From the Chairman's Desk

The business results of the Company improved appreciably during fiscal year 2012-13. The Company achieved record sales volume of 211,000 tons representing an increase of 8.1% of the preceding year. Profit After Tax increased to Rs. 558 million recording a significant increase of 71% over last year.

The remarkable results were achieved in spite of the difficult and challenging business environment in our country. The Company also faced difficulties in its key export markets and, as a consequence, there was a decline in the steel export volume. However, the loss in steel exports was more than offset by the robust growth of 20.7% achieved in domestic steel sales volume. The Company for the first time crossed the Rs. 20 billion gross turnover mark a notable milestone in the Company's history.

The composition of the IIL Board with a good mix of experience, skill sets and sponsor and independent directors enabled healthy debates on business strategy and adoption of good corporate governance practices. Together with a responsive management team, the Company was able to make good progress in achieving most of its business goals. A key focus area of the Board during the year was to fill all the leadership positions in the management team. This was accomplished and it helped greatly to deal with both challenges and opportunities. The two committees of the Board met regularly and considerably strengthened the functioning of the Board. A new position of Internal Audit Manager was established and filled who, together with an external firm, undertook the Internal Audit function. The Board for the first time implemented the board evaluation policy, wherein each director evaluated the performance of the Board as a whole. The results of this exercise were reviewed by the full Board with a view to bringing about further improvements.

Towards the end of the period under review, two of our Board directors indicated their desire to step out of the Board. Mr Javaid Anwar decided to retire after completing 9 years as an independent director and Mr Samad Dawood after less than 2 years due to his other preoccupations. Both served the Board with distinction and their contribution is both acknowledged and greatly appreciated.

I am pleased to report that, during the course of the year, the Company received several performance awards reflecting the Company's continued pursuit to achieve excellence in all its activities. The awards received were:

- Management Association of Pakistan (MAP) for Corporate Excellence - 1st position in sector

- FPCCI's best export performance award for engineering products - for the 13th consecutive time

- Best Annual Report ICAP - 2nd overall, & 1st in Engineering sector in 2011 & 2nd position in 2012

- Best Presented Accounts South Asia Federation of Accountants (SAFA) for 2011

- Environmental Excellence for 2011 from National Forum for Environment & Health

- IAPEX Karachi for Best Stall - 2nd position

The Company's subsidiary, International Steels Limited (ISL), in which IIL has 56.33% shareholding, has separately released its business results for 2012-13 as it is a listed company. ISL has made good all-round progress and we are hopeful that in the coming years, we will see this company contributing appreciably to IIL's bottom line.

Looking ahead, the likely Rupee devaluation, inflation, energy shortfall and law and order concerns in the country are significant challenges. However, given the focus of the new government to address these issues, we are hopeful to see a more favorable business environment emerging. Should that happen, the near-term prospects of the Company will improve significantly. The Company's management in any case is confident and determined of push ahead with plans that will build on the results achieved in 2012-13.

In closing, on behalf of the Board, I wish to acknowledge the contribution of all our employees in the success of the Company. I also wish to thank our shareholders, customers, suppliers, bankers and other business partners for their confidence and support.

The Board looks forward with confidence to the year ahead.

Zaffar A. Khan
Chairman

August 30, 2013

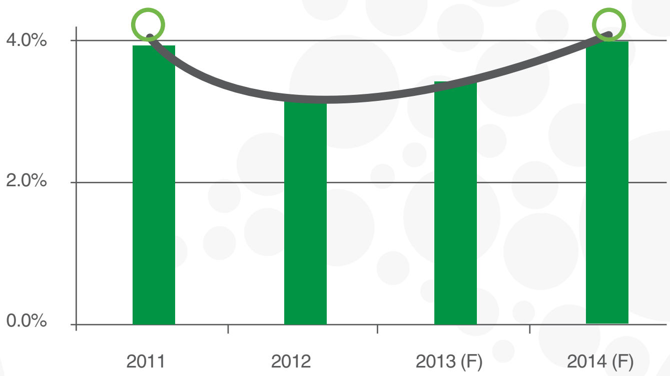
Directors' Report

We are pleased to present the CEO's Performance Review as part of our 65th Annual Report, along with the audited financial statements for the year ended June 30, 2013.

