Directors' Report

The Directors of International Steels Limited are pleased to present the 15th Annual Report accompanied by the audited financial statements for the year ended June 30, 2022.

Global Steel Scenerio

The global steel prices collapsed by almost 40% after hitting a record high to USD 1,100 this year.

A significant downward adjustment commenced in prices of major raw materials mainly iron ore and coking coal. Iron ore and coking coal prices after peaking to USD 176 and USD 450 corrected to USD 110 and USD 220 respectively.

The global market has weakened since March 2022 as spiraling inflation, COVID lockdowns in China particularly in Shanghai as part of its zero-tolerance policy to COVID and Russian Ukraine conflict have all heightened demand outlook uncertainty.

World crude steel production remained at 1.9 billion metric tons during the year, with a decrease of 3% as compared to the last year's production of 1.96 billion metric tons. China continued to lead the global steel market however, its total production decreased by 11% as compared to last year decreasing its overall share in the global output to 52.5% from 57% of last year mainly due to Covid lockdowns and state mandated measures to reduce carbon emissions.

Despite COVID and supply chain constraints, the steel demand recovered strongly in western and US markets. However, the recovery has been short lived due to ongoing conflict in Ukraine and potential supply chain disruptions.

National Economy

Economy struggled due to its macroeconomic vulnerabilities and impact of higher commodity prices. Although the growth numbers for the year 2021-22 are impressive:

GDP GROWTH **5.97%**	LSM GROWTH **11.7%**
RECORD EXPORTS OF **$31.8 BILLION**	RECORD REMITTANCES OF **$31.2 BILLION**

However, such high growth for an import led economy is at the cost of depleting exchange reserves and widening current account deficit. With the rising global commodity prices, the current account deficit widened to USD 17 billion against USD 1.9 billion of last year. Rupee depreciated significantly by 31% to Rs. 205 to USD from Rs. 157 last year. Average inflation recorded as high as 12.15% against 8.9% of last year.

Government along with the central bank took following tightening measures to slow down economy:

- Policy rate increased by a cumulative **8% to 15%**
- **100% cash margin** on LCs of selected sectors, including HRC
- **Withdrawal** of fuel subsidy
- **Increasing** Energy Prices
- **Imposition of super tax** on profits of selected industries including steel

These measures have tightened financial conditions and increased borrowing costs especially for the Large Scale Manufacturing sector and resulted into demand suppression.

Business Review

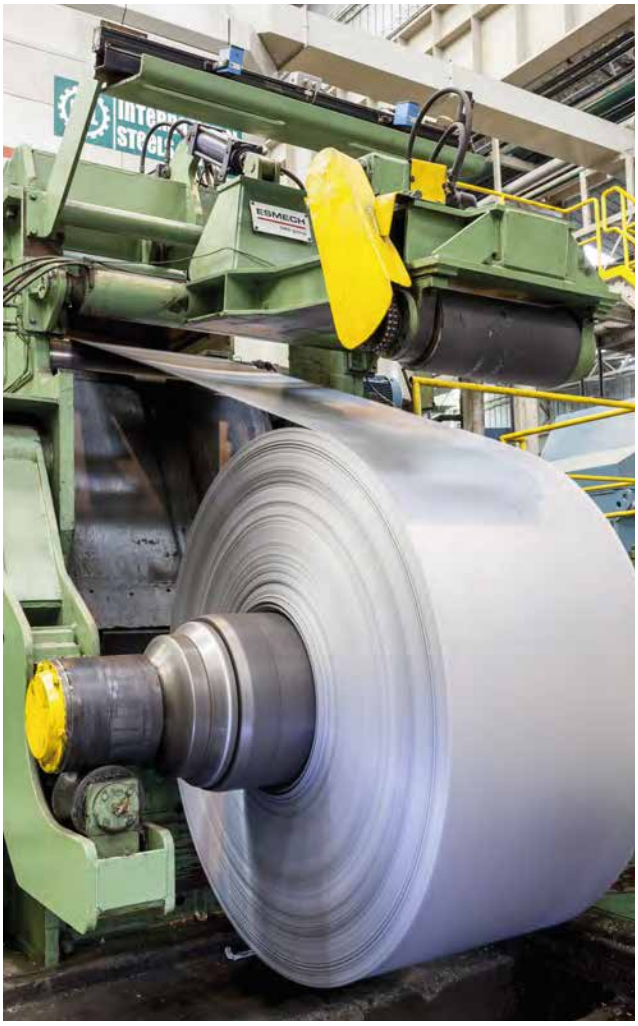
Post COVID surge in demand slowed down in the current year. The volumes declined by 14%, however, the revenues reflected a robust growth of 31% from Rs. 69.8 billion to Rs. 91.4 billion. Exports contributed positively increasing by 57% as Company expanded its global footprint.

