

Directors' Report

We are pleased to submit our 61st Annual Report and audited accounts for the year ended 30th June, 2009.

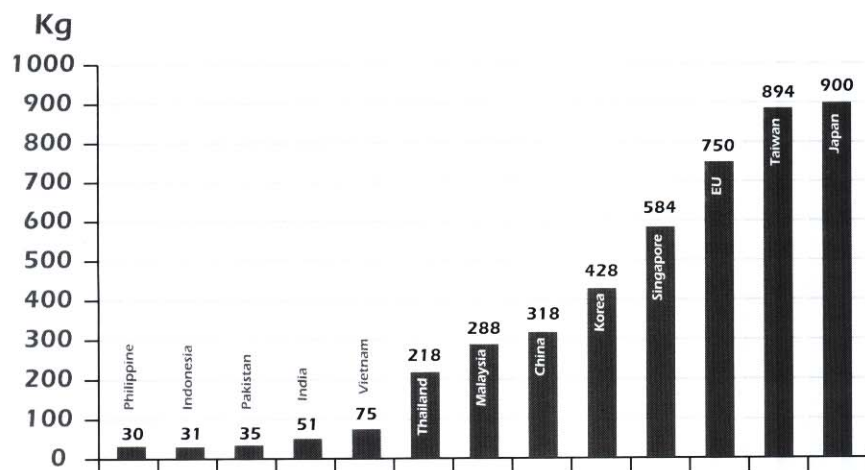
Clearly the global context has changed considerably since our last annual report. Despite our growth over the years the IIL management team has retained its ability to be flexible and take quick decisions. This has been one of the major reasons for our success over the years and was again one of the major reasons why we were able to take appropriate decisions to position ourselves for the new environment and come out ahead despite the exponential changes in the changed global scenario.

GLOBAL STEEL SCENARIO

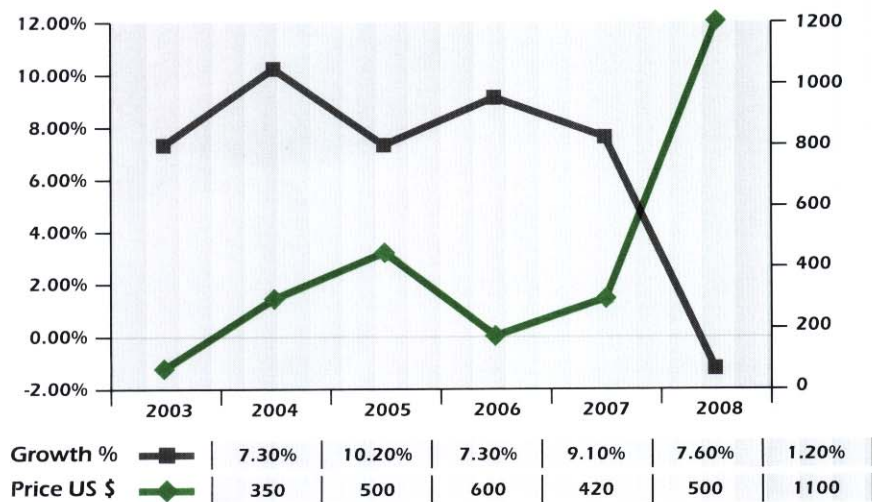
The global steel industry is going through unprecedented times.

The first quarter of the financial year saw strong steel demand with an average annual growth rate of 6% over the last seven years. This growth rate was mainly owing to robust growth in China, India, Middle East, Brazil and South

Asia. Steel prices had been driven to an all time high due to high demand and record high prices of coking coal and iron ore. Furthermore Ocean freight prices were also at an all time high mainly on account of increased oil prices.



Current World Steel Consumption Per Capita Steel Consumption - Kg/Annum



World Steel Production Trend

Unfortunately things changed dramatically after the first quarter as we entered a period of instability the extent of which few had predicted and even fewer had witnessed in their working lives. The dramatic slowdown of the worlds economy started in September 2008 and as a result of the fall out of the financial crisis many developed economies were on the edge of the worst recession for decades. The global economy is barely experiencing any growth in 2009 as developed economies have declined whereas developing economies have had slow but positive growth. In response there have been some unprecedented moves by governments around the world to stimulate economies. The true extent of the success of stimulus packages will only be known in the future.

OVERVIEW ON ZINC

As a result of the drop in global zinc consumption there have been corresponding production cuts by both miners and smelters. However at the current zinc prices around 97% of the global mining capacity of 11.5 million tons is viable. The average zinc stock in the current conditions is 54 days consumption based on the supply demand model of the overall zinc industry above. Zinc appears to be in surplus till 2011.



PAKISTAN ECONOMY

The politico-economic conditions remained very volatile for most of the year. The current economic stresses though prevalent & entrenched, were essentially caused by exogenous shocks coming from an unprecedented hike in global commodity prices and a credit crunch in international financial markets.

