CHIEF EXECUTIVE'S REVIEW

I AM PLEASED TO REPORT ANOTHER PROFITABLE YEAR IN WHICH, EVEN THOUGH WE WERE NOT ABLE TO SUSTAIN REVENUES AND OPERATING MARGINS FOR KEY BUSINESS SEGMENTS, WE HAVE OUTPERFORMED OUR INDUSTRY IN CASH GENERATION AND LARGELY ACHIEVED OUR TARGETS FOR NEW BUSINESS. THIS IS A CREDITABLE PERFORMANCE IN THE WAKE OF ECONOMIC AND STRUCTURAL CHALLENGES AND I AM PROUD OF THE COMMITMENT AND HARD WORK OF MY LEADERSHIP TEAM AND ALL MY COLLEAGUES ACROSS THE GROUP.

I take pleasure in presenting the Annual Report of your company along with audited Financial Statements (Separate and Consolidated) for the year ended 30 June 2014.

ECONOMIC AND DEVELOPMENT OUTLOOK

Pakistan's growth for FY14 clocked in at 4.1%, higher than the ADB forecast of 3.4%. The outgoing fiscal year indicated mild economic recovery with single digit inflation, higher tax collections, a reduced fiscal deficit, and local currency appreciation largely on the back of improved growth in the large-scale manufacturing sector, expansion in private sector credit and accumulation of foreign exchange reserves; exports remained mildly positive and strong remittances supported the national FX position. In addition, recent efforts to remove tax exemptions and broaden the tax base contributed to higher tax revenues, though the revenue to GDP ratio still remains unsustainably low at about 8.5%.

Pakistan faces significant economic, governance and security challenges to achieve durable development outcomes. The persistence of conflict in the border areas and security challenges throughout the country is a reality that affects all aspects of life in Pakistan and impedes development. The sharp rise in international oil and food prices, combined with the recent floods can have a devastating impact on growth. Accelerating progress in human development remains the key underpinning factor for sustained economic gains; the Net Enrollment rates in education have been increasing but still lag behind other South Asian countries. Large capital inflows have helped to boost foreign-exchange reserves, but the country's balance of payments position remains weak.

Encouragingly, inflation is expected to remain stable, enabling status-quo in the country's Monetary Policy – a pull factor for investments. Lower debt servicing obligations than in FY14, coupled with a stronger Rupee and higher FX inflows on the back of stable remittances, strong market multiples, and higher exports given the GSP Plus status, will ease pressure on the country's FX position.

As we move into FY15 consumer spending remains the main driver of growth. Security challenges are likely to remain largely unchanged over the short to medium term. The absence of reliable power supply to the industry and low investment in human capital will continue to limit GDP growth, which the ADB expects will average 3.8% in FY15. Performance in FY15 will largely depend on the government's ability to follow through on reforms and provide greater energy security.






MARKET REVIEW AND PERFORMANCE OUTLOOK

STEEL LINE PIPES

Gas shortages continue to loom in Pakistan as the country awaits the development of required import infrastructure. Domestic consumption continues to rise rapidly, boosted by the start-up of additional gas-fired power stations and continued use of compressed natural gas (CNG) cars. With struggling production, a limited potential for significant increases in gas production and the lack of an import infrastructure, the demand for line pipes may not pick up in the short-medium term.

Plans to import LNG with two planned fast-track regasification projects are in the pipeline and, if constructed, could generate demand for line pipes in FY15-FY16 at the earliest. The recent start-up of shale gas exploration is also promising, especially as the United States Energy Investment Administration (EIA) now estimates that Pakistan could hold as much as 3 tcm in shale reserves. Similarly, exploration for shale oil could also accelerate as it is now projects that Pakistan sits on nearly 9bn barrels. The EIA estimates place gas output peaking at 40.13 bcm in 2015 and falling afterward to slightly above 36.65 bcm by 2022 as the Sui and Qadirpur Gas fields - the two main producing fields in Pakistan - reach the end of their producing lives.

