MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

DEAR SHAREHOLDERS,

I take pleasure in presenting the annual report for the Fiscal Year 2023, which integrates our sustainability, statutory and financial reporting. The report is supplemented with audited Financial Statements (Separate and Consolidated) for the year ended June 30, 2023.

The last few years have presented the most challenging operating environments – bringing with it back-to-back political, economic and humanitarian crises, both global and national. The dynamics of trade, in particular for energy and steel markets remained volatile amidst global geo-political and economic turmoil. On the domestic side, Pakistan slid into a deeper crisis. The beginning of the year was marked by unprecedented flooding that caused heavy losses to both lives and infrastructure – at the same time Pakistan witnessed a huge influx of Afghan refugees. The displacement of millions and destruction of infrastructure induced by extreme climate events, coupled with unprecedented political and economic challenges are making the operating environment increasingly difficult.

We find ourselves confronting this new reality, adapting our supply chain and our commercial strategy to an unprecedented level of volatility, uncertainty, and low demand.

Record global inflation, triggered central banks across the world and in Pakistan to raise policy rates; domestically policy rates were taken up by an aggregate 825 bps to 22% against an average FY23 CPI Inflation reading of 29.4%. At the same time, administrative constraints on imports continued to add pressure on both finances and operations. FX reserves dipped to all-time low of under USD 3 billion during February 2023 and remained under pressure throughout the fiscal year, despite these import curtailment measures. The PKR depreciated 39.8% against the greenback to close the year at an all-time high of PKR 288.59/USD. – this significantly increased input costs, and consequently increased our exposure on projects we had bid for in an environment of increasing cost of funds.

Despite these challenges, the past fiscal year was a pivotal one. Crisis and turmoil allowed us to see more clearly, the essential vital role we play in building national infrastructure and, in contributing to development throughout Pakistan.

On an overall basis Crescent Steel did well from a growth perspective. We were able to secure a sizeable order book and enhance manufacturing capacity at our line pipe unit on the back of the demand triggered by K-IV Greater Karachi Bulk Water Supply Project. This includes upgrades to our finishing line and coating plant that enhance our product offering up to diameter sizes of 100 and 84 inches, respectively.

The K-IV project will transport potable water from Keenjhar Lake to three reservoirs in Karachi. Designed in two phases; phase-I is planned for transmission of 260 MGD, through a 110 KM pipeline route. Production on this order is expected to be completed by the end of the calendar year 2023. Given the nature of supply for this project, as one of the largest water pipeline projects in the world, in terms of steel tonnage, on the highest global standards for pipeline manufacturing, coating and construction, the success of this project positions us as among global leaders in the API, large diameter line pipe manufacturing segment.

During the year we manufactured, coated and supplied 84-inch steel line pipes, as per API 5L specifications – a first for Pakistan and a landmark achievement for the domestic engineering industry. At the close of the outgoing fiscal year, we had delivered more than 43 KM (35,960 tons) against the pipe manufacturing contract awarded to us for the K-IV Project Phase-I.

The Company posted sales of Rs. 4,515 million (FY22: Rs. 7,090 million), down 36.3% YoY; 75.3% constitute sales attributable to the Steel Division. It is important to note, that line pipe sales to China Harbour Engineering Company – Al Fajr International Joint Venture (CHEC – AFI) were on conversion basis i.e. buyer supplied HRC raw material – as such for comparable sales, deemed revenue of the Company may considered at Rs. 11,685.2 million. Of this, Rs. 2,984 million or 53.6% constitute payments to suppliers. Rs. 27 million or 11.7% of PBT was donated towards various causes that we support. Of the community investments we made, 90.4% constitute support for causes working in the education sector. Our contribution to the exchequer and economy stood at Rs. 1,947 million (FY22: Rs. 2,467 million), while Rs. 3236 million constituted payments to lenders. The Company's gearing ratio remained conservative at 24.9%, increasing YoY on the back of higher working capital needs and funding needs for capacity augmentation. During the year cash flow from financing activities stood at PKR Rs. 912 million or 20.2% of sales while the weighted average cost of borrowing stood at 23.0%.