The Company had been very vigilant and kept a close eye on the dumped imports of flat steel products in Pakistan. Antidumping duties on flat steel products including Cold Rolled Coils, Galvanized Coils and Color Coated Coils which were imposed in the years 2016, 2017 and 2018 for a period of five years had been subject to expiry review during the current financial year. Upon request of the Company, antidumping duties on dumped imports of Cold Rolled Coils were continued for further period of five years by the National Tariff Commission of Pakistan. Review for antidumping duties imposed on dumped imports of Galvanized Coils is in process and the Company is confident that these antidumping duties will also be continued for a further period of five years. Expiry review of Color Coated Coils will start in the coming year.

The Company has been actively defending the imposition of antidumping duties before various judicial forums including the Antidumping Appellate Tribunal and the Superior Courts. With its efforts, the Company had been able to counter the dumping practices which has helped the company to maintain its market share. The imposition of antidumping duties on dumped imports of CRC from Korea and other countries as well as continuance of antidumping duties as above played a major role for your Company to increase its revenue particularly when the cost of sales has increased due to multiple factors discussed above. Otherwise, the post-covid piled-up stocks in exporting countries would have made it impossible for the Company to maintain or increase its sales revenue. The sales tax and income tax exemptions to manufacturers in the erstwhile FATA / PATA regions have grossly been misused and abused.

The concession was granted by government to expedite development in the region however, the abuse of concession resulted in serious damage to industry besides revenue loss for the federal government. On persistent follow up by the Company, government has incorporated a system of checks and balances to prevent the misuse. Increase of around 114% in the interest rates from 7% to 15% and introduction of 100% LC margin on HRC imports significantly increased the finance cost by 63% over last year. This increase was contained by effective inventory management and manufacturing costs. Extreme volatility in the exchange rate costed a net exchange loss of Rs. 617 million. Record high freight costs increased the freight expense by 52%.

Furthermore, the imposition of a super tax of 10% in June 2022 on profits of the Company further impacted the bottom line. Your Company still managed to post profit before tax of Rs. 8,000 million and profit after tax of Rs. 5,412 million against profit before tax of Rs. 10,295 million and profit after tax of Rs. 7,466 million last year.



The total production for the year was 411,000 tons as compared to 492,000 tons of last year.

The gross margin declined to 13.54% from last year's 19.3% mainly due to volatility in raw material prices. Company managed to maintain healthy margins due to favorable raw-material purchases and effective inventory management.

The Company, in line with the country's objective, continued with its strategy to enhance the international presence. The revenue from export sales has increased by 57% this year touching Rs. 18.7 billion as compared to Rs. 11.9 billion.

Despite global supply chain disruptions, the Company managed to export 87,000 tons primarily in bulk shipments.

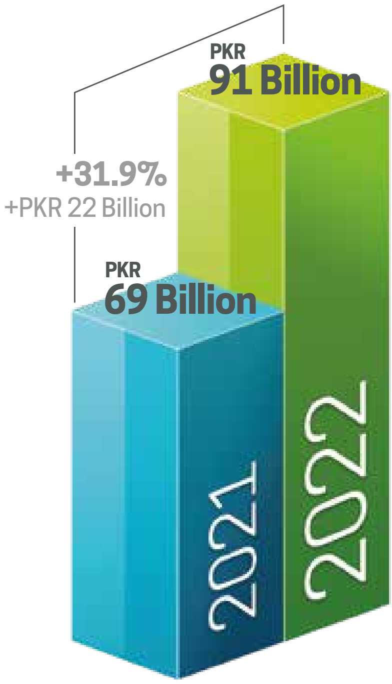
Dampened demand, an overall slowdown in the local market exacerbated by the political uncertainty in the second half of the year have restricted growth.

Forecasts for the upcoming year are challenging. The enhanced manufacturing capability has enabled the Company to lead the market with fulfilling demand in local and international markets and import substitution.

Sales

With a strong first quarter, the steel demand continued to decline in rest of the year. However, your Company continued with its aggressive market development activities complementing it with a sustainable enhancement in the product quality.

The company managed to achieve strong sales of Rs. 91.4 billion, 31% higher than the last year's sales of Rs. 69.8 billion.



The Company produced and sold various specialized grades for auto sector including high tensile strength material and TMBP which will continue to ensure significant savings in foreign exchange. The company already pursues a well-designed strategy to increase its global footprint. Slow-down in the domestic market was balanced by export contracts at good prices.

