

Directors' Report

We are pleased to submit our 62nd Annual Report and audited accounts for the year ended 30th June, 2010.

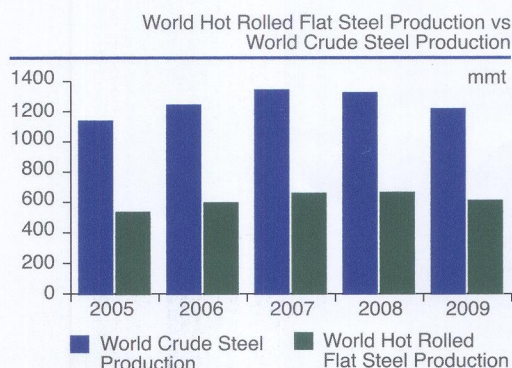
In the last year a lot of debate has taken place on global financial crises and there is little point on elaborating on it further. Suffice to say 2008-09 was one of the most challenging years faced by your company in recent times.

The crisis of the recent past has helped the IIL Management Committee to adjust its business strategy by bringing about some positive & necessary changes that have helped us emerge as a stronger, leaner and more flexible organization.

Your company's leadership position in the steel industry is as a result of our consistent focus on product quality, price and availability. Our customers are our business and we always work with them to ensure a win-win situation.

GLOBAL STEEL SCENARIO

The global steel industry has been through a roller-coaster ride in the last three years. While 2007 and the first half of 2008 were characterized by positive market fundamentals, the second half of 2008 and the first half of 2009 saw a difficult operating environment. The worldwide economic crisis took a toll on the industry as demand dipped, resulting in a sharp decline in prices from their all-time high in mid-2008. Backed by fiscal stimulus-led global economic recovery, the steel industry (including steel raw materials) demonstrated signs of demand pick-up and price stabilization during the last quarter of 2009.



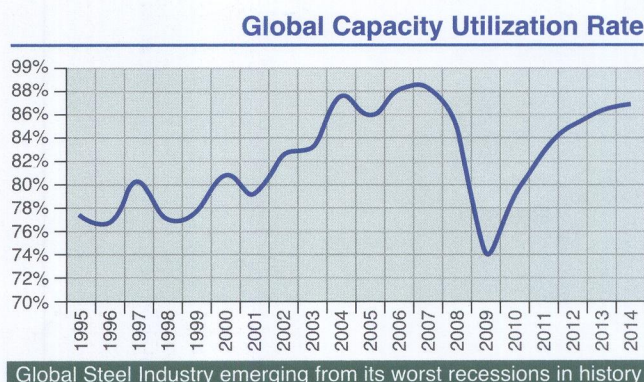
2009

Hot Rolled Steel
496 million Ton

Reversing
Mill Plate
115 million
ton

The world steel association expects global steel demand to exceed pre crisis levels in 2010 and reach a record high in 2011 driven by emerging economies. They have forecasted global steel use to increase by 10.7% to 1.24bn tonnes in 2010 after a 6.7% contraction in 2009. Next year demand is expected to reach a historical high.

The emerging economies, who in total maintained a positive growth through the crises, should continue to show strong positive growth, driving world steel demand in the future. The current recovery in the major developed economies is slower and the projected steel demand for them in 2011 is well below the pre-crisis levels.



China's steel demand is forecasted to rise 6.7 % in 2010 after an increase of 24% in 2009. According to estimates China will account for more than 48% of global steel used in the coming year.

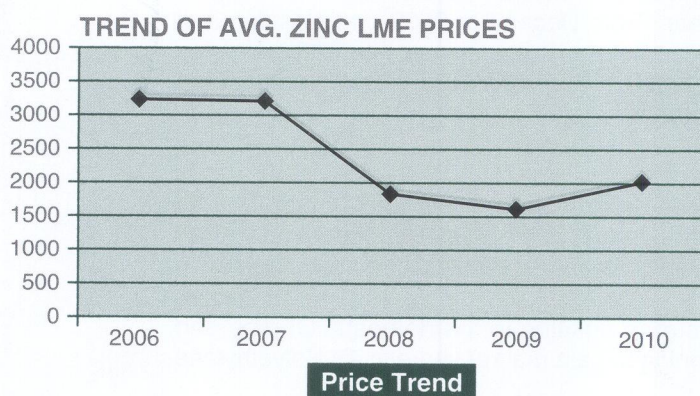
India's demand is expected to grow by 13.9% in 2010. This recovery is not only earlier but also stronger than expected and is being driven in a large part by government stimulus packages.

