



From the Chairman's Desk

The business environment of the world steel industry showed signs of improvement during the second half of the fiscal year 2015-16. Global steel prices showed modest recovery which led to restocking by trade and a more positive business sentiment. On the flip side, the earlier prolonged depression led to trade disputes and tendency in some countries to protect their domestic steel industry.

Your Company recorded **overall sales of 204,000 tons** for the year ended June 30, 2016 which represents a reduction of 8.6% versus the same period last year. However, the Company achieved a **healthy Profit after Tax (PAT) of Rs. 786 million which is 8% higher than the previous year**. Strong domestic sales with improved margins more than offset the loss of sales volume in the export market. The loss of tonnage in exports occurred mainly because of an antidumping charge imposed by the US Department of Commerce (DoC). The Company with a team of specialized American lawyers is contesting the charge and is hopeful that the US International Trade Commission (ITC) will reverse the decision of DoC in the hearing scheduled for October 2016. In the meanwhile, the Company has stepped up efforts to grow its presence in other export markets.

Our performance in the **domestic market is impacted by Government policy**. Some of the issues / challenges are (i) Inability on part of the National Tariff Commission (NTC) to impose final anti-dumping duty on Cold Rolled (CRC) and Hot Dipped Galvanized Coils (HDGC). (ii) Unfavorable tariff structure with lower import duties on value added CRC and HDGC compared to its raw material, i.e. Hot Rolled Coil (HRC). (iii) An anomaly in tax structure which allows steel scrap importers to adjust input sales tax but disallows local producers of scrap from doing the same. (iv) Inability to process **timely refunds** which presently stand at **Rs. 2.2 billion** for the group. (v) Continued unwillingness of the FBR to recognize IIL as a Cold Roller thereby making our raw material import duty 17.5% otherwise importable at 5%.

It is hoped that the Government will address these issues to enable the Company to play a bigger and more effective role in the industrial development of Pakistan.

Looking ahead another major challenge that the country will face in the coming months is the negotiation of phase 2 of the China-Pak Free Trade Agreement (CPFTA), whereby the level of trade liberalization will be taken up to 90%, as already agreed. Given that the Chinese steel industry accounts for 50% of world steel production and after taking cognizance of the fact that most of China's trading partners have levied anti-dumping and /or countervailing duties on Chinese steel products, trade liberalization for steel products in Pakistan vis-à-vis China will assuredly bring difficulties for the domestic steel industry. It is therefore vital that the Ministry of Commerce take due notice and strive to cultivate a level playing field for the domestic steel industry.

The Board of Directors met 6 times during the year. Aside from dealing with normal routine functions the board continued to focus on the future strategy to diversify IIL's investments to grow earnings. During the course of the year the company's wholly owned subsidiary IIL Australia and IIL Stainless Steel Pvt. Ltd. turned in improved results as compared to the last year suggesting that the future for both these subsidiaries is promising. **IIL's large diameter HSS and API tube mill was commissioned in January 2016 at a cost of Rs. 700 million** and the board has high expectations from this investment in years ahead. Good progress has also been made in setting IIL's PPRC fitting manufacturing factory in Sheikhpura while Pakistan's largest 1600mm PE extruder has just been installed and is due to be commissioned in early September 2016. As forecasted in the last Chairman's review a sharper focus on the existing plastic pipes business has resulted in an appreciable turnaround of that business this year.

This was the fourth year that the Board carried out its Self-Evaluation, and identified areas for further improvement in line with global best practices. There was no change in the composition of the Board of Directors during the financial year.

The Board Audit Committee (BAC) and Board Human Resources Remuneration Committee (HRRC) met regularly to strengthen the overall function of the Board.

The Company has an independent Internal Audit department, which leads the Internal Audit function

together with an External firm. IIL's subsidiary, International Steels Limited (ISL), in which IIL has a 56.33% shareholding interest, has now been reporting its business results separately for 5 years. ISL reported PAT of Rs. 1,179 million for the outgoing year which is a substantial improvement over the previous year. The management is confident that with the successful completion of the expansion, ISL is well placed to build on the success of the outgoing year.



