Board of Directors' Report

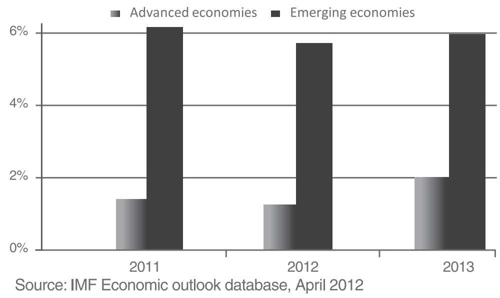
We are pleased to present the Company's performance review as part of our 64th Annual Report along with audited financial statements for the year ended June 30, 2012.

GLOBAL MACROECONOMIC SCENARIO

According to official IMF World Economic Outlook figures, the world economy is expected to grow at a reduced rate of 3.5% in 2012 after registering a growth rate of 3.9% in 2011. Economic activity is, however, expected to pick up in 2013 on the back of forecasted GDP growth rate of 4.1%.

Economic indicators suggest that the above trend will be reflected in the economies of both developed and emerging nations.

World GDP Actual 2011 and Forecast 2012 & 2013



Source: IMF Economic outlook database, April 2012

GLOBAL STEEL SCENARIO

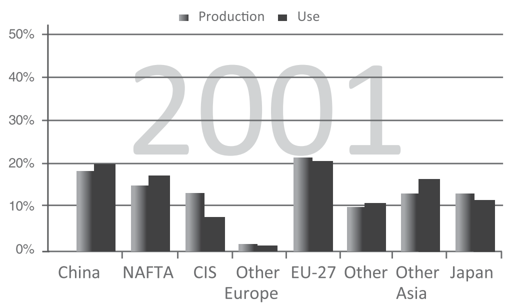
The global steel industry has witnessed a marked shift in geographical production and consumption patterns during the past decade. Chinese production of finished steel products, which accounted for 20% of world production in 2001, now stands at 45%. In effect, Asian nations, led by China, have captured significant market share from their European, American and Japanese counterparts.

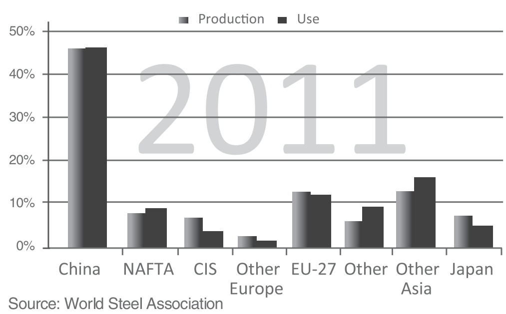
This shift in production patterns became more pronounced after the financial meltdown of 2008-09 and the ensuing economic slump. OECD countries and Euro Zone nations in particular have been the slowest to recover from the crises as a result of fiscal austerity measures and ballooning public and private debt levels.

With consumption patterns of finished steel products following a similar trajectory, the developing world now acts as a key driver for sustaining growth in the global steel industry.

However, systemic risks remain and, in the short run at least, growth in China and other developing nations will not be spared from any negative developments emanating from the Euro Zone.

Steel consumption & production patterns 2001 vs. 2011



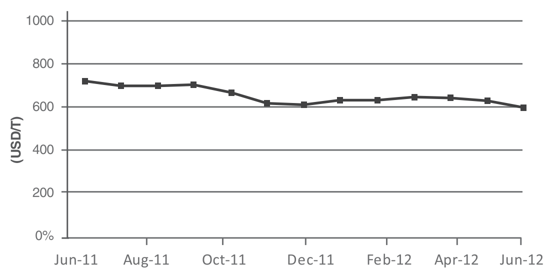


Source: World Steel Association

Current demand for finished steel products remains relatively flat as a result of the Chinese central bank's efforts to contain property price inflation throughout 2011 along with growing fears about the fate of the Euro Zone.

Hot Rolled Steel prices therefore remain at the lower end of the spectrum after peaking at USD 730 per ton in July 2011. It is, however, expected that prices will recover in mid to late 2012 as a result of capacity closures around the world.

