

Directors' Report

The Directors' of the Company are pleased to present their report along with the audited Financial Statements of the Company for the year ended June 30, 2018.

BOARDS COMPOSITION & REMUNERATION

Composition of the Board and the names of Members of Board sub-committees may be referred at Page No. 70 & 82 (Corporate Governance section).

Furthermore, the Board of Directors have a formal policy and transparent procedures for remuneration of its Directors in accordance with the Companies Act 2017 and the Listed Companies (Code of Corporate Governance) Regulations 2017.

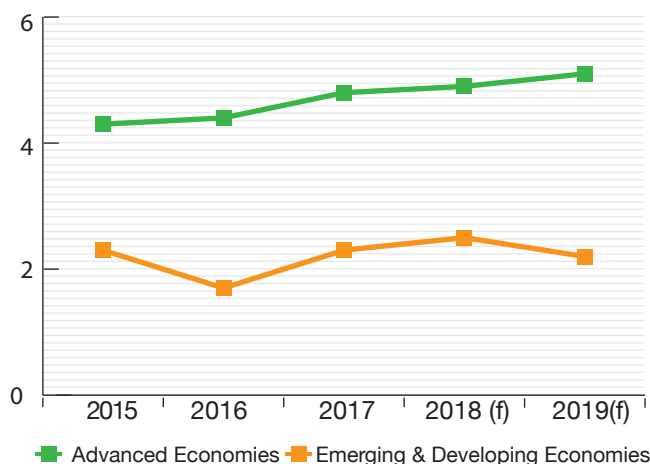
GLOBAL MACROECONOMIC OUTLOOK

The world economy grew by 3.8% during 2017 as per IMF World Economic Outlook (WEO) figures. This is a healthy increase over the previous year and growth is projected to sustain into 2018 and 2019, driven primarily by emerging & developing economies and The United States. However, despite the overall optimistic projections, real risks remain intact and are expected to re-surface from time to time.

World GDP Growth

Advanced vs. Emerging & Developing

2015 – 2019 (f)



Source: IMF World Economic Outlook, April 2018

The rise of popular nationalistic policies remains a threat to the global trade and investment climate. Of late we have witnessed the re-emergence of protectionist policies in The United States, in the form of tariffs on steel and aluminum, which have led to retaliatory measures from China and Turkey. Although global trade in goods and services in 2017 showed a remarkable increase over the previous year, we cannot expect the same to hold in such a hostile trading environment. On the financial side,

our expectations of monetary tightening in The United States, the resurgence of a stronger US Dollar and lower FDI from developed nations into emerging & developing economies have largely materialized. Furthermore, after a recovery in commodity prices in 2016 and 2017, we expect international prices to remain soft amidst trade tensions and an unstable geopolitical environment.

DOMESTIC ECONOMY

Pakistan achieved real GDP growth of 5.8% in FY 2017-18 against 5.4% in the previous year. Average inflation rates remained well under control; large scale manufacturing (LSM) registered healthy growth in excess of 6% and growth in agriculture and service sectors remained intact. All this points to strong aggregate demand in the domestic economy, however, it is unfortunate that despite this, Pakistan's deep structural problems remain unattended, and continue to cast a shadow on the health of our economy.

Our deteriorating external account position continues to be the primary factor limiting progress in the real economy and the incoming government will have to face grave challenges from the outset, most crucial of which will be, arranging external financing in a difficult geopolitical environment, a rising current account and fiscal deficit, mounting inflation and an unfavorable trend in international oil prices and domestic interest rates.

It is imperative that the government implements timely and progressive policies to curtail the rising trade deficit. **Specifically, the implementation of a cascading tariff structure is crucial**, as this will help to reduce the quantum of value added imported goods that are already being manufactured locally.

Steel remains one of the primary drivers of economic growth in the country. As per the Pakistan Economic Survey 2017-18, iron & steel manufacturing witnessed the second highest year-on-year growth of 30.85% out of all product categories.