During the year we produced 42,888 MT / 133 KMs of bare pipe and applied 305,098 sq.m. of line pipe coatings covering 46 KMs of bare pipes at our pipe manufacturing facility in Nooriabad. The fabrication facility located in Faisalabad enabled us in indigenously managing significant modifications to our finishing line and coating plant, in order to execute the K-IV Project.

Standalone EBIT at Rs. 594.2 million (FY22: Rs. 561 million) represents a margin on net sales of 13.2% (FY22: 7.9%) while underlying EBITDA stood at Rs. 826 million (FY22: Rs. 769 million); a margin of 18.3% (FY22: 10.8%). RoCE declined to 2.3% (FY22: 4.9%).

On a standalone basis, Crescent Steel closed the year with a profit after tax of Rs. 177 million (FY22: Rs. 367 million). Gross profit margins improved to positive 17.2% at Rs. 776 million (FY22: negative 0.9%; negative Rs. 65 million) while operating profit margins stood at Rs. 515 million or 11.40%.

On a consolidated basis, the Group posted profit after tax of Rs. 591 million (FY 22: Loss after tax of Rs. 647 million). The consolidated PBT is primarily attributable to a Rs. 616 million share of profit from equity accounted investees and steel division profits. On a consolidated basis underlying EBIT stood at Rs. 447 million (FY22: LBIT of Rs. 621 million) representing a positive margin on net sales of 9.9 %, while EBITDA stood at Rs. 1,298 million – a margin of 28.7% on net sales. Consolidated ROCE stood at 6.7 %, compared to negative 7.2% last year. Similarly, consolidated ROE of 8.0% was higher than last year's figure of negative 9.2%.

Consequently, Standalone Earnings per share (EPS) for FY23 stood at Rs. 2.28 as against EPS of Rs. 4.72 in FY22 while on a consolidated basis FY23 EPS stood at Rs. 7.61 (FY22: EPS of Rs. 8.34).

We were not able to distribute profits again this year primarily on account of high cashflow requirements – a mix of both working capital needs as well as requirements to place 100% cash margins against import requirements for most of the outgoing year. Operating cash flow margin stood at negative 8.0% for the period under review.

We draw comfort from a strong balance sheet footing of Rs. 9,948 million (FY22: Rs. 8,445 million) which continues to support our business through a difficult operating environment. Despite extremely volatile conditions especially over the last few years, the Company book value has grown at a CAGR of 6.9% since 1987 from Rs. 7.11 to Rs. 78.86 (adjusted for gains on strategic investments held at cost, the indicative break-up value is Rs. 89.08 per share) as on June 30, 2023. The share continues to trade at a huge discount; the price as on June 30, 2023 stood at Rs. 21.50 per share.

The flexibility and strength of our operating model, and the efforts of our leadership and teams, enabled us to end the year with positive results despite continued idling at our ancillary manufacturing facilities and a huge increase in input costs that remained largely unhedged.

Having stated some fiscal facts, in the remainder of this note I will discuss Company operations.

Reflecting on Crescent Steel's journey over the past year, I am reminded of the driving force behind our decisions and actions – our purpose. Our purpose serves as the link between our business strategy and our commitment to remaining competitive and, our responsibility as a corporate citizen in contributing to greater economic, environmental, and social prosperity.

Incorporated in 1983, we commenced commercial production in 1987 with an API licensed line pipe manufacturing unit about 100 KM from Karachi, in Nooriabad. Today, we operate four distinct businesses, in the engineering, textile, power, and capital markets sectors.

Our flagship operations manufacture and coat large diameter steel line pipes, used for hydrocarbons transportation in the energy cycle. Pipes transport oil and gas, safely across rivers and mountains, through towns and villages. Communities and the environment rely on long-term integrity of pipelines, to ensure their well-being. Large diameter steel pipes are also used for transportation of water and wastewater systems, and for piling in the construction of ports, jetties and buildings.

