PAKISTAN STEEL MILLS CORPORATION (PRIVATE) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Crowe

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Pakistan Steel Mills Corporation (Private) Limited (the Corporation)** as at June 30, 2016 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that except for matters as discussed in paragraphs (1) to (7) below, we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

It is the responsibility of the Corporation's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

Except for the matters as discussed in paragraphs (1) to (7) below, we conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our qualified opinion and, after due verification, we report that:

1. We were appointed as auditors of the Corporation in February 2019 and thus did not observe the counting of the physical stores, spares and stock-in-trade at June 30, 2016. We were unable to satisfy ourselves by alternative means of the inventories held by the Corporation as at that date. Since opening and closing inventories enter into the determination of the financial performance of the Corporation, we were unable to determine whether adjustments might have been necessary in respect of the stores, spares and stock-in-trade.

2. The Corporation's plant has separate significant components which are depreciated at the same rate of 5% although they appear to have different useful lives. International Accounting Standard (IAS) 16 Property, Plant and Equipment requires that each significant part of Property, Plant and Equipment needs to be depreciated separately. We also noted that management did not carry out a formal review of useful lives and residual values of plant as required by IAS 16. Management asserts that residual value of plant is estimated to be more than its carrying value, but we have not been provided evidence for the same. In the absence of this assessment of component wise useful lives, the reassessment of useful lives and proper estimate of the residual value, we were not able to determine the adjustments that would have been required, if any, on the carrying amounts of operating assets and the related depreciation charged in the profit and loss account.

3. There is no system for carrying out physical count and valuation of scrap material in the Corporation. As a result, such material is reflected in the financial statements at zero value due to which, we were unable to satisfy ourselves as to the quantity and value of such material and 'whether any adjustments to these amounts were necessary. Management has "informed us that the quantum of such scrap material has been reduced significantly due to halted operations.

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Nevertheless, we have not received any quantification of the amount that was held, and accordingly, we were unable to determine the amount of scrap material held at June 30, 2016, that has not been reported in the financial statements.

4. IAS 40 Investment Property requires that investment property which is measured under fair value model must be re-measured at fair value as of the balance sheet date. However, as disclosed in note 4.1 to the financial statements, the Corporation has not revalued the land classified as Investment Property during the year, accordingly we were unable to determine the adjustments that would have been required, if any, on the carrying amount of investment property and the related gain that would have been recorded in the profit and loss account.

5. During the year 2014 and 2015, revaluations were carried out each year in investment property which resulted in a significant increase in the respective carrying values of investment property each year. Further, as disclosed in note 3.1.7 to the financial statements, during 2014 the Corporation had carried out valuation of its land classified under Property, Plant and Equipment, however, no revaluation was carried out again for the land included in Property, Plant and Equipment despite indications of significant change in its value. The major portion of land was sold to the Corporation by the Government of Sindh (GoS) for steel mills and steel mills township purpose (i.e., for specific purpose) and requires permission of GoS in case of sale. As the land requires permission of GoS in case of sale, hence, we were unable to assess whether such permission would be provided to the Corporation, and if so, under what conditions and restrictions and what adjustments, if any, to the carrying amounts of land included in Property, Plant and Equipment, Investment Property, gain on re- measurement at fair value, surplus on revaluation of land and the related deferred tax accounts were necessary to be recorded in the financial statements.

6. An amount of Rs. 2,730 million has been reflected as tax refundable in the Corporation's balance sheet. Such refundable amounts have remained outstanding for several years, and we have not observed any communication with the tax authorities that indicate recovery of such refunds in the foreseeable future. Further, we have also not received any confirmation from the Corporation's tax advisor with regard to its recovery. Subsequent to the balance sheet date, management through a letter dated July 12, 2017 to Federal Board of Revenue (FBR) has requested for early settlement of these refunds, but no response has been received from FBR. Consequently, we were unable to ascertain whether and to what extent such refundable amounts are expected to be realized.

7. As more fully disclosed in note 28.7 to the financial statements, the Corporation is in dispute with Sui Southern Gas Company Limited (SSGCL) with regard to Late Payment Surcharge (LPS) claimed by SSGCL amounting to Rs. 24,168 million, as management believes that based on the decisions of the Economic Coordination Committee of the Cabinet (ECC), SSGCL should waive LPS, which SSGCL did not accede and stopped gas supply during the year and filed a suit against the Corporation for recovery of outstanding gas bills and LPS in the Sindh High Court (the Court). The Corporation also filed a counter-suit against SSGCL in the Court, claiming damages for losses suffered by the Corporation amounting to Rs. 38,663 million owing to discontinuance of gas supply by SSGCL from June 2015. Management has not recognized any liability in respect of LPS in the enclosed financial statements, as it expects that decision of ECC should prevail and ultimately, LPS will not be payable. However, in view of suit filed by SSGCL for LPS claim instead of waiver of the same, we were unable to determine what will be the amount payable by the Corporation in respect of LPS claimed by SSGCL.

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