The image is a black and white photograph of a construction site at dusk or dawn. Silhouetted against a cloudy sky are several construction workers. In the center, a large, dark, rectangular object is being lowered by a crane hook. To the left, a worker is seen working with vertical rebar. To the right, another worker stands observing. The overall mood is industrial and focused.

ANNUAL  
REPORT  
2015

**DEDICATION AT  
ITS CORE**

**MUGHAL**  
STEEL

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## COVER STORY

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On the cover of this year's annual report, we'd like to draw attention to what stands behind our robust performance during the course of the last year – which is the sheer diligence of our talented workforce.

Across time, our HR have proved to be the force behind our every success. It is through their resolve that we have been able to expand our expertise and solidify our presence nationally. Our passion today is to establish a culture that promotes excellence, boosts value and creates a steady pace of growth. We believe, that in the coming years it is our dedication that will help us execute our strategic objectives seamlessly.

# KEY FIGURES



## SALES REVENUE

Rs. in Million

12,241.27

(2014: 5,857.18)



## EBITDA

Rs. in Million

1,165.82

(2014: 692.10)



## PROFIT BEFORE TAXATION AND DEPRECIATION

Rs. in Million

815.79

(2014: 474.50)



## PROFIT AFTER TAXATION

Rs. in Million

721.36

(2014: 390.86)



## EARNINGS PER SHARE (BASIC AND DILUTED)

Rupees

8.12

(2014: 4.76)



## CAPITAL EXPENDITURE

Rs. in Million

514.81

(2014: 218.35)



## RETURN ON CAPITAL EMPLOYED

Percentage

17.31

(2014: 12.62)



## TOTAL ASSETS

Rs. in Million

11,469.63

(2014: 7,073.72)



## CURRENT RATIO

Ratio

1.20

(2014: 1.16)



## SHAREHOLDERS' EQUITY

Rs. in Millions

3,641.54

Restated – (2014: 1,803.03)



## BREAK-UP VALUE PER SHARE

Rupees

33.10

(2014: 16.17)

# ABOUT THIS REPORT

---

This is our first annual report subsequent to our going public. With this report we welcome our esteemed shareholders and aim to provide all stakeholders with a transparent and balanced appraisal of the material issues that faced our business during the year under review. The report should be read in conjunction with the full financial statements.

## SCOPE AND BOUNDARY OF THIS REPORT

This annual report covers the period from July 2014 to June 2015. This annual report provides an account of the Company's operational, financial, economic, social and environmental performance, as well as governance, during the period reviewed.

## OUR TWO REPORTS

### Annual report

This printed annual report also available online at [www.mughalsteel.com](http://www.mughalsteel.com) is intended to provide readers with an overview of our operations during the year, about our ability to create value over the short, medium and long term, and our performance in managing our most material issues, which are listed as strategic objectives in this report. It includes messages from leadership, operational reviews, corporate governance and risk management reports, summarized financial statements and information for shareholders.

### Annual financial statements

The full financial statements are also available on our above mentioned website and provide a comprehensive insight into the financial position of the company for the year under review.

## FORWARD LOOKING STATEMENTS

This annual report contains certain "forward-looking statements" – that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "see," "will," "would," or "target." The statements include known and unknown risks and opportunities, other uncertainties and important factors that could turn out to be materially different following the publication of actual results. These forward looking statements speak only as of the date of this document. The company undertakes no obligation to update publicly or release any revisions to these forward looking statements, to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events.

## FEEDBACK

Please provide us with your feedback. We value feedback from our stakeholders and use it to ensure that we are reporting on the issues that are relevant to them. Please take the time to give us your feedback on this

report. Visit the web link:  
<http://mughalsteel.com/investors/contacts/fahadhafiez@mughalsteel.com>

## BOARD RESPONSIBILITY

The board, together with the audit committee, takes responsibility for this annual report. The report was prepared by a representative team of the company, which reported to the chief executive officer (CEO), chief operating officer (COO) and chief financial officer (CFO). In the board's opinion, this report addresses the material issues and accurately presents the integrated performance of the organization and its impacts.

Signed by the CEO, who has been duly authorized thereto by the board.

### **Khurram Javaid**

Chief Executive Officer

Lahore: September 30, 2015

## **VISION STATEMENT**

---

To be a leading corporate entity in the steel sector which is recognized both at the industry level and national level, endeavoring to achieve excellence in core business while striving to explore multiple growth opportunities, remaining ethically and socially responsible and strengthening the growing base of satisfied customers by providing quality and durable steel products.

## **MISSION STATEMENT**

---

To meet the expectations of our customers in providing them with high quality, reliable and durable steel products, through product research, business process and information system improvement and up-gradation of technology. To meet the expectations of our employees by providing opportunities for professional growth and personal welfare. To meet the expectations of our shareholders by enhancing profitability and maximizing returns through achieving excellence in core business and exploring growth opportunities through diversification.

## **CORPORATE STRATEGY**

---

Maintaining our competitive position in the core business by employing professional and technical excellence, exploring new growth opportunities through diversification and creating value for our stakeholders.



We have always desired to create a workplace where experienced individuals team up to deliver extraordinary results for our customers and, starting in 2015, for our esteemed shareholders and prospective investors.

# CODE OF BUSINESS CONDUCT & ETHICAL PRINCIPLES

---

## CHAIRMAN'S REMARKS

Since our beginnings as a family business in mid 1950's, Mughal Steel has evolved into one of the leading companies in our industry.

We have always desired to create a workplace where experienced individuals team up to deliver extraordinary results for our customers and, starting in 2015, for our esteemed shareholders and prospective investors.

The management of the Company has worked hard with a vision to establish Mughal Steel as an entity with a strong reputation for honesty and integrity throughout the industry. In recent years, we have expanded that vision to reflect the value we place on diverse opinions, experiences and backgrounds, and to adapt to the changing needs of an increasingly interconnected world.

Our Code of Business Conduct and Ethics outlines the behaviors we expect of everyone at Mughal Steel.

As part of the annual review, the Board of Directors has revisited our Code to ensure it reflects the highest legal and ethical standards in our industry. In tandem with our Business Principles, the Code expresses Mughal Steel's commitment to integrity and honesty in everything we do. While no single document can address every situation, the updated Code provides clear guidance on critical issues. When facing a situation not covered by the Code, we expect our people to exercise good judgment and especially to seek guidance in resolving potential issues. The code supports full compliance with applicable laws. It also represents the practical ways that we put our values to work every day. We believe that when we apply our ethical principles to our business decisions, the Company is positioned for success.

I ask and encourage each of you to review and understand this Code of Business Conduct and Ethics, and join me in making a personal commitment to using it to guide your work. In doing so, you protect the trust our customers, place in us and uphold the moral and ethical principles that define Mughal Steel.

Sincerely,

**Mirza Javaid Iqbal**

Chairman of the Board

Lahore: September 30, 2015



# THE BASIC PRINCIPLES OF OUR CODE OF CONDUCT AND ETHICS

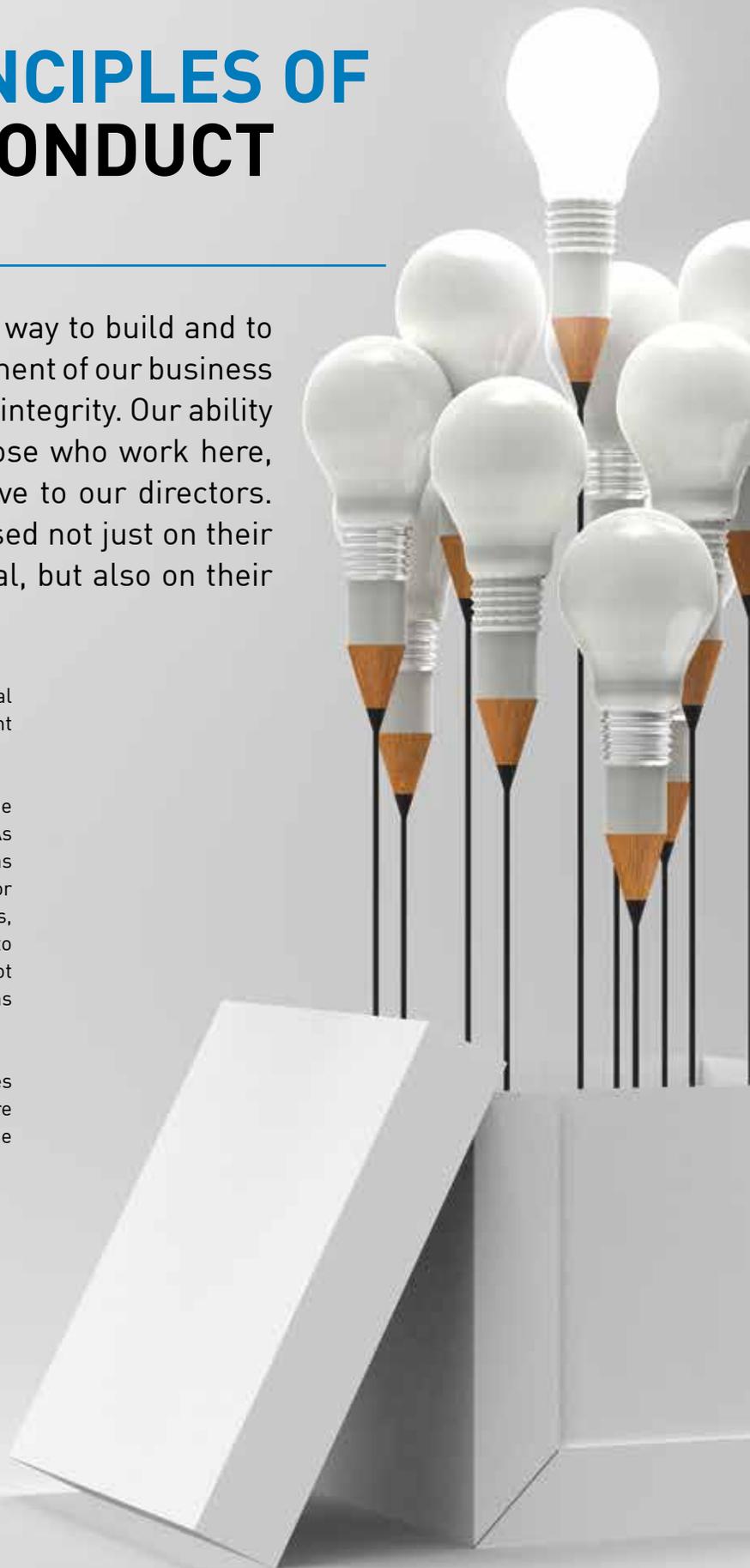
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At Mughal Steel, we believe the best way to build and to maintain trust is to conduct every element of our business according to the highest standards of integrity. Our ability to do so rests on the behavior of those who work here, from employees to our chief executive to our directors. To that end, we select our people based not just on their skills, accomplishments and potential, but also on their principles and values.

A commitment to integrity and ethical behavior is a critical factor in our decisions regarding professional advancement and compensation.

It is impossible to predict the various different unique circumstances our people will face during their careers. As such, the policies outlined in this Code should be viewed as the baseline of expected behavior. While ethical behavior requires us to comply fully with all laws and regulations, “compliance” with the law is the minimum standard to which we hold ourselves. Those who work with us honor not just the letter of existing laws, but the spirit that underpins and informs them.

Our Code of Conduct consists of the following principles which all directors and employees at Mughal Steel are required to apply in their daily work and observe in the conduct of company’s business.





## COMPLIANCE WITH LAWS, RULES AND REGULATIONS

Every director and Employee must comply with all applicable laws, rules and regulations, including those related to insider trading, financial reporting, money laundering, fraud, bribery and corruption.

## PERSONAL CONFLICTS OF INTEREST

Every Director and Employee is prohibited from indulging in actions or relationships that create personal conflicts of interest unless approved by the Company. It is important that every director and employee carefully considers whether any of their activities or relationships, including business or volunteer positions outside the Company, could cause a conflict (or the appearance of a conflict) with the interests of the Company. Additionally, personal gain and advantage must never take precedence over ones obligations to the Company. No Director or employee must ever use or attempt to use their position at the Company to obtain any improper personal benefit for themselves, their family member(s) or any other individual or group.

## FAIR AND ETHICAL COMPETITION

Every Director and Employee must deal fairly with our customers, suppliers, competitors and each other. No one at the Company may seek competitive advantage through illegal or unethical business practices. Taking unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any unfair dealing practice is a violation of this Code.

## PROTECTING CONFIDENTIAL INFORMATION

Every Director and Employee must maintain the confidentiality of the information with which they are entrusted, including complying with information barrier procedures applicable to our business. The only exception is when disclosure is authorized or legally mandated.

## EQUAL EMPLOYMENT OPPORTUNITIES AND COMMITMENT TO DIVERSITY

We do not tolerate any type of discrimination prohibited by law, including harassment. We value diversity as an important asset that enhances our culture, helps us satisfy customers well and maximizes return for shareholders. For us to excel, we must create for our people an inclusive environment that welcomes and supports differences and encourages input from all perspectives.

## POLITICAL CONTRIBUTIONS AND ACTIVITIES

Directors and Employees are prohibited from making or soliciting political contributions or engaging in political activities.

## PROTECTING AND PROPERLY USING COMPANY ASSETS

Everyone should protect the Company's assets and ensure their efficient use. All Company assets should be used for legitimate business purposes only.

## PUBLIC RELATIONS

All employees share a responsibility for the Company's good public relations particularly at the community level. Their readiness to help with religious, charitable, educational and civic activities is accordingly encouraged provided it does not create an obligation that interferes with their commitment to the Company's best interests.

## HEALTH & SAFETY

The Company has strong commitment to the health and safety of its employees and preservation of environment. The Company perseveres towards achieving continuous improvement of its Health, Safety and Environment (HSE) performance by reducing potential hazards, preventing pollution and improving awareness. Employees are required to operate the Company's facilities and processes keeping this commitment in view.

Commitment and team work are key elements to ensure that the Company's work is carried out effectively and efficiently. Also all employees will be equally respected and actions such as sexual harassment and disparaging remarks based on gender, religion, race or ethnicity will be avoided.

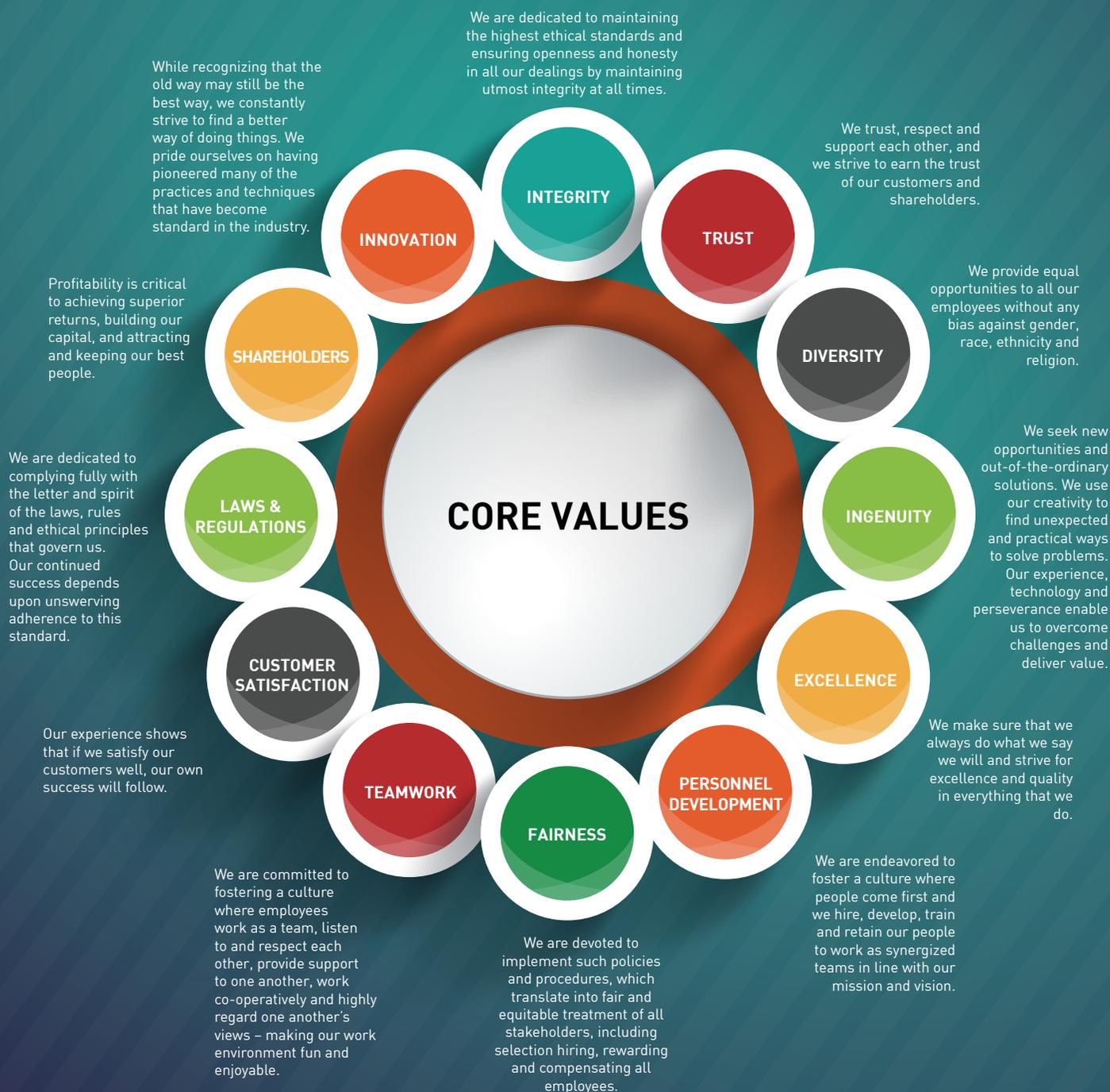
## NON-RETALIATION POLICY

The Company strictly prohibits retaliation against anyone who reports in good faith a possible violation of the Code, no matter whom the report involves.

We pledge to comply and enforce the basic principles of Code of Conduct and prevent its violation. Any employee observing any violation or abuse of this Code of Conduct may bring the same to the notice of the Management in writing.

# OUR CORE VALUES

Our Company's foundation is built on our values, which distinguish us and guide our actions. We conduct our business in a socially responsible and ethical manner. We respect the law, support universal human rights, protect the environment and benefit the communities where we work.



# OVERALL STRATEGIC OBJECTIVES

---

Our ultimate objective is to be a leading participant in the country's steel industry, improving our operations continuously, enhancing profitability and creating value addition. We strive to supply the best quality products for pioneering infrastructure projects, with zero defects whilst comprehensively meeting our customer's needs.

We aim to provide safe working conditions, appropriately evaluating and training our workforce and rewarding our people for delivering results and working responsibly. We create value for our stakeholders by capitalizing upon the competitive advantages of our assets.

- Across all geographies and products we aim to be one of the highest quality and lowest cost producers, in each of our product line, throughout the cycle.
- Leadership positions in most of the markets where we operate.
- A diversified portfolio of steel products, which combined with superior customer service, represents a unique value proposition to our customers.
- Effective and improved capacity utilization of the Company's existing production facilities.
- Drive business transformation to achieve excellence in safety, people, plants and processes by modernization of production facilities in order to ensure the most effective production.
- Explore alternative energy resources;

# COMPANY INFORMATION



## BOARD OF DIRECTORS

Mirza Javaid Iqbal  
Chairman

Khurram Javaid  
Chief Executive Officer

Syed Salman Ali Shah  
Independent Director

Muhammad Mubeen Tariq Mughal  
Executive Director

Jamshed Iqbal  
Non-Executive Director

Fazeel Bin Tariq  
Non-Executive Director

Mateen Jamshed  
Non-Executive Director

## CHIEF OPERATING OFFICER

Shakeel Ahmed  
Tel: +92-42-35960841 Ext:30  
shakeel.ahmad@mughalsteel.com

## CHIEF FINANCIAL OFFICER

Muhammad Zafar Iqbal  
Tel: +92-42-35960841 Ext:24  
zafariqbal@mughalsteel.com

## COMPANY SECRETARY

Pervez Iqbal  
Tel: +92-42-35960841 Ext:34  
accounts@mughalsteel.com

## AUDITORS

Fazal Mahmood & Company  
Chartered Accountants  
(A member firm of JHI & TASK International)  
147-Shadman I  
Lahore, Pakistan  
Tel: +92-42-37426771  
Fax: +92-42-35960012  
Web: www.fmc.com.pk

## LEGAL ADVISOR

H.M. Law Associates  
Office No. 4, Ground Floor  
Al-Murtaza Centre, 2 Mozang Road  
Lahore, Pakistan  
Tel: +92-42-37362720

## BANKERS

MCB Bank Limited  
Bank Alfalah Limited  
Soneri Bank Limited  
Bank Islami Pakistan Limited  
Summit Bank Limited  
JS Bank Limited  
Meezan Bank Limited  
Dubai Islamic Bank Limited



## GEOGRAPHICAL PRESENCE

### Registered Office

31 -A Shadman I  
Lahore, Pakistan  
Tel: +92+42-35960841-3  
Fax: +92+42-35960846  
Email: info@mughalsteel.com

### Factory

17-Km Sheikhpura Road  
Lahore, Pakistan  
Tel: +92-42-37970226-7  
Fax: +92-42-37970326

### Sales Office

41-Peco Road, Badami Bagh  
Lahore, Pakistan  
Tel: +92-42-111 000 007  
Fax: +92-42-37281076

## SHARES REGISTRAR

THK Associates (Private) Limited  
2nd Floor State Life Building No. 3  
Dr. Zia-ud-din Ahmed Road  
Karachi, Pakistan  
Tel: +92-21-111-000-322  
Fax: +92-21-35655595  
Email: secretariat@thk.com.pk  
Web: www.thk.com.pk

## STOCK EXCHANGE LISTING

Mughal Iron & Steel Industries Limited is a listed Company and its shares are traded on Karachi and Lahore stock exchanges of Pakistan. The Company's shares are quoted in leading dailies under the Engineering Sector with symbol 'MUGHAL'.

