

Steel is the
World's Most Recycled
Material



Promising Reliability, For Now and Tomorrow



Shaping Tomorrow

Group Sustainability Report 2020

فرد تمام ربطِ ملت سے ہے تنہا کچھ نہیں
موج ہے دریا میں اور سیروں دریا کچھ نہیں
(اقبال)

Without the nation's coherence, an individual firm is nothing
like a wave is nothing without the ocean.
(Iqbal)



TRIBUTE TO THE PEOPLE OF
PAKISTAN

Paying tribute to the people of this resilient nation, Pakistan.
Who stay united with their steely strength and determination
to face enemies across all the battlefields, whether it be
defending the territories, navigating through economic
turbulence or fighting a pandemic.

Unity | Strength | Resilience



Promising Reliability, For Now and Tomorrow



Shaping Tomorrow

Group Sustainability Report 2020

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Reporting Methodology

The data collected in this report was collected from primary sources that included in our Group's internal and external stakeholders. The Global Reporting Initiatives (GRI) indexes have been used as a guideline to create this report. The GRI is an international independent standards organization that helps businesses, governments and other organizations understand and communicate their impacts on issues such as climate change, human rights and corruption.

Please note that most data collected in this report are of the fiscal year (July 2019 to June 2020) unless otherwise disclosed. Through this document we will highlight efforts implemented by our Group.



Sir Sultan Chinoy

Sir Sultan Chinoy formulated the concept of a company in Pakistan. Below are excerpts from his book 'Pioneering in Indian Business', published in 1958:

“Is it fair to all concerned? Will it build goodwill and better friendships? Will it be beneficial to all concerned? These questions held particular fascination for me as a business man and as a man. Throughout my life, I have asked these questions of myself and I have come to believe that to answer them in the affirmative is to achieve not only success in life but fulfillment.”

“Having pulled myself by my boot straps, I acquired rugged individuality, a fearless independence of spirit... But to be able to do so, I had first to put my house in order and make sure that our organization measured up to modern standards of efficiency. We selected the right men for the right jobs and delegated responsibility to them. Above all, we maintained a high standard of ethics in our business dealings, and built up a reservoir of good will for our firm from which we were able to draw time and again.”



Amir S. Chinoy

The son of Sir Sultan and Lady Sherbano, Amir Sultan Chinoy was born in Bombay on 21st September 1921. He married Almas, daughter of Colonel and Mrs. Munawar Khan Afridi, on 9th February 1947.

Mr. Amir S. Chinoy played a pioneering role in the industrialization of Pakistan, upon his migration in 1948, in introducing and establishing industrial concerns in heavy chemicals (Pak Chemical Limited), electrical cables (Pakistan Cables Limited) and galvanized and steel pipes (International Industries Limited.) His commercial interests extended to trading (representing major European and American companies), contracting and distribution and keeping abreast with demands of the changing world.

As an active educationist, he played a leading role in establishing the Institute of Business Administration, Karachi; was a Trustee of the Aga Khan University Hospital Foundation, the Aga Khan Central Education Board, in addition to being the Founding President of the Management Association of Pakistan. Appointed the Honorary Consul General of Greece in 1968, he dealt with this prestigious appointment with great honor and dignity. As a result of his efforts and commitment, he was awarded the “ORDER of THE PHOENIX OF GREECE” in 1989, one of the highest honors bestowed upon honorary persons. As a prominent member of the Ismaili community, he was bestowed with the title of Vazir. Numerous offices held by him included Trustee of Aga Khan University Hospital Foundation, Director and Trustee of the Aga Khan Central Education Board, Aga Khan Health Services and Chairman of Aga Khan Conciliation and Arbitration Board.

Loved and respected in society, he was president of Sind Club (1973 ~ 75), Rotary Club (1968 ~ 69) and Steward of the Karachi and Lahore Race Clubs. His social gaming interests made him an enthusiastic bridge player. A lover of horses, he successfully owned and bred several winning horses of Pakistan Classics including Derby, Oaks and Quaid-e-Azam Gold Cup races.

In his lifetime, he was the unifying force of the scattered Chinoy family. His book “The Chinoys”, a biographical sketch of the family was a major accomplishment, signifying his position as the life and soul of the family, as well as making the family aware of their heritage.



Steel is derived from iron ore, a natural substance obtained from the earth itself and hence, has no environmental impact on the earth.



Steel is the most widely recycled material in the World. The steel industry has been actively recycling for more than 150 years.



Zinc is one of the few materials that can be recycled indefinitely. Approximately 30% of the zinc produced globally comes from recycling. The only reason this figure isn't higher is because the durability of galvanized steel and other zinc products means they remain in service for much longer and therefore have not been returned yet. 80% of the zinc available for recycling is recycled.

Today, steel is one of the most common materials in the world and is a major component in buildings, infrastructure, tools, ships, automobiles, machines, and appliances.

Steel, the sustainable material

Steel is a uniquely sustainable material because once it is made it can be used, as steel, forever. Steel is infinitely recycled, so the investment in making steel is never wasted and can be capitalized on by future generations.

Steel is a material that is used, not consumed. Hence, the investment of resources in making steel is not wasted.

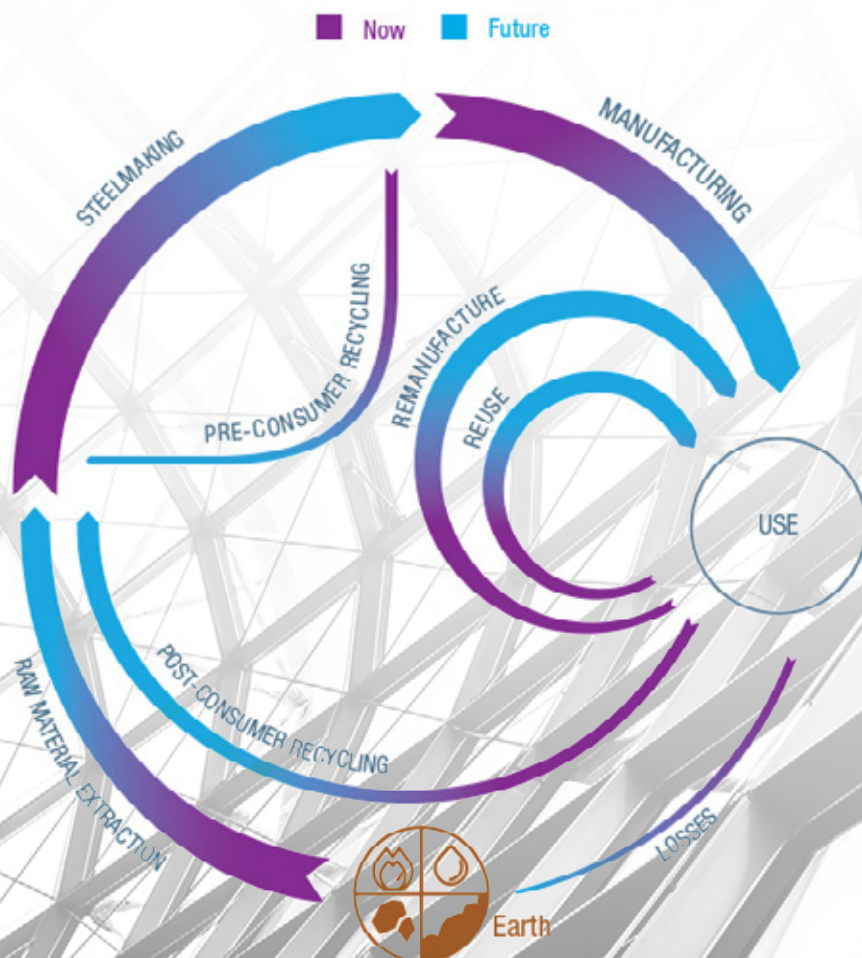
Steel can uniquely claim to be the only truly recyclable material because when steel is recycled, there is no down-grading. The steel recycling loop is a true closed loop. It is recycled and used again, without any loss of quality, time after time.

Only truly recycled materials, which are never down-graded, but are used again and again with no loss of properties, can enable a sustainable future.

The non-renewable resources used to make steel, like minerals and fossil fuels, are not wasted because the steel will be used forever. This is truly sustainable.

A sustainable future for steel

In the sustainable future, new economic models will maximise the value of raw materials by encouraging practices such as reuse and remanufacturing. The weight of many steel products will be reduced, losses will be minimised, and the already high recycling rate for steel will increase, resulting in more recycled steel to make new steel products.



All About Steel

- Steel is world's most recycled material.
- Steel is very friendly to the environment.
- The life cycle of steel is potentially continuous as its properties remain unchanged no matter how many times you recycle it.
- Steel possesses great durability, and, compared to other materials, requires relatively low amounts of energy to produce.
- The steel industry has made immense efforts to limit environmental pollution in the last decades. Energy consumption and carbon dioxide emissions have decreased by one-half of what they were in the 1960s. Dust emissions have been reduced by even more.
- Almost 65% of new steel is today produced from old steel.
- The recycling rate of steel depends on the end-use, but on average around 85% of steel, at the end of its first useful life, is recycled.
- Over 99% of steel from scrap cars is recycled.
- A UK study showed that 94% of steel is recycled when a building is demolished.
- 99% of structural steel is recycled or re-used when a building is demolished.
- In Europe, over 70% of steel packaging is recycled, which is far more than any other packaging material.
- The world's average steel consumption is 229 kg per capita (for 2019).
- The Steel consumption of China is 633 kg per capita (for 2019).
- The Steel consumption of USA is 297 kg per capita (for 2019).
- The Steel consumption of Pakistan is 46 kg per capita (estimated for 2019).

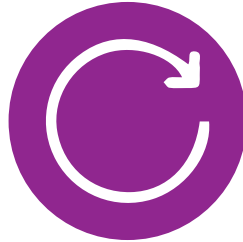


STEEL - THE PERMANENT MATERIAL IN THE CIRCULAR ECONOMY



Reduce

Decreasing the amount of material, energy and other resources used to create steel and reducing the weight of steel used in products.



Reuse

Reuse is using an object or material again, either for its original purpose or for a similar purpose, without significantly altering the physical form of the object or material.



Remanufacture

The process of restoring durable used steel products to as-new condition.

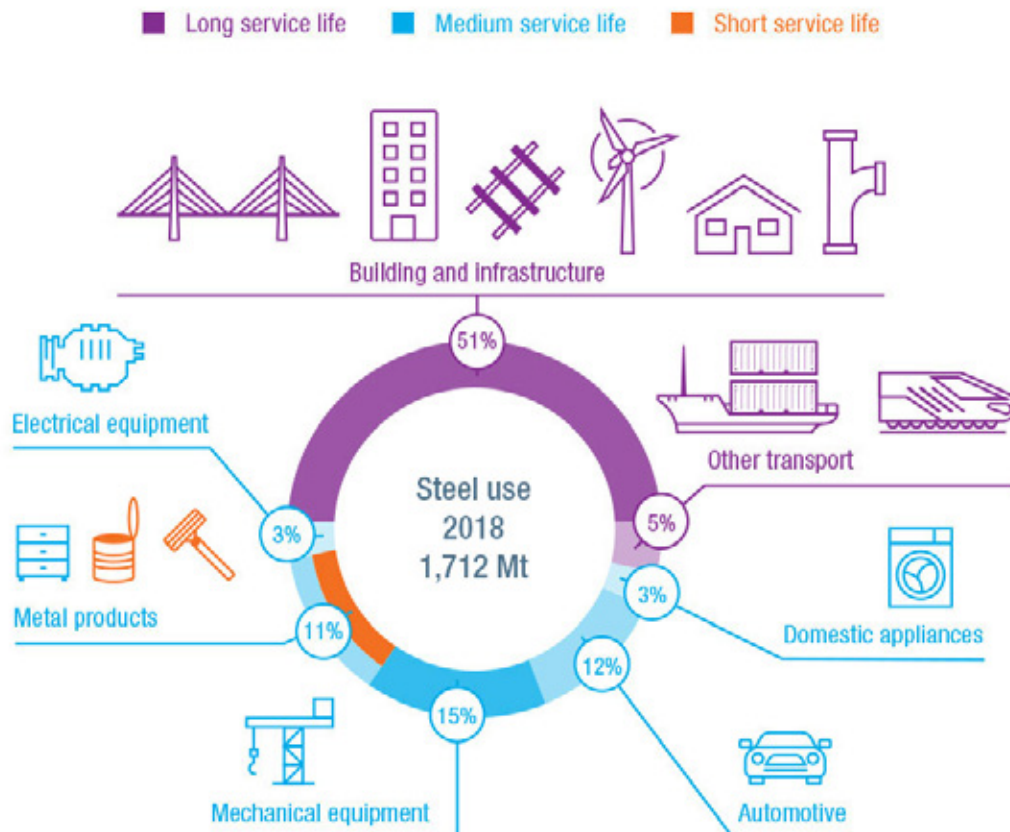


Recycle

Melting steel products at the end of their useful life to create new steels. Recycling alters the physical form of the steel object so that a new application can be created from the recycled material.

Steel markets and durability

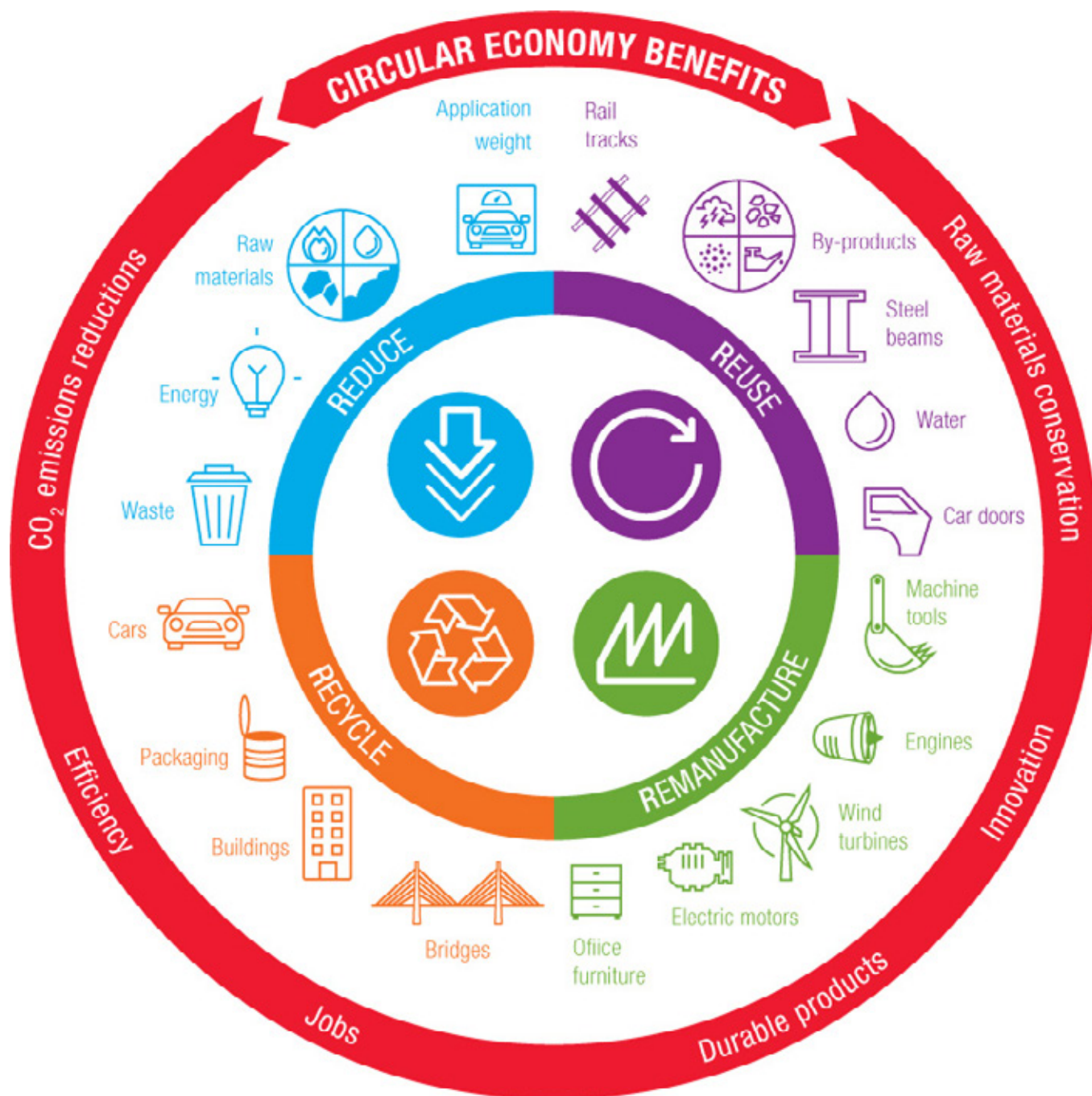
Whether it is for transport systems, infrastructure, housing, manufacturing, agriculture, or energy, steel is a vital material in our modern world. In applications with a long service life, we will need to wait a hundred years or more to recycle the steel they contain. But every piece of steel can eventually be recycled to meet the growing global need for new steel.



Source: World Steel Association (WSA)

Steel in the circular economy

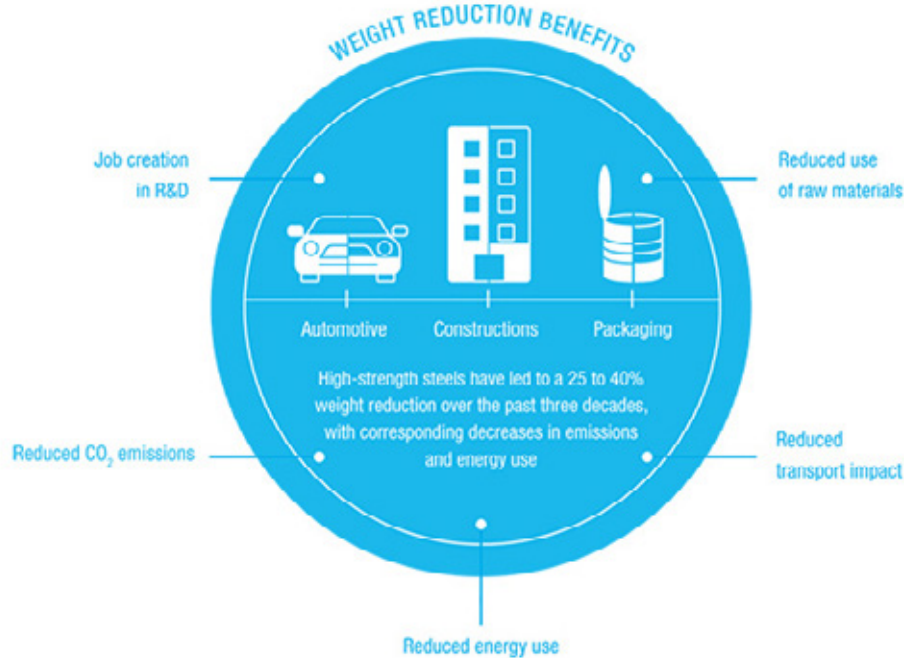
A sustainable circular economy is one in which society reduces the burden on nature by ensuring resources remain in use for as long as possible. As a permanent material, steel is fundamental to achieving a circular economy. It is easy to reduce the weight of steel products, and steel components can be effectively reused, remanufactured, or recycled.



REDUCE

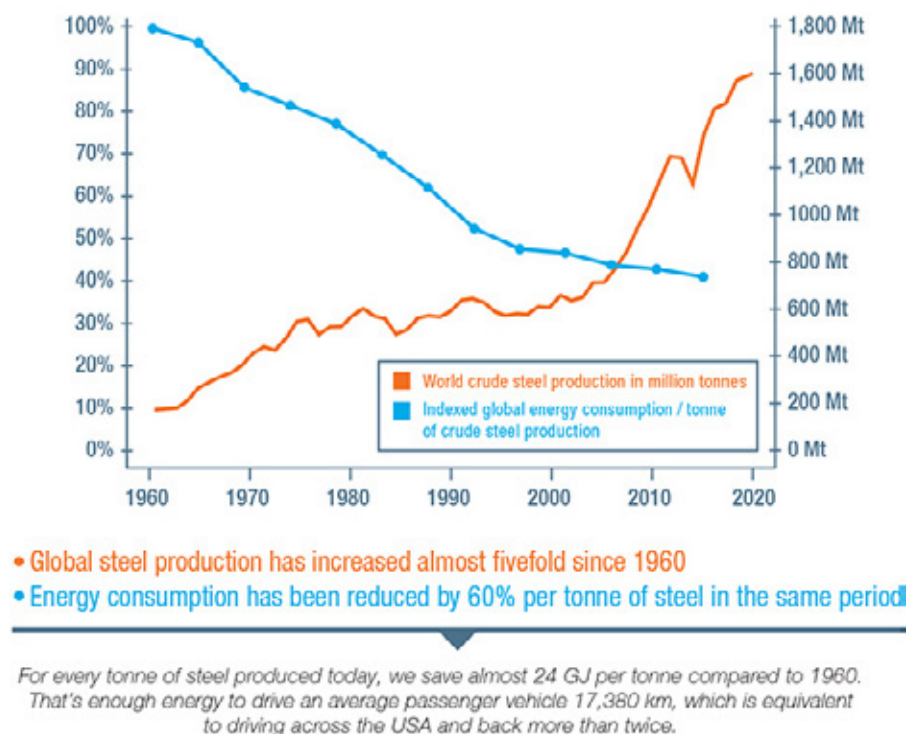
Decreasing the amount of material, energy and other resources used to create steel and reducing the weight of steel used in products.

Reduce in steel applications



Over the past 50 years, the steel industry has invested in research and technology to create new grades of advanced and ultra-high-strength steels. These grades have reduced the weight of many steel applications by up to 40%. Optimising the weight of products is an integral part of a circular economy.

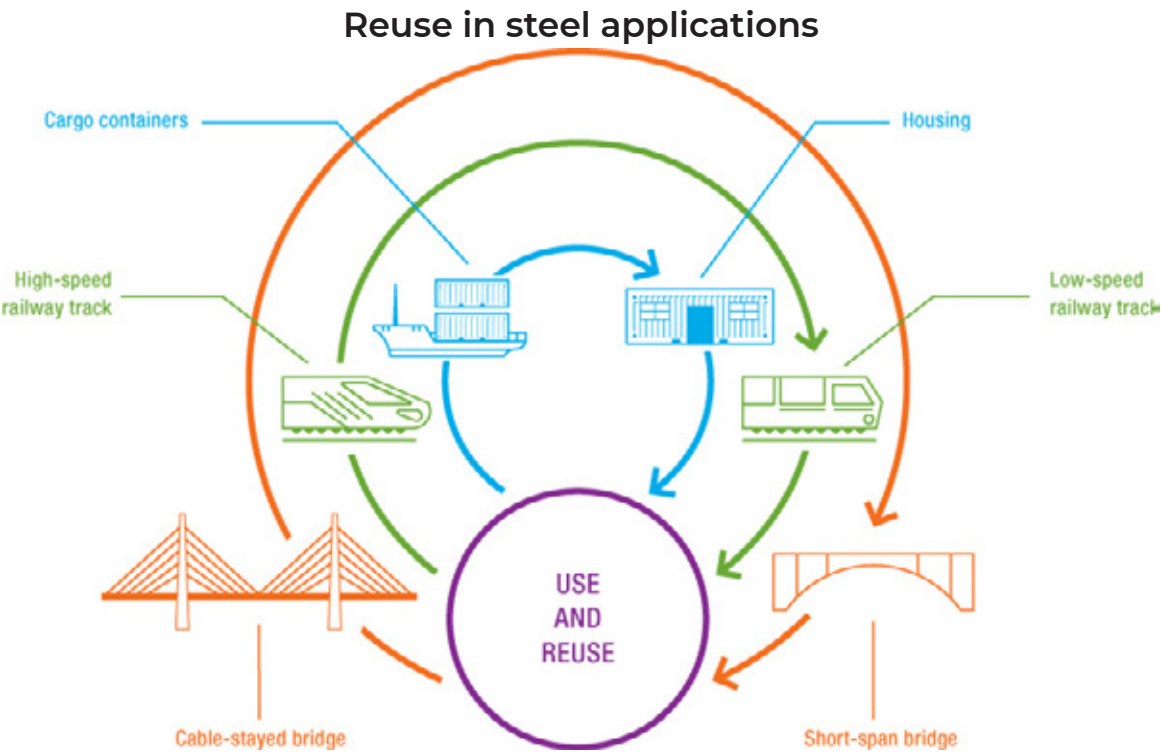
Reduce during steel production



The industry has also dramatically reduced the use of energy. Producing one tonne of steel today requires just 40% of the energy it did in 1960. Over the same period, steel production has increased almost five times.

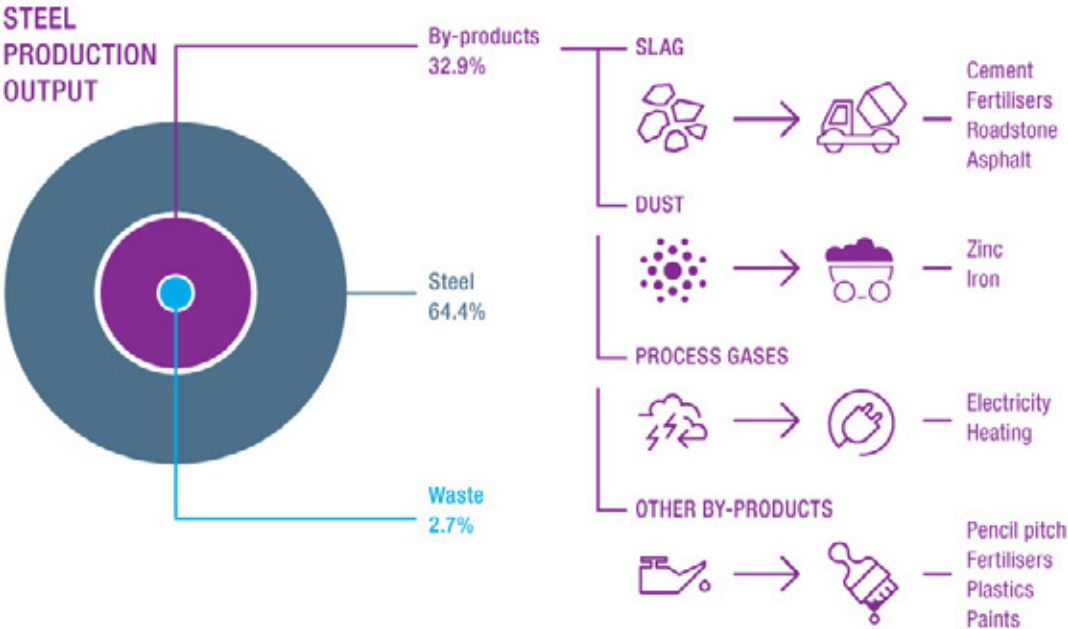
USE AND REUSE

Reuse is using an object or material again, either for its original purpose or for a similar purpose, without significantly altering the physical form of the object or material.



In a fully circular economy, the reuse of a manufactured product is considered in the earliest design phases of its creation. This allows both small- and large-scale products to be repurposed for another use quickly and efficiently once their initial use is fulfilled.

Main steelmaking by-products and their uses

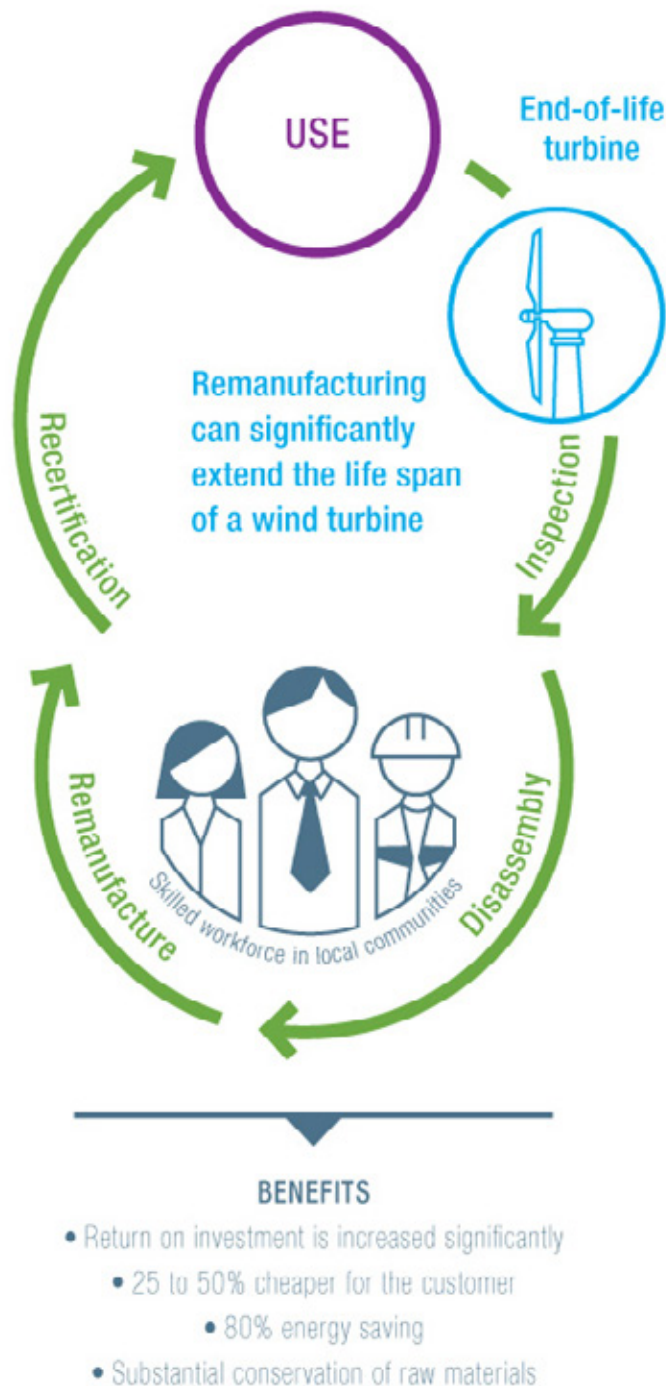


Today, almost every by-product formed during steelmaking is used in new products. This approach minimises the amount of waste sent to landfill, reduces emissions, and preserves raw materials.