After 4 years of average real GDP growth of 7.5% during FY04-07, economic growth slumped to 5.8% in FY08, and is expected to be 2.5% for the current year. Tight monetary policies coupled with numerous production bottlenecks, the foremost factors being electricity & gas shortages and high inflation, negatively impacted the competitiveness of Pakistan's manufacturing sector by raising the cost of doing business. None the less our economy was not hit as badly as most developed countries by the global crises.

Today Pakistan is a net importer of steel with less than 20% of domestic demand being met locally. The per capita steel consumption in Pakistan is around 36 kgs whereas China by contrast is approximately 318 kgs- approximately 9 times more than Pakistan. It would therefore not seem out of the realm of reality that Pakistan could support a domestic steel capacity of 16million tons all of which would be for domestic consumption. If the capacity were based on domestic iron ore and coking coal, such self sufficiency could not only help insulate the country from runaway prices and currency fluctuations but would also positively impact investment in infrastructure and industrial capacity.

COMPANY'S OPERATIONS

Market Position:

With over 40 years of experience in CR tubes and major plant expansions in this area in the last 5 years IIL has retained its reputation of being the quality leader in this market segment. With 25 years of experience in GI pipe, IIL is proud to be the preferred supplier of quality GI pipe.

Sales:

Sale in the domestic market remained restricted for most of the year both in the Commercial Market and in Government / Semi Government Organizations where buying continued in limited quantities as stockists continued to lower their inventories due to the drop in International Steel prices. Things were compounded by the lack of liquidity in the market. However sales in the last quarter of the financial year were however at the same level as last year and we are looking forward for this favorable trend continuing into next year.

Domestic sales for the year were Rs11,272 million, was 5% higher than the previous year. As such despite our best efforts to maximize sales volume in the Domestic Market we still ended the year 15% behind last year's sales volume. Housing, Consumers & Automobile Sector have been the hardest hit so far.

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Export Sales at Rs.2,907 million was also 4% behind last year's sales while sales to Afghanistan our biggest export market were 16% behind last year. It may however be noted that five of the World's Top Steel Exporting Nations reported 50% lower sales.

Production:

During the year your company continued to make the strategic investments necessary to sustain its position as the market leader. One new CR Tube Mill and our third PE Extruder were commissioned in the first quarter.



With the advent of the global economic meltdown IIL took the bold decision of cutting its production temporarily by about 30% in order to accelerate the reduction of expensive inventory. This was necessary due to the speed at which most of our customers started using up their own inventories rather than buying new stocks owing mainly to a declining price trend and market uncertainty. Excess production capacity however now exists which will allow us to take advantage of any future surge in demand.

Financial:

Though last year was a challenging year for the company by the grace of Allah, your company has managed to close the year with reasonable results.

The Company faced tremendous pressure owing to inventory losses suffered as a result of the steep fall in international steel prices. In order to meet the requirements of the International Accounting Standards, the company had to reduce the inventories to net realizable value and made a reduction of Rs.549 million in the value of its inventories.

The Pak Rupee depreciated by over 20% against the US Dollar as well as increase in lending rates and sky rocketing inflation of above 22% were other challenges the company faced during the year.

IIL is a cost conscious company and we put renewed emphasis on this aspect in the last 9 months. We were successful in curtailing our operational expenses, wage bill, financial charges and selling & marketing expenses by making optimum use of our resources.

Your company earned a gross profit of Rs.1,167 million as compared to Rs.1,787 million last year. The profit after tax was 375 million against Rs.705 million of the previous year. Similarly the diluted earning per share was Rs.3.75 as against Rs.7.06 in the previous year.



Cash Flow Strategy:

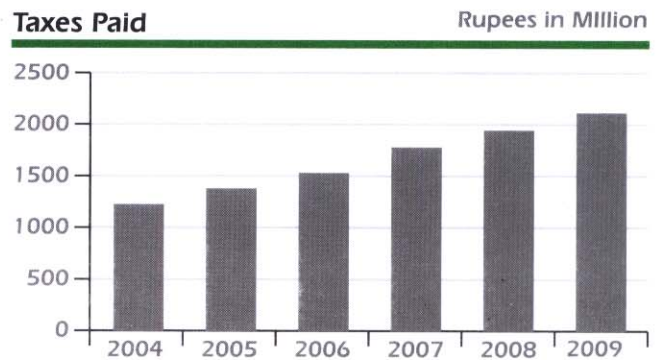
The Company has an effective cash flow management system. Cash inflows and outflows are projected on regular basis and cash positions are maintained on a daily basis. Keeping in view the saving in financial costs owing to a gap between KIBOR and LIBOR based borrowings, the company plans that working capital requirements for 2009-10 shall be financed through USD LIBOR based borrowing.

