Directors' Report

The Directors are pleased to submit the 5th Annual Report for the Company accompanied by the audited financial statements for the year ended June 30, 2012.

GLOBAL STEEL SCENARIO

Average capacity utilization at the world's steel plants has remained significantly below the pre-global economic crisis levels of 2007. The global economic crisis of 2007-08 had caused world demand to contract sharply.

It is expected that the world would see an overall improvement in steel demand during 2012-13. This will be mostly driven by the economic performance of developing countries, which are quick in bouncing back after the global crisis of 2007-08. However, owing to the intensifying Eurozone sovereign crisis and the stock markets in decline, the steel prices are expected to have a fluctuating behavior during 2012. World's average per-capita use of steel is 212 kg / person and is likely to grow.The growth rate is expected to be a slower this year owing to the European crisis and to a slower growth rate in China.

The steel industry is the key driver of the world's economy. The per capita consumption has long been a reliable indicator of a country's level of development as it reflects building of modern infrastructure. Industrial material is the starting point for a host of consumer products such as automotive, construction, transport, power and machine goods.

PAKISTAN'S ECONOMY

Pakistan's economy remains highly vulnerable because of continued security challenges, political uncertainty and un-checked energy deficiency. This is compounded by the absence of clear and consistent industrial and investment policies.

Large and growing fiscal deficits keep inflation high and limit the growth. Pakistan requires funds for development of Infrastructure reconstruction. The government is handicapped owing to a shortage of resources and has to resort to short term borrowing from the local banks to manage the current account.

Given this backdrop, however, the demand for steel in Pakistan is likely to continue to increase. This is due to an already lower than world-average per-capita steel use, and a healthy parallel economy. Consequently, the automotive sector is showing consistent growth, and a good pace of development.

BUSINESS REVIEW

Your company is geared to perform its mission to be one of the best flat steel producers in the country and to create a fair value for its shareholders. It started commercial operations on January 01, 2011, and the production facilities were continuously improved through phased and well thought-out additions of various processes.

Additional Annealing Furnaces will be installed immediately upon arrival in the fourth quarter of 2012.The consequent enhanced annealing capacity would enable the company to meet the rising demand of Cold Rolled Steel from pipe manufacturers, drum manufacturers as well as from the automobile industry.

The Year 2011-12 was the first full year of Company operation. A strong focus was maintained on the areas within our control: improvement in safety and environmental performances, reduction in costs, efficient operations of facilities, production of highest quality value-added products, and provision of world-class service that our customers expect and deserve. As the steel prices remained highly volatile during the year, the Company was able to offset the steep rise by increase in sales volume, optimal inventory management and appropriate increase in sales prices.

OPERATIONS:

All the process units are fully operational; the Rolling Mill is now geared up for three shifts/ day. The Quality and Production groups are fully aligned with customer and product requirements. The processes, as well as the operation teams, have been properly organized to effectively respond to continuous customer and market feedback. Production efficiencies have been optimized through special focus on synchronization of all elements of the production process.

The Company has been able to diversify its sources of main raw material; it is now acquired from Russia,Spain, etc. in addition to Japan. Foreign experts have imparted intensive training to Company's engineers at the Karachi facility. In addition, engineers were also sent to Germany and Sweden with the objective of enhancing the production and operation standards to be at par with European norms.

SALES

Market's perception of the Company's products has shown a remarkable enhancement over the last year. Following the Company's commercial strategy of manufacturing high value-added steel products and meeting customers' evolving needs,confidence of retail customers as well as of industrial consumers has been gained. Building on this, the Company is focusing on a greater foot-hold in the industrial sector. This is expected to give the business, higher resilience through stable sales volumes and a lower vulnerability to short-term stocking/destocking cycles. The net turnover for this year is Rs 13,248 million. This also includes gradually increasing exports, as the Company has been able to make initial entries in South Africa and Asia.

The Company now has a reliable network of nationwide dealers appointed in all the cities and major towns. A new liaison office has been established in Islamabad to cater to the northern market.

Galvanized Steel Sheets:

We were able to stabilize the production of Galvanised Steel by second quarter of 2011-12, such that a production level of around 25,000 tons was delivered in the last two quarters of the financial year. The Company's products were acknowledged to be competitively priced for the international market. Galvanized sheets and coils were successfully exported to Afghanistan, South Africa, and Sri Lanka. Export sales are delivering superior prices as compared to domestic market; which is a clear indication of the Company's good product quality. The Company has been able to achieve more than 97% of our production as prime quality products; a benchmark.

Cold Rolled Steel:

The facility has achieved nameplate capacity on all specified rolled thicknesses. The Company has been gaining market in the commercial and industrial sectors by providing the consumers exact thickness and sizes per their requirement. This was possible by establishing competent dealers in specified markets and by targeting direct customers. The Company has expanded its direct customer network in the Pipe, Drum, Motorcycle, Cycle and Appliances segments. Exports of Cold Rolled Steel to Sri Lanka and Afghanistan have met with success.

Sale of Electricity to KESC

The Company's 19 MW combined cycle gas-based power plant continues to operate satisfactorily. The power plant is synchronized with the KESC grid, and all excess power is automatically sold to KESC. The net earnings during the year from KESC, amount to Rs.54 million.The management entered into an agreement with KESC to reschedule the Company's outstanding receivables for settlement as well as current bills. This rescheduled payment plan is being adhered to by KESC.