REMANUFACTURE

The process of restoring durable used steel products to as-new condition.

Remanufacture of steel applications: Wind turbine

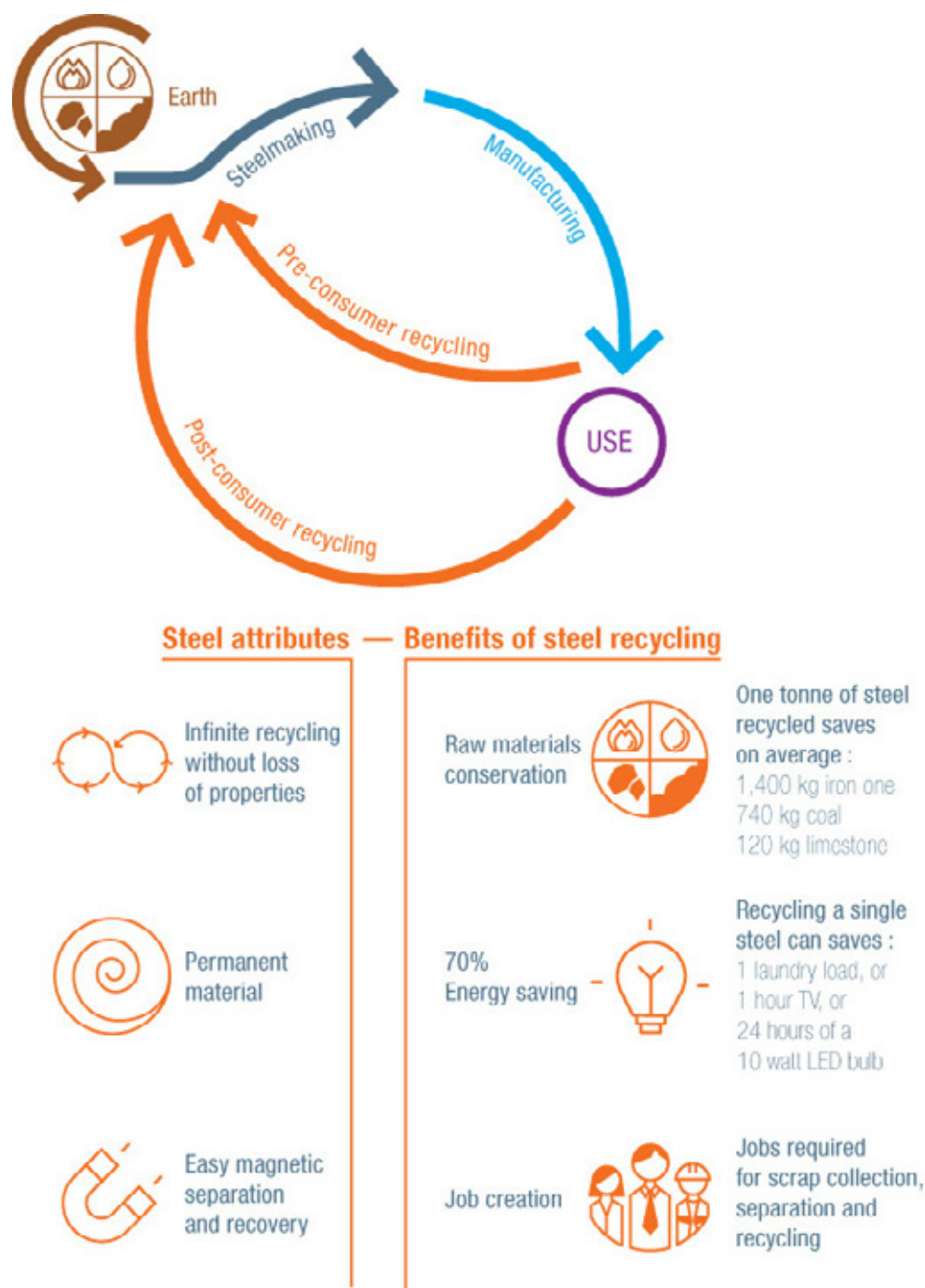


In a truly circular economy, products which stop working are restored to as-new condition in a process known as remanufacturing. Many steel products such as construction and farm machinery, truck and car engines, electrical motors, domestic appliances, and wind turbines are already remanufactured. Remanufacturing takes advantage of the durability of steel components and guarantees that the energy used to create the components is preserved.

RECYCLE

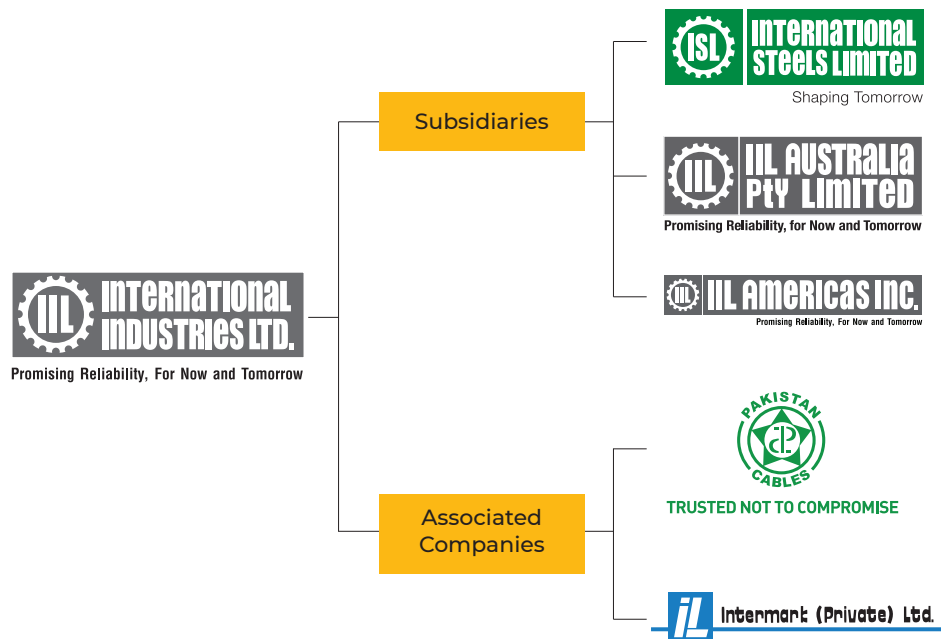
Melting steel products at the end of their useful life to create new steels. Recycling alters the physical form of the steel object so that a new application can be created from the recycled material.

Steel recycling: Attributes and benefits



Steel has been recycled ever since it was first made. All available steel scrap is recycled, over and over again to create new steel products in a closed material loop. Recycled steel maintains the inherent properties of the original steel.

Group Companies



Group Values

- A. Integrity:** We are committed to maintain the highest ethical standards and ensure a culture of trust and openness internally as well as externally.
- B. Diversity:** We are an equal opportunity employer with zero bias against gender, race, ethnicity and religion and encourage openness, expression of opinions etc.
- C. Respect for People:** We are committed to fostering a culture where people come first. We hire, develop and retain our people to work as synergized teams in line with our mission and vision.
- D. Fairness:** We are committed to implement policies and procedures which translate into fair and equitable treatment of all internal and external stakeholders.
- E. Responsibility:** We consider quality, health, safety and social & environmental responsibility an integral part of our way of life.





In line with Prime Minister's Naya Pakistan Housing initiative of providing affordable housing to affordable-income segment, IIL pro-actively constructed multiple model houses, released a complete architectural plan along with a transparent cost structure in order to engage the public and concerned ministries. Under this scheme individual houses can be constructed in a little as 10 days.



Group Code of Conduct

The Code of Conduct is equally applicable to the Board of Directors as well as all the employees of IIL and all its subsidiaries. The salient features of the Code of Conduct are as follows:

A. BUSINESS ETHICS

- i. The company's policy is to conduct its business with honesty and integrity and be ethical in its dealings, showing respect for the interest of all stakeholders including its shareholders, employees, customers, suppliers and the society.
- ii. The company is dedicated to providing a safe and non-discriminatory working environment for all employees.
- iii. The company does not support any political party or contributes funds to groups whose activities promote political interests.
- iv. The company is committed to provide products which consistently offer value in terms of price and quality and are safe for their intended use, to satisfy customer needs and expectations.
- v. The Board of Directors and the Management are committed that the company is a responsible corporate citizen and the business shall be carried out in sustainable manner.
- vi. The operations shall be carried out with minimum adverse effect on the environment and producing quality products in a healthy and safe working environment.
- vii. We, as a responsible corporate citizen shall promote our role towards betterment of the society in health and education sectors.

B. CONFLICTS OF INTEREST

- i. Every employee should conduct his / her personal and business affairs in a manner such that neither a conflict, nor the appearance of a conflict, arises between those interests and the interests of the company.
- ii. An employee should avoid any situation in which he or she, or a family member, might profit personally (directly or indirectly), from the company's facilities, its products, or company's relationships with its vendors or customers.
- iii. An employee should not permit himself / herself (or members of his / her family) to be obligated (other than in the course of normal banking relationships) to any organization or individual with whom the company has a business relationship. However, business lunches, dinners or social invitations, nominal giveaways and attendance at conferences and seminars would not be considered a violation of this Code.
- iv. In case an employee is offered or receives something of value which he / she believes may be impermissible under this Code, he / she should disclose the matter.
- v. All employees shall avoid any kind of bribery, extortion and all other forms of corruption.
- vi. Conflict of interest shall be avoided and promptly disclosed where they exist and guidance should be sought from superiors.

C. ACCOUNTING RECORDS, CONTROLS & STATEMENTS

- i. All books, records, accounts and statements should conform to generally accepted and applicable accounting principles and to all applicable laws and regulations and should be maintained accurately.
- ii. Employees are expected to sign only documents or records which they believe to be accurate and truthful.

D. ENVIRONMENT

- i. The company is committed to carry its business in an environmentally sound and sustainable manner and promote preservation and sustainability of the environment.
- ii. All employees are required to adhere strictly to all applicable environmental laws and regulations that impact the company's operations.

E. REGULATORY COMPLIANCE

- i. The company is committed to make prompt public disclosure of "material information" regarding the company as prescribed in the Pakistan Stock Exchange Regulations.
- ii. Where an employee is privy to the information, which is generally referred to as "material inside information", the same must be held in the strictest confidence by the employee involved until it is publicly released.
- iii. The employees shall abide by the appropriate Competition Laws and shall not enter into understandings, arrangements or agreements with competitors which have the effect of fixing or controlling prices, dividing and allocating markets or territories, or boycotting suppliers or customers.

F. PERSONAL CONDUCT

- i. All employees should conduct themselves with the highest degree of integrity and professionalism in the workplace or any other location while on company business.
- ii. The employees shall be careful while dealing with personal or business associates and not disclose, divulge or provide any information regarding the company to anyone except where the same is used as a part of his / her official obligations and as required for official purpose and shall abide by the Closed period announced by the company from time to time and also sign a Non- Disclosure Agreement if the need arises.
- iii. All employees should avoid any kind of bribery, extortion and all other forms of corruption.
- iv. Employees should always be cognizant of the need to adhere strictly to all safety policies and regulations.
- v. Any legally prohibited or controlled substances if found in the possession of any employee will be confiscated and where appropriate, turned over to the authorities.

G. MISCELLANEOUS

- i. All employees are required to comply with this code of conduct and are personally responsible for doing so. Employees must comply with any rules set out in this code of conduct. Breach of any principles within the code may result in disciplinary action, such as if any employee is found to be in wanton abuse of the code and their action cause reputational risk or damage or financial loss to the business, may amount to gross misconduct which may result in summary dismissal.

Further, the company reserves the right to seek redress and damages from such individuals.

- ii. Employees at all levels will be required to certify annually that they understand the code and that they are in full compliance with this code. On an annual basis, the Board monitors the findings of this certification.
- iii. The Company has in place a confidential "Speak Up" policy and process to encourage the reporting of any non-compliance with this code of conduct.

IIL and ISL - A Historical Perspective



The Chinoy Group has a rich history that consists of a diversified group of businesses. In this report, we focus on two integral organizations of the Chinoy Group: International Industries Limited (IIL) and International Steels Limited (ISL).

Founded by Mr. Amir S. Chinoy, International Industries Limited (IIL) was incorporated in Pakistan in 1948 as Sir Sultan Chinoy & Co. Ltd. - a trading company which primarily dealt with electronic instruments. In 1952, IIL sponsored the setting up of Pakistan Cables Ltd in partnership with BICC Plc U.K. Thereafter, IIL became the selling agent for Pakistan Cables Ltd.

In 1966, IIL started producing cold rolled tube for electrical conduit and steel furniture. Mr. Towfiq H. Chinoy took over the company as Managing Director in 1977 and fairly quickly started diversifying the product range by manufacturing galvanized iron (G.I) pipe in 1982. In 1984, IIL was listed on the Karachi Stock Exchange and such was the reputation of the company that when shares were offered to the public, the offer was oversubscribed 67 times. During the years that followed, the Company lived up to its reputation and continued to grow rapidly. In 1989, IIL set up Pakistan's first private sector cold rolling mill and started diversifying its product range in order to fulfil the demands of Pakistan's booming industry and economy. IIL pipe exports, which began in 1996, have now grown to cover 60 countries across all 6 continents.

In 2006, IIL recognized a gap in the market and entered the plastic pipe domain by setting up extrusion plants for high (HDPE) and medium density polyethylene (MDPE) pipes. Today, IIL's polymer division offers the largest product range in Pakistan, in diameters from 15mm-1600mm. The latest inclusion in our polymer product line are polypropylene random copolymer (PPRC) pipes and fittings, allowing us to serve the large retail segment of the water supply market. The Company has continued to pursue new markets and incorporated a wholly owned subsidiary in Australia in 2014. This was followed by the establishment of a stainless steel pipe manufacturing facility in 2015 and commissioning of a 12" diameter pipe mill to manufacture American Petroleum Institute (API) certified line pipes and hollow structural sections (HSS) in 2016. IIL is the largest manufacturer of pipes & tubes in Pakistan and achieved record gross sales of Rs. 30.7 billion in 2018-19.

International Steel Limited (ISL) was incorporated in 2007 with the vision to be the foremost manufacturer of flat steel products in Pakistan. ISL was set up with an initial investment of \$165 million investment, with equity contributions from IIL, Sumitomo Corporation, JFE-Japan and the International Finance Corporation (A division of the World Bank) which brought added impetus and confidence in the engineering and hi-tech manufacturing industry in Pakistan. IIL owns 56.335% of the share capital of ISL. The company continues to grow and diversify its business. Initially, ISL was capable of producing 180,000 MT per annum of hot dipped galvanized coil (HDGC), and 250,000 MT per annum of cold rolled coil (CRC). In 2015 ISL commissioned a color coating line to produce 84,000 MT per annum of color coated galvanized coils (PPGI). ISL added a second galvanizing line in 2016 and enhanced its galvanizing HDGC capacity to 462,000 MT. A second stand on the rolling mill was added in 2016 upgrading ISL's CRC capacity to 550,000 MT. In June 2018, ISL completed additional expansion to enhance its production capacity to 1 million tons. ISL is today the largest manufacturer of flat steel products in Pakistan, with gross sales of roughly Rs. 65 billion in 2018-19.



Inspired by its past, the Group remains committed to growing its businesses in an ethical and sustainable manner.

Steel consumption is a good measure of the progress of an economy. Empirical studies show that GDP per capita and steel consumption per capita are positively correlated for developing nations. The steel consumption in Pakistan currently hovers around 46 Kg per capita compared to the world average of 228 Kg per capita.

Therefore, we believe there is enormous potential for growth in the domestic steel industry. As such it has been our group's philosophy to continue to enhance output and propagate the use of steel in all forms by producing long-lasting quality products at affordable prices.

Although our organizations differ from an operational perspective, our environmental impacts are similar due to common core raw materials.

Our organizations have several interdependencies, which are shared through our support services and our head office teams. As a result, the synergies between these two organizations have led us to create this Group Sustainability Report.



Message from Chairman - IIL, Mr. Mustapha A. Chinoy

In line with our commitment driven by the inner moral compass that goes beyond self-interest. IIL and ISL believes that a focus on sustainability ensures long term success, it drives business growth, innovation, helps to attract talent and shows its responsibility towards the planet.

As a socially responsible business, I believe that IIL and ISL have a crucial role to play in promoting greater awareness and action about UNSDGs, such as climate change, economic inequality, innovation and responsible consumption. IIL and ISL have made tangible progress in its commitments to becoming a more sustainable organization.

In the third quarter of this year, Pakistan had reported its first case of COVID-19. When dealing with the pandemic, IIL and ISL prioritized the safety of our employees and stakeholders. With the support of the management team, we are trying our level best to minimize the adverse impact on our operations while prioritizing our employees' safety and wellbeing of the communities.

I hope you find IIL and ISL's actions and vision for a better world inspiring. Together, there is so much more to learn from each other and do, to improve the sustainability of businesses and contribute to the UNSDGs.



Mustapha A. Chinoy

Mr. Mustapha A. Chinoy – Chairman, IIL

Mr. Mustapha A. Chinoy holds a B.Sc. in Economics from Wharton School of Finance, University of Pennsylvania, USA and has majored in Industrial Management and Marketing. Thereafter, he served as Marketing Manager, at International Industries Limited. He is currently the Chairman of International Industries Limited and Pakistan Cables Limited, and a director on the Board of Crea8ive Bench (Private) Limited, Global E-Commerce Services (Private) Limited, Global Reservation (Private) Limited and Travel Solutions (Private) Limited. He is the Chief Executive Officer of Intermark (Private) Limited. He has previously served on the Board of Union Bank Limited until it was acquired by Standard Chartered Bank.



Mustapha A. Chinoy

Message from Chairman - ISL, Mr. Towfiq H. Chinoy

Steel is and has been fundamental to human advancement. It's inherent usefulness, strength, durability and recyclability make it perfect for a circular economy. As a leading steel manufacturer of the country, we continually look to innovate steel solutions and evolve our product range to respond to sustainable environmental trends whilst meeting our community's requirements.

Sustainability has been important to us since our group's infancy; our businesses were built on ethics, hard work, and concern for others. To our group, sustainability encompasses the social and economic uplift of local communities and betterment of the environment. I firmly believe that contribution to our community has and always will be an inherent factor in our success. We are proud of being Pakistani, and believe in giving back beyond our broader scope of work to the community and country, to make an impact, however small, in our sphere of influence.

I would be remiss in not acknowledging one of the most disruptive pandemics in history – COVID-19. The full impact of this virus both medically or economically remains to be seen, it is however already clear that the social and economic disruptions will be all-encompassing and long-lasting. During these difficult times, continued integration of sustainability in our business continues as essential.

The trust in the quality of our product relies on the highest levels of integrity of our employees and suppliers and together with maintaining the highest operation standards we strive to protect the interests of all stakeholders. We remain dedicated to our core values as we transition toward a circular economy, shaping a better tomorrow.



Towfiq H. Chinoy

Mr. Towfiq H. Chinoy - Chairman, ISL

Towfiq H. Chinoy was Managing Director of International Industries Limited (IIL) for 37 years until 2011. He was founding Managing Director of International Steels Limited (ISL) and served for 8 years until 2015.

Towfiq Chinoy is serving as Chairman of ISL's board and as Advisor to IIL. Currently, he is also the non-executive Chairman of Packages Limited a Director of Standard Chartered Bank and of National Foods Limited. He is also a Trustee of the Mohatta Palace Gallery Trust and Habib University Foundation.

Amongst the positions he has previously held are Chairman of the Board of Governors at Indus Valley School of Art & Architecture for two terms, Chairman of Jubilee General Insurance Company Ltd for 23 years, Chairman of Pakistan Cables Ltd for 14 years and Chairman of PICIC Commercial Bank Ltd for 3 years. He has also been a Director of National Refinery Ltd., Linde Pakistan Ltd, Jubilee Life Insurance Co. Ltd and the Pakistan Centre for Philanthropy.

Towfiq Chinoy has also served on the Advisory Boards of the Ministry of Communications, Engineering Development Board and Port Qasim Authority – Government of Pakistan and has been a Vice-Chairman of the Pakistan Business Council.



Towfiq H. Chinoy

Message from CEO - IIL, Mr. Riyaz T. Chinoy

This is the fourth IIL Annual Group Sustainability Report.

The year that has just ended has been very challenging to say the least as the entire World was affected with the COVID 19 outbreak unexpectedly shutting down most the world. As I write this note the impact of COVID 19 is reducing worldwide as countries are starting to take actions that will return their economies towards normalcy.

Pakistan was fortunately amongst those forward looking nations whose governments took timely actions and was successful in treading the fine line between preventing the spread and closing the economy. Despite this even for Pakistan the recovery of the economy is likely to be a long and slow process one which we will be lucky to get out of in 2020-21.

IIL gives utmost importance to the health and safety of all of its employees and we remained committed to operating within abundance of the local public health guidelines for prevention of the spread of the Coronavirus disease (COVID-19). As we are a manufacturing company the nature of our work allows only limited amount of work that can be done from home. Despite this we continued to operate from home to the extent possible and only allowed a skeleton staff at the workplace and that too while practising social distancing.

In an effort to take care of our people, which are our greatest resource, we decided that we did not let go of any daily wage contract workers and continued to pay them irrespective of whether they have worked or not in the lock down period. I am proud to announce that the management funded an IIL Daily Wage Fund which gathered enough funds to cover the extra cost we had incurred on account of payment to daily wagers who did not come to work.

We believe that our success creates a sense of purpose and responsibility towards our stakeholders which extends beyond financial performance and legal obligation. We believe in driving our efforts towards being responsible corporate citizens.

Steel is a highly sustainable product, and as an agent promoting sustainability in the industry, steel provides us the ideal platform to promote the responsible consumption of finite resources and encourage others to establish sustainability at the point of business origin. At IIL we continue to continuously modernize to limit emissions and decrease our waste generation. We recycle as much of our waste as possible to reuse in our processes or to provide as raw material to small and medium sized enterprises.

Our commitment towards sustainability for our communities is also reflected in our product range as our products lend themselves naturally towards helping transform local communities. Our recent investments in HSS high speed construction, Stainless Steel ornamental pipe and most recently in Scaffolding and framework are all initiatives that will help ensure that construction in Pakistan will take place in a safer and more sustainable manner in line with the Governments recently announced incentives for the construction sector.

We realize that given the size of our business, our responsibilities are more immense and our ability to influence our stakeholders on matters of sustainability that much more pronounced. Hence, we continue to promote best practices in our supply chain and other spheres of influence. We approach this report with the same commitment as we approach all other responsibilities, and through it we aim to communicate our commitment to our economic, social and environmental objectives in a transparent manner.

We remain dedicated to our core values and vision and continue to promise reliability for today and tomorrow.



Riyaz T. Chinoy

Mr. Riyaz T. Chinoy – CEO, IIL

Mr. Riyaz T. Chinoy was appointed as the Chief Executive Officer of IIL on August 11th, 2011, after serving the IIL since 1992 in various positions. By profession he is a qualified Industrial Engineer and has obtained a B.Sc. in Industrial Engineering, from Case Western Reserve University, USA. He is also a certified ISO 9001 Lead Auditor and a Certified Director from the Pakistan Institute of Corporate Governance.

He is also the Chairman of IIL Australia Pty Limited, a fully owned Australian subsidiary of IIL and IIL Americas Inc., a fully owned Canadian subsidiary and of the Pakistan Institute of Corporate Governance. He is also a Non-Executive Director on the Board of Indus Motor Company Limited, Jubilee General Life Insurance, Bulleh Shah Packaging (Private) Limited, Pakistan Business Council, Management Association of Pakistan, The Citizens Foundation, and The Water Foundation.

Message from CEO - ISL, Mr. Yousuf H. Mirza

As a leading flat steel manufacturer of the country, ISL strives to contribute in the society's development. Steel serves as an indispensable raw material for numerous things in everyday life, and developing societies face increasing demand for steel. Through providing this ever essential material, we enable development of the country.

The ever evolving social landscape creates new, sometimes unpredictable challenges, the most recent one that has affected multiple societies across the globe is the COVID 19 Pandemic. Causing widespread suspension of socioeconomic activities, the pandemic has created a global health emergency, resulting in mass illnesses and fatalities in many countries. Nearly the entire world is struggling to contain the spread of this virus, and at the same time, many countries are easing lockdown to revive the economy to avert risk of increasing poverty and malnutrition. Amid this period of global slowdown and uncertainty, protectionism is also increasing in global markets, further exacerbating economic challenges for developing countries. Ensuring a better tomorrow requires foresight and tangible actions to address these issues today.

Cognizant of the importance of business continuity and profitability to our ability in remaining sustainable, we took various precautions to ensure safety of our people and compliance with government and WHO advisories, and were able to resume operations at the first available opportunity. Efficiency and competitiveness are essential in remaining operational in an environment of increasing competition, and growing protectionism and shutdown in the global market.

The company benchmarks itself against global quality standards and best practices to ensure that our products and services remain competitive and ecofriendly. The company remains committed to reduce its dependency on harmful materials, being driven by the clean, lean and green approach. The company embraces environment friendly practices, reducing waste and reusing resources as frequently as possible. The company undertakes various environment conservation initiatives to preserve essential natural resources such as water and air, thereby ensuring sustainability of life, both above and below land.

ISL's over 700 people strong workforce is driven by the company's core values and principles, who work tirelessly to create a safe workplace for their peers and maximize value for the various stakeholders of the company. Over the years, we have consistently embraced management best practices and adopted policies that ensure a fair and competitive workplace, free from discrimination and biases of any nature. Our people remain committed towards playing an active role for society's benefit in causes we hold close to our hearts.

Moving forward, we are conscious of the need to accelerate and scale up the integration of sustainability in our operations. We will remain dedicated to our core values and vision. While continuing our socially responsible approach, we will always maintain our primary aim of promoting human welfare and protecting the environment.



Yousuf H. Mirza

Mr. Yousuf H. Mirza – CEO, ISL

Mr. Yousuf Husain Mirza has been appointed as the Chief Executive Officer w.e.f. August 14, 2015. Before appointment as CEO, he was the Chief Operating Officer of International Steels Limited since August 2013. Prior to joining ISL, he served as Managing Director of Linde Pakistan Limited, and served in various senior management assignments with group subsidiaries in the Philippines, Malaysia and south east Asia for over ten years. He has a graduate degree in Mechanical Engineering from NED University of Technology and also has an MBA from the Institute of Business Administration Karachi. He has also attended management development programs at Said Business School, University of Oxford, INSEAD and at NanYang Technological University, Singapore. He is also serving as Director of Pakistan Japan Business Forum.

International Industries Limited (IIL): Overview & Sustainability Indicators

| | | | | |
|------------------------|--------------------------------------|---|---|---------------------------------|
| 71 years of success | Net Turnover: Rs. 18.9 Billion | Contribution to National Exchequer over last 6 years: Rs. 24.2 Billion | Total Manufacturing Capacity: 817,000 MT | More than 1,000 employees |
|------------------------|--------------------------------------|---|---|---------------------------------|

International Industries Limited (IIL) is Pakistan's largest manufacturer of steel pipes and tubes, stainless steel tubes and polymer pipes and fittings. The Company is the market leader in all segments of longitudinally welded pipes and tubes in Pakistan. IIL is also the leading exporter of welded steel pipes and tubes in Pakistan, and has exported its products to more than 60 countries across 6 Continents.

IIL has been recognized as one of Pakistan Stock Exchange's Top 25 Companies for the past 11 years and has also been the proud recipient of FPCCI's best export performance award in the engineering products (mechanical) segment for the past 20 consecutive years.

