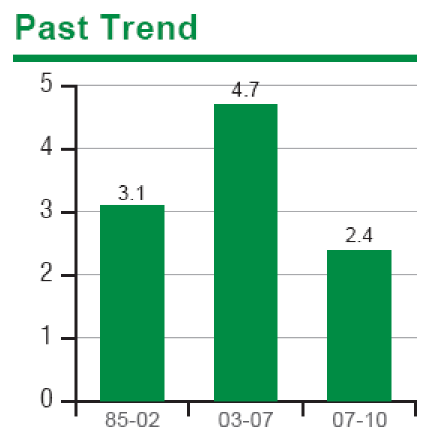
Directors' Report

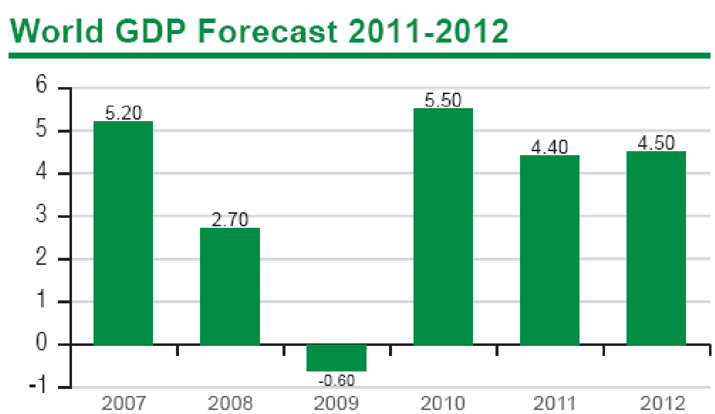
We are pleased to submit the CEO's performance review as part of our 63rd Annual Report along with the audited financial statements for the year ended June 30, 2011.

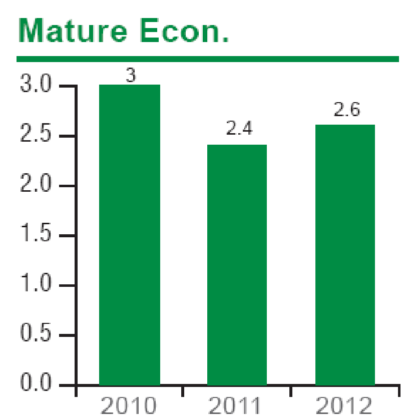
Despite the aftermath of the global financial crises and the worst floods in the history of the country, the Management focused on growth, seeking opportunities to expand the production capacity and strengthening markets.

MACROECONOMIC GLOBAL SCENARIO

The world forecast of GDP growth for 2011-12 is at 4.5%; the mature economies are expected to grow at 2.6% while the emerging economies (led by China and India) are expected to grow at 6.5%.







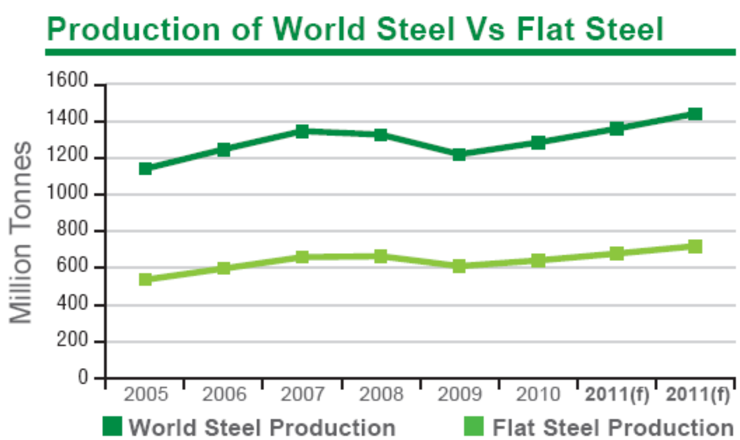
GLOBAL STEEL SCENARIO

Subsequent to the global financial meltdown in 200809, the recovery in steel sector showed a significant shift in demand from the developed world to Asian countries. The associated production in the BRICK (Brazil, Russia, India, China and Korea) countries continued to be a key driver in growth of steel sector. The prices of raw material [Iron Ore and Coke] fluctuated heavily due to demand fluctuation and floods in Brazil and Australia, the two significant raw material providers. The scarcity of supply of raw material resulted in increase of price of steel and the cost of Hot Rolled Steel spiked to well over USD 825/= per ton in 2011. However, the prices have relatively stabilized shortly after this spike.