GLOBAL ECONOMIC OUTLOOK

World Economic Outlook 2013 figures presented by the IMF indicate that 2012 was a challenging year for the world economy. World GDP growth rate slipped from 4% in 2011 to 3.2% in 2012.

World GDP Growth, 2011-2014



Source: IMF Economic Outlook Database, April 2013

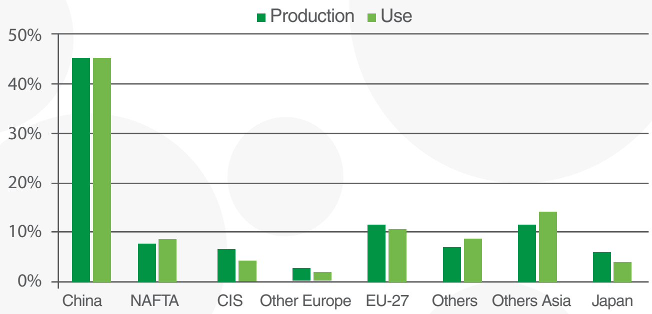
The major contributor to this downturn was slow growth in the BRICS economies, particularly China. Growth in the developed economies, particularly the Euro Zone, was weak and was down further from 2011. This trend is unlikely to reverse if ongoing austerity measures in the region continue. It is likely that future global economic recovery and growth will be driven by economic activity in the developing countries as opposed to the developed world.

GLOBAL STEEL SCENARIO

The global steel industry has, in the last decade, witnessed a significant shift in geographical production and consumption patterns. The Chinese steel industry, which accounted for 20% of world production in 2001, now produces 45% of the world's steel, which in absolute terms translates into 1 billion tons of additional capacity, added in the last decade or so. As a result of this accelerated expansion, there is now 300 million tons of overcapacity in the global steel industry, most of it emanating from China. As the Chinese steel industry is comprised largely of State Owned Enterprises, capacity reduction ranks as a secondary task for state and local governments whose primary objective is the continuous creation of employment opportunities.

In light of the above, the industry should therefore not expect to liberate itself from the challenge of surplus and obsolete capacity at least in the short to medium term.

Steel Production & Use, 2012

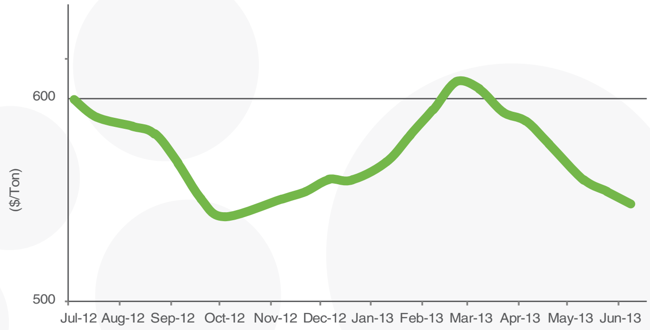


Source: World Steel Association

On a positive note, the US Federal Reserve has announced its intention to cut back on its asset purchase program as and when required. This change in stance signals that it anticipates a recovery in the foreseeable future, which is a positive sign for global economy.

Steel prices are, by and large, dictated by iron ore, coking coal and various ferrous metal prices and subject to seasonality. Hot rolled steel coil prices varied from US$ 530 to US$ 630 per metric ton over the course of financial year 2012-13.

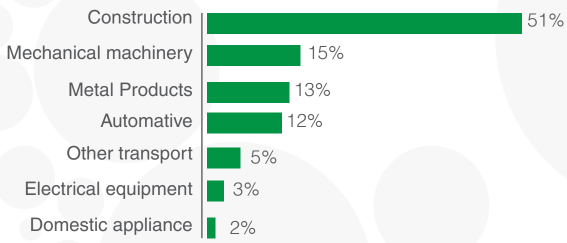
HRC Steel Benchmarker Price 2012-13, USD Per Ton