Going forward, a surge in oil and gas exploration activities remains a major demand stimulant of large diameter steel line pipes necessary for transmission. Increasing energy shortages call for new explorations and remain the key drivers for demand of large diameter line pipes in the short to medium term.

Limited opportunities for demand growth are also available in the Water and Sewerage and, Construction sectors. Ageing of pipeline infrastructure and the need to replace old pipelines also holds long term opportunities for growth in this segment. In addition the Government's recent decision to allow fertilizer companies to procure gas directly from E&P companies has also opened up new markets for large diameter pipe manufacturers.

With the Federal Budget targeting an aggregate outlay of Rs. 3.98 trillion of which proportioned amount for the Public Sector Development Programme (PSDP) is Rs. 1.2 trillion, and, greater focus on developing the country's energy infrastructure, we are optimistic on business prospects for our engineering sector businesses, in the medium to long term.

PIPE COATINGS

The market for external pipe coatings in Pakistan is gradually expanding, with increasing demand for line pipe coatings; the market for internal coating remains underdeveloped. Crescent Steel led local market development in external as well as internal line pipe coatings. Our vast experience in high temperature external coatings with several coating systems including 3-layer polyolefin, heat shrink tape and epoxy coatings give us a competitive edge.

OUTLOOK ON LINE PIPE AND PIPE COATINGS

Performance in FY14 for both line pipe manufacturing and line pipe coatings remained dull. We have however, participated in recent tenders and bids that are currently under evaluation. We are hopeful that the business activity will pick up during the second quarter of FY15 and provide momentum for the remainder of FY15. Major projects in the water sector are also expected to be initiated during FY15 – FY16 including the Karachi Bulk Water Supply (K4) project and Islamabad Water Supply Project. In addition to these, Port/Jetty Construction Projects if initiated will also generate demand for steel line pipes.

Outlook on steel prices is stable, and prices are expected to remain range-bound over the next six months.

MARKET SHARE

During the year our market share for both bare line pipe and pipe coatings declined to 39.77% (FY13: 47.26%) and 17.65% (FY13: 29.83%), respectively. The fall in market share is primarily on account of the nature and size of tenders and the price cutting competition (both foreign and local bidders) in a low activity environment.

COTTON YARN

The textile sector is one of the most important industrial sectors of Pakistan and has a wide-range production chain, with inherent potential for value addition at each stage of processing, from cotton to ginning, spinning, fabric, processing, made ups and garments. It is the major export supporter and contributes to 60% of the country's export value while employing 40% of industrial labour force.

Non-availability of gas and electricity affected the performance of the sector as a whole and compelled units to run under capacity boosting up their cost of production. Due to stiff competition and devaluation of the US Dollar, the sector could not fully reap the benefits of GSP plus status awarded in FY14. Dampened demand from China for yarn was another factor which kept local yarn prices under pressure.

Cotton is the dominant fiber used as raw material in the textile industry. Pakistan is the fourth largest world producer and third largest consumer of cotton. Pakistani cotton is more contaminated compared to other countries. This requires intensive work to eliminate impurities, affects quality, and fetches lower rates for cotton products. Due to a crash in cotton prices in the last quarter of FY14, spinning units holding inventories at higher value remained under pressure.

As per USDA estimates, Pakistan's Marketing Year (MY) 2014-15 cotton crop is forecast at 10.5 million (480 lb.) bales, 10.5% higher than the MY 2013-14 production level of 9.5 million bales.

To promote the textile sector, the GOP announced duty draw back at 1%, 2% and 4% for processed fabric, made ups and garments respectively, for exports beyond 10% over the previous year. Additionally, the government reduced the mark-up rate for export refinance from 9.4% to 7.5%, expedited the refund system, offered a long term finance facility through the State Bank of Pakistan at the rate of 9% for 3-10 year tenors and extended allowance of duty free import of machinery up to June 30, 2016 under textile policy 2009-14.