In 2011-12, the emerging markets of Asia are expected to witness strong growth in their steel industries due to robust demand for construction and civil engineering, automotive and mechanical engineering especially in India and China; however the developed world may not see the same growth rate. Crude steel production costs are likely to increase due to forecast price increases for iron ore, coking coal and energy. The main criteria for profitability of all steel players would however remain same i.e. well managed operations and adequate capital expenditure in line with market trends.

THE WORLD STEEL TUBE AND PIPE INDUSTRY:

Around 45% of the World's Steel is converted into flat rolled products. The tube industry is an important part of the world steel industry accounting for 10% of the World's steel consumption.



Pipe consumption after peaking at 102 million tons in 2008 dropped to 85 million tons in 2009 and 99 million tons in 2010. Consumption in 2011 is expected to be at a record of 108 million tons with 2012 demand expected to cross 115 million tons. China in 2008 produced 1/3 of the pipe in the world while in 2010 more than half the pipe was produced in China.

PAKISTAN ECONOMY:

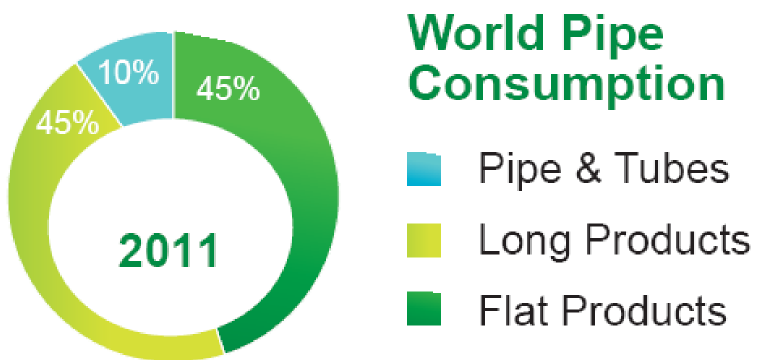
As a whole, 2010 is one of the worst years in economic history of Pakistan. The poor performance of the economy in year 2010 was caused by floods in summer and relatively poor economic and financial management. The recent floods also played havoc with infrastructure and agriculture. Pakistan needs

billions of rupees for the rehabilitation of affected people and for the reconstruction of infrastructure but government is handicapped owing to the shortage of funding.
Corporate earnings however have remained good in this year and the outlook for the future will remain optimistic as long as the main objective of government policies is to raise the standard of living and improve the socioeconomic conditions of the people and thus reduce the incidence of poverty, to control inflation, reduce the level of unemployment, sustain high level of GDP, and ensure a higher level of transparency through good Governance.

MARKET SHARE:

Pakistan continues to have one of the lowest per capita steel consumption in the region and your company's focus remains on maximizing volume at the cost of margins. Pakistan steel consumption remains at around 7 million tons or less than 40 Kg per capita.

The global tube industry is an important part of the whole world steel industry accounting for 10% of total carbon steel. Hence, domestic pipe demand is expected to be at the same level as the international bench mark of 10% of total steel demand.



IIL's domestic sales in the last year crossed 137,000 tons. The balance demand of over 600,000 tons is met by over 50 other manufacturers located all over the country.

COMPANY'S OPERATIONS

OPERATING SEGMENTS

These financial statements have been prepared on the basis of steel and plastic segment in the manner consistent with the internal reporting structure. Management monitors the operating results of its business units separately for the purpose of making decisions regarding resource allocation and performance assessment.