Export contracts were fulfilled though bulk shipments due to limited container's availability. As a result, the export sales increased by 57% touching Rs. 18.7 billion constituting 20% of the overall net sales value.

The total sales volumes of the prime product remained at 424,000 metric tons comprising 240,000 metric tons of Galvanized and 184,000 metric tons of Cold Rolled Products.

This was the second year of operations of the state-of-the-art Service Center. Sales from Service Center almost doubled during the year reaching to Rs. 9 billion as compared to Rs. 4.6 billion of last year.

The Company continued to consolidate and leverage its nation-wide dealer network, however special focus remained on quality enhancement along with exploring and developing the export markets.

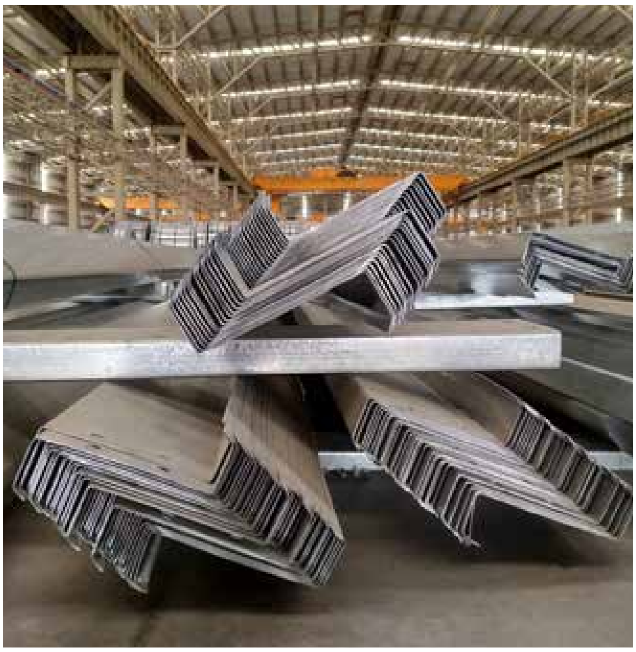
Manufacturing Operations

Current year production was 411,000 tons, reflecting a decrease of 16.5% over the previous year based on subdued demand in the local market.

Availability of gas remained a challenge this year as well in winter months however, management continued to focus on effective supply chain management to ensure its product availability in the market.

The rewinding line with an electrolytic cleaning section designed specifically to debottleneck cold rolled capacity and increased efficiency in TMBP production. The investment has been financed using Temporary Economic Refinance Facility (TERF) and Long-Term Financing Facility (LTFF) offered by State Bank of Pakistan at exceptionally concessionary rates.

C&Z Purlin machines have also been successfully commissioned at Service Center and started commercial production catering to the needs of construction sector.



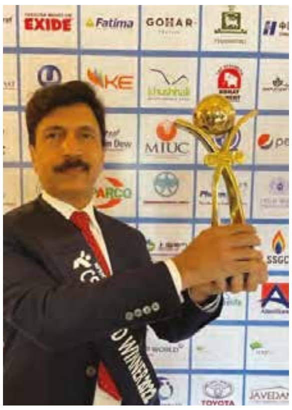
Health, Safety and Environment

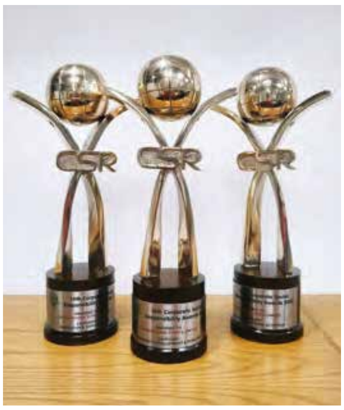
Company believes in and is fully committed to improve Health, Safety and Environment standards to achieve sustainable HSE performance.

Process Safety and Behavior Based Safety across the organization is ensured through HSE Management System integrated with the Company's organization scheme and the Company is on track of continuous improvement with focus to achieve and sustain leading levels. The Company has a dedicated Health, Safety and Environment department manned by the subject matter experts. We have engaged a top notch HSE expert in the development of behavioral based safety culture to create a sustainable and safe working environment for our people, customers, contractors and the community.

Standard Operating Procedures (SOPs) have been implemented to combat COVID with zero tolerance policy. The Company continued its operations throughout the year with strict adherence to the SOPs. Employees have been actively encouraged and motivated for vaccination as well as booster dose. The Company provides full medical and financial assistance to the employees and their families for any illness including COVID.

Implementation of focused safety programs, environmental standards and strong visible leadership resulted yet another year without any major incidents. Your Company continued to comply with National Environmental Quality Standards including best practices for air emissions, noise, portable water and industrial effluent. The Company again won three Corporate Social Responsibility Awards at the National Forum for Environment and Health (NFEH).





