

DIRECTORS' REPORT



The Directors are pleased to present their report along with the audited Financial Statements of the Company for the year ended June 30, 2021.

BOARD COMPOSITION & REMUNERATION

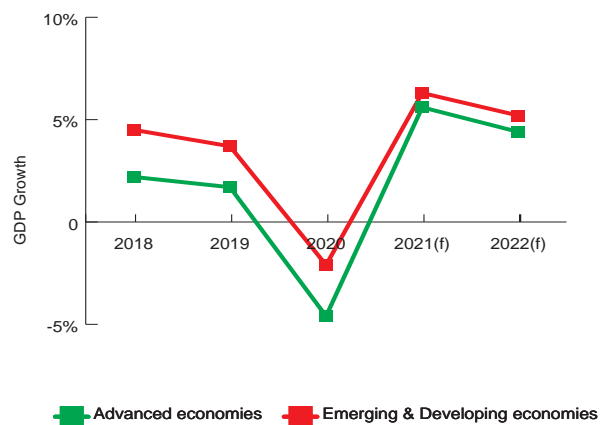
Composition of the Board and the names of Members of Board sub-committees are disclosed on Page No. 88 & 100 (Corporate Governance section). The Company has a formal policy and transparent procedures for remuneration of its Directors (for remuneration, refer to note 37 of the unconsolidated financial statements) in accordance with the Companies Act 2017 and the Listed Companies (Code of Corporate Governance) Regulations, 2019.

GLOBAL MACROECONOMIC OUTLOOK

According to IMF World Economic Outlook, global GDP shrunk by 3.2% in CY 2020. However, GDP growth projections for CY 2021 are 6%, with Advanced Economies and Emerging & Developing Economies growing by 5.6% and 6.3% respectively. The ongoing post-pandemic recovery in CY 2021 is expected to taper off in CY 2022 once post-lockdown pent-up demand is reasonably satiated and immunization rates reach acceptable thresholds, enabling a safer return to normalcy.

GDP Growth (%) - Advanced vs. Emerging & Developing

2018 – 2022 (f)



Source: IMF World Economic Outlook, July 2021

Growth in global trade of goods and services, which contracted by 8.3% in 2020, is estimated to expand by 9.7% in 2021 and then normalize to 7%.

There are several factors counteracting the normalization of social and economic activity, including the emergence of new more virulent Coronavirus variants, uneven distribution of vaccines across countries, persistent inflation and the associated risks of a tighter external financial environment which can impact aggregate demand and lead to another recession. Other more visibly apparent signs of imbalances include unprecedented high freight rates, unavailability of containers and shipping space, commodity and asset prices at historic highs and unemployment.

DOMESTIC ECONOMY

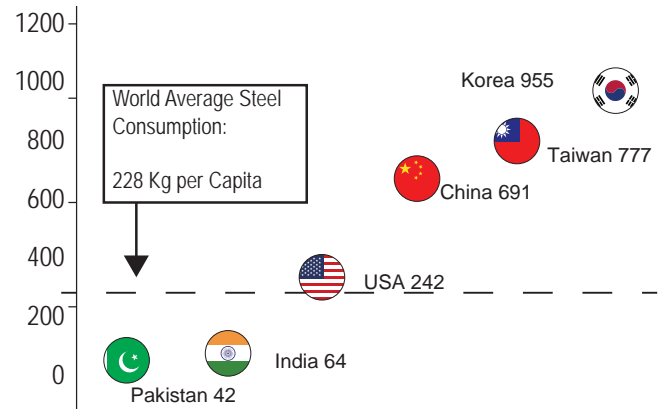
Pakistan's macroeconomic benchmarks for FY 2020-21 point towards a favorable past year with indicators such as GDP growth rate, Large Scale Manufacturing (LSM) and current account and fiscal deficit remaining conducive to good economic performance. Relief measures such as the Temporary Economic Refinance Facility (TERF), Construction package, Rabi package to increase the production of wheat in the country, Naya Pakistan housing scheme and the reduction in duties and sales tax on essential raw materials and capital goods will further stimulate economic activity and enable sustainable growth going forward. It is also encouraging to note that the government is focusing on sector-specific policies for key segments including textile, refineries, automotive and steel sectors. Which should further support expansion of the existing industrial base and allow for better capital formation. The SBP's projections of 4-5% GDP growth and relatively moderate inflation of 7-9% for FY 2021-22 point towards a supportive monetary policy stance, which also bodes well for broader economic growth.