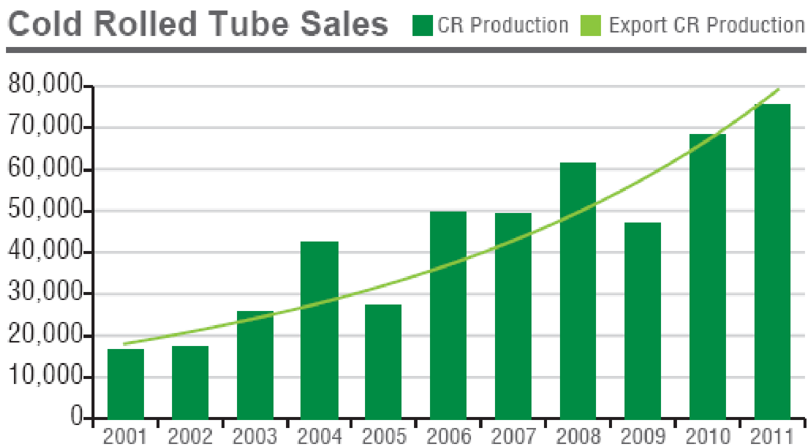
STEEL SALES

Despite the calamity of unprecedented floods and the challenge of fragile law & order; high inflation, slowdown of large scale manufacturing sector, the gross sales grew by 18 % to over PKR 18 billion in

2011 from PKR 15 billion in 2010. While the volume grew by 5% to over 194,000 tons.

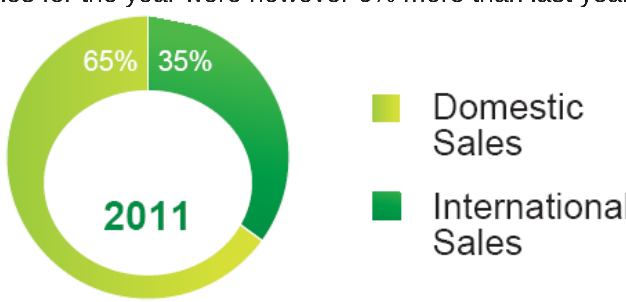
In 2011-12 your company continues to follow the strategy of increasing its sale of CR tubing by continuing to enhance our production capacity and product range.

We have been successful in increasing sales of CR tube by 14% over the previous year and we are targeting 30% growth in the next financial year, where we hope our CR tube sales will cross 100,000 tons.



DOMESTIC SALES:

The demand of GI pipes suffered heavily due to the worst floods in the northern areas of the country due to which construction activities were brought to a halt for almost half of the period, consequently the company was unable to maintain its GI sales which were 10,000 tons less than the same period last year. The Domestic CR tube sales for the year were however 6% more than last year.



INTERNATIONAL SALES:

The Company re-enforced its presence in strategic markets like Afghanistan and Sri Lanka in addition to other markets of UAE, Bahrain, Kuwait, North America and European countries etc. as our exports crossed over USD 60 million. IIL has contributed valuable foreign exchange earnings for the country by exporting 63,000 tons to international markets which is 26 % higher than last year. International sales comprised 28% of total sales and crossed Rs. 5 billion for the first time.

POLYETHYLENE SALES:

Polyethylene sales has recorded a strong performance and grew by 27% to 6,000 Tons from 4,700 Tons last year, crossing the sales figures of more than PKR 1 billion in the 5th year after the commencement of PE division.

In anticipation of our future expansion our PE facility has been shifted at the start of year 2011 to a better & bigger facility at a 10 acre site where we will increase our product range to a maximum size of 650mm from the existing 250mm.

We are also continuing to export our PE pipe while our new product PEX pipe has now also been launched in the domestic market.