## COMPANY WEBSITE

To visit our website, go to [www.mughalsteel.com](http://www.mughalsteel.com) or scan QR Code



MISIL's Financial Statements are also available at <http://www.mughalsteel.com/investors/performance/> or scan QR Code



# COMPANY PROFILE & NATURE OF BUSINESS

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## COMPANY PROFILE

At Mughal Steel we work with passion and expertise to develop high-quality products and intelligent industrial processes and services that create sustainable infrastructures and promote efficient use of resources. We combine our engineering capabilities with traditional strengths in materials. This means we create value for our customers and can successfully exploit the diverse opportunities in the markets of the future.

Today Mughal Steel is the Country's largest long-rolled steel producer with approximate annual production capacity, in a normal year, of 366,000 tonnes for melting and 688,000 tonnes for re-rolling. The management team is led by Mirza Javaid Iqbal, Director and Chairman.

The Company has been building the foundations of Pakistan since its inception and has a depth of technical and managerial expertise carefully nurtured since 1950's, a reputation for reliability and a sharply defined business focus, which has forged the organization into a modern, highly competitive supplier of steel products to the domestic and global markets.

The Company makes a wide range of steel products mostly catering the construction industry and employs approximately 575 persons. Our primary goal is to supply quality, reliable and durable steel products into the local and nearby markets and currently we supply in Pakistan and export the rest to Afghanistan. Products include bar, billets, girders and tee-iron etc.

The company's ability to generate profits throughout the fluctuations of the steel cycle is testimony to the success of years of intensive business re-engineering and the cultivation of a continuous improvement culture that has embedded the Company's position among the Country's lowest cash cost producers of steel.



## NATURE OF BUSINESS

### Industry

Mughal Steel is the largest steel producer in the long-rolled steel products industry in Pakistan, with approximate installed annual production capacity of 688,000 metric tonnes of re-rolled steel per annum. The Company is involved in multidimensional activities from making billets of mild steel, spring steel, deformed bar, re-bar, cold twisted rebar and a huge range of sections such as I-beams, L-sections, C-section, H-beams, T-bar etc. in the downstream industry.

### Geographical Presence

The registered office of the Company is situated in Shadman Lahore, while the factory is located 17 km Sheikhupura road and sales centers are located at Badami Bagh Lahore.

### Main markets

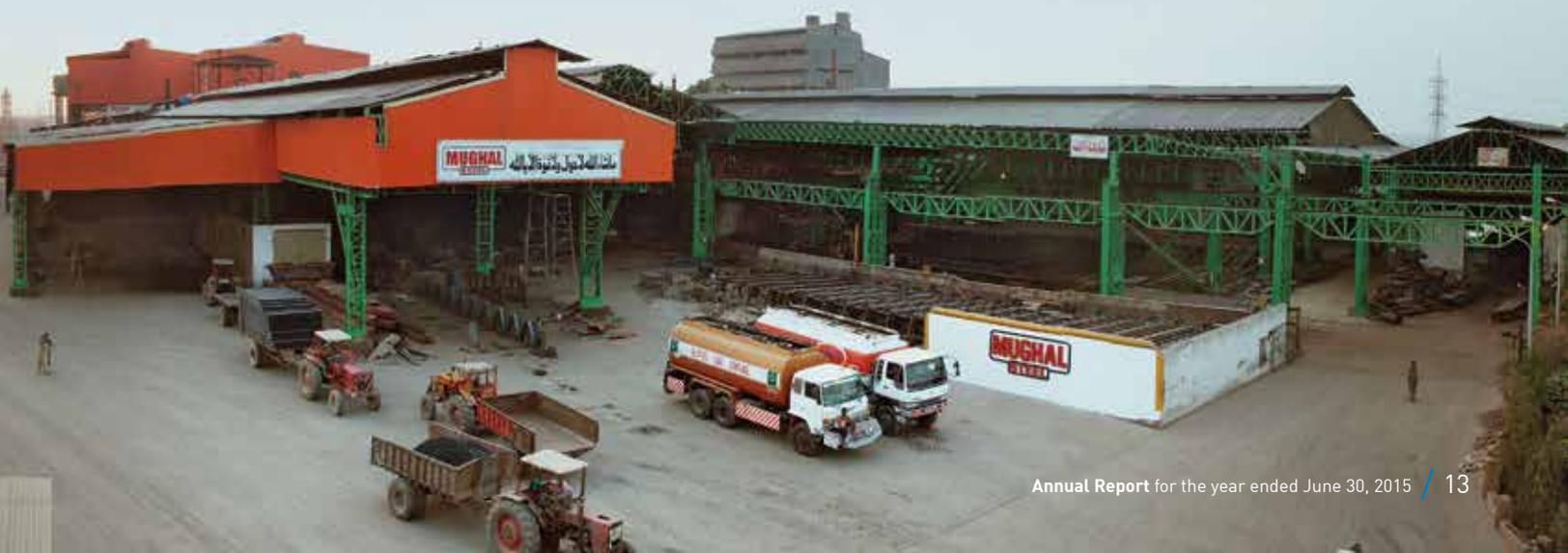
The Company has strong presence in domestic as well as international markets.

### Legal environment

Operations of the Company are subject to different environmental and labour laws. The Company is fully complying with all applicable environmental, labour, corporate and other relevant laws.

### Business model

Our business model is to provide quality, reliable and durable steel products and customer satisfaction. We apply our overall strategy to create long-term value by capitalizing upon the competitive advantages of our products, people and assets.





## THE FUNDAMENTALS OF OUR STRATEGY

- Health, safety and environment
- Human capital
- Customer focus
- Growth of business

We create value by capitalizing on our core strengths. These strengths provide lasting benefits which are critical to our ability to generate, protect and capture value over long term;

LOW COST PRODUCTION	STRONG POSITION IN STEEL MARKETS	LEADING PRODUCER OF LONG STEEL	VERTICALLY INTEGRATED BUSINESS	STRONG MANAGEMENT & GOVERNANCE
Low cost, operations; efficient, steel making and rolling facilities; programme of continuous improvement.	Strong position in steel market due to broad range of high quality and durable products serving high value markets.	Leadership in construction related steel products confers the benefits of scale, innovation, quality control, security of supply and service excellence.	Vertical integration enables us to control each stage in the value chain: <ul style="list-style-type: none"> <li><b>a.</b> access to key raw materials and energy for steel production;</li> <li><b>b.</b> expertise in steel processing and finished products;</li> <li><b>c.</b> secure logistics and supply chain;</li> <li><b>d.</b> effective customer driven sales function.</li> </ul>	Management with strong experience in steel production as well as sales and trading; effective controls and oversight of capital, innovation, safety and risk management.



## VALUE DRIVERS

These drivers of value highlight the features which sustain the Company's performance in differing and competitive market environments.

- Our growth is primarily driven by expansion in sales revenue, powered by strong demand for our products and effective distribution network all over the Country.
- Efficiency enhancement is our long term goal. We continuously seek opportunities to improve efficiency of our business processes to optimize costs, utilizing less to produce more.
- Human capital is by far our most valuable asset, directly affecting performance while ensuring success each year
- We are continuously investing in our production facilities to enhance operational efficiency and fuel the key growth drivers. Our extensive distribution network extends to all provinces of the Country, ensuring maximum market presence.

## PRODUCT PORTFOLIO

The company's product range comprises of the following products:

- Girders & Beams
- Steel Bars (Deformed & Plain)
- T-Iron
- Ferro Manganese
- Ferro Chrome
- Ferro Silicone Manganese

## PRODUCTION FACILITIES

### Bar Mill

Our dedicated bar re-rolling mill with approximate annual capacity of 150,000 M/t per annum. This is the only straight and continuous mill available in Pakistan, capable of cutting customized lengths from a single bar of 1300 ft. (approximately). These mills are capable of producing deformed and reinforced bar in conformance with international standards. Continuous casting technology has been introduced for the mill which enables hot and thermodynamic rolling enabling it to produce steel bars directly from scrap.

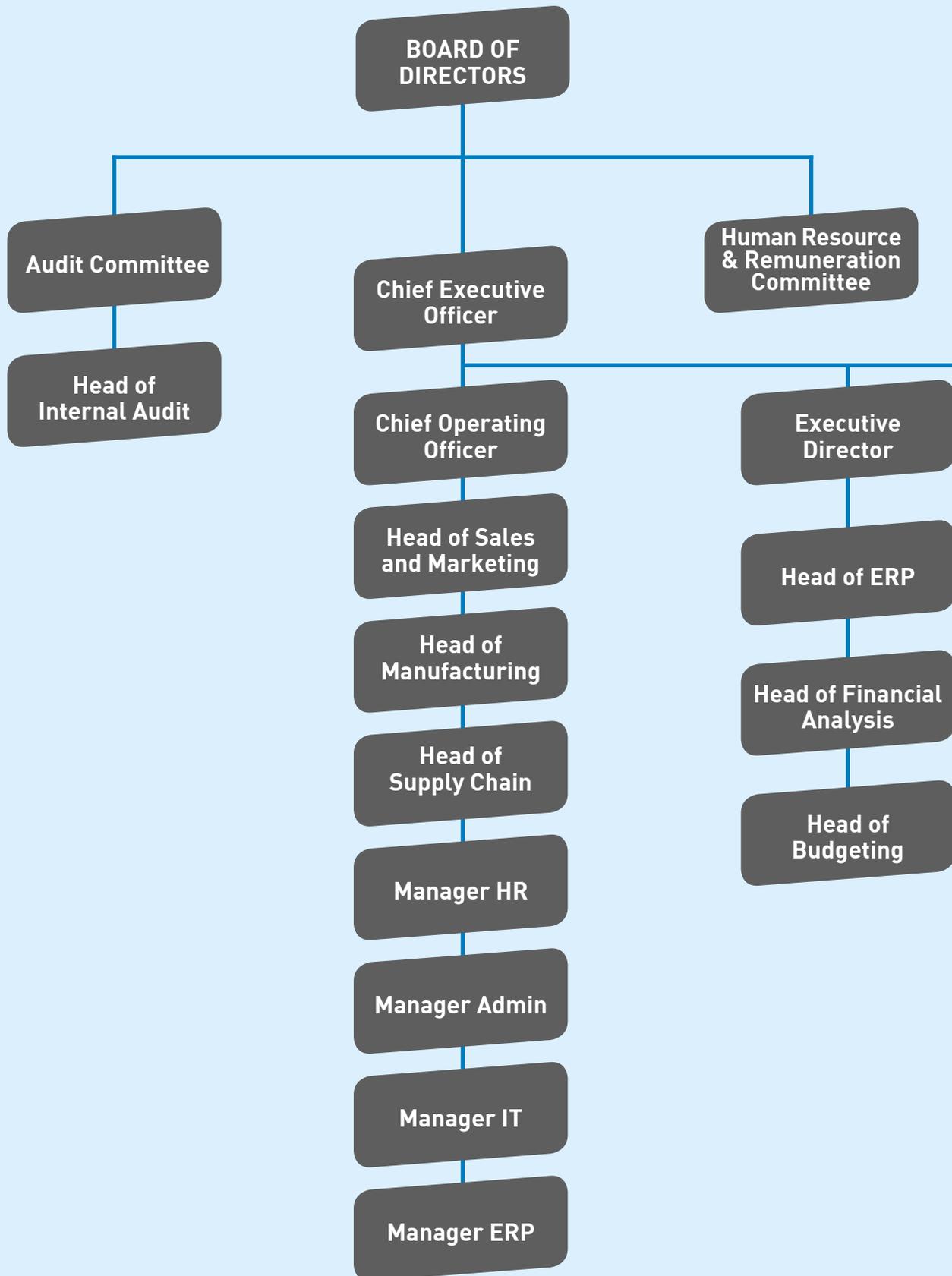
### Tandem Section Mill

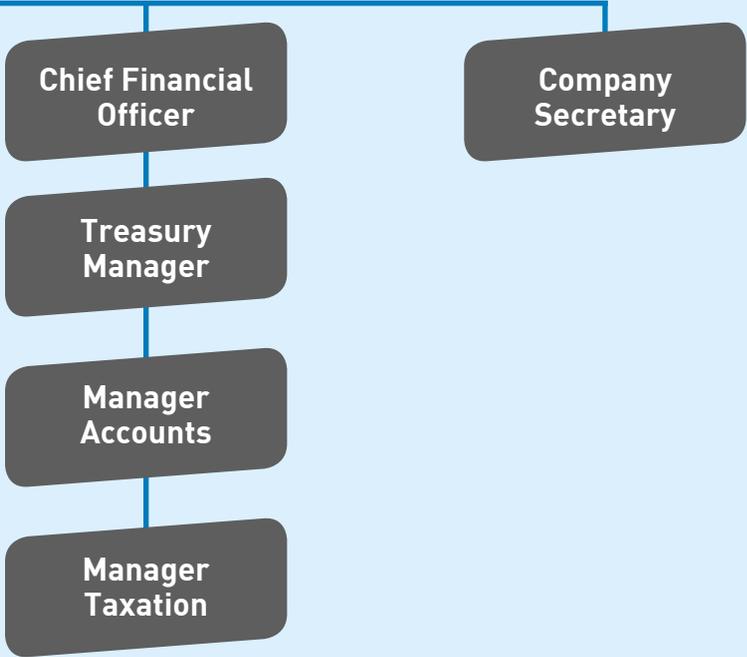
Tandem section mill was introduced for the first time in Pakistan by Mughal Steel in line with Universal Stand (the ultimate re-rolling technology). The mill having approximately annual capacity of 300,000 M/t is capable of continuous rolling, which by far is the best suitable technological solution. Based on European technology and state of the art Italian design by ABB, AMB, SCADA, the mill follows the procedure of four-dimensional rolling, as compared to conventional uniform rolling techniques making, the re-rolling technology at Mughal Steel energy efficient and cost effective.

### Mini Section Mills

The Company has two mini section mills with approximate combined annual capacity of 75,000 Mt capable of producing sections like I. beam, H. beam, C. section, L. Section, T-bar etc. The mills are equipped with auto-control reheating furnaces; facilitating further to produce the required section of any kind.

# ORGANOGRAM OF COMPANY





# BRIEF PROFILE OF THE DIRECTORS



## Mirza Javaid Iqbal

Chairman / Non – Executive Director

### Other Engagements:

- |   |                                    |
|---|------------------------------------|
| • Mughal Energy Limited                         | Chief Executive Officer / Director |
| • Mughal Steel Metallurgies Corporation Limited | Chief Executive Officer / Director |
| • Al-Bashir Steel Industries (Private) Limited  | Chief Executive Officer / Director |
| • Mughal Steel Re-Rolling Industries Limited    | Director                           |

Having joined his family business in 1976, Mr. Javaid Iqbal rose to become a pioneer of the steel industry of Pakistan. During his exemplary career, Mr. Iqbal challenged and changed the personal and industry mindset, both within and beyond the business framework. He has not only developed new pathways to achieve energy efficiency and economies of scale, but has made remarkable contributions towards the technological advancement and effective documentation of the national steel industry. With his visionary leadership and unparalleled expertise, Mr. Iqbal has been the driving force behind MISIL's success – making the Company reach new heights of growth and expansion.

## Khurram Javaid

Chief Executive Officer / Director

### Other Engagements:

- |  |                                    |
|--|------------------------------------|
| • Mughal Steel Re-Rolling Industries Limited | Chief Executive Officer / Director |
| • Mughal Energy Limited                      | Director                           |

Mr. Khurram Javaid holds an MBA from the Coventry University, UK and a BSc. from the Lahore School of Economics in Pakistan. He has made substantial contributions to the Company's sales and production network within the country – ensuring that each is at par with the international standards of the steel industry. Also, since Mr. Javaid is a strong advocate of human resource development, he is the man behind incorporating effective HR planning, policymaking and training – which is the cornerstone behind MISIL's success today.



## Muhammad Mubeen Tariq Mughal

Executive Director

### Other Engagements:

- |   |          |
|---|----------|
| • Mughal Energy Limited                         | Director |
| • Mughal Steel Metallurgies Corporation Limited | Director |
| • Al-Bashir Steel Industries (Private) Limited  | Director |
| • Mughal Steel Re-Rolling Industries Limited    | Director |

Mr. Muhammad Mubeen Tariq Mughal has a BSc. in Economics and Finance from the Lahore School of Economics, Pakistan. Having an experience of over five years in the steel sector, he is presently looking after the Accounts, Finance, ERP and Audit functions of the Company.



## Syed Salman Ali Shah

Independent Non- Executive Director

### Other Engagements:

- |   |          |
|---|----------|
| • Pakistan Mercantile Exchange Limited        | Chairman |
| • MCB-Arif Habib Savings & Investment Limited | Director |
| • World Call Telecom Limited                  | Director |

Syed Salman Ali Shah holds a Ph.D. in Finance from the Kelley School of Business Administration, Indiana University, USA. He has served as the Advisor to the Prime Minister of Pakistan on various fields: Finance, Revenue, Economic Affairs and Statistics. Mr. Shah has worked as the Former Chairman of the Privatization Commission and is currently the Chairman of the Lahore Stock Exchange. He has served on the Board of Governors of the State Bank of Pakistan, Pakistan International Airlines, Foundation University and the Bank of Punjab.

## Jamshed Iqbal

Non - Executive Director

### Other Engagements:

- |   |          |
|---|----------|
| • Mughal Energy Limited                         | Director |
| • Mughal Steel Metallurgies Corporation Limited | Director |
| • Al-Bashir Steel Industries (Private) Limited  | Director |
| • Mughal Steel Re-Rolling Industries Limited    | Director |

Mr. Jamshed Iqbal has played a pivotal role in developing MISIL's distributional network across Pakistan. He has a vast experience and in-depth knowledge of the steel sector, with a sound expertise in managing local and export sales. Mr. Iqbal has strived hard to ensure that all kinds of geographical requirements are met by the Company's distributional network – a feat that has resulted in expanded growth of MISIL.



## Fazeel Bin Tariq

Non - Executive Director

### Other Engagements:

- |   |          |
|---|----------|
| • Mughal Steel Metallurgies Corporation Limited | Director |
| • Al-Bashir Steel Industries (Private) Limited  | Director |
| • Mughal Steel Re-Rolling Industries Limited    | Director |

Mr. Fazeel Bin Tariq holds a Bachelor's Degree in Business Administration from the Lahore School of Economics, Pakistan and a Postgraduate degree in Professional Accounting from the Swinburne University of Technology, Australia. He has also done Masters in Leadership from Northeastern University, Boston, USA.

## Mateen Jamshed

Non - Executive Director

### Other Engagements:

- |  |          |
|--|----------|
| • Mughal Steel Re-Rolling Industries Limited | Director |
|--|----------|

Mr. Mateen Jamshed holds a Bachelor's Degree in Business Administration from the Lahore School of Economics, Pakistan.



# KEY MANAGEMENT

---



## **Shakeel Ahmad**

Chief Operating Officer

With a strong academic background; an M.Phil in Management Sciences and an MBA in Marketing, Mr. Shakeel Ahmad has years of practical experience behind him and has been with the Company for more than a decade. He is the key element in maintaining the strategic and competitive positioning of the Company in the market through relationship building, in-depth market research and analysis, creating and implementing strategic sales growth initiatives, networking and brand building. He has highly developed leadership skills and is a forerunner who leads with integrity, passion and compassion to attain revenue and profit objectives within the organization. His contributions towards the success and growth of the Company are highly valued.

## **Muhammad Zafar Iqbal**

Chief Financial Officer

Mr. Muhammad Zafar Iqbal has been working as the CFO of the Company since its incorporation. He is a Fellow Member of the Institute of Chartered Accountants of Pakistan. He has a vast experience of dealing in accounts, finance, taxation and company law related matters. With over 16 years of experience in leadership positions, he plays an active role in the financial and strategic planning of the Company.