The Company in keeping with tradition was the proud recipient of the FPCCI Best Export Performance Award 2016 for the 16th time. In addition, the Company received the Occupational Health Safety & Environment award for 2015. The Company was also awarded API certification by the American Petroleum Institute for its new large diameter tube mill. Furthermore, I am pleased to report that both IIL & ISL have this year met the **eligibility criteria for Pakistan Stock Exchange (PSX) Islamic Index.**

To enhance its marketing reach and brand, the Company continued to exhibit its range of products in Pakistan and Internationally. The Company participated in the World's largest Pipe and Tube fair at Dusseldorf, Germany and the World's largest Industrial fair at Hannover Messe, Germany. Notable local exhibitions included: IAPEX and Pakistan Auto Show 2016.



Composition of the IIL Board of Directors is a good mix of experience, skill sets and sponsor and independent directors thereby enabling healthy debates on business strategy and good corporate governance practices. All senior leadership positions in the management have been filled by experienced and capable individuals. The two committees of the Board, namely the Board Audit Committee met 5 times and the Human Resource Remuneration Committee met 6 times during the year and fully supported the functioning of the Board.

Looking ahead, the immediate first quarter is expected to show an improvement over the same period last year especially in the domestic market. Longer term the many new initiatives of the Company should translate into improved earnings and position IIL to play an even bigger role in Pakistan's industry.

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 18, 2016



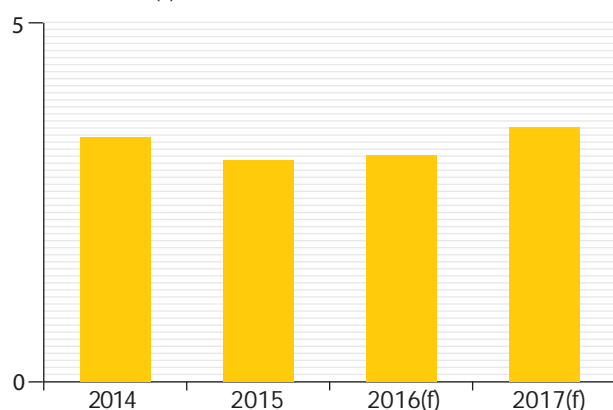
Directors' Report

We are pleased to present the **CEO's Performance Review** as part of our 68th Annual Report, along with the audited financial statements for the year ended June 30, 2016.

GLOBAL MACROECONOMIC OUTLOOK

The world economy grew by 3.1 percent during 2015, moderately below that achieved during 2014. Growth is projected to touch 3.2% in 2016 and further strengthen in 2017, driven primarily by emerging and developing markets and supported by modest economic activity in advanced economies.

World GDP Growth
2014 - 2017(f)



Source: IMF World Economic Outlook, April 2016

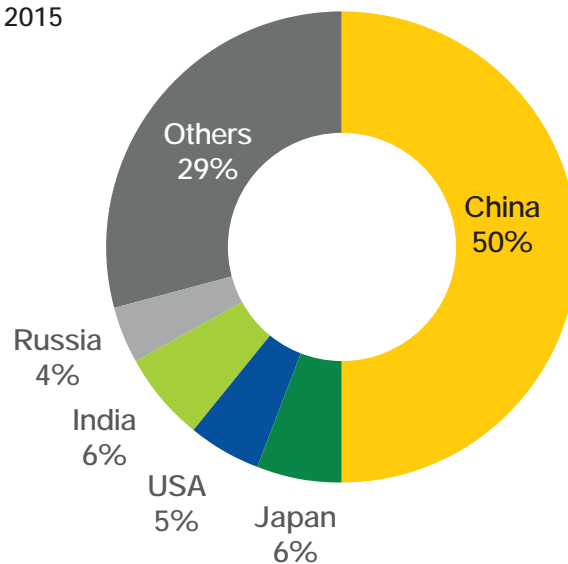
Although growth in China and India has largely been at par with expectations, there remain significant risk factors in other developing and emerging markets that continue to feed uncertainty and undermine growth prospects. Of particular significance are security related challenges; the geopolitical situation in the Middle East and emerging tensions in the South China Sea add a layer of uncertainty for economic activity. Depressed commodity prices have resulted in recessions in Brazil and Russia and have also increased protectionism worldwide, resulting in slowdown in trade activity. Advanced economies on the other hand are still to fully recover from the effects of the 2008 global financial crisis and are faced with unfavorable investment prospects and demographic trends.