The second phase of the China Pakistan Economic Corridor (CPEC) undertaking will shift focus from energy to industrial development, agricultural modernization, tourism and social infrastructure development which, along with enhanced regional connectivity, augurs well for industrialization and trade in the medium term. The Pakistan Stream Gas Pipeline (PSGP) project signed with Russia envisages the construction of 1,100 km of gas pipelines from Karachi to Kasur. Capital expenditure on the gas distribution network shall bring significant business to the local steel industry while alleviating the currently chronic gas shortage.

The World Steel Association's assessment of steel consumption for 2020 indicates a world average of approximately 228 kg/capita. Pakistan remains well below the world average at an estimated 46 kg/capita which continues to indicate the immense potential for growth in the domestic steel manufacturing and processing industry.

Per Capita Steel Consumption
Kg per Capita, 2020

Source: World Steel Association, 2020

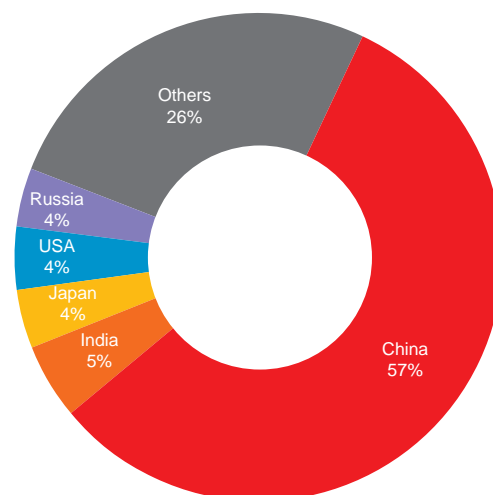


GLOBAL STEEL SCENARIO

World crude steel production was estimated at 1.88 billion metric tons (MT) in CY 2020, which was marginally up compared to the previous year. China accounted for 57% of global crude steel production and was up 7% year-on-year. Other major players include India (100 million MT), Japan (83 million MT), United States (73 million MT) and Russia (72 million MT).

Share of Global Crude Steel Production (%)
2020

Source: World Steel Association, 2020



FY21 witnessed Asian Hot Rolled Coil (HRC) trade in a wide range of \$450-\$1,100/MT CFR, with international steel prices trending upwards from July 2020 to May 2021. The current levels of \$950/MT at which Chinese origin HRC is trading in are the highest witnessed in the last 13 years. Steel-making raw material such as iron ore and coking coal have also made similar gains.

A sharp divergence in prices between China and other major steel producing countries was witnessed as post-lockdown demand from Europe and North America incentivized South East Asian (Japan, Korea, Taiwan) and CIS producers to divert their goods towards these higher value markets.

Several key factors and events have contributed to the sustained rise in prices this year including:

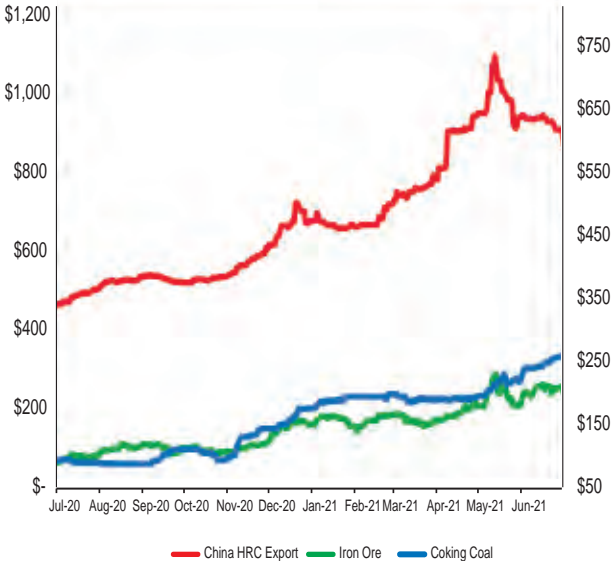
1. Loosening of monetary policy worldwide throughout FY 2020-21 to counteract the economic fallout of the pandemic.
2. US Dollar weakness during the peak of the pandemic in USA and in the run up to the US presidential elections.
3. Strong post-lockdown domestic demand in China, Europe and North America and diversion of SE Asian / CIS exports towards higher value markets (Europe and Americas), resulting in a temporary shortage of material.
4. Withdrawal of export rebate on alloy steel by the Chinese government in May 2021.
5. Rapid upward acceleration in sea-freight due to global port congestion and shipping space and container shortages.
6. More recently, the Chinese National Development and Reform Commission (NDRC) has been contemplating imposing export taxes on steel to rein in domestic prices, as high prices adversely impact infrastructure development planning.
7. Capacity cuts to curb pollution ahead of the Winter Olympics in Beijing. By some estimates approximately 20 million MT of production could be cut in the second half of CY 2021. This is expected to support prices in the short to medium term.

Policy measures have had a significant impact on commodity prices since the start of the pandemic, from the unprecedented fiscal and monetary stimulus sanctioned by governments and global central banks around the world in response to the Coronavirus pandemic, to the two latest aforementioned Chinese measures, i.e., export taxes and capacity cuts, expected by the market. We also continue to remain cognizant of the risks associated with a drawdown in asset purchases by the US Federal Reserve and growing expectations of higher US interest rates which may prove unfavorable to global commodity prices.

Pakistan's demographic profile, construction packages and housing schemes, progress on dams, motorways and CPEC projects and pipelines indicate that energy, infrastructure, automotive, white goods and raw material demand will continue to support growth in steel use in the medium to long term.

Iron Ore, Coking Coal and Hot Rolled Steel Coil Price July 2020 – June 2021, USD per Ton

Source: Fast Markets



Steel Tube and Pipe Industry

The global steel tube & pipe industry manufactures a broad range of welded and seamless tubes & pipes. Steel pipes are used primarily in oil, gas, water and fluid transmission and distribution, and various fencing and

fabrication-related applications. Structural steel pipes and Hollow Structural Sections (HSS) are used in high strength applications in the construction industry, whereas cold rolled steel tubing is used in automotive parts, bicycles, home appliance manufacturing and various furniture and fabrication-related applications.

World production of steel tubes & pipes is roughly 160 million MT, which represents around 9% of total world crude steel output. Out of the total production of steel tubes & pipes, the welded tube & pipe segment represent 70% of total tubes & pipes produced, whereas seamless pipe represents 30% of the production share.

Global trade of steel tubes & pipes represents approximately 9% of total international trade in steel. Pakistan's steel tubes & pipes market size is estimated at approximately 700,000 MT out of a total steel products market size of 9-10 million MT. The domestic steel tubes & pipes market is highly fragmented and consists mainly of a large number of small-to-medium sized manufacturers, spread across the country.

Stainless Steel

Global production of stainless steel was approximately 51 million MT in CY 2020 compared to 52 million MT in CY 2019. However, output continues to grow at a CAGR in excess of 4% over the last 5 years. As with carbon steel, China is the dominant supplier of stainless steel, with production of approximately 59% of world output in CY 2020.

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

- Chemical and petrochemical processing
- Liquid Natural Gas (LNG) piping
- White goods and household utensils
- Automotive exhaust systems
- Construction - offshore and humid environments
- Food and pharmaceutical processing
- Desalination and wastewater projects

The 300 Series stainless steel and its constituent grades comprise almost 55% of global stainless-steel production and are widely used in a range of applications due to high Nickel content, which reduces

corrosion rate. The 200 Series stainless steel which are more economical, comprise 22% of global production. Your company's portfolio comprises of both grades as well as the 400 series.