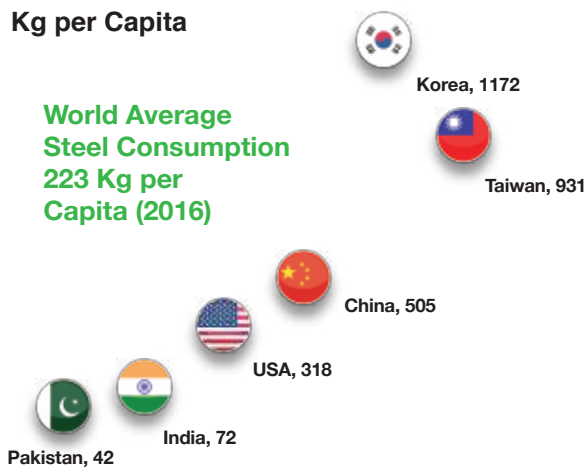
We remain hopeful that despite the immense economic, political and security challenges the country is facing, effective and sustainable policies will be pursued by the incoming government to remedy the current state of our economy.

The World Steel Association's assessment of per capita steel consumption for 2016 indicates a world average of approximately 223 kg/capita. Pakistan remains well below the world average 42 kg/capita. However, this indicates the immense potential for growth in the domestic steel manufacturing and processing industry.

Per Capita Steel Consumption

Kg per Capita

**World Average
Steel Consumption
223 Kg per
Capita (2016)**

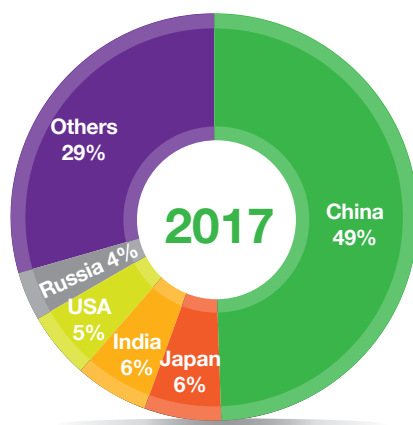


Source: World Steel Association

GLOBAL STEEL SCENARIO

World crude steel production was 1.69 billion metric tons (MT) in 2017, almost 3% higher than last year. China alone accounted for 832 million MT, which is roughly 49% of global crude steel output. Other major players include Japan (105 million MT), India (101 million MT), United States (82 million MT) and Russia (71 million MT).

Share of Global Crude Steel Production (%)



Source: World Steel Association

The year was dominated by developments following the Section 232 investigations on steel and aluminum products in The United States and rising steel production numbers from China. Resulting trade frictions as a result will continue to dampen sentiment in the global steel industry. Steelmakers in China however continued to enjoy steady margins and the industry seems to have benefited from stimulus measures directly impacting downstream sectors such as construction and engineering. In addition, we have also seen instances of a

noticeable decoupling of the Chinese steel industry from the rest of the world as HRC export prices witnessed strong support at the \$600/MT level, whereas other major exporting countries readily undercut their Chinese counterparts to push export volumes. Stringent environmental regulations requiring the removal of sub-standard capacities have also played a crucial role in lending support to prices in China.

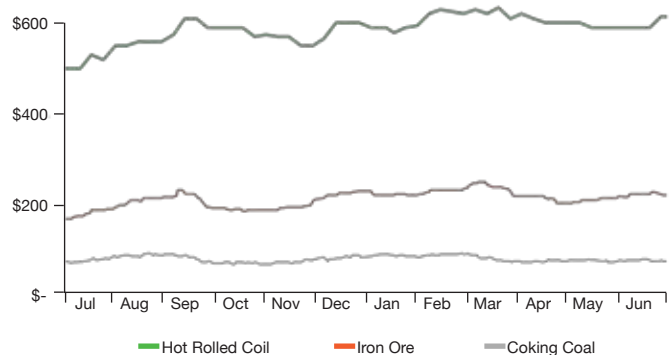
Prices of hot rolled steel coil varied between \$500/MT and \$630/MT over the course of the outgoing financial year.