## **Pervez Iqbal**

Company Secretary

Mr. Pervez Iqbal has been working as the Company Secretary at MISIL since 2010. He has done his Masters in Commerce (M.Com) from The University of the Punjab in 2006.

# FUNCTIONAL HEADS

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## Muhammad Fahad Hafeez

Head of Internal Audit

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Muhammad Fahad Hafeez is a member of the Association of Certified Chartered Accountants, Certified Internal Control Auditors and Pakistan Institute of Public finance Accountants. He has more than 7 years of experience in audit, implementation of internal control charter, risk assessment and mitigation.

## Khalid Javed

Senior Manager Accounts

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Mr. Javed has been working with MISIL since 2009 and is responsible for managing group accounts for the Company. Prior to working with MISIL, he was employed in the construction industry for 28 years.

## Muhammad Usman

Senior Systems Analyst

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Mr. Usman is an associate member of the Institute of Chartered Accountants of Pakistan. His responsibilities include, working with project teams to understand and clarify business requirements: understanding system design, enterprise architecture, application data models and entity relationships to effectively contribute in finalizing the business requirements, with respect to system development and analyzing multiple modules in a system to include work processes, modifications, interfaces and reports.

## Muhammad Naeem

Regional Head (North)

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Mr. Naeem joined the Company in 1986. Since then, he has been looking after the distribution network across Pakistan. He has in-depth commercial experience from the distribution end to the retail end. He is responsible for finalizing negotiations with distributors, managing distribution operations, developing action plans and coordinating adequate support from supply management and logistics in order to ensure timely product delivery.

## Saeed Ahmed

Regional Head (Exports)

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Mr. Saeed Ahmed has over 27 years of work experience with the Company and is currently managing the export sales network. His area of expertise include building relationships with key customers in target markets outside Pakistan, developing regional marketing strategies for export sales in corporation with the Marketing department, providing customer requirements to the production team, managing currency fluctuations, coordinating adequate support from supply management and logistics and ensuring timely product delivery.

## Muhammad Afzal

Regional Head (South)

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Mr. Afzal became a part of the Company in 1992. His expertise ranges from finalizing negotiations with distributors, managing distribution operations and developing action plans to coordinating adequate support from supply management and logistics in order to ensure timely product delivery.

## Sumaira Manzoor

Manager Marketing

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Having completed her MBA from the University of the Punjab, Miss Sumaira Manzoor joined the Company in 2005 and has since played a pivotal role in the Marketing team. Currently, her responsibilities include monitoring and analyzing market trends, identifying target markets, developing strategies, preparing and managing marketing plans, formulating, directing and coordinating marketing activities and policies to promote products, working with advertising and promotion managers, developing pricing strategies, balancing firm objectives and customer satisfaction.

## Tahir Mahmood

Senior Manager Power Plant

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Mr. Mahmood has been working with MISIL since 2005. He is currently looking after the operational activities of the Power Plant. Mr. Mahmood holds an Undergraduate Degree in Mechanical Engineering from the University of Engineering Technology, Lahore. Prior to joining MISIL, he had worked 30 years with the Saudi Consolidated Electric Company, Ibrahim Group, WAPDA and the Nishat Power Plant.

## Muhammad Ashraf

Manager Production

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Mr. Ashraf has been working with MISIL since 2013 as the Manager Production of the Girder Mill Plant. He holds an MSc in Mechanical Engineering from the National University of Science & Technology, Islamabad. Prior to joining MISIL, Mr. Ashraf had spent 20 years working for organizations such as the Army Jerri-can Manufacturing Plant, National Logistics Cell, Electrical & Mechanical Engineering Workshop, Inspection and Technical Development Directorate and Pakistan Ordnance factories.

## Muhammad Imran

Senior Engineer

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Mr. Imran has been employed with MISIL since 2011 as the Senior Engineer of the Girder Mill Plant. Mr. Imran holds a Bachelor's in Mechanical Engineering from the Bahauddin Zakariya University, Multan.

## Rizwan Malik

Senior Manager Procurement

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Mr. Rizwan has decades of work experience with the Company. He is responsible for working closely with selected suppliers and managing the Company's procurement activities, providing leadership for the purchasing department, motivating staff to achieve maximum performance and efficiency and ensuring that the Purchasing Department works within the operational procedures of all the companies.

## Mamoona Babar

Dy. Manager Imports

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She is responsible for managing the import process and overseeing the completion of paperwork and monetary transactions associated with international distribution in a timely manner. She is also responsible for negotiating with clients and handling issues with customs officials.

## Irfan Amin

Dy. Manager Human Resource

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Mr. Irfan has done his MBA in Human Resource Management. He is responsible for planning, directing and coordinating the administrative functions of the Company. He oversees the processes of recruitment, interviewing, performance reviews, employee development, employee retention and hiring of new staff.



# DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors take pleasure in presenting this Report, together with the Audited Financial Statements of the Company for the year ended June 30, 2015



**The origins and ascent of Mughal Steel is an outcome of persistent and sheer hard work of half a century. It has become an industry benchmark for value creation for its customers and shareholders**

# CHAIRMAN'S LETTER TO THE SHAREHOLDERS

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Dear Shareholders,  
Ladies and gentlemen,

I am very pleased to inform that the past fiscal year was a very important one for your Company. It was a year of turnarounds and milestones. Not only has the Company attained all its major operational and financial targets for the year, but by the grace of Almighty, we have also been highly successful in capturing the investor's confidence as well.

In pursuit of its growth strategy, the Company offered 27.350 million ordinary shares to the institutional investors, high net worth individual investors and general public. Out of the total number of shares 20.512 million shares were offered through book building process while the remaining 6.838 million shares were offered to the general public. ALHAMDULILLAH, by the grace of Almighty both the portions were heavily oversubscribed, which reflects the investors' confidence in the Company's future.

The year marks a turning point in our earnings situation and operating performance as well. The Company achieved its highest ever turnover amounting to Rs. 12,241.272 million. The earnings per share amounted to Rs. 8.12 per share as compared to Rs. 4.76 in the last year. The company has not defaulted in any repayment of debts. During the year, the Company has contributed approximately Rs. 300.922 million towards national exchequer in shape of taxes, duties, cess, levies etc. The Company has also contributed through earnings of valuable foreign exchange amounting to Rs. 1.636 million.

Against this background, the Board of Directors in their meeting held on September 30, 2015 have proposed a final cash dividend of Rs. 0.5 per share i.e 5% (2014: Rs. Nil per share) for the year ended June 30, 2015 to you, our owners. Further, the Board of Directors has also recommended issue of bonus shares in proportion of 1.5 share(s) for every 10 share(s) held i.e. 15% (2014: Nil%). No interim dividend was declared during the year (2014: Rs. Nil per share).

However, the turnaround doesn't end here, we will be working hard to generate profits in the upcoming years and will not let up in our efforts to maintain Mughal Steel as a profitably growing company that sustainably satisfies the interests of all stakeholders.

We are satisfied Your Company is on the right track – that's something of which my Board colleagues and I are firmly convinced. And we hope we will also be able to convince you, our shareholders! I congratulate all the stakeholders including the management and the workforce for their passion, support and continuous hard work for making the above achievements possible.

During the year, one of our Board members resigned. We would like to put on record our appreciation for his valuable contributions made during his tenure as Board member, and for the new member, we take this opportunity to welcome him. We are very hopeful that the new member would, with indigenous initiatives, bring progress and more improvement in the Company.

On behalf of the Board of Directors, I present to you the Directors Report together with the Audited Financial Statements of the Company for the year ended June 30, 2015.

**Mirza Javaid Iqbal**  
Chairman of the Board

Lahore: September 30, 2015



**The Company was welcomed wholeheartedly by the investors and was highly successful in its Initial Public Offering of shares to the general public, which is a matter of pride for all of us.**

# CHIEF EXECUTIVE OFFICER'S REMARKS

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Dear Shareholders,

I am highly pleased to report a record year for Mughal Steel, which saw increase in revenues and profits of our business resulting in net profit of Rs. 721.361 million with earnings per share of Rs. 8.12, compared to an earnings per share of Rs. 4.76 in the last year. In particular, revenues from local sales were up by 185%. Local markets saw steady growth in demand for long-rolled steel products mainly due to focus of the Government on development of infrastructure development.

Moving on, ALHAMDULILLAH, the Company was welcomed wholeheartedly by the investors and was highly successful in its Initial Public Offering of shares to the general public, which is a matter of pride for all of us. Today the Company is listed on the Karachi and Lahore Stock Exchanges of Pakistan.

As management we are strongly committed towards continuously improving the performance of your company. This year, we enabled "Hot Charging" technology for our bar re-rolling mill which allows production of steel bars directly from meltshop resulting in increased efficiency. We expect higher production and sales volumes following approval for enhancement of our Grid Station Load Capacity, BMR of the re-rolling mills and enabling of direct rolling for tandem section mill. We expect export sales to remain low, however, any adverse fall is expected to be curtailed by increase in local sales.

I would like to thank all of our employees for their hard work and commitment in achieving these results, and to give a special thank-you to our customers, and stakeholders, whose support is greatly valued.

**Khurram Javaid**

Director / Chief Executive Officer  
Lahore: September 30, 2015

# FINANCIAL REVIEW & OPERATIONAL PERFORMANCE

## INDUSTRY OVERVIEW

Steel Sector is continuously expanding, with the current demand exceeding the available production and the gap being covered by the import of Steel. Demand for steel products is expected to rise further in near future as recently government has announced projects which will increase the consumption of steel locally. It is expected that development budget fixed in '2014-2015 budget' will create opportunities for upcoming projects to come online which is a good sign for Steel sector. However, load shedding of electricity and gas and imposition of duties on import of steel items have hampered the entire industry.

## OVERVIEW OF FINANCIAL PERFORMANCE

The Directors are pleased to inform the shareholders that their Company registered record net sales of Rs. 12,241.272 million against Rs. 5,972.672 million in the corresponding period, showing growth of 105%. Sales revenue increased owing to increase in sales of steel bars and local sales of girder and tee iron. This was mainly due to continuing increase in construction activity in the private and public sectors as a result of higher utilization of funds released for Public Sector Development Programme. However, exports remained subdued due to lackluster demand, dragged down by declining Afghanistan exports.

Gross profit rose to Rs. 1,284.106 million in the current period, compared to Rs. 727.976 million in the corresponding period which is encouraging.



Net profits rose to Rs. 721.361 million during the period, compared to Rs. 390.859 million in the corresponding period last year. Distribution costs increased significantly as compared to the previous year mainly due to related freight expenses incurred on local sales. Administration costs were effectively controlled during the current period.

Financial charges were remained within controlled limits due to reduction in interest rates, and improved cash management. The Company is continuing to repay debt obligations and is dedicated to keep all debt commitments backed by better cash flows and efficient cash management. During the period, the Company has paid off Rs. 189.749 million of long-term financing from banking companies.

## PROFIT DISTRIBUTION AND RESERVE ANALYSIS

### Appropriations

The financial results of the Company for the year are summarized below:

Rupees in millions	2015	2014
Profit before taxation	724.977	397.630
Taxation	(3.616)	(6.770)
Profit after taxation	721.361	390.859
Un-appropriated profit brought forward	505.906	128.667
Other comprehensive income	(0.479)	(12.119)
Share issue costs	-	(1.501)
Appropriations	-	-
Un-appropriated profit carry forward	1,226.788	505.906

The Board of Directors in their meeting held on September 30, 2015 have proposed a final cash dividend of Rs. 0.5 per share i.e 5% (2014: Rs. Nil per share) for the year ended June 30, 2015 to you, our owners. No interim dividend was declared during the year (2014: Rs. Nil per share). Further, the Board of Directors has also recommended issue of bonus shares in proportion of 1.5 share(s) for every 10 share(s) held i.e. 15% (2014: Nil%).

The proposed final cash dividend and bonus issue is subject to the approval of the members at the Annual General Meeting to be held on October 31, 2015. These financial statements do not include the effect of the above proposal which will be accounted for in the period in which it is approved by the members.

## NON-FINANCIAL PERFORMANCE

Quality, customer's satisfaction, employee's development and

professional standards are Company's key areas where management has taken necessary measures to improve them. The Company is currently producing and supplying the high quality products which ensure maximum satisfaction to the customers. During the year, the Company conducted various training courses for the development of existing human capital. The Company is maintaining highly satisfactory relationship with all stake holders.

## ENTITY'S MOST SIGNIFICANT RESOURCES

The significant resources comprise but are not limited to human, financial and technological resources. We hire teams of professionals and technical experts who continuously strive to ensure that our production and control processes and systems are working efficiently and effectively and are constantly being modernized. Further, financial resources are managed effectively through optimized credit control and efficient treasury management, focusing on cash flow forecasting.

## LIQUIDITY ANALYSIS AND STRATEGIES TO OVERCOME LIQUIDITY PROBLEMS

The management of the Company has years of experience in liquidity management and liquidity management system and tend to maintain a strong liquidity position to ensure availability of sufficient working capital besides identification and mitigation of cash flow risks. The key working capital requirements of the Company are managed through internal liquidity generation sources comprising of sales revenues and external means of financing. Revenue receipts from sales are managed through optimized control of customer credit, in addition to securing advance customer orders.

Regular forecasting of cash flows and aging analysis are also carried out to maintain an optimum working capital cycle. Operating cash flows are mainly used for repayment of debt firstly.

The aggregate net working capital stood at Rs. 1,351.750 million at the close of 2015, as compared to Rs. 571.013 million in last year.

## REPAYMENT OF DEBTS AND RECOVERY OF LOSSES

Long-term financing from banking companies stood at Rs. 253.666 million as at June 30, 2015 as compared to Rs. 443.416 million as at June 30, 2014 which was mainly due to timely repayments. During the year, no further interest bearing funds were borrowed on long term basis as the management ends to maintain minimal level of interest bearing long-term financing from banking companies. Short-term borrowings amounted to Rs. 2,046.402 million, representing a decrease of Rs. 756.339 million from last year. Cash flow projections indicate availability of sufficient funds for timely retirement of long-term financing from banking companies. The sponsor shareholders injected additional interest free loan of Rs. 683.577 million which was mainly used for repayment of long-term loan from related parties. Loan from sponsor shareholders is not fully payable before five years.

## CASH FLOW ANALYSIS

Analysis of cash flows for the year 2015 is presented through the following major liquidity generation activities:

- **Operating activities**

Net cash generated from operations stood at Rs. 1,715.556 million, as compared to net cash used in operation amounting to Rs. 1,836.139 million last year, after adjustment of finance cost

of Rs. 347.322 million and income tax payments aggregating to Rs. 260.107 million during the year.

- **Investing activities**

The Company incurred fixed capital expenditure of Rs. 514.808 million during the year as compared to Rs. 518.690 million in last year and comprised mainly of new melting furnaces along with BMR of re-rolling mills.

The Company invested in short-term investments amounting to Rs. 524.620 million, consequently, net cash used in investing activities stood at Rs. 1,033.063 million, up by around Rs. 514.811 million from 2014.

- **Financing activities**

The Company repaid long-term financing from banking companies resulting in cash utilization of Rs. 189.749 million. Net cash utilized from short-term borrowings amounted to Rs. 1,039.402 million. The Company repaid / adjusted net long-term financing from related parties amounting to Rs. 280.426 million and injected additional equity of Rs. 929.900 million.

Consequently, net cash used in financing activities stood at Rs. 632.579 million, as compared to cash generated from financing activities amounting to Rs. 2,266.782 million last year.

- **Cash and cash equivalents at year end**

The Company recorded a net increase in cash and cash equivalents of Rs. 49.914 million during 2015, as compared to a net decrease of Rs. 87.609 million recorded in cash and cash equivalents last year.

## FINANCING ARRANGEMENTS

Long-term financing from banking companies amounted to Rs. 253.665 million against debt raising capacity of Rs. 14,566.177 million. Short-term borrowings of the Company stood at Rs. 2,046.402 million at year end against aggregate financing facilities of Rs. 5,550.000 million with various banks, under mark-up / profit arrangements. Additionally, letters of credit lines and letter of guarantee lines up to Rs. 10,414.500 million are available out of which Rs. 7,752.45 million remained unutilized at the year end.

External financing is arranged after extensive cash flow forecasting for working capital, investment or asset acquisition requirements.

## HUMAN CAPITAL

Human Capital is considered to be the Company's most valuable resource, with significant contributions over the years towards its growth. The Company ensures provision of the best employee development programs, health care, safety and market commensurate compensation packages.

### • Succession Planning

The Company has formulated a firm succession plan which includes performance evaluation and appropriate training requirements for development of potential future leaders. Detail of Succession Planning is available in the Human Resources portion of the 'Corporate Governance' section.

### • Retirement Benefit Plans

The Company is operating an unfunded gratuity plan for its employees ensuring financial security upon retirement. Detail of retirement benefit funds have

been disclosed in note 22 of the financial statements.

## CAPITAL STRUCTURE

Capital structure represents ordinary share capital and long-term / short-term debts. The Company utilizes its cash generated from operations for repayment of its debt liabilities on timely basis, resulting in reduction of financial cost and increase in net profit of the Company.

As at June 30, 2015, capital structure comprised of Rs. 1,093.911 million of share capital representing 109.391 million ordinary shares of Rs. 10/- each. Major shareholding is owned by the sponsor shareholders with 75% equity holding. Long-term financing from banking companies stood at Rs. 253.665 million at close of the year. Short-term debt of the Company stood at Rs. 2,046.402 million at close of the year, with a debt / equity ratio of 62.61% as compared to 180% in 2014.

The above indicators provide adequate evidence as to the adequacy of the capital structure for the foreseeable future.

## SIGNIFICANT CHANGES IN FINANCIAL POSITION, LIQUIDITY & PERFORMANCE WITH PREVIOUS PERIOD

During the year, the Company has repaid its long-term debt from banking companies totaling to Rs. 189.749 million. Net cash generated from operation amounted to Rs. 1,715.556 million as compared net cash used in operations in last year.

The Company also settled / repaid its net long-term debt from related parties totaling to Rs. 280.426 million. The sponsor shareholders injected 683.578 million of interest free loan in to the Company.

Company reserves depicted an immense improvement mainly because of higher un-appropriated profit of Rs. 1,226.788 million as compared to Rs. 505.906 million last year along with increase in share premium reserve as a result of further issue of share capital.

Moreover, the Company has adopted the strategy to utilize maximum cash profits for the repayment of debt from banking companies.

Company's net worth stood at Rs. 6,152.158 million as at June 30, 2015 with a breakup market value of Rs. 56.24 per share.

Financial commitments of the Company stood at an aggregate of Rs. 2,012.185 million at the close of 2015 in respect of purchase of goods and capital expenditure. Details of these commitments are disclosed in the relevant notes to the financial statements.

Increase in property, plant & equipment mainly includes procurement of plant and machinery including new induction furnaces along with CCM.

Trade debts showed a 47% increase to Rs. 473.242 million mainly due to increase in receivables outstanding on account of sales of steel bars.

Stock-in-trade stood at Rs. 4,812.364 million at the close of the year, which however was also liquidated subsequently.

The Company's asset base thus recorded an increase of Rs. 4,395.908 million compared to last year, primarily due to additional equity injection, increase in inventory and capital expenditure.

## PROSPECTS OF THE ENTITY INCLUDING TARGETS FOR FINANCIAL AND NON-FINANCIAL MEASURES

### Prospects of the Entity

Efficient use of available resources, modernization of production facilities through technology advancement and innovation, exploration of alternative energy resources, reduction in costs of production and diversification provide sufficient support to the management's projection of sustained profitability and return to the shareholders.

### Financial Measures

Various factors and variables were considered and estimated in projecting targets for financial year 2014-2015. The results of some of these factors can be monitored while for others they can only be improved to some extent. Absolute commitment, continuous evaluation and steady implementation have resulted in achievement of set goals and objectives. This is evident from the fact that despite of electricity shortage during the year, sustained production levels were achieved and operating targets were met.

Efficient utilization of available energy, introduction of energy efficient melting furnaces and modernization of re-rolling mills enabled the Company to reach turnover of Rs. 12,241.271 million and earn a net profit of Rs. 721.361 million despite adverse market conditions.

### Non-Financial Measures

The Company has identified the following areas as key non-financial performance measures:

- Stakeholders' engagement
- Relationship with customers
- Employee satisfaction
- Maintenance of product quality

for fulfillment of buyer needs

- Responsibilities towards the society
- Healthy and safe environment
- Transparency, accountability and good governance Responsibility for implementation has been delegated to the management, with continuous monitoring and control by the Board.

## SEGMENTAL REVIEW OF BUSINESS PERFORMANCE

The financial statements of the Company have been prepared on the basis of single reportable segment. Revenue from sale of mild steel products represents 100% of gross sales of the Company. The Company operates locally as well as exports to Afghanistan, however, majority of the sale comprises of local sales. Moreover, all assets of the Company as at June 30, 2015 are located in Pakistan.

## CAPITAL MARKET & MARKET CAPITALIZATION

As at June 30, 2015, KSE the leading stock exchange of Pakistan had a market capitalization of Rs. 7,357.509 billion. Total capital listed on the exchange rose to Rs. 1.189.518 billion as at June 30, 2015.