During the last quarter of financial year 2008-09 the cost of borrowings against working capital was in the range of 3% to 7.5%. Out of borrowings for working capital the company had invested Rs. 1,229 million as at to June 30, 2009 at a return in the range of 8% to 13.5%. The company has planned to liquidate all Bank deposits in July 2009.

The price reduction of steel and our deliberate reduction in inventory helped us manage our cash flow more effectively, eliminate short term running finance borrowings and withdraw our Right Share Issue.

Contribution to the National Exchequer:

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



SOCIAL RESPONSIBILITIES

During the year the Company has committed Rs. 30 million for "The Amir Sultan Chinoy Chair" at the school for Entrepreneurial Management at the Institute of Business Administration, Karachi. An amount of Rs. 15 million has been paid during the year and the balance will be paid in 2009-10.

The company has also sponsored "The Amir Sultan Chinoy Chair" for the Institute of Educational Development at the Aga Khan University Hospital.

In collaboration with "The Citizens Foundation", IIL has set up two primary schools in areas close to the Factory where currently about 700 children are receiving quality education at highly subsidized rates. The company continues to support these schools.



QUALITY, HEALTH, SAFETY & THE ENVIRONMENT

We continue to build on our reputation of being the market leader in providing quality products. We are an ISO - 9001 certified Company, and also confirm to strict standards set forth through API-5L, API-15LE, BS-1387, BS- 6323 etc. Our reputation on providing products that consistently exceed International Standards & norms continues to be our major competitive advantage along with assured supplies.

Our Quality Management System which is now over a decade old has been continuously improving. Recently a monthly trend analysis meeting has started which is, chaired and attended by the top Management. Independent monthly performance data of all Departments is presented, wastages are highlighted, variances analyzed, root causes identified, and corrective / preventive actions taken. The process has helped the company reduce its wastages and improve efficiencies.

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Customer Care:

We at IIL value every customer, and ensure all complaints are adequately addressed and appropriate action taken. Our Quality Assurance Team undertakes visits, at the convenience of our customers to address ensuing problems. This is inline with our philosophy of the "Customer is Foremost".

Safety Management System:

IIL is committed towards Safety by achieving and demonstrating sound occupational health and safety (OHS) performance, through control of its OHS risks, which are consistent with its OHS policy and objectives. The company is OHSAS-18001 compliant.



Employee Awareness:

Safety awareness amongst employee has been achieved through year around training. There has been an upward trend in awareness through safety training which increased by 87% over the previous year. Staff members have been trained on safety related topics, safety evacuation drill procedures, safety risk management.

As a consequence to safety awareness, there has been a reduction in Lost Time Accidents of 45% and minor incidents of 35%.



Environmental Management:

Carbon Credits:

IIL is presently active in reducing carbon emissions from its powerhouse. We are presently in the process of being registered as a project compliant to the environmental standards set by Clean Development Mechanism. This activity shall help in combating climate change under the United Nations Framework Convention on Climate Change and will enable us to sell Carbon Credits into the European Trading System.



Member of UN "C4C" (Caring For Climate):

IIL is proud to be a part of UN Global Compact "C4C" signatory by signing business leadership statement concerning 'Caring for Climate' and will continue to express support through its actions.

Energy Conservation:

After the installation of tri-generation system based on combined cooling, heating and Power with 4 MW gas engines coupled with installation of vapor absorption chillers, IIL has reduced 21% of gas and 6% of electricity consumption per ton of pipe production, which is a concrete step towards energy conservation.



HUMAN RESOURCES

IIL has always given primary importance to the development of our Human Resources. We continue to endeavor in improving our human capital, which is our most important asset.

We started an apprentice training program over 10 years ago and so far almost 900 personnel have gone through this very successful scheme. Adult Education Scheme started in IIL over 4 years ago at which time our literacy rate was 71%. Today we are proud to boast of 85% literacy.

BUSINESS RISKS

It is common belief that the year ahead has more risk than the past years. In IIL we feel this business risk is indeed an opportunity for the company to sharpen its pencil and become more efficient at what we do. Our geographical situation coupled with the development funding likely to be available in our region places us in an advantageous position from which to compete internationally. Price volatility however remains our highest exposure. This is being tackled by reducing inventory level & improving Supply Chain efficiency.

RE-ENGINEERING & DEVELOPMENT

IIL opted for an extensive range of Oracle ERP, which has helped to provide an end to end view of the Company's entire business process and derive its performance with consistent and timely financial and operational information. Over the last 9 months in the process of implementing Oracle all the processes in IIL underwent major process re-engineering. Oracle has now gone live in all departments of the company except for its manufacturing and plant maintenance which is expected to be live by the end of the current calendar year.