Steel production in Pakistan is steadily rising with new capacities now coming online. Major investments in flats, longs and tube & pipe products have been undertaken, which will support the countries growing requirements of steel. Rising energy, infrastructure and white goods demand will drive steel demand in the coming years.

Pakistan's average stainless steel consumption per capita is approximately 0.5 kg/capita relative to the world average of 5.7 kg/capita, indicating massive potential for growth in this particular segment.

Iron Ore, Coking Coal and Hot Rolled Steel Coil Price

July 2017 – June 2018, USD per Ton



Source: Metal Bulletin

Steel Tube & Pipe Industry

The global steel tube and pipe industry manufactures a broad range of welded and seamless pipes & tubes. Steel pipes are used primarily in oil & gas, water & sewage transmission and various fabrication related industries. Structural pipes and sections are used for high strength applications in the construction industry, whereas cold rolled steel tubing is used in automotive, home appliance manufacturing and various furniture & fabrication related applications.

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Global trade in steel tube & pipes was roughly 42 million MT in 2017, significantly up from 34 million MT during the previous year.

On the domestic front, expansion of natural gas distribution and transmission network is underway and tenders by gas utility companies continue to be floated at regular intervals.

Stainless Steel

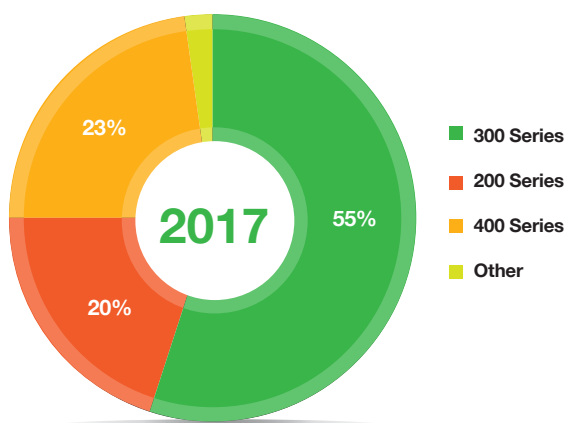
Global production of stainless steel was approximately 48 million MT in 2017 compared to 46 million MT in 2016. Output continues to grow aggressively at a CAGR of 6% over the last 5 years.

Stainless steel pipes are typically suited for end uses that require high corrosion and temperature resistance, and aesthetic appeal. Major end uses of stainless steel pipes and tubes include:

- Chemical and petrochemical processing
- Liquid natural gas piping
- White goods and household utensils
- Automotive exhaust systems
- Construction - offshore and humid environments
- Food and pharmaceutical processing
- Desalination and wastewater projects

300 Series stainless steel and its constituent grades comprise 55% of global stainless steel production and are widely used in various applications due to high Nickel content, which reduces corrosion rate. 300 Series pipe is the flagship product in your company's stainless steel pipe product range.

Stainless steel melt shop production by grade



Source: ISSF

Pakistan's average stainless steel consumption per capita is approximately 0.5 kg/capita relative to the world average of 5.7 kg/capita, indicating massive

potential for growth in this particular segment.

OBJECTIVES, STRATEGIES & CRITICAL PERFORMANCE INDICATORS:

ILL's core motive is to attain overall corporate and strategic objectives and to adopt preeminent global practices while playing a crucial role in the steel industry. The company strives to grow and to improve its processes to ensure maximum return for its shareholders.

A detailed discussion on ILL's objectives, strategies & critical performance indicators can be found on Page No. 36.

COMPANY OPERATIONS

Market Share

Your company is the leading tube and pipe manufacturer in the domestic market for GI Pipes, CR Tubes and Black & Scaffolding Pipe and has the largest product range in its relevant segments. The company enjoys continuing loyalty from its customers, dealers and business partners. Our Polymers segment caters to water & gas transmission and telecommunication applications, and is continuously evolving to meet the demands of its customers.