During the year, the Company offered its ordinary shares to the general public by way of Initial Public Offering of 27.350 million shares and got listed on Karachi Stock Exchange Limited (KSE) and Lahore Stock Exchanges Limited (LSE) of Pakistan.

The market capitalization of the Company's share stood at Rs. 6,152.158 million as at June 30, 2015. The share traded at an average of Rs. 48.15 per share. Market price experienced fluctuations between the highest of Rs. 56.24 per share to the lowest of Rs. 35.69 per share since its opening in April 2015, mainly due

to market psychology, speculative investors and material events occurring during the year. Trading in equity during the year amounted to 85.543 million shares.

## SUBSEQUENT EVENTS

### Non-adjusting

The Board of Directors in their meeting held on September 30, 2015 have proposed a final cash dividend of Rs. 0.5 per share i.e 5% (2014: Rs. Nil per share) for the year ended June 30, 2015 to you, our owners. No interim dividend was declared during the year (2014: Rs. Nil per share). Further, the Board of Directors has also recommended issue of bonus shares in proportion of 1.5 share(s) for every 10 share(s) held i.e. 15% (2014: Nil%).

The proposed final cash dividend and bonus issue is subject to the approval of the members at the Annual General Meeting to be held on October 31, 2015. These financial statements do not include the effect of the above proposal which will be accounted for in the period in which it is approved by the members.

### Adjusting

The GoP imposed regulatory duty on import of "Prime Alloy Steel Billet" from China vide SRO 568(I)/2014 dated 26.06.2014 as amended by SRO 18(I)/2015 dated 14.01.2015. Writ petition was filed by the Company in the Honorable Lahore High Court against the above notifications. The Honorable Lahore High Court (LHC) upon hearing the matter declared that the notification under SRO 568(I)/2014 as amended vide notification SRO 18(I)/2015 followed by replacement of the table to the RD notification through amending notifications SRO No. 121(I)/2015 and SRO NO. 131(I)/2015 both dated February 12, 2015 as applied to import of "Prime Alloy Steel Billet" from China as illegal, without lawful authority and with no legal affect. However, the Sindh High Court

(SHC) passed an order in favor of the department due to which the collector of customs refused to release the guarantees against which further writ petitions were filed with the Honorable Supreme Court of Pakistan.

The Honorable Supreme Court of Pakistan, however, has subsequently to the reporting date dismissed the writ petitions filed by taxpayers against levy of regulatory duty by Government of Pakistan on goods covered under FTA. Consequently, the Company has recognized provision of Rs. 333.090 against the related regulatory duty.

## OPERATIONAL PERFORMANCE

The overall production of re-rolled products was recorded at 180,230 tonnes showing an increase of 59.82% over the previous year. This was achieved mainly due to introduction of energy efficient means of production, collective hard work and sheer dedication. During the year "Direct Rolling" was enabled for Bar- Re-rolling mill improving the overall efficiency of the mill.

## OBJECTIVES AND STRATEGIES

### MANAGEMENT'S OBJECTIVES AND STRATEGIES FOR MEETING THOSE OBJECTIVES

The ultimate objective is to ensure achievement of the overall corporate and strategic objectives by becoming the leading Company in the local steel industry, continuously improving our operations and hence enhancing profitability and return to shareholders.

We believe, we have been highly successful in achieving our objectives which have been built on a consistent strategy that emphasizes size and scale, backward integration, competitiveness, product diversity, continuous growth in higher value products and a strong customer focus.

We tend to meet the needs of diverse markets by maintaining high degree of product diversification and seeking opportunities to increase the proportion of our product mix consisting of higher value-added products. The Company produces a broad range of high-quality finished, semi-finished long-rolled steel products and stainless steel products.

We tend to ensure ready access to high-quality and low-cost raw materials through captive sources, long-term contracts and backward integration.

We ensure efficient use of existing resources to improve productivity and profitability. In amidst of energy crisis where electricity is available for only for 12 hours per day, the focus remains on enhancing productivity and efficiency through innovation, modernization of production techniques and implementation of new technology.

We are strongly committed to exploring new alternative means of energy.

We continuously strive to revive, refine and implement our human resource policies and Standard Operating Procedures (SOPs).

We have implemented Total Quality Management (TQM) function that seeks to lower non-conformance costs through active focus on health, safety, environment and operations.

We tend to achieve zero fatal accidents at our works site. We believe that we can achieve this

goal through extensive employee training and initiatives to create a culture of personal involvement and responsibility.

We work continuously to improve the quality of our products and aim to provide excellent quality to ensure the loyalty of our customers. We search for opportunities in new geographies, products and markets.

### SIGNIFICANT CHANGES IN OBJECTIVES AND STRATEGIES FROM PREVIOUS PERIOD

There is no material change in the Company's objective and strategies from the previous year.

### RELATIONSHIP BETWEEN ENTITY'S RESULTS AND MANAGEMENT'S OBJECTIVES

Financial and non-financial results are the reflection of achievement of management's objective which are strategically placed to increase the wealth of each stakeholder. The said results are properly evaluated against the respective strategic objectives to confirm the achievement.

### CRITICAL PERFORMANCE INDICATORS AND MEASURES

Following are some of the critical performance measures and indicators against stated objectives of the Company.

- Increase in employee retention;
- Decrease in accidental claims
- Increase in installed capacity
- Introduction of new technology
- Improved debt: equity structure
- Increasing shareholder's wealth;
- Improvement in operational performance;
- Diversified product portfolio

Management believes that current critical performance measures continue to be relevant in future as well.

## ENTITY'S SIGNIFICANT RELATIONSHIPS

The Company has very prominent and good relationships with all stakeholders. We maintain collaborative relations with our stakeholders through a good harmony, effective communication and customer focused approach because without doing this, we may affect our Company's performance and values of our entity. We follow the best policy to maintain the relationship with our stakeholders which includes satisfaction of customers by providing quality products and timely payments to all creditors.

## RISK AND OPPORTUNITY REPORT

We recognize that effective risk management is critical to our continued profitability and the long-term sustainability of our business.

Like all businesses, we are equally affected by, and must manage, risks and uncertainties that can impact our ability to deliver our strategy. While the risks can be numerous, the principal risks faced by the Company in 2015, and valid as of the date of this report's publication and as identified by the Board, are described below along with the corresponding mitigating actions and changes in the risk level during the year.

## RISK MANAGEMENT SYSTEM

The Board oversees the risk management process primarily

through its Audit Committee which monitors the Company's risk management process quarterly, or more frequently if required, focusing primarily on financial and regulatory compliance risks, while, the Human Resource & Remuneration Committee focuses on risks in its area of oversight, including assessment of compensation programs to ensure they do not escalate corporate risk, in addition to succession planning with a view to ensure availability of talented functionaries in each area of critical Company operations.

Board and its committees have adopted a set of policies and procedures, to promote a culture of ethics and values and delegate the authority to senior management for implementation of approved policies and procedure.

Senior management assess the risks and place appropriate controls to mitigate these risks.

A continuous cycle of monitoring performance of the implemented controls has been established to identify weaknesses and devising strategic plans for improvement, which has enabled identification of majority of performance risks.

## STRATEGIC, COMMERCIAL, OPERATIONAL AND FINANCIAL RISKS

The Company is exposed to the risks identified in the following sections, which are subject to diverse levels of uncertainty against which the Company has implemented effective mitigating strategies as discussed below.

The strategic, commercial, operational and financial risks can emanate from uncertainty in financial markets, project failures, legal liabilities, credit risk, accidents, natural causes and disasters as well

as deliberate aggressive actions from an adversary, or events of uncertain or unpredictable nature.

These key sources of uncertainty in estimation carry a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Strategic risks

Strategic risks are associated with operating in a particular industry and are beyond our control.

### Operational risks

These are risks associated with operational and administrative procedures, such as workforce turnover, supply chain disruption, IT system shutdowns, changes in Board structure or control failures.

### Commercial risks

These risks emanate from the commercial substance of an organization. Cut down in an entity's market share, product price regulation or a new constitutional amendment posing adverse threat to the organization's profitability and commercial viability are a few examples of this risk.

### Financial risks

Financial risks are divided in the following categories:

#### Credit risk

Credit risk is the risk of financial loss to a company if a customer or counterparty to a financial instrument fails to meet their contractual obligations, and arises principally from investments, loans and advances, deposits, trade debts, other receivables, short term investments and bank balances. We limit our exposure to credit risk by investing only in

liquid securities and only with counterparties that have high credit ratings. Management actively monitors credit ratings and given that the Company has invested in securities with high credit ratings only, management does not expect any counterparty to fail in meeting its obligations.

#### Market risk

Market risk is the risk that value of financial instruments may fluctuate as a result of changes in market interest rates or the market price due to change in credit rating of the issuer

or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Company is not exposed to market risk.

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations 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 uses different methods to assist in monitoring cash flow requirements and optimizing its cash return on investments. Typically the Company ensures that it has sufficient cash on demand, including lines of credit, to meet expected operational expenses for a reasonable period, including the servicing of financial obligation.

## PLANS AND STRATEGIES FOR MITIGATING RISKS

Risk	Mitigating strategy
<b>Strategic risk</b>	
The technology employed is or may become obsolete in the near future leaving the Company unable to deliver the required level of expertise and support for consistent growth.	At Mughal steel we believe in regular balancing, modernization and replacements of all our production facilities, ensuring our production facilities are state of the art while utilizing latest technological developments for cost minimization, energy efficiency and output optimization.
<b>Commercial risk</b>	
Decrease in the demand for Company's products may have an adverse impact on its profitability.	At present there is excess demand in Pakistan for iron and steel products. A further increase in demand is expected due to multiple factors including economic growth of the country, renewed focus of the government on public sector development and growing population leading to increased consumption of finished steel goods. We aim to utilize this opportunity by maintaining healthy margins through cost minimization and output optimization.
Competition from business competitors may create a hostile environment for the Company and result in business loss.	Projects of such nature are capital intensive and require specialized technical knowledge to operate. Similarly, procurement of raw material requires considerable experience. These factors act as barriers to entry for new firms. Being in the industry for over 5 decades has enabled Mughal Steel to effectively compete with existing firms in the industry. Moreover, the recent CAPEX to achieve cost efficiency, helped the Company to attain unmatched competitive advantage.
<b>Operational risk</b>	
Increase in employee turnover at critical positions.	The Company has a detailed succession plan and a culture of employee training and development, continuously promoting and rotating employees within the departments.
Gas shortages	The Company has invested in installation of the first ever coal gasification industrial plant in Pakistan that prepares clean syngas, which can be used instead of natural gas in heating processes.

Risk	Mitigating strategy
The Company may not be able to operate at an optimal capacity due to the unavailability of electricity.	The Company has installed a 9.3MW gas-fired power plant. In order to ensure continuous supply, the Company has also installed a captive 132 KVA Grid. Furthermore, the management of the Company is now focusing on the production of electricity through cheaper sources like coal to meet its electricity requirements.
Adverse price movement or no availability of raw materials may deter smooth production.	With an experience of over 5 decades, the Company has developed a Procurement Team who is well versed in acquiring the necessary raw material for production.
IT security risk	IT controls are in place to prevent unauthorized access to confidential information.
Risk of major accidents impacting employees, records and property	Implementation of strict and standardized operating procedures, employee trainings and operational discipline.
<b>Financial risk</b>	
Customers and banks will default in payments to the company.	Most of our sales are either against cash or advance. For credit sales, credit limits have been assigned to customers. Risk of default by banks has been mitigated by placements funds with banks having satisfactory credit ratings.
Insufficient cash available to pay liabilities resulting in a liquidity problem.	The Company has a proactive cash management system. Committed credit lines from banks are also available to bridge a liquidity gap, if any.
Fluctuations in foreign currency rates.	With the Company sales split between export and import, any adverse impact on currency is neutralized through the composition of sales.

## POTENTIAL OPPORTUNITIES

We are committed to investing in new projects and increasing the productivity of existing ones for fueling our future growth. We have strengthened the basis for further growth in the coming years by making strategic investments to modernize and improve our existing businesses processes while at the same time developing innovative ideas to support our achievement of company's stated vision.

## KEY SOURCES OF UNCERTAINTY

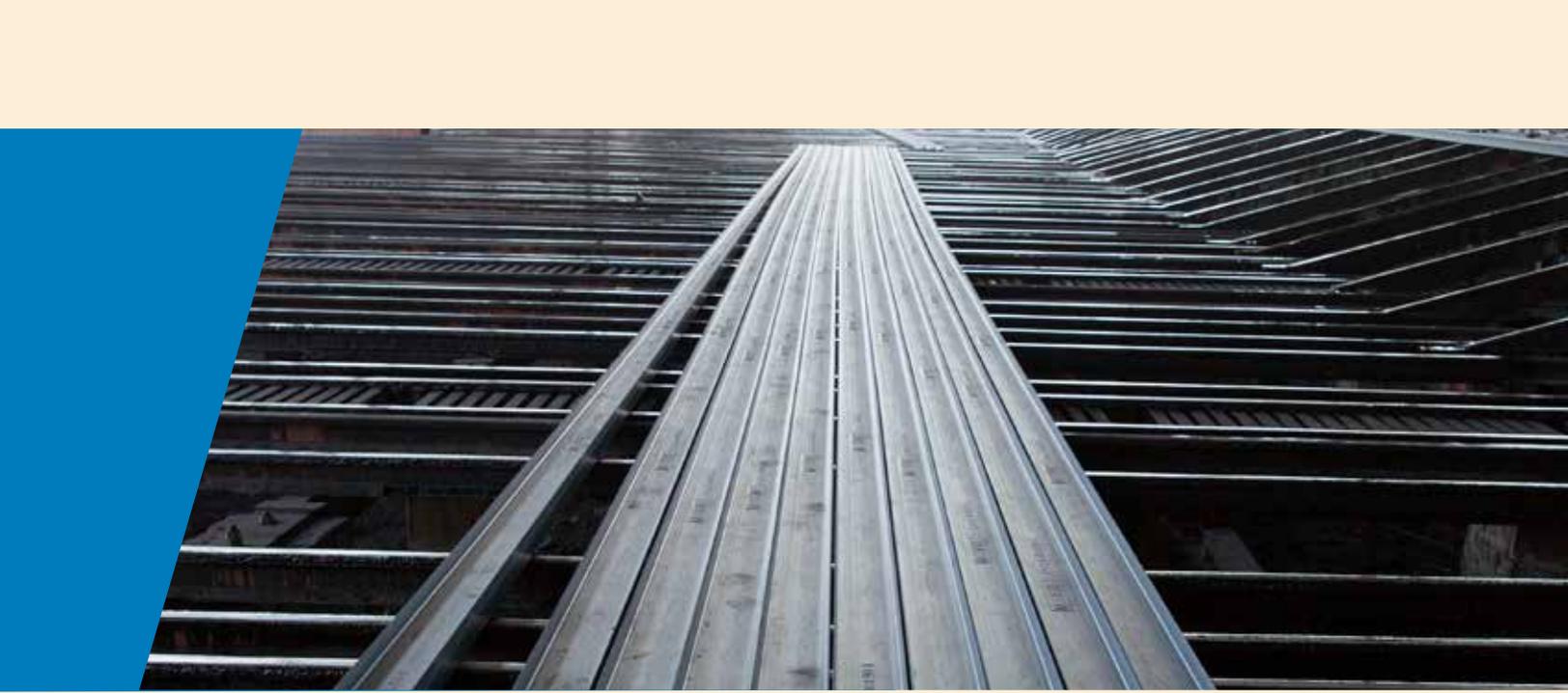
Preparation of financial statements in conformity with the approved accounting standards require management to make judgments, estimates and assumptions that affect

the application of accounting policies and the reported amounts of assets and 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 carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods. Detail of significant accounting estimates and judgments including retirement

benefits, estimation of useful life of property, plant and equipment along with provision for taxation have been disclosed in relevant notes to the annexed financial statements.

## MATERIALITY APPROACH ADOPTED

Materiality as a key component of an effective communication with stakeholders. In general, matters are considered to be material if, individually or in aggregate, they are expected to significantly affect the performance and profitability of the Company.



## MARKET OVERVIEW

### MARKET SHARE

The Company has 22% market share for long-rolled residential section products and 18% market share for long rolled reinforcement bar products, making it a leading brand in Pakistan with a diverse customer base and presence in almost all cities of Pakistan.

### PROCEDURES ADOPTED FOR QUALITY ASSURANCE OF PRODUCTS

We believe in providing the highest quality and best value for money products. The Company has implemented an extensive and effective quality assurance system for its products.

### QUALITY MANAGEMENT SYSTEMS

The Company is ISO-9001:2008 certified and truly implements Quality Management System. The Company manufactures mild steel products based on state of the art technology. While most of Pakistan's Steel manufacturing companies clung to the traditional "Induction Furnaces" and cross country re-rolling mills methods, Mughal Steel pioneered new roads with Ladle Refining

Furnace along with Argon Oxygen Decarburizer, direct re-rolling and tandem re-rolling concepts in the country.

The quality of all products is ensured at all stages of the steel making process through systematic and effective adoption, implementation, monitoring and continuous enhancement of quality control systems using latest methods of analysis. All stages of the production process right from the selection of raw materials, processing of materials and the finished product are subjected to rigorous testing, to ensure that each item is of the highest quality.

Invariable standard compliance could not have been possible without an unmatched source of reliability and particularly quality control trained personnel.

Our Laboratory is equipped with traditional chemical and mechanical analytical machines besides the world's renowned Optical Emission Spectrometer of M8 series. The machine is capable of analyzing 43 metal cannels within 3 minutes from sample preparation to complete detail analysis. We have two Universal Testing Machine units (100 tons & 200 tons) to carry mechanical tests such as yield, tensile strength and bend tests on various bars and sections.

## CORPORATE GOVERNANCE

### COMPLIANCE OF THE CODE OF CORPORATE GOVERNANCE

At Mughal Steel, we are firmly committed to ensuring the highest level of good governance through voluntary adoption of best business practices and standards. The Board reviews the Company's strategic direction and business plans on regular basis. The Audit Committee is empowered for effective compliance of the Code of Corporate Governance. The Board is committed to maintain a high standard of good corporate governance. The Company is fully compliant with all the best practices of code of corporate governance as at June 30, 2015, as otherwise, stated.

### DIRECTORS' COMPLIANCE STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAMEWORK

Your Directors are pleased to report that:

- The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.



- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored. The system is continuously monitored by Internal Audit and through other such monitoring procedures. The process of monitoring internal controls will continue as an ongoing process with the objective to further strengthen the controls and bring improvements in the system.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices

of corporate governance, as detailed in the Listing Regulations.

- Information regarding outstanding taxes and levies, as required by Listing Regulations, is disclosed in the notes to the financial statements.
- Details of significant changes in the Company's operations during the current year as compared to last year and significant plans and decisions for future, prospects of profits have been disclosed in the relevant areas of this report.
- Key operating and financial data of last four years is annexed.
- During the year six meetings of the Board of Directors and one meeting of the Audit Committee and Human Resource and Remuneration committee were held. Attendance by each director is attached separately.
- Details of training programs attended by the directors is mentioned separately.
- The number of employees as at June 30, 2015 were 575 (2014:416)
- The Company operates an unfunded gratuity scheme, based on the respective audited

accounts of June 30, 2015, the total obligation is as under:

Gratuity obligation	59.652 million
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There has been no material changes since June 30, 2014 except as disclosed in this annual report and the Company has not entered into any commitment, which would affect its financial position at the date except for those mentioned in the audited financial statements of the Company for the year ended June 30, 2015. The Company has not defaulted in repayment of any debt nor is it likely to default in future.

During the year, the Company has complied with all applicable provisions, filed all returns / forms and furnished all the relevant particulars as required under the Companies Ordinance, 1984 and allied rules, the Securities and Exchange Commission of Pakistan (SECP) Regulations and the listing requirements.

### **ACTUAL OR PERCEIVED CONFLICT OF INTEREST AMONG BOARD MEMBERS**

All the directors exercise their due rights of participation in Board proceedings, which are generally undertaken through consensus. Concerns of the Board members on

any agenda point are duly noted in the minutes of the proceedings for further evaluation of actual existence in addition to quantification of any conflict of interest before finalization of any agenda point.

## BOARD STRUCTURE AND ITS COMMITTEES

### BOARD STRUCTURE

The structure of the board of directors has been formulated with a view to ensure a balance of executive and non-executive directors, including independent directors and those representing minority interests with the requisite skills, competence, knowledge and experience so that the board as a group includes core competencies and diversity, including gender, considered relevant in the context of the company's operations.

The qualification and composition of the Board of Directors has been defined by the regulatory framework, which has been fully implemented by the Company to ensure transparency, good governance and awareness of Board responsibilities for smooth functioning of business operations.