Source: MetalBulletin

Steel Consumption

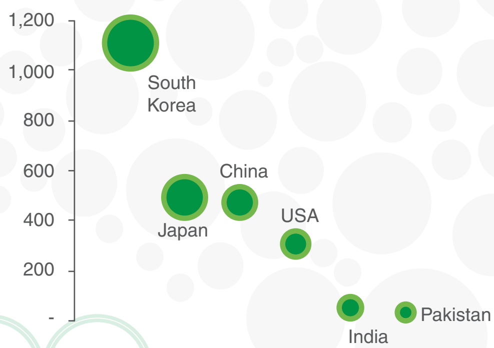
Global steel consumption is concentrated largely in construction and infrastructure related activities. These account for 51% of total steel consumption globally but account for only 35% of steel consumption in developed countries. In developing countries therefore, steel consumption is highly skewed towards construction and infrastructure projects.



Source: World Steel Association (Sustainability Report), Morgan Stanley Research

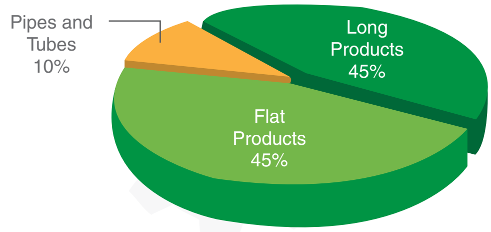
The World Steel Association's assessment of per capita steel consumption indicates a world average of approximately 217 kgs / capita. Pakistan lies well below this figure highlighting the country's acute need for infrastructure and social uplift projects. However, it also indicates the immense growth potential in domestic steel manufacturing and processing industries.

Apparent Steel Use, Kgs per Capita, 2012



Source: World Steel Association

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



Source: MetalBulletin

The end use for steel pipes in Pakistan lies primarily in the oil and gas, water and sewage transmission and construction industry whereas cold rolled steel tubing is used in automotive, home appliance manufacturing and furniture and fabrication applications.

DOMESTIC ECONOMY

Fiscal year 2012-13 saw domestic GDP register a growth rate of 3.6% compared to 4.4% for the preceding year.

During 2012 and 2013, power shortages had a profound impact on the domestic economy resulting in sub-par performance of the manufacturing, agriculture and services sectors. According to Pakistan Economic Survey estimates, approximately 2% was wiped out from the domestic GDP during these years due to ongoing power shortages.

Fiscal deficit reduction during the first nine months of 2012-13 from 6.4% the year before to 4.6% was encouraging. However major concerns on the fiscal side remain, including mismanagement of Public Sector Enterprises and circular debt ailing the power generation sector, both of which continue to be major contributors towards the current account deficit.

Further, the inability of the state to bring large parts of the economy within the tax net – leading to a low tax to GDP ratio, necessitates heavy government borrowing resulting in mounting public debt levels. Meanwhile, the foreign exchange reserves continue to deplete alarmingly due to the drying up of foreign inflows and large foreign debt repayments. Consequently, the Rupee has persistently depreciated, further exacerbating the challenges.

There were some healthy signs also. Growth in Large Scale Manufacturing (LSM) at 4.3%, single digit headline inflation and reduced interest rates led to strong corporate sector earnings. The Karachi Stock Exchange continued its upward momentum and remained one of the best-performing bourses in the world.

It is hoped that the arrival of the new government will spur economic growth and bring about a positive revival in the business environment.

Market Share

Your Company held 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.

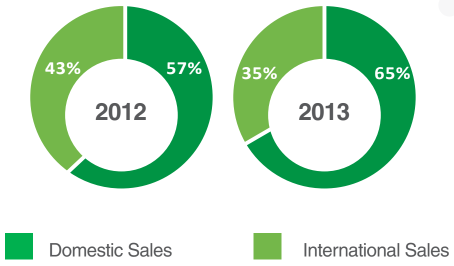
COMPANY OPERATIONS

Steel Sales

The outgoing year saw your Company achieve record sales with steel sales volume exceeding 206,000 metric tons. This is the first time it has crossed the 200,000 metric tons landmark and hopes to carry this momentum forward into the future years. This achievement was on the back of robust growth in the domestic CR tubes market, which continues to expand at a rapid pace as a result of firm demand from the automotive and furniture industries.