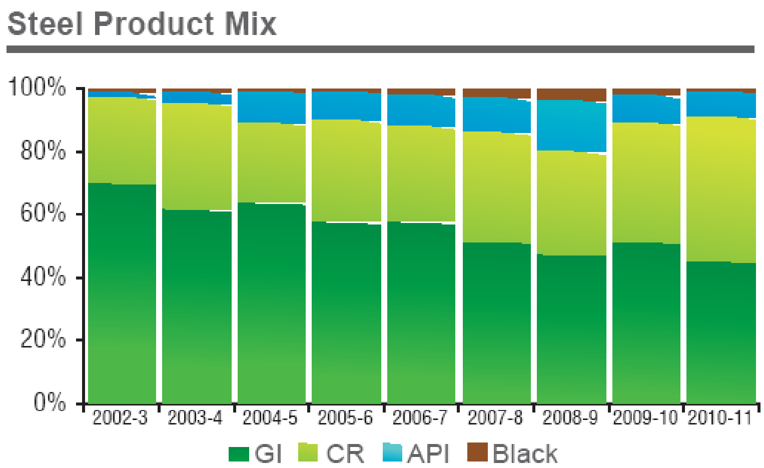
PE Plant

GROSS SALES

Your company gross sales volume crossed the 200,000 tons landmark for the first time, inclusive of 6,000 tons of PE pipes.

PRODUCTION:

In this year there were no significant challenges being faced by the production department, as we had ended the last year with fairly high stocks. Space restrictions and our desire to reduce stocks in this year only allowed us to produce 5% less than last year.



Our new Japanese slitter was commissioned during the year preparing us for the challenge of 2011-12 and the growth to come in next 2-3 years.

Japanese Slitter

FINANCIAL REVIEW

THE COMPANY'S RESULT

The Company has had another successful year with net turnover of Rs 15,851 million which is 18% higher than last year, gross profit of Rs 1,812 million, profit before tax of Rs 1,269 million while the profit after tax is Rs 1,030 million. These turnover figures are highest ever thus heralding another milestone for the company.

Revenue from the steel business stood at Rs. 14,831 million and plastic business at 1,020 million yielding a gross profit of Rs. 1,717 million and Rs.95 million, respectively. The profit from the steel business was lower than the previous year mainly due to reduced margins and increased financial cost of around Rs.

250 million on account of investment in International Steels Limited (ISL) and Pakistan Cables Limited (PCL).

Cost of goods sold for the year remained at Rs. 14,039 million, 25% higher than the last year. This increase is primarily due to increase in sales volume by 4% and increasing steel prices by 26% as compared with last year.

Selling & Marketing expenses of Rs. 418.99 million for the company ended up Rs 34.98 million (9%) higher than the last year. This increase is attributable mainly due to the increase in advertising & sales promotion activities.

Administrative Expenses of Rs. 197.579 million for the year have also shown an increase of Rs. 62.69 million (46%) due to increase in salaries and wages.

During the year ended June 30, 2011, the company has witnessed a substantial increase in the financial charges by Rs. 321.50 million (125%). Although the financing requirements have been curtailed to the minimum level, however increase, is principally due to long term investments in ISL and PCL.

Other charges have decreased by Rs. 7.60 million (3%). Other income of the company which shows a substantial increase of Rs. 751.76 million in the current period includes onetime profit of Rs. 706.27 million, earned by the company on the divestment of 43.67% shares in ISL at a premium of Rs 4.06 per share.

The Company also received substantial cash flows of Rs. 2,606 million as a result of sale of shares in ISL on premium; the price of ISL shares was determined through a transparent book building process. The earnings per share are at Rs 8.59 per share. The Company has also won KSE Top 25 Companies Award 2007-08 during current financial year.

CONSOLIDATED FINANCIAL STATEMENTS:

As fully explained in note 1.3 to the consolidated statements, during the year the company divested shares in its wholly owned subsidiary company (ISL), without losing controlling interest. As a result of the above activity, your company recognized a net gain of Rs. 645.890 million in the consolidated financial statements.

The net gain of Rs. 645.89 million, in accordance with requirements of para 30 & para 31 of IAS 27 (Consolidated and Separate Financial Statements), has been recognized in the consolidated financial statements, and directly in statement of changes in equity. In addition to this, the consolidated financial statements includes a loss after tax of Rs. 92.19 million of subsidiary company (ISL) as fully explained in note 6.1 to the consolidated financial statements, a net gain of 10.81 million, on account of equity accounted investee, namely Pakistan Cables Limited, has also been recorded in the consolidated financial statements.