Amidst the turmoil, China and India were two countries that stood apart with positive growth at the time when the world was reeling from excess supply. The 2009 global downturn and the subsequent recovery have accentuated the importance of China and India to the world steel industry.

The world steel industry now seems firmly set on a path of recovery and the business risk of holding stocks is expected to be greatly reduced in the next year as prices are not expected to fall as they did in 2009.

OVERVIEW OF ZINC

Zinc has over performed since beginning of the year, largely because of the high market demand which is under way, however, strong supply growth is a risk to prices.



Zinc production is growing the quickest of all the metals with few constraints on raw material availability. We expect firm supply growth to continue. Nevertheless, tightening concentrate supply over the next few years could push Zinc prices to all time highs.

The price of Zinc as quoted on the London Metal Exchange (LME) is expected to continue to increase until the end of the year.

PAKISTAN ECONOMY

Pakistan's economy has been affected not just by the global economic crisis but also by the grim security situation and intensification of conflict linked to terrorism. This is severely impacting upon the country's political and economic prospects, and greatly increases the operational risks present within the country.

Industry, especially large-scale manufacturing suffered the most not only because of the drop in international demand but also because of having to cope with acute shortages of electricity and gas.

An anticipated recovery is expected to be supported by the restocking of inventories and a small recovery in exports, as the incipient recovery in major economies gathers pace.

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COMPANY'S OPERATIONS

Market Position:

The impact of the recession of the previous year did not significantly affect the sales of 2009-10 as gross sales in value terms crossed the Rs.15 billion barrier and were almost 10% higher than the previous year while the sales volume was 15% better than the same period last year.

Sales:

Domestic

As forecasted in our previous annual report the favorable sales trend from the fourth quarter of the previous financial year continued into this year with domestic sales ending at Rs.11,931 million (6% higher in value) but 8% higher in terms of volume than the previous year. While the automobile sector recovered remarkably, lack of government spending on housing projects in the second half of the financial year affected our domestic sales.

International Sales

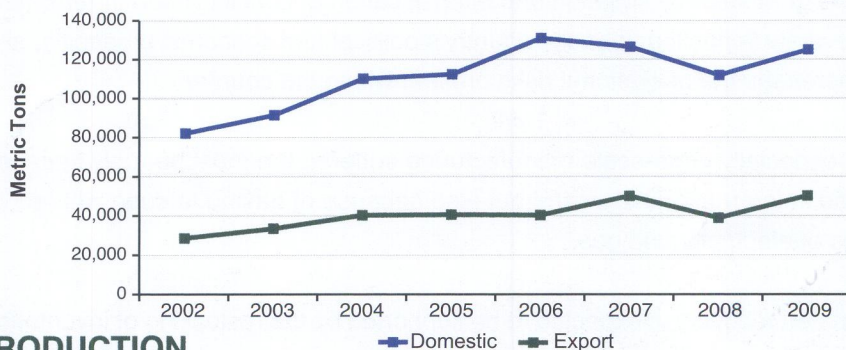
In the wake of the global economic recession, international sales took a sluggish start at the beginning of the financial year. From December 2009 onwards demand strengthened substantially and by the end of the financial year international sales grew by 25% to a record high of PKR 3,627 million; international sales contributed to 29% of our sales volume at 50,222 tonnes.

Market Share

With the experience of having produced more than 2 million tons of pipe IIL has established itself as the quality and brand leader in the domestic market as well as in our major international markets of Afghanistan, Sri Lanka & the West Indies.

Your Company continues to have a strong position in the domestic GI pipe and Cold Rolled Tube markets and is beginning to gain market share in its Polyethylene business.

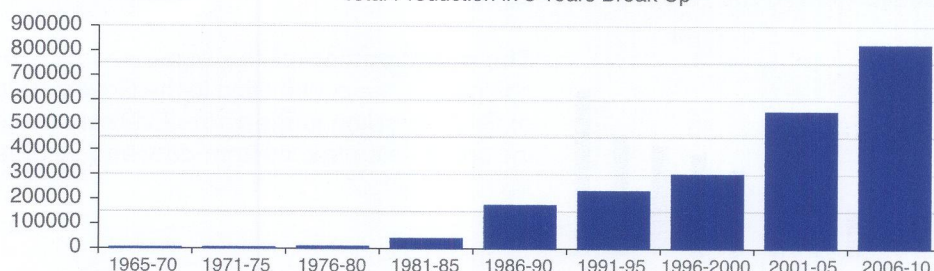
In the year 2009-10 your company has made a strategic decision to increase its CR tube product range and improve its availability and thus gain market share. We have been successful in increasing sales by 32% over the previous year. In the next year we intend to further expand our CR tube manufacturing range and capacity by investing in further CR tube mills and slitters.