The Company is operating an incident management program using "Safesite" as a tool. It assists in reporting unsafe acts and conditions, near misses and incidents as well as ensuring the key learnings are shared across the organization.

The Company conducted environmental monitoring in compliance with Sindh Environmental Protection Agency (SEPA) requirements at ISL Factory and Service Centre in the month of June 2022. World Environment Day - 2022 under theme of "Only One Earth" was celebrated by ISL Team on June 06, 2022, at Arabian Sea Country Club, Karachi.

Energy Management

Company's 19 MW co-generation power plant continued to operate satisfactorily, the heat recovered in the process meets most of the utility needs of the process and in line with our practice, excess energy is supplied to K- Electric.

Financials

The Company has continued its growth streak in its revenues. With a growth of 31%, the current year's revenue reached Rs. 91.4 billion. The gross margins stood at Rs. 12,381 million compared with Rs. 13,492 million last year.

Administrative expenses decreased by 6% to Rs. 340 million as compared to last year of Rs. 362 million despite a yearly increment in salaries and wages to employees.

The Company rationalized its legal and professional expenditure by reorganizing its team of legal and professional experts handling its legal and tax matters. Selling and freight expenses increased by 52%, mainly due to record increase in global freight rates. Other operating expenses remained at almost the same level as last year with a minimal increase of 2% to Rs. 1,308 million. Major portion of these charges comprises WPPF of Rs. 430 million and WWF charges of Rs. 172 million both of which have decreased due to being the function of profit before tax. The Company incurred Rs. 617 million of net exchange loss due to extreme volatility in the exchange rate.

Financial charges increased significantly by 63% and stood at Rs. 1,323 million against last year's Rs. 812 million mainly due to higher interest rates and imposition of 100% cash margin requirement on import of HRC exerting pressure on working capital requirements. A super tax of Rs. 716 million increased the effective taxation rate for the year.

Improving working capital and cash flow management have always been the Company's focus. However, the domestic slow down increased the inventory in hand in the Company's books negatively effecting the cash generated from operations closing at negative Rs. 3,453 million. Despite such a massive increase in the closing inventory value, the sales tax receivables were well managed increasing by only 10%. Concerted efforts were put in to obtain sales tax refund of Rs. 911 million during the year.

Earnings Per Share

Earnings per share for the year ended June 30, 2022 were Rs. 12.44 compared with Rs. 17.16 per share last year.

VIS Credit Rating

In its interim rating review in March 2022, VIS Credit Rating Company Limited has maintained the Company ratings of 'A+/A-1' (Single A Plus/A-One). Outlook assigned to the rating is 'Stable'.

Human Resources

The Company maintained industrial peace and a positive and enabling work-environment for all employees in the organization by promoting candor and fairness.

The Company continued its efforts on development of personnel at all levels, proactively building capabilities and retaining talent for business continuity. Employee engagement has been managed with robust policies and procedures. Day long team building activities were organized this year again by the HR department involving various team games and cross departmental exercises to foster networking and coherence amongst departments.

A state-of-the-art gymnasium continues to operate to encourage employees to adapt a healthy lifestyle.

The Company successfully continued its operations with an optimal headcount of 705. The Company has formulated a firm succession plan, which includes performance evaluation and appropriate training requirements for development of potential future leaders.

The Company continued to enhance capabilities of employees by providing them development opportunities in prestigious institutions including LUMS, IBA, ICAP, MAP and PIM.

In recognition of its good HR practices, the Company was again the recipient of the Employers' Federation of Pakistan 'Employer of the Year Award'.

Corporate Social Responsibility

The Company is committed in supporting the community and has a policy to contribute at least 1.5% of its profit after tax. The Company contributed Rs. 85.6 million, 1.58% of its profit after tax, to different health care, educational and social uplifting projects.

Healthcare

The Company regularly supports various healthcare facilities including SINA Health Education and Welfare Trust, SIUT, LRBT, Karwan-e-Hayat, Al Rehmat Benevolent Trust, AKUH Patients Behbud Society, The Indus Hospital and The Kidney Centre to ensure provision of quality healthcare facilities to the less privileged section of the society.

Education

ISL believes that the future of our country is linked with high quality education. Education is critical for sustainable economic development as well as human and social interaction within society. The Company has continued to maintain scholarship program in NED University for the deserving talented individuals. Regular support is extended to Habib University Foundation, Hunar Ghar and The Citizens Foundation Chinoy Campus at Landhi to cater growing needs of education and vocational training.

