferred to retained earnings in respect of incremental depreciation charged during the year		(17,115)	-
Related deferred tax liability		(84,251)	(91,895)
		183,139	192,610
		563,415	572,886

15 LONG TERM FINANCES - secured

	Note	2014	2013
		(Rupees in '000)	
Long term finances utilised under mark-up arrangements	15.1	3,750,867	4,155,145
Current portion of long term finances shown under current liabilities		(749,877)	(783,285)
		3,000,990	3,371,860

15.1 Long term finances utilised under mark-up arrangements

		Sale price	Purchase price	Number of instalments and commencement date	Date of maturity	Rate of mark-up per annum	2014	2013
		(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	9,376,178	16 half yearly 19-Mar-11	11-Jun-21	1.50% over SBP Refinance rate	2,842,684	3,344,803
(ii)	**Long Term Finance Local currency** assistance for Plant and Machinery (note 15.1.2)	900,000	1,263,602	8 half yearly 27-Dec-12	02-Oct-17	1.5% over 6 months KIBOR	608,183	810,342
(iii)	**Long Term Finance Local currency** assistance for Plant and Machinery (note 15.1.3)	300,000	406,886	8 half yearly 02-Jun-15	18-Apr-19	1.25% over 6 months KIBOR	300,000	-
							3,750,867	4,155,145

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.

15.1.3 This finance is obtained from various banks for plant & machinery and is secured by way of first pari passu charge over fixed assets of the Company.

15.1.4 The Company has entered into LTFF with a commercial bank having limit of Rs.2,000 million. It carries mark-up at the rate of SBP refinance rate plus 100 basis points and is secured by way of equitable mortgage of land and building and hypothecation charge over plant and machinery ranking first pari passu with existing charge holders. The loan amount will be repayable in 10 years with 2 years grace / moratorium period in 16 equal semi annual instalments where mark-up is payable on quarterly basis. This facility remained unavailed as at 30 June 2014.

16 DEFERRED TAXATION - net

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

	2014					2013 (Restated)				
	Opening	Charge / (reversal)	Recognised in other comprehensive income	Adjustment in surplus on revaluation	Closing	Opening	Charge / (reversal)	Recognised in other comprehensive income	Adjustment in surplus on revaluation	Closing
	(Rupees in '000)									
Taxable temporary difference										
Accelerated tax depreciation	1,751,167	(36,472)	-	(2,276)	1,712,419	1,647,432	11,840	91,895	-	1,751,167
Deductible temporary differences										
Provision for unavailed leaves	(487)	(21)	-	-	(508)	(3,384)	2,897	-	-	(487)
Staff retirement benefits	(3,348)	-	(1,601)	-	(4,949)	(1,905)	-	-	(1,443)	(3,348)
Unrealised exchange losses	(2,371)	(2,345)	-	-	(4,716)	(1,903)	(468)	-	-	(2,371)
Pre-commencement expenditure	(10,650)	5,416	-	-	(5,234)	(18,161)	7,511	-	-	(10,650)
Tax loss	(1,518,970)	187,438	-	-	(1,331,532)	(1,556,117)	37,147	-	-	(1,518,970)
	215,341	154,016	(1,601)	(2,276)	365,480	65,962	58,927	91,895	(1,443)	215,341

17 TRADE AND OTHER PAYABLES

	Note	2014	2013
		(Rupees in '000)	
Trade creditors	17.1	1,354,184	23,128
Bills payable		-	573,830
Payable to provident fund		1,550	1,237
Sales commission payable	17.2	24,316	36,462
Accrued expenses		116,606	84,244
Advances from customers		164,109	146,911
Provision for infrastructure cess	17.3	211,800	118,000
Provision for government levies	17.4	742	947
Short term compensated absences		1,611	1,582
Workers' Profit Participation Fund	17.5	46,998	23,806
Workers' Welfare Fund		28,321	9,522
Others		5,629	1,649
		1,955,866	1,021,318

17.1 Trade creditors include Rs. 1,352.40 million (2013: Rs. 0.005 million) payable to an associated Company.

17.2 Sales commission payable include Rs. 1.04 million (2013: Rs. 2.44 million) in respect of commission payable to an associated person.

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

	Note	2014	2013
		(Rupees in '000)	
Opening balance		118,000	55,000
Provided during the year		93,800	63,000
Closing balance		211,800	118,000

17.4 Provision for government levies

Opening balance		947	811
Provided during the year		-	315
		947	1,126
Payment / adjustment during the year		(205)	(179)
Closing balance		742	947

17.5 Movement of Workers' Profit Participation Fund

Opening balance		23,806	-
Allocation for the year	25	46,998	23,806
Payment during the year		(23,806)	-
Closing balance		46,998	23,806

18 SHORT TERM BORROWINGS - secured

Running finance under mark-up arrangement	18.1	979,538	2,626,159
Running finance under FE-25 Import Scheme	18.2	2,093,869	697,277
Running finance under Export Refinance Scheme	18.3	612,000	398,000
Short term finance under Murabaha and Istisna	18.4	397,194	399,942
Short term finance under Musharakah	18.5	793,706	-
		4,876,307	4,121,378

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 + 0.3% to KIBOR + 1.75% (2013: KIBOR+0.50% to KIBOR+ 2.00%) 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 21.2 million equivalent to Rs. 2,094.9 million (2013: USD 6.99 million equivalent to Rs. 697.27 million). The rates of mark-up on these finances range from 2.75% to 3.82% (2013: 1.25% to 1.79%) 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 finance facility. The facility availed is for an amount of Rs. 612 million (2013: Rs. 398 million). The rate of mark-up on this facility is 8.96% per annum (2013: 8.88%). This facility matures within six months and is renewable.

18.4 The Company has obtained facilities for short term finance under Murabaha and Istisna under Islamic financing arrangement. The rate of profit is KIBOR + 0.30% (2013: KIBOR + 0.72%). This facility matures within six months and is renewable.