PRODUCTION

No capital investment was made in the pipe operation and only those major repairs that were necessary to keep the Factory in operation were done.

Total Production in 5 Years Break Up

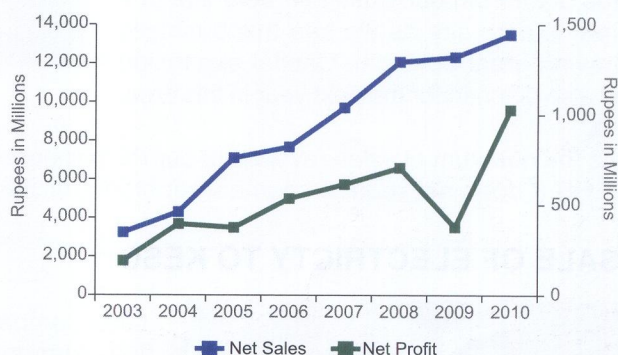


Despite the fact that there were repeated ups and down in inventory as steel manufacturers tried to raise prices by reducing availability. By Allah's grace, we were still able to end the year with the highest production figures in IIL's history.

IIL commenced manufacture of steel pipe in 1965. From these humble beginnings we produced our first 1 million tons of pipe between 1965 and 2003 (39 years). It only took us 7 years to cross the next 1 million tons which was achieved between 2004 and 2010.

FINANCIAL

The year 2009-10 has been marked with milestones for the Company. The net turnover at Rs.15,558 million, gross profit at Rs. 2,222 million, profit before tax at Rs.1,359 million and **profit after tax at Rs.1,026 million** were the highest ever earnings for the Company.



Costs increased substantially due to increase in steel prices, manpower, distribution and utilities costs. However, your Company managed to offset these higher costs through increase in sales volume and timely increases in selling prices and improved inventory management. As a result of the Company's vigilant borrowing policy, we have managed to obtain substantial savings in financial costs, despite exchange losses on LIBOR based foreign currency borrowings.

The earnings per share at Rs.10.27 are almost three times higher than the Rs.3.75 per share earned in the previous year. This by Allah's grace is a major achievement.

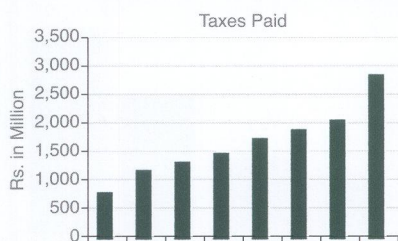
CASH FLOW STRATEGY

The Company's cash flow management system projects cash inflows and outflows on a regular basis as well as maintains cash positions on a daily basis. Keeping in view the saving in financial costs owing to a gap between KIBOR and LIBOR based borrowings; the Company managed 50% of its working capital requirements for 2009-10 through USD LIBOR based borrowings and the balance were arranged through export refinance entitlements/running finance facility. Part of long term investments and fixed assets were maintained out of long term borrowings.

During the financial year the weighted average cost of borrowings including the exchange loss was about 9.6% per annum as against last year average borrowing rate of 13%.

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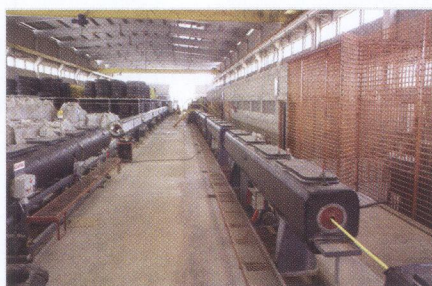
Contribution to the National Exchequer:



The major portion of the expenses of your company is the contribution to the Government of Rs.2.90 billion in the form of various taxes including sales tax, custom duty and income tax.

POLYETHYLENE BUSINESS

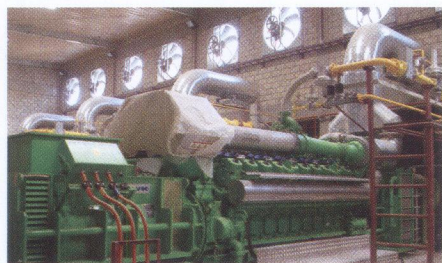
Our PE business which has just completed it's 4th year in existence had the best year yet with sales 30% better than the previous year and production crossing the 5,000 ton barrier for the first time. This year we also successfully launched the export of our PE Pipe.