The Board consists of 07 directors, effectively representing the interest of shareholders. There are 05 non-executive directors and 2 executive directors. The non-executive directors include one independent director. The Board comprises of suitably experienced and qualified professionals in order to ensure effective and efficient decision making. Detailed profiles of directors has been stated in the Annual Report. The status of directorship (independent, executive, non-executive) is indicated in the Statement of Compliance with the Code of Corporate Governance, issued by the Company.

Following are the Board members along with their status.

### S. No. Name of Directors

1.	Mirza Javaid Iqbal Chairman
2.	Mr. Khurram Javaid Chief Executive Officer / Director
3.	Dr. Salman Ali Shah Director
4.	Mr. Jamshed Iqbal Director
5.	Mr. Mubeen Tariq Mughal Director
6.	Mr. Fazeel Bin Tariq Director
7.	Mr. Mateen Jamshed Director

### ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The directors are fully aware of the level of trust entrusted in them by the shareholders for managing the affairs of the Company and safeguarding their interests.

The Board participates actively in major decisions of the Company including but not limited to appointment of key management, reviewing the annual business plan, approval of budgets for capital expenditures, investments in new ventures, issuance of shares to raise capital, approval of related party transactions, review of matters recommended / reported by board committees, review of status of any law suits and report on governance, risk management and compliance issues.

The Board also monitors Company's operations by approval of interim and annual financial statements and dividend, review of internal and external audit observations regarding internal controls and their effectiveness.

For the purpose of ensuring consistency and standardization, the Board has devised formal policies for conducting business and ensures their monitoring through an independent Internal Audit Department, which continuously monitors adherence to Company policies.

### CHANGES TO THE BOARD

During the year, Mirza Javaid Iqbal resigned from office of Chief Executive Officer and in his place Mr. Khurram Javaid was appointed as the Chief Executive Officer. Mirza Javaid Iqbal was elected by the Board to act as Chairman of the Board of Directors.

Further, one of our Board members resigned from office of directorship. We would like to put on record our appreciation for his valuable contributions made during his tenure as Board member, and for the new member, we take this opportunity to welcome him. We are very hopeful that the new member would, with indigenous initiatives, bring progress and more improvement in the Company.

Abstract u/s 218(b) of the Companies Ordinance, 1984 is annexed to the annual report.

### DIRECTORS' REMUNERATION

A formal and transparent procedure for fixing the remuneration packages of the individual directors has been established. As per these procedures and in compliance with legal requirements, no director is involved in deciding his / her own remuneration.

The directors' remuneration packages encourage value creation within the Company. Levels of remuneration are ensured to be appropriate in order to attract and retain directors needed to govern the Company successfully. Non-Executive Directors are paid remuneration as decided by the Board of Directors.

The aggregate amount of remuneration paid to executive and non-executive directors (if any), including salary/fee, benefits and performance-linked incentives etc. has been disclosed in the financial statements.

## BOARD COMMITTEES

### AUDIT COMMITTEE

#### Composition of audit committee

Syed Salman Ali Shah

Chairman – Independent Non-Executive director

Mr. Jamshed Iqbal

Member – Non-Executive director

Mr. Fazeel Bin Tariq

Member – Non-Executive director

Mr. Mateen Jamshed

Member – Non-Executive director

During the year only one meeting was conducted which was attended by all the members.

#### Terms of reference

The Board of Directors has approved the terms of reference of the Audit Committee. The Board provides adequate resources and authority to enable the Audit Committee carry out its responsibilities effectively.

The Audit Committee is, among other things, responsible for determination of appropriate measures to safeguard the listed company's assets, reviewing the quarterly, half yearly and annual accounts, review of management letter issued by external auditors and management's response thereto,

ensuring coordination between the internal and external auditors of the listed company, review of preliminary announcements of results prior to publication, reviewing and approving related party transactions, recommending to the Board of Directors the appointment of external auditors by Company's shareholders and considers any questions of resignation or removal of external auditors, audit fees and provision by external auditors of any service to the Company in addition to audit of its financial statements and consideration of any other issue or matter as may be assigned by the Board of Directors.

In the absence of strong grounds to proceed otherwise, the Board of Directors acts in accordance with the recommendations of the Audit Committee. The Chief Financial Officer (CFO), the Chief Internal Auditor (CIA) and the external auditor attend Audit Committee meetings by invitation.

The Committee comprises of four non-executive directors with the Chairperson being an independent non-executive director. The Chairman of the committee is a Ph.D. in Finance

from the Kelley School of Business Administration, Indiana University, USA lending significant financial and accounting insight to the proceedings of the Audit Committee. He has also served as the Advisor to the Prime Minister of Pakistan on various fields: Finance, Revenue, Economic Affairs and Statistics.

The Head of Internal Audit has been appointed as secretary of the Audit Committee.

### HUMAN RESOURCE AND REMUNERATION COMMITTEE.

#### Composition of human resource and remuneration committee.

Mirza Javaid Iqbal

Chairman – Non-Executive director

Mr. Jamshed Iqbal

Member – Non-Executive director

Mr. Mateen Jamshed

Member – Non-Executive director

Mr. Khurram Javaid

Member – Chief Executive / Director

During the year only one meeting was conducted which was attended by all the members.



The Human Resource and Remuneration Committee comprises of three non-executive directors and Chief Executive Officer. They are not connected with any business or other relationships that could interfere materially with, or appear to affect, their judgment. The Chief Executive Officer as member of HR&R Committee does not participate in the proceedings of the committee on matters that directly relate to his performance and compensation.

#### Terms of reference

The role of the Human Resources & Remuneration Committee is to assist the Board of Directors in its oversight of the evaluation and approval of the employee benefit plans, welfare projects and retirement emoluments. The Committee recommends any adjustments, which are fair and required to attract / retain high caliber staff, for consideration and approval.

The Committee is responsible for:

- Recommending human resource management policies to the board
- Recommending to the board the selection, evaluation, compensation (including retirement benefits) and succession planning of the CEO;
- Recommending to the board the selection, evaluation, compensation (including retirement benefits) of COO, CFO, Company Secretary and Head of Internal Audit; and
- Consideration and approval on recommendations of CEO on such matters for key management positions who report directly to CEO or COO.

### MEETINGS OF THE BOARD OF DIRECTORS

Legally, the Board is required to meet at least once per quarter to monitor

the Company's performance aimed at effective and timely accountability of its Management.

Special meetings are also called to discuss other important matters on required basis.

The Board held 6 meetings during the year, the notices / agendas of which were circulated in advance, in a timely manner.

Decisions made by the Board during the meetings were clearly stated in the minutes of the meetings maintained by the Company Secretary, and were duly circulated to all the directors for endorsement and were approved in the subsequent Board meetings. All meetings of the Board during the year had attendance more than requisite quorum prescribed by the Code of Corporate Governance and were also attended by the Chief Financial Officer and the Company Secretary.

During the year under review, six meetings of the Board of Directors were held. Attendance by each Director was as follows:-

S. No.	Name of Directors	No. of meetings attended
1.	Mirza Javaid Iqbal	6
2.	Mr. Khurram Javaid	6
3.	Dr. Salman Ali Shah	5
4.	Mr. Jamshed Iqbal	6
5.	Mr. Mubeen Tariq Mughal	6
6.	Mr. Fazeel Bin Tariq	6
7.	Mr. Mateen Jamshed	5
8.	Mr. Fahad Javaid	1

No meetings were held outside Pakistan during the year.

Mr. Fahad could only attend 1 meeting due to his subsequent resignation. Leave of absence was granted to remaining directors for not attending any meeting.

### ANNUAL EVALUATION OF BOARD PERFORMANCE AND EVALUATION CRITERIA FOR BOARD PERFORMANCE

Corporate governance requires boards to have effective processes and to evaluate their performance and appraise directors at least once a year.

The Board of Directors has put in place a mechanism for undertaking annual evaluation of the performance of the Board. The mechanism evaluates as to how the directors work as a team; what are their interpersonal skills; is the chairman an effective leader; do all directors contribute; what is the level of commitment (preparedness, engagement, absenteeism); is the board objective in acting on behalf of the company; is it robust in taking and sticking to difficult decisions; are decisions reached by the whole board; do decisions take account of shareholders' views; are there any "unmanaged" conflicts of interest etc.

When completing the performance evaluation, Board considers the following main performance evaluation process or behavior:

- Has the board set itself clear performance objectives and how well has it performed against them?
- What has been the whole board's contribution to the testing and development of strategy?
- What has been the board's contribution to ensuring robust and effective risk management?
- Is the composition of the board and its committees appropriate with the right mix of knowledge and skills sufficient to maximize performance in the light of future strategy?
- How has the board responded to

any problems or crises that have emerged and could or should they have been foreseen?

- What is the relationship between the board and its main committees and between the committees themselves?
- How well does the board communicate with the management team, company employees and others? How effectively does it use mechanisms such as the AGM, the business review and the annual report?
- Is the board as a whole up to date with latest developments in the regulatory environment and the market?

## OFFICES OF THE CHAIRMAN & CHIEF EXECUTIVE OFFICER

As part of our governance structure, the position of the Chairman of the Board of Directors and the office of the Chief Executive Officer are held separately, with clear division of roles and responsibilities.

## BRIEF ROLE & RESPONSIBILITIES OF CHAIRMAN & CEO

The Chairman represents the non-executive directors of the Board and is entrusted with the leadership of the Board's proceedings. The Chairman acts as the head of the Board meetings and is responsible for avoidance of conflicts of interests. He has the power to set the agenda, give directions and sign the minutes of the Board meetings. The Chairman is also responsible for assessing and making recommendations regarding the effectiveness of the Board, the committees and individual directors. The Chairman ensures effective role of the Board in fulfilling all its responsibilities.

The CEO is an executive director who also acts as the head of the Company's Management. He is entrusted with responsibility of:

- Safeguarding of Company assets
- Creation of shareholder value
- Identification of potential diversification / investment projects
- Implementation of projects approved by the Board
- Ensuring effective functioning of the internal control system
- Identifying risks and designing mitigation strategies
- Preservation of the Company's image
- Development of human capital and good investors' relations
- Compliance with regulations and best practices

## CEO PERFORMANCE REVIEW

The performance of the CEO is regularly evaluated by the Board of Directors. The performance evaluation is based on the criteria defined by the Board of Directors which includes various financial and non-financial key performance indicators. The Board periodically evaluates the actual performance against those KPIs during the year and discusses the future course of action to attain the Company's stated goals. The CEO also appraises to the Board regarding an assessment of senior management and their potential to achieve the objectives of the Company.

## FORMAL ORIENTATION AT INDUCTION

Each new member of the Board is taken through a detailed orientation process at the time of induction, and is trained extensively for enhancement

of management skills. A formal familiarization program mainly features amongst other things giving briefing relating to the Company's visions and strategies, company's core competencies, organizational structure and other related parties, major risks both external and internal, including legal and regulatory risks and constraints, role and responsibility of the director as per the Companies' Ordinance, including Code of Corporate Governance and any other regulatory laws applicable in Pakistan along with an overview of the strategic plans, marketing analysis, Forecasts, budget and 5 year business plans etc.

## DIRECTORS' TRAINING PROGRAM

All directors are professionals and senior executives who possess wide experience and awareness of duties of Directors. Nevertheless, training and orientation courses are an ongoing process and the Company intends to comply with the Director's training and orientation courses as required by CCG and completion of certification in the succeeding year. In this regard, the Company will subsequently ensure enrollment of all its directors for Directors Training Program from a recognized institute that meets the criteria specified by the SECP. Further, the Directors have also provided declarations that they are aware of their duties, powers and responsibilities under relevant laws and regulations.

## ISSUES RAISED AT LAST AGM

No issues were raised at the last annual general meeting of the Company.

## TRANSACTION / TRADE OF COMPANY'S SHARES

Board has reviewed the threshold for disclosure of interest by executives

holding of Company's shares which includes Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Head of Internal Audit and Company Secretary.

However, the none of the Directors or executives including Chief Executive Officer did not make any transaction in Company's shares including their spouses and minor children.

## REVIEW OF RELATED PARTY TRANSACTIONS

In compliance with the Code of Corporate Governance and applicable laws & regulations, details of all related party transactions are placed before the Audit Committee and upon recommendations of the Audit Committee, the same are placed before the Board for review and approval.

## QUARTERLY AND ANNUAL FINANCIAL STATEMENTS

Periodic financial statements of the Company during 2015 were circulated to directors, duly endorsed by the CEO and the Chief Financial Officer. Quarterly financial statements of the Company, are approved, published and circulated to shareholders on timely basis. The annual financial statements have been audited by the external auditors and approved by the Board and will be presented to the shareholders in the Annual General Meeting for approval. Other non-financial information to be circulated to governing bodies and other stake holders were also delivered in an accurate and timely manner.

## AUDITORS

The present auditors of the Company M/s. Fazal Mahmood & Co., Chartered Accountants audited the financial statements of the Company and have issued report to the members. The auditors will retire at the conclusion of the Annual General Meeting. Being

eligible, they have offered themselves for re-appointment. The Board has recommended the appointment of M/s. Fazal Mahmood & Co., Chartered Accountants as auditors for the ensuing year, as suggested by the Audit Committee, subject to approval of the members in the forthcoming Annual General Meeting.

## PATTERN OF SHAREHOLDING

During the year, the Sponsor's, Directors and Executives of the Company held the following number of shares:

Sponsors / Directors	82,041,053
Directors	100
Executives	Nil

Detailed pattern of shareholding of the Company in accordance with the Companies Ordinance, 1984 and Code of Corporate Governance as at June 30, 2015 is annexed.

## QUALIFICATION OF CFO AND HEAD OF INTERNAL AUDIT

The Chief Financial Officer and the Head of Internal Audit possess the requisite qualifications and experience as prescribed in the Code of Corporate Governance.

## WHISTLE BLOWING POLICY

As part of our firm commitment to highest standards of ethical, moral and legal business conduct and in line with our policy towards open communication, we have devised a transparent and effective whistle blowing mechanism for sounding of alerts against deviations from policies, controls, applicable regulations, or violation of the code of professional ethics / conduct. The aim is to provide an avenue for employees to raise concerns and reassurance that they will be protected from reprisals or victimization for whistleblowing.

The Whistle Blowing Policy is applicable to all employees, management & the Board and extends to every individual associated with the Company including contractors, suppliers, business partners and shareholders etc., who can participate effectively and in confidentiality, without fear of reprisal or repercussions.

If an employee has a reasonable belief that anyone has engaged in any action that violates any applicable law, or regulation, the employee is required to report concerns directly to immediate supervisors. However, where reporting to supervisors is impracticable, the level may be raised to the senior management. The policy has been designed to encourage all stakeholders to raise questions and concerns, monitor the progress of resultant inquiries, provide feedback and where required, also voice concerns against any unsatisfactory inquiry or proceeding.

The Policy covers unethical conduct, offence, breach of law or failure to comply with legal obligations and possible fraud / corruption. Due emphasis has also been placed on health, safety and environmental risks. Inappropriate or malicious reporting leading to wrongful convictions have been specifically forbidden, with clear definition of consequences for the persons making wrongful accusations.

No material incidence was reported to the Audit Committee during the year regarding improprieties in financial, operating, legal or other matters.

## HUMAN RESOURCE MANAGEMENT

Human Resource Management (HRM) is an integral part of our business strategy. The Company fosters leadership, individual accountability and teamwork.



The main objectives of the Company's HRM policy are:

- Selecting the right person, with the right experience, at the right time and offering the right compensation.
- Developing Management philosophies and practices to promote and encourage motivation and retention of the best employees.
- Recognizing and rewarding employees' contribution to the business.
- Fostering the concept of team work and synergetic efforts.
- Encouraging and supporting team concepts and team building techniques.
- Nurturing a climate of open communications between management and employees.
- Making all reasonable efforts to achieve a high quality of work-life balance.

## SUCCESSION PLANNING

The Company believes in proactive approach towards succession planning. We recruit employees, develop their knowledge, skills, abilities, and prepare them for advancement or promotion into ever more challenging roles. Rigorous succession planning is also in place throughout the organization.

Succession planning ensures that employees are constantly developed to fill each needed role. We look for people who exemplify continuous improvement when we are spotting future successors.

The desired results of the succession planning program are to:

- Identify high-potential employees capable of rapid advancement to positions of higher responsibility than those they presently occupy.
- Ensure the systematic and long-term development of individuals to replace key job incumbents as the need arises due to deaths, disabilities, retirements, and other unexpected losses.
- Provide a continuous flow of talented people to meet the organization's management needs.
- Meet the organization's need to exercise social responsibility by providing for the advancement of protected labor groups inside the organization.

## SOCIAL AND ENVIRONMENTAL RESPONSIBILITY POLICY

The Social and Environmental Responsibility Policy reflects the Company's recognition that there is a strong, positive correlation between financial performance and

corporate, social and environmental responsibility. We are committed to act responsibly towards the community and environment for our mutual benefit.

Our Social and Environmental practices have been elaborated in the section relating to 'Corporate Social Responsibility', with the following distinct features:

- Community investment & welfare schemes
- Rural development programs
- Corporate Social Responsibility
- Environmental protection measures
- Occupational health & safety
- Business ethics & anti-corruption measures
- Consumer protection measures
- Energy conservation
- Industrial relations
- Employment of special persons
- National cause donations
- Contribution to National Exchequer

## INVESTORS' GRIEVANCES POLICY

Investor queries and complaints constitute an important voice of Investor, and this policy details grievance handling through a

structured grievance framework. Grievance policy is supported by a review mechanism, to minimize the recurrence of similar issues in future. The Company's Grievances policy follows the following principles:

- Investors are treated fairly at all times.
- Complaints raised by Investors are dealt with courtesy and in a timely manner.
- Investors are informed of avenues to raise their queries and complaints within the organization, and their rights if they are not satisfied with the resolution of their complaints.
- Queries and complaints are treated efficiently and fairly.
- The Company's employees work in good faith and without prejudice, towards the interests of the Investors.

## STAKEHOLDERS' ENGAGEMENT

The development of sustained stakeholder relationships is paramount to the performance of any company. From short term assessments to longer term strategic relationship building, 'Stakeholders' Engagement' lies at the core of our business practices to promote improved risk management, compliance with regulatory and lender requirements in addition to overall growth of the Company.

### Our stakeholders and how we engage them

Below is a list of our stakeholders, why they and their concerns are important and how we engage with each group:

Stakeholder group	Why are they important
Customers	Provide markets for our products
	Provide revenue without which the business could not function
Employees	Integral to delivery on our strategic objectives
	Provide skilled labour to produce and market our products
	Our most important and valued ambassadors
Government	Develop legislation and policies that impact the environment in which we operate
	Have the ability to grant or revoke licenses necessary to operate
Shareholders	We are accountable to shareholders who expect returns on their investments
	Influence decisions taken by the board
Suppliers	Directly influence raw material and other input costs
	Reliable delivery impacts our ability to deliver customer needs and expectations
Local communities	Live in the vicinity of our operations, their environment and employment opportunities being directly impacted by our business
	Direct beneficiaries of our corporate social investments and economic opportunities presented by our operations
Bankers	Provide financing for our projects
Media & analysts	Has the potential to influence public perception and brand reputation

The frequency of engagements is based on business and corporate requirements as specified by the Code of Corporate Governance, contractual obligations or on requirements basis.

## INVESTORS' RELATIONS SECTION ON WEBSITE

Detailed Company information regarding financial highlights, investor information, share pattern/value and other requisite information specified under the relevant regulations, has been placed on the corporate website of the Company, which is updated on regular basis. In order to promote investor relations and facilitate access to the Company for grievance / other query registration, an 'Investors' Relations' section has also been introduced on our website [www.mughalsteel.com](http://www.mughalsteel.com).

# INFORMATION TECHNOLOGY

## IT GOVERNANCE POLICY

At Mughal Steel we are strongly committed in continuously exploring the prospects of implementing the best and latest IT technologies and infrastructure to enable efficient and timely decision making, in addition to economizing on the costs related to operating and decision making processes.

We have a properly documented and implemented IT Governance Policy to define the IT governance scope, and its roles and responsibilities. IT Governance policy consists of the following:

- Providing an organized decision making process around IT investment decisions.
- Influencing development and design of technology services, policies and solutions.
- Promoting governance, transparency, accountability and dialogue about technology that facilitates effective strategy adoption.
- Ensuring compatibility, integration and avoiding redundancy.
- Maximizing return on technology investment and controlling spending
- Securing the Company's data.
- Keeping the IT function proactive from an innovation perspective, providing ideas to the business.
- To create a culture of paperless environment within the Company.



## REVIEW BY THE BOARD OF BUSINESS CONTINUITY & DISASTER RECOVERY PLAN

The Company' Business Continuity & Disaster Recovery plan is regularly reviewed by the Board of Directors to ensure that critical business functions will be available to all the stakeholders that have access to those functions even under extraordinary circumstances and includes measures and arrangements to ensure the continuous delivery of critical services and products, which permits the organization to recover its facility, data and assets, identification of necessary resources to support business continuity, including personnel, information, equipment, financial allocations, legal counsel, infrastructure protection and accommodations in such circumstances.