Sales of API line pipes to gas companies more than doubled over the previous year. This market however needs better regulatory oversight in order to ensure delivery of quality product to the gas companies.

Domestic vs. International Sales Contribution, 2012 & 2013



GI pipe sales volume was fractionally below that of last year, primarily due to sluggish export demand from the developed markets. The Company remains focused on exploring new markets as the domestic market seems to be approaching its maximum potential.

Total Gross Sales grew by 6.6% over the previous year.

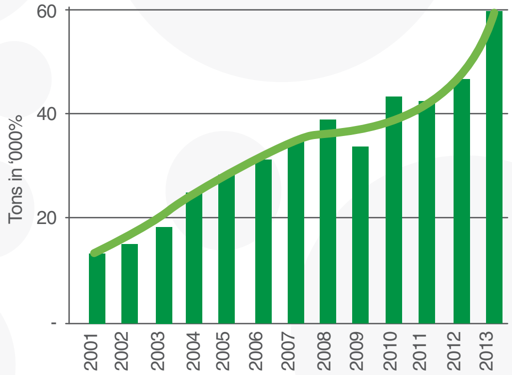
Domestic Steel Sales

The domestic market performed exceptionally well compared to last year. Overall volume grew by over 21%, which also augurs well for the coming years.

Domestic GI sales were up marginally relative to last year. This is an established and mature market for IIL products with deep-rooted customer loyalty to the IIL brand.

Domestic CR sales volume increased by almost 26% over the previous year as the Company tapped into various previously unexplored segments of this exciting and dynamic market.

Domestic CR Sales Volume, Metric Tons in '000's, 2001-2013



Export Steel Sales

The outgoing year saw international sales volume contract over the previous year. Sales volume fell approximately 6% whereas gross turnover declined by approximately 7% over the same period last year. This is in part due to difficult international environment for sales due to the imposition of duties and taxes in major export markets, as well as sluggish economic activity in key markets. Your Company is nonetheless committed to reclaim lost volumes by making inroads into new markets. The Company exports its product to more than 35 destinations worldwide.

Contribution from your Company's international sales to the country's foreign exchange earnings was in excess of USD 60 million.

Polyethylene Sales

The Company's Polyethylene segment has not been able to takeoff as desired on account of stiff competition from inferior quality products. The management is making concerted efforts to create awareness in the market with regards to quality standards. Sale of MDPE gas pipe has fallen considerably due to slack demand from gas companies. Gas shortages and competition by inferior quality products are major reasons for this outcome.

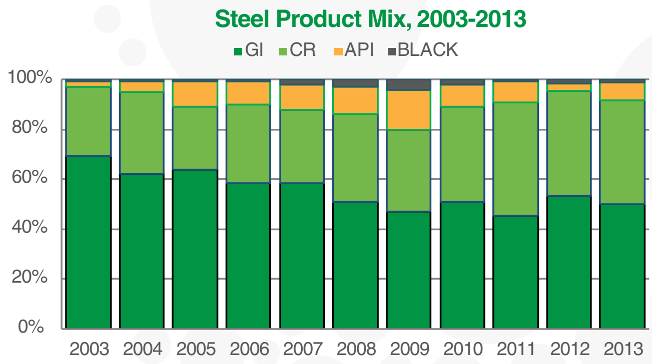
The Segment has successfully focused on rigorous cost control and the management is confident of improved results in the coming year.

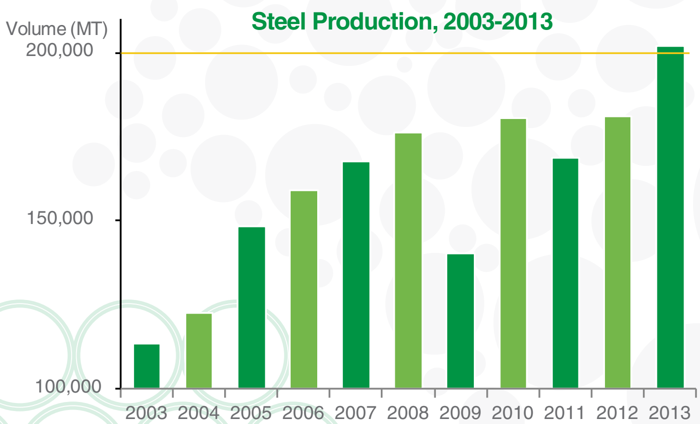
Gross Sales

Your Company's gross sales volume for the year was 212,000 metric tons with gross turnover crossing Rs. 20 billion, which is 6.6% higher than last year and another first for IIL.