We are currently in the process of re-locating the plant from our existing 3 acre site to a new 5 acre site as we see this business having great potential. Capital expansion is also planned for the next year in this area.

As the quantum of sales revenue of our PE business is below 10% of our revenue, IFRS-8 does not require segment reporting for this in our financial statements.

SALE OF ELECTRICITY TO KESC



Your Company is proud to be one of the first organizations to synchronize its power generation with the KESC grid. This has not only helped us operate our engines at optimal level but has also allowed us to make ideal use of our cogeneration facility, as electricity purchase is adjusted automatically and all excess power is sold to KESC automatically.

On holidays we have been able to supply as much as 19.5 MW to KESC (3.5 MW from the IIL factory and 16 MW from our new cold rolled & galvanized sheets project).

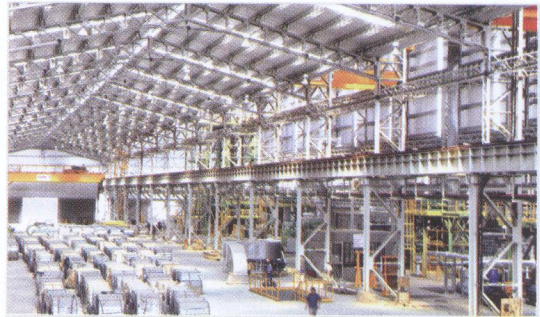
Although we are having problems in adjusting our payable and receivables with KESC we believe that we will continue to optimize our energy consumption by buying and selling.

The profit from power generation is reported in other income and segment reporting is not required as it is below 10% of our revenue.

COLD ROLLED & GALVANIZED SHEETS PROJECT

This is the largest private investment in the value-added flat-rolled and coated steel industry in Pakistan. This \$100 million investment, with equity contributions planned from Sumitomo Corporation of Japan and the International Finance Corporation, will unlock the dormant potential for developing the country's engineering and hi-

tech manufacturing industries. This bold investment will create thousands of jobs, both as direct employment and related job opportunities in associated support industries. As a leading indicator of economic growth, the production of high quality cold rolled and galvanized steel will lead the economic development in Pakistan where the per capita steel consumption has to grow from a current low of 35kg per person per year to the world average of 180kg thereby boosting the enormous potential for economic development in the country.



The Project Undertaking comprises of a 250,000 tons per annum Cold Rolling Mill and a 150,000 tons per annum Metal Coating Steel Plant to be located at Landhi, Karachi and the 18 MW gas fired power plant already constructed and operational at the site of new facility inclusive of all properties, assets, licenses, permissions, permits, rights, trademarks, patents, obligations and liabilities of the Company relating exclusively or primarily to the Steel Project Undertaking.

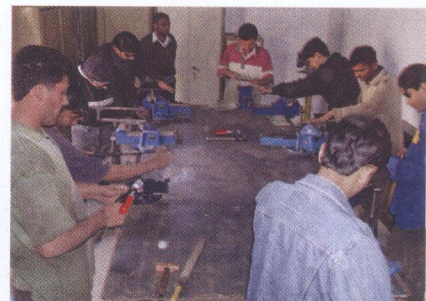
Trial production of hot dip coated galvanized sheet started in August 2010 on a highly automated continuous hot dip coating line. This facility is capable of producing 1220 mm wide sheet in a range of thicknesses suitable for a variety of construction, appliances, automotive, agriculture, packaging, and several additional engineering and manufacturing industries.

The Cold Rolling Mill is currently under commissioning and Cold rolled steel will be available in thicknesses ranging from 0.25 mm to 1.6 mm.

With planned expansion, the production annual capacity can be increased to 0.5 million tons. Downstream integration will provide additional products which will serve to catalyze the country's industrial production for export and domestic consumption. The initial production capacity will substitute at least 30% of Pakistan's steel imports thus conserving valuable foreign exchange for the country.

The Board of Directors in its meeting held on July 23, 2009 approved the Scheme of Arrangement for the reconstruction of the Company by the separation of the Steel Project Undertaking, and the vesting of the Steel Project Undertaking in International Steel Limited (ISL) and for the participation in the share capital and management of ISL by the Company.

