MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

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DEAR INVESTORS, CUSTOMERS, PARTNERS, AND EMPLOYEES:

I am pleased to report that despite challenging conditions, we closed the year with a profit before tax of Rs. 971.4 million with a contribution to the national exchequer and economy aggregating Rs. 2.6 billion. The Company EPS for FY18 stood at Rs. 9.68 while total dividend (including final dividend of Re. 1) over FY18 aggregates Rs. 2 per share.

The year kicked off with good activity, however, while our line pipe and steel long product business is competitive and fundamentally strong, they operate in the infrastructure landscape that faced significant disruptions from shifting demands, economic and political instability. Similarly, our capital market investments, also fundamentally strong, are exposed to market shocks, liquidity and local economic and political conditions.

The spiral pipe lines remained idle during the second half of the fiscal year resulted in lower revenues of Rs. 7,043.8 million (FY17: Rs. 10,208.6 million), down 31% YoY. Higher raw material prices and exchange rate volatility caused gross profit margins to fall to 12% (FY17: 18%), however, operating profit margin improved to 17.1% (FY17: 15.5%) primarily due to investment income of Rs. 495 million (FY17: Rs. 246.9 million). Investment Income primarily constitutes dividend income of Rs. 549.3 million from strategic investments.

Over the last 31 years of operations, the book value has increased from Rs. 7.11 to Rs. 86.61, a rate of 8.4% compounded annually (absolute: 1,118.14%). This exceeds national annual GDP growth of 5.8% (compounded annually: 6.5%) for the same period. Our balance sheet is strong at Rs. 10,079 million and helps support our business through difficult years.

Our margins in the core business segment were lower than last year due to various adverse mix effects. Underlying EBIT decreased 23.8% to Rs. 1,202.7 million (FY17: Rs.1,579 million), representing a margin on net sales of 17.1% (FY17: 15.5%). Our underlying EBITDA totaled Rs. 1,308.4 million (FY17: Rs. 1,682 million) at a margin of 18.6% (FY17: 16.5%).

Bottom-line, the net result attributable to the Company decreased by 25.7% to Rs. 751.8 million (FY17: Rs. 1,012.4 million), resulting in EPS of Rs. 9.68 (FY17: Rs. 13.04). ROCE declined to 11.7% (FY17: 15.9%) primarily on account of an increase in borrowings as the Company had issued a Commercial Paper to meet anticipated working capital requirements.

Our capital markets segment provided working capital support and cash flow support to our core business. The local bourse, however, remained under pressure due to foreign selling of USD 288 million as well as continued political uncertainty and a weak government, losing 10% during 2018. While the trading portfolio performance stood at -5.88%, dividend income from strategic investments of Rs. 518.1 million enabled a ROI of 9.9%. The division posted a PBT of Rs.464.9 million, contributing Rs. 5.99 to Company EPS.

The company has distributed dividends of Rs. 155.3 million (including proposed final dividend of Rs. 77.6 million) to shareholders as dividends. This is a payout ratio of 20.7% earnings.

The Group bottom line before consolidation adjustments stood at Rs. 610.7 million (FY17: 1,244.7 million); profits from our core business of line pipe manufacturing and coatings eroded by Rs. 360.7 million (FY17: Rs. 157.5 million) due to losses from subsidiary units, Crescent Hadeed (Private) Limited (CHL) and CS Energy (Private) Limited (CSEL) [formerly, Shakarganj Energy (Private) Limited]. Accounting standards require exclusion of dividend income and share of profit from associates, resulting in a group bottom line of Rs. (61.4) million (2017: Rs. 1,187.1 million). On a group basis, underlying EBIT decreased 77.1 % to Rs. 411.4 million (FY17: Rs.1,796.6 million), representing a margin on net sales of 4.1% (FY17: 14.6%). EBITDA totaled Rs. 635.7 million (FY17: Rs. 2,008.4 million) at a margin of 6.4% (FY17: 16.3%). This translates into a loss per share of Rs. 0.79 (FY17 EPS: Rs. 15.29). The performance of the subsidiaries is covered separately in this report.

It is not easy to assess the impact from one single year's results. The Company has made capital investments in new business lines that will not pay off immediately.

Having stated some fiscal facts, I would now like to move to operations.

Our engineering expertise enabled us to continue to supply 56,145 tons of quality steel line pipe to energy transmission projects of national importance. We produced and supplied 146 Km of coated linepipe to SNGPL and SSGC for the LNG Loopline Project. This project is part of the LNG import infrastructure supplying energy by providing gas to strategic locations in Punjab and Balochistan. The line pipe manufacturing and coating business buffered shocks to other business units, all of which, although fundamentally strong, faced a challenging operating environment with many disruptions such as exchange rate shocks, new players and political uncertainty.

The Cotton Division continued to face operational challenges; the unit profitability is constrained by the size of operations – however, it continues to absorb its costs and closed the year in green, primarily on the back of gains sale of machinery. We have attempted various strategies to ensure the unit's profitability while we work on plans to shift to an alternate revenue stream.

Our new venture into steel long products, CHL , posted a negative ROE of 31.44%%. Performance from our power plant also remained dull at a negative ROE of 10.52%. Sale of power is directly dependent on the operations of the steel melt shop, the primary customer and consequent on market conditions as well as constrained cash flows, the melt shop was not able to operate at full capacity. Similarly, meltshop operations are dependent on reliable supply of power from CSEL. To address cashflow constraints, CHL managed to secure working capital financing arrangements of Rs. 1,100 million (funded and non-funded). We have also taken measures to improve process and supply chain efficiency at the power plant to ensure margins remain secure. Both units faced challenges in operations and market conditions. Unilateral change of rates by NEPRA from Rs. 13 to Rs. 15 affected the bottom line.