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 a substantial potential for growth in this segment.

Polymers

Our Polymers segment produces pipes and fittings for transmission and distribution of water and gas as well as for use in telecommunication and ducting applications. This segment has shown consistent growth, both in terms of volumes and profitability. The Company plans to further expand in this segment and introduce a range of uPVC pipes and fittings.

STRATEGIES, OBJECTIVES & CRITICAL PERFORMANCE INDICATORS

ILL's core endeavor is to achieve its corporate and strategic objectives and to adopt pre-eminent global practices while playing a significant role in the country's steel industry. The Company strives to continuously improve its processes and products to maximize returns for its shareholders. A detailed description of ILL's objectives, strategies and critical performance indicators can be found on Page No. 56.

COMPANY OPERATIONS

Market Share

Your Company is the leading manufacturer of tubes & pipes in the domestic market for GI Pipes, CR Tubes, Stainless Steel Tubes & Pipes, Hollow Structural Section and Black & Scaffolding Pipe, having the largest product range in the segments it operates in. The ILL brand is the benchmark for quality and has, over several decades, built continuing loyalty from its customers, dealers and business partners. The Company is continuously striving towards customer-centricity and being attuned to the market needs.

Gross Sales

The Company achieved sales volume of 190,000 MT during the FY21, with turnover of Rs. 28.9 Bn (FY20: Rs. 18.9 Bn).

Domestic Steel Sales

The Company's domestic turnover for the year was Rs. 23 Bn (FY20: Rs. 16 Bn) as domestic sales volume increased 25% over the previous year. This increase was attributable to our strong marketing and sales efforts which capitalized on the rebound from unusually low sales volume last year due to the COVID-19 pandemic and ensuing lockdowns and economic slowdown. The recovery was led by sales of our CR Tubes which are used in the automotive, furniture and general fabrication segments. Our Black Pipe and HSS line of products also performed well due to the broad-based increase in infrastructure and construction activity. Sales of our GI Pipe product line remained healthy. Our API line pipe sales to gas utility companies were higher than last year despite the postponement or cancellation of several expected tenders by gas companies due to funding constraints.

We actively continue to enhance commercial and institutional customer engagement via nationwide events, sponsorships and direct engagement mechanisms, despite activities being hampered by the pandemic.

Export Steel Sales

The Company's export turnover for year was Rs. 5.9 Bn (FY20: Rs. 2.9 Bn). Export sales performance was exceptional, showing volume growth of 71% compared to last year. Sales across most major markets and product lines increased as post-lockdown demand remained healthy throughout the year.

Your Company continues to win prestigious accolades, receiving the FPCCI Best Export Performance Award 2019 for the 20th consecutive year in the Engineering Products (Mechanical) segment.

IIL Australia Pty Limited

IIL Australia, a wholly-owned subsidiary based in Melbourne, Australia, registered net sales of AUD 24 million (FY20: AUD 12 million). It continues to grow rapidly, having become a preferred supplier in the Australian market. Australia is now IIL's largest export destination. The Company delivered its highest-ever sales volume as it continued to expand its network and build a sustainable customer base. Ongoing

geopolitical tensions between China and Australia will provide opportunities for further growth in the coming year.

IIL Americas Inc.

The establishment of our wholly-owned subsidiary, IIL Americas Inc., in Ontario, Canada last year continues to provide better access to buyers and greater opportunities to develop alternative products. Net sales of the Company were CAD 6 million.

IIL Construction Solutions (Pvt.) Limited

IIL Construction Solutions is a wholly-owned subsidiary of IIL with a vision to developing the country's infrastructure using its modern construction solutions which includes premium quality and internationally compliant steel Hollow Structural Sections and steel scaffolding solutions.

Stainless Steel Sales

Stainless steel tube sales grew by almost 80% compared to the previous year. The introduction of our economical SS 200 series brand of stainless steel pipes and an expanded range of diameters and shapes have started to reflect in our overall volumes. Output is also expected to further increase next year as we commission new production lines.