Gross Sales

Your Company's achieved gross sales volume of approximately 270,000 MT during the outgoing financial year, with gross turnover of Rs. 29.6 billion.

Non-Financial Performance

Customer satisfaction, employee development, quality, transparency, accountability, good governance and professional standards are the main areas of focus for improvement. The Company is currently, producing and supplying high quality products meeting international specifications that ensure maximum customer satisfaction.

Production

The production department paid a pivotal role in achieving the highest-ever sales by supplying high-quality products in a timely manner, despite gas shortages. No significant production related issue were experienced during the year.

SEGMENT REVIEW

Steel Sales

Domestic sales volume was up substantially over the previous year as all our product lines performed well.

Our line of GI Pipe, Black Pipe and HSS performed well on account of higher infrastructure and project related spending. Demand for commercial grade CR Tubing remained robust throughout the year on account of strong growth in two-wheelers, three-wheelers and general fabrication requirements. Our largest ever API tender secured at the end of last year was completed within time and added significant volumetric growth to our sales.

During the year, we actively enhanced commercial and institutional customer engagement via nationwide events, participation in trade exhibitions, sponsorships and direct engagement mechanisms to positive effect.

Export sales Protectionism in our key export markets, an overvalued rupee for the major part of the last 2 years and a strong domestic demand has had a dampening effect on exports. However, with the recent depreciation of the rupee, exports have once again become viable, and a strong team is in place to re-claim market share and explore new markets. During the year, IIL participated in 5 international trade exhibitions including the Tube and Pipe exhibition in Dusseldorf, to help in business development and to enhance brand awareness.



IIL Stainless Steel (Pvt.) Ltd was amalgamated into IIL during the outgoing year, and ceased to be a separate entity. Sales and operations of the company remain as they were. Our stainless steel pipe sales volume was up more than 22% over the previous year. Further, based on the encouraging response from the market, we have ordered additional pipe and polishing mills to cater to rising demand. The equipment is expected to arrive before December 2018.

Our stainless steel tubes were used in the landmark renovation of National Stadium Karachi which is a testament to our quality and the market acceptance of our product.

Steel Segment Financial Performance:

	2018	2017
	Rs. in million	
Revenue	22,792	15,460
Gross profit	3,089	2,831

Polymer Sales

The Company's polymer sales volume grew by over 50% over the previous year. This was made possible due to exceptional increases in tender based sales of MDPE gas pipe and steady growth in HDPE water pipe segment. With the easing of gas supplies and related funding, we expect further improvement in these two segments. Being one of a handful of API certified polymer mills in the world today we continue to try and persuade SSGC and SNGPL to implement the same supplier evaluation and safety protocols on polymer pipe as they do with API Steel Pipes by way of procuring only API certified polymer pipe in line with best practices.

Commissioning of our PPRC pipe and fitting plants in Sheikhpura was completed during the outgoing year. Production is underway and we have initiated a comprehensive, 360-degree advertising campaign on TV, radio, print, digital media and hoardings to create awareness and build our brand name in this segment. We are working towards developing the same customer centric approach in this segment that is associated with our brand name in the steel segment, and our sales and technical teams are continuously engaging our customers in this regard.

Polymer Segment Financial Performance:

	2018	2017
	Rs. in million	
Revenue	2,209	1,247
Gross profit	216	99

IIL Australia Pty Ltd

IIL Australia Pty Ltd. posted healthy growth during the financial year. Steady volumes and healthy margins have positioned our brand as one of the most reliable in Australia. **Net turnover increased 20% year on year to AUD 17.4 million.**

FINANCIAL REVIEW

Key Financial Highlights

	2018	2017
	Rs. in million	
Net Sales	25,001	16,707
Gross profit	3,305	2,930
Profit after taxation	1,582	1,842
EPS	13	15

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Company Results

The Company posted net sales of Rs. 25,001 million, which was 50% higher than last year, earning Gross Profit of Rs. 3,305 million, Profit before Tax of Rs. 2,149 million and Profit after Tax of Rs. 1,582 million. **We had a growth in sales volume of 30% over the SPLY as our export volume dropped as we gave priority to the domestic market over exports.** Earnings per Share for the year were Rs. 13.2. There has been no change in the nature of business of the Company.