GLOBAL STEEL SCENARIO

World crude steel production touched 1.62 billion metric tons (MT) in 2015, which is almost 3% lower than 2014. Out of this the **Chinese steel industry** accounted for 804 million MT, which is roughly

50% of global crude steel output. Other major players include Japan (105 million MT), India (89 million MT), United States (79 million MT) and Russia (71 million MT). It is pertinent to note that **India overtook The United States as the third largest crude steel producer during 2015.**

Share of Global Crude Steel Production 2015



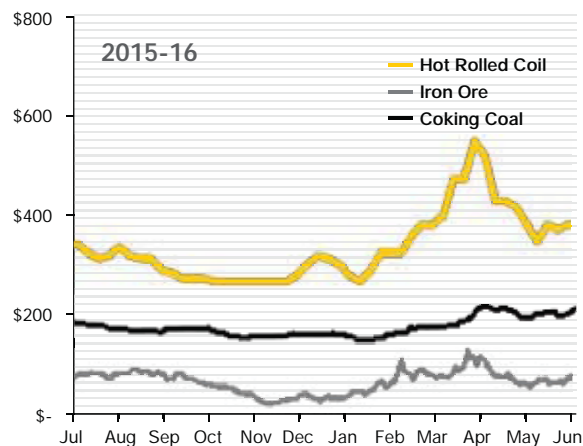
Source: World Steel Association

Overcapacity remains a serious issue for the steelmaking industry. There is growing international concern surrounding China's steel industry as Chinese overcapacity has eroded profitability for steelmakers worldwide. Trade disputes have also increased significantly during the last two years as steel imports from developing markets are priced at a significant discount compared to indigenous steel production in advanced economies. Another factor that has come into play during the past year is the aggressive trading of steel futures in China. This contributed to increased volatility in steel prices during the outgoing year, and as a result the price of Hot Rolled Coil (HRC) jumped by more than \$200/MT for a brief period of 4-6 weeks before settling at roughly \$370/MT in June 2016.

After a 15 month continuous decline, the price of steel bottomed out and then strengthened during the outgoing year. Steel prices are largely determined by the price of iron ore, coking coal and various ferrous metals. Prices of hot rolled steel coil varied between USD 515 and USD 270 per MT over the course of financial year 2015-16.

Iron Ore, Coking Coal and Hot Rolled Steel Coil Price 2015-16,

USD per Ton

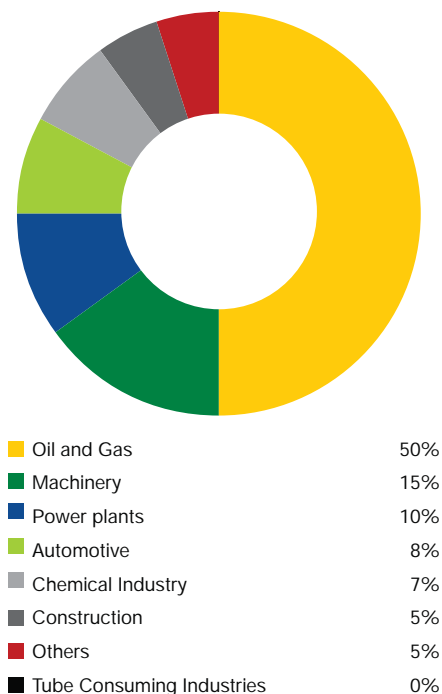


Source: Metal Bulletin

Steel Tube & Pipe Industry

The global steel tube and pipe industry manufactures a broad mix of welded and seamless pipes & tubes. Steel pipes are used primarily in oil & gas, water and 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.