PRODUCTION

Production related challenges were faced primarily on account of gas shortages, especially at weekends, which resulted in production planning constraints and disruptions. These were tackled effectively and a highest-ever production of over 200,000 tons was achieved.





To meet the rising demand for CR tubes, a new tube mill was installed and commissioned for production of new pipe sizes. This mill caters to customers requiring draw-down pipes.

FINANCIAL REVIEW

Company Results

The Company achieved its highest ever Net Sales of Rs. 17,729 million, which was 5.5% higher than last year, earning Gross Profit of Rs. 2,065 million, Profit Before Tax of Rs. 699 million and Profit After Tax of Rs. 558 million.

Profit Before Tax for the year increased by 79% over last year. This was mainly due to increased tonnage sold amounting to Rs. 155 million and efficient utilization of financing facilities resulting in lower financial charges (including exchange loss on foreign currency borrowings). The aforementioned increase in profit more than offset an increase in selling expenses of Rs. 153 million due to aggressive sales and marketing campaigns run during the current year and higher freight costs.

Cost of goods sold for the year at Rs. 15,665 million was 5.2% higher than last year primarily due to increase in tonnage sold. Despite tough trading conditions, the Company was successful in maintaining gross profit margin at the same level as last year.

Selling and distribution expenses of Rs. 593 million were 35% higher than last year mainly due to increasing cost of freight & forwarding on account of hikes in petroleum prices as well as sales promotional expenses to drive volumes and protect market share.

Administrative expenses of Rs. 151 million were 8% higher than last year, in line with the prevailing inflation trends during the year.

Other operating charges of Rs. 71 million were 75% higher than last year primarily on account of increase in allocation of profit to Workers Profit Participation Fund and Worker Welfare Fund charges due to increase in profit. Other Income showed an increase of Rs. 9 million mainly due to reversal of excess allocation to Workers' Profit Participation Fund in earlier years amounting Rs. 26 million, which was offset by decrease of Rs. 22 million in exchange gain on realization of export sales proceeds.

Financial charges during the year decreased by Rs. 338 million (33%) primarily due to efficient utilization of financing facilities resulting in lower exchange losses by Rs. 266 million compared to last year despite significant devaluation of the Pak Rupee. The reduction in the base rate by 250 basis points also benefited the Company, as did its success in negotiating borrowing rates downwards.

As a result of healthy export sales, the Company enjoys a 'natural hedge' against foreign currency losses arising from the revaluation of its foreign currency denominated borrowings. This hedge is in the form of inventory held for exports and outstanding export-related receivables. The Company is confident that this hedge, supported by its exchange rate risk mitigation methodology, will enable it to continue to protect its margins from adverse movements in the Pak Rupee against the US Dollar.

Segment Results

Revenue from the Steel segment stood at Rs. 17,152 million, yielding Gross profit of Rs. 2,030 million. Gross profit margin from the Steel segment was maintained at last year's level.

The Polyethylene segment remained subdued during the year due to unfavorable economic conditions and cheaper inferior quality substitutes. Release of funds towards public sector spending were held up in the run up to the general elections, resulting in low tender business volume. This led to a decline in revenue from the Plastic segment to Rs 578 million with a Gross profit of Rs. 34 million.

Cash Flow Management & Borrowing Strategy

The Company's cash flows management system projects cash inflows and outflows on a regular basis as well as monitors the cash position on a daily basis. Keeping in view the saving in financial costs owing to a gap between KIBOR and LIBOR based borrowing and its aforementioned natural hedge on account of exports, the Company manages a portion of its working capital requirements through LIBOR based USD borrowings and the balance is arranged through an optimal mix of Export Refinance entitlements and running finance facilities.