When I look back at 2018, there's no doubt: Crescent Steel had a challenging and difficult year but one with several significant changes. We took actions to move accountability closer to the business, through better risk management practices and by embedding sustainability as a culture. These measures are important to building an entrepreneurial way of working, ensure continuous improvements and promote agility in responding to stakeholder needs. For me, it is important that Crescent Steel is a great company to work for and to own.

I believe that transparency builds trust, and a more socially responsible business model is also a better model for the shareholders longer term. This model gives investors consistency of delivery, where every year we would strive to grow faster than the market and improve stability. We have covered our sustainability performance in more detail in our Corporate Responsibility Report 2018

We are encouraged by stronger local growth prospects, continuity of reforms, improved governance and a focus on infrastructure development. We are aware that fiscal year 2019 will continue to present a challenging operating environment for our businesses. We expect input costs to increase on the back of rising global oil prices, higher cost of funds and at least, at the outset a slower pace in development projects.

We have made a clear prioritization of where we want to grow and have narrowed our focus on those parts of the business where we can leverage our strengths. We continue to invest in an educated Pakistan and strive to ensure that there is no negative impact on the communities where we operate.

I am pleased that we have been able to deliver in these difficult times, and I am hopeful that, while there will be cycles of sluggish demand, we have undertaken to establish strong earnings bases centered on diversified revenue streams and a corporate structure that can overcome a severe environment through various measures, based on a long-term viewpoint.

LOOKING AHEAD

Located at the crossroads of South Asia, Central Asia, China and the Middle East – a regional market with a vast youth population, large and diverse resources, and untapped potential for trade – Pakistan, given its location, size, population and nuclear status, has important strategic geopolitical advantage and development potential. The country is also the launchpad for China's One Belt One Road initiative which is an ambitious road and sea trade route spanning 65 countries connecting Africa, Europe and Central Asia. All these factors make Pakistan attractive for investment and well positioned as a regional trade hub.

The increasing working-age population provides the country with a potential demographic dividend but also with the critical challenge to empower people with knowledge and provide adequate services and jobs. Pakistan faces significant economic, governance and security challenges to achieve durable development outcomes. The lack of reliable energy and water infrastructure, a largely uneducated workforce, persistence of conflict in the border areas and security challenges throughout the country affect all aspects of life in Pakistan and impedes development and economic growth.

On the back of increasing international oil prices, rupee depreciation, spiraling food and commodity prices, Pakistan's economic position deteriorated during FY18, leading rating agencies to downgrade outlook on Pakistan to negative. The country saw a slowdown in activity during the latter half of FY18. This was primarily due to political instability, however, GDP clocked in at 5.8%, the highest in thirteen years, helped by the LSM, Agriculture and Industrial sectors. Additionally, the steady implementation of its reforms program for increased energy availability, higher revenue collections and improved security conditions, as well as development projects under CPEC, helped keep growth rates high despite a worsening economic landscape.

Inflation inched lower, closing the fiscal year at 3.92 percent during FY18, however saw an uptick on a month on month basis during the latter half of the year and is expected to hit 6.5% in FY19.

We operate in a dynamic and competitive environment where new investment in the region is catapulting us into a world of rapid growth, change and competition; likely to force innovation. We see great opportunity to embrace this growth, great opportunity for those of us that will view this from a prism of sustained national security and great opportunity for Pakistani businesses and Pakistan. Local businesses, however, face operational challenges as changes to duty structures affect our ability to protect margins.

We understand that we need to continue to innovate and to ensure we can build our capability in our growth areas. Our business is highly dependent on infrastructure development projects in the energy, construction and water sectors. Development is deeply rooted to society and so demand in this segment fluctuates significantly. Our primary customers in the line pipe segment are state owned monopolies, where business is awarded through tenders and often delays in the tendering process hurt margins. To mitigate this impact, we maintain close contact with key customers and follow progress on planned projects closely.

Multiple projects that have been on the cards are yet to be awarded and are likely to materialize in the medium term. These include the Karachi Bulk Water Supply (K4) project, Thar Coal Power Project and, Islamabad Water Supply Project.

The Federal Budget for FY19 has targeted an aggregate outlay of Rs. 5.9 trillion and allocated Rs. 800 billion to the Public-Sector Development Programme (PSDP). In the immediate short term, the 1,100 km Karachi-Lahore pipeline may trigger demand for pipes and coating applications. The project is valued at Rs. 70 billion, however, is yet to be tendered. We also expect some demand for pipes in the construction segment as the application of steel piles for construction picks up locally.

We have a clear strategy and our focus for the year ahead remains on strengthening our position in the engineering sector with a focus our two engineering sector businesses as we continue to build pathways toward future, sustainable and long-term growth.

In concluding, we maintain a cautious outlook on country performance and given macroeconomic indicators, expect growth to slow down in the immediate short term. Liquidity constraints, higher cost of funds and lacking foreign investor interest is expected to keep capital markets under pressure for at least the first half of the fiscal year; however, this will make markets and future yields more attractive.

The incoming government is also expected to curtail planned development projects, specifically CPEC, and introduce new reforms as promised in their manifesto. This is likely to have a dampening effect on growth

I would like to thank our people for their extraordinary efforts. While this year has presented rewards and challenges alike, we can look to the future with increasing optimism and confidence.

Finally, I would like to recognize and thank our other key stakeholders – our customers, the communities in which we operate, our business partners and particularly you, our shareholders for your ongoing support.

I look forward to your continued support in our collective journey to build a sustainable and value creating enterprise

Ahsan M. Saleem
Chief Executive Officer
31 July 2018