The primary activities of the Board for the execution of the plan include but not limited to developing and maintaining a formal plan that is responsive to the Company's business needs and operating environment, ensuring that the business

continuity recovery team includes representatives from all business units, providing ongoing business continuity training to all employees including the executive management and the board, ensuring that thorough current business impact analysis and risk assessments are maintained and ensuring a centralized executive view of the business continuity plan and programs.

## POLICY FOR SAFETY & SECURITY OF RECORDS

Safety and security of IT data / record is ensured through effective implementation of the Company's policy for "Safety of Records" which includes access controls by way of security codes/passwords etc., in addition to establishment of on-site and remote reserve sites to maintain real-time backup of all primary data.



## CORPORATE SOCIAL RESPONSIBILITY

### THE SUSTAINABILITY CHALLENGE

2015 was a year in transition and we have some exciting new developments to share. In this report we present a new framework, focusing on various sustainable development outcomes we will work to achieve. Over the course of 2015, we worked hard to develop these, looking at what is material to us and viewing these issues through the lens of long-term social and environmental trends as well as the current operating context of our business.

As you will see, we are only at the start of our journey towards achieving our outcomes, but we are energized about their potential to generate sustainability and business improvements.

### CORPORATE / SOCIAL RESPONSIBILITY

The aim is to become a Company that is accepted by the society. Throughout our business process, we impact the society in many ways, striving to be a good corporate citizen and believing in giving back to the society. For community investment and welfare, the Company acknowledges its responsibility towards society. Giving away our share of kindness is not a part of a philanthropic endeavor, but a larger social responsibility that the society itself has entrusted upon us.

Throughout our business process we gladly look for ways through which we may extend a helping hand towards the society. In an attempt to fulfill this responsibility we have successfully launched, social and health welfare projects.

Mughal Steel has been part of various projects, the primary one being the Mughal Eye Hospital (Trust) that is entirely devoted to curtail the increasing blindness in Pakistan. To date it has benefitted 100,000 outdoor patients and has conducted 10,000 major surgeries, 15,000 minor surgeries and 5,000 laser surgeries, approximately on annual basis.

### ENERGY CONSERVATION

The Company is firmly committed to efficient use of limited energy resources. In this regard, gas and electricity is being produced at Mughal Steel. Further, successful turnaround in form of new energy efficient furnaces and rolling mills have brought desired results of efficient performance in addition to overall improvement in energy consumption indices.

The efforts of the Company for energy conservation have also been recognized by the Ministry of Industries, Engineering Development Board, FPCCI and other industrial forums of the country particularly for its contribution to energy efficiency measures.

### ENVIRONMENTAL PROTECTION MEASURES

The production of steel is grossly dependent on large amount of coal

feedstock that releases clouds of carbon dioxide emissions in the atmosphere. Clean coal technology is an efficient technology which reduces the emissions of Sulfur Dioxide and Nitrogen Dioxide resulting in plant efficiency.

During 2014, Mughal Steel met another milestone through the induction of clean coal technology. The Company is the pioneer in augmenting the utilization of coal gasification also known as the clean coal technology introduced in the industrial sector of Pakistan. The coal gasification not only yields efficiency in production and reduces the operating cost, but also accredits the company in fulfilling its strong commitment towards environmental sustainability. This has further strengthened the image of Mughal Steel as an environmental sensitive company that operates in compliance to the international health and environmental standards which has encouraged the company to invest in the clean coal technology.

### COMMUNITY INVESTMENT & WELFARE SCHEMES

The Company has a strong tradition of good community relations. We believe that investing in our communities is an integral part of our social commitment to ensure the sustained success of the Company. We aim to ensure that our business and factory have the resources and support to identify those projects, initiatives and partnerships that make a real difference in their communities and that mean something to employees and their families. Wedding ceremonies are arranged for



underprivileged individuals of the society. Educational scholarships also are given to needy students who have shown praiseworthy academic performance.

### CONSUMER PROTECTION MEASURES

The Company takes care and applies appropriate procedures to manufacture steel products so as to ensure that no harmful substances are present in its products. The Company has strict policy to control any activity which is against the consumer rights.

### INDUSTRIAL RELATIONS

The Company has set procedures, rules and regulations which regulate employment guidance. The Company has allocated Gratuity and Worker's Profit Participation Fund for its employees. The Company also pays bonuses to employees on the basis of Company's profitability and also awards performance incentives to star performers.

Employees are required to ensure compliance with regulations and the Company fully recognizes employee rights including the Collective Bargaining Agent (CBA). The Company is committed to provide equal opportunity to all existing and prospective employees without any discrimination on the basis of religion, gender, race, age etc. The Company also organizes rewards and recognition programs for acknowledgment of work done by its employees.

### EMPLOYMENT OF SPECIAL PERSONS

The Company ensures employment of disabled persons in compliance with the rules set out by the Government of Pakistan which is 2% quota of the total workforce necessitated to be allocated to disabled persons.

The Company has employed disabled persons in accordance with the requirement.

### OCCUPATIONAL HEALTH & SAFETY (OHS)

We are firmly committed to maintaining a safe and healthy working environment for our employees. Health management involves strengthening our employees' physical, mental and social wellbeing. We ensure that occupational safety is upheld by contract workforce through Code of Conduct for contractors.

A free medical Centre has been established at site providing medical facilities to the employees. Keeping in view the occupational health of employees, regular first aid and CPR training programs are conducted to ensure safe health of workers.

### BUSINESS ETHICS & ANTICORRUPTION MEASURES

The Company ensures ethical compliance with all regulatory and governing bodies while conducting its operations.

The Company has formulated various policies including "Code of Conduct", "Whistle Blowing Policy" and "Policy on Sexual Harassment". The Company ensures effective implementation of these policies through its training, management standards and procedures, with an aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Employees are encouraged to report any "kickbacks" deals. No employee is allowed to run a parallel business.

### NATIONAL CAUSE DONATIONS

The company encourages contributing to the national cause in the form of donations to Government Schemes.

### CONTRIBUTION TO NATIONAL EXCHEQUER

During the year, the Company has contributed an amount of Rs. 300.922 million towards national exchequer in shape of taxes, duties, cess, levies etc. The Company has also contributed through earnings of valuable foreign exchange amounting to Rs. 1.636 million.

### RURAL DEVELOPMENT PROGRAMMES

The Company is working hard to initiate and sustain rural development programs for the enhancement of health of the rural population along with infrastructure development of the areas.

## MITIGATING EFFORTS TO CONTROL INDUSTRY EFFLUENTS

In order to mitigate the effects of industrial effluents on surrounding environment, the Company is putting forth all efforts for providing healthy environment to employees and natives.

## ENERGY SAVING MEASURES TAKEN BY THE COMPANY

At Mughal Steel our main priority is efficient use of limited energy resources available. Successful operations of new energy efficient melting furnaces and re-rolling mills have contributed towards efficient performance in addition to overall improvement in energy consumption.

## FUTURE PROSPECTS / FORWARD LOOKING STATEMENT

The growth and profitability of the Company is dependent upon a number of external factors such as economic development, political stability, consistent economic policies with improved law and order situation of the country. The year under review was by far the best performing year in the history of the Company. The Company successfully managed to achieve its desired objectives in terms of growth, innovation, profitability, efficiency and governance. The trend is expected to remain consistent in the upcoming period as a result of increase in demand of steel for public sector projects like small dams, roads and bridges together with increase in construction activities in the private sector giving a boost to steel consumption.



The Company's growth strategy has enabled it to keep investing in opportunities which would continue to bring in scale of economies and energy efficiency resulting in increase shareholder value in the years to come. The initiatives of the Government which include infrastructure development across the country will continue to be fruitful for your Company. The key aspiration for the management in the years to come will not only to maintain the current performance standards but to add more feathers to the consistent track record of the Company.

The Company's export sales might decrease as a result of fall in export rates which may marginally affect exports. However, increase in local demand could nullify the ill effects of fall in exports. Further, local sales is also expected to increase as a result of infrastructure development due to Pak-China Economic Corridor.

Efficiency and cost reduction efforts continue to be the main focus in all operational areas and the Company has adopted various strategies to reduce cost including use of alternative fuels and optimized operations of the plant.

The Board is committed to provide sustained returns to our shareholders, in addition to maintaining our reputation for good governance.

## ACKNOWLEDGEMENTS

The directors endorse the contents of the Chairman and Chief Executive Officer's message.

The Board expresses its gratitude for the efforts of all its employees, executives, workers and stakeholders which enabled the management to run the Company smoothly throughout the year. It is expected that the same co-operation would be forthcoming in future years.

On behalf of the Board

**Mirza Javaid Iqbal**  
Chairman of the Board

Lahore: September 30, 2015

## ABSTRACT UNDER SECTION 218(B) OF THE COMPANIES ORDINANCE, 1984

Pursuant to the provisions of Section 218(b) of the Companies Ordinance, 1984, the members of the Company are notified that the Board of Directors in their meeting held on December 09, 2014 has approved the following remuneration packages of below mentioned directors w.e.f. July 01, 2014:

Name	Designation	Remuneration / Benefits
Mirza Javaid Iqbal	Chairman / Non-Executive Director	Rs. 450,000/- per quarter salary along Director with reimbursement of expenses, if any.
Khurram Javaid	Chief Executive / Director	Rs. 500,000/- per month salary with company maintained car and reimbursement of expenses, if any.
M. Mubeen Tariq Mughal	Executive Director	Rs. 500,000/- per month salary with company maintained car and reimbursement of expenses, if any.
Dr. Salman Ali Shah	Independent Director	Reimbursement of expenses along with meeting fee of Rs. 5,000/- per meeting.
Jamshed Iqbal	Non-Executive Director	Rs. 450,000/- per quarter salary along with reimbursement of expenses, if any.
Fazeel Tariq Mughal	Non-Executive Director	Rs. 450,000/- per quarter salary along with reimbursement of expenses, if any.
Mateen Jamshed	Non-Executive Director	Rs. 450,000/- per quarter salary along with reimbursement of expenses, if any.

The above remunerations shall be subject to such increments, bonuses, adjustments and other entitlements as may be granted from time to time by the Board of Directors of the Company and/or in accordance with the policies and the service rules of the Company for the time being in force. The above directors who are also shareholders have interest to the extent of their respective remuneration / benefits to which they are entitled.

Further, Mr. Mirza Javaid resigned from office of Chief Executive Officer while in his place Mr. Khurram Javaid was appointed as Chief Executive Officer for the remaining term. Mr. Fahad Javaid has resigned from the office of directorship as the executive director and in his place Mr. Mateen Jamshed has been appointed by the Board of Directors as non-executive director of the Company with effect from September 03, 2014 for the remaining tenure.

# HORIZONTAL ANALYSIS

	2015 Rs. in '000	15 vs 14 %	2014 Rs. in '000	14 vs 13 %	2013 Rs. in '000	13 vs 12 %	2012 Rs. in '000	12 vs 11 %	2011 Rs. in '000	11 vs 10 %
<b>Balance Sheet</b>										
Total equity	3,641,544	101.97	1,803,026	90.09	948,509	29.19	734,194	17.04	627,308	100.00
Total non-current liabilities	1,016,158	[38.50]	1,652,370	10.14	1,500,230	27.58	1,175,926	208.27	381,458	100.00
Total current liabilities	6,811,927	88.26	3,618,325	138.00	1,520,279	[28.42]	2,123,833	7.96	1,967,245	100.00
<b>Total equity &amp; liabilities</b>	<b>11,469,629</b>	<b>62.14</b>	<b>7,073,721</b>	<b>78.22</b>	<b>3,969,018</b>	<b>[1.61]</b>	<b>4,033,953</b>	<b>35.55</b>	<b>2,976,011</b>	<b>100.00</b>
Total non-current assets	3,305,952	14.62	2,884,382	17.99	2,444,507	32.02	1,851,684	78.97	1,034,605	100.00
Total current assets	8,163,677	94.87	4,189,339	174.80	1,524,511	[30.14]	2,182,269	12.41	1,941,406	100.00
<b>Total assets</b>	<b>11,469,629</b>	<b>62.14</b>	<b>7,073,721</b>	<b>78.22</b>	<b>3,969,018</b>	<b>[1.61]</b>	<b>4,033,953</b>	<b>35.55</b>	<b>2,976,011</b>	<b>100.00</b>
<b>Profit and Loss Account</b>										
Sales	12,241,272	104.95	5,972,673	52.03	3,928,514	7.41	3,657,422	21.63	3,006,891	100.00
Cost of Sales	10,957,166	108.92	5,244,696	47.57	3,553,974	5.81	3,358,903	22.58	2,740,120	100.00
<b>Gross profit</b>	<b>1,284,106</b>	<b>76.39</b>	<b>727,977</b>	<b>94.37</b>	<b>374,540</b>	<b>25.47</b>	<b>298,519</b>	<b>11.90</b>	<b>266,771</b>	<b>100.00</b>
Distribution cost	61,847	4.38	11,489	[0.41]	19,397	0.37	14,128	0.84	7,666	100.00
Administrative expenses	116,838	0.48	79,142	0.02	77,675	0.48	52,610	[0.09]	57,914	100.00
Other charges	45,188	0.75	25,779	3.18	6,161	0.01	6,079	0.25	4,852	100.00
Other operating income	[14,776]	3.03	[3,663]	[0.34]	[5,529]	[0.70]	[18,703]	[0.08]	[20,435]	100.00
	209,096	0.85	112,747	0.15	97,704	0.81	54,114	0.08	49,997	100.00
<b>Profit from operations</b>	<b>1,075,010</b>	<b>0.75</b>	<b>615,230</b>	<b>1.22</b>	<b>276,836</b>	<b>0.13</b>	<b>244,405</b>	<b>0.13</b>	<b>216,774</b>	<b>100.00</b>
Finance costs	350,032	0.61	217,600	0.43	152,271	0.12	135,394	[0.11]	151,309	100.00
<b>Profit before taxation</b>	<b>724,978</b>	<b>0.82</b>	<b>397,630</b>	<b>2.19</b>	<b>124,565</b>	<b>0.14</b>	<b>109,011</b>	<b>0.67</b>	<b>65,465</b>	<b>100.00</b>
Taxation	3,616	[0.47]	6,770	[3.19]	[3,096]	[2.46]	2,115	[0.91]	23,760	100.00
<b>Profit after taxation</b>	<b>721,361</b>	<b>0.85</b>	<b>390,860</b>	<b>2.06</b>	<b>127,661</b>	<b>0.19</b>	<b>106,896</b>	<b>1.56</b>	<b>41,705</b>	<b>100.00</b>

# VERTICAL ANALYSIS

	2015		2014		2013		2012		2011	
	Rs. in '000	%	Rs. in '000	%	Rs. in '000	%	Rs. in '000	%	Rs. in '000	%
<b>Balance sheet</b>										
Total equity	3,641,544	31.75	1,803,026	25.49	948,509	23.90	734,194	18.20	627,308	21.08
Total non-current liabilities	1,016,158	8.86	1,652,370	23.36	1,500,230	37.80	1,175,926	29.15	381,458	12.82
Total current liabilities	6,811,927	59.39	3,618,325	51.15	1,520,279	38.30	2,123,833	52.65	1,967,245	66.10
<b>Total equity &amp; liabilities</b>	<b>11,469,629</b>	<b>100.00</b>	<b>7,073,721</b>	<b>100.00</b>	<b>3,969,018</b>	<b>100.00</b>	<b>4,033,953</b>	<b>100.00</b>	<b>2,976,011</b>	<b>100.00</b>
Total non-current assets	3,305,952	28.82	2,884,382	40.78	2,444,507	61.59	1,851,684	45.90	1,034,605	34.76
Total current assets	8,163,677	71.18	4,189,339	59.22	1,524,511	38.41	2,182,269	54.10	1,941,406	65.24
<b>Total assets</b>	<b>11,469,629</b>	<b>100.00</b>	<b>7,073,721</b>	<b>100.00</b>	<b>3,969,018</b>	<b>100.00</b>	<b>4,033,953</b>	<b>100.00</b>	<b>2,976,011</b>	<b>100.00</b>
<b>Profit and Loss Account</b>										
Sales	12,241,272	100	5,972,673	100.00	3,928,514	100.00	3,657,422	100.00	3,006,891	100.00
Cost of Sales	10,957,166	89.51	5,244,696	87.81	3,553,974	90.47	3,358,903	91.84	2,740,120	91.13
<b>Gross profit</b>	<b>1,284,106</b>	<b>10.49</b>	<b>727,977</b>	<b>12.19</b>	<b>374,540</b>	<b>9.53</b>	<b>298,519</b>	<b>8.16</b>	<b>266,771</b>	<b>8.87</b>
Distribution cost	61,847	0.51	11,489	0.19	19,397	0.49	14,128	0.39	7,666	0.25
Administrative expenses	116,838	0.95	79,142	1.33	77,675	1.98	52,610	1.44	57,914	1.93
Other charges	45,188	0.41	25,779	0.49	6,161	0.17	6,079	0.18	4,852	0.18
Other operating income	(14,776)	(0.12)	(3,663)	(0.06)	(5,529)	(0.14)	(18,703)	(0.51)	(20,435)	(0.68)
	209,096	1.71	112,747	1.89	97,704	2.49	54,114	1.48	49,997	1.66
<b>Profit from operations</b>	<b>1,075,010</b>	<b>8.78</b>	<b>615,230</b>	<b>10.30</b>	<b>276,836</b>	<b>7.05</b>	<b>244,405</b>	<b>6.68</b>	<b>216,774</b>	<b>7.21</b>
Finance costs	350,032	2.86	217,600	3.64	152,271	3.88	135,394	3.70	151,309	5.03
<b>Profit before taxation</b>	<b>724,978</b>	<b>5.92</b>	<b>397,630</b>	<b>6.66</b>	<b>124,565</b>	<b>3.17</b>	<b>109,011</b>	<b>2.98</b>	<b>65,465</b>	<b>2.18</b>
Taxation	3,616	0.03	6,770	0.11	(3,096)	(0.08)	2,115	0.06	23,760	0.79
<b>Profit after taxation</b>	<b>721,361</b>	<b>5.89</b>	<b>390,860</b>	<b>6.54</b>	<b>127,661</b>	<b>3.25</b>	<b>106,896</b>	<b>2.92</b>	<b>41,705</b>	<b>1.39</b>

# SUMMARY OF CASH FLOW STATEMENT

	2015	2014	2013	2012	2011
Cash generated from / (used in) operations	2,348,439	(1,508,589)	740,876	533,284	249,889
Long term security deposits	(75)	561	(857)	22,446	(25,390)
Finance cost paid	(347,323)	(205,149)	(164,327)	(139,654)	(106,930)
Workers' profit participation fund paid	(20,928)	(6,161)	(6,080)	(3,516)	-
Retirement benefits paid	(3,727)	(384)	-	-	-
Profit received	-	-	-	1,016	-
Income tax paid	(260,107)	(116,416)	(63,812)	(43,965)	(114,460)
Increase in long-term loans to employees	(722)	-	-	-	-
<b>Net cash generated from operating activities</b>	<b>1,715,557</b>	<b>(1,836,139)</b>	<b>505,801</b>	<b>(785,520)</b>	<b>1,677,360</b>
Payments for capital work in progress	-	-	(503,896)	(364,094)	(339,035)
Sale proceeds from disposal of short term investments	-	-	22,407	-	-
'Held-to-maturity' investments made during the year - net	(524,620)	-	-	-	-
Profit received on 'held-to maturity' investments	3,755	-	-	-	-
Sale proceeds from disposal of available for sale investments	-	438	-	(14,607)	(7,800)
Payments for capital expenditure	(514,808)	(518,691)	(136,187)	(497,882)	(25,963)
Payments to acquire long term investments	-	-	-	-	1,000
Proceeds from disposal of property, plant & equipment	2,610	-	-	-	2,000
<b>Net cash used in investing activities</b>	<b>(1,033,063)</b>	<b>(518,252)</b>	<b>(617,676)</b>	<b>(876,583)</b>	<b>(369,798)</b>
Long term financing - net	(470,177)	637,493	(44,718)	94,521	268,329
Long term loans from related parties - net	-	-	405,296	731,339	138,795
Share issue cost	(52,900)	(1,501)	87,417	-	-
Short term borrowings -net	(1,039,403)	1,630,790	1,070,950	1,322,907	460,251
Proceeds from issuance of ordinary shares	929,900	-	-	-	-
<b>Net cash used in financing activities</b>	<b>(632,579)</b>	<b>2,266,783</b>	<b>1,518,945</b>	<b>2,148,767</b>	<b>867,376</b>
<b>Net increase / decrease in cash and cash equivalents</b>	<b>49,914</b>	<b>(87,609)</b>	<b>336,120</b>	<b>(104,310)</b>	<b>34,160</b>
Cash and cash equivalents at the beginning of the year	(512,331)	(424,722)	(1,303,116)	124,101	89,941
<b>Cash and cash equivalents at the end of the year</b>	<b>(462,417)</b>	<b>(512,331)</b>	<b>(966,996)</b>	<b>19,791</b>	<b>124,101</b>

# COMMENTS ON FIVE YEARS ANALYSIS

## COMMENTS ON HORIZONTAL ANALYSIS

### Balance sheet

Total equity showed an increasing trend from year 2011 due to continuous improvement in profitability of the company on account of increased sales revenue and further injection of equity.