The Steel Project Undertaking would be transferred to and vested in ISL in accordance with terms of the scheme and pursuant to an order of the High Court of Sindh, for which an application has been filed on 13 January 2010 under section 284 to 288 of the Companies Ordinance 1984. In consideration of transferring to and vesting of the Steel Project Undertaking in ISL, ISL shall issue to the Company fully paid up ordinary share of ISL of Rs. 10 each at par, the aggregate nominal value of the shares to be so issued being equal to the net assets value of the Steel Project Undertaking (on book value basis) as at the Completion Date (as defined in the Scheme, being the date on which the Steel Project Undertaking vests in ISL by virtue of the order of the High Court)



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as determined by KPMG Taseer Hadi & Co., Chartered Accountants. The Scheme has already been approved by 99.998% of the shareholders of the Company present and voting at the Extra Ordinary General Meeting, which was held on April 16, 2010 pursuant to the order dated March 9, 2010 passed by the High Court in Judicial Miscellaneous Application No. 1 of 2010.

The equity of International Steels Limited will be Rs.4.3 billion. On transfer of Steel Project Undertaking to ISL, ISL will become a 100% owned subsidiary of IIL. IIL will retain 55% of the equity of ISL. 17% of the equity is planned to be offered to IFC and Sumitomo and the balance 28% will be privately placed and offered to the public.

SOCIAL RESPONSIBILITIES

IIL believes that Responsibility & Ethical Business Practices contributes to the creation of a more sustainable and equitable society. Our values insure our commitment to protect our environment, develop our people and help others. For us corporate success has always been based on the strong cultural values we adhere to. These include Ethics, Excellence, Innovation, Respect, Fairness and Responsibility.

During the current year, the Company has paid Rs. 15 million to 'The Amir Sultan Chinoy Chair' at the school for Entrepreneurial Management at the Institute of Business Administration, Karachi.

Through the 'Amir Sultan Chinoy Foundation' your company gave ten Ambulances to Chippa Welfare Organization who set up five Ambulance stations in the Landhi Industrial Area where previously no ambulances were present. We also provided twenty scholarships for NEDians.

The Company continues to participate in the education and health sectors in order to uplift the social life of the common man.

HEALTH, SAFETY & ENVIRONMENT

Your Company has many business priorities, but there is none greater than a safe working environment. Occupational health and Safety management system involves predicting vulnerabilities, promoting good health and protecting the human resources at the work place. The company believes that any occupational injury or illness is unacceptable and are committed to continuous improvement of our health and safety performance.

During this year various HSE initiatives were taken and continuous improvement was observed in HSE practices.

Our work related accidents frequency rate was reduced to 2.41 injuries per million hours worked against the global rate of 3.57 for the steel industry. 138 HSE training sessions covering 1850 staff were conducted and safe transportation and unloading practices were introduced to transporters and customers a like.



We have been registered with the Ministry of Environment under the Self Monitoring and Reporting Tool Program and are achieve members of the UN Global Compact Committee to adhere to human rights and labour standards.



For us, the corporate success has always been and always will be based on the respect for the moral values and the satisfaction of the ethical, legal and social expectations.

IIL has implemented, the Oracle E-Business Suite System which integrates finance, planning, sales and material control processes resulting in increased efficiency. We continue to strive towards a paperless environment.

IIL's power generation is based on natural gas and is a tri-generation system. After the installation of this tri-generation system IIL has reduced 21% of the gas and 6% of the electricity consumption per ton of pipe production but also reduced 1000 tons of carbon dioxide per year.



HUMAN RESOURCES

Your Company is committed to maintain our workplace free from discrimination for reasons of race, creed, culture, nationality, religion, gender, age or marital status. Employees in IIL have been playing a key role in giving a competitive advantage to the Organization in this ever changing business environment.

The company has its in-house Training Facility where amongst others 250 Apprentices are enrolled under an approved Apprenticeship Training Program.

The Adult Education Training Program for workers at the Factory that commenced 5 years ago will Inshallah attain the target of 100% literacy rate by 2011.

In line with our strategy of reducing accidents during this year we have made a shift and reduced 50% of our contract labor and replaced them with permanent staff.

We have always believed in rewarding our workers well. This year inflation affected them very badly. We therefore used the opportunity of Union negotiation to give them the ever highest pay increase. Our good relationship with the Union will Inshallah continue to foster in the years to come.

BUSINESS RISKS AND CONCERNS

IIL's Management believes that the global steel demand will continue to grow in the medium & long term. In particular we believe that the growth potential for steel in Pakistan is tremendous.

Our learning from the crises of the previous year will force us to continuously be as productive and lean as possible.

The company will thus continue to invest optimizing in expanding its production facilities.