The operating profit is marginally better than last year and there was visible volumetric growth.

Cost of Goods Sold for the year at Rs. 21,696 million was 57% higher than last year, which was in line with the turnover.

Selling and Distribution Expenses of Rs. 1,126 million were 29% higher than last year mainly on account of higher freight charges.

Administrative Expenses of Rs. 298 million were 0.3% higher than last year.



Other Operating Charges of Rs. 172 million were 4% lower than last year. Other income showed a decrease of Rs. 154 million mainly due to dividend income from International Steels Limited (ISL) received in prior year.

Financial Charges during the year increased by Rs. 218 million which is 97% higher than last year, primarily due to higher stock holding.

Cash Flow Management & Borrowing Strategy

The Company's cash flow management system projects cash inflows and outflows on a regular basis and monitors the cash position on a daily basis.

During the year 2017-18, the weighted average cost of borrowing continued to increase resulting in a 16% higher cost than last year.

Capital Structure

Debt to equity ratio on 30 June 2018 was 60:40 compared to 58:42 as on 30 June 2017. Interest cover and debt servicing ratios improved compared to last year.

DIVIDEND

The Board of Directors has recommended a final cash dividend of Rs 6.50 (65%) per share. With the interim dividend of Rs. 2 (20%) per share already paid during the year, the total dividend for the year 2018 amounts to Rs 8.50 (85%) (2017: Rs 9) per ordinary share of Rs 10 each. The total profit distributed by way of dividend amounts to 64% (2017: 59%).

PATTERN OF SHAREHOLDING

Information on the pattern of holding may be referred at Page No. 241.

AUDITORS

The present auditors M/S KPMG Taseer Hadi & Co., Chartered Accountants retire and offer themselves for re-appointment. They have confirmed achieving satisfactory QCR rating from Institute of Chartered Accountants of Pakistan (ICAP) and compliance with the Guidelines on the Code of Ethics of International Federation of Accountants (IFAC) as adopted by ICAP.

The Board of Directors has recommended their re-appointment as auditors of the company for the year ending June 30, 2019, at a fee to be mutually agreed.

The recommendations of the audit committee for appointment of an auditor may be referred at Page No. 86 (Report of the Audit Committee The Code of Corporate Governance).



SOCIAL IMPACT

IIL prides itself in being a responsible corporate citizen and positive contributor to the society at large and the communities in which it operates. A detailed look into IIL's social, philanthropic and environmental protection initiatives can be found in the 'Group Sustainability Report' provided in this CD or available on the Company's website.

HUMAN RESOURCE MANAGEMENT

IIL believes that the employees are its biggest assets. Empowering employees with meaningful roles, challenging assignments and world class learning platforms have paved the way for a more purpose-driven organization. The Company has taken several initiatives during the year for well-being of the employees, a few of the initiatives are as follows:

Industrial Relations

The bilateral negotiation settlement 2017-2018 was reached in January 2018 in a peaceful manner with no production loss and/or go slow. WPPF dues for 2016 – 2017 were distributed in June 2018.

Long Service Awards

Long Service Award ceremony was held for the staff members completing their respective service years' milestones on 30 June 2017. Overall 42 managements and 78 non-management staff qualified for the long service award. Retired workers were also awarded souvenirs.



The Apprenticeship Training Program

The Apprenticeship Training Program was restarted in the last fiscal year and apprentices are currently obtaining training in the Company at its three Factories.

Annual Corporate Event

IIL Growth Celebration Corporate Dinner was held at

PC Hotel, Karachi to celebrate highest quarterly turnover in its history, which was well attended by the staff and their spouses. The event included multimedia presentations and videos of IIL through the years as well as a performance by Shehzad Roy.