Sustainability Indicators

| S. No | Indicator | Unit | 2018-19 | 2019-20 |
|----------------------------------|---------------------------------|--------------------------------------|---------|---------|
| Environmental Performance | | | | |
| 1 | Energy intensity | kWh/MT | 91 | 103 |
| 2 | Material efficiency | % material converted to FG | 93.20% | 94.60% |
| 3 | Environmental Management System | % employees in registered facilities | 100% | 100% |
| Social Performance | | | | |
| 4 | Lost-time injury frequency rate | Injuries/million hours worked | 1.65 | 0.64 |
| 5 | Employee training | Training hours/employee | 4.5 | 3.16 |
| Economic Performance | | | | |
| 6 | Economic value distributed | % of revenue | 96% | 97.10% |

OHSE AWARDS

- IIL is certified by Lloyd's Register Quality Assurance Limited (LRQA) for:
 - ISO 9001, Quality Management System
 - ISO 14001, Environmental Management System
 - ISO 45001, Occupational Health and Safety
- IIL has received multiple OHSE related awards in the last few years. This demonstrates our constant efforts towards improving our environmental and social efforts.
 - 2008-12: Annual Environment Excellence Award by the National Forum for Environment & Health
 - 2014: Third position in the overall category in a nationwide OHSE Best Practices 2014 competition organized by the Employers Federation of Pakistan
 - 2015: Environment Excellence Award by the National Forum for Environment and Health
 - 2015: Second Prize winner OHSE Best Practices by the Employers Federation of Pakistan
 - 2016: First prize winner OHSE Best Practices by the Employers Federation of Pakistan
 - 2018: IIL was awarded the second prize in the category of Large National Companies in the competition "Living the Global Compact Business Sustainability Award 2018". The event was organized by The Global Compact Network Pakistan in collaboration with the Employers' Federation of Pakistan
 - 2018: The Group Sustainability Report for 2018 was awarded a Certificate of Merit by the Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Cost and Management Accountants of Pakistan (ICMAP)

International Steels Limited (ISL): Overview & Sustainability Indicators

| | | | | |
|---------------------------------|---|---|---|---------------------------------------|
| Net Turnover: Rs. 48 Billion | Investment in state-of-the-art production facility: US\$ 221 Million | Contribution to National Exchequer over last 6 years: Rs. 50.4 Billion | Total Manufacturing Capacity: 1,000,000 MT | German Technology from: SMS Siemag |
|---------------------------------|---|---|---|---------------------------------------|

International Steels Limited is the largest producer of Galvanized, Cold Rolled and Color Coated Steel in the Country. ISL was set up in collaborating with Sumitomo Corporation Japan, JFE Steels Japan and The International Finance Corporation (IFC).

ISL's state-of-the-art facility was designed and supplied by SMS Siemag, Germany, to produce steel of the highest quality. ISL employs strict quality control procedures and advanced technology ensuring top of the line quality to domestic and international customers. ISL products are manufactured as per Japanese, American and European Standards (JIS, ASTM, EN, etc.).

ISL offers products in full width coils, cut-to-length sheets and slit width coil as per customer demand. All products cater to the engineering and manufacturing industry as a premium raw material for transformation into any number of value-added products for the domestic and export markets.

Sustainability Indicators

| S. No | Indicator | Unit | 2018-19 | 2019-20 |
|----------------------------------|---------------------------------|--------------------------------------|---------|---------|
| Environmental Performance | | | | |
| 1 | Energy intensity | kWh/MT | 91 | 195 |
| 2 | Material efficiency | % material converted to FG | 93.20% | 94.38% |
| 3 | Environmental Management System | % employees in registered facilities | 100% | 100% |
| Social Performance | | | | |
| 4 | Lost-time injury frequency rate | Injuries/million hours worked | 1.65 | 0.72 |
| 5 | Employee training | Training hours/employee | 4.5 | 2.334 |
| Economic Performance | | | | |
| 6 | Economic value distributed | % of revenue | 96% | 96.50% |

OHSE AWARDS

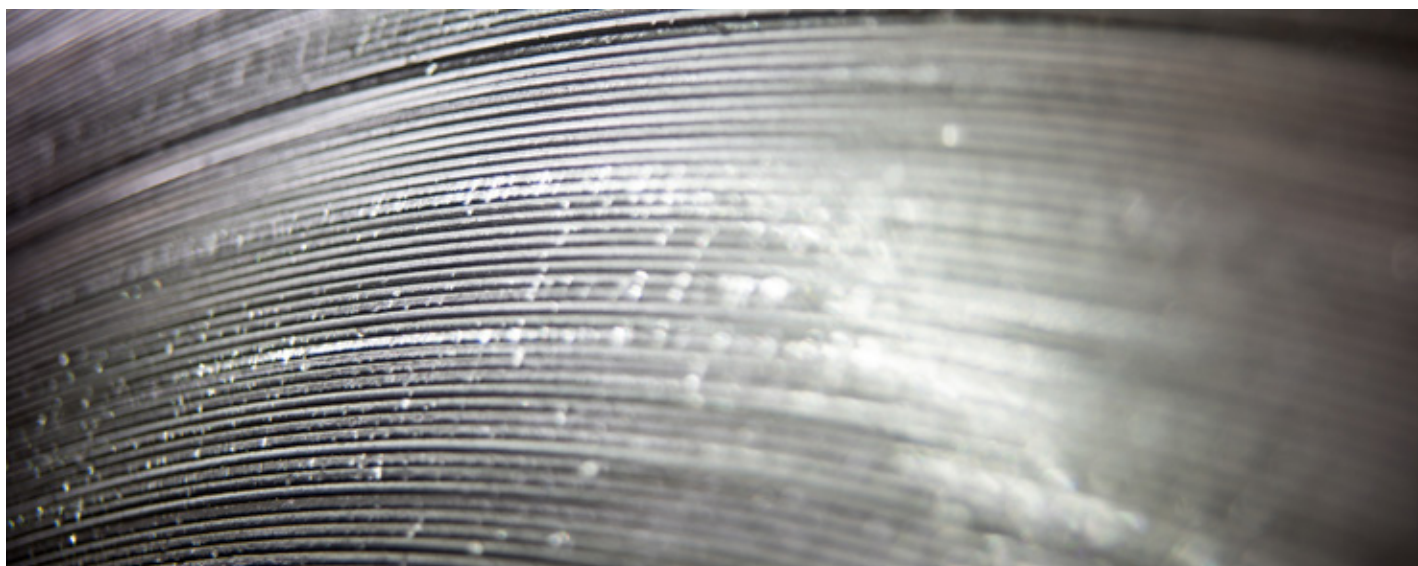
- ISL is certified by Lloyd's Register Quality Assurance Limited (LRQA) for:
 - ISO 9001, Quality Management System
 - ISO 14001, Environmental Management System
 - ISO 45001, Occupational Health and Safety
- ISL was awarded the Employee's Federation of Pakistan's Employer of the Year Award for best HR practices for 2018
- ISL was awarded the Management Association of Pakistan (MAP) Managerial Excellence Award 2019

Certifications

International Industries Limited (IIL)

| Standard | Description | Location | Certified by | Since | License # |
|--|---|--|--|-------|---------------------|
| ISO 9001 | Quality Management System | Head Office, Branch Office, Factory 1, 2 & 3 | Lloyds Register Quality Assurance (UK) | 1997 | ISO 9001 – 0049981 |
| ISO 14001 | Environment Management System | Head Office | | 2000 | ISO 14001 – 0049980 |
| | | Branch Office (Lahore) | | | |
| | | Factory 1 | | | |
| | | Factory 2 | | | |
| | | Factory 3 | | | |
| ISO 45001 (Formerly OHSAS 18001) | Occupational Health & Safety Management Systems | Head Office | | 2007 | ISO 45001 – 0049979 |
| | | Branch Office (Lahore) | | | |
| | | Factory 1 | | | |
| | | Factory 2 | | | |
| | | Factory 3 | | | |
| API Specification Q1 ® & 5L | Manufacturer of Line Pipe Plain End, HFW, PSL 1 | Factory 1 | American Petroleum Institute (USA) | 2000 | 5L-0391 |
| | Manufacturer of Line Pipe Plain End, HFW, PSL-1 & PSL-2 | Factory 2 | | 2016 | 5L-1104 |
| BS EN 10255, 10266 | CE Mark for Hot Dip Galvanized ERW Carbon Steel Pipes | Factory 1 & 2 | CNC Services (Germany) | 2011 | CNC/EEC/4112/11 |
| BS EN 10296-1, BS EN 10305-5 & BS 1717 | CE Mark for ERW Tubes from Cold Rolled Carbon Steel | | | 2011 | CNC/EEC/4113/11 |
| BS EN 39, 10219, 10240 ASTM A-500, A252, A53 AS/NZS 1163, 4792 | CE Mark for Cold Formed Welded Structural Hollow Sections (HSS) | | | 2018 | CNC/EEC/4525/18 |

| Standard | Description | Location | Certified by | Since | License # |
|-------------------------|--|-------------|---|-------|---------------------|
| UL-852 ASTM 795 | UL Certification (ERW & Galvanized Pipes for Fire Sprinkler System) | Factory - 1 | Underwriter Laboratories UL (United States) | 2017 | EX27362 |
| UL-852 (UAE) | UL UAE Certification (Metallic Sprinkler Pipe For Fire Protection Service) | Factory - 1 | Underwriter Laboratories UL | 2017 | VIZY - EX27362 |
| PS:4533- 34/1999 (R) | License for the use of Pakistan Standard Mark for PPRC Pipe | Factory - 3 | Pakistan Standards Quality Control Authority (PSQCA) | 2018 | CML/N/1287/2018 |
| DIN 16962 / 1980 | License for the use of Pakistan Standard Mark for PPRC Fittings | Factory - 3 | | 2018 | CML/N/1288/2018 |
| PS:3580- 2014(R) | Polyethylene Pipe for water Supply "MEGAFLO" Brand | Factory - 2 | | 2015 | CSDC/L-170/2015 (R) |
| ASTM A53/2012 | MS Pipe (Mild Steel Pipe) | Factory - 1 | | 2017 | CSDC/L-205/2017 (R) |
| ASTM A53/2012 | MS Pipe (Mild Steel Pipe) | Factory - 2 | | 2017 | CSDC/L-206/2017 (R) |



Certifications

International Steels Limited (ISL)

| Standard | Description | Location | Certified by | since | License # |
|--------------------------------|---|--|--|--------|----------------------|
| ISO 14001 | Environmental Management System | Factory, Head office, Branch Office (Lahore) | Lloyds Register Quality Assurance (UK) | 2011 | ISO 14001 – 10157538 |
| ISO 9001 | Quality Management System | Factory, Head office, Branch Office (Lahore) | Lloyds Register Quality Assurance (UK) | 2011 | ISO 9001 – 10157538 |
| ISO 45001 | Occupational Health & Safety Management Systems | Factory, Head office, Branch Office (Lahore) | Lloyds Register Quality Assurance (UK) | 2018 | ISO 45001 – 10157538 |
| Certificate of Assessment - EC | Hot Dip Galvanized Steel | Factory, Head office | CNC Services (Germany) | Jan-19 | CNC/EEC/4555/19 |
| | Cold Rolled Steel | Factory, Head office | CNC Services (Germany) | Jan-19 | CNC/EEC/4556/19 |
| | Color Coated Steel | Factory, Head office | CNC Services (Germany) | Jan-19 | CNC/EEC/4557/19 |
| RoHS Declaration of Conformity | Hot Dip Galvanized Steel Cold Rolled Steel Color Coated Steel | - | Intertek | Jul-19 | 190724FAPSK |
| REACH Statement of Conformity | - | - | REACH | Nov-19 | 1910301CYA |



External Associations

Below is a list of governmental and non-governmental associations to which we submit an annual report regarding our environmental or social impacts.

| Name of Agency | IIL | ISL |
|---|-----|-----|
| Sindh & Punjab Environment Protection Agencies | ✓ | ✓ |
| Federal Board of Revenue | ✓ | ✓ |
| Civil Defense | ✓ | ✓ |
| Labor Directorate | ✓ | ✓ |
| Pakistan Federations Association | ✓ | ✓ |
| VIS Credit Rating Company Limited | ✓ | ✓ |
| Centre of Excellence in Responsible Business (CERB) | ✓ | ✓ |

IIL has utilized international standards to ensure that our efforts are globally benchmarked. Through our association with the Centre of Excellence in Responsible Business (CERB), our organization has been identified as a Sustainable Development Goals (SDG) Leader for SDG 7, Clean and Affordable Energy for All, for our commitments to energy efficiency. CERB has benchmarked our work towards energy efficiency, towards the SDG target 7.3 'double the global rate of improvement in energy efficiency by 2030'.

Our team ensures we are aligned with the United Nations Global Compact's (UNGC) ten principles. Below is an extract from UNGC's online portal to assist in the further understanding of why we integrate these principles into our value system:

Corporate sustainability starts with a company's value system and a principled approach to doing business. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labor, environment and anti-corruption. Responsible businesses enact the same values and principles wherever they have a presence, and know that good practices in one area do not offset harm in another. By incorporating the Global Compact principles into strategies, policies and procedures, and establishing a culture of integrity, companies are not only upholding their basic responsibilities to people and planet, but also setting the stage for long-term success. The ten principles are listed below.

Human Rights

Principle 1: Businesses should support & respect the protection of internationally proclaimed human rights;

Principle 2: make sure that they are not complicit in human rights abuses.

Labor

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labor;

Principle 5: the effective abolition of child labor; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

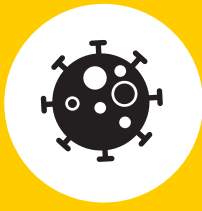
Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.



COVID-19 CORONAVIRUS

کویڈ - 19 کورونا وائرس

Coronavirus (COVID-19) is an infectious disease caused by a newly discovered virus (SARS CoV-2).

کورونا وائرس (COVID-19) ایک متعدی بیماری ہے جو ایک نئے دریافت ہونے والے وائرس (SARS CoV-2) کی وجہ سے ہوتی ہے۔

WASHING HANDS

ہاتھ دھونا



SYMPTOMS

علامات



FEVER
بخار



COUGH & COLD
کھانسی اور نزلہ



HEADACHE & SORE THROAT
سر درد اور گلے کی سوزش

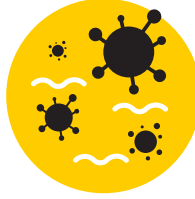


SHORTNESS OF BREATH
سانس لینے میں تکلیف



CONTAGION

وائرس کی منتقلی



AIR TRANSMISSION
کھانسی یا چھینک کے ذریعے ہوا کی ترسیل



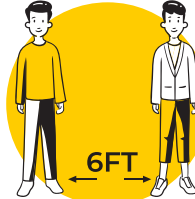
HUMAN CONTACT
متاثرہ شخص سے رابطہ



CONTAMINATED OBJECTS
متاثرہ اشیاء کو چھونا

PRECAUTIONS

احتیاطی تدابیر



MAINTAIN SOCIAL DISTANCE
معاشرتی فاصلہ برقرار رکھیں



CLEAN YOUR HANDS OFTEN
باقاعدگی سے ہاتھ دھوئیں



STAY AT HOME
گھر سے کم باہر نکلیں



COVER COUGH AND SNEEZE
کھانسی یا چھینک آنے پر منہ اور ناک کو ٹشو یا آستین کے کپڑے سے ڈھاپیں



WEAR FACEMASK AND GLOVES
چہرے کا ماسک اور دستانے پہنیں



CLEAN AND DISINFECT SURFACES
سطحوں کو باقاعدگی سے جراثیم سے پاک رکھیں

COVID-19 RESPONSIVENESS

CORPORATE SOCIAL RESPONSIBILITY | COMMITMENT | INNOVATION

COVID-19 – Corporate Communications & Product Innovations

Covid-19 is a respiratory virus which spreads primarily through droplets generated when an infected person coughs or sneezes, or through droplets of saliva discharge from the nose.

The impact of Novel Coronavirus (Covid-19) since December 2019, has taken a significant toll on people across 185 countries the world. More than Many countries are dealing aggressively with unforeseen challenges of the covid-19; from dealing with uncertainty, to managing limited medical resources to protecting the many, to saving themselves from economic crisis.

As a leader and a corporate social entity, IIL during the major outbreak of the Coronavirus in Pakistan, IIL & ISL addressed the health and well-being of not just the employees but also protecting the stakeholders such as business partners, local community and other customers.

Employees Well being

IIL & ISL took the decision of implementing work from home for employees by closing down all its offices since 21st of March, 2020. The objective of working from home was successfully achieved, employees were informed and updated daily via emails, video meetings on zoom, phone calls and instant messaging on WhatsApp.



IIL & ISL installed COVID-19 awareness boards at all company locations and arranged tool box safety talks for employees and in the same way company provided vehicle and hand sanitization facilities at workplace along with face mask and hand gloves.

Employees Health & Well Being Committee

The CEO of IIL established a COVID-19 Employees' Health & Well Being Committee to make arrangements to fully comply with the health and safety standards set by the Government's SOP to start operations at all production units with a minimum workforce allowing to complete local and international customer orders while ensuring social distancing. The task force is weekly updating all employees about COVID-19 situation, preventive measures and providing guidelines.

Collaboration with Karachi Relief Trust (KRF)

IIL & ISL jointly campaigned internally to collect voluntary donations from the employees working at the group companies to support the noble cause of distributing essential rations to over 1 million daily wagers arranged by Karachi Relief trust and its partners the Indus Hospital, Federation of Pakistan Chambers of Commerce & Industry, Karachi Chamber of Commerce and Korangi Association of Trade and Industry.



Customers Communication

To meet the commitments of our customers during the lockdown period, the IIL sales team ensured timely communication to all the commercial and institutional customers by following work instructions policies set by the IIL COVID-19 Taskforce.

Public Awareness Campaigns

IIL campaigned to inform and educate the general public about the awareness of coronavirus. IIL reached out to more than 3000 customers across the nation with a message to make people aware about the symptoms of COVID-19 and the steps to practicing social distancing to prevent coronavirus from happening.



Corporate Communication & Digital Campaigns

IIL correspondingly continued to campaign to the global audience by using social media to “Stop the Coronavirus Spread” campaign. IIL Website and Platforms such as Facebook, Twitter and LinkedIn were used regularly with Covid-19 awareness and protection posts.

Quarantine Shelters & Hospital Beds

IIL & ISL jointly offered solutions to the government by developing steel shelters for mass isolation centers across the nation. These quick and ready steel shelters comprising of a single bed, door, desk & window were made used making IIL Pipes and ISL Steel Sheets.



Disinfection Tunnels

To prevent Covid-19 from spreading, IIL introduced a new innovation in the market “Disinfection Tunnels”. These walk-through tunnels were made using robust steel frame with anti-corrosive GI profile sheet, spray piping, water tank, pump, spray nozzles and automatic sensors to ensure 360° mist spray and disinfect viruses and germs.



Government's 250-Bed Hospital in Islamabad

In order to enable Government of Pakistan's ambitious vision of establishing 250-bed hospital in Islamabad in quick span of time to fight Covid-19, ISL provided flat steel products (Galvanized steel for Purlins and Color coated steel for Roofing). The hospital is up and running in 35 days. Prime Minister Imran Khan inaugurated Islamabad Isolation Hospital & Infectious Treatment Centre in July 2020.





SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs) are a collection of 17 global goals designed to be a "blueprint to achieve a better and more sustainable future for all". The SDGs, set in 2015 by the United Nations General Assembly and intended to be achieved by the year 2030, are part of UN Resolution 70/1, the 2030 Agenda.



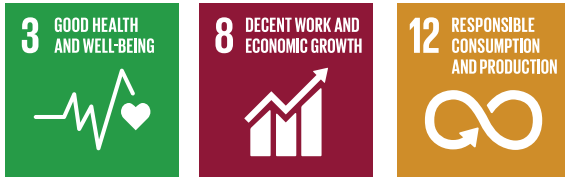
UNDP Sustainable Development Goals

IIL & ISL take great pride in being responsible corporate citizens. By aligning with and measuring our activities against the United Nation's Sustainable Development Goals (SDG's), we reaffirm our commitment to adopting sustainable practices and providing multi-faceted, positive contributions to the communities in which we operate and in society at large.

We have aligned 14 SDGs against 7 broader sustainability principles as outlined in the figure below:



1. Health & Safety



SDG 3

- IIL and ISL are ISO 45001 (Occupational Health and Safety) certified.
- IIL and ISL factories & offices entail more than adequate basic services such as well-managed water and sanitation services, safe work environments, separate dining & prayer areas and recreational facilities.
- A doctor and a paramedical assistant are present in the factory 6 days a week on a part time basis to facilitate employees.
- Monthly safety walks are conducted and trophies are distributed to deserving departments. Sessions on road and fire safety are routinely conducted.
- There have been no complaints related to medical or welfare benefits.
- Lost Time Injury Frequency Rate (LTIFR) recorded during the year was 0.64 per one million worked hours for IIL and 0.72 per one million worked hours for ISL.
- No infectious disease reported in the factory or office premises.
- During the year 470 health and safety trainings were organized by the IIL OHSE Department.
- Anti-mosquito spray conducted twice daily to reduce the chance of mosquito borne diseases.
- Motorcycle helmets have been distributed to all permanent, service provider staff and junior management staff.
- Well-equipped gyms are available for employee use at the ISL factory and IIL factory 1.
- Various recreational activities are conducted on an annual basis: Long Service Awards, Managers Dinners, Employee Theatre Nights, Corporate Family Days Out, Employees picnic, Participation in Group Cricket Tournament.
- For creating HSE awareness company organized guest speaker sessions for employees.

SDG 8

- IIL & ISL provide secure workplaces with canteens, parking facilities, medical and incidental insurance cover and freedom for people to express their concerns and/or grievances.
- Human resources policies are available on company intranet and are regularly reviewed, updated and circulated to employees.

SDG 12

- Installation of a zinc reclamation unit in 2008 ensures zero generation of smoke and dust during the zinc recovery process, hence reducing the emission impact on workers and the environment.
- IIL has upgraded its galvanizing plants to control zinc powder in the environment and thereby secure the health of workers. By making this modification, zinc powder collection has already been increased by 2%.
- The pickling process uses Hydrochloric (HCL) acid to remove surface impurities from hot rolled coils. Direct disposal of the contaminated acid poses a threat to the environment, therefore ISL's Acid Regeneration Plant (ARP) recycles and reconditions Hydrochloric acid from the pickling line, making 98% of the acid reusable.
- Our policy on Health & Safety is rigorously followed for wearing personal protective equipment such as safety gloves, shoes, and helmets for factory workers and staff is rigorously enforced. Motorcycle helmets were also provided to SNGPL staff at Uch Sharif and Mangla Mandi as part of our commitment to health and safety.

2. Value for Stakeholders



SDG 3

- IIL & ISL provide 10 medical leaves, 10 casual leaves and 30 earned annual leaves for the welfare of their employees.
- The Group provides medical facilities to all employees through the Social Security Scheme and the Health Insurance Scheme.
- Clean, filtered water is available to employees at all locations and 3rd party testing of all drinking water is done periodically.
- IIL has facilitated the establishment of two ambulance stations in Landhi, by donating 10 ambulances. This area is located in the industrial area where there was a need for immediate health care, especially in an area where work injuries have a high probability to occur. In addition, an equipped ambulance is available at all times at all factory locations.

SDG 4

- IIL's adult education program assists in improving the reading and writing skills of employees.
- Regular skill development trainings are undertaken at IIL & ISL in order to enhance overall productivity and safety.
- An apprentice training program is available at IIL and ISL factory locations to provide vocational training to deserving individuals. The program enables youths to develop skills and knowledge of manufacturing processes.
- At IIL, during 2019-20, 35 in-house training sessions were conducted for over 735 employees on various topics.
- During the year, health and safety trainings were organized by the ISL OHSE Department. (Internal Trainings: 33 and External Trainings : 05 and Total Training Hours = 1618)
- At present IIL and ISL have more than 150 apprentices on board under training at different manufacturing facilities.
- Over 100 deserving employees from IIL & ISL attended external trainings at reputable institutions such as Employers Federation of Pakistan, Centre of Excellence in Responsible Business, Pakistan Institute of Corporate Governance, Institute of Business Administration, Institute of Chartered Accountants of Pakistan, Institute of Chartered Management Accountants of Pakistan, Lahore University of Management Sciences, Management Association of Pakistan, Pakistan Society for Training and Development during FY 2018-19.
- ISL's ongoing commitment to education for the under privileged continues with the employees participating in the "Rahbar Program".
- Students from IBA, Dawood University's Departments of Mechanical Engineering and Business Administration at AMANTEC were provided an opportunity to visit the ISL factory and observe the operations and processes.

SDG 8

- IIL & ISL provide direct employment to more than 1,780 individuals thereby contributing to economic growth. Expansions undertaken at IIL & ISL in recent years have contributed to the creation of additional employment opportunities.
- The estimated multiplier effect of having a strong steel base on GDP is 10X as referenced by the Pakistan China Joint Chamber of Commerce and Industry Research and Development Cell.
- The group exported goods worth Rs. 8.2 billion in FY 2018-19.
- Group contributions to the National Exchequer during the year was Rs. 18.6 billion.

SDG 9

- IIL's Hollow Structural Sections (HSS) were used in infrastructure projects across Pakistan including Orange Line & Green Line bus stations. These products lower environmental impact through quicker construction and 100% salvage value.
- IIL's HSS have been used to build Pakistan's first ever steel structure residence as we strive to revolutionize the construction industry by not only increasing up the speed of construction but also by ensuring greater flexibility in allowing modifications.
- IIL has also constructed warehouses with HSS in spans as large as 120 ft both with and without overhead traveling cranes. These are not only cheaper but faster to construct than pre-engineered steel buildings.
- IIL launched its low-cost housing scheme whereby, a complete architectural plan and transparent cost structure were made publicly available, along with built-up model houses in Karachi and Lahore which were constructed to engage the public and concerned ministries. Under this scheme individual houses can be constructed in as little as 7 days, and at a cost that can be borne by the common man.
- IIL has partnered with the Association of Builders and Developers (ABAD) which allows ABAD members to access an exclusive price list of IIL products that are widely used in the construction and building sector.
- IIL conducted various events at the IAP House for students, architects and customers to educate them on the benefits and proper usage of our HSS products.
- ISL sponsored the Architects and Builders Sourcebook 2019. The ASB is Pakistan's leading directory for construction materials and is widely used by Architect and industry professionals across the country.
- In 2018, the Group sponsored a commemorative evening organized and hosted by Architecture Design Art (ADA) magazine to honor the larger than life, late Mr. Habib Fida Ali at his residence, in Karachi.
- In 2018, the Group has also entered into an agreement as the main partners for the 'ADA Awards' – a National Excellence Award focused on Architecture, Design & Art.
- In 2017, ISL held its first "Artist in Residence" program. The program was a manifestation of the company's commitment to incubate and facilitate local artists and nurture their talent by providing an enabling environment. The Residency brought together some of Pakistan's most talented, emerging artists and inspired them to develop artworks utilizing the various materials and facilities present at the factory. During the course of the 2 weeks, the artists were mentored by 3 eminent artists from Pakistan namely Amin Gulgee, Asma Mundrawala and Munawar Ali Syed. The Program was a rousing success and has received acclaim globally, most notably by the EU parliament and Italy's PPT Art award.

SDG 11

- IIL HSS and ISL decking sheet allow for quicker construction which aid with Pakistan's increasing urbanization. Furthermore, the material is 100% recyclable and reusable.
- Our electricity generation is synchronized with the National Grid which allows us to operate the generators very efficiently at full capacity. Excess electricity generated is sold to the grid. Hence, there is full utilization of installed generation capacity and generation whilst contributing towards alleviation of the chronic power shortages faced by the country.

SDG 17

- IIL a founding member of The Pakistan Business Council which strives to work with the government to propagate Industrial growth
- IIL & ISL are members of the National Steel Advisory Council (NSAC) which provides the government support on policy direction to revive the Pakistani steel industry

3. Environmental Protection



SDG 6

- Our Reverse Osmosis (RO) Plant helps meet our water requirements at the factory premises while reducing reliance on municipal water systems, thereby assisting in the reduction of water scarcity in Pakistan. IIL continuously monitors the consumption of water through the installation of flow meters. Our employees benefit from higher water quality.
- All solid waste that is not recycled is responsibly transferred to designated landfill sites through EPA certified contractors.

SDG 7

- IIL & ISL generate electricity through co-generation from natural gas. Natural gas is the cleanest fossil fuels with considerably less CO₂ and methane emissions. Furthermore, compared to conventional electrical or thermal power plants co-generation is far more efficient and cost effective.
- Energy efficiency Monitoring: IIL & ISL are continuously monitoring the usage of Electricity, Natural Gas and air. We have installed energy meters, gas analyzer and recorders to measure efficiency. By doing this we have also controlled the misuse and wastage of energy by shutting down auxiliary loads when plants are not operational.
- Utilization of energy efficient instruments: The Group has a considerable lighting load. Initially all lights were 400W SON high pressure sodium bulbs. We have started to replace Bulbs with LED 160W, this helped us to save energy with increased illumination.
- Our factories have been retro-fitted with sky lights where possible in order to reduce dependence on conventional electricity. We have installed automatic on/off systems for lighting where required to further save energy.
- We utilize waste heat generated from our co-generation gas engines to operate the hot water absorption chiller and boiler and a steam turbine engine to generate more electricity while minimizing environmental impact.
- Variable frequency drives (VFDs) on pumps & cranes are installed to reduce power requirements.

SDG 12

- IIL is the first ISO 14001 (Environmental Management System) certified company in Pakistan.
- Steel, by nature, is one of the most aggressively recycled materials in the world. All steel and zinc scrap in IIL and ISL are recycled.
- IIL and ISL have dedicated forecasting and production planning departments that work to optimize production & storage and minimize wastage of any kind.
- IIL's polymer division used polyethylene & polypropylene. Both these materials are 100% recycled in house.
- All effluent waste is neutralized through treatment at our Effluent Treatment Plant (ETP) prior to discharge into the drains.
- The Group has targeted a 25% reduction in paper and printer ink consumption via reduction of excess paper usage, double sided printing, paperless Board meetings & annual reports.
- IIL has engaged third party environment management audit of its manufacturing facility to ascertain that all pre-requisite environmental effluents, emissions, noise and waste disposal is carried out as per law and to determine any gaps in its EMS system.