Internal controls and their adequacy

The Company internal controls are well established. Internal controls review has been outsourced to the Chartered Accountants firm who is appointed as the Internal

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Auditor of the Company. The independent Audit firm amongst other audit procedures assesses the internal control systems. The Board Audit committee reviews the report regularly. Any improvement in the internal control systems that is recommended is studied and implemented. The company also has recently implement Oracle ERP systems that supports the organization and ensure adequate information flow with inbuilt internal controls across the company.

RE-ENGINEERING & DEVELOPMENT

Eleven months down the road with Oracle phase 1 live, the company has now started reaping the benefits of the application. Many policies are no more effectively executed due to use of Oracle functionality and reporting. Information which was restricted to certain users is now available online at the desktop of every individual concerned including the top management. Daily Business Intelligence is now being used by decision makers for monitoring KPIs on daily basis which greatly facilitate proactive decision making.

EXCELLENCE AWARDS

This year your Company continued to receive awards in various fields. Your company received the FPCCI Best Export Performance Award (2008-2009) for the 10th consecutive year. IIL for the eighth consecutive year earned the 9th position on the Top 25 Companies Award of Karachi Stock Exchange for the year 2008.

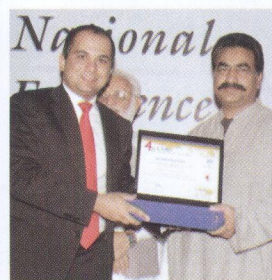
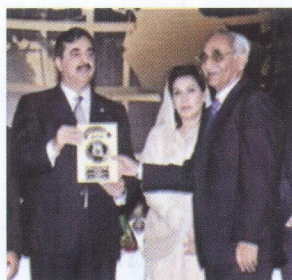
In November 2009 at Dhaka, South Asian Federation of Accountants (SAFA) (An Apex body of SAARC) gave your company the "Best Presented Accounts and Corporate Governance Disclosure Award for year 2008".

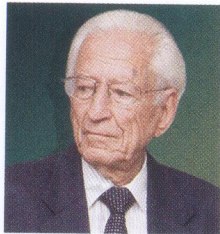
Recently in April 2010, IIL received the "Best Stall Award in the IAPEX 2010" amongst 73 exhibitors given by the "Institute of Architects Pakistan"

IIL has won the Annual Environment Excellence Award 2010 for the third consecutive year organized by National Forum for Health & Environment, which is recognition of its continual efforts for implementation of environment friendly policies.

Your company has first time ever participated in CSR category and has won the 4th CSR National Excellence Award -2009 conducted by Help International Welfare Trust.

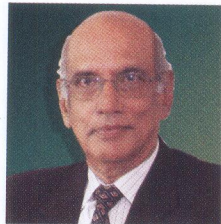
This reflects our focus on excellence in corporate governance, transparency and dedication to best practice, ethics and values.



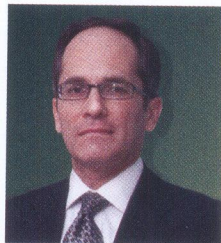


BOARD CHANGES

During the second quarter of the financial year, the Chairman of the Board of Directors of International Industries Limited Mr. J.R. Rahim retired. Mr. Rahim had been on the board of International Industries Limited for the last twenty five years, eleven of them of which were as Chairman of the Board. His contribution as Director and then Chairman will always be valued and his tenure will always be remembered as 'growth oriented' given his continual direction to "...keep in mind the Project after next...". The Board would like to place on record a deep appreciation for the dedication with which Mr. Rahim served the Company and its shareholders.



Mr. Kemal Shoaib was elected as Chairman of the Board on Mr. J.R. Rahim's retirement. Mr. Shoaib has been on the IIL's Board for the last decade and brings with him extensive experience in the areas of banking and engineering.



Mr. Azam Faruque joined IIL after the retirement of Mr. J.R. Rahim. He has experience in both public & private sector organizations and currently holds the directorship of Atlas Insurance Co. of Pakistan, Cherat Cement Co. Ltd., Madian Hydro Power Ltd and Faruque (Pvt.) Ltd.

ACKNOWLEDGEMENTS

The Board thanks all employees, customers, suppliers, shareholders, bankers and other stakeholders for their support and loyalty which has helped the company through a difficult period. I am sure that the results of this year has shown that the worst is now behind us. We pray to Allah for the continuous prosperity of your Company.

We believe in Pakistan and its potential and commit to working towards transforming Pakistan into a stronger and safer place.

For and on behalf of International Industries Ltd.

Kemal Shoaib
Chairman

Karachi
Dated: 5 August 2010