Pipe & Tube Applications

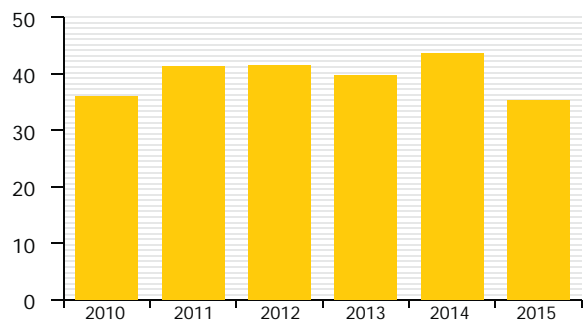


World production of tubes and pipes was roughly 137 million MT in 2015, which is approximately 8% of global crude steel production. Production of welded tubes and pipes was almost twice that of seamless tubes and pipes due to the limited end uses for seamless pipes, namely, drilling, exploration and other specialized uses.

Global exports of steel tube & pipes was 35 million MT, down from 44 million MT last year. The underlying reason for this has been falling steel prices and resulting trade disputes.

World Steel Tube & Pipe Exports

2010 – 2015, Metric Tons (MT) in millions



Source: World Steel Association

Stainless Steel

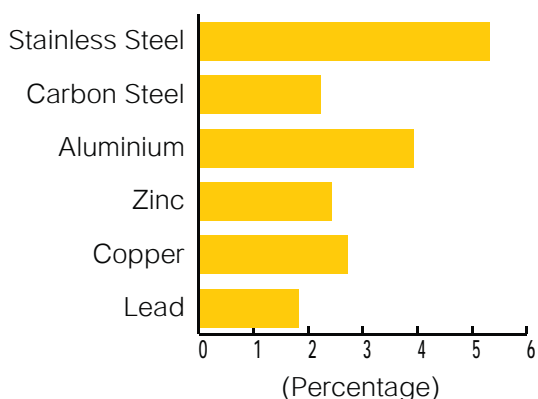
Global production of stainless steel was approximately 42 million MT in 2015. Being a highly specialized product the relative size of the industry is much smaller than that of carbon steel. Stainless steel prices on the other hand are 6-7 times higher than carbon steel as result of greater nickel and chrome content which are added for rust and corrosion resistance.

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
- Automotive exhaust systems
- Construction - offshore and humid environments
- Food and pharmaceutical processing
- Desalination and wastewater projects



Compound annual growth of major metals 1980 - 2015



Source: International Stainless Steel Forum

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.

DOMESTIC ECONOMY

Pakistan achieved 4.71% real GDP growth in fiscal year 2015-16. Other key indicators such as inflation, fiscal deficit and current account balance also showed improvement.

The external sector has remained stable on account of lower oil import bill due to depressed global crude prices, steady inflow of remittances and firm to growing foreign exchange reserves which have helped the Pakistani Rupee maintain its parity against the US Dollar.

It is also encouraging to see the country's recent reclassification to MSCI Emerging Markets, which should further boost sentiment.

The industrial sector performed well, registering growth of 6.8%. Growth in Large Scale Manufacturing (LSM) was however lower at 4.7% but higher compared to last year.

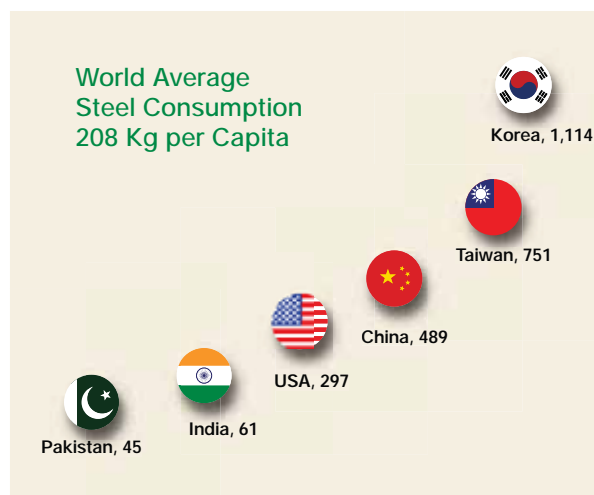
The outgoing year has seen remarkable growth in construction and infrastructure activity, which recorded growth of 13.1%. This trend is expected to continue with rapid investment in housing & infrastructure and ongoing CPEC related projects.