SDG 13

- Testing of factory and vehicular emissions carried out through 3rd party recognized laboratories for compliance with the National Environmental Quality Standards (NEQS).
- Fume scrubbers are in-place at IIL & ISL factories for acid fume exhaust chimneys which neutralize emissions prior to discharge by using 100 feet high fume scrubbers.
- Boiler & Generator emissions undergo regular testing to ensure compliance with NEQS.
- Annual targets to reduce electricity and natural gas consumption in line with international standards.
- All IIL & ISL factories have dedicated green belts with trees & plants.
- Tree plantations:
 - Planted more than 2,300 saplings in the vicinity of IIL Factories 1 & 2
 - Donated funds to LAFCO (Lahore Faisalabad Dual Carriage Way) authorities for plantation of 1,000 tree saplings
 - Planted 500 tree saplings at Factory 3 Sheikhpura
 - Regular maintenance of plants by manuring, trimming & watering

SDG 14

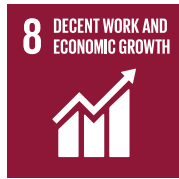
- Daily (6 times per day) in-house effluent testing.
- Testing of factory effluents through 3rd parties and recognized laboratories for compliance with the National Environmental Quality Standards (NEQS).

SDG 15

- Sludge generated from the effluent treatment plant (ETP) is transferred responsibly to designated landfill sites for environment-friendly disposal through EPA certified contractors.



4. Disclosure & Transparency



- Audited annual and un-audited quarterly results are published on company and SECP websites.
- IIL is registered with the Ministry of Environment under the Self-Monitoring and Report Tool (SMART) program.
- IIL & ISL are partnered with local utility Companies to co-scrutinize electricity generation.
- 'Whistle-Blowing' policies are in place to report any corrupt or unethical behavior – if employees feel that they are not able to use the normal management routes. This policy is reviewed and refreshed on a periodic basis.
- IIL follows an open-door policy and employees are free to send emails, phone or talk directly to the CEO. The employees can give suggestions, grievances and concerns or raise any matter related to the Company. In case the matter is of significant nature, the same is addressed in the meetings of the Executive Committee, Managing Committee, the Board of Directors or the relevant Board Committees.
- The CEO meets with the entire Managing Committee (MC) and Executive Committee (EC) at least once every quarter through with the aim of capturing free and first hand concerns and suggestions.



5. Local Communities



SDG 1

- IIL contributes 2.5% of its Profit after Tax (PAT) and ISL contributes 1.5% of its PAT towards CSR activities, the primary focus of which centers around education, health and welfare for the underprivileged particularly in the areas around our factories.
- IIL and ISL prefer to hire from the local communities in the surrounding factory locations in order to generate livelihoods.
- Direct employment provided to more than 1,780 people by the Group. Indirect impact on job creation by the steel industry is estimated at 7X by the American Iron & Steel Institute (AISI). Our Group contributes to indirect employment through the supply of essential raw materials to downstream industries and provision of credit to our dealers and distributors.

SDG 2

- IIL and ISL recognize that poverty underlies hunger & malnutrition. Therefore, both IIL & ISL strive to ensure commensurate compensation to all employees & workers. We also ensure that none of our service providers pay their employees less than minimum wage.
- Subsidized food is provided to IIL & ISL employees at factories. Food & water wastage is discouraged through on-site signage.

SDG 3

- The Group has a legacy of donating to medical & health facilities such as: SIUT, LRBT, Baitul Sukoon Cancer Hospital, LHWS, Indus Hospital, MALC, Al Rehmat Hospital in Pasrur & SINA Health Education amongst others.
- IIL and ISL have also established the IIL-SINA Childlife clinic near the IIL factory where over 30,000 patients are given free or heavily subsidized medical care on an annual basis. The land purchase, construction and running costs of the SINA-TCF Clinic – IIL Centre were funded by IIL. SINA envisions treatment of up to 1 million deserving individuals by 2019-20.
- Donations were made to the Cancer Care Hospital in FY 2018-19.
- IIL made a substantial contribution towards the “Amir Sultan Chinoy Chair” at the Aga Khan University Hospital in Karachi - a permanent endowment fund.
- IIL has contributed completely free of cost structures to: The Indus Hospital, Jinnah Medical Center, The Society for Rehabilitation of Special Children, A mental illness rehab center for the Caravan of Life Trust.

SDG 4

- IIL contributed a structure to the Hunar Foundation (one of Pakistan's foremost technical & vocational training institutes).
- IIL donated an entirely free of cost structure to the Charter for Compassion, an NGO, for a 'school under the bridge' built for underprivileged children in Karachi.
- IIL has linked up with The Citizens Foundation (TCF) and continues to support all operating expenses for a TCF primary school in the vicinity of the IIL factory. The TCF-IIL Campus provides free/affordable education to almost 400 students.
- ISL has linked up with TCF to support all operating expenses for a TCF primary school. TCF Chinoy Campus in Jumma Goth has a student strength of approximately 200 students.
- IIL & ISL sponsor a scholarship at NED University of Engineering & Technology. In the last 5 years, approximately 50 students have benefited from this scholarship.

- Group donations to the Amir Sultan Chinoy Foundation have been used to support various educational causes. The Group has sponsored the Amir S. Chinoy Amphitheater at the IBA main campus student's center.
- The Group regularly sponsors student seminars for NED Architectural Students.
- IIL donated an entirely free of cost structure to the Charter for Compassion, an NGO, for a 'school under the bridge' built for underprivileged children in Karachi.
- IIL has collaborated with the NGO, Literate Pakistan, to provide free education to older members of society who are not literate. Through this program, 100 workers have increased their literacy proficiency at varying degrees.
- ISL supports social engagement initiatives, such as Citizen's Archive Pakistan (CAP), whose core projects include cultural and educational programming for low-income communities in. ISL supported the Citizen Family Carnival 2019 at Beach Luxury Hotel. The activity had two goals, the educating the public on adopting environmental-friendly practices and taking initiatives to preserve ecosystems by taking simple and effective steps.

SDG 5

- IIL & ISL are equal opportunity employers.
- The Group employs 27 females; 4% ratio of total management.
- Female employees in IIL and ISL are given maternity leaves.
- Zero gender-based cases reported during the year.
- Special facilities have been provided for the comfort of female staff at the head offices.
- The IIL TCF campus has 41% female enrollment.

SDG 6

- IIL, ISL and Pakistan Cables Limited funded and helped install a water hand pump in a deserted part of z, Sindh which provides clean water to approximately 150 people in an underprivileged community with limited access to clean water.
- IIL's PPRC print and media campaigns are designed to educate our dealers and customers about the potential risks posed by water leakages. We held multiple plumbers training events to educate our partners on proper usage of material and equipment.
- A large proportion of IIL's products are used in water transmission and distribution. We continue to educate our customers on the importance of using high quality, non-carcinogenic materials for the supply of potable water.

SDG 10

- IIL & ISL provide equal opportunity to all employees.
- IIL & ISL's workforce have 23 special people in various positions.
- No complaints of gender insensitivity or other inequalities have been raised.
- IIL and ISL are merit based organizations where no preference or special treatment is given to any individual.
- IIL has constructed a shed for The Society for Rehabilitation of Special Children. This shed was built using IIL Hollow Structural Sections (HSS) and provided the children with a safe play and learning area.

6. Ethical Standards



SDG 12

- IIL is certified by international and local certification companies including, Lloyds Register Quality Assurance (UK), American Petroleum Institute (API), CNC Services, UL, PNAC and PSQCA.
- ISL is certified by International certification companies including Lloyds Register Quality Assurance (UK), CNC Services and Intertek.

SDG 16

- IIL and ISL adherence to human rights is enshrined in the Code of Conduct of each Company and confirm the Group commitment to respecting fundamental human rights and treating employees, customers and all internal & external stakeholders with fairness, equality and respect in order to foster an open, transparent, and trusting environment which is free from prejudice, discrimination, bias, harassment and/or violation.
- For IIL & ISL, the policy on Code of Conduct and Ethical Practices is reviewed and acknowledged each year by all Directors, Managers, staff and new hires. This ensures that respect for human rights remains fully integrated into their business activities.
- The Code of Conduct covers business ethics, respect for rights of stakeholders, conflicts of interests, accounting records, controls and statements, environment, regulatory compliance and personal conduct.
- Grievance Policies are in place for all employees to raise concerns so that these can be addressed accordingly.
- Once every two years, IIL's Management and CBA enter bilateral negotiations on Charters of Demands raised by both parties. IIL's Industrial Relations Department is dedicated to address all and any worker related issues and is constantly in communication with the CBA and Unions with the objective to maintain industrial peace. Good relations were maintained with CBA and no strike or unrest witnessed during the year.
- No case of tax evasion/corruption during the year for IIL or ISL.



7. Stakeholder Engagement



Our stakeholders including, employees, customers, suppliers, contractors & agents, bankers, lawyers and shareholders are continuously engaged by dedicated departments in IIL and ISL to educate them on our sustainable development targets.

We have also engaged the following third parties to ensure our sustainable development goals are met:

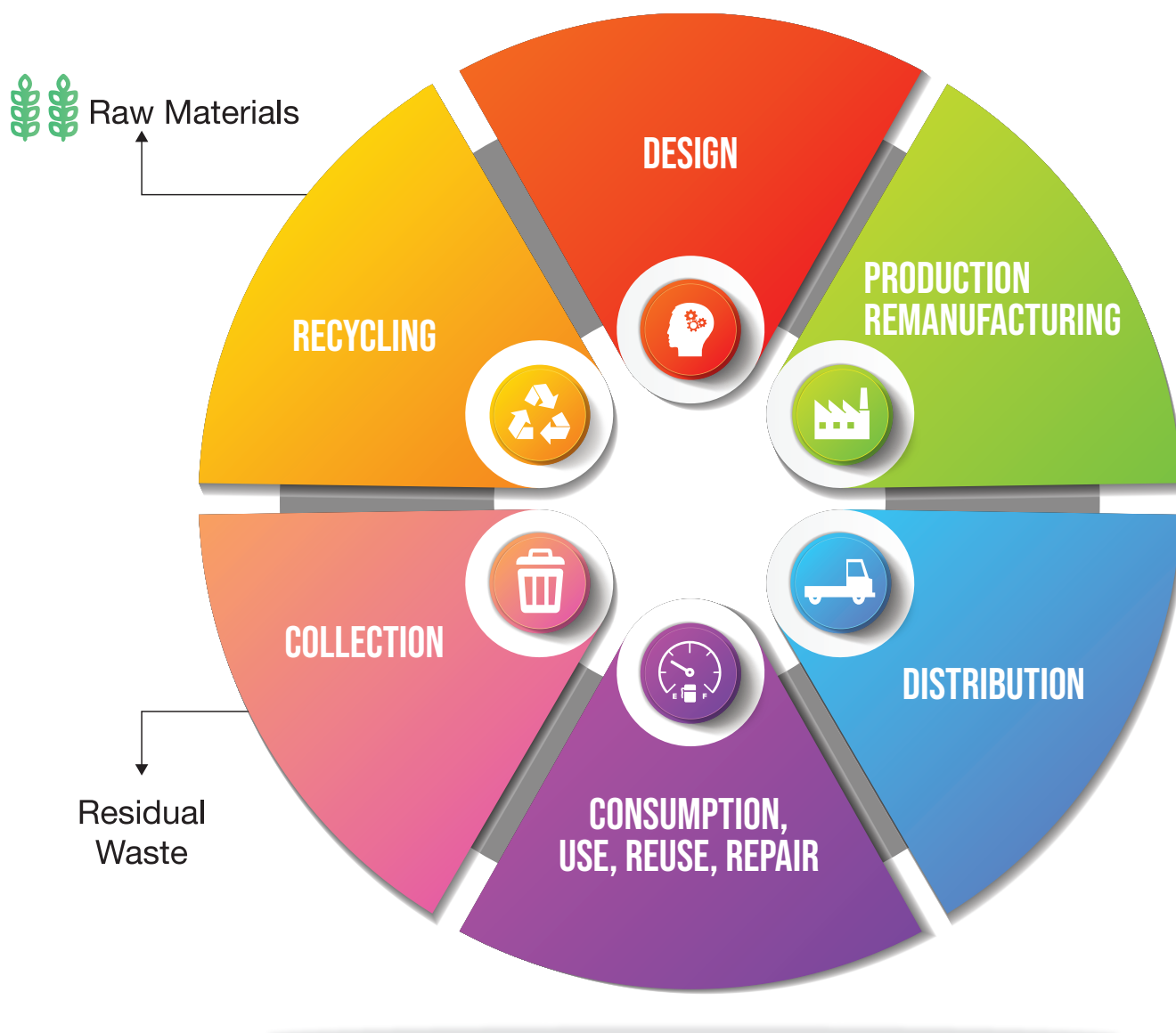
1. The Citizens Foundation
2. Amir Sultan Chinoy Foundation
3. Aga Khan University Hospital
4. Sindh Institute of Urology and Transplantation (SIUT)
5. Layton Rahmatullah Benevolent Trust (LRBT)
6. Baitul Sukoon Cancer Hospital
7. Cancer Care Hospital
8. Caravan of Life Trust Pakistan
9. Indus Hospital
10. Marie Adelaide Leprosy Centre (MALC)
11. Al Rehmat Hospital
12. SINA Health, Education & Welfare Trust
13. Hunar Foundation
14. The Charter for Compassion
15. Pakistan Business Council (PBC)
16. Centre of Excellence in Responsible Business (CERB)
17. National Steel Advisory Council (NSAC)
18. Pakistan Institute of Corporate Governance (PICG)
19. Institute of Business Administration (IBA)
20. Lahore University of Management Sciences (LUMS)
21. Institute of Chartered Accountants of Pakistan (ICAP)
22. The Institute of Cost & Management Accountants of Pakistan (ICMAP)
23. NED University of Engineering & Technology
24. Institute of Architects, Pakistan (IAP)
25. Literate Pakistan
26. Management Association of Pakistan (MAP)
27. Pakistan Society for Training and Development (PSTD)
28. National Environmental Quality Standards (NEQS)
29. Sindh Environmental Protection Agency (SEPA)
30. Pakistan Environmental Protection Agency (Pak. EPA)

Circular Economy

IIL and ISL are proud to promote the concept of a circular economy. Throughout the world, companies are pledging their sustainability practices to a circular economy. This means that organizations make an effort to close the loop of a product lifecycle through greater recycling and reuse. As a result, waste is recognized as a resource, and is recycled to re-manufacture new products. We believe that by focusing on this philosophy we shall in fact capitalize on missed business opportunities and enhance our economic efficiency. Moreover, this process, promotes the concept of durable design which ultimately preserves and extends the life cycle of a product, thereby reducing the need for replacement.

Some of the ways in which we apply the concept of the Circular Economy to our business are:

1. All steel scrap generated during the manufacturing process is either sold to, manufacturers who utilize the scrap to produce billets, wire, rebars, or to various SME's and other recyclers
2. Waste heat produced during power generation is further utilized for internal energy and steam generation and for heating and cooling operations of our offices at the factory site
3. Zinc Oxide is sold as a raw material to fortify fertilizer. Zinc is a key micro-nutrient and is essential for general health and well-being
4. Used oil is sold to re-cyclers and contractors
5. Iron oxide is created as a by-product of the acid regeneration process, which is then sold to local and international buyers as a raw material for the manufacture of red oxide paint



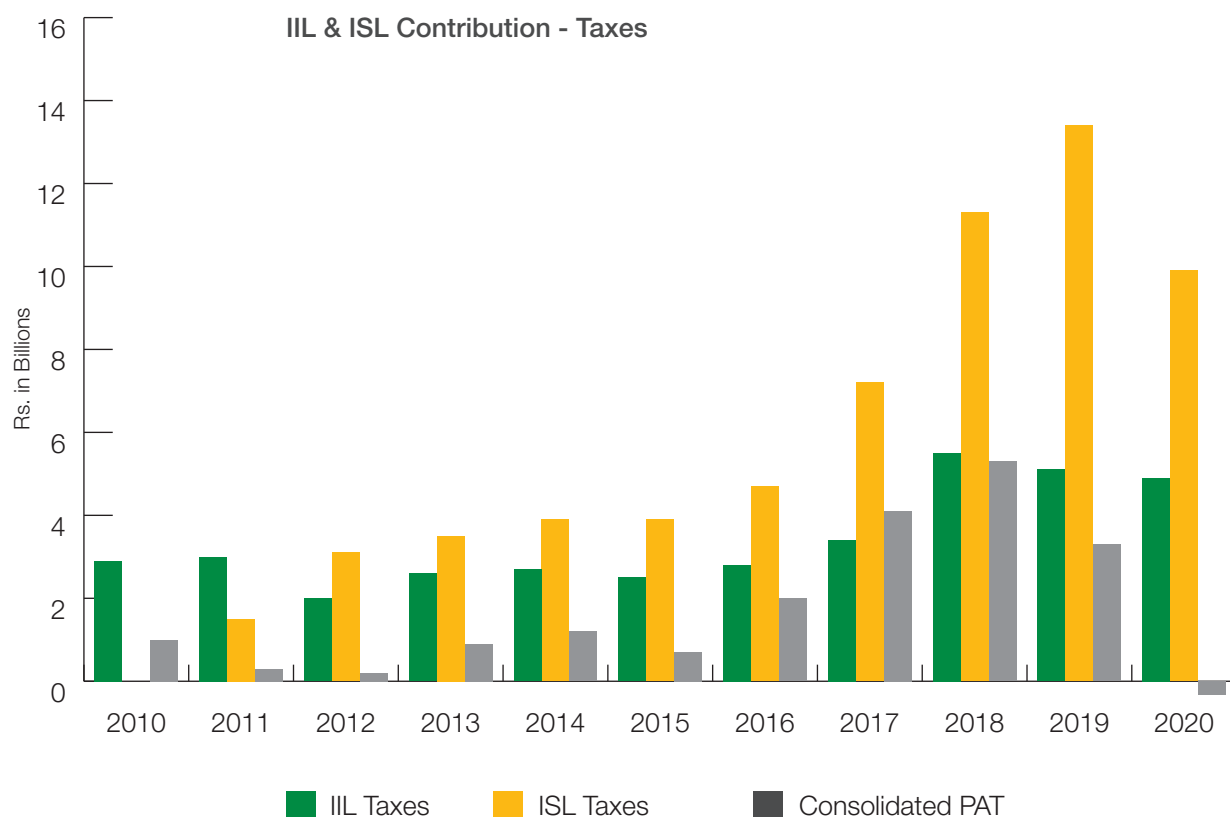
I. ECONOMIC IMPACT



Economic Impact

Both ISL and IIL have a significant impact on the economy. Our positive impact on the economy is the result of continuous growth, vast distributor and dealership network, ability to extend credit to our customers, innovation and strong financial performance. We fuel economic growth through performance, job creation, and contribution to stakeholders in the form of dividends, duties & taxes, salaries & benefits and CSR activities.

- IIL's PAT in 2018-19 were more than PKR 1.5 billion
- ISL's PAT in 2018-19 were more than PKR 2.6 billion



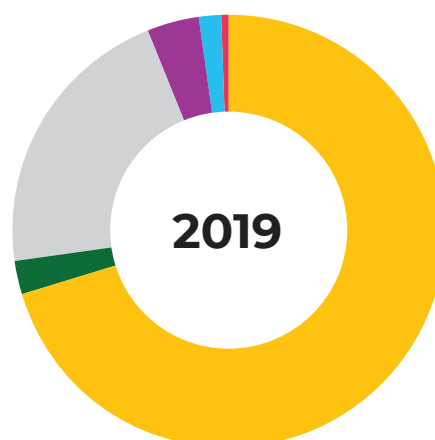
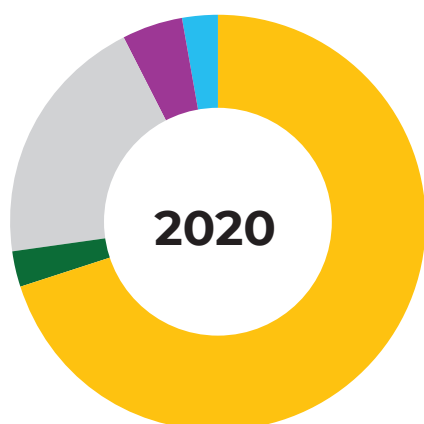
Furthermore, we have been able to continuously fulfil our customer demands by continuing to diversify our production lines. We drive competitive pricing by maximizing our economies of scale in order to ensure that our customers always receive a fair price for our high-quality product.

For a detailed account of our financial earnings and expenditures please review this year's annual reports.

Consolidated Statement of Value Addition

The Group has distributed 97.1% of the wealth generated from its business in FY 2018-19 to shareholders, employees, banks, the government, suppliers, contractors & service providers and towards charitable causes.

| | 2020 | | 2019 | |
|--|-------------------|--------------|-------------------|--------------|
| | Rupees in '000 | % | Rupees in '000 | % |
| Wealth Generated | | | | |
| Sales including sales tax | 75,003,319 | 99.7% | 87,524,794 | 99.3% |
| Other operating income | 208,429 | 0.3% | 617,688 | 0.7% |
| | 75,211,748 | 100% | 88,142,482 | 100% |
| Wealth Distributed | | | | |
| Cost of material & services | 52,775,025 | 70.2% | 61,860,692 | 70.2% |
| To Employees | | | | |
| Salaries & other related cost | 2,108,648 | 3% | 2,191,887 | 2% |
| To Government | | | | |
| Taxes & Duties | 14,815,084 | 19.7% | 18,165,727 | 20.6% |
| Worker Profit Participation Fund | 29,230 | 0.0% | 248,556 | 0.3% |
| Worker Welfare Fund | (20,645) | 0.0% | 82,485 | 0.1% |
| | 14,823,669 | 19.7% | 18,496,768 | 21.0% |
| To Providers of Capital | | | | |
| Dividend to shareholders | - | 0.0% | 1,229,245 | 1.4% |
| Finance cost | 3,547,458 | 4.7% | 2,213,650 | 2.5% |
| | 3,547,458 | 4.7% | 3,442,895 | 3.9% |
| To Society | | | | |
| Donation | 21,550 | 0.0% | 62,722 | 0.1% |
| Retained in Business | | | | |
| For replacement of fixed assets | | | | |
| Depreciation & Amortisation | 1,935,398 | 2.6% | 1,547,101 | 1.8% |
| To provide for growth: Retained Profit | - | 0.0% | 315,777 | 0.4% |
| | 1,935,398 | 2.6% | 1,862,878 | 2.1% |
| | 75,211,748 | 100% | 87,917,842 | 100% |



| | 2020 | 2019 |
|-----------------------------|-------|-------|
| Cost of material & services | 70.2% | 70.2% |
| To Employees | 2.8% | 2.5% |
| To Government | 19.7% | 21.0% |
| To Providers of Capital | 4.7% | 3.9% |
| To Society | 0.0% | 0.1% |
| Depreciation & Amortisation | 2.6% | 1.8% |
| Retained Profit | 0.0% | 0.4% |

VIS Ratings

VIS Credit Rating Company Limited (VIS), approved by Securities and Exchange Commission of Pakistan and State Bank of Pakistan, is operating as a 'Full Service' rating agency providing independent rating services in Pakistan. In 2019, each of our organizations were awarded high ratings from VIS, further increasing our financial credibility in the market.

| | IIL | ISL |
|---------------------------------|--|--|
| Long Term Credit Rating | AA- (Double A Minus) | A+(Single A Plus) |
| | High credit quality, protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions. | Good credit quality, protection factors are adequate. Risk is modest, may vary with possible changes in the economy. |
| Short Term Credit Rating | A-1 (A-One) | A-1 (A-One) |
| | High certainty of timely payments; liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor. | High certainty of timely payments; liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor. |
| Rating Outlook | Stable | Stable |
| Rating Rationale | The assigned ratings incorporate the IIL's position as the largest tube and pipe manufacturer in the country. Moreover, the extensive experience and track record of sponsors in the steel sector is also a key rating driver. Ratings also reflect stable and improving financial profile of IIL and strong corporate governance framework. | The assigned ratings incorporate ISL's position as the largest Cold Rolled Coil (CRC) and only Hot Dipped Galvanized Steel (HDGS) manufacturer in the country. Moreover, the extensive experience and track record of sponsors in the steel sector is also a key rating driver. Financial profile of the company draws support from healthy cash flows in relation to outstanding obligations and improving leverage indicators. |

Economic Impact Goals

- Continue to grow our existing product lines and expand our product range.
- Continue to invest in value addition of existing product range.
- Continue to expand in the Steel sector by promoting the economic growth and infrastructure in the domestic market by offering steel products at affordable prices.
- Look to expand and diversify product range by backward integration.

A photograph of a paper mill. In the foreground, a large roll of white paper is being processed by a machine. The machine has green and yellow components. A label on the machine reads "ESMECH SMS group". The background shows more industrial structures and yellow safety railings.

II. ENVIRONMENTAL IMPACT

Environmental Impact

At the core of our business is the production process, our operations therefore naturally have an impact on the environment. As Pakistan faces energy, pollution and water scarcity issues, we believe that the most direct and visible impact of our efforts will come from our environmental efficiencies. As responsible corporate citizens we have provided a transparent examination of our environmental impact for both organizations separately.

Although our primary raw materials, steel, zinc and polymers do not have a direct impact on our immediate environment, our Group strongly believes in minimizing environmental damage that might result from any of our production processes. Most of the technology and equipment in our operations is environmentally efficient and compliant with international and national environmental standards.