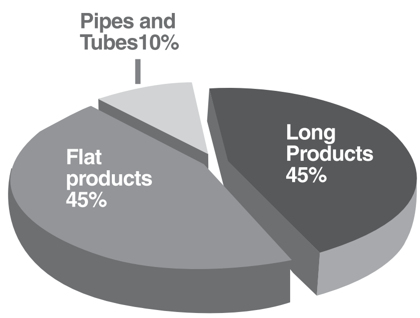
HRC Steel Benchmarker Price 2011-12 USD per ton



Source: Metal Bulletin

The World Steel Tube and Pipe Industry

The steel tube and pipe industry remains an important part of the global steel industry, accounting for 10% of the world's steel consumption.



Source: Metal Bulletin

Major pipe and tube consumers include the oil & gas, automobile, construction and water & sewerage transmission industries. Consequently, growth in demand for steel pipes and tubes is directly linked to activity in the aforementioned industries.

DOMESTIC ECONOMY

Fiscal year 2011-12 saw GDP register a growth rate of 3.7 percent over a growth rate of 3.0 percent last year. Growth in Large Scale Manufacturing (LSM), however, was marginally above the growth rate registered last year and fell short of its target of 2 percent.

Relative to FY 2010-11, the domestic economy as a whole thus showed remarkable resilience in the face of the major structural problems that have become increasingly apparent over the course of the past few years. Chronic electricity and gas shortages, a low tax to GDP ratio which necessitates heavy government borrowing and dwindling foreign exchange reserves are only a few of the major factors which have directly and indirectly contributed to economic turmoil and social unrest in the country. Until these issues are addressed aggressively through a credible, long-term strategy, economic growth will remain weak and intermittent.

Corporate earnings on the other hand continue to remain strong despite the challenging macroeconomic environment. This is an encouraging sign, since it signals optimism on the part of local and foreign investors with respect to the country's long-term prospects.

Market Share

Your Company continues to maintain its position as the leading tube and pipe manufacturer in the domestic market for GI Pipes and CR Tubes. In addition, the management is confident that the Company's Plastics segment will make further inroads into the relatively nascent domestic plastic pipe industry.

COMPANY OPERATIONS

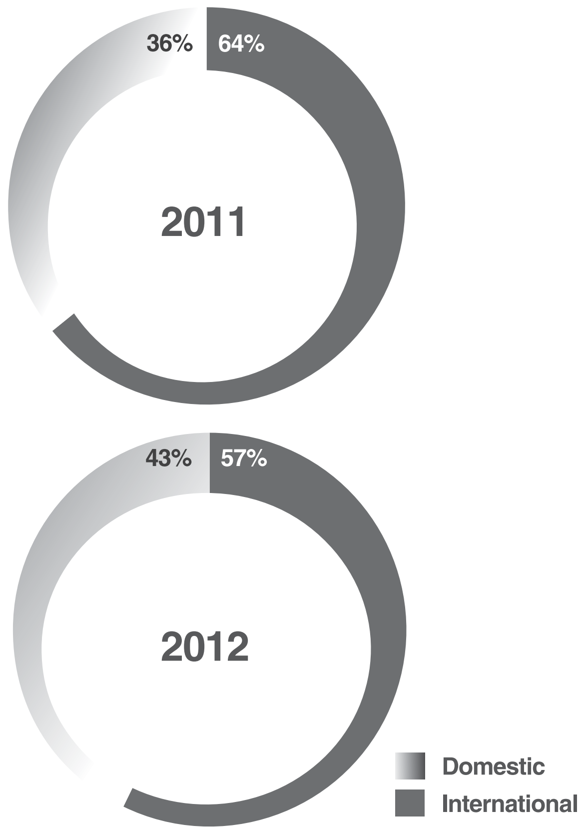
Operating Segments

These financial statements have been prepared on the basis of Steel and Plastic segments in the manner consistent with the internal reporting structure. The management monitors the operating results of its business units separately for the purpose of making decisions regarding resource allocation and performance assessment.