The country's export performance has been below par with exports declining 12.9% year on year. External factors such as falling commodity prices, lower global aggregate demand and trade disputes are partly to blame for this performance. The engineering sector's exports were 20.9% below last year.

The second phase of trade liberalization between Pakistan and China is currently under negotiation and it is hoped that the Government of Pakistan will give due consideration to the domestic industry's concerns. **Given that Pakistan is one of three countries in the world that has no protection against Chinese steel imports** and taking into account the massive size of the Chinese steel industry, it is imperative that the Government of Pakistan negotiate a balanced and fair agreement that does not result in injury to the domestic steel industry.

The World Steel Association's assessment of per capita finished steel consumption for 2015 indicates a world average of approximately 208 kg/capita. **Reported estimates of per capita steel consumption in Pakistan are in the range of 40-45 kg/capita, which is well below the world average and indicates the immense potential for growth in the domestic steel manufacturing and processing industry.**

Per Capita Steel Consumption Kg per Capita



Source: World Steel Association

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. It enjoys continuing loyalty from its customers, dealers and business partners. The Company's Plastics segment caters to water & gas transmission and duct applications, and is continuously evolving to meet the demands of its customers.



Gross Sales

Your Company achieved gross sales volume of approximately 204,000 MT during the outgoing financial year, with gross turnover of Rs. 17.6 billion.

Domestic Sales

Overall domestic sales volume remained flat, however black pipe market saw strong demand over last year due to the construction and infrastructure sector boom. CR Tubes also showed a promising trend due to increase in auto sector demand.

Export Sales

Export sales volume contracted 24% over the previous year mainly because of the CVD and ADD imposed on our exports to North America. With prices falling consistently month on month for the first half of the outgoing year and then settling at a record low, the international environment remained difficult for selling as buyers remained wary and reduced stocks. Record low prices have also increased protectionism, which directly impacted your company during the year. Your Company is nonetheless committed to reclaim lost volumes and is making inroads into new markets. We currently export to more than 55 destinations worldwide covering 5 continents.



Polyethylene Sales

The Company's Polyethylene segment registered sales growth of a healthy 57% over last year. Being one of a handful of API certified plastic

mills in the world today, sales of our MDPE brand of gas pipes increased significantly due to easing of gas supplies and ensuing funding. We continue to try and persuade SSGC and SNGPL to implement the same supplier evaluation and safety protocols on Plastic pipe as they do with API Steel Pipes by buying only API certified plastic pipe in line with their own best practices. Sales of our HDPE brand of water and duct pipe also remained encouraging.

Proliferation of inferior quality products in Pakistan makes it very hard to market premium quality products to customers with little or no product knowledge. The management is making concerted efforts to create awareness about quality standards and the long-term health implications of using sub-standard plastic pipe system. We continue to supply key institutional clients with premium quality water and duct pipes; however the commercial market remains a challenge where cheap, substandard product is available in abundance.

Stainless Steel Sales

ILL Stainless Steel (Pvt.) Ltd. completed its first full year of operations this year. Despite the problems we have faced in selling our product due to cheap competing commercial imports, the company generated a gross sales turnover in excess of Rs. 155 million. ILL Stainless Steel (Pvt.) Ltd. is set to position itself as the leading stainless steel tube manufacturer in the country.

PRODUCTION

Your company successfully commissioned its most expensive pipe mill with state of the art rotary cold saw and capacity to produce pipes up to 12" in diameter. The project was commissioned in January 2016 and is API certified. This Rs. 700 million investment will allow us to produce up to X70 API grade for oil, gas and water distribution. The commissioning was completed smoothly and commercial production is underway, well in time, for the company to gain from the distribution network emanating from TAPI and other gas pipeline projects.





FINANCIAL REVIEW

Company Results

The Company posted net sales of Rs. 14,820 million, which were 16.1% lower than last year, earning Gross Profit of Rs. 2,460 million, Profit before Tax of Rs. 1,104 million and Profit after Tax of Rs. 786 million. Earnings per Share for the year were Rs. 6.56.