During the year 2012-13, the weighted average cost of borrowings, including exchange losses, was 9.0% per annum against last year's rate of 12.1%.

A positive cash flow of Rs. 392 million was generated during the year.

Capital Structure

Debt equity ratio on June 30, 2013 was 68:32 compared to 69:31 as on June 30, 2012. Interest cover and debt servicing ratios also registered an improvement over the previous year.

CORPORATE SUSTAINABILITY

Energy Conservation and Recycling

Steel by its nature is one of the most aggressively recycled materials in the world with a vibrant global market for steel and other non-ferrous scrap metals.

Continuing its commitment to the efficient use of resources, the Company utilizes all waste hot water to generate chilled water, which in turn, fulfills the factory's water-cooling and air-conditioning requirements. Furthermore, our recently commissioned Reverse Osmosis Plant helps meet additional water requirements at the factory premises.

IIL generates electricity though co-generation. Its own needs are met through this generation and excess electricity is transported to the KESC grid. Hence, there is full utilization of installed generation capacity and generation of additional revenues, whilst contributing to alleviate the chronic power shortage faced by the country.

Environmental Protection Measures

Being an environmentally-conscious company, IIL is dedicated to reducing the impact of its operations to sustainable levels and in line with acceptable standards. It neutralizes its emissions prior to discharge by using 100 feet high fume scrubbers. All effluent waste is treated at its Effluent Treatment Plant (ETP) prior to discharge, whereas sludge generated from the ETP is transferred responsibly to designated landfill sites for environment-friendly disposal. Your Company is certified for Environmental Management System Standard ISO14001 since 2001. It is also registered with the Ministry of Environment under the Self-Monitoring and Report Tool (SMART) program.

During the year, a recertification audit was conducted by M/S Lloyds (a UK-based certification body), to provide assurance that the Q&HSE Management System complies with ISO 9001, ISO-14001 & OHSAS 18001 global standards. No major non-conformities were observed.

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

Contribution to the National Exchequer

Your Company is registered with the Large Taxpayers Unit and contributed over Rs. 2 billion towards the national exchequer in the form of Income Tax, Sales Tax, other taxes, duties and levies.

Corporate Social Responsibility (CSR) and Community Welfare Schemes

IIL contributes approximately 2.5% of its Profit after Tax towards CSR activities. It continues to support all operating expenses for two Citizens' Foundation (TCF) primary schools in Landhi. It also provides funds to a mosque opposite its factory in Landhi. During the year under review, the Company donated Rs. 10 million to the Citizens Police Liaison Committee (CPLC) for crime prevention initiatives.


Health Safety & Environment

In an environment of increasing regulatory interest and awareness of safety hazards, IIL seeks to prevent injury and illness through the implementation and ongoing active development of proactive work health and safety management systems, which are based on OHSAS-18001 & ISO-14001 International Standards.

IIL strives to fully integrate work health and safety into all aspects of its activities by:

- Providing professional and technical advice;
- Effectively communicating and consulting on the development and implementation of the system through an extensive network of OHS committees, established specifically to assist in inculcating good OHS practices at all levels;
- Managing OHS risk by systematically identifying hazards and assessing and eliminating or controlling the associated risks;
- Providing training and awareness on an extensive array of OHSE issues; and
- Encouraging innovation

Relevant management staff is incentivized to achieve compliance through the inclusion of OHSE-related criteria to their performance appraisals. Accident prevention amongst contractual employees is made a priority by incentivizing employees through a system of quarterly safety performance related awards and penalties.


Regular safety walkthroughs are used to keep a check on housekeeping, safe crane operations, compliance with PPE requirements and identifying unsafe acts and conditions. All locations within IIL are examined. These walkthroughs are conducted by senior managers and all observations are sent to respective department heads for corrective and preventive actions and the same report is presented in the monthly Q&HSE Trend Analysis to top management.