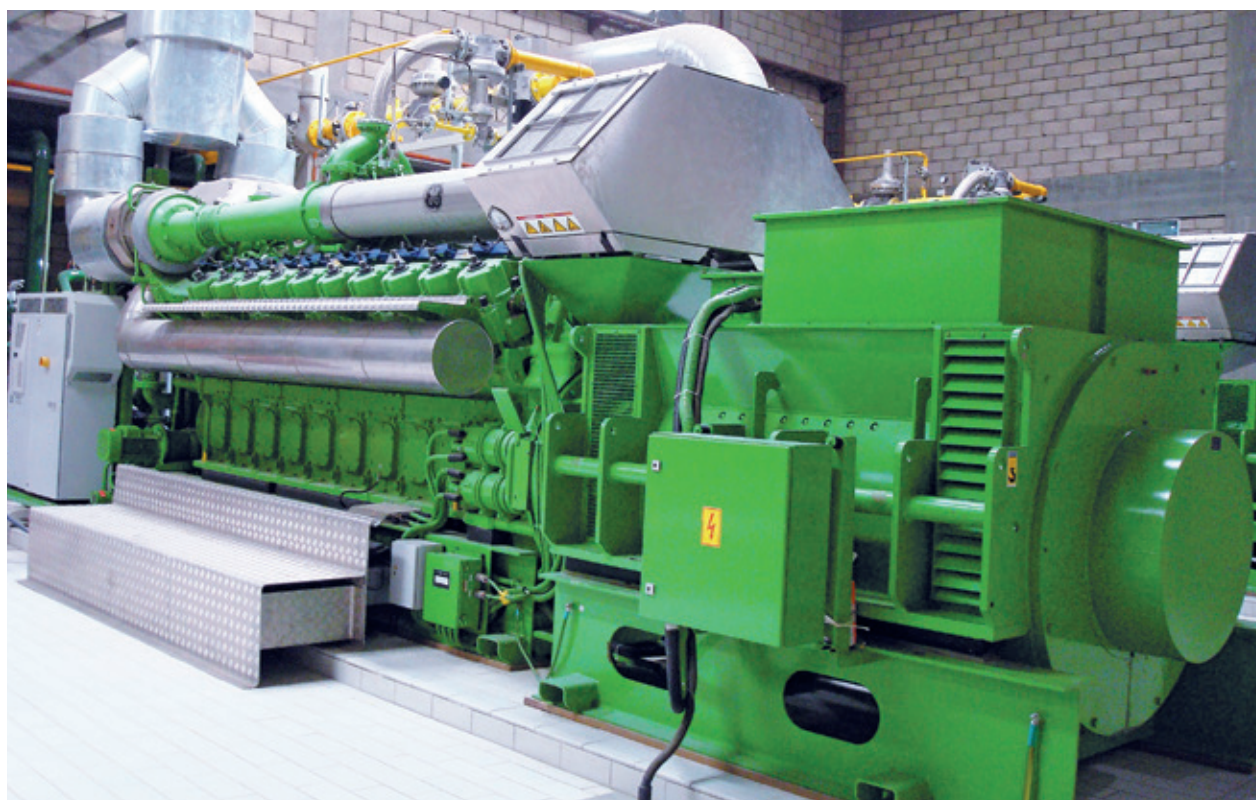
Environmental considerations are taken into account by us at the time of project costing and purchasing. Furthermore, all future investments are preceded by an environmental impact assessment.

| Achievement | IIL | ISL | Benefit |
|---|--|--|--|
| In-house power plant – Electricity Generation | IIL has installed a natural gas burning power plant with 4 generators that creates 4 Megawatts of Energy by co-generation | ISL has installed a natural gas burning power plant with 8 generators that creates 25 Megawatt by co-generation. | Increase in self-sufficiency. Reduction on dependence on local electricity providers. |
| Excess Energy Production | Any excess electricity produced is constantly sold to local electric providers through the integrated electric grid system. | Any excess electricity produced is constantly sold to local electric providers through the integrated electric grid system. | Assist in the reduction of energy crisis of Pakistan. Ensure optimum energy consumption by ensuring stable and constant generation. |
| Excess Heat Waste Utilization | We utilize all waste heat from the gas burning process by redirecting it to our chilling facilities. Furthermore, the steam created is used in our galvanizing process, thus eliminating the need for the gas fired burner that was used before. | Waste heat produced in the power generation process is further utilized to power a Steam Turbine Engine that produces an additional 1.2 Megawatts of energy. Moreover, the heat is captured for the heating and cooling operations of our offices at the factory site. | Reduction in external energy demands as air-conditioning and operational processes are powered without additional cost or the dependence on local electricity and gas. |



| Achievement | IIL | ISL | Benefit |
|--------------------------------|--|--|---|
| Effluent Water Treatment Plant | Treats contaminated water waste during our production stage. The water is treated and released into the sewage system. | Treats contaminated water waste during our production stage. The water is treated and released into the sewage system. | Treated water that is released into the local sewage systems is not harmful to local water bodies or biodiversity. |
| Fume Scrubbers | IIL has installed five fume scrubbers in factory for acid fume exhaust chimneys. | ISL has installed two fume scrubbers and chimneys in the factory for acid fume exhaust. | Fume Scrubbers are pollution control devices designed for the removal of industrial fumes and odors, particularly acid fumes, chemical fumes and toxic gasses. This ensures that we have decreased impacts from our industrial fumes. |
| Reverse Osmosis Plant | All water used for internal processes is filtered. | Ground water is used and passed through a Reverse Osmosis plant before use on factory premises. | There is Reduction in reliance on municipal water systems, thereby assisting in the reduction of water scarcity in Pakistan. Our employees benefit from higher water quality. |

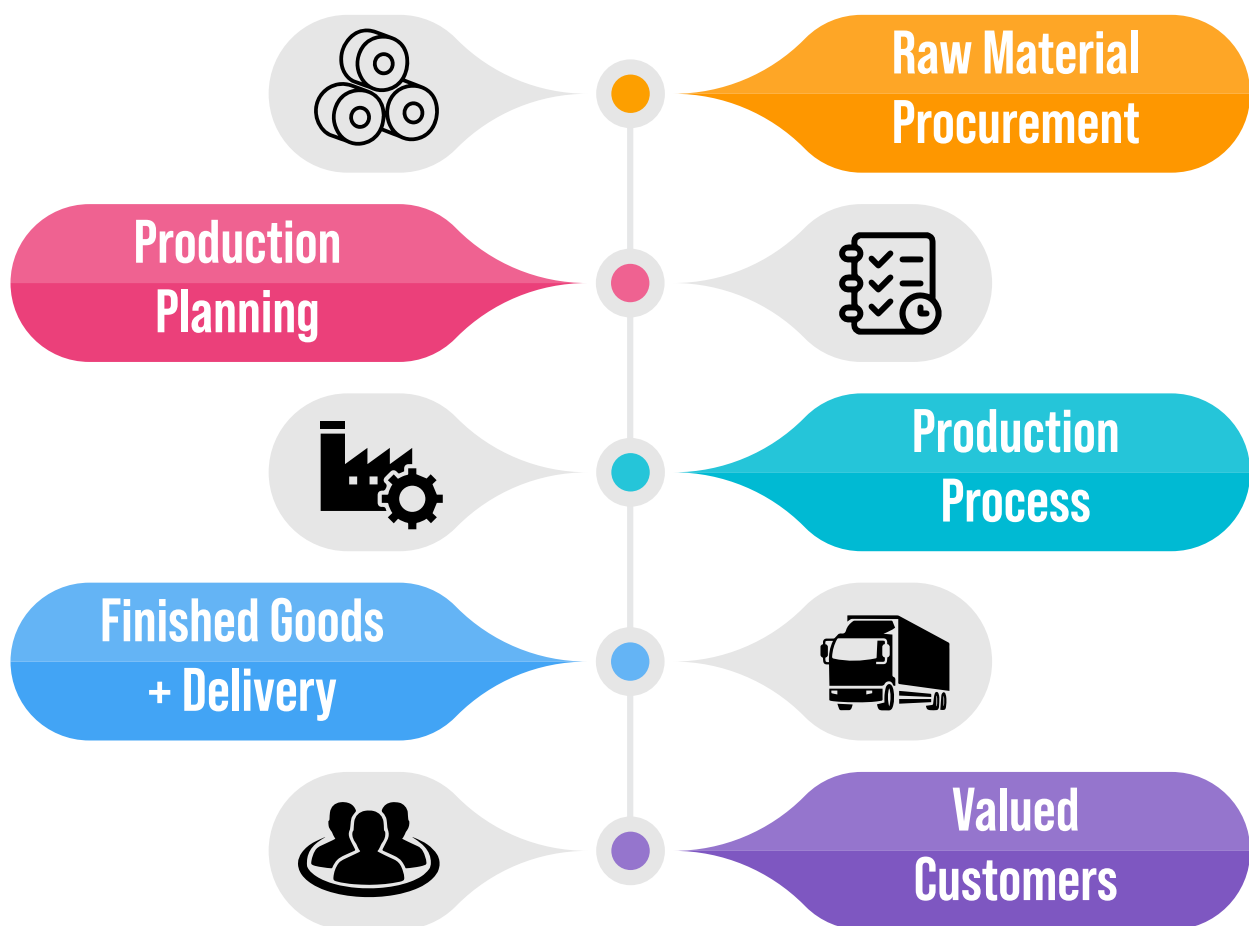
We believe these initiatives will not only help IIL and ISL improve its long-term sustainability, but will also position the company as a model corporate citizen that contributes to the nation and the environment at large.



Supply Chain

To sum up, we have a brief outline of production processes that will assist in the understanding of the types of energy and raw materials required and the waste that is generated and managed during the production process.

Both ISL and IIL have a similar supply chain process as illustrated below.



Raw Material and Energy Requirement

The main inputs required for the production process include raw materials such as steel (hot rolled coils) and varying strengths of hydrochloric acid to pickle and remove the rust from the steel coils. Furthermore, to analyse our environmental impact, our Group documents the use of natural resources and energy required.

The image below illustrates the total amount of each input utilized through the last fiscal year. The primary inputs for polymer pipe production are polyethylene & polypropylene. Both of which are 100% recycled in house.



Production Planning

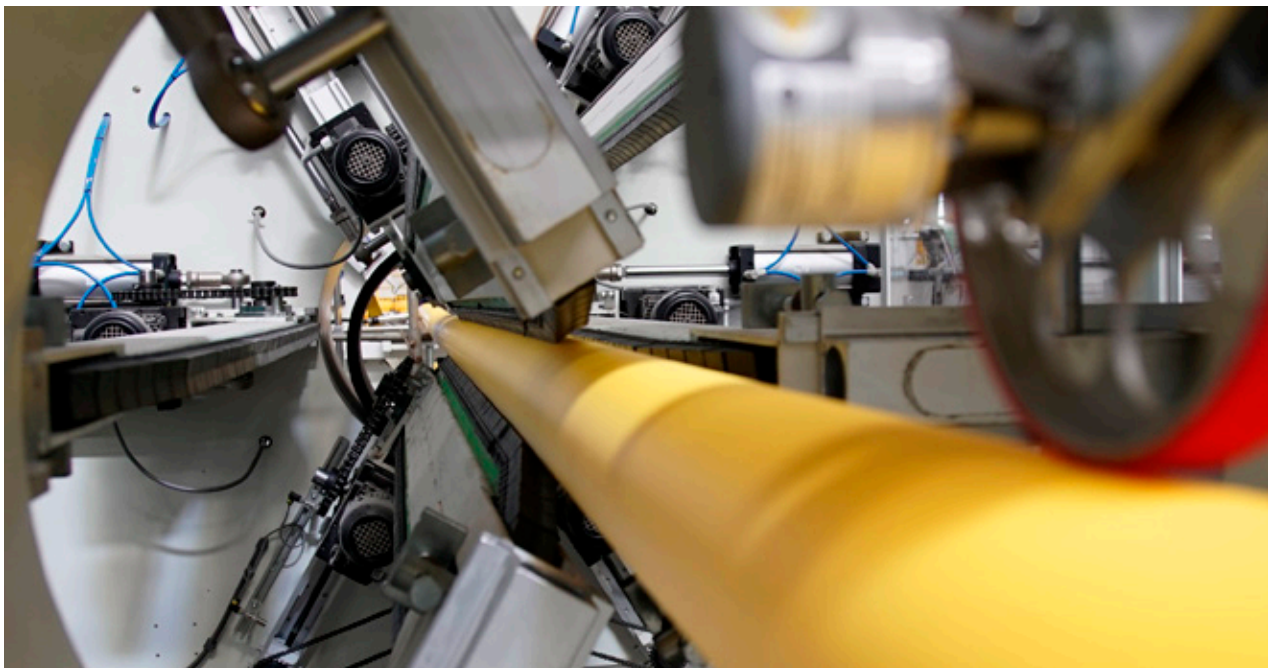
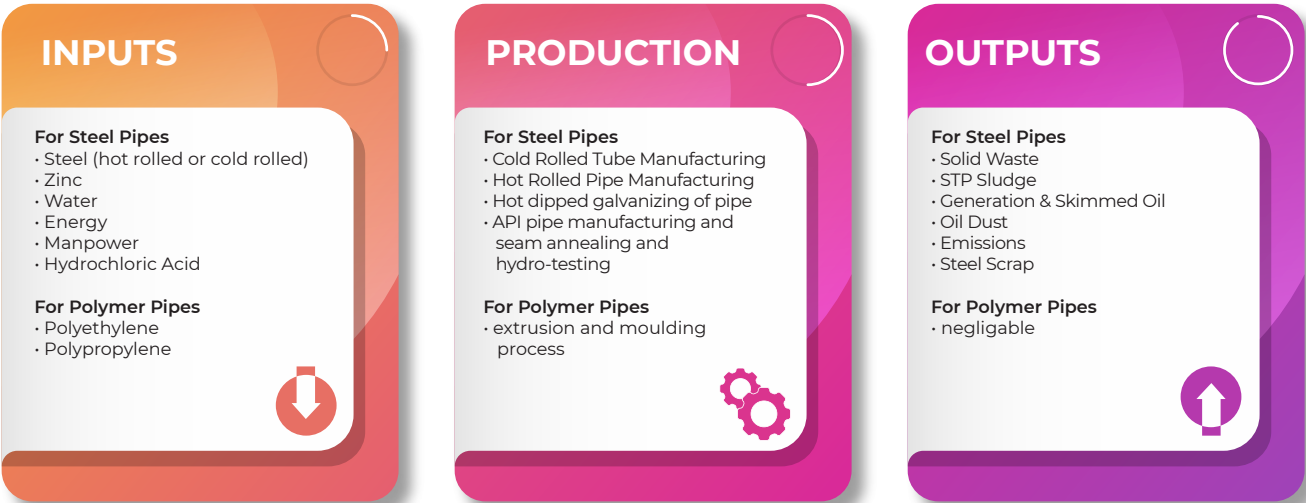
Our production planning and inventory control team are integrated with the sales, production, logistics and engineering teams for effective resource planning. Our objective is to optimize production, fulfil demand, and plan logistics and storage while minimizing wastage.

At IIL, our sales, supply chain, purchasing and production teams work closely to forecast raw material requirements. Monthly sales and operations meetings with departmental heads and staff are held to review current and future production needs.

At ISL, the marketing department creates a comprehensive marketing and sales plan. This report includes the financial and product demand forecasts which are then sent to the senior management for review and approval.

Production Process

International Industries Limited (IIL)



Production Process

International Steels Limited (ISL)

INPUTS

- Steel (Hot Rolled Coil)
- Water
- Energy
- Manpower
- Hydrochloric Acid
- Zinc



PRODUCTION

Main Processes

- Coil Pickling
- Cold Reduction Rolling
- Annealing
- Skin Pass and Tension Levelling
- Coil Galvanizing
- Color Coating
- Finished goods also go through service center to be customized based on customer requests.



OUTPUTS

- Noise
- Solid Waste
- STP Sludge
- Generation Oil
- Skimmed Oil
- Oil Dust
- Emissions
- Steel Scrap



Waste Management

As part of our belief in the concept of the circular economy, we intend to minimize our waste and maximize the recycling of our steel. Any by-products generated as a result of the manufacturing process are collected and disposed of in a responsible manner or sold.

The table below illustrates the types of wastes produced in the last fiscal year for both organizations. Furthermore, this table identifies when the waste is produced and how it is disposed off.

| Recycled Item | Action Taken |
|---------------------------------------|---|
| Steel | <p>Steel scrap remnants are collected throughout the production process and are recycled in multiple ways.</p> <p>Certain types of steel scrap are collected, compacted and sold to steel recyclers to make iron bars.</p> <p>Steel side cuttings are reused as bailing hoops in pipe bundles.</p> <p>Steel edge side cuttings are compacted & auctioned as steel scrap.</p> |
| Zinc | <p>IIL has installed a zinc reclamation unit through which all zinc by product is processed and recycled after ensuring zero generation of smoke and dust during the zinc recovery process, thereby decreasing the emission impact on the environment.</p> <p>Furthermore, zinc dross after filtering is sold to international and local parties for further recycling into red seal, a material additive for rubber tires.</p> <p>Zinc Oxide is sold as a raw material for manufacture of Zinc Phosphate fertilizer.</p> |
| Hydrochloric Acid | <p>Both IIL and ISL have setup effluent treatment plants (ETP's) that treat and neutralize hydrochloric acid before it is released into the drainage system.</p> <p>At ISL, 98% of our hydrochloric acid is regenerated and re-utilized in the pickling process. The remaining 2% neutralized in our effluent treatment plant (ETP).</p> <p>This ensures that we avoid water contamination, prevent diseases, and maintain the biodiversity in downstream waterways.</p> |
| Used Oil | Used oil is sold to re-cyclers and contractors |
| Solid Waste | Solid Waste sent to landfill site at Jam Chakro for disposal through EPA certified contractors |
| Effluent Treatment Plant Sludge Waste | ETP sludge sent to landfill site at Jam Chakro for disposal |
| Iron Oxide | Iron oxide is created as a by-product of the acid regeneration process, which is then sold to local and international buyers as a raw material for manufacture of red oxide paint. |

Note: The polymer pipe production process is more environmentally efficient and generate minimal wastage. Any polymer not utilized in the production stage is grinded and put back into the production process.

Finished Goods and Delivery

Our finished products also reflect the values of the circular economy. Both IIL and ISL create durable products that have an extended life in comparison to some of our competitors. This causes a reduction in the waste process through our product's lifetime.

An efficient supply chain network is required to help minimize our environmental impacts. Moreover, the delivery of items is an integral step to ensuring customer satisfaction. The final part of the supply chain ensures constant management of finished goods storage and delivery throughout Pakistan.

- In 2016, IIL created a warehouse in Sheikhpura for the storage and delivery to the northern areas of Pakistan. This decreased the lead time required to deliver our products and allowed us to optimize our deliveries to the North.
- In 2017, IIL continued to expand its Sheikhpura warehousing facility. Our Polymer Division was formally inaugurated this year in Sheikhpura and is capable of supplying all types of polymer pipes and fitting.
- ISL provides clear and effective methods of the safe transportation within all their product specifications and is shared with all their customers. Furthermore, as our customer base in Punjab increases, we are also looking to increase our warehousing facilities in the near future.



Environmental Compliance

IIL and ISL conduct internal and external checks to ensure that their environmental, health and safety and production processes are in line with international and national standards.

| Checks and Balance | Purpose | IIL | ISL |
|--|--|---|---|
| Quality Management Team | Internal IIL and ISL departments ensure that the organization follows international standardization of environmental benchmarks of the production process, along with product quality. | IIL adopts the precautionary approach to environmental or engineering issues by encouraging the use of corrective and preventative notification process | ISL adopts the precautionary approach to environmental or engineering issues by encouraging the use of corrective and preventative notification process |
| HSE Team | Internal IIL and ISL departments that ensure that the organization follows international and local standards of safety guidelines for employees whilst on factory floors. Furthermore, the HSE teams constantly monitor internal environmental impacts to ensure compliance with the requirements of governmental bodies such as the EPA Punjab and Sindh. | IIL conducts regular environmental audits of the factories and submits findings to regulatory and | ISL conducts regular environmental audits of the factories and submits |
| Pakistan Environmental Protection Agency | Local government authority that has defined acceptable limitations, the National Environmental Quality Standards (NEQS), on factory water quality, emissions discharged and waste from its production process. | IIL is compliant with all listed quality standards. Tests conducted in an in-house lab facility. | ISL is compliant with all listed quality standards. |
| M/S Lloyds | International, United Kingdom based, certification body that assures that the QA&HSE Management System complies with ISO 9001, ISO-14001 & OHSAS 18001 global standards / ISO 45001. | IIL is compliant with ISO 9001, ISO 14001, & ISO 45001. | ISL certification has been renewed therefore illustrating that no major non conformities were observed. |



Group corporate offices have also taken an initiative to reduce their environmental impact. Daily work processes utilize the Oracle E-Business Suite System, which increases efficiency and reduces unnecessary paper waste.

IIL & ISL have taken approval from shareholders to circulate Annual Reports in digital form, thereby reducing paper utilization and waste. Furthermore, the IIL Board of Directors have been provided with digital tablets in a move to become completely paperless.

Both IIL and ISL believe that greenery creates a healthy workspace and clean breathing spaces that is visually pleasant. Both organizations maintain a dedicated green belt outside their factories and have also ensured that greenery is planted at regular intervals all over the factory premises. All office locations are also characterized by plantations and greenery.

During the year, we have ensured to maintain the plantation and greenery within and outside of IIL Factory 1, 2 and 3 and Offices. We have also hired two gardeners for taking care of the plantation including trimming, watering, fumigation, and replacement of old and / or weary plants at IIL Factory 1, 2. In addition, as much as 250 plants of various species have been planted inside the Factory 3, in SKP and 150 plants inside the Factory 2, in Karachi.

Environmental Impact Goals

- Maximize our environmentally safe and compliant company operations including the conservation of natural resources and improving waste management.
- Achieve OHSE Excellence by continuing to increase interdepartmental communication of learning's and best practices. Our goal is to create a permanent cultural shift throughout all the tiers of our organization.
- To increase safety measures on our factory floors by developing & installing new safety signs and boards in multiple languages to further assist in the reduction of injuries.
- To reduce the level of noise pollution at our factories through various precautionary measures.
- To increase our environmental and technological efficiencies to further reduce our quality standards.
- Introduction and continual improvement in the reporting process of the 'near miss culture.
- Improvement and efficiency of reporting of minor incidents and accidents.



III. SOCIAL IMPACT



Social Impact

Our Group understands that our stakeholders are the foundation of our organization and that our social impact has an effect on our internal and external stakeholders. Our internal stakeholders consist of our employees. Our external stakeholders include our shareholders, partners, suppliers, customers, the communities in which we operate and society at large.

Internal Stakeholders

IIL and ISL recognize that in a talent rich, yet competitive, landscape our employees are amongst our greatest assets. Our Human Resources Department (HRD) works on implementing HR Related policies to ensure that our business objectives are met on a continuous basis.

| Head Count Statistics | IIL | ISL |
|---|-----|-----|
| Total Number of Employees* | 998 | 693 |
| Total Number of Senior Management / Leadership Staff | 21 | 15 |
| Total Number of Management Staff | 387 | 244 |
| Total Number of Non-Management Staff (factory workers and other assistants) | 562 | 400 |
| Apprentices | 49 | 34 |

*Please note that the total number of employees at IIL includes full time employees, apprentices and contractual employees. Furthermore, there are a few departments that provide shared services to both organizations. They include: Corporate and Legal Affairs, Business Planning, Information Technology, and Marketing and Administration.

Talent Acquisition

Our Group is driven by our ethical code of conduct that encourages a fair work place. Furthermore, we amended our recruitment policies in the last year to further promote gender, race, and religion-based discrimination.

The HRD has also aligned job specifications with the management to ensure transparency through the recruitment process and to decrease inefficiencies.

Diversity

As part of an industrial business, our head count has historically and culturally been predominantly male. It is more difficult to hire women in the factories due to the nature of the location, the limited access of public transportation for women and the governmental timing restriction of female-based factory workers.

- At IIL, the HRD has been strongly working on enhancing diversity and the 13 females on our team now make up 3% of our management staff. We continue to work towards hiring more women within our management and senior leadership team.
- At ISL, there are currently 14 female members in our team making up 5% of our management staff. We continue to work towards hiring more women within our management and senior leadership team.

| Female & Male Staff Statistics | IIL | ISL |
|--------------------------------|-----|-----|
| Female (Senior Leadership) | 1 | 0 |
| Female (Management Staff) | 12 | 13 |
| Male (Senior Leadership) | 20 | 15 |
| Male (Management Staff) | 375 | 231 |

Our Group promotes the hiring and retention of injured employees in the organization. Currently at IIL, there are a total of 17 disabled people listed in the organization. At ISL, our head count consists of one disabled employee.

IIL and ISL's HRD works to attract and retain employees of all ages within our organizations. The workforce of IIL and ISL is comprised of talent that is mostly below the age of 35 as the table below illustrates.

| Age Statistics | IIL | ISL |
|---------------------------|-----|-----|
| 25 and below | 66 | 104 |
| 26 - 35 years | 387 | 369 |
| 36 - 45 years | 289 | 149 |
| 46 - 55 years | 169 | 53 |
| 56 years > Retirement age | 81 | 18 |

Compensation and Benefits

The IIL and ISL recruitment process seeks to attract and retain the best talent in the market. Our team is comprised of talented people where each individual adds value to our organization. Our benefits strategy is aligned to not only attract talent, but to also ensure long-term retention.

Our compensation includes provident and gratuity funds in addition to our comprehensive health plan, life insurance, mobile phone, transport and fuel allowances. We also ensure that our employment terms include generous leave allowances, flexible timings and other benefits including both retirement benefits of Provident fund and gratuity.

Apart from our traditional compensation and benefits policies, IIL takes a further initiative in assisting their factory staff. For example, IIL assists in the purchasing of basic electrical needs (such as a fridge) that can be paid back in instalments. Employees may also take a 10,000 Pakistani Rupee Loan from a fund, which is managed by the Unions and IIL, and pay them back in 10 monthly instalments. In certain instances, the organization financially supports the worker or family in extreme times of duress. Our organization's donation policies are aligned with our concern for our employees. Our positive compensation and benefits plans are reflected by the loyalty of our employees of our organization. Currently there are 178 dedicated team members that have fulfilled more than 25 years of service at IIL.

Both IIL and ISL ensure they pay fair wages based on local benchmarks. In order to monitor the same, we have identified and set our benchmark Comparator companies and regularly carries out Salary surveys. This year we hired the international human resources consulting firm, Mercer to conduct a salary survey and were able to make salary adjustments based on the survey results.

Our Group also believes in the fair compensation of our contract workers. Currently IIL and ISL employ approximately 800 contract workers who receive minimum wages, medical registration and insurance. Furthermore, they are eligible for the Workers Profit Participation Fund. This highlights the fact that our responsibility lies equally for all our stakeholders.

Employee Engagement

Our HRD is truly focused on ensuring that our employees are assimilated in our culture.

Our Group regularly organizes team events for management staff and their families in Karachi, Lahore and Islamabad.

- Employee theatre nights
- Employee picnics
- Family outings
- 14 August celebration
- Growth Celebration event
- Managers dinners
- Participation in Group Cricket Tournament
- 70th year celebration events
- Distribution of helmets & wristwatches to all employees

- Special attention has been given to improving the work spaces of the IIL head office and factory in the past year. The increasing demands of the business required our head count to increase significantly in the past few years. IIL acquired additional office space to create open and healthy working environments. Canteen areas were improved in the North Office and gym facilities are present in our Factory 1.
- ISL has a fully-equipped gym at its factory for employee use.
- HR teams at both organizations conduct anonymous employee surveys. Once completed, the HR team does thorough subjective and objective assessment to create a presentation with the survey results. The HR team holds department wise meetings in which positive and negative feedback of the employees is discussed and corrective action taken accordingly.

Health and Safety

The health and safety of our employees is of massive significance to us. We are responsible for providing a healthy and injury free environment for our employees and contractors and both IIL and ISL strives to achieve this through our OHSE Management System (Occupational Health Safety and Environment System) that is implemented by the HSE Department.

Through this program, we have set reporting parameters that minimize the impact of behaviours that could lead to unfavourable events. Our HSE program also enhances the sense of responsibility for keeping the workplace safe and with minimal or no hazards. For example, the team has created signage that includes large clear illustrations that are placed throughout the factory floor. Employees are additionally enforced to wear personal protective equipment such as safety gloves, safety goggles and ear protectors and are required to walk along designated safety pathways in the factory premises. A factory-based employee doing specialized tasks can only conduct their task if they receive 'permits to work' to ensure they are knowledgeable of the task, controls and hazards that come with the job.



Our HSE departments at IIL and ISL have created several unique incentive programs that have encouraged the implementation and understanding of such practices. Here are some of the traditional and creative ways to how we promote such activities:

Implementation of a Safety Award System where 10,000 Pakistani Rupees is awarded to employees that give suggestions for improvement, take ownership of their work and identify potential risks by taking a precautionary approach.

- Development of a 'Fresh Eye Observation' program, in which the management conduct regular site visits and collaborate with the local teams to observe safety issues and concerns. When safety issues and work behaviour is acknowledged, the management rewards and commends those relevant team members.
- Conducting of a monthly Safety Appraisal of contractors to ensure their HSE activities are aligned with IIL's.
- Involvement of Senior Management through monthly safety presentations. Visibility of the leadership instills a sense of Health and Safety's significance.
- Facilitation of Personal Protective Equipment within the factory staff through policies that enforce the employees to wear protective gear to ensure safety while our factory workers handle molten metal, electric wires and other chemical substances and gases.
- For creating HSE awareness, Company organized guest speaker sessions at Factory auditorium.

Trainings

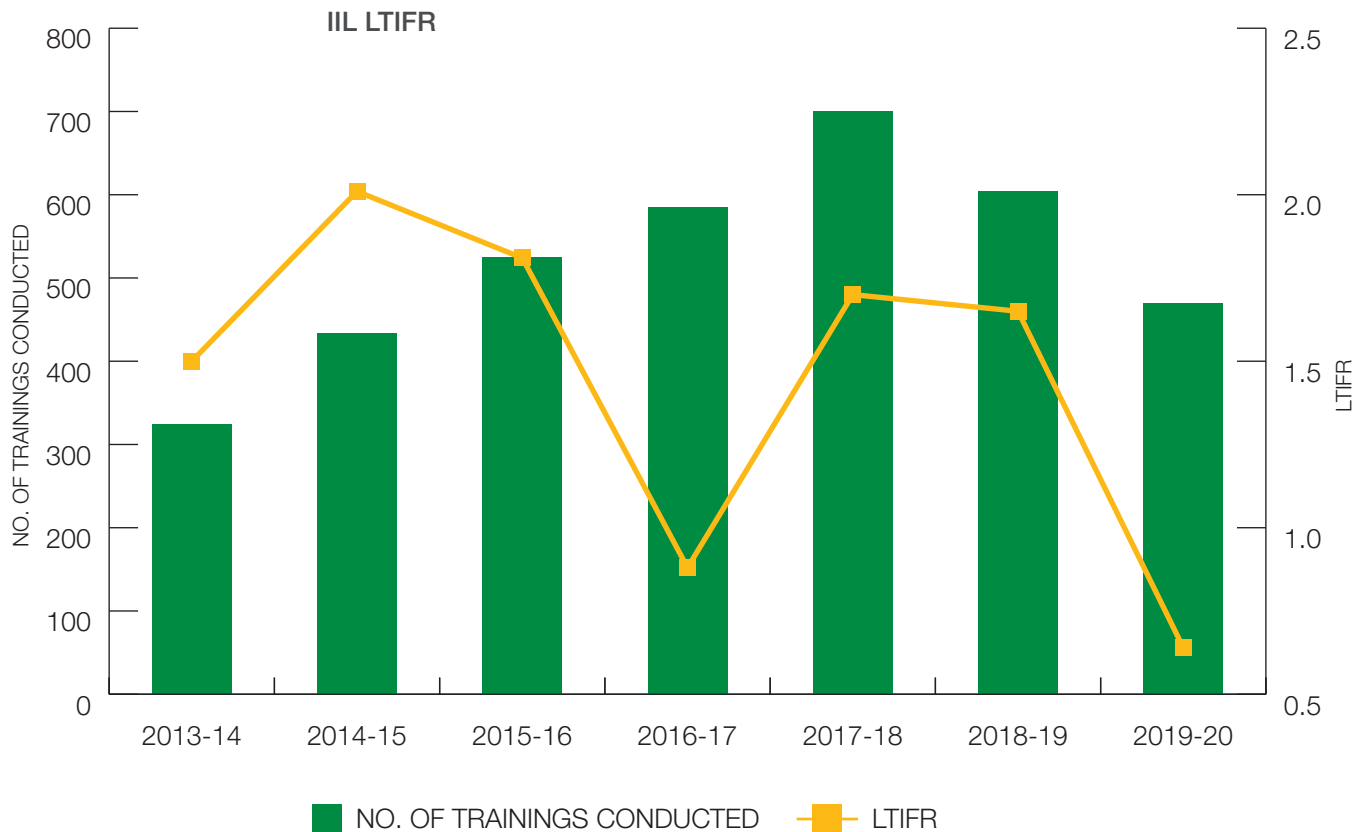
Preventative action is the core essence of safety and helps ensure that factory floor injuries do not occur or are kept to a minimum. Preventative action can be achieved by training our employees about Health and Safety rules and measures. Because of its significance, basic safety induction is mandatory for all new hires in their local languages.