18.5 This represents Islamic Term Musharakah available from a commercial bank for the purpose of meeting working capital requirements. The facility is availed for an amount of Rs. 794 million. It carries mark-up at the rate of 3 months KIBOR plus 0.45%. This facility matures within one year and is renewable.

18.6 As at 30 June 2014, the unavailed facilities from the above borrowings amounted to Rs. 5,123.69 million (2013: 5,390.49 million)

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

19 CONTINGENCIES AND COMMITMENTS

19.1 Contingencies

19.1.1 The Sindh Finance Act, 1994 prescribed in the position of an infrastructure fee at the rate of 0.50% of the C&F value of all goods entering or leaving the province of Sindh via sea or air. The High Court on petition filed, passed an interim order directing that every Company subsequent to 27 December 2006 is required to clear the goods on paying 50% of the fee amount involved and furnishing a guarantee/securities for the balance amount as directed. Bank guarantees issued as per the above mentioned interim order amount to Rs. 216.50 million (2013: Rs. 126.50 million), have been provided to the Department. However, a provision to the extent of amount utilized from the limit of guarantee has also been provided for by the Company on prudent basis (note 17.3)

19.1.2 As per the Gas Infrastructure and Development Cess Act 2011 (the Act), certain companies as specified in the Act (including Sui Southern Gas Company) shall collect and pay Gas infrastructure and Development Cess ('GID Cess') in such manner as the Federal Government may prescribe. As per the second schedule of the Act, GID Cess of Rs.13 per MMBTU was applicable on International Steels Limited. Through Finance Bill 2012 – 2013, an amendment was made to the Act whereby the rate of GID Cess applicable on International Steels Limited was increased to Rs. 100 per MMBTU. On 01 August 2012, the Company filed a suit bearing number 859/2012 wherein it has impugned the Act on the ground that the rate of GID Cess has been enhanced without any lawful justification and authority. The Honourable High Court of Sindh at Karachi vide its ad-interim order dated 06 September 2012 has restrained Sui Southern Gas Company Limited ('SSGC') from charging GID Cess above Rs.13 per MMBTU. As a result, SSGC invoices to the Company at Rs.13 per MMBTU which has been recorded.

Peshawar High Court vide order dated 13 June 2013 declared that the provisions of the Act, imposing, levying and recovering the impugned cess, are absolutely expropriatory and exploitative and being constitutionally illegitimate, having no sanction there for under the constitution, hence, are declared as such and set at naught. However, Supreme Court of Pakistan vide its order dated 30 December 2013 has suspended the judgment of Peshawar High Court. The management is of the view that the Supreme Court of Pakistan suspended the order of the Peshawar High Court and leave is granted to consider various other aspects stated in the order. Therefore, a final decision is pending for adjudication.

In view of above stated order and opinion of legal advisor, the Company is confident of a favourable outcome and therefore has not recorded differential of GID Cess of Rs. 87 per MMBTU (from October 2012 to June 2014) amounting to Rs.194.192 million (2013: Rs. 81.239 million) in these financial statements.

Additionally, Government through Finance Act 2014 has increased the amount of GID Cess for both captive power and industrial consumption effective 01 July 2014.

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

The Company based on legal councils' advices considered that certain strong grounds are available whereby the aforesaid decision can be challenged in a Larger Bench of the SHC or the Supreme Court of Pakistan. A leave to appeal against the aforesaid decision has already been filed before the Supreme Court of Pakistan by other companies which is pending for hearing. In view of above, the Company is confident that the ultimate outcome in this regard would be favourable. Accumulated minimum tax liability of Rs. 219.51 million was determined for the tax years 2012 and 2013. However, based on the assessment and estimation for availability of sufficient taxable profits on the basis of 5 years projections and tax credits available to the Company under section 65B of the Income Tax Ordinance, 2001. Accordingly, accumulated minimum tax liability amounting to Rs. 409.13 million has not been recorded on the same basis in the financial statements for the year ended 30 June 2014.

19.1.4 Guarantee issued by the Company to Sui Southern Gas Company Limited of Rs. 177.2 million (2013: Rs. 198.20 million) as a security for supply of gas.

19.1.5 Guarantee issued by the Company to JPCL - Jamshoro (Bid Bond Guarantee) of Rs. Nil (2013: Rs. 0.05 million).

19.2 Commitments

19.2.1 Capital expenditures commitments outstanding as at 30 June 2014 amounted to Rs. 2,020.32 million (2013: Rs.7.35 million).

19.2.2 Commitments under Letters of Credit for raw materials and spares as at 30 June 2014 amounted to Rs 2,976.72 million (2013: Rs. 4,792.22 million).

19.2.3 The unavailed facilities for opening Letters of Credit and Guarantees from banks as at the year end amounted to Rs. 6,503 million (2013: Rs. 3,262.43 million) and Rs. 362.30 million (2013: Rs. 425.25 million) respectively.

19.2.4 The Company had obtained facilities for short term finance with a commercial bank under Murabaha Master Agreement having limit of Rs. 1,600 million for the purchase of raw material (Asset). The rate of profit was KIBOR plus 0.70%. The facility matured in 2014. Significant terms of the agreement with the bank are that the Company purchased the assets on behalf of the bank as agent and gave an irrevocable, unconditional and absolute undertaking for purchase of assets from the bank at agreed terms and made a down payment of 20% amount. The bank was entitled to recover any actual loss that may arise in case the Company did not purchase such assets. Actual loss was to be calculated as the difference between sale of assets in the market and the relevant cost price paid by the bank.