SEGMENT RESULTS

Sales revenue for steel and plastic segment stood at Rs. 14,831 million and Rs. 1,020 million respectively. The gross profit for the year for steel segment was Rs. 1,717 million while for plastic segment it was Rs.95 million.

CASH FLOW STRATEGY:

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

IIL has in place numerous policies, including risk management policies, which are well documented and approved by the board.

During the financial year 2010-11 weighted average cost of borrowings including the exchange loss was around 6.8% per annum as against last year average borrowing rate of 9.6%.

CAPITAL STRUCTURE:

The company's debt structure was subject to major change due to hive down / sales of ISL shares at premium during the year. As a result the long term debt equity ratio dropped to 67:33 on June 2011 as against 75:25 as on June 2010.

CORPORATE SUSTAINABILITY:

ENERGY CONSERVATION:

In IIL we continue to generate 4MW of electricity via co-generation with waste heat being used to generate free steam and waste hot water being used to generate chilled water. As a result all our water cooling and air conditioning requirements are now met using this chilled water.

Power Plant

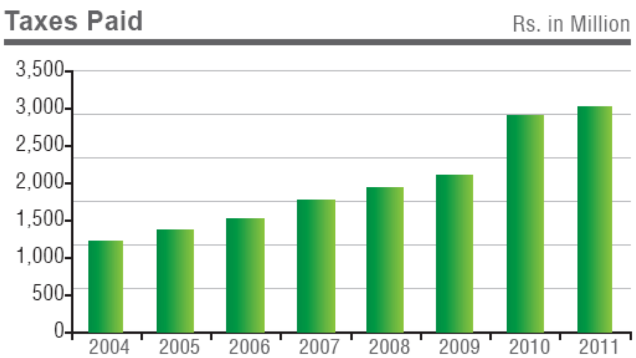
We also continue to synchronize our power generation with the KESC grid & thus export all excess electricity to the KESC especially on holidays, hence fully utilizing our co-generation facility. We have also set up a Reverse Osmosis plant and we can now meet part of our water requirements through recycling of water taken from our own wells.

ENVIRONMENTAL PROTECTION MEASURES:

In IIL we continue to protect the environment around us by neutralizing our emissions using 100 ft high fume scrubbers prior to discharge. All our effluents are neutralized in an Effluent Treatment Plant prior to discharge. IIL has also won for the 4th consecutive year the Annual Environment Excellence Award 2011 awarded by the National Forum for Environment & Health. IIL is also registered with the Ministry of Environment under the self-monitoring and reporting tool program and reports periodically effluents and emissions of power generation processes. HSE continue to be a hall mark of all our operations and despite unpredictable environment all IIL staff & assets remained safe due to proactive approach of safety measures and a commitment to our safety culture.

CONTRIBUTION TO NATIONAL EXCHEQUER

The company has made total contribution of Rs. 3,027 million towards National Exchequer comprising of income tax, sales tax, duties and other taxes.



CORPORATE SOCIAL RESPONSIBILITY

As a responsible corporate citizen your company plays its role of protecting the environment by recycling almost all the scrap and chemicals. We not only use the electricity co-generation for our own use but also supply on KESC grid. We have adopted measures to use the energy and water resources in the most efficient way.

Mosque - near IIL Factory

Our continuous commitment is to behave ethically and contribute to economic development while improving the quality of life of our employees, other stakeholders as well as of the local community and society at large. We believe, practice and support ethical practices in our business and social commitments. The company has a well-defined donation policy of supporting organizations which are working for improvement in health and education sectors.

COMMUNITY WELFARE SCHEMES

During the current year, the company paid Rs. 24.77 Million to various organizations as donations. We have funded and are supporting two Citizen Foundation [TCF] Schools in the vicinity of the factory, equipped with modern facilities and teaching staff, providing education up to Matriculation level to almost 500 students. IIL has also set up a Madadgar Police Center in Landhi. The mosque constructed opposite the factory

TCF School - IIL Campus

Madadgar 15 - donated by IIL

is maintained by the Company. Additionally we have a sponsored chair at the Aga Khan University Hospital & Institute of Business Administration [IBA], while we continue with the 25 scholarships for meritorious and needy students in NED University of Engineering. We also have a policy to encourage educational support to children of our employees and ex-employees who cannot afford to pay the fee.