Steel Sales

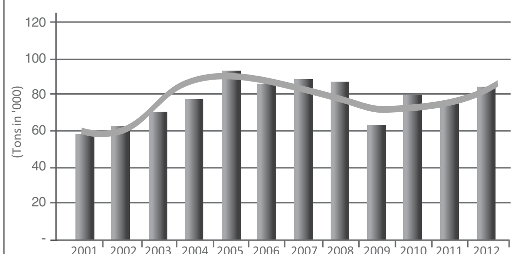
As a result of the protracted slump in LSM, demand from major pipe and tube consuming industries remained weak throughout the year. The oil & gas and engineering industries registered lower growth compared to the same period last year which had a significant impact on domestic steel pipe sales in terms of tonnage. To counter this, the company aggressively pursued exports and was successful in achieving record international sales volume.

Domestic vs. International Sales Volume
2011 & 2012



GI pipe sales in particular saw phenomenal growth on the back of international sales to developed regions. The company remains focused on making further inroads into this highly competitive geographical segment.

Sales Volume (tons in '000's)
2001-2012



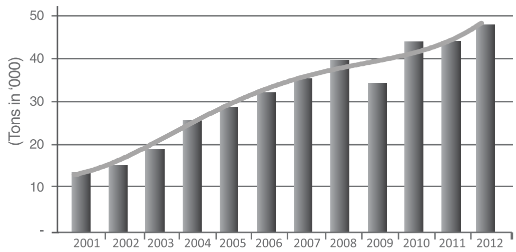
Consolidated sales volume was marginally higher despite a challenging domestic environment whereas total sales turnover grew by 2.4% over the previous year, reflective of a pragmatic pricing policy in face of adversity.

Domestic Sales

Domestic GI sales were lower by almost 12% due to budgetary tightening by institutional clients which resulted in the loss of associated sales.

CR sales volume however recorded an increase of more than 5% in tonnage and, as the company produced over 125,000 km of pipe during the year, justifying the recent additions to capacity.

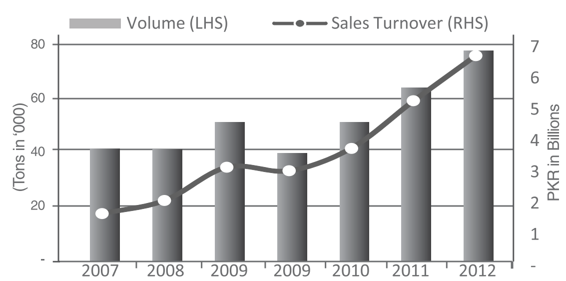
Domestic CR Sales Volume (tons in '000's)
2001-2012



International Sales

The past year has seen international sales break all previous records with sales volume and turnover reaching unprecedented levels of approximately 76,000 tons and Rs. 6.6 billion respectively. Volume was 20% and gross turnover 28% greater than the previous year.

International Sales Volume & Turnover (tons in '000's)
2006-2012



Contribution from your Company's international sales to the national exchequer in the form of valuable foreign exchange earnings stands at USD 73 Million, which is 12% higher than last year.

Polyethylene Sales

On the whole, the company's Polyethylene segment remained under pressure throughout the financial year. This had an adverse impact on the sale of MDPE Gas pipe, volume of which fell 44% compared to the previous year. Sale of HDPE duct and water pipes, however, registered impressive volume growth of 82% and 48% respectively over the previous year. These numbers signal an aggressive trend in this segment, which validates the company's strategy of allocating more resources towards further development of this business.

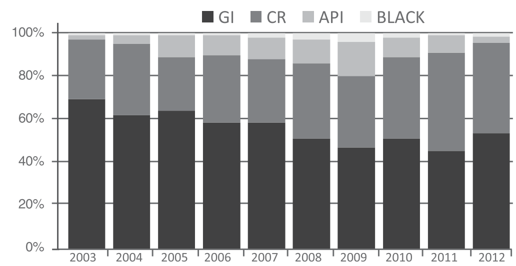
Gross Sales

Your Company's gross sales volume for the year was in excess of 195,000 tons with turnover at Rs. 18.8 billion, which was 2.4% higher than last year.