Polymer Sales

Turnover of our range of polymer pipes and fittings was Rs. 3.4 Bn. (2020: 2.5 Bn.) with gross profit of Rs. 532 million (FY20: Rs 346 million). The segment saw broad-based growth during the year with all major product lines showing healthy increases. Our gas company tender business grew significantly, despite inadequate funding resulting in tender delays and

cancellations. Water and duct products continues to perform well and is expected further develop in the coming year.



Our line of PPRC pipes and fittings continues to perform well with volumes increasing by 52% over last year. We continue to drive the same customer-centric approach in this segment that is associated with our brand name in the steel segment.

The proliferation of inferior quality polymer products in Pakistan makes sales and marketing of premium quality products to customers with limited product knowledge a formidable challenge. The management continues to create awareness about quality standards and the long-term health implications of using sub-standard polymer pipe systems. This is made possible through regular nationwide dealer events, seminars with institutional clients, site visits and media campaigns. We also continue to educate institutional clients about quality standards for water and duct pipes; however, the commercial market remains a challenge where cheap, substandard product is available in abundance and without adequate regulations.

PRODUCTION

We commissioned a stainless-steel tube mill and polishing machine for square and rectangular tubes and sections during the year, which will further enhance our product range. Two polymer extruders were also added to cater for growing demand for PE and PPRC water pipes.

Our API audit scheduled during the year was also carried out successfully.

FINANCIAL REVIEW

Company Results

Based on successes in production and sales during the year, the Company posted net sales of Rs. 28,940 million, which was 53% higher than last year, earning a gross profit of Rs. 3,973 million, and Profit before Tax of Rs. 2,259 million and Profit after Tax of Rs. 2,315 million. Profit was also boosted by savings in financial charges, leading to Earnings per Share for the year of Rs. 17.55.

Cost of goods sold for the year at Rs. 24,967 million was 42% higher than last year due to historical highs in steel prices and higher sales volumes.

Selling and distribution expenses of Rs. 1,494 million were 84% higher than last year on account of higher export sales volume compared to last year, coupled with record increases in ocean freight costs.

Administrative expenses of Rs. 383 million were 28% higher than last year due to inflationary rises and payments on account of staff exits.

Other operating charges of Rs. 189 million were 514% higher than last year, mainly due to higher WPPF / WWF costs resulting from higher profits. Other income of Rs. 1,054 million showed an increase of Rs. 82% mainly due to higher dividend income from investments in subsidiary and associated companies.

Financial charges during the year decreased by Rs. 483 million, which was 39% lower than last year, primarily due to the lower cost of borrowing over the year.

Segment Review

Revenue from the Steel segment stood at Rs. 25,577 million, yielding gross profit of Rs. 3,441 million. Revenue from the Polymer segment was Rs. 3,364 million, delivering gross profit of Rs. 532 million.

Cash Flow Management and Borrowing Strategy

The Company's cash flow management system projects cash inflows and outflows on a regular basis and monitors its cash position on a daily basis. Record increases in raw material prices called

for meticulous effort to minimize working capital financing levels while managing competitive bank spreads. Reduction in the policy rate and SBP's subsidized lending helped the Company attain a very competitive average borrowing rate of 6.5% (FY20: 11.7%).

Capital Structure

International steel prices nearly doubled during FY21, which put tremendous pressure on the borrowing levels and the debt ratio. The Company has performed creditably in this regard and the debt ratio improved by 1%. This was achieved by efficient working capital management and a higher profit retention rate. Debt to equity ratio was 60:40 at 30 June 2021, compared to 61:39 on 30 June 2020.

DIVIDEND

The Board of Directors has recommended a final cash dividend of Rs 6.5 (65%) per share. With the interim dividend of Rs 3.5 (35%) per share already paid during the year, the total dividend for the year 2021 will amount to Rs. 10 (100%) (FY20: Rs Nil) per ordinary share of Rs 10 each. The total profit distributed by way of dividend amounts to 57% (FY20: Nil).