IIL

During the year 2019-20, over 35 in-house sessions were conducted for 735 employees on various technical topics. In 2019-2020 at IIL, 47 employees attend external Trainings at LUMS, PBC, MAP, Civil Defence School, TUV Austria, SGS, Habib University.

During the year our employees were imparted a total of 470 health & safety trainings. OHSE trainings included COVID-19 Precautions, Safe Crane Operations, Hands Safety, Fire Fighting Operations, Permit to Work System, Industrial Hazards, First Aid & Rescue, Defensive Driving, Electric Safety and Working at Heights.

As a result, our Lost Time Incidents Frequency Rate or (LTIFR) was 0.64 per one million worked hours. LTIFR is the number of lost time incidents occurring in a workplace per 1 million man-hours worked.

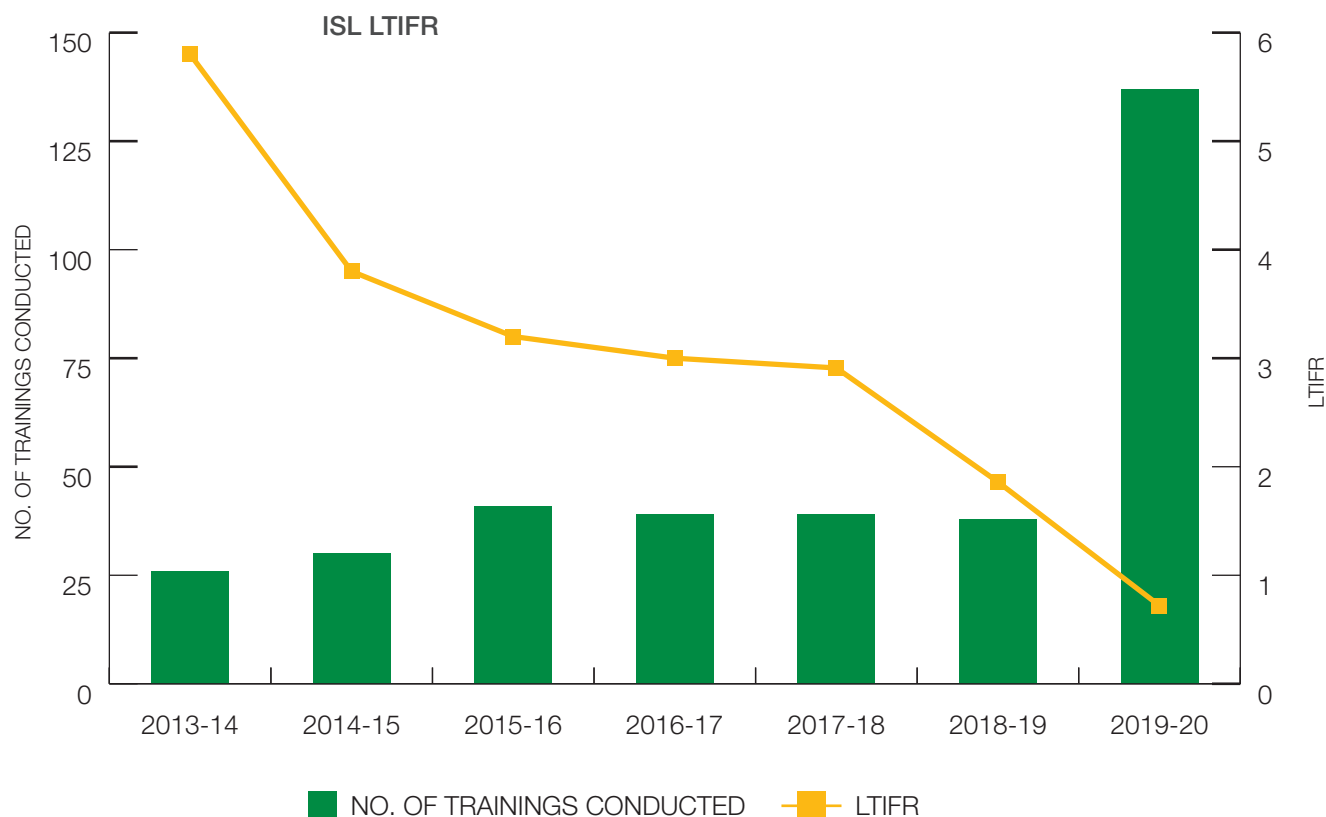


| Year | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|--|---------|---------|---------|---------|---------|---------|---------|
| No. of Trainings | 324 | 434 | 525 | 585 | 700 | 604 | 470 |
| Lost time incident frequency rate per one million worked hours | 1.50 | 2.01 | 1.81 | 0.88 | 1.70 | 1.65 | 0.64 |

ISL

ISL is developing their training strategy so that more employees of all levels can benefit from developmental, safety and technical trainings.

The HSE department have further increased the hours of training given to their factory staff; in the last fiscal year the HSE team conducted 517 hours of training. Out of 517, 401 hours were provided externally while 116 were provided internally. Below is a graphical illustration of the lost time incident frequency rates, and how they have declined in the last 5 years by more than half.



| Year | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|--|---------|---------|---------|---------|---------|---------|---------|
| No. of Trainings | 26 | 30 | 41 | 39 | 39 | 38 | 137 |
| Lost time incident frequency rate per one million worked hours | 5.80 | 3.80 | 3.20 | 3.00 | 2.91 | 1.86 | 0.72 |



Right to Collective Bargaining

At IIL, every two years, our Management and 3 different unions enter bilateral negotiations on Charters of Demands raised by both parties. Additionally, we have a dedicated Industrial Relations Manager that is constantly in communication with the unions for any normative or urgent actions.

At ISL, we do not have any union representations. However, ISL employees receive increments that are benchmarked to IIL union negotiations.

External Stakeholders

Our external stakeholders consist of a wide array of groups that affect the business. The government, competitors, media, suppliers, contractors and most significantly our customers are integral and valued members of society that we are liable to.

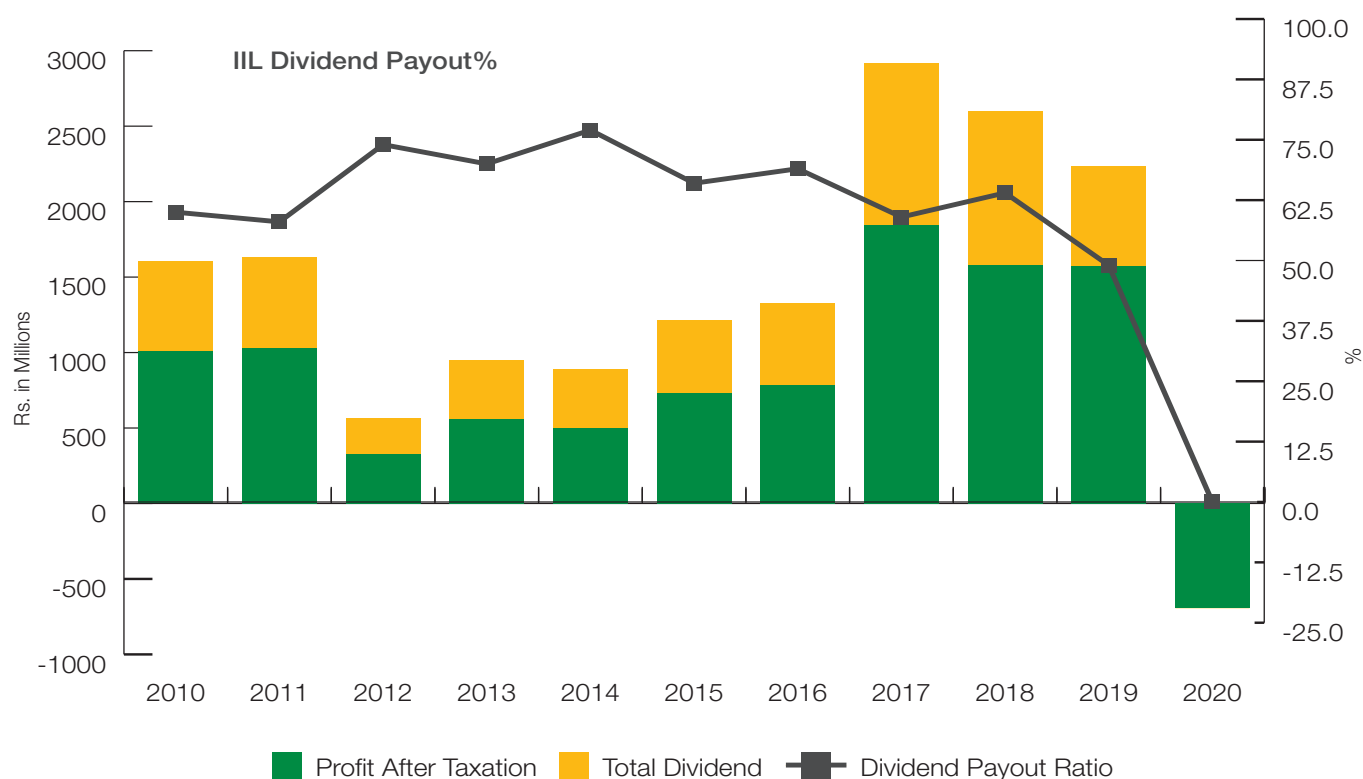
Customers

Our Group has implemented several protection measures for our esteemed customers. Our marketing team has created thorough and clear literature regarding all the product information. We highlight all product specifications, including the variety of the product, and the quality certifications that each product has received. Our organizations support price transparency by providing a single yet comprehensive country price list that is shared with all our customers. Furthermore, all our customers have access to our regional offices throughout the country to ensure timely feedback for any purchase follow up or concerns. Currently, we are in the process of establishing dedicated customer service centers for our polymer division, but foresee this for all our product lists.

Shareholders

We aspire to be better corporate citizens for our valued shareholders. Our group distributes the dividend payouts to our shareholders regularly. This is a testimony of our belief to ensure a fair return is given to our shareholders for more information on shareholder information please review the annual report.

The below table illustrates our ten year record of our dividend payouts and our profits after tax.



Suppliers

We believe that our strategic partners in the business can also play a role in our efforts to be responsible citizens. IIL has developed a supplier/contractor management procedure which is implemented and maintained. This procedure defines the selection criteria of contractor and ensures the Health and Safety protocol for onsite contractors and drivers.

Society

As a responsible corporation, we believe that we have an obligation to assist our local communities. Our corporate culture is driven by the inclinations of our founder, Mr. Amir S. Chinoy, towards being a strong supporter of the local community. Both IIL and ISL have integrated our responsibility in our donation policies in which charitable donations are made either directly through the organization or through the Amir Sultan Chinoy Foundation (ASCF).

| | IIL | ISL |
|--|---|---|
| Donation Policy | IIL donates around 2.5 % of its Profits (after tax and dividend income) towards social causes every year. | ISL donates around 1.5 % of its (after tax and dividend income) towards social causes every year. |
| Total Amount of Donations in Pakistani Rupees in the last year | 2.35 Million | 19.2 Million |

ISL is still a young organization, and as it expands, it will work towards its pledge of donating 2.5% of its profits like IIL.

Donations Auditing: Our external auditors, KPMG, verify that our policies reflect the 'Code of Corporate Governance' by the Pakistan Stock Exchange. As a result, our policy and our donation values are audited by KPMG, a globally renowned auditing and consulting organization

Our focus areas for donations are mostly on: Education, Health and Charity. Following is an overview of some of the initiatives in the past few years.

In line with Prime Minister's Naya Pakistan Housing initiative of providing affordable housing to low-income segment, IIL pro-actively constructed multiple model houses, released a complete architectural plan along with a transparent cost structure in order to engage the public and concerned ministries. Under this scheme individual houses can be constructed in a little as 10 days.

Furthermore, IIL in collaboration with Institute of Architects Pakistan (IAP), Karachi, organized an 'Affordable Housing Design Competition' which saw participation from the country's eminent Architects as well as student architects from various institutes. The designs were judged by a panel of expert jury members who decided the winners for each category.



Health

Health is the basic foundation of all life. As a responsible corporate citizen, we recognize that there are limitations for underprivileged members of society and their reach to quality healthcare. Our donation policy supports the provision of health care in areas of need and the funding healthcare institutions.

- 2009 – The Group funded the construction of an ambulance station with Chippa and funded 4 ambulances strategically located outside the Social Security Hospital in Landhi. This area is also located very close the IIL Factory 1 in the industrial area Landhi where there was a need for immediate health care, especially in an area where work injuries have a high probability to occur.
- 2010 – In continued support of the Health Sector in the Landhi industrial area the Group funded another Ambulance station and a further 6 ambulances were donated to Chippa Welfare Association. This ambulance station is located at the heart of Landhi at the Dawood Roundabout, which is very close to IIL Factory 2 and ISL factory 1.
- 2010 – The Group made a substantial contribution towards the “Amir Sultan Chinoy Chair” at the Aga Khan University Hospital in Karachi - a permanent endowment fund.
- 2016 – Most recently, IIL and ISL partnered with SINA Clinic to create a health clinic in Landhi. Moreover, both organizations are providing the clinic's operational costs. This is a significant achievement in this area, as it benefits several members of the society there at nominal costs. As it is located at a close proximity to our factory 1, our factory workers are also able to reap the benefit of this clinic. In its first year of operation the clinic served 25,890 adults and children which is a remarkable figure, out of which 460 patients were from our factories.
- 2018 – The Group continues to provide for the SINA clinic's operational costs, in the last quarter only the clinic served 8,790 adults and children which is a remarkable figure.
- 2018 - IIL has contributed completely free of cost structures to the Indus hospital and Jinnah Medical Center in Karachi.
- Other notable organizations we have donated to include: Al-Rehmat Benevolent Trust Hospital, Bait-ul-Sukoon Cancer Hospital & Hospice, Sindh Institute of Urology and Transplantation (SIUT), Lahore Hospital Welfare Society, Indus Hospital, Anjuman Kashan-e-Atfal-o-Naunihaal, Hyderabad Relief & Rehabilitation Trust and Marie Adelaide Leprosy Centre.
- 2019 – IIL & ISL have donated to, the Bait-ul-Sukoon Cancer Hospital, Karwan-e-Hayat Institute for Mental Health Care, LRBT, SIUT Hyderabad Relief & Rehabilitation Trust, Al-Rehmat Benevolent Trust, LATI, Amir Sultan Chinoy Foundation, and Cancer Care Hospital during the year. Our pledge to bear the operating costs for SINA Clinic in Landhi continue.



Education

Our Group believes that if health care is the basic foundation of life, then education is the essential building blocks for a more successful life. Within our donation policy, we ensure to support the education of the underprivileged, higher education and arts programs. Through our various programs in the last decade over 11,000 children have gained a higher quality of education.

Education for the Underprivileged

- 1998 – In our first collaboration with The Citizens Foundation (TCF), we set up the IIL Chinoy Campus at Juma Himayati Goth School at Landhi. TCF is a leading organization that assists children from less privileged areas to get an education. In the TCF – IIL School, children are given a high quality of education along with an emphasis on personal and moral traits. Furthermore, the curriculum promotes not only theoretical learning, but promotes a well-balanced learning experience through art, sport and other creative activities. In 2003 the school started operating in the afternoon shift as well. We have been maintaining the operational expenses of this school since inception and currently the school has an operational capacity utilization of 104%. Just in the last year, we had almost 400 students attend primary education at the TCF Chinoy campus. So far over 5,500 students have been educated at this campus.
- 2003 – Our focus is not only on external stakeholders but our internal members of our team as well. IIL had an in-house adult education program that assisted in improving the reading and writing skills. Furthermore, IIL collaborated with the non-governmental organization, Literate Pakistan, where we provide education at a free cost to older members of society that are not literate. Through this program, over a 100 of our workers have increased their literacy proficiency at varying degrees.
- 2004 – In a second partnership, the TCF IIL Campus was set up across the road from IIL factory 1. The operational capacity of this campus was doubled in 2006 from 180 to 360 students. In 2009 Secondary classes were started in the same campus in the afternoon shift with an operational capacity of 216 students. Our group has been fully maintaining the operational expenses of this school since inception. The operational capacity utilization of this school, which is now operating in 2 shifts, is over 100%. Just in the last year, almost 400 children have been undergoing primary education while over 200 students have got secondary education at this campus. To date almost 6,000 have been educated at this campus. Many students succeed and become lifelines for their families. A success story of a student that graduated from the IIL campus has been accepted at the Leading business school in Karachi, Institute of Business Management (IBA), a true testament to forward thinking progression.
- 2007 – The Group has been sponsoring the IIL scholarship at NED University of Engineering and Technology. Every year, 50 students receive funding for their education.
- 2018 – IIL completed an entirely free of cost structure for a 'school under the bridge' built for underprivileged children in Karachi.
- 2019 – The Group made donations to The Professional Education Foundation, NED University of Engineering & Technology, Hunar Foundation, and The Indus Valley School of Art & Architecture. Our pledge to fund the operating expenses of two TCF school campuses continue.



Vocational Training

- 1995 – The Group is a strong advocate of the Apprentice training Program and over the years over 1500 persons have gone through our apprentice training of which over 50% are currently employed with us on a full time basis.
- 2014 – The Group sponsored the Amir S Chinoy Amphitheatre at the IBA main campus student's center.
- 2016 – IIL also strongly believes in the learning of technical skills. For example, in IIL hosted factory visits for Aman Institute for Vocational Training (AMANTECH) students. These students consist of underserved members of society that are seeking to get employed and trained into productive members of the society. Another example, IIL regularly conducts training seminars for plumbers to improve their technical skills.

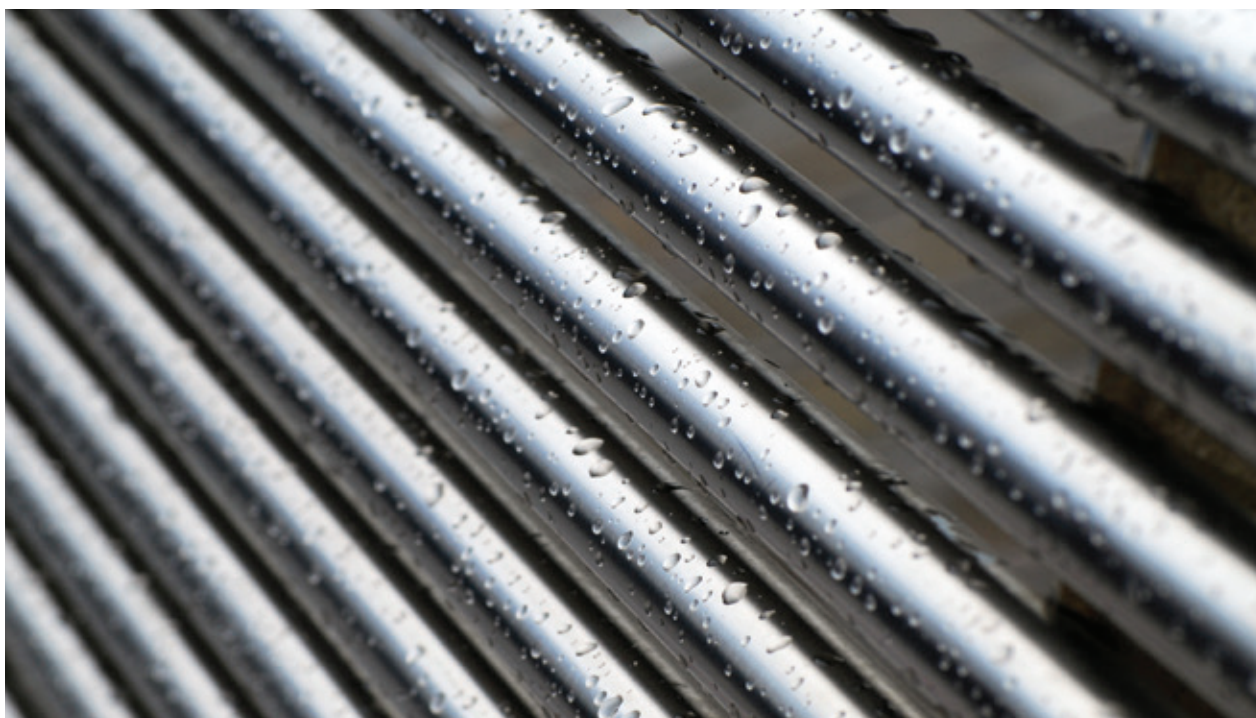


- 2017 – As transportation is an integral part of safe supply chain practice, the IIL HSE department arranged for an in-house road safety training conducted by Motorway police. The training session was attended by approximately 25 drivers who were given awareness and details about basic road safety, traffic sign, traffic laws and regulations, safety, vehicles and passengers and emergency situations.
- 2018 – Hunar Foundation is one of Pakistan's foremost technical & vocational training institutes. IIL recently contributed a structure using its Hollow Structural Sections (HSS) to one of Hunar Foundation's initiatives.
- 2019 – The Group continued their support of the development of vocational training and skill-development in Pakistan. Contribution to the Hunar Foundation were made in this regard.

Art and Architectural Community

- 2005 – The Group has also sponsored the Amir Sultan Chinoy Gallery at the Mohatta Palace museum in Karachi.
- 2012 – The Group has sponsored in 2011 an IIL Art Room at the Indus Valley School of Architecture.
- 2016 – We believe in also focusing our efforts in the development of future architects of Pakistan as they are the main planners of our country. IIL sponsored a NED University of Technology and Engineering - UET University of Engineering and Technology (UET) architectural student's workshops. These workshops consisted of regeneration projects and workshops for local areas of Pakistan.
- 2017 – IIL and ISL jointly sponsored the NED architectural student's annual theatre play "Hayat E Hyacinth" held at the NED City campus.

- 2017 – ISL pioneered its “Artist in Residency” program which looks to incubate and promote emerging Pakistani artists.
- 2017 – IIL is currently in the process of constructing the IAP House Karachi as a donation for the architectural.
- 2018 – IIL sponsored a 10-day Architectural study visit to Gilgit Baltistan by the students of NED-UET, jointly organized by the Dept. of Architecture, Hazara University Manshera and Dept. of Architecture, NED University, developing hands on and practical experience of vernacular building techniques by visiting various historic sites including Chillas, Phunder Valley, Gilgit, Altit and Baltit Fort in Hunza.
- 2018 – IIL sponsored this year’s edition of the ASB and recognized the “Emerging Architects of Pakistan” – those 16 young Architects that are making a noticeable impact on the landscape of the country. The ASB is Pakistan’s leading directory for construction materials and is widely used by Architect and industry professionals across the country.
- 2018 – Group sponsored a commemorative evening organized and hosted by Architecture Design Art (ADA) magazine to honor the larger than life, late Mr. Habib Fida Ali at his residence, in Karachi. The elegant event included touching tributes by his friends, family, colleagues and professional acquaintances including Mr. Towfiq Chinoy. Each guest received a stainless-steel candle stand made from IIL’s stainless steel tubes as a symbolic tribute to HFA.
- 2018 – IIL has entered into a Memorandum of Understanding with the Institute of Architects Pakistan (IAP) – Karachi Chapter to construct an auditorium + two floors of office space using IIL’s Hollow Structural Sections (HSS).
- 2018 – IIL was the “Construction Partner” for the Pakistan’s first ever Pavilion at the world renowned Venice Biennale 2018 held in Venice, Italy. The Pakistan Pavilion was designed by a team of young Pakistani Architects and constructed using IIL’s square tubes.
- 2019 – The Group continued to support the art and architectural community through partnerships with the ADA Awards, donations, and regular events. In 2018, ISL’s Artists in Residence was also presented “Award of Recognition”. by European Union Parliament Brussels, Belgium. ISL’s efforts were recognized by the Italian President H.E. Mr. Sergio Mattarella, Italian Ministry of Cultural Heritage and Tourism, H.E. Mr. Dario Franceschini, the European Parliament members and several participating companies.





Social Welfare

The wellbeing of our society at large is also of great significance to us. Our donations are geared towards development of rural or local communities.

- 2002 – Our group constructed the Siddiqia Mosque for the ease of our and neighbouring factory workers to perform prayers. It is located close to the Factory 1, IIL TCF School, and the Sina Clinic to help facilitate the community. We have been expanding this mosque continuously over the years and currently it has a capacity of accommodating over 1500 worshippers simultaneously.
- 2008 – IIL has constructed numerous bus stops in Landhi and Korangi to provide relief to local residents and day travellers.
- 2015 – IIL installed a pipes sculpture at Pur Sukoon Chowk in Kharadar as part of an initiative to revamp the dilapidated surroundings of the Customs House and Karachi Port Trust buildings.
- 2016 – In partnership with students from IBA, IIL and ISL funded and helped install a water hand pump in a deserted part of Tharparkar, Sindh. This project provided clean water to 20 local households and approximately 150 people in an underprivileged community with limited access to water. The installation of three more hand pumps is currently underway.
- 2017 – IIL is currently in the process of constructing the IAP House Karachi as a donation for the architectural community in Pakistan.
- 2018 – IIL constructed a shed for The Society for Rehabilitation of Special Children. This shed was built using IIL Hollow Structural Sections (HSS) and provided the children with a safe play and learning area.
- 2018 – IIL constructed a free-of-cost office administration and patient area for the 'Recovery House' (a mental illness rehab center of Caravan of Life Trust Pakistan) using its Hollow Structural Sections (HSS)
- 2019 – The Group contributed to various organizations for social and humanitarian causes including, Rotary Club of Karachi Continental Trust, Rotary Club of Karsaz, Indus Earth Trust, Center for Development of Social Services, The Karachi Conferences Foundation for General Public, Anjuman-e-Kashana-e-Atfal-o-Nauniha, CPLC, WWF Pakistan and Amir Sultan Chinoy Foundation.

Prevention of Unethical Activities

As part of the organization's policy and code of conduct, we are strong supporters of an ethical workplace and work processes. IIL has implemented several policies to protect its financial and intellectual policies. Furthermore, the approval design framework in IIL also inhibits the intention for the mishandling of financial checks for example. The management is also deeply involved in daily business processes that as a result discourages any negative actions that may impact the organization.

Both IIL and ISL are strong supporters of human rights. We do not permit the use of child or forced labours in any of our factories. We validate all new hires ages through their government records and ensure fair pay practices to all the employees in the organization.

Social Impact Goals

- Introduce tangible and measurable KPIs department and individual-wise. This will ensure that our internal efforts are even further aligned with the organization's objectives.
- Implement a stronger training program that expands beyond technical training into personal and career development.
- Develop internal communication mechanisms to further drive the goal of the organization.
- Improve long term employee retention by continuing to cultivate a positive culture and implement policies.
- Increase the number of hours of Health and Safety training required.
- Externally, we would like to diversify and increase the reach of our donations to more people in need.





Investment Strength, Corporate Governance, Environment and Social Grading Report

International Industries Limited (IIL)



Promising Reliability, For Now and Tomorrow

Report Date: November 12, 2019
Analyst(s): Mr. Aarsal Ayub, CFA (VIS), Mr. Lingxuan Du (CCXI)

Company Status: Listed on Pakistan Stock Exchange.
External Auditors: M/s KPMG Taseer Hadi & Company.

Major Shareholders (>5%): Chinoy Family – 49.6%
Chairman: Mr. Mustapha A. Chinoy
CEO: Mr. Riyaz T. Chinoy

Locations: Head Office (Karachi), 5 Representative
Offices: (Lahore, Islamabad, Multan, Faisalabad & Peshawar)
and 3 Factories (Karachi [2] & Lahore)

Credit Ratings: AA-/A-1 by VIS (Reaffirmed on June 21, 2019)
Pakistan Country Risk Scoring: Country Risk Report
Along the Belt And Road, Published 2017 – CCXI & VIS.



A joint product by:

- VIS Credit Rating Company Limited;
- China Chengxin International Credit Rating Company Limited;
- Islamic International Rating Agency;
- Rating-Agentur Expert RA GmbH



Investment Strength, Corporate Governance, Environment and Social Grading Report

INTERNATIONAL INDUSTRIES LIMITED

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GRADING RATIONALE

ISG-ES GRADING

| |
|---|
| ISG-ES 1 Very Strong Investment Prospects |
| ISG-ES 2 Strong Investment Prospects |
| ISG-ES 3 Good Investment Prospects |
| ISG-ES 4 Medium Investment Prospects |
| ISG-ES 5 Weak Investment Prospects |

INVESTMENT STRENGTH (IS)

| Investment Strength | Very Strong | Strong | Good | Medium | Low |
|------------------------|-------------|--------|----------|----------|------|
| Business/Economic Risk | Very Low | Low | Moderate | Medium | High |
| Industry Risk | Very Low | Low | Moderate | Medium | High |
| Corporate Positioning | Very Strong | Strong | Sound | Adequate | Weak |
| Financial Performance | Very Strong | Strong | Sound | Adequate | Weak |

- IIL's IS Grading has been assessed as 'Strong'. The Grading is particularly supported by IIL's corporate positioning, which takes into account the Company's dominant market positioning and prominent brand recall relative to other domestic producers. Furthermore, IIL's strong financial performance over the years has translated in relatively higher wealth generation for investor's vis-à-vis other companies in the industry.
- IS Grading is constrained by the business/economic and industry risk factors.