Operating Profit for the year increased by 26% over last year primarily due to inventory gains due to efficient buying of raw material and higher domestic margins.

Cost of Goods Sold for the year at Rs. 12,360 million was 21.7% lower than last year, which was in line with the turnover.

Selling and Distribution Expenses of Rs. 824 million were 40% higher than last year mainly on account of higher freight charges and legal charges relating to our anti-dumping case in the USA.

Administrative Expenses of Rs. 249 million were 32% higher than last year.

Other Operating Charges of Rs. 116 million were 42% higher than last year primarily on account of higher allocation towards Workers Profit Participation Fund (WPPF) and Workers Welfare Fund (WWF). Other Income showed a decrease of Rs. 234 million mainly due to dividend income from International Steels Limited in prior year.

Financial Charges during the year decreased by Rs. 153 million which is 31% lower than last year primarily due to lower stock holding and reduced borrowing rates.

Segment Results

Revenue from the Steel segment stood at Rs. 13,317 million, yielding Gross Profit of Rs. 2,248 million. Gross profit margin from the Steel segment showed improvement as compared to last year's level.

Revenue from Plastic Segment was Rs. 1,503 million with a Gross Profit of Rs. 212 million.

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 2015-16, the weighted average cost of borrowing including exchange losses, was 15% less than last year.

Capital Structure

Debt to equity ratio on 30 June 2016 was 48:52 compared to 52:48 as on 30 June 2015. Interest cover and debt servicing ratios improved compared to last year.

APPROPRIATION

The Board of Directors of the company had approved a 10% interim cash dividend and keeping in view the financial results of the Company for the year ended June 30, 2016, the Board of Directors have recommended a **35% final cash dividend, bringing the total cash dividend to 45% for the financial year.**

AUDITORS

The present auditors M/S KPMG Taseer Hadi & Co., Chartered Accountants retire and offer themselves for re-appointment. They have confirmed achieving satisfactory 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, 2017, as a fee to be mutually agreed.

CORPORATE SUSTAINABILITY

Energy Conservation and Recycling

Steel is 100% recyclable, meaning it can be reprocessed into the same material multiple times. Recycling accounts for significant energy and raw materials savings. More than 1,400 kg of iron ore, 740 kg of coal and 120 kg of limestone are saved for every ton of steel scrap made into new steel.



Steel is one of the world's most recycled materials



CO² emissions from steel production are half of what they were in the 1960's



Steel has a potentially infinite lifecycle



Steel is environmentally friendly

When selecting piping systems, we encourage our customers to evaluate the 'Whole Life Cost' of alternative systems in order to arrive at the true cost to the user. The Whole Life Cost of a system includes cost of components, installation and ownership. Our HDPE water pipes, with low installation costs and leak-free life provide greater durability and true peace of mind to the system operator and end user.

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

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

HUMAN RESOURCE MANAGEMENT

Occupational Health, Safety & Environment

The Company's focus on being environmentally responsible was continued with optimization being achieved through initiatives such as heat recovery from cooling water, efficient waste management, paper recycling, use of effluent treatment plant, use of fume scrubbers and environmentally friendly disposal of sludge, reduction in waste, periodic third party testing of emissions and effluents and tree plantation inside & outside the factory premises.

As part of the efforts to reduce environmental impact, waste generation was closely monitored and substantial reductions were achieved in generation of steel scrap waste, zinc dross, skimmed oil and solid waste. Additionally, electricity, gas and water consumption were also reduced.

During the year **the Lost Time Incident Frequency Rate was 1.82 per million man hours worked as compared to 2.0 per million man hours worked** in the previous year.

A total of 525 safety trainings were conducted and each employee went through a series of 5 sessions during the year. Overall attendance for trainings was 5,631. The trainings included Safe Crane Operations, Hands Safety, Fire Fighting Operations, Permit to Work System, Industrial Hazards, First Aid & Rescue, Defensive Driving, Electrical Safety and Working at Heights.