AUDITORS

The present external auditors, M/s A. F. Ferguson & Co., Chartered Accountants were appointed in FY21. The Board Audit Committee (BAC) has recommended reappointment of auditors for FY22 which the Board of Directors have approved.

The recommendations of the BAC for appointment of the auditor may be referred to on Page No. 105 (Report of the BAC on adherence to the Code of Corporate Governance).

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. Additionally, our IT team remains focused on working closely with end users in studying their day-to-day activities and finding opportunities to automate and streamline various tasks.

SOCIAL IMPACT

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

HUMAN RESOURCE MANAGEMENT

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

Industrial Relations

The bilateral negotiation settlement 2019 - 2021 was reached in July 2020 in an amicable manner. WPPF dues for 2019-20 were distributed in May 2021.

Apprenticeship Training Program

Our Apprenticeship Training Program operates at all factories with apprentices obtaining training in the areas of production, maintenance and quality control.

Gratuity Scheme and Provident Funds

The Company provides retirement benefits to its employees including a non-contributory defined benefit Gratuity Scheme for all employees and a contributory Provident Fund for all employees except unionized staff. Both plans are funded schemes recognized by tax authorities. The values of the Provident and Gratuity Funds at the year-end were Rs. 425 million and Rs. 463 million respectively.

Employment of Differently-abled People

Complying with the legal requirement to hire differently-abled persons, ILL's workforce includes 20 such staff members.

Succession Planning

The Company has in place a succession plan, which includes performance evaluation and appropriate training requirements for the development of future leaders. This means recruiting employees, developing their knowledge and skill sets and preparing them for advancement or promotion into more challenging roles. Our succession plan is continuously reviewed and updated to ensure that it is capable of addressing evolving company needs.

Occupational Health, Safety and Environment Systems (OHSE)

The health and safety of our employees is crucial to IIL. We are responsible for providing a healthy, safe and hazard-free environment to our employees and contractors and strive to achieve this through our OHSE Management System that is implemented by the HSE Department. In order to improve safety standards and to prevent incidents at work, the HSE Department distributes safety helmets, harnesses, gloves, shoes and other PPEs to its workforce and imparts appropriate training as part of its recurring function. Further information on our OHSE initiatives is available in our Group Sustainability Report. A brief outline of our OHSE practices is as follows:

1. Lost time injury frequency rate (LTIFR) of 1.02 against World Steel Association (WSA) Lost Time Injury Frequency Rate of 0.83.
2. During the year, 622 OHSE training sessions were organized by OHSE Department for 8,105 employees at all locations. Training hours per employee was 3.04.
3. The Company has started measuring carbon emissions and reduced its CO2 emission per ton by 22% as compared to the previous year.
4. We observed a Safety Month in November 2020, during which various activities including class room and floor training, distribution of gifts for best safety suggestions, safety posters and safety awareness sessions by senior management were carried out.
5. Continued periodic reporting on effluents and emissions to relevant environmental protection bodies.
6. Monthly OHSE meetings with team leaders, service providers and senior management.

7. Monthly safety walks by senior management at all factories to promote safe working environment.

8. The Company ensured safety precautions and SOP adherence to tackle COVID-19 related challenges including:

- Installation of sanitization tunnels.
- Installation of vehicle sanitization systems at main gates.
- Development and installation of COVID-19 awareness boards and posters for employees and dealers.
- Thermal temperature checking and monitoring at entrances.
- Hand washing and sanitization facilities at entrances and work stations.
- Provision of face masks and gloves to employees and visitors.
- Floor marking at entrance, canteen, plants and prayer areas to aid social distancing.
- Encouragement of online meetings and work from home.
- Frequent sanitization of work places.
- In-house COVID-19 vaccination for employees and their family members.

CONTRIBUTION TO THE NATIONAL EXCHEQUER

Your Company is registered with the Large Taxpayers Unit (LTU) and contributed over Rs. 6.6 billion to the national exchequer in the form of Income Tax, Sales Tax, other taxes, duties and levies during the financial year.

INTERNAL CONTROL FRAMEWORK

The Board has in place an effective Internal Control framework which may be referred on Page No. 96.