Our yarn business contributes to the agricultural economy by generating demand for cotton and empowering farmers across Pakistan; investments in alternate power enable us to be energy independent and support the national grid; capital market investments reflect our conviction in the growth of Pakistan's corporate sector and, our billet manufacturing unit is well positioned to provide sustainable sources of steel to Pakistan's engineering sector.

Our businesses continue to provide equal opportunity employment to hundreds of people in Pakistan.

We have made a clear prioritization of where we want to grow and remained focused on business where we can leverage inherent strengths. Our strategic thrust continues to remain in the engineering sector. Specifically, challenges of the last few years have helped us prioritise and refocus our efforts in this segment and at the same time pushed us to make difficult decisions on liberalising value stuck in unproductive assets.

We made a conscious decision to allocate capital to our pipe manufacturing unit for optimal asset utilization and in doing so, we did not have enough space to allocate resources to underperforming units.

Planned projects to augment the country's pipeline infrastructure – particularly for the transportation of imported fuels - and much-needed water and sanitation projects are, therefore, material for both, our business as well as for sustained growth and development in Pakistan.

We understand that our industry and Company can have a profound impact on people's lives.

Energy and water security are essential to economic and social development and have a profound impact on lives everywhere. These projects have been the single most important contributor to growth and hiring for us in the past and, remain material to business sustainability for us today. Our Company has contributed 35.0% of the national gas transmission infrastructure, contributing significantly to national infrastructure development.

We produced and supplied 42,888 tons of steel line pipe in diameter sizes ranging from 16 inches to 84 inches, as against 5,082 tons in FY22. On a notional basis, this works out to 68,095 tons on an installed notional capacity of 200,000 tons. Line pipe coatings saw a significant increase at 305,098 sq. meters on an installed notional capacity of 600,000 sq. meters and as against 96,667 sq. meters in FY22. A total of 133 KMs of line pipe was dispatched during FY23.

Much of this [35,960 tons i.e., 83.1% of Steel Division Production] was produced on conversion basis for China Harbour Engineering Company (CHEC), the Chinese Company that has been awarded the K-IV pipeline project. In addition to placing a sizeable order with us, they have partnered with us to establish a pipe manufacturing and coating facility within our premises at Nooriabad. The operations and quality management at the facility will be entirely managed, under contract, by us. Production for this is projected to continue during the first half of FY24.

Partnering with CHEC – AFI on this project has been extremely rewarding for us as it allowed us to showcase our engineering capability, and the strength and quality of our teams – we have executed approximately 50% of the order placed on us with a 0% rejection rate. It is a testament to quality being fundamental to how we do business at Crescent Steel. This project enabled us to keep our pipe and coating plant operational at a utilization rate 34.0% and 51.1%. The grid tied 561.2 KWh solar plant we installed in FY23, generated Rs. 36 million in energy savings.

Our successes mean a durable and sustainable, energy and water infrastructure for Pakistan.

Revenues from the Steel Division stood at Rs. 3,396 million (FY22: Rs. 1,392 million) – generating gross profit of Rs. 978 million i.e. 28.80% (FY22: GL of Rs. 134 million i.e. -9.7%). Adjusting for deemed revenue of approximately Rs. 7,169 million, deemed sales are estimated at Rs. 10,565 million, representing a gross margin of 9.25%. Margins, therefore, remained under pressure due to rising operating costs and a steep PKR devaluation.

The Division posted a profit before tax (PBT) for the year of Rs. 307 million (FY22: LBT of Rs. 550 million), contributing 130.8% to the EPS of Rs. 2.28/share, which was eroded by operating losses from other business units.

Over the last few years, demand for line pipes remained low as planned projects for the supply of imported RLNG and national infrastructure augmentation were put on hold. Given current circumstances and the stresses in the energy sector, select urgent projects have been awarded in H2FY23 while others have been tendered for, we expect more to follow over FY 24, triggering about 350 KMs in line pipe demand in the medium term.