Cotton Yarn Outlook

The USDA'S first world FY15 cotton projections anticipate that production will exceed consumption for the fifth consecutive season with the potential for record global stocks to exceed 100 million bales. China's government now intends to reduce support levels; however world stocks are unlikely to fall in FY15 as the adoption of new policies will be gradual and world production and consumption responses will lag changes in policy and price. Lower Chinese support levels and higher stock outside of China however dampen world cotton prices.

After the arrival of new crop, cotton prices have gone down significantly, improving margins for spinners. Expectations of better quality cotton is expected to push up yields. In the event that gas supply to the industry is restored during FY15, spinning units especially those situated in Punjab will be able to operate at full capacity, lowering cost of production and pushing up margins.

CAPITAL MARKETS – KSE100 INDEX

FY14 has been one of the best years for Pakistan stocks, as the benchmark KSE-100 index gained 41%, or 8,647 points. The annual return of 41% in the fiscal year compares favourably with the 20-year average annual return of 21%. In FY14, MSCI Pakistan gained 23% compared to a 31% gain of MSCI Frontier Markets (MSCI-FM) and 16% gain of MSCI FM-Asia. Among Asian frontier markets categorised by MSCI, Pakistan ranks first, outpacing Bangladesh (21%), Vietnam (13%) and Sri Lanka (-1%).

The Pakistan market welcomed the structural reforms introduced by the Government. A growth rate of 5.6% in the large-scale manufacturing (LSM) sector supported the KSE-100 index; historically, there has been a positive correlation between the LSM and KSE performance as a significant percentage of listed companies constitute manufacturing sector corporates.

During the year FX reserves stood strong, crossing the USD 14 billion mark, consequently the Rupee appreciated benefiting net importers and the country's FX reserves. Foreign investors, who held $5.7 billion worth of Pakistan shares – 33% of free-float and 8% of market cap – remained net buyers in FY14. According to reports net foreign buying for FY14 stood at USD 248 million.

We continue to maintain a positive stance on the market, ceteris paribus, we expect blue chip stocks on the KSE-100 index to continue to yield healthy returns.

Equities Market Outlook

Going forward, the key drivers over the next year will be the rate of growth in consumer spending, structural and fiscal consolidation, foreign inflows – both as FDI and aid from bilateral and multilateral aid agencies and improved overall governance. Economic indicators are generally improving, with growth continuing to gain momentum, inflation on a downward trajectory, and credit to the private sector rebounding sharply.
The industrial sector contributed 20.8% to GDP in FY14 –it constitutes a majority of the listed companies on the benchmark KSE–100 index. Disinvestment in state owned entities may have an adverse impact on the index performance in the short term, however, it will likely be set off as liquidity generated in the market through the upcoming public offerings and privatisation activities is reinvested in the equities market.

Inflation is expected to remain contained within single digit figures and status quo is likely in the SBP's monetary policy in the short term. Security challenges and power shortages continue to dampen growth potential, however, a stronger Rupee, backed by healthy corporate earnings and retail sector growth are expected to support the KSE–100 index over FY15.

CHALLENGES

TARIFF ANOMALIES

Industry and trade regulations remain a core challenge as regional players, strengthened by government subsidies, sell steel products across international markets to capitalize on attractive dumping margins. Local manufacturers in Pakistan face survival challenges as large diameter pipe imports are largely unregulated, with no variance between duties on imported raw material and finished product (for large diameter welded pipes). We have been consistently pursuing this issue with Engineering Development Board (EDB), Board of Investment (BoI) and FBR in an attempt to seek trade remedies/protection for local manufacturers. We believe that to get to the next level Pakistan needs a robust and thriving engineering sector. Unfortunately, the Engineering sector as a whole and large diameter pipe manufacturers in particular do not have a level playing field. The long established principle of cascading duties has been compromised after the withdrawal of concessionary duty on raw material (Hot Rolled Coil) - as a result, both the raw material and finished goods are subject to the same duty of 10%. This leaves the sector open to threat from low quality import at dumping prices.