CORPORATE GOVERNANCE (CG)

| | | | | | |
|----------------------|-------------|--------|-------|----------|------|
| Corporate Governance | Very Strong | Strong | Sound | Adequate | Weak |
|----------------------|-------------|--------|-------|----------|------|

- IIL's CG Grading is supported by a well-defined regulatory framework for governance and overall Board operations, which are generally in line with best practices.
- Some areas for improvement are there, including Board & Board Committee compositions, which may benefit by further alignment with best practices. Additional areas of improvement have been outlined in the detailed report.

ENVIRONMENTAL ACCOUNTABILITY (EA)

| | | | | | |
|------------------------------|-----------|------|------|--------|-----|
| Environmental Accountability | Very High | High | Good | Medium | Low |
|------------------------------|-----------|------|------|--------|-----|

- From an EA standpoint, IIL is an industry trendsetter. The numerous initiatives taken by the Company to limit greenhouse gas emissions, optimize water usage and streamline waste management, elevate IIL's EA score.
- The EA Score is limited by the general dynamics of steel production. Grading may also benefit by standardizing the carbon emissions disclosures.

SOCIAL RESPONSIBILITY (SR)

| | | | | | |
|-----------------------|-------------|--------|-------|----------|------|
| Social Responsibility | Very Strong | Strong | Sound | Adequate | Weak |
|-----------------------|-------------|--------|-------|----------|------|

- IIL's 'Strong' Grading for SR takes into account the inclusion of social contribution as a policy measure. Employee remuneration practices are superior to market norms while overall health & safety record compares favorably to peers, with several internationally recognized accreditations. Grading is further supported by the emphasis on Learning & Development, superior transparency and a well-defined policy framework.

CORPORATE PROFILE

With top line revenues of roughly ~USD 160mn, International Industries Limited ('IIL' or 'the Company') can be classified as a medium-large Company in the domestic context. Having been incorporated in 1948, and listed on the Pakistan Stock Exchange in 1984, IIL is a vertically integrated manufacturer of steel and polymer pipes & fittings, with an annual pipe manufacturing capacity of 817,000 MTs. The Company's product suite includes Steel Pipes & Tubes, Hollow Structural Sections (HSS), Profiles, Galvanized Iron (GI) Pipes, Stainless Steel Pipes and Polymer Pipes & Fittings. The Company is headquartered in Karachi, and has 3 manufacturing facilities, 2 in Karachi and 1 in Sheikhpura. In addition, IIL also has sales offices in 5 major cities including Lahore, Islamabad, Faisalabad, Peshawar and Multan.

Besides its principle business, IIL holds strategic stake in International Steel Limited (ISL) and Pakistan Cables Limited (PCL), which are owned to the extent of 56% and 17% respectively. Both entities are listed on Pakistan Stock Exchange. The investment in ISL is relatively more significant to IIL's operations, as dividends from ISL constitute a sizable proportion of IIL's income, having averaged 40% of pre-tax profit during the 3 year period (FY17-FY19). At book value, the investment in ISL constitutes three-quarters of the investment portfolio – which in itself comprises 13% of the Company's asset base – while its market value is about 4x of book value. The remaining one-quarter of the portfolio mainly includes stake in PCL, wherein the market value is equal to book value.

ISL: Incorporated in 2007, ISL is Pakistan's premium producer of flat steel products with an annual production capacity of 1 mn MT. The primary activity of ISL is manufacturing Cold Rolled Coils (CRC), Hot Dipped Galvanized Coils (HDGC) and Color Coated Coils. ISL's manufacturing facility is situated in Karachi and the company has sales offices in Lahore, Islamabad and Multan.

PCL: Established in 1953 as a joint venture, PCL's shareholding has undergone major changes over the years. Presently the controlling stake rests with the Chinoy Family. PCL's primary business includes manufacturing of copper rods, wires, cables and conductors, aluminum extrusion profiles and PVC compounds. PCL has a single manufacturing facility located in S.I.T.E., Karachi with annual installed capacity of 12,000 Equivalent Metal Tons (EMT).

Sales mix of IIL is diversified in terms of local and export sales and comprises multiple products from the two segments (Steel and Polymer). In recent years, domestic sales have been a major growth driver, and constituted 84% of the sales as of FY19 (FY18: 83%; FY17: 74%).

| Table 2: Production Capacity (in MTs) | FY18 | FY19 |
|--|-------------|-------------|
| Steel Pipe | 515,000 | 585,000 |
| GI Pipe | 150,000 | 150,000 |
| CR Steel Strip | 50,000 | 50,000 |
| Polymer Pipes & Fittings | 25,000 | 30,000 |
| Stainless Steel - Pipe | 1,200 | 2,400 |

IIL's business model can be characterized by its lean margin operations. The Company's gross margins have averaged 13.2% in the past five year

Table 1: Key Financials

| | FY17 | FY18 | FY19 | FY20^P | FY21^P |
|--------------------|-------------|-------------|-------------|-------------------------|-------------------------|
| Fixed Assets | 7,898 | 9,119 | 10,645 | 11,381 | 12,190 |
| Inventory | 8,165 | 9,005 | 10,858 | 11,944 | 13,138 |
| Total Assets | 18,516 | 22,465 | 25,327 | 27,439 | 29,908 |
| LT Debt | 1,288 | 2,149 | 1,993 | 1,702 | 1,812 |
| ST Debt | 5,899 | 8,310 | 9,425 | 10,368 | 11,404 |
| Equity* | 5,841 | 6,936 | 7,498 | 8,862 | 9,426 |
| Net Sales | 17,327 | 25,923 | 25,750 | 28,326 | 31,158 |
| Gross Profit | 2,930 | 3,305 | 2,602 | 3,116 | 3,427 |
| Opr. Exp. | (1,170) | (1,425) | (1,218) | (1,298) | (1,380) |
| Other Inc. | 1,037 | 883 | 1,733 | 1,308 | 1,520 |
| Other Op. Expenses | (180) | (172) | (98) | (108) | (119) |
| Fin. Cost | (224) | (442) | (924) | (1,174) | (1,138) |
| PAT | 1,842 | 1,582 | 1,575 | 1,364 | 1,710 |
| Gr. Margin | 16.9% | 12.7% | 10.1% | 11.0% | 11.0% |
| FFO to LT Debt | 2.1x | 1.0x | 1.1x | 1.2x | 1.2x |
| DSCR | 7.9x | 4.7x | 3.4x | NA | NA |
| ROAA | 11.3% | 7.7% | 6.6% | 5.2% | 6.0% |
| ROAE | 33.4% | 24.8% | 21.8% | 16.7% | 18.7% |

*Excludes surplus on revaluation of property, plant & equipment

Figure 1: IIL Share Performance

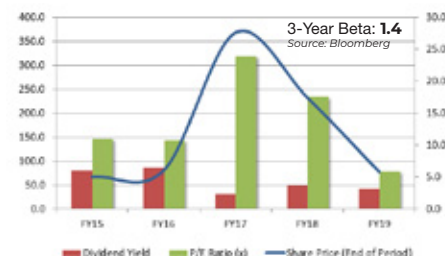


Figure 2: Product-wise Sales Revenues

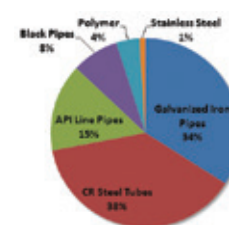


Figure 3: Profitability Margins



period, and have depicted moderate volatility, on account of inventory gains/losses. In recent periods, the Company's gross margins have been impacted by an uptick in raw material costs, due to higher international steel prices and depreciation of local currency. Despite having the ability to pass on the cost to end-consumers, the adjustment period to address such a sharp depreciation in local currency (40%) is longer.

Given the growth in operating activities, the gearing levels have trended up in recent years, as IIL utilized short term borrowings for working capital financing. These short term borrowings are mainly secured against stock in trade. The long-term financings on the book are miniscule, whilst consistent profitability over the years has allowed the Company to accumulate substantial capital buffers. Given IIL's strengths, stable profitability, healthy cash flows and a sizable surplus on its subsidiary holding, the Company has significant room to generate long term financing as and when needed.

INVESTMENT STRENGTH: STRONG**Economic/ Business Risk: Moderate**

Economic Growth Cycle: Having posted strong economic growth during the five-year period (FY14-18), averaging 5.3%, the country's economy is projected to undergo a slowdown. GDP growth projections for the medium term remain dismal at less than 4%, whilst we do expect normalization towards the long term growth rate of 5% over the longer term horizon.

Fiscal & External Risk: The accommodative monetary & fiscal policies, which were in place during the past five year period (FY14-18), have deepened the macroeconomic imbalances. In response, the country has taken a USD 6b Extended Fund Facility from IMF. In line with IMF pre-requisites, the newly elected government has had to undertake necessary structural adjustments, which has somewhat contained the external deficit. Nevertheless, given meager tax revenues, fiscal risk remains high; this is something that the Government of Pakistan plans to address by increasing tax revenues, through broadening the tax base, which is a medium to long term objective. Over the short to medium term, fiscal risk is expected to remain on the higher side, whilst external risk is expected to trend down, albeit the deficit will persist.

Governance: Governance score has improved in the last five years, albeit deficiencies continue to persist in areas of 'Government Effectiveness', 'Regulatory Quality' and 'Rule of Law'. The governance lags scores of regional peers. Pakistan also ranks adversely in the Corruption Perception Index at 117, which is lower than India (78) and Sri Lanka (89) but compares favorably to Bangladesh (149).

Geo-strategic Risk: The complicated relationship with bordering nations, such as India and Afghanistan, heightens the geo-strategic risk for Pakistan; albeit Pakistan has established an all-weather strategic partnership with China, with political & mutual trust and trade cooperation between the two growing on a timeline.

Competitive Environment: Although Pakistan's competitiveness rankings have improved considerably, from 129th position in 2015 to 107th position in 2018, the country remains the lowest rated among its regional peers i.e. India, Sri Lanka & Bangladesh. Pakistan has shown notable improvement in World Bank's Ease of Doing Business index, with their ranking improving from 136 in 2019 to 108 in 2020.

Human Development: The United Nations Development Program (UNDP) categorizes Pakistan amidst 'Medium' category of its Human Development index. This is in line with regional peers.

Industry Risk: Moderate

Industry: IIL operates in the Steel Pipes (SP) industry, comprising more than 50 manufacturing units. Product type includes pipes, railings, tubes etc. while end-user product suite can be categorized into Black Pipe & Hollow Structural Sections (HSS), Cold Rolled (CR) Tubes (low and prime quality), Profiles, Galvanized Iron (GI) pipes, American Petroleum Institute (API) pipes and Polymer Pipes & Fittings.

Risk Categorization: As per the sector ranking criterion, the SP industry is classified as a 'Medium Risk' industry. The sector classification takes into account the following:

Table 3: Macroeconomic Indicators

| | FY17 | FY18 | FY19 | FY20 ^p |
|------------------------------------|-------|-------|-------|-------------------|
| GDP Growth | 5.2% | 5.5% | 3.3% | 2.4% |
| Inflation | 4.2% | 3.9% | 7.3% | 13.0% |
| Fiscal Deficit (% of GDP) | 5.8% | 6.4% | 6.8% | 7.1% |
| Current Deficit (% of GDP) | 6.3% | 4.6% | 2.6% | 2.0% |
| Total Debt to GDP | 67.0 | 71.7 | 74.9 | 76.9 |
| External Debt (% of GDP) | 20.5 | 24.3 | 26.5 | 32.0 |
| Gross Reserves (USD' Billions) | 16.1 | 9.8 | 6.8 | 11.2 |
| Gross Reserves (months of imports) | 2.9 | 1.9 | 1.4 | 2.2 |
| PKR/USD (year-end) | 106.0 | 124.4 | 163.5 | NA |

Table 4: Pakistan Rankings

| | |
|------------------------------|-------------------|
| Global Competitiveness Index | 107 of 140 (2018) |
| Ease of Doing Business | 108 of 190 (2020) |
| Corruption Perception Index | 117 of 180 |

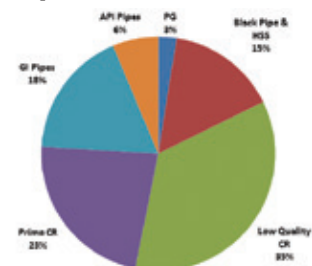
Figure 4: Industry Sales Breakup

Table 5: Tariff Advantage

| Product | Import Tariff |
|------------|---------------|
| Coil (HRC) | 19.5% |
| Pipes | 32.5% |

Demand Outlook: The end product suite of the industry caters to public works, industrial and commercial clientele. Major demand drivers for the SP industry include the construction sector, CPEC and its ancillary projects, automotive, furniture & fittings, general fabrication, water & gas distribution and government-initiated infrastructure projects. Given the envisaged slowdown in GDP, short to medium term demand outlook has weakened. However, in overview of the population growth demographics and low per capita steel consumption, which significantly lags the global average by about 5x, the demand outlook for the industry is positive over the long term.

- **Domestic Competition:** The SP market can be broken up into lower and higher end, based on product quality. IIL operates mainly in the higher-end spectrum of the market, which features an oligopolistic market structure. IIL's domestic sales are protected by their strong quality management standards, economies of scale and lean margin operations. Furthermore, given recent efforts being made by the Government of Pakistan to broaden the tax base, companies in the higher-end / organized sector stand to benefit vis-à-vis smaller-sized domestic competitors, which are largely undocumented.
- **External Competition:** Import of finished steel pipes entails a significant freight cost, which discourages import of the same for domestic consumption. Furthermore, local production is also encouraged by a 13% duty advantage on import of raw material vis-à-vis finished product.
- **Capacity Utilization:** Recently several larger-sized industry participants have undertaken capacity enhancement. Given a weak demand outlook over the short to medium term horizon, we expect industry capacity utilization to persist at moderate level, at least for the medium-term.
- **Regulatory Support:** There is regulatory support to the sector in form of tariff advantage on imports, also discussed above. Recently, the duty protection was increased by 2%, which is expected to benefit both IIL and ISL. In addition for large diameter pipe manufacturers, there is regulatory support in form of price preference against imports. In addition, the government has also provided some relief by increasing the rate of duty on secondary (low quality) raw material by 5%, which will benefit the organized sector.
- **Cyclicalities:** Cyclicalities in sales is a significant risk, particularly for large diameter pipe manufacturers, which rely significantly on public sector projects and automotive applications.
- **Barriers to Entry:** Overall barriers to new entrants in the pipe manufacturing industry are considered low, given the limited technical complexity of the process. Nevertheless, sizable initial capital outlay and lean margins, serve as deterrent to entry, which is more pronounced in the higher-end spectrum of the market.
- **Cost Risk:** Industry margins face significant variation on account of volatility of main raw material i.e. HRC and CRC prices. For large diameter pipe manufacturers, who are dependent on the public gas utility company orders, a key risk is increase in HRC prices post bid submission. This is due to the bids being made based on current or expected HRC prices at the time of the contract while contract award and procurement of HRC is done with a time lag. For IIL, over a timeline, the cost risk has reduced due to increased reliance on locally sourced raw materials.
- **Exchange Rate Risk:** Large diameter pipes are hedged against any exchange rate movements on contract-based sales. However, for commercial products, any significant rupee depreciation beyond levels that can be passed on to customers may impact imported raw material prices and margins. Players like IIL, who have sizeable export-based revenues, will be better hedged against rupee depreciation as compared to players only relying on domestic sales. As IIL has reduced its reliance on imported raw material (CRC) by up to 40% in the past 2-3 years, the exchange rate risk for IIL is lower.
- **Power Supply Risk:** Given a national level energy shortfall, all industry participants suffer from a risk of power cuts affecting their capacity. Companies with their own captive power generation facilities, such as IIL, are at an advantage in this respect.

Corporate Positioning: Strong

Market Positioning: IIL operates primarily in the higher-end, quality driven segment of the market, which is contested by a handful of medium-sized participants. IIL is the largest and the only publicly listed Company amongst its domestic competitors and can be categorized as the market leader, particularly in products such as Prime CR and GI Pipes.

Product Diversification: One of IIL's primary strengths is its large product range. With sizable capital expenditure being made over the past 2-3 years, IIL has ventured into new product lines i.e. Hollow Structural Sections (HSS), Stainless Steel (SS), PPRC and PE. On a timeline, the sales mix is depicting increasing product diversification, with the Polymer segment being a significant growth driver. The resultant diversification is considered a strength.

Brand Recognition: Having dominant market positioning in Pakistan and export operations spanning across 60 countries, IIL brand is well known in both domestic market and internationally. The brand is supported by an extensive dealer network, which is regularly engaged through a myriad of events hosted across the country. Furthermore, IIL regularly sponsors events for architects, auto-parts industry and architectural and engineering universities to strengthen its brand recall.

In-house Power Generation: To cater to its power related needs, IIL has an in-house power generation plant, which compensates for the national shortages in energy supply and mitigates energy supply risk generally faced by domestic peers.

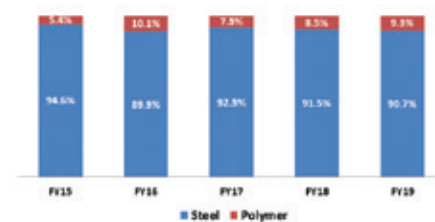
Capacity Utilization: Given recent expansions at IIL, part of the Company's capacity remains under-utilized. However, this is something that is being faced by the industry at large.

Financial Performance: Strong

Sales Growth: During the past five-year period (FY15-FY19), IIL's top line has grown at a CAGR of 8%. IIL's demand outlook is dependent on cyclical sectors, such as public infrastructure spending, construction and automotive and some relatively less cyclical sector like appliances and furniture making. In the domestic market, we expect the Company's topline to grow only modestly during short to medium term horizon. Sales in the export market have been affected by the anti-dumping duties imposed on the Company by the Governments of USA and Canada. However, the Company has established an overseas office in Australia, which focuses on exploring markets in the Asia Pacific region.

Holistically, we expect sales to only grow moderately over the short to medium term, while over the longer term, we expect sales growth to be more pronounced, supported by the growth in domestic consumption.

Investment in ISL: Having contributed 40% of the pre-tax profit over the past 3-year period (FY17-FY19), the operational performance of ISL has significant bearing on IIL's bottom line. Given the uptick in operating and finance costs, we expect ISL's margins to come under pressure, which will certainly impact the dividend distributions. A drop in dividend distribution from ISL has been incorporated in the projections.

Figure 5: Industry Sales Breakup**Table 6: Capacity Utilization**

| | FY18 | FY19 |
|-----------------|------|------|
| Steel Pipe | 47% | 33% |
| Galvanizing | 55% | 50% |
| Polymer | 44% | 34% |
| Stainless Pipes | 56% | 32% |

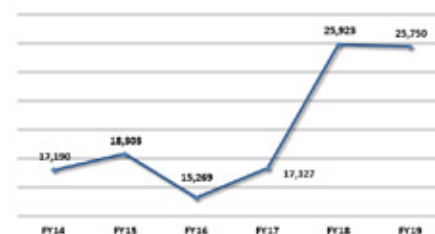
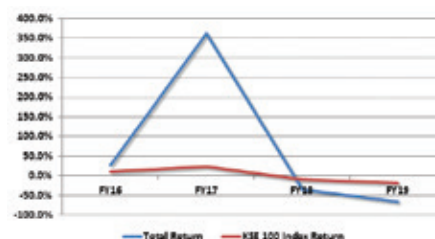
Figure 6: Sales (PKR millions)**Figure 7: IIL Stock Return vs KSE-100 Index**¹ EBIT/ (Equity + Non-current Liabilities)

Figure 8: Dividend Yield

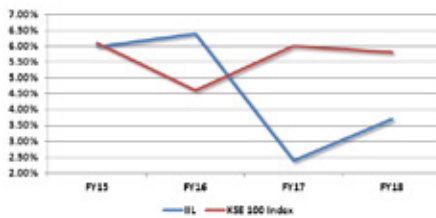
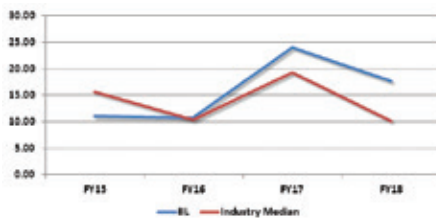


Figure 9: P/E Comparison with Steel Industry



Profitability: IIL's Return on Capital Employed (RoCE)¹ has averaged 23% during the past five year period (FY14-FY18), exceeding returns posted by other similar-sized steel companies², which recorded average RoCE of 18%. In addition, the dividend payout ratio of IIL has averaged 67% during the same period, which is significantly above peers. Given the strong profitability and healthy payouts, dividend yield for the Company, averaging 5% during the same period, has also remained above industry peers. In the short to medium term, IIL's profitability is expected to come under pressure, given the uptick in operational overheads, financial costs and reduced dividend expectations from ISL.

Liquidity & Cash Flows: IIL's cash flow generation ability has remained strong historically, as evident from the coverage of long-term debt by FFO, which has remained above 1x throughout the past five year period (FY15-FY19). In addition to the long-term debt, IIL routinely utilizes short term borrowings to fund working capital requirements, which mainly arise on account of the Company's inventory holding days that are on the higher side, having averaged ~180 days during the past two years. Inclusive of short-term debt, the FFO to debt for IIL stood at 0.2x as of end-FY19. The short-term borrowings are fully covered by inventory.

Credit Risk: As such credit risk is also adequately low, as trade debt as a proportion of sales stood at 12% as of end-FY19 and has historically moved within the range of 9-14%. Furthermore, provisioning for bad debts has remained very small historically.

Leverage: In recent years, IIL's leverage has increased, as the Company has added increasing amounts of short-term debt to finance working capital. Nevertheless, the interest coverage at 3.0x is indicative of strong debt repayment ability. As of end-FY19, IIL's capital structure in terms of debt to equity stood at 61:39.

CORPORATE GOVERNANCE: **STRONG**

REGULATORY SUPERVISION

- As a listed corporate, IIL is subject to the Corporate Governance regulations, as prescribed in the Listed Companies Regulations, 2017, by the Securities & Exchange Commission of Pakistan (SECP).
- The CG regulations were recently updated in 2017, and include specific rules concerning Board & Board Committee compositions, Terms of Reference (ToRs) of the Board, Director Remuneration & Training and requirements prescribed for personnel heading the control functions such as Financial Control, Internal Audit etc. In addition, the regulations also lay down the reporting requirements. The regulatory guidelines are well-documented and broadly cover the best practices.

BOARD GOVERNANCE

Board of Directors: IIL has a nine-member Board of Directors (Board) in place, of which all are non-executive directors, with the exception of the CEO.

Table 7: Board Operations Compliance with CG Best Practices and Domestic Regulations

| | |
|--|---|
| Board Independence (1/3rd Independent) | ✓ |
| Independent Board Chairman | ✗ |
| At least 1 Female Board Member | ✗ |
| Board Meets Quarterly | ✓ |
| Board Attendance (>80%) | ✓ |
| Adequate Board Committees | ✓ |
| Board Committees Composition Compliant with Domestic Regulations | ✓ |
| Board Committees Composition Compliant with International Best Practices | ✗ |
| Board Committee Attendance (>80%) | ✓ |
| Fixed Remuneration Policy for Board Members | ✓ |
| Board Self Evaluation | ✓ |

² Includes Aisha Steel Limited, Mughal Steel and Amreli Steel Limited



Independence & Objectivity: With more than a third of the Board comprising independent directors (4 off 9), the Board composition is aligned with domestic regulations and best practices. As per domestic regulations, an independent director's independence is deemed to be hampered, when he/she has been on the Board for more than 3 terms.

IIL's Board was recently re-elected, in Sep'19, given the end of its 3-year term. Presently, all independent directors comply with this requirement. Furthermore, given gender balancing requisites under the new regulations, a female director has been inducted on the Board, which fulfills requirements under domestic regulations. Going forward, Board composition can be further improved by inducting an independent director as Board Chairman.

Board Meetings: As per Company policy, Board meetings are required to be convened on quarterly basis. Historically, meeting frequency has remained in compliance with the minimum requirements. In FY18, a total of six Board meetings were convened. In addition to the mandatory quarterly meetings to approve financial statements, an annual Board meeting is convened to review Budget, Risk and Strategic Planning. Attendance in meetings has remained above 80% in the past couple of years, which is considered satisfactory.

Board Committees: IIL has two Board committees in place, which include the Board Audit Committee (BAC) and Board Human Resource & Remuneration Committee (BHRRRC).

- The BAC constitutes 4 Board members, including 2 independent directors. In accordance with best practices, BAC is chaired by an independent director, who also has a professional accountancy qualification. Ideally, it is recommended that the BAC should have an independent majority.
- The BHRRRC has 4 members, including 1 independent director. In accordance with best practices, the independent director in the committee is designated as the chairman. Committee composition can be further improved by instituting an independent majority.

Board Committee Meetings: As per internal policy, the BAC and BHRRRC meetings are required to be convened on quarterly and annual basis respectively. Actual meeting frequency observed comfortably complies with policy and regulatory requirements.

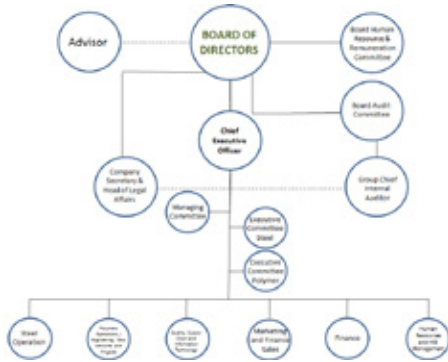
Board Remuneration: IIL has a fixed fee policy in place for directors.

Related Party Transactions: Related party transactions with a subsidiary are sizeable and are conducted at an arm's length.

Key Policies developed by IIL, which support the CG Score include:

- Board & Board Committee Self-Evaluation Policy.
- Policy to address investor grievances.
- Document & Record Control Policy.
- Human Resources Management Policies and Succession Plan.
- Whistleblowing & Speak-up Policy.

Figure 10: Organizational Structure



ORGANIZATIONAL STRUCTURE

- The management team at IIL is headed by Mr. Riyaz T. Chinoy, who has held the position since 2011 and has been part of the Company since 1992.
- There are two management committees in place; these are the 'Management Committee' and 'Executive Committee'. The former is in place to support the CEO in Board strategy implementation. The latter committee is tasked to ensure effective implementation of strategic directives.
- There are nine functions in place managing various facets of the Company, including one control function i.e. Internal Audit. In line with best practices, Internal Audit function reports to the BAC.

INTERNAL CONTROL INFRASTRUCTURE

Internal Audit: IIL has a dual internal audit mechanism in place, which includes an Internal Audit team of 3 personnel (including the functional head) in addition to an external firm that also hired to conduct Internal Audit. The external firm conducting IA is classified as an 'A' category audit firm by regulators.

Information Technology: The Company has an Oracle based IT platform using ERP modules that cover areas of Finance, Procurement, Process Manufacturing, Asset Management, HR and Business Intelligence Applications.

Quality Assurance: The Company is ISO 9001 (Quality Management System), ISO 14001 (Environment Management System), ISO 45001 (Occupational Health & Safety Management System), API 5L, PSQCA and CE certified. IIL has instituted an in-house ISO team of 4 personnel, which ensures compliance with quality standards. Compliance to the standards is reviewed by Lloyds Register Quality Assurance (UK).

ENVIRONMENTAL ACCOUTABILITY: **STRONG**

PRODUCT CATEGORY

Steel: Steel, which makes up ~90% of the Company's revenue stream, is considered an environmentally friendly product, given that it is recycled in its entirety at the end of the product cycle. Recycling rates vary globally, but are estimated in the range of 80-90%. IIL's Hollow Structural Sections (HSS) were used in infrastructure projects across Pakistan including Orange Line & Green Line bus stations. These products lower environmental impact through quicker construction and 100% salvage value.

Plastic: On the other hand, IIL also produces Polymer Pipes & Fittings; a smaller (9% of revenues), albeit growing segment. IIL's polymer division uses polyethylene & polypropylene. Both these materials are 100% recycled in house.

GREEN HOUSE GAS (GHG) EMISSIONS

Scope 1 Emissions: As a manufacturing concern, Scope 1 emissions are the primary area of environmental impact. At present, scope 1 emissions

Table 8: Generator (1-4) & GP Furnace Emissions

| | G1 | G2 | G3 | G4 | GP F | SEQS Limit |
|-----------------------------------|-------|-------|-------|-------|-------|------------|
| Carbon Monoxide | 196 | 211 | 209 | 191 | 178 | 800 |
| Sulfur Dioxide | 75 | 63 | 68 | 71 | 52 | 1700 |
| Nitrogen Oxide | 174 | 163 | 184 | 178 | 96 | NA |
| Nitrogen Oxide (NO ₂) | 9.6 | 10.2 | 10.5 | 11.7 | 10.2 | NA |
| Oxides of Nitrogen | 183.6 | 173.2 | 194.5 | 189.7 | 106.2 | 400 |
| Oxygen | 8.9 | 10.7 | 9.5 | 10.1 | 12.9 | NA |
| Carbon Dioxide | 3.8 | 3.5 | 4.3 | 3.6 | 3.4 | NA |
| Smoke | 11 | 12 | 14 | 12 | 12 | 40 |



include emissions from the furnace and the captive power plant. IIL periodically checks the quality of carbon emissions and their compliance with National Environmental Quality Standards (NEQS); the samples are tested by EPA certified laboratories in accordance with Pakistan Environment Protection Act 1997 and the reports are submitted to Sindh EPA. Carbon emissions have been found within allowable limits.