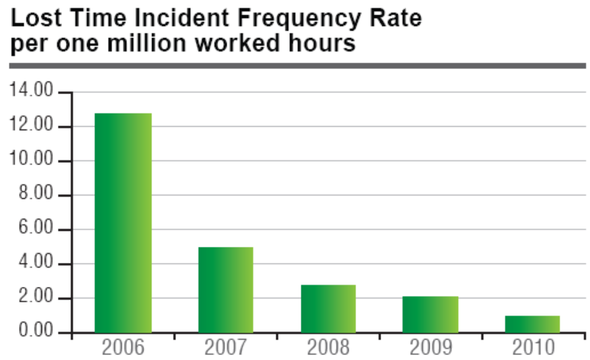
On the health front we continuously support prestigious institutions like SIUT, the Kidney Center, Marie Adelaide Leprosy center, LRBT, Al-Umeed etc. We also continue to extend financial support to provide health facilities to our employees, ex- employees etc. who are in need of health care which is out of their reach.

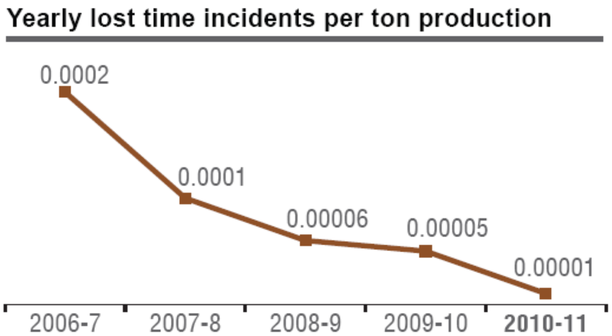
HEALTH, SAFETY AND ENVIRONMENT

IIL continually strives to align HSE management systems & processes to best practices. We conduct our business in a manner that protects the health and safety of our employees, contractors & communities in which we operate. We base our policies on the belief that all incidents are preventable. IIL is committed to provide a system that helps in eliminating unsafe & unhealthy work conditions. Hazard identifications and risk assessment are being performed, reviewed and all necessary preventive measures are taken to minimize the accidents. Emergency preparedness and response procedures and plans are established to deal with incidents and emergencies. Exercises are periodically carried out in order to check the effectiveness of the plans. The system is checked and verified through internal audits and external audits on bi-annual basis to check the adequacy & implementation of HSE management system. Employees involved in plant operations are given regular HSE trainings on First aid & Rescue Operations, emergency preparedness and response, HSE management system, safe driving etc. During this year 133 HSE training sessions covering 1433 staff were conducted. Through practical implementation of HSE management system of global standards ISO-14001 & OHSAS18001 and untiring efforts of management, employees & contractors, we were able to accomplish lost time incident frequency rate (LTIFR): 0.95 per one million worked hours which is well below current average global incident rate 2.60 of world steel organization. HSE performance witnessed during this year is depicted graphically as below.

CASE STUDY: A SUCCESS STORY

To create a healthy competition amongst different departments in Health, Safety and Environment a Monthly Safety Walk by senior management was initiated. The purpose of the walk is to witness the pre-defined HSE parameters and its weightage; such as Compliance of PPEs, No. of incidents, Housekeeping conditions, HSE trainings & safe crane operations. After walk the best department is awarded a Trophy by Chief Operating Officer and Hi-tea is given to the winning department to celebrate the occasion. This initiative has brought good results for improvement of HSE performance (70% reduction lost time incidents) and Housekeeping.





HUMAN RESOURCE MANAGEMENT

IIL is offering a conducive working environment and dedicated workforce that are instrumental factors of our productivity & success. We take pride in hiring, developing and retaining the best talent through our transparent succession planning, career building policies and compensation. Presently we have more than 1500 employees out of which 200 are in the management cadre of which 93% are graduates.