20 NET SALES

	Note	2014	2013
		(Rupees in '000)	
Local		21,689,681	18,675,890
Export		3,026,245	1,724,458
		24,715,926	20,400,348
Sales tax		(3,154,426)	(2,582,884)
Trade discounts		(53,071)	(13,700)
Sales commission		(228,274)	(201,094)
		(3,435,771)	(2,797,678)
		21,280,155	17,602,670

21 COST OF SALES

	Note	2014	2013 (Restated)
		(Rupees in '000)	
Opening stock of raw material and work-in-process		1,218,957	2,773,910
Purchases		19,287,181	13,382,742
Salaries, wages and benefits	21.1	231,689	199,710
Electricity, gas and water		445,348	329,519
Insurance		19,752	21,271
Security and janitorial		15,467	11,506
Depreciation	4.3	432,698	358,577
Amortisation	5	5,896	5,347
Stores and spares consumed		167,686	139,464
Repairs and maintenance		76,112	60,457
Postage, telephone and stationery		3,906	3,769
Vehicle, travel and conveyance		12,542	11,105
Internal material handling		5,458	4,189
Environment controlling expense		1,065	1,150
Computer stationery and software support fees		3,377	5,144
Sundries		5,612	889
Recovery from sale of scrap	21.2	(64,805)	(31,440)
		21,867,941	17,277,309
Closing stock of raw material and work-in-process		(2,388,666)	(1,218,957)
Cost of goods manufactured		19,479,275	16,058,352
Finished goods:			
Opening stock		841,816	780,489
Closing stock	7	(1,277,652)	(841,816)
		(435,836)	(61,327)
		19,043,439	15,997,025

21.1 Salaries, wages and benefits include Rs. 11.001 million (2013: Rs. 9.237 million) in respect of staff retirement benefits.

21.2 Corresponding amount of Rs. 3.7 million has been reclassified as rent, rates and taxes in Administrative expenses for more appropriate presentation.

22 ADMINISTRATIVE EXPENSES

	Note	2014	2013
Salaries, wages and benefits	22.1	96,307	81,455
Rent, rates and taxes	21.2	6,866	7,780
Electricity, gas and water		1,327	1,609
Insurance		752	571
Depreciation	4.3	5,443	4,267
Security and janitorial		139	33
Repairs and maintenance		34	13
Printing and stationery		856	883
Computer stationery and office supplies		51	6
Postage and communication		593	468
Vehicle, travel and conveyance		5,588	6,941
Legal and professional charges		11,041	6,635
Certification and registration charges		248	437
Directors' fee		2,280	1,960
Others		3,591	1,272
		135,116	114,330

22.1 Salaries, wages and benefits include Rs. 1.935 million (2013: Rs. 1.387 million) in respect of staff retirement benefits.

23 SELLING AND DISTRIBUTION EXPENSES

	Note	2014	2013 (Restated)
		(Rupees in '000)	
Salaries, wages and benefits	23.1	49,308	34,409
Rent, rates and taxes		4,888	4,572
Electricity, gas and water		651	722
Insurance		1,816	410
Depreciation	4.3	2,253	2,218
Postage, telephone and stationery		1,017	574
Vehicle, travel and conveyance		3,798	3,353
Freight and forwarding charges		70,232	32,533
Sales promotion		6,507	2,264
Others		2,042	1,558
		142,512	82,613

23.1 Salaries, wages and benefits include Rs. 2.345 million (2013: Rs.1.713 million) in respect of staff retirement benefits.

24 FINANCIAL CHARGES

		2014	2013
Mark-up on:			
- long term finances		350,209	416,083
- short term borrowings		582,632	527,657
Bank charges		10,614	4,319
Exchange loss on FE financing		38,075	44,636
		981,530	992,695

25 OTHER OPERATING CHARGES

	Note	2014	2013
Plant and machinery charged off		8,995	-
Auditors' remuneration	25.1	1,689	1,525
Donations	25.2	5,540	125
Workers' Profit Participation Fund		46,998	23,806
Workers' Welfare Fund		18,799	9,522
Provision for government levies		-	315
Loss on derivative financial instruments	25.3	71,648	-
Exchange loss - net		32,508	8,253
		186,177	43,546

25.1 Auditors' remuneration

		2014	2013
Audit fee		1,140	1,070
Half-yearly review		325	325
Other services including certifications		100	95
Out of pocket expenses		124	35
		1,689	1,525

25.2 Donations include an amount of Rs. 0.3 million paid to Public Interest Law Association of Pakistan ('PILAP) located at 7th floor, Adamjee House, Karachi, in which Mr. Kemal Shoaib, Chairman of Board of Directors of the Company, is interested being Chief Executive Officer of PILAP.

25.3 This includes Rs. 21.34 million ineffective portion of cash flow hedge and Rs. 50.30 million loss arising on settlement of forward exchange contracts that were entered into during the year by the Company to hedge its foreign currency exposure arising on firm commitments for purchase of inventory (raw material). Total contracts entered in to were of USD 58.79 million and there are no forward exchange contracts outstanding as at 30 June 2014.

26 OTHER INCOME

	Note	2014	2013 (Restated)
		(Rupees in '000)	
Income from non financial assets			
Income from power generation	26.1	36,700	43,617
Toll manufacturing income		10,960	137
Income on supply of utilities		21,237	12,191
Gain on sale of property, plant and equipment		2,669	5,722
Rent income		1,716	1,735
Others		7,979	5,203
		81,261	68,605
Income / return on financial assets			
- Interest on bank deposit		1,524	365
		82,785	68,970

26.1 Income from power generation

	Note	2014	2013
Net sales		479,660	452,404
Cost of electricity produced:			
Salaries, wages and benefits	26.1.1	14,810	12,631
Electricity, gas and water		625,599	532,191
Depreciation	4.3	67,008	63,181
Stores and spares consumed		18,704	19,090
Repairs and maintenance		46,689	26,620
Sundries		1,359	913
		774,169	654,626
Less: Self consumption		(331,209)	(245,839)
		442,960	408,787
Income from power generation		36,700	43,617

26.1.1 Salaries, wages and benefits include Rs. 0.570 million (2013: Rs. 0.465 million) in respect of staff retirement benefits.