Our pipe manufacturing business caters to local demand for steel line pipes; which is imported at very high freight costs as final products to meet local demand-supply gaps.

Our business is tightly linked with development; as with all development, it goes through cycles of feast and famine. To buffer the periods of famine, we have built a strong corporate structure, including ancillary revenue wallets and cash flow buffers.

Through our portfolio management division, we remain active investors in Pakistan capital markets. Markets remained volatile due to mounting uncertainty and political noise throughout the outgoing fiscal year. Although on an overall basis the local bourse lost only 0.2%, in USD terms devaluation eroded 34.4% of the market capitalization and volumes hit an all-time low with daily traded volumes down 34.2%. During the year foreign selling stood at USD 2.3 billion. This was driven by growing economic and political uncertainty, rising interest rates/fixed income yields, rupee devaluation and worsening macroeconomic fundamentals. Expectations from the corporate sector remained low and continued to add pressure on KSE-100 performance.

The division continued to provide working capital and cashflow support to our core business, generating Rs. 97 million in cash flow support through investment income (mainly constituting dividends) and, Rs. 1,173 million through the pledge of assets for funded and non-funded limits.

The portfolio (on a consolidated basis) holds Rs. 750 million or 16.5% in trading investments while Rs. 2,916 million or 64.2% make up strategic investments that include a 17.6% stake in Altern Energy Limited. Portfolio dividend yield stood at 12.2% against the KSE-100 dividend yield of 9.3% and the portfolio PE stood at 5.2 times. The division posted a PBT of Rs. 648 million. The PBT includes Rs. 616 million in share of profit from equity accounted investee, and unrealized losses of Rs. 45 million, contributing 92.8% to the consolidated EPS of Rs. 7.61.

The KSE-100 index is currently trading at a historic low PE of 2.26 times and a forward PE of 3.65 times compared to the regional average of 16.24 times and a 15-year historical PE of 8.96 times. The local bourse and our portfolio is well positioned to post a strong recovery in the medium term, as things begin to settle on the economic front.

We also operate a 19,680 spindle cotton-spinning unit that goes by Crescent Cotton Products and has a capacity to produce 9.2 million Kgs per annum. The unit is capable of producing high quality yarn for supply to the manufacturers of textile products.

Cotton crop production was affected by the floods and heavy rains with an estimated 30% of the cotton crop damaged. As a result there was a shortage in availability of cotton locally with domestic production at 5.4 million bales as against a targeted 7.4 million bales. Profitability was also adversely affected by the withdrawal of tariff subsidies previously available to the textile sector. This coupled with the general increase in input costs, as explained above, eroded margins to a point where it was no longer feasible to operate the plant. We also faced increased working capital requirements at the Steel division.

Capacity utilization at the Cotton Division stood at 26% with production for the year at 2.4 million Kgs as against 8.5 million Kgs in FY22 (converted to 20/1 count). The division posted sales of Rs. 1,010 million at a gross loss of Rs. 64 million i.e. a negative 6.3% margin on sales. This is against sales of Rs. 2,695 million in FY22 and an associated Gross Profit of Rs. 276 million and GP margin of 10.2%. The unit posted a LBT of Rs. 127.1 million (FY22: PBT of Rs. 199 million) on account of plant idling of 91 days that resulted in unabsorbed fixed costs.

Our business unit in secondary steel manufacturing, operating as Crescent Hadeed, manufactures high quality steel billets by processing steel scrap through induction melting and continuous casting process. Our billets are used as inputs by steel re-rolling operations to produce a range of steel construction products. We feel there is ample room for growth in this sector as Pakistan's per capita consumption of steel ~ 49 Kgs is significantly lower than the world average and regional peers; of this Pakistan produces only ~ 17 Kgs per capita indicating significant room for growth in this segment.