Staff at work

The Company has supported the Apprenticeship Training Program of Govt. of Sindh and has trained more than 875 Apprentices and absorbed about 430 Apprentices against permanent vacancies during the last ten years. Apart from this, the Company also inducted Graduates from IBA, NUST & NED University under internship program that provided them an exposure to learn and sharpen their skills under a professional environment.

Adult Education

We have a young and educated work force with average age of 33 years. Our philosophy has always remains to ensure that the working class is well paid and looked after and we hope this will continue to pay us dividends in the years to come.

INDUSTRIAL RELATIONS

Your company started the Adult Literacy Program in which the workers were taught in small groups, which by the grace of God has brought almost 100% literacy in the Company.

Long service awards distribution ceremoney

Long service awards which included laptop, LCDs, Televisions, DVD Players, and Sewing Machines along with certificates were distributed to 280 workers who are associated with IIL for more than 10 years. To commemorate the occasion a lunch was held at the factory where awards were presented by the Managing Director.

GRATUITY AND PROVIDENT FUNDS

The Company maintains plans that provide retirement benefits to its employees. These include a noncontributory gratuity scheme for all employees and a contributory provident fund for all employees except unionized staff. Both plans are funded schemes recognized by the tax authorities. The latest actuarial valuation of gratuity scheme was carried out at June 30, 2011. The Company has fully paid all its liability obligations on the above schemes up to June 30, 2011. The value of the recognized provident fund at the end of the year is Rs.165.55 million. The value of the approved gratuity scheme at the end of the year is Rs.165.61 million.

EMPLOYMENT OF SPECIAL PERSONS

Despite the fact that steel industry bears its own operational challenges, we do have some special persons amongst the workforce.

BUSINESS ETHICS AND ANTI-CORRUPTION MEASURES

IIL is an active member & signatory of United Nations Global Compact and is therein committed to adhere to the principals in the areas of human rights, labor standards and environmental protection. For us, the corporate success has always been and always will be based on the respect for the moral values and the satisfaction of the ethical, legal and social expectations. IIL has well established internal controls in place. The internal controls review has been outsourced to Chartered Accountants firm. The independent Audit firm assesses the internal control systems, and the Audit Committee reviews the reports regularly.

INFORMATION SYSTEMS AND RE-ENGINEERING:

The Introduction and implementation of ORACLE ERP BUSINESS SUITE has brought considerable improvement in the areas of functional integration, internal control and adoption of best practices. This helps generation of real time reports for the management which has induced extremely efficient and optimal decision making.

BUSINESS RISK AND CONCERNS:

Your Company is the volume leader in steel Pipe Industry, operating in steel & PE Segments. The Steel segment portfolio can largely be bifurcated into two key products: Galvanized Pipes and Cold Rolled Tubes. We also have polyethylene pipe manufacturing features which cater to diversified PE pipe market. Steel is the key raw material of the company's products, which is mainly imported from international markets.

The global trends in Steel prices have been very volatile. The key to remain profitable in a highly volatile market is well managed operations, smart inventory management and adequate capital expenditure. IIL's management believes that the global steel demand will continue to grow in the medium and long term. In particular we believe that the growth potential for steel, a 100% recyclable green product, in Pakistan is tremendous.

Our learning from the global financial crises of the recent past has encouraged us to continuously be as productive and lean as possible, in inventory management and cost control.

Your company will therefore continue to invest in increasing its cold rolled tube making capacity and will ensure continuous investment in balancing modernization and refurbishment to ensure that its CR tube making technology is continuously upgraded and cost effective.

Our 4 MW gas fired power plant continues to operate well and with KESC as a backup. We InshaAllah do not expect to be affected by any potential gas shortage. The company is cognizant of concentration risk in business and therefore, regularly reviews top 10% suppliers and customers.

The company has a sizeable investment in its subsidiary ISL, which is in the business of flat steel products including Cold Rolled Coils and Galvanized Coils. ISL started its commercial operations in second half of FY11. IIL shall be able to reap benefits from the economies of scales in the supply chain as both IIL & ISL shall procure economically. Being the Holding Company, IIL shall benefit from the operations of ISL, in the form of dividends, which will add to IIL's profitability.