Social uplift

The Company demonstrates a firm commitment towards contributing to the social uplifting and community development initiatives by supporting organizations like Amir Sultan Chinoy Foundation and Asian Study Group.

Risk Management

The Risk Management Infrastructure of the company is based upon Enterprise Risk Management methodology/framework addressing the major risk categories including Strategic, Operational, Compliance and Financial Reporting Risk.

Adequate controls have been designed and communicated to the staff via various policy and procedural guidelines, which are executed and self-assessed by the process/control owners. A comprehensive Risk Register has also been developed by the management laying down key risks of each area/function with corresponding controls and their ratings for effective evaluation. The Risk Register is quarterly reviewed by the Board Audit Committee.

An independent Internal Audit Department, under direct reporting to the Board Audit Committee, evaluates, oversees and comments on the design and operating effectiveness of these controls.

Board Composition and Remuneration

Composition of the Board and the names of Members of Board Sub-committees are detailed at Page No. 78 and 79.
The Company has formulated a transparent policy and procedures for the remuneration of its Directors (refer to note 35 of the financial statements) in accordance with the Companies Act, 2017 and the Listed Companies (Code of Corporate Governance) Regulations 2017.

Recommendation of the Board Audit Committee for Appointment of Auditor

The recommendation of the Audit Committee for appointment of auditor is referred at Page No. 95

Dividend

In view of the financial results of the Company for the year 2021-22, the Board of Directors of the Company has recommended a final cash dividend of 45% i.e., Rs. 4.5 per share in addition to the interim cash dividend of 20% i.e., Rs. 2.00 per share, already paid, making a total of 65% i.e., Rs. 6.5 per share for the financial year ended June 30, 2022.

Appropriations

	2022	2021
	Rupees in '000	
Profit after tax for the year	5,412,190	7,466,331
Interim Dividend 2022 Rs. 2.00 per share: (2021 Rs. 3.00 per share)	(870,000)	(1,305,000)
Final Dividend 2022 Rs. 4.50 per share: (2021 Rs. 7.00 per share)	(1,957,500)	(3,045,000)

Contribution to the National Exchequer and the Economy

Your Company contributed Rs. 19,543 million to the National Exchequer during the year by way of income tax, sales tax, custom duties and other levies.

Provident Fund and Gratuity Scheme

The Company provides retirement benefits to its employees. These include a non-contributory defined benefit Gratuity Scheme for all employees and a contributory Provident Fund for all employees except unionized staff. Both plans are funded schemes recognized by tax authorities.

The values of the provident fund and the gratuity scheme at the year end were Rs. 249 million (2021: Rs. 216 million) and Rs. 294 million (2021: Rs. 238 million).

Future Prospects

Despite economic challenges, the Company has continued to invest in its manufacturing facilities, human capital, ERP systems and product quality enhancements. These investments will enable to further strengthen the Company's already strong foothold in the engineering sector. The management is also working on the feasibility for setting up a hot rolled strip mill to meet the growing demands of flat steel market.

Battling with chronic problems of the economy particularly the widening current account deficit and depleting foreign exchange reserves, the government is targeting an economic slow-down next year. The inflation is also feared to remain high throughout the year. However, continued and sustainable investment in its manufacturing capability, supply chain process, product quality, human capital and marketing capacity would continue to provide the Company a competitive edge over other players in the market.

A dedicated service center at the Port Qasim Area of Karachi is already adding its positive contribution to the Company's performance with an increase of almost 100% in its revenues as compared to last year. The strategic location of the center is aimed at further increasing the Company's value proposition and service offerings. Your Company is continuously working on its strategy to further increase its market share in the local and international markets and be instrumental in imports substitution.

Recognition

Your Company has been ranked amongst Top 50 Exporters of Pakistan by Trade Development Authority of Pakistan (TDAP). ISL is again in the list of Top 25 Companies of Pakistan Stock Exchange for 2020. For the third consecutive year, ISL has won the 36th Corporate Excellence Award instituted by Management Association of Pakistan (MAP). Team ISL secured 3rd position in the Asian Management Games 2022 Asia's premier strategy and management competition, organized by Asian Association of Management Organizations (AAMO) maintaining its lead position from Pakistan.

Acknowledgements

The Board would like to thank all our stakeholders, employees, customers, suppliers, shareholders and bankers for their support. The confidence and goodwill of the stakeholders has allowed the Company to sustain and grow over the years.

We continue to pray to Allah for the success of the Company and for the benefit of all stakeholders, and the country in general.

Yousuf Husain Mirza
Chief Executive Officer

Dr. Amjad Waheed
Chairman

Karachi: August 18, 2022