PRODUCTION

Despite various production-related difficulties, the management rose to the challenge and, as a consequence, your Company ended the year with relatively higher stocks of finished goods compared to the previous year. The Company is therefore geared to take advantage of any shortages that may occur in the year ahead.

Steel Product Mix, 2003-2012



In line with the strategy of expanding CR tube sales volume, your Company commissioned two additional CR Tube Mills this year which will cater to this rapidly expanding segment of the finished steel products market. The Company also commissioned an extruder with the ability to manufacture HDPE pipe up to a diameter of 630mm. This addition will diversify the plastic segments product line and keep it in sync with latest market trends.

FINANCIAL REVIEW

The Company's Results

The Company achieved Net Turnover of Rs. 16,802 million, its highest ever, which was 6% higher than last year, earning Gross Profit of Rs. 1,909 million, Profit Before Tax of Rs. 391 million and Profit After Tax of Rs. 326 million.

Profit Before Tax for the year was lower than the previous year. This was mainly due to higher Financial Charges (including exchange losses on revaluation of foreign currency denominated borrowings), a one-time Capital Gain of Rs. 706 million on divestment of shares of International Steels Limited (ISL), a subsidiary company, last year and lower Other Income (by Rs. 88 million) earned on account of sale of electricity from ISL's 18 MW power house.

Cost of sales for the year at Rs. 14,893 million was 6% higher than last year primarily due to higher steel prices (by 27%) and increasing cost of electricity and gas (by 21%) consumed in manufacturing.

Selling & Marketing Expenses of Rs.440 million were 5% higher than last year mainly due to increasing cost of freight & forwarding on account of hikes in petroleum prices.

Administrative Expenses were restricted to Rs. 141 million, 26% lower than previous year, through leveraging cost reduction opportunities and effective cost control.

Other Charges also decreased by Rs. 151 million from the previous year.

Other Income showed a substantial decrease of Rs. 801 million mainly due to the absence of last year's one-time gain on divestment of shares in a subsidiary company (Rs. 706 million) and reduction in income from sale of electricity to KESC from ISL's 18 MW power plant.

Financial Charges during the year increased by Rs. 362 million (60%) primarily due to exchange losses of Rs. 282 million on account of the depreciation of the Pak Rupee, and increased level of borrowings on account of delay in receiving sales tax and income tax refunds, slower collection against trade receivables during the first half of the year and cost of financing long-term strategic investments in subsidiary and associate companies. Significant exchange losses were incurred on the monthly revaluation of borrowings denominated in foreign currency in the October – December 2011 and April – June 2012 quarters in line with the sharp depreciation of the Pak Rupee during those quarters.

Going forward, the Company has developed an exchange rate risk mitigation methodology which is designed to highlight and minimize exchange rate exposure while still allowing it to leverage its natural hedge.

Cash Flow Strategy

The Company's cash flows management system projects cash inflows and outflows on a regular basis as well as monitoring cash position on a daily basis. Keeping in view the saving in financial cost owing to a gap between KIBOR and LIBOR based borrowing, the Company manages the majority of its working capital requirements through USD-LIBOR based borrowings and the balance is arranged through Export Refinance entitlements / Running Finance facilities. Part of long-term strategic investments and fixed assets are maintained out of long term borrowings and the balance through the company's own resources.

During the financial year 2011-12, the weighted average cost of borrowings, including exchange losses, was 12.11% per annum as against last year average borrowing rate of 6.8%.

Capital Structure

The long term debt equity ratio of the Company on 30 June 2012 was 70:30 as against 67:33 as on 30 June 2011.

CORPORATE SUSTAINABILITY

Energy Conservation

Continuing its commitment to the efficient use of all available resources, IIL utilizes all its waste hot water to generate chilled water which in turn fulfills the factory's entire water-cooling and air-conditioning requirements. Furthermore, its recently commissioned Reverse Osmosis plant caters to all additional water requirements at the factory premises.

Environmental Protection Measures

Being an environmentally-responsible Company, IIL is dedicated to reducing the environmental impact of its operations to sustainable levels, in line with acceptable standards.