- IIL has a 4MW combined cycle gas-based co-generation power plant, which operates at full capacity and excess generation is sold to the National Grid.
- A feasibility study on potential conversion towards solar power was conducted, which concluded that the present availability of land area is inadequate to generate the quantum of power, through solar means, to meet the Company's power requirements. However, IIL's newly constructed office complex in Sheikhpura was designed to withstand the weight of solar panels, which signifies IIL's forward-looking strategic focus towards renewables.
- In recent period, IIL has undertaken a few energy conservation steps to limit internal electricity consumption. These are as follows:
 - Usage of natural gas is continuously monitored through energy meters and gas analyzers to gauge efficiency; this also reduces misuse as the auxiliary load is shut down when plant is not in operation.
 - In order to promote energy conservation, lately, IIL has installed energy efficient instruments such as the conversion from 400W SON high pressure sodium bulbs to 160W LEDs. On a YoY basis, production related electricity consumption (kWh/ Ton) has dropped by 13.7% in last year.
 - IIL has equipped the plant with fume scrubbers in acid fume exhaust chimneys. The fume scrubbers neutralize emissions prior to discharge.
- In recognition of its efforts, IIL has also been nominated as the SDG 7 (Clean and affordable energy for all) leader by the Center of Excellence in Responsible Business (CERB). IIL has conducted webinars and workshops, organized by CERB, to highlight its efforts towards promoting clean and efficient energy in industry.

Scope 3 Emissions: At present, there is no policy in place to monitor the GHG emissions at back-end supplier. Developing such a policy will be viewed positively.

WATER CONSERVATION

- IIL's production operations are all located within Pakistan, which is a water-stressed nation. The water demand for the production operations are largely met through municipal water system, and tankers, which are used on ad-hoc basis. A recently commissioned Reverse Osmosis (RO) Plant helps as supplementary source of water. With the commission of an additional RO plant in Oct'18, the demand from the municipal water system has dropped by 50%.
- In order to promote water conservation, IIL continuously monitors the consumption of water through the installation of flow meters. On a YoY basis, water consumption during production (Gallons/Ton) has reduced by 12.2%.

Table 9: Effluent Water Sampling

| | Unit | Sample | SEQS Limit |
|----------------------------------|------------|--------|------------|
| Acidity/Basicity | pH | 8.8 | 6-9 |
| 5 Days Biochemical Oxygen Demand | mg/l | 163 | 250 |
| Chemical Oxygen Demand | mg/l | 244.5 | 150 |
| Oil & Grease | mg/ Nm3 | 7.1 | 10 |
| Total Suspended Solids | mg/l | 141 | 150 |
| Total Dissolved Solids | mg/l | 2,863 | 3,500 |
| Chloride | mg/l | 274 | 1,000 |
| Copper | mg/ Nm3 | 0.7 | 1 |
| Iron | mg/l | 1.8 | 2 |

WASTE MANAGEMENT

Industrial waste of IIL is as follows:

Spent Acid (HCl): This is a discharge from the galvanizing plant, which treated at the Effluent Treatment Plant (ETP). The treated effluent is then checked for compliance to Sindh Environmental Quality Standards (SEQS) and, if found within standards, it is discharged into the industrial sewerage system.

Sludge: Produced after treatment at the Effluent Treatment Plant (ETP), the sludge is disposed of at dedicated land fill sites through an EPA certified contractor.

Steel Scrap: All steel scrap is collected throughout the production process and are recycled in multiple ways. Certain types of steel scrap are collected, compacted and sold to steel recyclers to make iron bars. Steel side cuttings are reused as bailing hoops for pipe bundles. Steel edge side cuttings are compacted & auctioned as steel scrap. This includes side cuttings, saw dust and pipe pieces. These are collected and sold to foundries.

Zinc: Zinc ash and dust is a by-product of steel pipe production. IIL collects the zinc powder, which is processed and sold. Recently, IIL has installed a zinc reclamation unit, which ensures zero generation of smoke and dust during the zinc recovery process, hence reducing the emission impact on workers and the environment. The galvanizing plants have also been upgraded to control zinc powder in the environment and thereby secure health of workers. By making this modification, zinc powder collection has already been increased by 2%. The Company has planned to upgrade another galvanizing plant for better environment and fumes control in FY20.

Used Oil: Used oil is sold to re-cyclers and contractors.

Solid Waste: Solid Waste is sent to designated landfill sites for disposal.

Office Waste: The Group has targeted a 25% reduction in paper and printer ink consumption via reduction of excess paper usage and double sided printing. On a YoY basis, paper consumption has reduced by 7.1%. Initiatives include:

- Shareholder approval has been sought to circulate annual report in electronic form.
- Board members have been provided with digital tablets so as to eliminate the need for printed Board papers, thereby reducing paper usage & wastage.

IMPACT ON SURROUNDINGS

Impact on Wild Life Habitat: IIL's facilities are situated within designated industrial compounds. Accordingly, there no such impact of IIL's operations on any wild life habitat.

Positive Impact: All facilities owned by the Group have dedicated green belts with trees & plants. Recent initiative included:

- Planted 1000 saplings in the vicinity of IIL Factories 1 & 2.
- Planted 117 tree saplings at Factory 3 Sheikhpura.
- Subsequent to initial plantation, the Company also ensures proper maintenance of these plants.

SOCIAL RESPONSIBILITY: **STRONG**

INTERNAL STAKEHOLDERS

IIL has staff strength of more than 1,000. Commentary on each of the areas is as follows:

Gender Diversity: With only 4% of IIL's workforce comprising women, IIL lags in the area of gender diversity. However, this can largely be attributed to the nature of work being performed at the production facilities. In principle, IIL is committed to providing equal employment opportunity and a work environment free of discrimination & harassment without regard to race, color, religion or belief, national, social or ethnic origin, gender, pregnancy, age, physical or mental disability, or any other status protected by the laws or regulations in form from time to time. Policies covering these areas include 'Policy on Recruitment & Selection' and 'Policy on Behavior, Conduct & Responsibilities'.

Inclusiveness: Majority of factory workers are hired from low-income, local neighborhoods in and around the factory vicinity. Furthermore, the work force includes 20 employees, with special needs.

Worker Benefits: Overall standard worker benefits, such as paid leaves and leaves in cases of maternity, sickness or casual leaves are aligned with industry standard. However, as a leading corporate entity, the Company also provides a range of other benefits to its staff. Staff benefits are as follows:

- 30 annual leaves in addition to 10 medical leaves and 10 casual leaves
- Medical & Life Insurance Coverage.
- Subsidized food.
- Health & fitness facilities at work place
- Maternity leaves of up to 16 weeks to be availed for a maximum of two times for one employee.

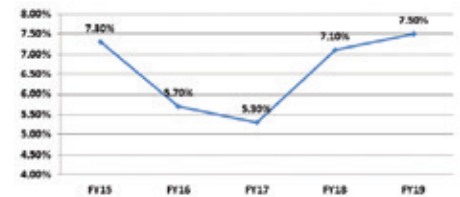
Staff Engagement:

- An annual job satisfaction survey is conducted. It is recommended that the Company appoint an external firm to independently gauge employee satisfaction.
- Various recreational activities are conducted on an annual basis such as the Growth Celebration Dinner, Long Service Awards, Managers Dinners, Employee Theatre Nights, Corporate Family Days Out, Employees picnic and a Group Cricket Tournament.

Policies: IIL has developed a number of policies to ensure protection of all stakeholders in production chain; these are as follows:

- IIL's Human Resource policy is available in the public domain and is periodically updated.
- IIL has a policy to ensure that front-end and back-end service providers are entities that pay their employees at least the minimum wage.
- The policy on Code of Conduct and Ethical Practices is reviewed and acknowledged each year by all Directors, Managers, staff and new

Figure 11: Staff Attrition



hires. The Code of Conduct covers business ethics, respect for rights of stakeholders, conflicts of interests, accounting records, controls and statements, environment, regulatory compliance and personal conduct.

- A 'Whistleblower' policy is in place and is reviewed periodically.

Process to Address Employee Grievances: The employees can give suggestions, grievances and concerns or raise any matter related to the Company. Once every two years, IIL's Management and staff enter bilateral negotiations on Charters of Demands raised by both parties. IIL's Industrial Relations Department is dedicated to address all and any worker related issues and is constantly in communication with the CBA and Unions with the objective to maintain industrial peace.

Learning & Development: On an average, aggregate training time per employee stands at 4.5 hours. During the preceding year, the following activities were conducted:

- 42 in-house sessions for 920 employees on various technical topics,
- 25 employees attended external (local & foreign) programs arranged by various well-reputed institutes,
- IIL employee trainings take place at reputable institutions including: PICG, IBA, LUMS, ICAP, ICMAP, MAP, EFP, PSTD,
- In 2016-17 one of IIL's General Managers attended the Advanced Management Program at Harvard University.

Health & Safety:

IIL has a dedicated OHSE department, with OHSE representatives at all locations. The following OHSE committees meet on monthly basis as per policy:

- OHSE Committee: Chaired by the CEO & members include senior management team including heads of HR, Steel Ops, E&P & Polymers Ops, Supply Chain, Industrial Relations & Administration, OHSE and HR.
- OHSE Zonal team leaders Committee: Chaired by SM OHSE & has 28 members from all locations of IIL.
- Service Providers OHSE Committee: Committee chaired by SM OHSE
- OHSE Team leaders and service provider WhatsApp Groups for instant information sharing.

The Company has put in place safety procedure to control Lost Time Injuries (LTIs):

- Mandatory basic safety induction for new workers,
- Risk assessments for all new plants and processes before they are commissioned. These are also periodically reviewed,
- Provision of proper safety to staff,
- Monthly safety trainings,
- Round the clock OHSE monitoring for counseling against unsafe acts & unsafe conditions. Incentives for best practices,
- Monthly safety walks by senior management,
- Meri awaz suggestion scheme & cash award for best suggestion,

- First aid boxes placed at different locations,
- Ambulance is available round the clock and Company doctors provides consultancy on daily basis.

IIL's Lost Time Injury Frequency Rate (LTIFR) has averaged 1.5 per one millions hours worked over the past decade. In comparison to international peers, there is room for improvement.

EXTERNAL STAKEHOLDERS

Minority Shareholders: As a listed entity, IIL's ownership structure includes minority shareholders, such as the general public. The Company ensures protection of minority shareholder rights by means of the following:

- Adequate independent representation on the Board complying with CG best practices
- Transparency: IIL has made detailed disclosure, including Corporate Governance disclosures, which are considered superior in the domestic context. A comprehensive Sustainability Report is available on IIL's website covering the social and environmental initiatives of the Company.

Community: IIL acting as a responsible corporate citizen promotes its role towards betterment of the society in health and education sectors as a part of its Corporate Social Responsibility. As part of furthering IIL's objectives regarding the sustainability development goals, the Company has engaged 31 third parties, which include educational, health care and environment protection institutions. As a policy, IIL makes annual donations to the tune of 2.5% of its profit after tax (net off dividend received from ISL) towards its CSR Programs. This is verified by the external auditors on an annual basis. The amounts are donated to a list of charitable organizations, which have been disclosed in the annual report. None of these entities are related to the Company's senior management or directors. Major CSR initiatives undertaken by the Company are listed below:

Health

- The Group has IIL-SINA Childlife Clinic near the IIL factory where 30,000 patients are given free or heavily subsidized medical care on an annual basis,
- IIL facilitated the establishment of two ambulance stations, one near its Landhi factory and the other in a main intersection at Landhi, by donating 10 ambulances. This area is located in the industrial area where there was a need for immediate health care, especially in an area where work injuries have a high probability to occur,
- IIL has contributed completely free of cost structures to The Indus Hospital, Jinnah Medical Center, The Society for Rehabilitation of Special Children, A mental illness rehab center for the Caravan of Life Trust.

Education

- IIL has linked up with The Citizens Foundation (TCF) and continues to support all operating expenses for a TCF primary school in the vicinity of the IIL factory. The TCF-IIL Campus provides free/affordable education to almost 400 students,

Figure 12: Lost Time Injuries (LTI) and Lost Time Injury Frequency Rate (LTIFR)

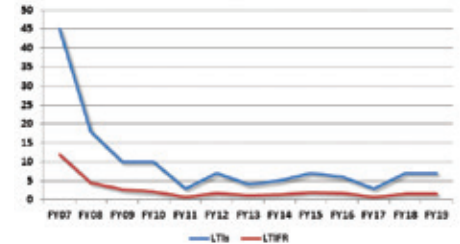


Figure 13: Donations (as % of Profit after Tax net off dividends received from ISL)



- IIL made substantial contribution towards the “Amir Sultan Chinoy Chair” at the Aga Khan University Hospital in Karachi - a permanent endowment fund,
- IIL & ISL sponsor a scholarship at NED University of Engineering & Technology. In the last 5 years, approximately 50 students have benefited from this scholarship,
- The Group regularly sponsors student seminars for NED Architectural Students,
- IIL recently completed an entirely free of cost structure for a ‘school under the bridge’ built for underprivileged children in Karachi
- IIL collaborated with the NGO, Literate Pakistan, to provide free education to older members of society that are not literate. Through this program, 100 workers have increased their literacy proficiency at varying degrees.

SOVEREIGN ANALYSIS: PAKISTAN

Pakistan has been attributed the highest risk country among regional counterparts, having the lowest score on the CCXI/VIS Country Risk scale.

Regional Risk: With rising domestic demand and sound investment environment, South Asia has been the fast growing regions in the world over the past few years, and is a popular destination for international investments. From country risk perspective, South Asia is advantageous in its large scale of economy, abundant labor and high economic growth. However, weak infrastructure and low per capita income are economic bottlenecks. Fiscal debt risk is relatively high, given long-term high fiscal deficit rate, heavy debt burden and limited solvency, as a result of fragile fiscal revenue base. Financial markets are not well developed, and banking system risk is relatively high due to poor capital adequacy, asset quality and profitability. Regionally current account deficit is much higher than the average of emerging market countries. Typically, many countries are in prolonged deficit. Exchange risk of South Asian countries except Bangladesh and India is relatively high. Besides, all over South Asia, except Sri Lanka, national politics are rocky and geopolitical risk is prominent, threatening regional stability.

Country Risk - Pakistan: Over the years, Pakistan has gradually shifted from agriculture-led economy to service-industry oriented economy, with brisk performance in construction and service industries. As an ally of China, Pakistan has witnessed faster increase of foreign capital inflows and steadily higher growth of economy since it received bailout from IMF in 2013. However, given a worsening twin deficit situation, the newly elected government has undertaken mandatory structural adjustments, which is expected to result in an economic slowdown over the medium, whilst correcting the twin deficit situation.

- **Economic Risk:** Subsequent to a high growth period witnessed during the period FY14-FY18, averaging 5.3%, a slowdown in growth is projected, wherein growth is expected to remain below 4% over the medium term horizon. The low per capita income, weak infrastructure and high political risk are stumbling blocks to Pakistan's economic growth, leading to relatively high economic risk.
- **Fiscal Risk:** Given a narrow tax base, tax revenues are low and deficit scale is relatively large. Fiscal debt risk is quite high, given sizable debt to GDP, and relatively small revenue base.
- **Banking System Risk:** This is relatively high in Pakistan, mainly sourcing from heavy NPL pressure and deterioration of asset quality.
- **Political Risk:** Policy makers, military force and judicial authority have complicated relationship, and the political scene remains turbulent. The terrorist attack threat has been in existence for a long time, and the territorial dispute between Pakistan and India has raised the country's geographic risk.
- **Exchange Risk:** the country has moved from a managed float to free float, to manage currency parity, with the exception to intervene only in cases to curb speculation. Nevertheless, in view of the sizable external imbalance and limited foreign exchange reserves, exchange rate risk remains high.

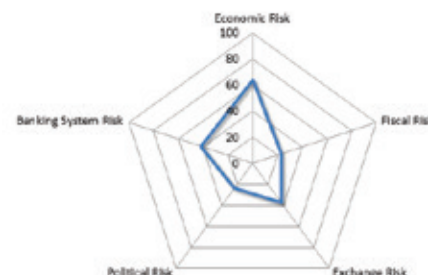
Future Outlook: Under the recent government, adequate local currency depreciation has been undertaken, which should help in curbing the twin deficit situation. Nevertheless, economic growth is expected to remain depressed, while twin deficits are expected to persist over the medium term, with inflation expected to reach double digits as structural adjustment is undertaken. On the positive side, Pakistan has established an all-weather strategic partnership with China, with political and mutual trust and trade cooperation between the two deepening increasingly.

Table 10: Country Risk Scores

| Country | Score* |
|------------|--------|
| India | 54.98 |
| Bangladesh | 52.48 |
| Sri Lanka | 48.15 |
| Pakistan | 36.05 |

Source: Regional Risk of Countries along the Belt & Road – CCXI & VIS. * Scores are 0-100, with higher score depicting a lower risk level.

Figure 14: Pakistan Risk Scores



THE SCORING FRAMEWORK

The following factors are inputs in determining the overall ISG-ES Score which are reflected in respective range-bound scales as below:

INVESTMENT STRENGTH SCORING SCALE

| Scale | Score Range | Definition |
|-------|----------------|---------------------------------|
| IS 1 | (91-100) | Very Strong Investment Strength |
| IS 2 | (76-90) | Strong Investment Strength |
| IS 3 | (61-75) | Good Investment Strength |
| IS 4 | (40-60) | Medium Investment Strength |
| IS 5 | (less than 40) | Low Investment Strength |

SOCIAL RESPONSIBILITY SCORING SCALE

| Scale | Score Range | Definition |
|-------|----------------|-----------------------------------|
| SR 1 | (91-100) | Very Strong Social Responsibility |
| SR 2 | (76-90) | Strong Social Responsibility |
| SR 3 | (61-75) | Good Social Responsibility |
| SR 4 | (40-60) | Adequate Social Responsibility |
| SR 5 | (less than 40) | Weak Social Responsibility |

CORPORATE GOVERNANCE SCORING SCALE

| Scale | Score Range | Definition |
|-------|----------------|-----------------------------------|
| CG 1 | (91-100) | Very Strong Corporate Governance |
| CG 2 | (76-90) | Strong Corporate Governance |
| CG 3 | (61-75) | Satisfactory Corporate Governance |
| CG 4 | (40-60) | Adequate Corporate Governance |
| CG 5 | (less than 40) | Weak Corporate Governance |

ENVIRONMENTAL ACCOUNTABILITY SCORING SCALE

| Scale | Score Range | Definition |
|-------|----------------|--|
| EA 1 | (91-100) | Very High Environmental Accountability |
| EA 2 | (76-90) | High Environmental Accountability |
| EA 3 | (61-75) | Good Environmental Accountability |
| EA 4 | (40-60) | Medium Environmental Accountability |
| EA 5 | (less than 40) | Low Environmental Accountability |

Based on the above discussed parameters, the overall ISG-ES is derived at using a weighted average score.

| Components of ISG-ES | Weights |
|----------------------------|--|
| Investment Strength | 60% (Business Risk 35%/ Financial Performance 25%) |
| Governance | 30% |
| Social Responsibility | 5%* |
| Environment Accountability | 5%* |

**Weights of these factors may increase upto 35% on a cumulative basis in entities where Social and Environment assessment is comparatively higher in significance.*

OVERALL ISG-ES SCALE

| Scale | Score Range | Definition |
|----------|----------------|---|
| ISG-ES 1 | (91-100) | Very Strong Investment Strength Prospects |
| ISG-ES 2 | (76-90) | Strong Investment Strength Prospects |
| ISG-ES 3 | (61-75) | Good Investment Strength Prospects |
| ISG-ES 4 | (40-60) | Medium Investment Strength |
| ISG-ES 5 | (less than 40) | Low Investment Strength Prospects |

A single (+) sign or a double (++) could be added to express relatively higher investment strength prospect within the category.

RATING COMMITTEE MEMBERS



Ms. Ariel Lei Yang is the Vice President of China Chengxin International Credit Rating Co., Ltd, and Executive Director and CEO of China Chengxin (Asia Pacific) Credit Ratings Co., Ltd. She is in charge of the company's international business and branding. She is also the head of the company's Shenzhen and Hong Kong offices.

Ms. Yang joined CCX Group in 2011 as the Chief of Staff to the Chairman, and later as General Manager of International Business Department and Managing Director of CCXI. Ms. Yang holds BA in Journalism from Wuhan University and MA in Mass Communication from UK.



Ms. Christine Zhang is the General Manager of Overseas Business Department of CCXI, responsible for rating service for sovereign and multinational institutions, as well as Panda bond rating. Ms. Zhang is also the member of Credit Rating Committee in CCXI & CCXAP, responsible for panda bond and offshore bond rating. Ms. Zhang and her team has undertaken most of the MDB, sovereign, sub-sovereign cases

Ms. Zhang earned Bachelor Degree of Economics, Master Degree of Macro Economics from Renmin University of China.



Ms. Faraha Perveen Khan is a Senior Analyst and a Rating Committee member at IIRA. She possesses over 10 years of experience in credit ratings covering corporate and financial institutions (FIs) domains; Since August 2016, Ms. Farah has been working as a senior financial analyst at IIRA where she is primarily involved in conducting fiduciary and credit ratings of Islamic FIs within MENA region, while she also worked on sovereign and corporate ratings. Previously, Ms. Farah was associated with CRISIL – an S&P Global Company in India, for about 9 years.

She holds a BMS (Bachelor of Management Studies, with elective in Finance) from University of Mumbai, India and has completed Chartered Accountants Professional Examination II – The Institute of Chartered Accountants of India.



Mr. Hector Alvarez is an Associate Director at Rating-Agentur Expert RA where he oversees a wide portfolio of rated entities in the insurance and banking sectors as well as sovereigns. Mr. Alvarez also introduced the ESG Rating Methodology and leads its continuous improvement process. Previously, Hector worked as an advanced manufacturing engineer at Nemak in Monterrey, Mexico and was part of the collateral management team at State Street Bank in Frankfurt. He graduated from Tecnológico de Monterrey with a degree in Industrial and Systems Engineering and from Frankfurt School of Finance & Management where he completed a Master of Finance with a Corporate Finance concentration. Recently, he obtained the International Certificate in Corporate Finance from Columbia Business School.



Mr. Javed Callea is Advisor in VIS since 2010. He is a professional in the financial sector with 35 years of experience mostly in the financial institutions with certain exposure to service and infrastructure sectors in Pakistan. He has held the position of Chief Executive of a leasing company for 10 years. His core areas of expertise cover leasing, development financing, project management, investment & merchant banking, strategic investment management and real estate. He has also served as Member Finance of Water & Power Development Authority of Pakistan and as member of the Inquiry committee on stock exchange crises in 2000 commissioned by the SECP. He earned his MBA degree from the Institute of Business Administration in 1974.



Ms. Rong TIAN Rong is currently the Managing Director of China Chengxin (Asia Pacific) Credit Ratings Company Limited.

Ms. Tian joined China Chengxin Credit Rating Group in 2008. Prior to her current post, she was the Credit Analyst and Assistant to General Manager of Business Development Department of China Chengxin Securities Rating Company Limited, as well as the Marketing Director of China Chengxin International Credit Rating Company Limited.

Ms. Tian holds a Bachelor's Degree in Management and a Master's Degree in Finance from Southwestern University of Finance and Economics.



Ms. Svetlana Grishankova is the Managing Director of Rating-Agentur Expert RA GmbH since 2013. She holds BSc degrees from the Higher School of Economics in Moscow and University of London, as well as MSc degree in Finance and Economics from the London School of Economics. Ms Grishankova has been working in private equity in London and following that held leading positions in a number of investment projects. She was managing the rating activity in Europe of Expert RA (Moscow) and then fully involved in the foundation of Rating-Agentur Expert RA GmbH in Frankfurt being responsible for the strategy and development of the agency, including its process of obtaining ESMA registration.



Ms. Sabeen Saleem, CFA is CEO of IIRA since 2012. She has 20 years of multifaceted experience in financial risk assessments spanning Banks, Manufacturing Concerns, Fund Managers and Insurance Companies, with specialized focus on Islamic finance in all of these areas. Sabeen has extensive experience working in developing countries. She has been associated with the credit ratings industry for over a decade and has pioneered ratings in the social sector of Pakistan while also being actively involved in research endeavors of considerable significance in the area of Islamic finance. She has a Masters degree from the Institute of Business Administration, Karachi and is also a CFA charter holder.

PROFILES OF PARTICIPATING RATING AGENCIES

VIS CREDIT RATING COMPANY LIMITED - PAKISTAN

VIS Credit Rating Company Limited (VIS), approved by Securities & Exchange Commission of Pakistan and State Bank of Pakistan, is operating as a 'Full Service' rating agency providing independent rating services in Pakistan.

VIS is a joint venture between Vital Information Services (Pvt.) Limited (VIS) – Pakistan's only independent financial research organization, Pakistan Stock Exchange Limited and ISE Towers RIET Management Company Limited.

Previously in 2001, Japan Credit Rating Agency, Japan (JCRA) and VIS had entered into a Joint Venture Agreement whereby JCRA acquired 15% shareholding in the then company (DCR-VIS Credit Rating Co. Ltd.) which has subsequently been bought back by VIS in December 2018. DCR-VIS Credit Rating Co. Ltd. was incorporated in 1997 as a joint venture between VIS, Karachi Stock Exchange Guarantee Limited (KSE), Islamabad Stock Exchange Limited (ISE) and Duff & Phelps Credit Rating Co., USA (DCR). Subsequent to DCR's merger with Fitch IBCA, DCR sold its interests in DCR-VIS to VIS in 2001.

CHINA CHENGXIN INTERNATIONAL CREDIT RATING COMPANY LIMITED - CHINA

China Chengxin International Credit Rating Co., Ltd. ("CCXI") was founded in October 1992. Approved by the head office of the People's Bank of China, CCXI was the first nation-wide credit rating agency in China.

CCXI, together with its wholly-owned subsidiaries CCXR and CCXAP, is officially qualified to provide full-range rating services in China's inter-bank bond market and exchange bond market, as well as offshore market. With the largest business operations and the best quality of services, CCXI enjoys the highest reputation of credit rating services in capital markets.

Leading China's credit rating industry in the past 26 years, CCXI has maintained the largest market share across the capital market, winning a dominant position in structured products and panda bonds. Almost all the first ratings of bonds and financing instruments in China were undertaken by CCXI. CCXAP is the first mainland Chinese rating agency to obtain Type 10 rating license in the strictly-regulated HK market. Qualified to provide credit rating services in the offshore and international market, CCXAP has already served clients from more than a dozen industries.

CCXI has operations and offices across China with regional headquarters in Beijing, Shanghai, Shenzhen, Wuhan and Hong Kong. CCXI has nearly 700 analysts, more than half of whom have overseas education and/or working background.

ISLAMIC INTERNATIONAL RATING AGENCY - BAHRAIN

IIRA has been set up to provide independent assessments to issuers and issues that conform to principles of Islamic finance. IIRA's special focus is on development of local capital markets, primarily in the region of the Organization of Islamic Countries (OIC) and to provide impetus through its ratings to ethical finance, across the globe.

IIRA was founded as an infrastructure institution for the support of Islamic finance as conceived by the Islamic Development Bank (IDB). This puts IIRA in league with system supporting entities like AAOIFI and IFSB. The IDB remains prominent shareholder, and maintains oversight through its nominee, as Chairman to the Board of Directors.

Headquartered in the Kingdom of Bahrain, IIRA commenced operations in 2005 and launched its series of conceptually distinctive methodologies, beginning 2011. IIRA believes that the strength of Islamic finance lies in its commitment to fairness. This renders the manner in which a transaction is carried out, as important as the transaction itself. IIRA's specialized focus on organizational governance and conduct of Shari'ah, augments the rating process, and incorporates the unique features of Islamic finance in a way that broadens the quality perspective.

RATING-AGENTUR EXPERT RA GMBH - GERMANY

Rating-Agentur Expert RA GmbH (trademark RAEX) is a business unit of International group «RAEX» in the European Union. The agency is operating since 2013 and its office is located in Frankfurt am Main (Germany).

The main aim of this credit rating agency is assigning credit ratings in accordance with the most stringent regulatory regimes and codes of ethics, which are in force in the European Union.

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An aerial photograph of a dense evergreen forest, likely a spruce or fir forest, with many tall, thin trees packed closely together. The image is used as a background for the text overlay.

Ending Comments

IIL and ISL strongly believe that our efforts in being responsible corporate citizens directly impact our financial performance. We are gradually improving our sustainability efforts to move towards the circular economy model. We thank you for taking part in this journey and for taking the time to further understand our organizations.

The year that has just ended has been very unexpected with COVID 19 shutting down the entire world in an unprecedented manner which no one had even imagined. Even the world's best managed companies having elaborate risk management systems in place had not forecasted this kind of an eventuality. Manufacturing companies were significantly affected especially in Pakistan where we had a lockdown from the 24th of March till mid May. The Government of Pakistan took some forward looking decisions including smart lock downs and giving very cheap payroll loans in order to ensure manufacturing companies remain sustainable. We have as a nation and as a group taken many a stride to remain sustainable at this difficult time and acknowledge that there is much more to be done as the road ahead is not likely to be easy.

We commit that we will continue to make an effort towards reducing our environmental impact and increasing our social responsibility whilst delivering economically. Both IIL and ISL want to be positive agents of change. In our effort to be more sustainable we would like to instill these concepts to create greater understanding throughout our society.



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