In March 2018, IIL celebrated its 70th birthday and with highest ever sales volume and production. In order to commemorate this achievement, IIL provided souvenirs to its staff and a series of ongoing events also marks the occasion.

Recreational Activities

- o Growth Celebration Dinner
- o Long Service Awards
- o Managers Dinners
- o Employee Theatre Nights
- o 70th year celebration souvenirs
- o Employees picnic
- o Participation in Group Cricket Tournament

Gratuity Scheme and Provident Funds

The Company provides retirement benefits to its employees. These include a non-contributory defined benefit Gratuity Scheme for all employees and a contributory Provident Fund for all employees except unionized staff. Both plans are funded schemes recognized by tax authorities. The values of the Provident and the Gratuity Funds at the year-end were Rs. 365 million and Rs. 417 million respectively.

Employment of Special Persons

Complying with the legal requirement to hire physically handicapped persons, IIL's workforce has 17 such special people.

Trainings

During the year 2017-2018, over 25 in-house sessions were conducted for 357 employees on various technical topics including Special Process Training on Injection Molding, HF Welding & Seam Annealing, Extrusion, Tube Mills Setting and Roll Gauging, Tig Welding, Quality Management Systems,



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Basic Quality Tools, and their Application Safe Crane Operations, Extrusion Process, Pickling Process, Risk Assessment and Preventive Measures, API Standards, API Standard 5L B 45th edition, Eddy Check System.

In addition, 51 employees attended external (local & foreign) programs arranged by various well-reputed institutes including EFP, PSTD, St. John, Homework Pak., GF-me, ICMA, Marcus Evans, PICG, NILAT, OSALP International, PBC, Viftech, Dellsons Associate, IBA, PNAC, AOTS Japan.

Succession Planning

The Company has formulated a succession plan, which includes performance evaluation and appropriate training requirements for development of future leaders. This means recruiting employees, developing their knowledge and skill sets and preparing them for advancement or promotion into more challenging roles.

Occupational Health Safety and Environment Systems (OHSE)

The health and safety of our employees is crucial to IIL. We are responsible for providing a healthy and injury free environment for our employees and contractors strives to achieve this through our OHSE Management System (Occupational Health Safety and Environment System) that is implemented by the HSE Department.

In order to improve the safety standards and to prevent any unforeseen incident at work HSE Department distributed safety helmets, harness, gloves, shoes and other safety gadgets amid its workforce and provided them various trainings as part of their recurring function. In addition the management distributed motorcycle helmets to all workers and junior management staff in a bid to enhance road safety.

A well-equipped gym was inaugurated at the IIL factory to encourage employees to engage in healthy activities.

Contribution to The National Exchequer

Your Company is registered with the Large Taxpayers Unit (LTU) and contributed over Rs. 4.9 billion towards the national exchequer in the form of Income Tax, Sales Tax, other taxes, duties and levies during the financial year.

INTERNAL CONTROL FRAMEWORK

The Board has in place an effective Internal Control framework which may be referred at Page No. 78 (Internal Control Framework)

RISK, OPPORTUNITY & MITIGATION REPORT

IIL endeavors to explore new business opportunities to add value to its business while keeping a close eye on existing and potential risks to its current and future businesses as well as strategies to mitigate this risk. A detailed Risk & Opportunity Report can be found on Page No. 40.

However, it is pertinent to mention here that The Canadian Border Services Agency (CBSA) and Canadian International Trade Tribunal (CITT) have commenced a preliminary injury and dumping inquiry against the import of Circular Welded Steel Pipe into the Canadian market from Pakistan to determine whether the evidence discloses a reasonable indication that the alleged injurious dumping of certain carbon steel welded pipe originating in or exported from Pakistan, Philippines, Turkey and/or Vietnam has caused injury or retardation or are threatening to cause injury.