It therefore continue to neutralize our emissions prior to discharge by using 100 feet high fume scrubbers. All effluent waste is treated at an Effluent Treatment Plant prior to discharge, whereas sludge generated from the Effluent Treatment Plant is disposed off at designated landfill sites for environmentally-friendly disposal.

Your Company is certified for Environmental Management System Standard ISO14001 since 2001. The Company is also registered with the Ministry of Environment under Self-Monitoring and Report Tool (SMART) programme.

During the year two surveillance external audits were conducted by the company's official certification registrar (M/S Lloyds) to assure compliance with ISO 9001, ISO 14001 and OHSAS 18001 global standards. No major non-conformities were observed during these audits.

In addition, IIL carried out testing of its effluents, emissions and vehicular emissions through third parties and registered laboratories for compliance with National Environmental Quality Standards (NEQS); the results were verified at the time of the aforementioned audits.

Contribution to the National Exchequer

Your Company falls under the jurisdiction of the Large Taxpayers Unit (LTU) and contributed over Rs. 2.0 billion towards the national exchequer in the form of income tax, sales tax, duties and other taxes.

Corporate Social Responsibility and Community Welfare Schemes

IIL continues to bear all operating expenses for two The Citizens Foundation (TCF) primary schools in Landhi. The Company also continues to fund the mosque outside its factory in Landhi as it pays out 2.5% of its Profit after Tax for CSR activities.

Health Safety & Environment

IIL remains committed to its efforts to design and implement HSE policies which place emphasis on prevention rather than treatment. Furthermore, management systems and processes are systematically evaluated to ensure benchmarking and alignment with industry best-practices. Systems are checked and verified through internal and external audits carried out on a bi-annual basis.

Relevant management staff is incentivized to achieve compliance through the allocation of HSE related criteria to their respective annual performance appraisals. Accident prevention amongst contractual employees is made a priority by incentivizing employees through the provision of quarterly safety performance related cash awards and penalties.

The Company has also incorporated HSE aspects into its Human Resource policies which affirm that line managers are the owners and insurers of safety procedures and practices and authorizes them to stop activities if any unsafe conditions are observed at the factory.

During the year, 200 HSE related trainings were imparted to over 2,000 employees. These included safe crane operations, hands safety, fire-fighting operations, industrial hazards, first aid & rescue, defensive driving, electric safety & working at height.

Through practical implementation of ISO-14001 & OHSAS-18001 HSE management system, the Company was able to achieve a Lost Time Incident Frequency Rate (LTIFR) of 2.3 (with zero fatality) which is only marginally higher than the global average of 2.27.

Human Resource Management

IIL employs a dedicated and diverse workforce which plays a key role in the continuing success of the company. It takes pride in hiring, developing and retaining the best talent through its transparent succession-planning, career-building and compensation policies. The Company currently has a workforce of more than 1,000 employees, 26% of which are in the management cadre. The Company has also recently introduced a variable pay plan for its staff.

The Company inducts apprentices through the Apprenticeship Training Program of the Government of Sindh, whereas graduates from IBA, NUST & NED Universities are regularly inducted under internship programs. Given that the average age of the workforce is 36 years, the company ensures that employees are regularly trained and well looked after to secure their loyalty and performance.

Industrial Relations

A major concern with respect to the company's labour force is to maintain industrial peace in order to ensure operational continuity. Despite the volatile work environment in Karachi, the Company was successful in preserving and improving upon its relations with the unionized workforce. This has been made possible through various initiatives including the Adult Literacy Program and Long Service Awards.

Gratuity and Provident Funds

The Company maintains plans that provide retirement benefits to its employees. These include a non-contributory 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 value of the recognized provident fund at year end was Rs. 137.4 million.The value of the approved gratuity scheme at year end was Rs. 168.7 million.

Employment of Special Persons

A very small subset of the workforce comprises of special persons due to operational challenges inherent in the steel industry.

Business Ethics and Anti-corruption Measures

IIL remains an active member of and signatory to the United Nations Global Compact and is thereby committed to adhere to the principles of human rights, labour standards and environmental protection. For the company as a whole, corporate success hinges upon strong and universal ethical and moral standards, professionalism and the fulfillment of fundamental duties towards current and prospective clients in order to gain durable trust and respect.