FUTURE OUTLOOK OF CURRENT BUSINESS

There is no doubt that the year ahead will be very challenging for IIL. The existing economic climate have forced us to decide to make minimal capital expenditure in 2009-10 and to instead focus on productivity improvements, plant maintenance and Health, Safety and the Environment in our current business. While we hope the various government stimuli will bring some relief we must realize we are in the midst of a very difficult period to which there is no quick solution. Over the long run we however believe that steel will continue to be in demand for infrastructure development. It seems highly unlikely that development and industrialization in developing countries will stop. After all over 1.5 billion people live in these Developing countries and we based in Pakistan have a huge market potential. Our location and experience put us in a good position to attract business both domestically and in near to home markets most of which are developing and still continue to have demand.

Demand for pipe and tubing is likely to remain under pressure for the next financial year and be characterized by cost reduction and inventory minimization.

FUTURE OUTLOOK OF NEW BUSINESSES

Cold Rolled and Galvanizing Sheets Project

The project is progressing as scheduled. Major work on the buildings has been completed. Most of the components of the metal coating line have already been received and the remaining part are in the process of being shipped. Thereafter, the erection work will commence and hopefully the galvanizing plant will be ready for trial production



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in the last quarter of 2009. Commercial production is planned to begin from January 2010.

All assets and liabilities of the project will be separated from the company and will be hived down to a subsidiary, which is intended to be wholly owned subsidiary of the company and eventually at least 55% owned subsidiary of the company, through a court process under Companies Ordinance, 1984. The above scheme could make it possible to introduce international equity partners with technical expertise. A loan agreement has been signed by IFC with an option to convert the loan to equity.

Pre-Engineered Buildings

The concept of light gauge buildings using galvanized sheet frames is fast becoming the preferred route for putting up buildings in quick time. These buildings have been used extensively in earthquake rehabilitation areas and for rehabilitation of displaced people. Being a large end user of the galvanized sheet, a setup which constructs light gauge buildings becomes a natural extension of the CRGS Project.

Your company is considering making an investment in such a construction company, and the proposal will be placed before the shareholders at an appropriate time.

EXCELLENCE AWARDS



Your Company continues to add to its long list of awards. Your Managing Director was awarded the prestigious Businessman of the year Gold Medal for the year 2008 by the Federation of Pakistan Chamber of Commerce and Industries. The Company received for the eighth consecutive year the Best Export Performance Trophy for Export of Engineering Products - Mechanical. IIL celebrated its 25th year of being listed on the Karachi Stock Exchange by being amongst the Top 25 companies on the Exchange for the seventh consecutive year. For the 2nd consecutive year IIL was also awarded the Environment Excellence Award 2009. Our Annual Report 2008 received 3rd position in Engineering Sector of "Best Corporate Report Award 2008". This reflects our focus on excellence in corporate governance, transparency and dedication to best practice, ethics and values.

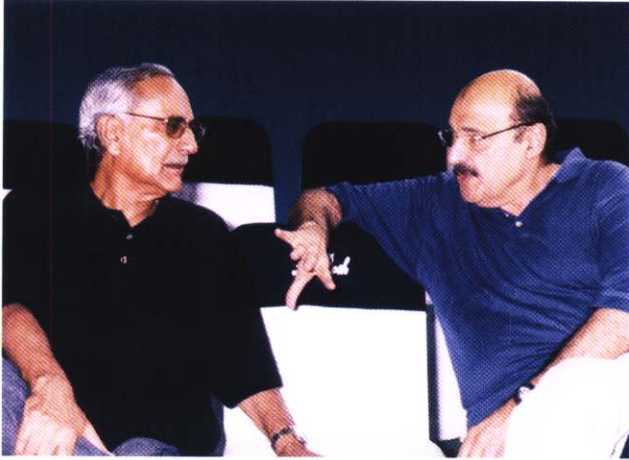


Syed Salim Raza

BOARD CHANGES

On his appointment as Governor, State Bank of Pakistan, Syed Salim Raza tendered his resignation from the Board of Directors with effect from 31 December 2008. The Board would like to record its appreciation for the outstanding contribution made by him. Mr. Zaffar A. Khan was appointed as a Director of the Company in place of Syed Salim Raza with effect from 22 January 2009 for the remainder of the term ending on 30th August 2010.

ACKNOWLEDGEMENTS



The Board of Directors' would like to take this opportunity to record its gratitude on the milestone achieved by Mr. Zakaullah Khan its Director Marketing for completing 50 years of unblemished service with IIL. His contribution in getting IIL to its current level is immeasurable.

The Board thanks all employees who have adapted to the difficult business environment with support and understanding. Last but not least we extend our heartfelt thanks to our esteemed customers, suppliers, bankers and stakeholders for their continued commitment to IIL and pray to Allah for the continuous success of your Company.

For and on behalf of
International Industries Ltd.

J.R. Rahim
Chairman

Karachi:
Dated: 23 July 2009