Total non-current liabilities and current liabilities also showed decreasing trend from year 2011 mainly due to repayments of long-term loans over the period and effective management of short-term borrowings due to enhanced profitability.

### Profit & Loss Account

Turnover increased over the years from 2011 to 2015, due to increase in sales prices and sales volume.

Gross Profit has been remarkably increased over the years due to increase in margins on account of better sale prices and cost efficiencies. However, gross profit decline in 2015 due to imposition of regulatory duty on import of billet.

Finance cost has shown increasing trend mainly due to increase in working capital requirements and debt financing of capital expenditure.

Profit before taxation improved on account of increased margins and sale revenue.

Profit after taxation decreased in current year as compared to previous years mainly due related deferred tax provision.

## COMMENTS ON VERTICAL ANALYSIS

### Balance sheet

Debt Equity Ratio showed continuous improvement over the years as the Company's equity share was increased over the years due to high profits on account of better margins and reduction in debts on account of repayments.

A continuous improvement in liquidity position of the company observed over the years. Current assets were 70% of total assets of the company in year 2015 as compared to 59% in year 2014. Current ratio has improved to 1.20 in year 2015 which was 0.99 in year 2011.

### Profit & Loss Account

Gross profit %age increased to 10.49% in year 2015 which was lowest in year 2011 i.e. 8.87%. This growth over the years was mainly due to increase in sales prices, effective mix of local and export sales and various cost efficiency measures. However, gross profit decline in 2015 due to imposition of regulatory duty on import of billet.

Net profits of the Company has increased from 1.39% in year 2011 to 5.89% in year 2015 due to increased GP margins.

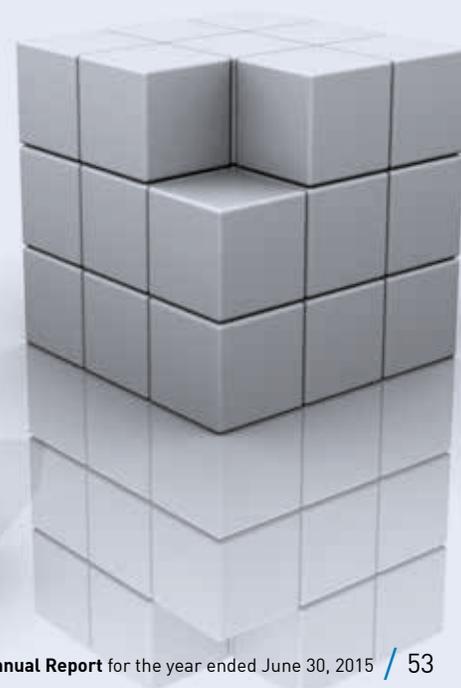
Profit after tax started improving from year 2012 and highest net profit %age was 6.54% in year 2014. However, in year 2015, net profit %age declined due to provision of deferred taxation and imposition of regulatory duty.

## COMMENTS ON CASH FLOW STATEMENTS

Net cash generated from operating activities showed a mix trend during five years. However, 2015 cash generated from operations amounted to Rs. 1,715.556 million mainly due to improving profitability on account of increased sales volumes, improved retention and efficient cost management.

Net cash used in investing activities depicted cash utilization on account of fixed capital expenditure. Moreover, in current year fixed capital expenditures increased mainly due to procurement of new furnaces. The trend depicts managements strong focus on re-investing in the Company to refuel it growth and expansion ideology.

Net cash used in financing activities exhibited an increasing trend on account of repayments of debt payments in 2015. Cash & cash equivalents also showed a mix trend over the years.



# ANALYSIS OF FINANCIAL RATIOS

	2015	2014	2013	2012	2011
<b>Profitability Ratios</b>					
Gross profit ratio	10.49%	12.19%	9.53%	8.16%	8.87%
Net profit to sales	5.89%	6.54%	3.25%	2.92%	1.39%
EBITDA margin to sales	9.52%	11.59%	8.36%	7.30%	7.82%
Operating leverage ratio	0.71	2.35	1.79	0.59	1.00
Return on equity	19.81%	21.68%	13.46%	14.56%	6.65%
Return on capital employed	17.31%	12.62%	5.55%	6.91%	3.86%
<b>Liquidity Ratios</b>					
Current ratio	1.20	1.16	1.00	1.03	0.99
Quick / Acid test ratio	0.46	0.36	0.60	0.67	0.54
Cash to current liabilities	0.07	0.03	0.07	0.01	0.06
Cash flow from operations to sales	0.14	(0.31)	0.13	(0.21)	0.56
<b>Activity / Turnover Ratios</b>					
Inventory turnover ratio	23.59	17.44	69.90	49.42	31.17
No. of days in Inventory	15.47	20.93	5.22	7.39	11.71
Debtor turnover ratio	26.70	13.50	4.10	2.97	17.12
No. of days in Receivables	13.67	27.04	89.05	122.78	21.32
Creditor turnover ratio	2.90	3.15	3.64	3.62	3.17
No. of days in payables	125.98	115.74	100.31	100.75	115.12
Total Assets turnover ratio	1.07	0.84	0.99	0.91	1.01
Fixed assets turnover ratio	3.73	2.08	1.62	1.99	3.02
Operating cycle	[96.83]	[67.76]	[6.04]	29.42	[82.10]
<b>Investment / Market Ratios</b>					
Earnings per share	8.12	4.76	1.72	1.46	1.42
Price earnings ratio	6.93	-	-	-	-
Market value per share					
- Closing	56.24	-	-	-	-
- High	69.31	-	-	-	-
- Low	35.69	-	-	-	-
Break up value per share	33.10	16.17	11.56	12.52	10.7
<b>Capital structure ratios</b>					
Financial leverage ratio	0.86	2.55	2.86	3.54	3.51
Weighted average cost of debt	0.13	0.09	0.10	0.07	0.15
Debt to equity ratio	0.30	1.00	1.73	1.74	0.72
Interest cover ratio	3.07	2.83	1.82	1.81	1.43

# COMMENTS ON RATIO ANALYSIS

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## PROFITABILITY RATIOS

Profitability ratios depicted improved trend due to improved sales prices, increased sales revenues and improved cost efficiencies. In year 2015, sales prices faced decline to which there was decrease in the overall gross margin ratio as compared to previous years, however, and decline in sales price would be covered by improvement in cost efficiency measures being adopted by the Company. Further, imposition of regulatory duty also resulted in fall in gross margin in 2015.

## LIQUIDITY RATIOS

As prices and sales volume increased, liquidity position of the Company improved and resulted in better cash flows. Therefore, ratios started improving from year 2011 and ended in much better condition in 2015 as compared to year 2011.

## INVESTMENT / MARKET RATIOS

Earning per share increased from Rs. 1.42 in 2001 to Rs. 8.12 in 2015 mainly due to increased turnover and improved margins. The market value of the Company's share and its breakup value continued to increase due to better operational and financial performance of the Company.

## CAPITAL STRUCTURE RATIOS

The ratios started to improve with passage of time due to repayment of debts resulted and injection for further equity.

## ACTIVITY / TURNOVER RATIOS

The ratios depicted a mix trend, with inventory and receivable ratios showing improvement as compared to payables ratios which increased slightly from previous year.

# DUPONT ANALYSIS

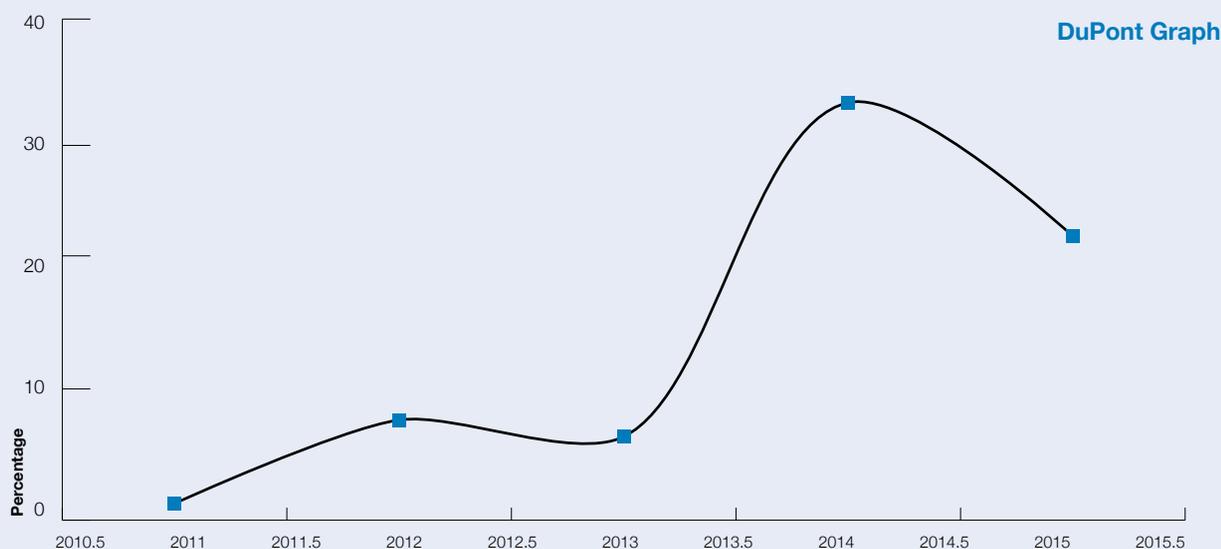
Year	Return on Equity (Equity multiplier * Return on Assets)	Equity Multiplier (Avg Assets / Avg Equity)	Return on Assets	Total Assets Turnover (Sales / Avg Assets)	Profit margin (Pre tax profit / Sales)
E = C X D	D	C = A X B	B	A	
2015	27%	3.41	8%	1.32	6%
2014	35%	4.85	7%	1.08	7%
2013	15%	4.76	3%	0.98	3%
2012	16%	5.15	3%	1.04	3%
2011	11%	2.95	4%	1.66	2%

## Following are the main DuPont analysis highlights:

- 1) Operating Efficiency of the Company measured in terms of profit margins showed increasing trend mainly due to better cost control measures including commencement of direct rolling for bar re-rolling mill and continuous reduction in finance cost on account of debt repayments. However, the profit margins in 2015 were effected due to regulatory duty on import of billet.
- 2) Assets turnover of the Company has improved due to increasing revenues by using the Company's resources more efficiently.
- 3) Return on Assets i.e. the combined effect of the above two factors also showed the continuous improvement in profits earned on assets.
- 4) Equity Multiplier improved due to better continuous equity improvement on account of better profits over the period. However, fall in the current year was mainly due to injection of fresh equity.

## Conclusion:

Overall DuPont analysis depicts improvement in the overall performance of the Company. From year 2011 to year 2014, Return on Equity has increased. However, in year 2015 return on equity declined mainly due to injection of fresh equity.



# KEY OPERATING AND FINANCIAL DATA

	2015	2014	2013	2012	2011
<b>Quantitative data (M.Tons)</b>					
Production	239,787	159,503	56,288	70,600	66,432
Sales	12,241,272	5,972,673	3,928,514	3,657,422	3,006,891
<b>Sales (Rs.)</b>					
Local Sales	10,605,375	3,723,039	1,509,445	928,123	1,044,639
Export Sales	1,635,897	2,249,634	2,419,069	2,729,299	1,962,253
<b>Total Sales</b>	<b>12,241,272</b>	<b>5,972,673</b>	<b>3,928,514</b>	<b>3,657,422</b>	<b>3,006,891</b>
<b>Profitability (Rs.)</b>					
Gross profit	1,284,106	727,977	374,540	298,519	266,771
Profit before taxation	724,978	397,630	124,565	109,011	65,465
Provision for taxation	(3,616)	(6,770)	3,096	(2,115)	(23,760)
<b>Profit after taxation</b>	<b>721,361</b>	<b>390,860</b>	<b>127,661</b>	<b>106,896</b>	<b>41,705</b>
<b>Financial position (Rs.)</b>					
Fixed assets	3,285,942	2,865,375	2,423,557	1,834,918	995,384
Other non current assets	20,010	19,007	20,950	16,766	25,597
	<b>3,305,952</b>	<b>2,884,382</b>	<b>2,444,507</b>	<b>1,851,684</b>	<b>1,020,981</b>
Current assets	8,163,677	4,189,339	1,524,511	2,182,269	1,941,406
Current liabilities	6,811,927	3,618,325	1,520,279	2,123,833	1,967,245
<b>Net working capital</b>	<b>14,975,604</b>	<b>7,807,664</b>	<b>3,044,790</b>	<b>4,306,102</b>	<b>3,908,651</b>
Capital employed	4,657,703	3,455,396	2,448,739	1,910,120	1,008,766
Less: Non current liabilities	1,016,158	1,652,370	1,500,230	1,175,926	381,458
<b>Shareholders equity</b>	<b>3,641,544</b>	<b>1,803,026</b>	<b>948,509</b>	<b>734,194</b>	<b>627,308</b>
<b>Represented by:</b>					
Share capital	1,093,912	820,412	820,412	586,396	586,396
Revenue reserve	1,226,789	505,906	128,667	148,599	41,704
Share premium	-	-	-	-	-
Capital reserve	603,500	-	-	-	-
Equity portion of sponsor shareholders' loan	717,344	476,708	-	-	-
	<b>3,641,544</b>	<b>1,803,026</b>	<b>949,079</b>	<b>734,995</b>	<b>628,100</b>

# STATEMENT OF CASH FLOW DIRECT METHOD

Rupees

2015

2014

## Cash flows from operating activities

Cash receipt from customers	12,075,073,630	6,218,178,088
Cash paid to suppliers and employees	9,726,634,839	7,726,767,130
<b>Cash generated / (utilized) from operations</b>	<b>2,348,438,791</b>	<b>(1,508,589,042)</b>

Increase in long-term loans to employees	(722,370)	-
Increase in long-term deposits	(75,000)	560,530
Retirement benefits paid	(3,727,135)	(383,544)
Finance cost paid	(347,322,751)	(205,149,263)
Workers' profit participation fund paid	(20,927,908)	(6,161,494)
Income tax paid	(260,106,836)	(116,416,494)
	(632,882,002)	(327,550,265)
<b>Net cash generated from / (used in) operations</b>	<b>1,715,556,791</b>	<b>(1,836,139,307)</b>

## Cash flow from investing activities

Capital expenditure incurred	(514,807,609)	(518,690,869)
'Held-to-maturity' investments made during the year - net	(524,620,436)	-
Profit received on 'held-to maturity' investments	3,755,301	-
Proceeds from redemption of 'available for sale' investments	-	438,400
Proceeds from sale of property, plant & equipment	2,609,691	-
<b>Net cash (used in) investing activities</b>	<b>(1,033,063,053)</b>	<b>(518,252,469)</b>

## Cash flow from financing activities

Long-term financing - net	(470,176,904)	637,493,498
Share issue costs	(52,899,824)	(1,501,200)
Proceeds from issuance of ordinary shares	929,900,000	-
Short-term borrowings - net	(1,039,402,669)	1,630,790,427
<b>Net cash (used in) / generated from financing activities</b>	<b>(632,579,397)</b>	<b>2,266,782,725</b>

Net decrease in cash and cash equivalents	49,914,341	(87,609,051)
Cash and cash equivalents at the beginning of the year	(512,330,922)	(424,721,871)
<b>Cash and cash equivalents at the end of the year</b>	<b>(462,416,581)</b>	<b>(512,330,922)</b>

# RESULTS REPORTED IN INTERIM FINANCIAL STATEMENTS AND FINAL ACCOUNTS

	Interim reports results				Annual	
	September Qtr		March Qtr		Full year	
	Rupees in 000'	%	Rupees in 000'	%	Rupees in 000'	%
Turnover	1,709,091	-	7,971,967	-	12,241,272	-
Gross profit	272,103	15.92%	890,155	11.17%	1,284,106	10.49%
Operating profit	234,750	13.74%	776,781	9.74%	1,075,010	8.78%
Net profit before tax	128,950	7.54%	512,905	6.43%	724,978	5.92%
Net profit after tax	130,896	7.66%	477,621	5.99%	721,361	5.89%
Debt: Equity Ratio	2,543,422	175%	2,106,379	117%	1,090,359	30%
	1,457,215		1,803,939		3,641,544	
Current ratio	5,433,501	1.21	5,174,463	1.21	8,163,677	1.20
	4,493,407		4,272,300		6,811,927	

## ANALYSIS OF VARIATION IN RESULTS REPORTED IN INTERIM FINANCIAL STATEMENTS WITH THE FINAL ACCOUNTS

### 3 Months Ended September 30, 2013

Gross profit ratio for the 1st Quarter was 15.92 % as compared to annual GP of 10.49%, mainly due to higher margins in export sales in 1st quarter as compared to last quarter. The gross profit in the last quarter was affected by fall in sale prices and effect of regulatory duty.

Operating profit was 13.74% as compared to 8.78% in annual mainly due to regulatory duty and fall in sale prices.

Net profit before tax was 7.54% as compared to annual 5.92%, mainly due to low GP % in annual.

Net Profit After Tax was 7.66% as compared to 5.89% in annual due to provision for deferred taxation.

Debt Equity Ratio was 175% in first quarter as compared to 30% in annual, mainly due to increase in equity and repayment of debt in annual.

Current ratio remained stable at 1.21 as compared to annual of 1.20.

### 9 Months Ended March 31, 2014

Gross Profit Ratio was 11.17% as compared to annual GP of 10.49%, mainly due to fall in sale prices and imposition of regulatory duty.

Operating Profit was 9.74% as compared to 8.78% in annual due to fall in gross margin.

Net Profit Before Tax was 6.43% as compared to annual 5.92% mainly due to fall in GP margins.

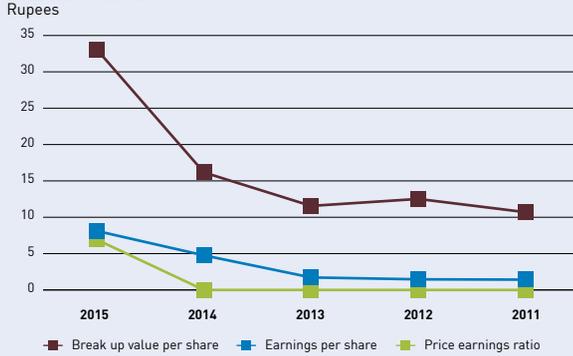
Net Profit After Tax was 5.99% as compared to 5.89% in annual. Profit after tax declined in annual mainly due to provision for deferred taxation.

Debt Equity Ratio was 117% as compared to 30% in annual, mainly due to more repayment of debts in annual, increase in profits and fresh injection of equity.

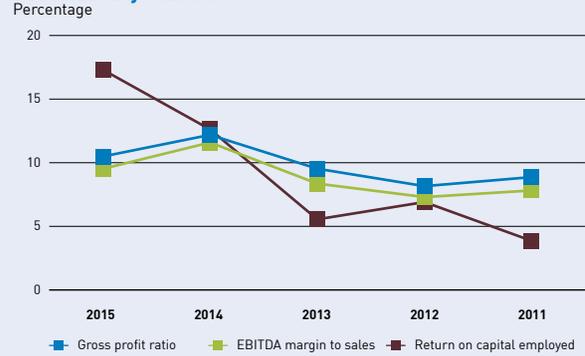
Current ratio remained stable at 1.21 as compared to annual of 1.20.