The Company has independent and established internal audit & controls function, outsourced to Ernst & Young Ford Rhodes Sidat Hyder & Co. The firm assesses the internal control system on a regular basis and presents its review to the Board Audit Committee.

INFORMATION SYSTEMS AND RE-ENGINEERING

The introduction and implementation of Oracle ERP Business Suite has brought considerable improvements in the areas of functional integration, internal controls, process efficiencies and adoption of best practices. This facilitates the generation of real time information for the management and has thus inculcated effective and optimal decision making.

BUSINESS RISKS AND CONCERNS

Steel and zinc are the two primary raw materials consumed in the company's manufacturing process. In the absence of a reliable domestic supplier, IIL sources all its raw material from international markets and is therefore sensitive to changes in the international price of steel coils and zinc as well as exchange rate fluctuation. The key to remain profitable in the face of volatile raw material prices is effective inventory management and sales forecasting systems.

Cost control, well-managed operations and adequate capital expenditure, in line with market trends, will therefore act as key strategic drivers given the current uncertainty in international financial markets.

The Company has a sizeable investment in its subsidiary (ISL), which is in the business of processing flat steel products. Any diminution in the fair value of the investment will have negative repercussions for IIL. On the positive side, IIL stands to benefit from an appreciation in price of ISL shares and dividend payments by the subsidiary.

FUTURE OUTLOOK

Company Operations

Going forward, IIL intends to focus sharply on fuller utilization of installed manufacturing capacity, improving product mix, fully leveraging its extensive dealer network, seeking new export markets, improving operational safety and continuously upgrading human resource capabilities. All through these thrusts, the Company will aim to uphold the highest standards of corporate governance and protect its reputation of integrity. The Company has prepared an aggressive budget for 2012-13, backed by robust business planning, and is confident of delivering substantially improved profitability and value to its stakeholders.

Investments

Your Company continues to maintain a significant ownership interest in ISL, following the divestment of part of its shareholding in the newly formed company, as part of an IPO last year. The management believes that this investment will create strong backward linkages, resulting in a diversified and low cost supplier base for IIL in the long-run. Furthermore, IIL shall benefit from economies of scale in sourcing raw material in conjunction with ISL and share in the company's profitability in the years to come.

Given that the group has been in the steel business for more than 46 years, ISL enjoys the support of a vast nationwide dealer network, existing linkages to regional export markets and a credible market reputation.

The management is pleased to report, that in its first full year of operations, ISL has managed to post sales volume in excess of 162,000 tons, net sales of more than PKR 13 billion and an operating profit margin of 7%. These results sufficiently justify the continuity of this investment, especially in the face of sluggish growth in domestic large-scale manufacturing and weak economic growth.

Your Company holds an 8.5% ownership interest in Pakistan Cables Limited (PCL), an associated company. PCL is in the business of manufacturing copper rods, wires and cables. In addition to being the country's oldest and most recognized manufacturer of copper cables and wiring, PCL is affiliated with General Cable Limited, the biggest worldwide manufacturer of copper cables and a Fortune-500 company.

ACKNOWLEDGEMENT

I would like to take this opportunity to thank Mr. Towfiq H. Chinoy, who has handed over a company with an impeccable reputation to me Moreover, his continued guidance and commercial accumen has been a great asset to me during the year.

I would also especially like to record my thanks to Mr. Zakaullah Khan who, after having built the IIL brand name, continues to guide our sales philosophy.

Our CBA continued to cooperate with the management during our recent two-year negotiated settlement, by responding to the Company's strategy of producing high volumes at low margins and also by agreeing to include a variable component as part of their remuneration that is dependent upon output.

I would also like to extend our thanks to the management team, which went the extra mile to support me in this very difficult year. I deeply appreciate the extra effort that was put in the second half of the year, which has helped the Company to turn around and achieve a profitable year.

Riyaz Chinoy
Chief Executive Officer

Karachi
Dated: 15th August 2012