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

27 TAXATION - net

	Note	2014	2013
Current			
- for the year		30,415	18,052
- for prior years		-	1,886
		30,415	19,938
Deferred	16	154,016	58,927
		184,431	78,865

27.1 Relationship between income tax expense and accounting profit

	2014	2013
Profit before taxation	874,166	441,431
Tax at the enacted tax rate of 34% (2013: 35%)	297,216	154,501
Effect on income under final tax regime	(20,798)	(3,187)
Prior year's charge	-	1,886
Effect of adjustments on account of change in rates and proportionate etc.	(91,481)	(75,035)
Others	(506)	700
Tax effective rate / tax charge	184,431	78,865

28 EARNINGS PER SHARE - BASIC AND DILUTED

	2014	2013
	(Rupees in '000)	
Profit after taxation for the year	689,735	362,566
	(Number)	
Weighted average number of ordinary shares in issue during the year	435,000,000	435,000,000
	(Rupees)	
		(Restated)
Earnings per share	1.59	0.83

29 MOVEMENT IN WORKING CAPITAL

	2014	2013
		(Restated)
	(Rupees in '000)	
(Increase) / decrease in current assets:		
Stores and spares	1,369	21,627
Stock-in-trade	(1,051,200)	2,657,727
Trade debts	(635,000)	(263,382)
Receivable from K-Electric Limited (KE)	(13,974)	192,962
Advances	31,774	(279,209)
Trade deposits, short term prepayments and other receivables	1,272	(1,655)
Sales tax receivable	(268,702)	113,570
	(1,934,461)	2,441,640
Increase in current liabilities:		
Trade and other payables	934,519	561,274
	(999,942)	3,002,914

30 STAFF RETIREMENT BENEFITS

30.1 Provident fund

Salaries, wages and benefits include Rs. 7.131 million (2013: Rs. 6.421 million) in respect of provident fund contribution.

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

	2014	2013
	(Rupees in '000)	
Size of the fund - total assets	51,962	43,978
Cost of investments made	46,744	38,978
Percentage of investments made	92%	96%
Fair value of investments	47,873	42,225

The break-up of fair value of investments is:

	2014		2013	
	(Rupees in '000)	%	(Rupees in '000)	%
Bank balances	2,322	4.85%	1,526	3.61%
Government securities	9,433	19.70%	8,955	21.21%
Debt securities	10,041	20.97%	11,252	26.65%
Mutual funds	26,077	54.47%	20,492	48.53%
	47,873	100%	42,225	100%

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

30.2 Gratuity fund

The status of the Gratuity Fund and principal latest assumptions used in the latest actuarial valuation by Nauman Associates as of 30 June 2014 carried out under 'Projected Unit Credit Method' were as follows:

Significant actuarial assumptions

	2014	2013
Financial assumptions		
Discount rate	13.50%	10.50%
Salary increase rate	12.50%	9.50%
Demographic assumptions		
Mortality rates (for death in service)	SLIC 2001-2005	EFU 61-66
Rates of employee turnover	Moderate	Moderate
Retirement Assumption	Age 60 years	Age 60 years

Defined benefit cost recognised in other comprehensive income

	2014	2013 (Restated)
	(Rupees in '000)	
Loss on obligation	2,788	7,633
Loss / (gain) on plan assets	226	(2,935)
Net loss	3,014	4,698

30.2.1 Measurements during the year

Actuarial loss on obligation		
Loss due to change in experience adjustments	2,788	7,632
Total actuarial loss on obligation	2,788	7,632
Actuarial loss on plan assets		
Loss on plan assets	226	(2,934)
Total re-measurements losses during the year	3,014	4,698

30.2.2 Components of defined benefit cost for the next year

Current service cost	29,625	22,018
Interest expense on defined benefit obligation	3,031	2,862
Interest on plan assets	(2,340)	(2,155)
Net interest cost	691	707
Cost for the next year to be recognised in profit and loss	30,316	22,725

30.2.3 Maturity profile of the defined benefit obligation

Distribution of timing of benefit payments (time in years)

	2014
	(Rupees in '000)
1	4,142
2	4,591
3	4,530
4	4,570
5	4,947
6-10	130,793

30.2.4 Sensitivity analysis on significant actuarial assumptions: Actuarial Liability

	2014
	(Rupees in '000)
Discount rate + 100 basis points	37,520
Discount rate - 100 basis points	46,469
Salary increases + 100 basis points	46,551
Salary increases - 100 basis points	37,379
	(Number)
Weighted average duration of the PBO	11

30.2.5 Composition of fair value of plan assets

	2014		2013	
	Fair value (Rupees in '000)	Percentage	Fair value (Rupees in '000)	Percentage
Government securities	6,791	25.24%	4,484	22.67%
TFCs	3,405	12.65%	3,794	19.18%
TDR	-	0.00%	1,000	5.06%
Units of mutual fund	13,596	50.52%	10,073	50.93%
Bank deposits	3,118	11.59%	427	2.16%
Fair value of plan net assets	26,910	100%	19,778	100%

Disaggregation of fair value of plan assets

The fair value of the plan assets at balance sheet date for each category are as follows:

	Note	2014	2013 (Restated)
		(Rupees in '000)	
Government securities		6,791	4,484
Units of mutual fund			
- money market fund		2,178	5,046
- income fund		1,222	5,027
- asset allocation fund		10,125	-
- stock fund		71	-
		13,596	10,073
Debt instruments			
- AA+		-	800
- AA		1,174	1,852
- AA-		1,900	800
- A		331	342
		3,405	3,794
Bank deposits		3,118	1,427
		26,910	19,778

30.2.6 Company's liability

	Note	2014	2013
Opening balance		9,847	5,444
Charge for the year	30.2.10	8,377	6,381
Other comprehensive income		3,014	4,698
Contributions paid during the year		(6,540)	(6,676)
Closing balance		14,698	9,847