Two audits – one a surveillance audit and the other a complete recertification audit – were conducted by M/S Lloyds (a UK-based certification body) to provide assurance that the QA&HSE Management System complies with ISO 9001, ISO-14001 & OHSAS 18001 global standards. No major non-conformities were observed.

IIL participated in a nationwide contest to determine best OHSE practices arranged and organized by the Employers Federation of Pakistan and was awarded the second position.

Industrial Relations

In September 2015, the last bilateral negotiated settlement with the CBA and the tenure of the last CBA ended. Due to procedural delays at the Labor Department, Government of Sindh, referendum for the new CBA could not be held till February 4, 2016. Fresh Charters of Demands were raised by both the freshly elected CBA and management and were served on each other on March 1, 2016. Negotiations began in March 2016 and concluded on 16th August 2016. These negotiations were conducted in a very productive and positive atmosphere.

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 Fund and the Gratuity Scheme at the year-end were Rs. 299 million and Rs. 346 million respectively.

Employment of Special Persons

Complying with the legal requirement to hire physically handicapped persons, IIL's workforce has 25 such special people.



Trainings

During the year, 1,006 employees went through repeated trainings as more than 6,189 employees were imparted a total of 568 internal trainings on various technical topics including manufacturing processes and OHSE. 60 employees attended external (local & foreign) programs arranged by various well-reputed institutes including PICG, LUMS, IBA, ICAP, MAP, PSTD, PIMS and EFP etc.



Contribution to the National Exchequer

Your Company is registered with the Large Taxpayers Unit (LTU) and **contributed over Rs. 2.7 billion towards the national exchequer** in the form of Income Tax, Sales Tax, other taxes, duties and levies during the financial year.

Corporate Social Responsibility (CSR) and Community Welfare Schemes

IIL contributes approximately **2.5% of its Profit after Tax towards CSR activities**. It continues to fund all operating expenses for the TCF primary school IIL Campus located in Landhi next to the IIL funded mosque opposite Factory 1.

Last year IIL also sponsored the Amir Sultan Chinoy (ASC) amphitheater at the Institute of Business Administration (IBA) main campus.

In addition to the above, IIL has taken the initiative this year to establish a health clinic in association with **SINA Health, Education and Welfare Foundation**.



The SINA-IIL Clinic is also across the road from IIL Factory 1 and will provide free medical facilities to the underprivileged. IIL has funded the purchase of land and construction of the facility and will contribute towards the operations of the clinic due to be inaugurated in September 2016.

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. This is the basis for our recently concluded initiative to upgrade and enhance our Oracle ERP Business Suite implementation.

FUTURE OUTLOOK

The company is entering an exciting and challenging new phase as several new projects have now been commissioned and have commenced commercial production.

IIL Stainless Steel (Pvt) Ltd. completed its first full year of operations this year. We have made significant new inroads into this new segment. Given the construction boom and growing preference for more durable and aesthetically pleasing pipes and tubes we are confident this business will be a major growth driver for us in the coming years.

Commissioning of our new HSS and API pipe mill was held on 27th January 2016. The investment was undertaken at an approximate cost of Rs. 700 million. The addition will allow the company to produce pipes up to 12" diameter and cover up to X70 API grade for oil, gas and water distribution. In addition the **plant is capable of producing hollow structural sections used in high strength construction and engineering applications which will modernize and reform the construction industry**. Manufactured according to international standards, IIL's Hollow Structural Sections (HSS) are available in square, rectangle and round shapes and can be used in virtually all types of structures, including, bridges, building and pedestrian walkways to name a few. This has also opened up a new segment of the market for us and is expected to be a major growth driver in the years ahead.



Initial construction work of our new factory near the outskirts of Lahore has been completed. The facility is currently being used as a warehouse to better serve its near home key domestic markets.

In order to **capitalize on our leading position in the water pipe segment**, your company has decided to supplement its PPRC pipe manufacturing facility by undertaking an investment to **manufacture PPRC fittings** in Sheikhpura in order to be able to provide customers with a complete solution. Construction work is almost complete and we are scheduled to commence commercial operation by January 2017.