# STAKEHOLDERS' INFORMATION

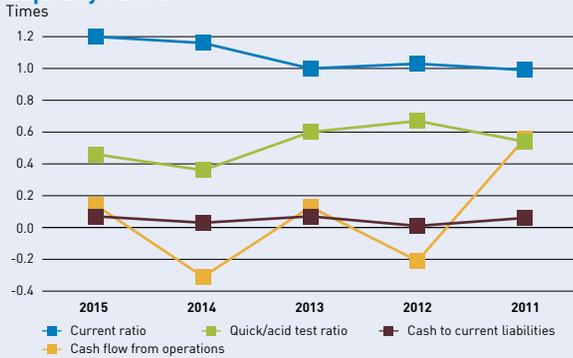
## Market Ratios



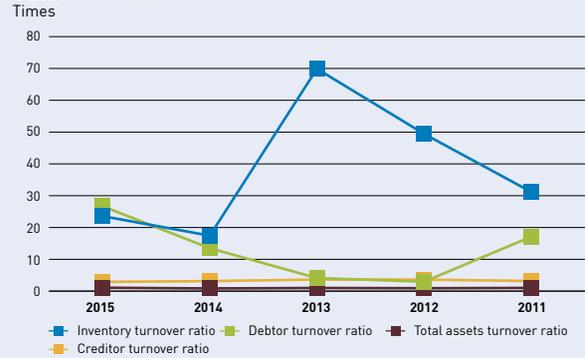
## Profitability Ratios



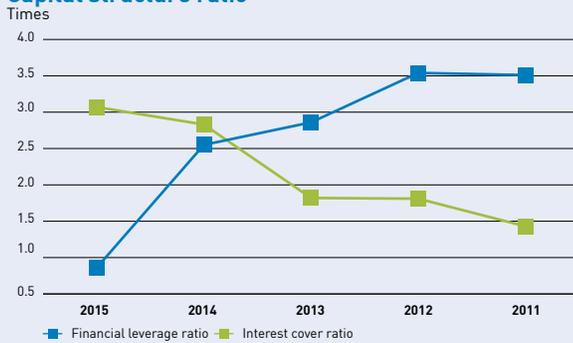
## Liquidity ratios



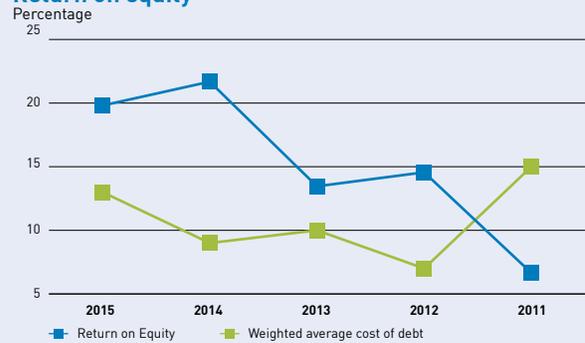
## Turnover ratios



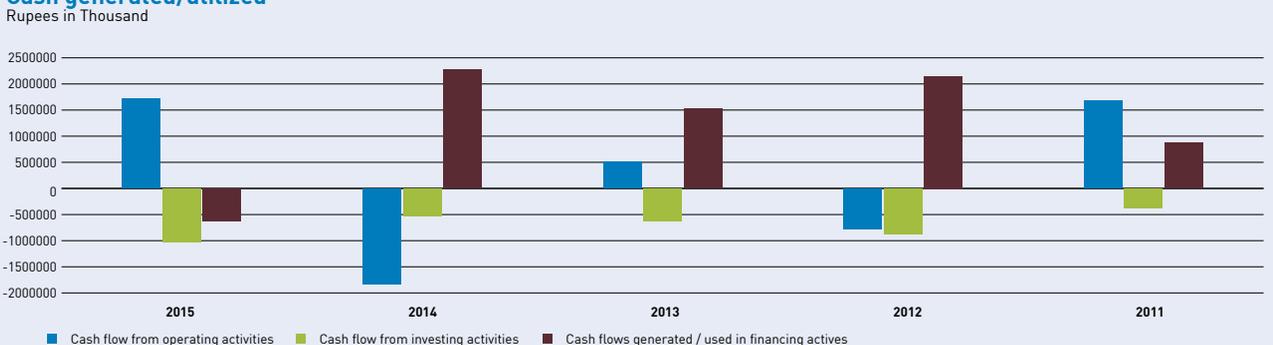
## Capital structure ratio



## Return on equity

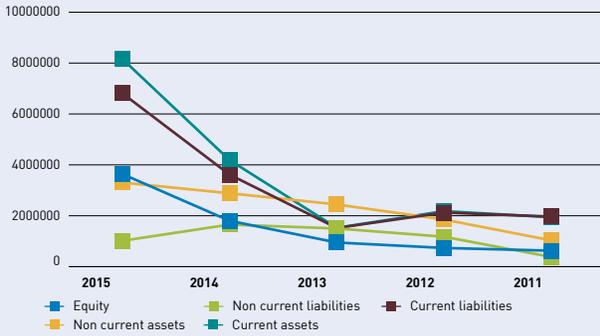


## Cash generated/utilized



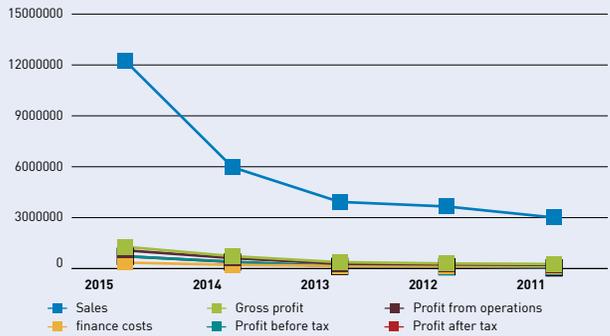
### Horizontal analysis - Balance sheet

Rupees in thousand



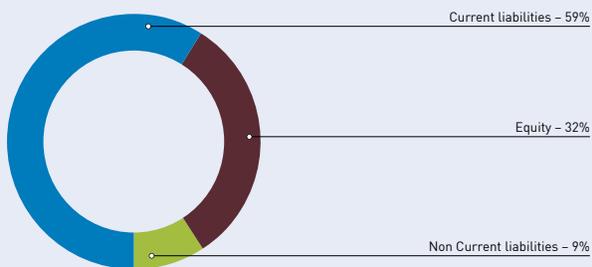
### Horizontal analysis - Profit and loss

Rupees in thousand



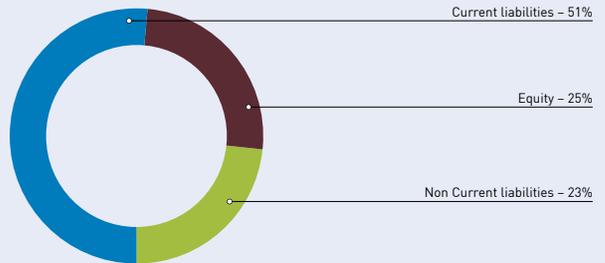
### Equity & Liabilities - 2015

Percentage



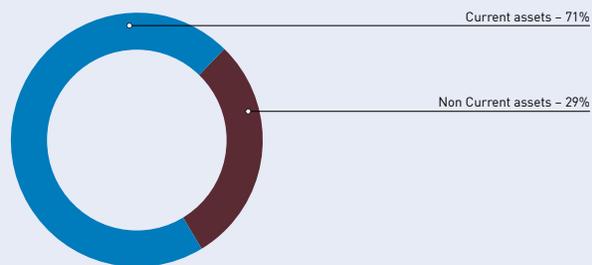
### Equity & Liabilities - 2014

Percentage



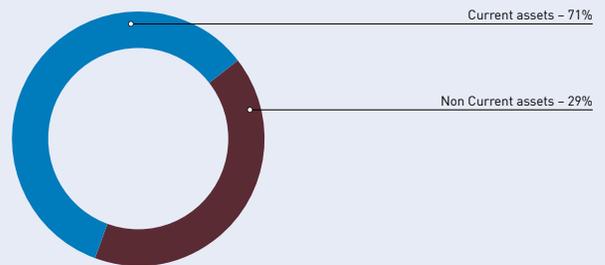
### Assets - 2015

Percentage



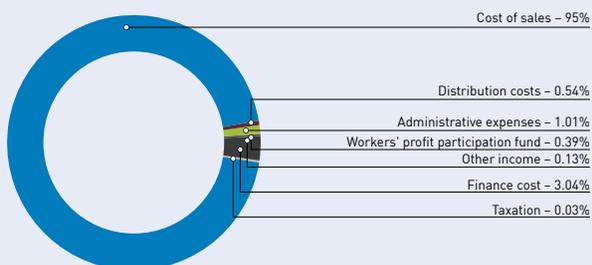
### Assets - 2014

Percentage



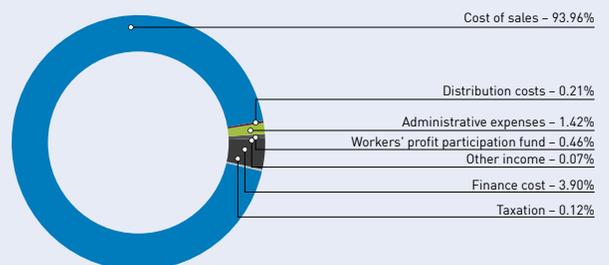
### Profit and Loss - 2015

Percentage



### Profit and Loss - 2014

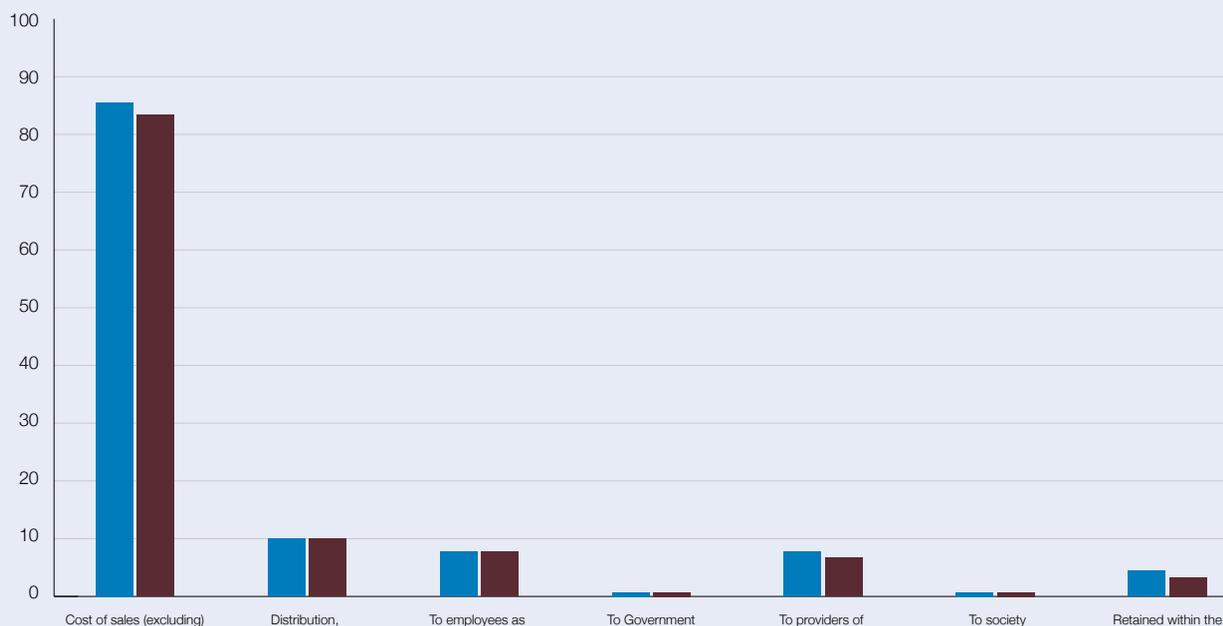
Percentage



# DISTRIBUTION OF WEALTH

	2015	%	2014	%
<b>Wealth generated</b>				
Sales	12,241,272	1.00	5,972,673	1.00
Other operating income	14,776	0.00	3,663	0.00
	12,256,048	1.00	5,976,336	1.00
<b>Distribution of wealth</b>				
Cost of sales (excluding employees' remuneration)	10,669,439	0.87	5,105,902	0.85
Distribution, administrative & other	154,225	0.01	80,448	0.01
To employees as remuneration	354,310	0.03	171,372	0.03
To Government as taxes	3,616	0.00	6,770	0.00
To providers of finance as financial charges	350,032	0.03	217,600	0.04
To society	3,064	0.00	3,384	0.00
Retained within the business	721,361	0.06	390,860	0.07
	12,256,048	1.00	5,976,336	1.00

## Wealth Distribution



# SHARE PRICE SENSITIVITY ANALYSIS

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Following are the major factors which might effect the share price of the Company in the stock exchanges:

## **INCREASE IN DEMAND:**

Increase in demand of steel may result in increase in market prices which will contribute towards better profitability and Earning Per Share (EPS) , which will ultimately increase the share price.

## **INCREASE IN VARIABLE COST:**

Any increase in variable cost (Mainly includes Furnace oil, Power and Raw Material cost) may badly effect the gross margins and will resultantly fall in the profitability and fall in EPS. This may badly effect the market price of the share downward.

## **INCREASE IN FIXED COST:**

Fixed cost which mainly consists of Financial Charges, Exchange losses, and other overheads. If SBP discount rate goes up, rupee devaluation occurs and increase in inflation happens than net profitability of the company will be effected and will have negative effect on the EPS which results into fall in share prices. If the said factors happen on the positive sides than share price will improve.

## **CHANGE IN GOVERNMENT POLICIES:**

Any change in government policies related to steel sector may effect the share price of the Company. If policy change is positive than share price will increase, otherwise vice versa.

# DEFINITION AND GLOSSARY OF TERMS

---

## GROSS PROFIT RATIO

The relationship of the gross profit made for a specified period and the sales or turnover achieved during that period.

## NET PROFIT RATIO

Net profit ratio is the ratio of net profit (after taxes) to net sales.

## OPERATING PROFIT RATIO

The operating profit margin ratio indicates how much profit a company makes after paying for variable costs of production.

## CURRENT ASSET RATIO

The key indicator of whether you can pay your creditors on time. The relationship between current assets like cash, book debts, stock and work in progress and current liabilities like overdraft, trade and expense creditors and other current debt.

## CURRENT RATIO

A company's current assets divided by its current liabilities. This ratio gives you a sense of a company's ability to meet short-term liabilities, and is a measure of financial strength in the short term. A ratio of 1 implies adequate current assets to cover current liabilities: the higher above 1, the better.

## DEBT-EQUITY RATIO

The ratio of a company's liabilities to its equity. The higher the level of debt, the more important it is for a company to have positive earnings and steady cash flow. For comparative purposes, debt-equity ratio is most useful for companies within the same industry.

## EARNINGS PER SHARE (EPS)

The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability.

## PROFIT MARGIN

Determined by dividing net income by net sales during a time period and is expressed as a percentage. Net profit margin is a measure of efficiency and the higher the margin, the better. Trends in margin can be attributed to rising/falling production costs or rising/falling price of the goods sold.

## RETURN ON ASSETS

The amount of profits earned (before interest and taxes), expressed as a percentage of total assets. This is a widely followed measure of profitability, thus the higher the number the better. As long as a company's ROA exceeds its interest rate on borrowing, it's said to have positive financial leverage.

## RETURN ON EQUITY (ROE)

A percentage that indicates how well common stockholders' invested money is being used. The percentage is the result of dividing net earnings by common stockholders' equity. The ROE is used for measuring growth and profitability. You can compare a company's ROE to the ROE of its industry to determine how a company is doing compared to its competition.

## RETURN ON INVESTMENT (ROI)

Also known as return on invested capital (ROIC). ROI is a measure of how well management has used the company's resources. ROI is calculated by dividing earnings by total assets. It is a broader measure than return on equity (ROE) because assets include debt as well as equity. It is useful to compare a company's ROI with others in the same industry.

## DUPONT ANALYSIS:

A type of analysis that examines a company's Return on Equity (ROE) by splitting it into three main components; profit margin, total asset turnover and equity multiplier. This analysis highlight the main driving factor of ROE and the factor which needs to be addressed to improve the ROE.

# REPORT OF THE AUDIT COMMITTEE

One meeting of the Audit Committee was held during the year 2014-2015.

## REPORT OF THE COMMITTEE

- The Audit Committee reviewed and approved the quarterly, and annual financial statements of the Company and recommended them for approval of the Board of Directors.
- Appropriate accounting policies have been consistently applied. All core and other applicable International Accounting Standards were followed in preparation of financial statements of the Company on a going concern basis, which present fairly the state of affairs, results of operations, cash flows and changes in equity 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 and the external reporting is consistent with management processes and adequate for shareholder needs.
- The Audit Committee has reviewed and approved all related party transactions.
- The Chief Executive and the CFO have endorsed the financial statements of the



Company, consolidated financial statements and the Directors' Report. They acknowledge their responsibility for true and fair presentation of the Company's financial condition and results, compliance with regulations and applicable accounting standards and establishment and maintenance of internal controls and systems of the Company.

- All Directors have access to the Company Secretary. All direct or indirect trading and holdings of Company's shares by Directors & 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 which were notified by the Company Secretary to the Board within the stipulated time. All such holdings have been disclosed in the Pattern of Shareholdings. The Annual Secretarial Compliance Certificates are being filed regularly within stipulated time.

- Closed periods were duly determined and announced by the Company, precluding the Directors, the Chief Executive and executives of the Company from dealing in Company shares, prior to each Board meeting involving announcement of interim/final results, distribution

to shareholders or any other business decision, which could materially affect the share market price of Company, along with maintenance of confidentiality of all business information.

- The Company's system of internal control is sound in design and is continually evaluated for effectiveness and adequacy.
- The internal control framework has been effectively implemented through an independent in-house Internal Audit function established by the Board which is independent of the External Audit function.
- The Internal Audit function has carried out its duties under the charter defined by the Committee. The Committee has reviewed material Internal Audit findings, taking appropriate action or bringing the matters to the Board's attention where required.
- The Audit Committee on the basis of the internal audit reports reviewed the adequacy of controls and compliance shortcomings in areas audited and discussed corrective actions in the light of management responses. This has ensured the continual evaluation of controls and improved compliance.
- The Head of Internal Audit has direct access to the Chairman of the Audit Committee and the Committee has ensured staffing of personnel with sufficient internal audit acumen and that the function has all necessary

access to Management and the right to seek information and explanations.

- Coordination between the External and Internal Auditors was facilitated to ensure efficiency and contribution to the Company's objectives, including a reliable financial reporting system and compliance with laws and regulations.
- The Chairman of Audit Committee is a Ph.D. in Finance from the Kelley School of Business Administration, Indiana University, USA.
- The Audit Committee has ensured that statutory and regulatory obligations and requirements of best practices of governance have been met.
- The external auditors Fazal Mahmood & Co, Chartered Accountants were allowed direct access to the Audit Committee and necessary coordination with internal auditors was ensured. Major findings arising from audits and any matters that the external auditors wished to highlight were freely discussed with them.
- The external auditors have been allowed direct access to the Committee and the effectiveness, independence and objectivity of the auditors has thereby been ensured. The auditors attended the General Meetings of the Company during the year and have confirmed attendance of the upcoming Annual General Meeting scheduled for October 31, 2015 and have indicated

their willingness to continue as Auditors

- The Audit Committee reviewed the Management Letter issued by the external auditors and the management response thereto. Observations were discussed with the auditors and required actions recorded.
- Appointment of external auditors and fixing of their audit fee was reviewed and the Audit Committee following this review, recommended to the Board of Directors re-appointment of Fazal Mahmood & Co., as external auditors for the year 2015-2016.

**Dr. Salman Ali Shah**

Chairman of the Audit Committee

Lahore: September 30, 2015

# STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in listing regulations of Karachi, and Lahore stock exchanges on which the Company is listed 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 encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present, the Board includes:-

**Independent**  
Syed Salman Ali Shah

**Non-Executive Directors**  
Mirza Javaid Iqbal  
Jamshed Iqbal  
Fazeel Bin Tariq  
Mateen Jamshed

**Executive Directors**  
Khurram Javaid  
Muhammad Mubeen Tariq  
Mughal

The independent directors meet the criteria of independence under clause i(b) of the CCG.
- The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company.
- 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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- Following casual vacancy occurring in the Board during the year 2015 was filled up promptly by the directors within the stipulated time:

  - Mr. Mateen Jamshed appointed in place of Fahad Javaid.
  - Mr. Khurram Javaid appointed as Chief Executive Officer in place of Mirza Javaid Iqbal.
- The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.
- The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained. The Corporate Strategy of the Company is reviewed and approved by the Board along with the annual plan.
- 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.
- All the meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated within due time before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- All directors are professionals and senior executives who possess wide experience and awareness of duties of Directors. Nevertheless, training and orientation courses are an ongoing process and the Company intends to comply with the Director's training and orientation courses as required by CCG and completion of certification in the succeeding year. In this regard, the Company will subsequently ensure enrollment of all its directors for Directors Training Program from

- a recognized institute that meets the criteria specified by the SECP. Further, the Directors have also provided declarations that they are aware of their duties, powers and responsibilities under relevant laws and regulations.
10. The Board has ratified the appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
  11. The Directors' Report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
  12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
  13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
  14. The Company has complied with the corporate and financial reporting requirements of the CCG.
  15. The Board has formed an Audit Committee. It comprises of four members, three of whom are non-executive directors and the Chairman of the committee is an independent non - executive director.
  16. The meetings of the Audit Committee are 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 advised to the Committee for compliance.
  17. The Board has formed a Human Resources and Remuneration Committee. It comprises four members, three of whom are non-executive directors including the Chairman of the Committee. The Chief Executive Officer is also the member of HR&R Committee, however, does not participate in the proceedings of the committee on matters that directly relate to his performance and compensation.
  18. The Board has set up an effective Internal Audit function which is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company.
  19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, 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 Chartered Accountants of Pakistan.
  20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
  21. The "closed period", prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of the company's securities, was determined and intimidated to directors, employees and stock exchange(s).
  22. Material and price sensitive information has been disseminated among all market participants at once through the stock exchange(s).
  23. We confirm that all other material principles enshrined in the CCG have been complied with.

**Khurram Javaid**  
Chief Executive Officer

Lahore: September 30, 2015





**Mughal Iron & Steel Industries Limited**

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