30.2.7 Reconciliation of payable to gratuity fund

	Note	2014	2013
Fair value of plan assets	30.2.9	(26,910)	(19,778)
Present value of defined benefit obligation	30.2.8	41,608	29,625
Recognised liability		14,698	9,847

30.2.8 **Changes in present value of defined benefit obligation**

	2014	2013
	(Rupees in '000)	
At beginning of the year	29,625	22,018
Expense for the year	10,716	8,536
Benefits paid	(1,521)	(8,563)
Actuarial losses - Remeasurment component	2,788	7,634
Present value of defined benefit obligation at the end of the year	41,608	29,625

30.2.9 **Changes in fair value of plan assets**

	2014	2013
At beginning of the year	19,778	16,575
Expected return on plan assets	2,114	5,090
Actuarial (losses) / gain	-	-
Benefits paid	(1,522)	(8,563)
Contribution to fund	6,540	6,676
Fair value of plan asset at the end of the year	26,910	19,778

30.2.10 **Amounts recognised in the profit and loss account**

	2014	2013
Current service cost	7,686	5,674
Interest cost	3,031	2,862
Expected return on plan assets	(2,340)	(2,155)
Total cost	8,377	6,381
Expected contributions to funds	12,401	8,720

31 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2014				2013			
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executives	Total
	(Rupees in '000)							
Managerial remuneration	28,519	-	110,034	138,553	28,524	-	84,786	113,310
Retirement benefits	-	-	9,066	9,066	-	-	7,020	7,020
Rent, utilities, leave encashment etc.	14,259	-	44,284	58,543	14,256	-	34,110	48,366
	42,778	-	163,384	206,162	42,780	-	125,916	168,696
Number of persons	1	8	48	57	1	8	37	46

31.1 In addition to the above, Chief Executive, 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. 2.28 million (2013: Rs. 1.96 million).

32 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

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

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

32.1 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Concentration of credit risk arises from financial instruments that have similar characteristics and Credit risk arises significantly on account of trade debts and receivable from KE that belong to corporate sector customers.

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 the Company's total credit exposure. Credit risk of the Company arises principally from the receivable from KE, trade debts, trade deposit and bank balances. The maximum exposure to credit risk at the reporting date is as follows:

	2014	2013
	(Rupees in '000)	
Trade debts - secured	1,169,822	544,237
Trade debts - unsecured	16,058	6,643
Receivable from KE	49,717	35,743
Trade deposits	5,535	4,364
Bank balances	36,560	13,694
	1,277,692	604,681

The Company's principal credit risk arises from receivable from financial assets, trade debts, KE and bank balances. Bank balances are held and trade debts are secured with reputable banks with high quality credit ratings. Receivable from KE is monitored on an on going basis in accordance with settlement agreement with KE. Age Analysis is disclosed in note 32.1.2 to these financial statements.

32.1.1 Trade debts amounting to Rs. 89.86 million (2013: Rs. 65.363 million) and receivable from KE at the balance sheet date belong only to domestic region whereas as trade debts amounting to Rs. 1,129.68 million (2013: Rs. 521.260 million) belong to foreign customers.

32.1.2 Impairment losses

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

	2014		2013	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)			
Not past due	1,234,959	-	559,039	-
Past due 1 - 60 days	-	-	24,594	-
Past due 61 days - 1 year	638	-	2,990	-
Total	1,235,597	-	586,623	-

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

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

Bank	Rating Agency	Rating	
		Short term	Long term
Habib Bank Limited	JCR-VIS		
United Bank Limited	JCR-VIS	A-1+	AA+
Faysal Bank Limited	PACRA	A1+	AA
	JCR-VIS	A-1+	AA
Bank Al Habib Limited	PACRA	A1+	AA+
MCB Bank Limited	PACRA	A1+	AAA
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA
NIB Bank Limited	PACRA	A1+	AA-
Meezan Bank Limited	JCR-VIS	A-1+	AA
Bank Al Falah Limited	PACRA	A1+	AA
Dubai Islamic Bank Limited	JCR-VIS	A-1	A
Habib Metropolitan Bank Limited	PACRA	A1+	AA+
HSBC Bank Middle East Limited	Moody's	P-1	A2
	Fitch	F1+	AA-
Allied Bank Limited	PACRA	A1+	AA+
Barclays Bank PLC	Standard & Poor's	A-1	A
	Moody's	P-1	A2
	Fitch	F1	A

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:

	2014					
	Carrying amount	Contractual cash flows	Six months or less	Six to twelve months	One to five years	More than five years
	(Rupees in '000)					
Non-derivative financial liabilities						
Long term financing	3,750,867	(4,722,387)	(533,851)	(532,092)	(3,288,234)	(368,210)
Short term borrowings	4,876,307	(4,876,307)	(4,876,307)	-	-	-
Accrued mark-up	145,548	(145,548)	(145,548)	-	-	-
Trade and other payables	1,878,194	(1,878,194)	(1,878,194)	-	-	-
	10,650,916	(11,622,436)	(7,433,900)	(532,092)	(3,288,234)	(368,210)

	2013					
	Carrying amount	Contractual cash flows	Six months or less	Six to twelve months	One to five years	More than five years
	(Rupees in '000)					
Non-derivative financial liabilities						
Long term financing	4,155,145	(5,370,815)	(519,473)	(641,310)	(3,290,499)	(919,533)
Short term borrowings	4,121,378	(4,121,378)	(1,495,219)	(2,626,159)	-	-
Accrued mark-up	157,225	(157,225)	(157,225)	-	-	-
Trade and other payables	985,461	(985,461)	(985,461)	-	-	-
	9,419,209	(10,634,879)	(3,157,378)	(3,267,469)	(3,290,499)	(919,533)

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.