RISK, OPPORTUNITY AND MITIGATION REPORT

The management, in consultation with the Board of Directors, continue to develop capacities to anticipate risks and create new strategies to mitigate these risks while developing our strategic roadmap. A detailed Risk & Opportunity Report is presented on Page No. 62 for further details.

RELATIONSHIP WITH STAKEHOLDERS

IIL attaches great value to all of its stakeholder satisfaction and strives to nurture a positive relationship with them through effective and timely communication and interaction. Page No. 60 may be referred to for a detailed Stakeholder Engagement analysis.

QUARTERLY AND ANNUAL FINANCIAL STATEMENTS

Quarterly unaudited financial statements of the Company along with Directors' Review, were approved and circulated to the shareholders on a timely basis. Half-yearly financial statements were subjected to a limited scope review by the external auditors. These annual financial statements have been audited by the external auditors, approved by the Board and will be presented to the shareholders at Annual General Meeting for approval. Periodic financial statements of the Company were circulated to the directors duly endorsed by the CEO and the CFO. Half-yearly and annual accounts were initialed by the external auditors before being presented to the Board Audit Committee (BAC) and the Board of Directors for approval.

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

The CFO and the Head of Internal Audit possess the requisite qualification and experience as prescribed in the Code of Corporate Governance whereas the Company Secretary possesses the requisite qualification and experience as prescribed in the Companies Act, 2017. The appointment, remuneration and terms and conditions of employment of the CFO, the Head of Internal Audit and the Company Secretary were determined by the Board of Directors. The removal of the CFO and Company Secretary, whenever applicable, is made with the approval of Board of Directors.

COMPLIANCE

At IIL, we are firmly committed to ensuring the highest level of governance through the adoption of best business practices and standards. The Board reviews the Company's strategic direction and

business plans and performance on a regular basis. The BAC is empowered for effective compliance of the Code of Corporate Governance. All related party transactions are placed before BAC for review and recommendation before placing the same for approval of the Board. Your Board is strongly committed to maintaining a very high standard of corporate governance. For further details, reference can be made to the Code of Corporate Governance section of this report.

JCR RATING

Our rating exercise conducted in March 2021 achieved a long-term rating of AA- and short-term rating of A-1. We are also amongst a select few companies evaluated by JCR for grading on the basis of investment strength, governance and environmental & social responsibility (IS-ESG).

INVESTMENTS

The Company holds a 56.33% ownership interest in its subsidiary, International Steels Limited (ISL), a listed company engaged in the business of processing flat steel products. ISL ended the financial year with sales volume in excess of 485,993 MT, turnover of approximately Rs. 70 Bn. and PAT of Rs. 7.47 Bn.

Your Company also holds a 17.12% ownership interest in Pakistan Cables Limited (PCL). PCL is a listed company and is in the business of manufacturing copper rods, wires and cables, and is the country's first manufacturer of copper cables and wiring.



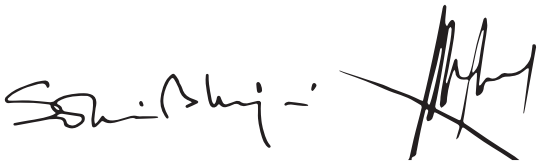
IIL has also invested in three wholly-owned subsidiaries; IIL Australia Pty Ltd., IIL Americas Inc., and IIL Construction Solutions (Pvt.) Ltd.

ACKNOWLEDGEMENT

We would like to extend our sincere gratitude to the state institutions, healthcare workers, essential service providers, security apparatus and the entire IIL team who continue to effectively manage and control the spread of COVID-19 and operate in an extremely challenging environment. Our results are a testament to the courage, tremendous effort and high effectiveness displayed by our staff during this difficult year.

We thank all our stakeholders, including esteemed customers, suppliers and bankers, for their commitment to the Company and look forward to sharing more successes with them in the coming years.

For and on behalf of the Board of Directors



Sohail R. Bhojani
Chief Executive Officer

Mustapha A. Chinoy
Chairman

Karachi
Dated: August 26, 2021