We are currently pursuing the possibility of setting up a manufacturing facility in Sri-Lanka in order to protect our market there.

We are also evaluating a technical collaboration with a Chinese manufacturer to investigate the possibility of setting up a drip irrigation pipe plant.



The Company has planned extensively to enhance its reach and expand its range of products in the coming years so as to cater to a wider customer base and achieve its vision, "To be an international, innovative, entrepreneurial, million ton steel processor by the year 2020".

BUSINESS RISKS

Steel and Zinc are the two primary raw materials consumed in the Company's manufacturing

processes. The absence of a reliable and adequate domestic supply compels the Company to procure raw material from the international market. Importing large quantities of these raw materials exposes us to volatility in the international price of Steel 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 effective procurement and consistently strong sales.

Cost containment, well-managed operations and continuous modernization & upgrading are key components of your Company's business strategy employed to deliver healthy returns to stakeholders.

INVESTMENTS

The Company has a sizeable investment 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 364,000 MT, Gross Sales of Rs. 24 billion and PAT of Rs. 1,179 million.**

ISL successfully completed its capacity enhancements during the outgoing year where by, it converted its compact cold rolling mill to a twin-stand reversing mill, added a second galvanizing line and commissioned a color coating steel line. The expansion was carried out at an approximate cost of Rs. 3 billion and has **enhanced ISL's capacity to well over 500,000 MT per annum.**

The outgoing year has seen IIL and ISL as a group post sales volume in excess of 571,000 MT, Gross Sales of over Rs. 39 billion and Profit Before Tax of Rs. 2.7 billion.



Your company owns 100% of IIL Australia Pty Ltd which ended the year with sales of Rs. 395 million, gross profit of Rs. 14 million and a nominal PAT.



Your Company also holds an 8.5% ownership interest in Pakistan Cables Limited (PCL) a company which it set up in 1953. PCL is a listed Company and is in the business of manufacturing copper rods, wires and cables, in addition to being the country's first manufacturer of copper cables and wiring.

TRIBUTE TO OUTGOING CHAIRMAN

After having served the Board for three consecutive terms as an independent director, Mr. Zaffar A. Khan, the Chairman of the IIL board, and one of the leading advocates of Corporate Governance in the country, in line with best Corporate Governance practices, has decided not to stand for re-election on the IIL Board.



The outgoing Chairman has served the IIL Board for a total of eight years thus completing three terms, of which five have been in the capacity of Chairman. Accordingly, the Directors would like to take this opportunity to extend their sincere gratitude to him on behalf of the IIL Team for his vision, guidance and support over the years which has also guided us to diversify our business to include our Australian subsidiary, our Stainless Steel business, and most recently our large diameter steel and plastic pipe expansions all of which were set up under his leadership.



Mr. Zaffar A. Khan's vast experience, enlightened perspective on business matters and ability to inspire confidence in his peers and across the management team have been pivotal to the Company's continued success in recent years. He has successfully been able to unite a diverse and independent Board, giving the management team a well-balanced and thought out direction. IIL's robust Corporate Governance policies and controls are a direct result of Mr. Zaffar A. Khan's guidance and support and we hope to continue to improve as a result of his contribution to the Company. In his final year on the Board, IIL has been successful in ending the year with record operating profit.

The Board and the management, would once again like to express their deepest appreciation and gratitude to Mr. Khan for his invaluable service and wish him luck in his future endeavors.

ACKNOWLEDGEMENT

I would like to extend my sincere gratitude to the entire IIL team and especially my Management Committee. Substantial senior management time was spent in recruitment and development of Human Resources so they could be ready to deliver higher sales volume in the years to come. The team's hard work has helped the Company achieve good profit numbers despite not being able to achieve budgeted sales volumes which was mainly due to the significant external challenges we have faced in our International market. I also acknowledge our CBA, which has this year supported the management in making the organization more efficient and productive as we continue to enhance a pay for performance culture whereby we look forward to sharing more successes with our staff in the coming years.

For and on behalf of
the Board of Directors

Riyaz T. Chinoy
Chief Executive Officer

Karachi
August 18, 2016