Despite this, there is no financial exposure to International Industries Limited (IIL) for any of our exports to date to Canada. IIL has engaged proficient law firms locally and internationally to contest the inquiries initiated by CBSA & CITT and we are very confident that we will win this case as our exports to Canada in the investigation period are less than the previous year.

RELATIONSHIP WITH STAKEHOLDERS

IIL greatly values all of its stakeholders and tries to sustain an amicable relationship with stakeholders via effective and timely communication and interaction. Please refer to Page No. 38 for a detailed Stakeholder Engagement analysis.

QUARTERLY AND ANNUAL FINANCIAL STATEMENTS

The quarterly unaudited financial statements of the Company along with Director's Review, are approved, published and circulated to the shareholders on a timely basis. The half-yearly financial statements were subjected to a limited scope review by the statutory auditors.

This annual financial statement has been audited by the external auditors and approved by the Board and will be presented to the shareholders at Annual General Meeting for approval.

Periodic financial statements of the Company were circulated to Directors duly endorsed by the CEO and the CFO. Half-yearly and annual accounts were initialed by the external auditors before presenting it to the Audit Committee and the Board of Directors for approval.

CHIEF FINANCIAL OFFICER (CFO), COMPANY SECRETARY AND THE HEAD OF INTERNAL AUDIT

The Chief Financial Officer (CFO) and the Head of Internal Audit possess the requisite qualification and experience as prescribed in the Code of Corporate Governance. The Company Secretary possesses the requisite qualification and experience as prescribed in the Companies Act, 2017.

The appointment, remuneration and terms and conditions of employment of CFO, the Company Secretary and the Head of Internal Audit were determined by the Board of Directors. The removal of CFO and Company Secretary whenever applicable is made with the approval of Board of Directors.

COMPLIANCE

At IIL, we are firmly committed to ensuring the highest level of good governance through the 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. All related party transactions are placed before the Audit Committee and upon recommendation of the Audit Committee, the same is placed before the Board for review and approval. The Board is strongly committed to maintain a high standard of good corporate governance. For further details, kindly refer to the Code of Corporate governance section of this report.

INFORMATION SYSTEMS AND RE-ENGINEERING

We are committed to the process of continuously upgrading and enhancing our IT infrastructure and moving towards greater process automation and a paperless environment. Additionally, we remain focused on working closely with end users in studying their day-to-day activities and finding opportunities to automate and streamline various tasks. In this regard, considerable effort was expended in analyzing business processes and reporting gaps in the ERP system through a series of discussions with business users.

JCR RATING

The rating exercise has been conducted and we maintained the rating of A- for long term and A-1 for short term. We are also amongst a select few

companies selected by JCR for grading on the basis of investment strength, governance and environmental and social responsibility.

INVESTMENTS

The Company holds 56.33% ownership interest in its subsidiary, International Steels Limited (ISL), which is in the business of processing flat steel products. ISL ended the financial year with sales volume in excess of 545,000 MT, Gross Sales of Rs. 56 billion and PAT of Rs. 4,365 million.

During the preceding year, ISL successfully enhanced its capacity to more than 1 million MT per annum.

During the year your Company also purchased additional shareholding of Pakistan Cables Ltd and IIL now holds a 17.12% ownership interest in Pakistan Cables Limited (PCL) a company which it set up in 1953. PCL, a listed Company, is Pakistan's premium manufacturer of electrical wires, cables and copper rod and is the country's first manufacturer of copper cables and wiring.

ACKNOWLEDGEMENT

I would like to extend my sincere gratitude to the entire IIL team. The team's hard work has helped the Company achieve record profit this year. With the extensive additions to our product lines now almost complete, I expect our sales team to build on last year's achievement and target aggressive volumetric growth next year and thereafter. I also thank all other stakeholders including our esteemed customers, suppliers and bankers for their commitment to the company and look forward to sharing more successes with them in the coming years.

For and on behalf of the Board of Directors



Riyaz T. Chinoy
Chief Executive Officer



Ehsan A. Malik
Director / Chairman BAC

Karachi
Dated: 16th August 2018