A Monthly Safety Trophy is awarded based on set criteria. Evaluation is done of the monthly safety walkthroughs. The CEO presents trophies to winning departments and photographs of the event are displayed prominently.

During the year over 2,300 employees were imparted a total of 156 trainings. OHSE trainings included Safe Crane Operations, Hands Safety, Fire Fighting Operations, Permit to Work System, Industrial Hazards, First Aid & Rescue, Defensive Driving, Electric Safety and Working at Heights.

Through effective implementation of ISO-14001 & OHSAS-18001 OHSE management systems, the Company achieved a Lost Time Injury Frequency Rate (LTIFR) of 1.08 which is well below the global average of 1.93.


HUMAN RESOURCE MANAGEMENT

IIL employs a dedicated and diverse work force 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, 27% of which are in management grades. The Company has also recently introduced a Variable Pay Plan to help foster a performance based remuneration culture. It endeavors to ensure that employees are regularly trained and well looked after to secure high levels of retention and performance delivery.

The Company inducts apprentices through the Apprenticeship Training Program of the Sindh Government, whereas graduates from IBA, NUST & NED Universities are regularly hired under internship programs.

Industrial Relations

A major objective vis-à-vis the Company's labor 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 was achieved through various initiatives including the Adult Literacy Program and Long Service Awards.

Gratuity Scheme and Provident Fund

The Company invests in plans that provide 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 value of the Provident Fund at the year-end was Rs. 190 million. The value of the Gratuity Scheme at the year-end was Rs. 225 million.

Employment of Special Persons

A very small subset of the workforce comprises of special persons, reflective of the 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, labor standards and environmental protection. The Company's corporate success hinges upon strong and universal ethical and moral standards, professionalism and the fulfillment of fundamental duties towards current and prospective stakeholders in order to gain durable trust and respect.

The Company has independent Internal Audit department and well-established controls. Parts of the internal audit activities are outsourced to Ernst & Young Ford Rhodes Sidat Hyder & Co., Chartered Accountants. The internal auditors assess the internal control system on a regular basis and present their view 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 promoted effective and optimal decision-making.

BUSINESS RISKS

Steel and Zinc are the two primary raw materials consumed in the Company's manufacturing process. The absence of adequate domestic supply sources compel IIL to procure most of its raw material from international markets, which makes it sensitive to changes in the international price of Steel coils and Zinc as well as exchange rate fluctuation. The key to profitability in such an environment is efficient inventory management and sales forecasting, as well as consistently strong sales. Cost containment, well-managed operations and adequate capital expenditure are key components of business strategy to deliver healthy returns to stakeholders despite the business risk and the uncertain external environment.

INVESTMENTS

The Company has a sizeable investment in its subsidiary, International Steels Limited (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's shares as well as its dividend payouts. Your Company intends to maintain its significant ownership interest in ISL. The management believes that this investment will create strong backward linkages, resulting in a diversified and low cost supplier base for IIL and the Group in the long run. IIL is poised to benefit from the economies of scale in sourcing major raw materials in conjunction with ISL and share in the subsidiary's profitability in the years to come.

ISL has leveraged the Group's 46-year involvement in the steel industry and consequently enjoys the advantages of a vast nationwide dealer network, existing linkages to regional export markets and a credible market reputation. In 2012-13 ISL had a good year with sales volume of 217,000 tons, Gross Sales of Rs 20.4 billion and PAT of Rs. 363 million.

The outgoing year has seen IIL and ISL as a group surpass expectations by posting sales volume in excess of 425,000 tons, Gross Sales of over Rs. 40 billion and Profit Before Tax of Rs. 1,149 million.

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 foremost 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 extend my sincere gratitude to the entire IIL team and especially my management team, who have proved themselves capable of delivering strong results in the face of stiff challenges. The effort which has helped the Company achieve a successful year is deeply appreciated. I would also especially like to record my thanks to Mr. Zakaullah Khan, a former director, who after having built the IIL brand name, continues to guide our sales philosophy. I also thank all other stakeholders for their support and look forward to sharing more successes with them in the coming years.

Riyaz T. Chinoy
Chief Executive Officer

Karachi
Dated: August 30, 2013