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 mark-up that are denominated in a currency other than the respective functional currency of the Company, primarily US Dollar. The Company's exposure to foreign currency risk is as follows:

	2014		2013	
	Rupees	US Dollars	Rupees	US Dollars
	(Amount in '000)			
Trade debts and bank balance in foreign currency	2,268	23	522,139	5,246
Short term borrowings	(2,093,869)	(21,172)	(697,277)	(6,993)
Accrued mark-up	(10,373)	(105)	(1,045)	(10)
Balance sheet exposure	(2,101,974)	(21,254)	(176,183)	(1,757)

The following significant exchange rates applied during the year:

	2014	2013	2014	2013
	Average Rates		Balance Sheet date rate	
	Rupees			
US Dollars to PKR	102.98	97.15	98.72 / 98.90	99.53 / 99.71

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 2013.

As at 30 June	2014	2013
	Profit and loss (Rupees in '000)	
Effect in Profit and loss account	210,202	17,503
Effect in Equity	166,060	14,352

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 hold any fixed rate financial instruments whereas variable rate financial instruments amounted Rs. 9,232.65 million (2013: Rs. 8,276.52 million).

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at 30 June would have increased / (decreased) profit before tax and equity for the year by Rs. 92.33 million (2013: Rs.82.76 million) and by Rs. 89.48 million (2013: Rs. 67.86 million) respectively. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

32.3.3 Fair value of financial assets and liabilities

All the financial assets of the Company are categorised as loans and receivables and all the financial liabilities are categorised as financial liabilities measured at amortised cost. 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 2014, the shareholders' equity amounted to Rs. 5,206.33 million (2013: Rs. 4,508.09 million) and property, plant and equipment amounted to Rs. 9,771.51 million (2013 Rs. 9,952.23 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, approved policy / under contract not arrangement. The contribution to defined contribution plan (provident fund) are made as per the terms of employment and contribution to the defined benefit plan (gratuity fund) are 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:

	2014	2013
	(Rupees in '000)	
Holding Company		
Transactions		
Sales	1,756,899	1,817,390
Purchases	2,261	3,308
Office rent	8,724	7,973
Income on supply of utilities	21,327	12,145
Reimbursement of expenses	67	-
Toll manufacturing (inclusive of sales tax)	12,823	-
Sale of store items	-	722
Purchase of store items	-	30
IT services	253	3,375
Payroll services	-	633
Corporate & legal services	4,380	3,169
Sale of fixed assets	-	1,423
Purchase of fixed asset	490	157
Associated Companies		
Purchases	11,503,708	8,422,038
Insurance premium expense	62,969	51,213
Insurance claims received	436	1,630
Donations	300	-
Rent income	1,716	1,735
Associated Person		
Sales commission	8,060	2,440
Key Management Personnel		
Remuneration	136,452	125,271
Staff retirement benefits	5,325	3,857
Staff Retirement Fund		
Contribution paid - Provident Fund	7,131	6,421
Contribution paid - Gratuity Fund	8,720	6,676

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	158,949	143,424
Cold rolled steel strip	281,772	221,859

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

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 98% (2013: 98%) of total revenue whereas remaining represent revenue from sale of surplus electricity to KE. The Company does not consider sale of electricity to KE as a separate reportable segment as the power plant of the Company is installed primarily to supply power to its Galvanizing Plant and Cold Rolling Plant and currently any excess electricity is sold to KE.

36.3 All non current assets of the Company as at 30 June 2014 are located in Pakistan.

36.4 88% (2013: 92%) of sales are domestic sales whereas 12% (2013: 8%) of sales are export / foreign sales.

36.5 Single major customer of the Company is Holding Company which represents 7% (2013: 9%) of total revenue of the Company.

37 NUMBER OF EMPLOYEES

The detail of number of employees are as follows:

	2014	2013
	Number of Employees	
Average number of employees during the year	444	428
Number of employees as at 30 June	447	441

38 GENERAL

Corresponding figures have been rearranged wherever necessary, for the purpose of comparison and better presentation.

39 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue in the meeting of Board of Directors held on 12 August, 2014

Tariq Iqbal Khan
Director & Chairman
Board Audit Committee

Alee Arsalan
Chief Financial Officer

Towfiq H. Chinoy
Managing Director &
Chief Executive

Stakeholders Information

Stakeholders information

There were 1,688 sharholders on record as of June 30, 2014

Financial Calendar

RESULTS

First quarter ended September 30, 2013	Approved & Announced on	October 22, 2013
Half year ended December 31, 2013	Approved & Announced on	January 22, 2014
Third quarter ended March 31, 2014	Approved & Announced on	April 16, 2014
Year ended June 30, 2014	Approved & Announced on	August 12, 2014

OFFER FOR SALE OF SHARES

Hive Down from International Industries Ltd. as per Scheme of Arrangement approved by the High Court of Sindh		August 24, 2010
Book Building	Started Closing	April 12, 2011 April 14, 2011
Public Subscription	Started Closing	May 3, 2011 May 4, 2011
Gong Ringing & Listing at Karachi Stock Exchange		June 1, 2011
LAST ANNUAL REPORT ISSUED ON		September 10, 2013
LAST ANNUAL GENERAL MEETING HELD ON		October 02, 2013

TENTATIVE DATES OF FINANCIAL RESULTS

For the Period	To be Announced on
First Quarter	21-10-2014
Half Year	20-01-2015
Third Quarter	20-04-2015
Year end	13-08-2015

Investor Relations Contact

Mr. M. Irfan Bhatti (Assistant Company Secretary)
Email: irfan.bhatti@iil.com.pk UAN: (92 21) 111 019 019 Fax: (92 21) 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: Ground Floor, State Life Building 3, Dr. Ziauddin Ahmed Road Karachi-75530