During the year the Company faced a considerable number of electricity interruptions owing to faults in the KESC 11KV Grid. This adversely affected the capacity and equipment. The Management has made arrangements for synchronization at the 132 KV level by mid-August 2012 at a capital cost ofRs 85 million. Resultant smooth operations are expected.

HEALTH, SAFETY & ENVIRONMENT

Annual environmental testing is also done for Air Emissions, Noise, Drinking Water and Industrial Effluent as per National Environmental Quality Standards. This is achieved through the Company's ISO certified production facilities and continuous focus on implementing HSE standards,energy reduction strategies, implementation of efficient energy sources and waste reduction management. Through its efficiency drive, the operation team has been able to bring down wastage.

Health and Safety of employees, contractors and visitors remains the Company's top priority. The Company-wide safety program of Zero Accidents is based on a continuous improvement mechanism. Regular HSE Trainings have been imparted to the employees, and during this year 237 employees were trained. As a result, the Loss Time Incident Frequency Rate, for the year ended June 30, 2012, is 3.9 bringing the Company closer to the Global Standard of 3.5 in similar industries.

The Acid Regeneration Plant has been installed this year which effectively recovers and regenerates waste acid, from pickling line which brings significant reduction in acid usage and costs, and is also safe for the environment. The treated water from the Effluent Treatment Plant is re-used for neutralization of waste acid etc.

The production facilities have been designed to optimize day light, and to minimize reliance on artificial illumination. Also, the waste water from the Sewerage Treatment Plan is recycled for gardening within the factory premises.

HUMAN RESOURCE

The operations continued to be carried out maintaining a fair environment, ensuring industrial peace, not losing any productive operation time. In addition, The Company continues its efforts in the area of capacity building and retention of talent for business sustainability.

FINANCIALS

During this Financial Year 2011-12, the Company achieved a Net Turnover of Rs 13,248 million with a Gross Profit is 9.1 % and an Operating Profit of 6.8 %. The Company suffered an exchange loss of Rs 246 million, during this period,owing to the sudden slide of Pakistan Rupee against the US Dollar. This has affected the Profit before Tax, which works out at 0.91%. There is a Sales Tax refund claim of Rs 279 million which is being actively pursued by the management.

The financial costs have been curtailed to the minimum level owing to prudent use of credit lines.
The financial expenses for the period were Rs. 1,027million. The average overall cost of the short term borrowings is 10.78%. Additionally the Company also has long term loans of Rs 4,486 million at the end of reporting period. The repayment of Long Term Financing Facility has commenced and an amount of Rs. 181 million has been repaid on this account. .

CASH FLOW STRATEGY

The company projects cash inflows and outflows on a regular basis as well as maintains cash positions on a daily basis. To keep the weighted average cost of borrowings at the minimal, the company keeps a close watch on the LIBOR and KIBOR rates of borrowings. The ratio of LIBOR based and KIBOR based borrowings as mentioned above was 21:79 for the reporting period.

CONTRIBUTION TO NATIONAL EXCHEQUER AND THE ECONOMY

The Company made a contribution of Rs. 3,092 million to the National Exchequer during the year. This comprises total of income tax, sales tax, custom duties and other taxes and levies.

RISK MANAGEMENT

The Board has overall responsibility for risk oversight, with a focus on the most significant risks facing the Company. The Board's Audit Committee is responsible for assisting the Board in its oversight of the risk management strategies and policies, including overseeing the management of market, credit, liquidity risks and oversight of financial policies, strategies, and capital structure. While the Board is ultimately responsible for risk oversight, our management is responsible for day-to-day risk management processes. We believe that this division of responsibilities is the most effective risk management approach.

INTERNAL CONTROLS AND THEIR ADEQUACY

The Audit Committee monitors the Company's risk management process quarterly, or more frequently if required, focusing primarily on financial and regulatory compliance risks. The report of the Board Audit Committee relating to controls and their adequacy is given on page 29.

GRATUITY AND PROVIDENT FUNDS

The value of investments in employee retirement funds as of 30 June, 2012 are as follows:
Fund Amount

- Provident Fund 38.9 million
- Gratuity Fund Rs 15.1 million

PATTERN OF SHAREHOLDING

A statement on the pattern of shareholding along with a pattern of shareholding of certain classes of shareholders, where disclosure is required under the reporting framework and the statement of shares held by the directors and executives as on June 30, 2012 is placed on Page 74, 75.

FUTURE PROSPECTS

By the grace of Allah your Company has stabilized output at or above the nameplate capacities and the product has made its name in the market for international level product quality. This is also evident by exports.

The major problem being faced is pressure on margins on domestic sales, owing to underinvoiced materials being imported into the country; import of secondary quality material under SROs; disguised commercial imports under SROs by spurious "manufacturers"; and smuggling/ misuse of the Afghan Transit Trade. Your management is raising this issue at all levels with the concerned authorities and is hopeful of having at least some degree of success.

Barring the impact of an uneven playing field, your Company, in its second year of operation, is poised to operate satisfactorily.

ACKNOWLEDGEMENTS

The Board would like to thank all employees, customers, suppliers, shareholders, bankers and other stakeholders for their support and loyalty which has helped the Company through the difficult times of economic pressures, security issues and the unfair practices by importers to improve operations and strengthen the overall performance of the Company.

We pray to Allah for the success of your company.

Kemal Shoaib
Chairman
Karachi
13-Aug-2012