FUTURE PROSPECTS:

International Steels Ltd (ISL) - A new beginning.

ISL started commercial operations in January 2011, comprises of state of art unit with a cold rolling mill and a galvanizing plant having an installed capacity to produce 250,000 tons of Cold Rolled Coils and 150,000 tons of Galvanized Coils. This unit is located on 32 acres of land in Landhi and is also is equipped with a dedicated combined cycle 19.2 MW power plant, Acid regeneration, Hydrogen and Nitrogen gas generation facilities, Reverse Osmosis water plant etc., which ensures uninterrupted production of prime quality products with maximum level of efficiencies. With the planned expansion the production capacity can easily be increased to 400,000 tons of Cold Rolled Coils, for which the infrastructure has already been provided for. Subsequent to the Orders of the Sindh High Court, the Cold Rolled Steel & Galvanized Steel Project Undertaking was separated from International Industries Ltd [IIL] on August 24, 2010. Accordingly all the assets and liabilities associated with this Steel project were hived down to the wholly owned subsidiary. The total project cost of ISL was Rs 8.7 billion out of which equity contribution by IIL was PKR 4.35 billion while the remaining cost was met by LTFF scheme of SBP and short term borrowings.

On April 1, 2011, SECP approved the Scheme proposed by IIL to divest up to 45% shares of ISL, partly by offering shares to Financial Institutions, Strategic Investors (IFC & Sumitomo Corp, Japan), foreign investors, High net-worth individuals and general public on the basis of price to be determined by book building process. The share price was determined through a Book-building exercise on April 14-15, at Rs 14.06/share. IFC and Sumitomo Corporation, Japan, purchased 9.3% and 9.08% shares respectively as per the approved scheme, while JFE Steel Corporation, Japan, purchased the entire segment of 4.74% allocated for foreign investors in the said scheme. The public Offer was held at the same price, on 3rd and 4th May and the Company was successfully listed in KSE on June 1, 2011.

ACKNOWLEDGMENT

This is my 47th year with IIL and 35th year as its Managing Director. The company and I have seen through many years together as it grew from a small pipe manufacturing company with a net worth of Rs

1.6 million, to the largest pipe and tube manufacturing concern in the country, which by the Grace of Allah, has an equity of more than Rs. 5 billion.

Your company began its major growth phase in the year 2003 and this trend should continue given the focus on sustainable business development. The time is now ripe to handover the leadership of the company to a younger management. The Board of Directors of the company has appointed Riyaz T. Chinoy as my successor. I will continue to remain available to him for advice and I wish him all the success in growing the company in line with the vision and mission strategy. I would like to take this opportunity to pay homage to my late mentor Mr. Amir S. Chinoy who was Chairman from 1976 to 1998 when he passed away. He guided all of us deftly and with the utmost consideration for 22 years the major portion of my tenure as Managing Director.

Mr. J.R. Rahim was Chairman from 1998 to 2009 and all thanks are due to him for his guidance and support of our aggressive expansion policies.

I especially record my thanks to Mr. Zakaullah Khan who has been responsible for the brand name IIL as we know it today. I would like to take this opportunity to record my admiration of the outstanding person he is. A number of high quality professionals served on the Board in my 35 year tenure and I sincerely thank them for their contribution.

Finally I would like to record my thanks to Mr. Kemal Shoaib, the outgoing Chairman of IIL, who is retiring today in order to move with me to ISL as its Chairman. His contribution to the IIL Board over the last 12 years particularly the last two as Chairman in general and his assistance in the hiving down of ISL from IIL are indeed noteworthy.

On behalf of the board I extend my sincere thanks and appreciation to all employees, customers, shareholders, bankers, suppliers and other stakeholders for their loyalty and support to the company through my tenure. With prayers to Allah for the continuous prosperity of your Company.

For and on behalf of International Industries Limited.

Towiq H. Chinoy

Managing Director/ Chief Executive

Karachi Dated: 11th August 2011