Phone: (92 21) 111-000-322 Fax: (92 21) 35655595, Email: info@thk.com.pk

pattern of shareholding

As at 30 June 2014

Number of shareholders	Having Shares From	Having Shares To	Shares held	Percentage
193	1	100	2,501	0.0006
377	101	500	185,506	0.0426
230	501	1,000	227,300	0.0523
380	1,001	5,000	1,164,827	0.2678
116	5,001	10,000	1,026,341	0.2359
75	10,001	15,000	979,564	0.2252
32	15,001	20,000	590,538	0.1358
34	20,001	25,000	804,784	0.1850
23	25,001	30,000	674,852	0.1551
27	30,001	40,000	988,730	0.2273
33	40,001	50,000	1,563,222	0.3593
37	50,001	75,000	2,402,004	0.5522
33	75,001	100,000	3,050,619	0.7013
8	100,001	125,000	925,400	0.2128
8	130,001	130,001	1,156,398	0.2658
15	150,001	200,000	2,725,200	0.6266
3	200,001	220,000	631,000	0.1451
8	255,001	300,000	2,254,500	0.5183
9	300,001	395,000	3,155,516	0.7254
11	400,001	400,001	5,322,000	1.2234
4	590,001	700,000	2,588,000	0.5949
4	715,001	1,000,000	3,244,500	0.7459
1	1,050,001	1,055,000	1,052,000	0.2418
1	1,150,001	1,155,000	1,153,500	0.2652
1	1,275,001	1,280,000	1,275,500	0.2932
1	1,285,001	1,290,000	1,286,446	0.2957
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	1,495,001	1,500,000	1,500,000	0.3448
1	1,505,001	1,510,000	1,506,600	0.3463
1	1,695,001	1,700,000	1,700,000	0.3908
1	1,860,001	1,865,000	1,862,000	0.4280
1	2,100,001	2,105,000	2,100,149	0.4828
1	2,105,001	2,110,000	2,110,000	0.4851
1	2,125,001	2,130,000	2,126,150	0.4888
1	2,145,001	2,150,000	2,150,000	0.4943
1	2,235,001	2,240,000	2,236,373	0.5141
1	2,370,001	2,375,000	2,371,500	0.5452
1	2,620,001	2,625,000	2,625,000	0.6034
1	2,695,001	2,700,000	2,700,000	0.6207
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	2,985,001	2,990,000	2,990,000	0.6874
1	3,010,001	3,015,000	3,011,840	0.6924
1	3,565,001	3,570,000	3,565,171	0.8196
1	5,620,001	5,625,000	5,623,556	1.2928
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	56.3345
1,688			435,000,000	100.0000

categories of shareholders

As at 30 June 2014

Particulars	Number of shareholders	Number of shares held	Percentage
Sponsor / Holding Company	1	245,055,534	56.3346
Directors, CEO and their Family Members	24	10,379,402	2.3861
Govt. Financial Institutions	1	2,371,500	0.5452
Banks, DFI & NBFI	4	8,994,034	2.0676
Mutual Funds	6	3,178,500	0.7307
Public Companies/Trusts & Others	40	9,927,771	2.2822
Strategic Investors	2	79,936,457	18.3762
Foreign Companies	5	27,069,671	6.2229
General Public	1,605	48,087,131	11.0545
TOTAL	1,688	435,000,000	100.0000

key shareholding

As at 30 June 2014

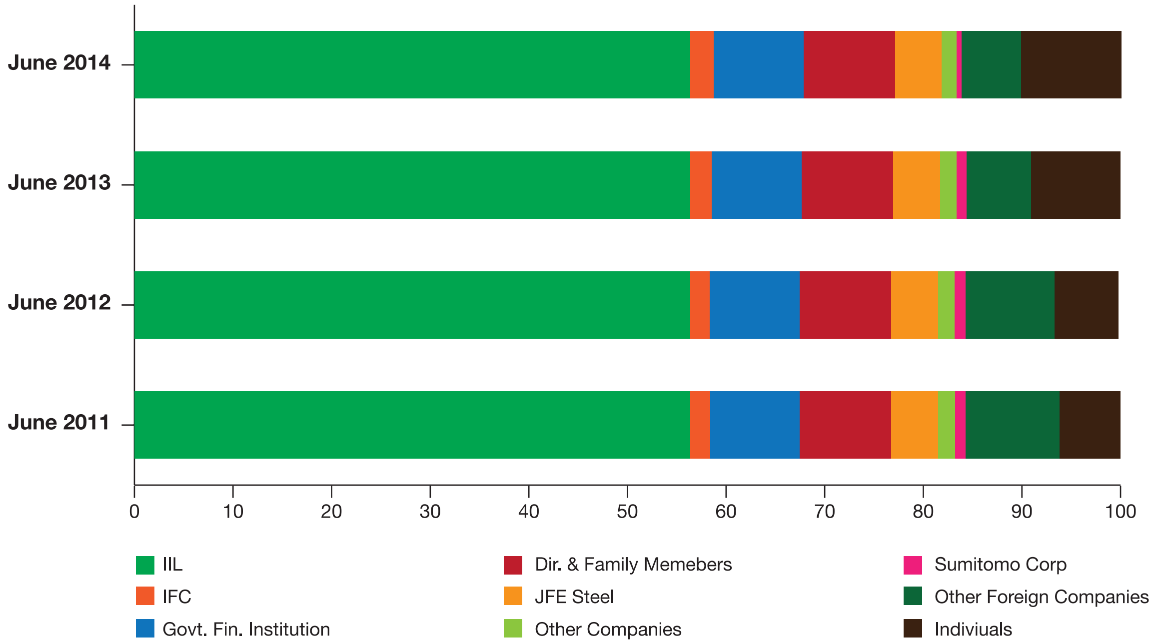
Information on shareholding required under reporting framework is as follows:

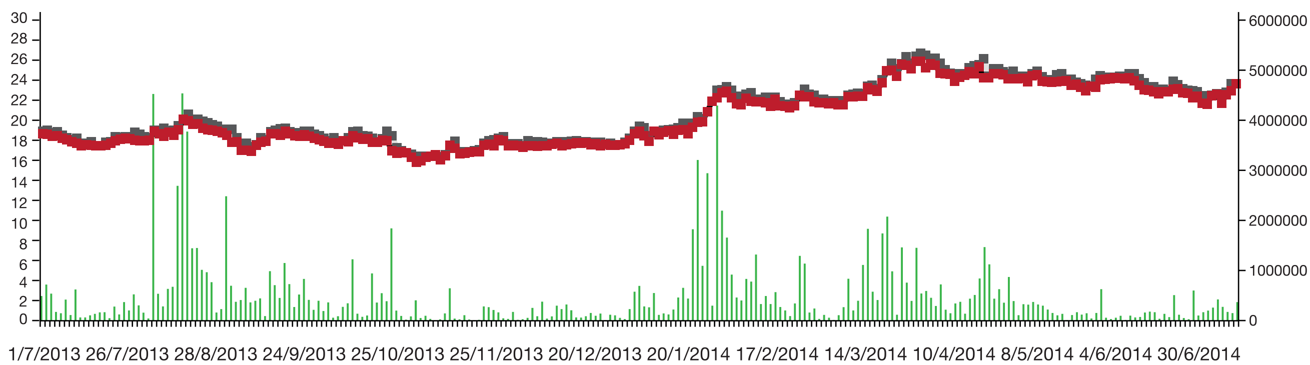
	No. of Shares	%
Sponsor / Holding Company		
International Industries Ltd.	245,055,534	56.3346
Nominee Directors	9	0.0000
	245,055,543	56.3346
Directors & spouses	4,071,344	0.9359
Government Financial Institutions		
CDC - Trustee National Investment (Unit) Trust	2,371,500	0.5452
Strategic Investors		
International Finance Corporation	40,458,800	9.3009
Sumitomo Corporation	39,477,657	9.0753
	79,936,457	18.3762
Foreign Corporate Investors		
JFE Steel Corporation	20,626,500	4.7417
Others	6,443,171	1.4812
	27,069,671	6.2229
Executives	576,079	0.1324

Shares Trading by Directors / Executives

=227,000= shares were traded by by Directors / Executives and their spouses / minor children during the financial year July 1, 2013 to June 30, 2014.

shareholders composition





notice of annual general meeting For the year ended 30 June 2014

Notice is hereby given to the Members that the 7th Annual General Meeting of the Company will be held on 9 September 2014 at 10.30 a.m. at the Jasmine hall, Beach Luxury Hotel, Off: M.T. Khan Road, Karachi to transact the following business:

Ordinary Business

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended 30 June, 2014 and the Directors' Report and Auditors' Report thereon.

2. To Consider and approve payment of Rs. 1.0 (10%) per share as final cash dividend for the financial year ended June 30, 2014 as recommended by the Board of Directors.

3. To appoint Auditors for the year 2014-2015 and fix their remuneration.

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

By Order of the Board

NEELOFAR HAMEED

Company Secretary

Karachi
Dated: 12 August, 2014

Notes:

1. The Share Transfer Books of the Company shall remain closed from 3 September, 2014 to 9 September, 2014 (both days inclusive).

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

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

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

a) For Attending AGM

– In case of individuals, the account holder or sub-account holder whose securities and their registration details are uploaded as per the Regulations, shall produce proof of his / her identity by showing original Computerised 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.

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

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

e-dividend

In compliance of Securities and Exchange Circular No.8(4) SM/CDC 2008 dated April 5, 2013 shareholders are informed that to make process of payment of cash dividend more efficient, e-dividend mechanism has been envisaged when shareholders can get amount of dividend credited into their respective bank accounts electronically without any delay. In addition, by this way dividends may be instantly credited to respective accounts, no changes of dividend warrants getting lost in the post, undelivered or delivered to the wrong address, etc.

The shareholders can avail benefits of e-dividend mechanism by providing dividend mandate in their CDS accounts through their participants or to the respective listed companies / Share Registrar.

INTERNATIONAL STEELS LIMITED
Shaping Tomorrow

proxy form

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 7th annual general meeting of the Company to be held on 9 September, 2014 and at any adjournment thereof.

Signed this ______________ day of ______________ 2014

WITNESS:

1 Signature ______________________

Name ______________________

Address ______________________

NIC or ______________________

Passport No. ______________________

Signature

Revenue Stamp

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

2 Signature ______________________

Name ______________________

Address ______________________

NIC or ______________________

Passport No. ______________________

Note: Proxies in order to be effective must be received by the Company not less than 48 hours before the meeting. A proxy must be a member of the Company.

CDC Shareholders and their proxies are each requested to attach an attested photocopy of their Computerised National Identity Card or Passport with this proxy form before submission to the Company.

8 Product lines

- Galvanized coils
- CR Coils
- Profile Sheets
- Slitted strips
- Frame CAD
- Cut to length sheets
- Tension leveled
- Skin passed

4 locations

Registered Office:
101 Beaumont Plaza
10 Beaumont Road
Karachi-75530, Pakistan
Telephone: (92 21) 111-019-019
Fax: (92 21) 35680373
Website: www.isl.com.pk
Email: info@isl.com.pk

Factory:
399-404, Rehri Road,
Landhi, Karachi, Pakistan
Telephone: (92 21) 35013104-05
Fax: (92 21) 35013108

Lahore Office:
Chinoy House, 6-Bank Square
Lahore, Pakistan
Telephone: (92 42) 111-019-019
Fax: (92 42) 37249755

Islamabad Office:
Office #2, First Floor, Ahmed Centre,
I-8 Markaz, Islamabad, Pakistan
Telephone: (92 51) 2524650-4864601-2

locations

www.isl.com.pk