Adjacent to this unit is a 16.5 MW bagasse-fired thermal co-generation plant, that generates and supplies energy and steam; the plant is augmented with a 15 MW condensing turbine that converts low pressure steam to power. The division also holds investments in a 100 MW solar park through a wholly owned subsidiary, Solution de Energy (Private) Limited. The project aims to develop, own, operate, and maintain a 100 MW solar power project in Solar Power Park, established by the Government of Punjab in the Cholistan desert. The Company has been granted an electricity generation license from the National Electric Power Regulatory Authority (NEPRA) for its 100MW Solar Power Plant.

Both, the steel long products and bagasse fired thermal co-generation unit remained closed during the entirety of fiscal year 2023. Collectively, the units posted a gross loss of Rs. 98 million.

We employ a diverse workforce with varying skill sets across 6 locations; on average, we had 602 people in employment during the outgoing fiscal year, receiving compensation and benefits of Rs. 515 million during the year. We closed the fiscal year with a workforce of 434 (FY22: 769).

From our earliest beginnings, our commitment has always been to deliver quality products responsibly, efficiently, and economically, and in doing so to make positive contributions to our community, provide fair returns to our shareholders and a desirable workplace for employees.

As a long-term industrial concern, our values are rooted in sustainable principles. Since we opened our first mill in Nooriabad in the 1980s to the start-up of our state-of-the-art steel melt shop in Bhone in 2016, with all our acquisitions and expansions during this time, we have grown with the communities where we work and live, have remained invested in the overall well-being of Pakistan, minimizing our environmental footprint and being a reliable partner for suppliers and customers.

I am proud that our entire leadership team displays an unwavering commitment to ethical business practices that are insisted upon by managers and the leadership team. Our Core Values and Governing Principles articulate our collective belief that all aspects of our Company's business should be conducted based on standards of honesty, openness, fair play, and decency. These principles were adopted before any Code of Corporate Governance was mandated on a publicly listed

Company and before the Company was listed in 1987. They still serve as Crescent Steel's North Star, informing our thinking, behaviors, and expectations around doing what is right and responsible for our business and for all Crescent Steel stakeholders.

This demands the highest ethical standards, a culture of care embodied by safety first, a commitment to environmental stewardship, strong relationships with all our stakeholders, and the discipline and focus to stay the course in good times and bad. At Crescent Steel, we are proud of what we have been able to accomplish over the last 35+ years, and we look forward to the opportunities in front of us to continue to make a lasting difference.

LOOKING AHEAD

In the upcoming fiscal year, we expect to execute the remainder of our order for the K-IV project, as well as orders in hand for the gas utilities in H1FY24. We have been evaluated as the lowest financial bidder in a number of gas transmission projects and expect these to be executed in the second half of the upcoming year.

We also expect tendering of up to 120 KM for assorted sizes large diameter pipes within the first half of FY24, with expected execution to begin Q4FY24. In the water sector we expect that projects allied with K-IV will continue to keep us occupied over the next three years, including the K-IV Augmentation Project and the K-IV Project, Phase-II. We also expect that capital markets will perform well in the medium term and plan to remain invested in strong Pakistan corporates– our investment portfolio is strong and supports our cashflow and collateral needs – this fiscal year as the government moves to rationalize anomalies in the power sector, we expect healthy payouts from this sector to add to our bottom line and cashflows.

I know that Crescent Steel is a strong Company – one that can absorb shocks and deliver in difficult times, from a long-term viewpoint.

We have faced some extraordinary challenges across our all-business segments; however, as a Group we stayed true to our mission and guiding principles. We put in place the building blocks to ensure that we emerged from these challenges a stronger and more focused business, able to respond to the changing dynamics of the markets and world we operate in.

We have a clear strategy and our focus for the year ahead remains on strengthening our position in the engineering sector and on reviewing our existing asset base to get leaner and more agile as we continue to build pathways towards future sustainable and long-term gains and growth.

I would like to thank the Board and its committees for their proactive role in guiding us, and to all our employees and my management team for their strong commitment and their outstanding contribution in challenging times.

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

August 09, 2023