ENERGY INSECURITY

Increasing shortages in power and gas supply particularly at the cotton spinning unit is adversely affecting production activities, pushing up input costs, eroding margins. The Company is looking at alternate energy resources to address and mitigate the risk associated with power and gas outages.

FINANCIAL AND OPERATIONAL PERFORMANCE

OVERALL FINANCIAL PERFORMANCE

The Company's after tax profit for the year ended 30 June 2014 (FY14) decreased to Rs. 360.2 million as compared to Rs. 815.9 million in FY13. EPS for the current year stood at Rs. 5.8 as compared to FY13 EPS of Rs. 13.1. The Company has paid an interim dividend of Re. 1.0 (10%) per share and announced Rs. 1.5 (15%) at the end of year making an aggregate of Rs. 2.5 (25%) for the year.

On Group basis [including the results of the wholly owned subsidiary companies Shakarganj Energy (Private) Limited (SEL), CS Capital (Private) Limited and Crescent Hadeed (Private) Limited], consolidated profit after taxation for the year amounted to Rs. 553.4 million and EPS stood at Rs. 8.9.

FINANCIAL AND OPERATIONAL PERFORMANCE BASED ON SEPARATE FINANCIAL STATEMENTS

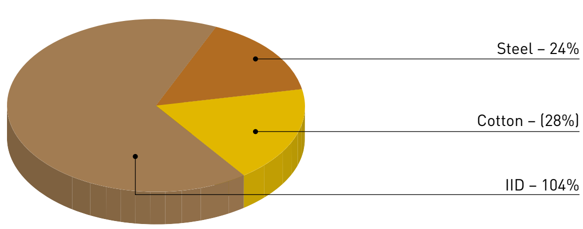
The financial year ended with Steel and IID divisions contributing positively to the bottom line while Cotton division incurred a loss. The IID division contributed the most to the bottom line; whereas, Steel Division remained low as compared to last year.

Sales revenue decreased by 19.4% to Rs. 4,032 million for FY14 (FY13: Rs. 5,002 million). Profit before tax of Steel and IID divisions amounted to Rs. 91.8 million and Rs. 392.8 million (FY13: Rs. 269.9 million and Rs. 442.7 million) respectively, whereas the Cotton division incurred a loss before tax of Rs. 105.5 million (FY13: PBT Rs. 374.3 million). The total profit after tax of Rs. 360.2 million includes gain on sale of investment amounting to Rs. 282.4 million and a provision on impairment of investments aggregating Rs. 51.3 million.

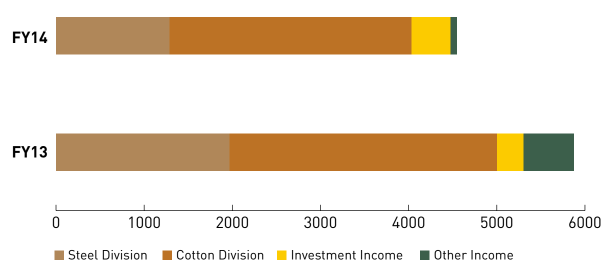
Summary of operating results as per Separate Financial Statements:

- Sales revenue stood at Rs. 4,032 million (FY13: Rs. 5,002 million).
- Investment income increased to Rs. 440 million (FY13: Rs. 298 million).
- Gross profit margin was 5.7% for current year as compared to 13% last year.
- EBIT declined to Rs. 463 million for the current year (FY13: 1,150 million).
- EBITDA stood at Rs. 563 million in FY14 (FY13: Rs. 1,245 million).

COMPOSITION OF TOTAL PBT (FY14)



TOTAL REVENUE AND INCOME (FY14)



- EPS decreased to Rs. 5.8 for the current year (FY13: Rs. 13.1 restated).
- Return on average capital employed was 10.5% (FY13: 29.0%).
- Return on average equity was 9% for the current period (FY13: 23%).
- Break-up value per share increased to Rs. 64.5 (FY13: Rs. 64.0).

BUSINESS SEGMENTS

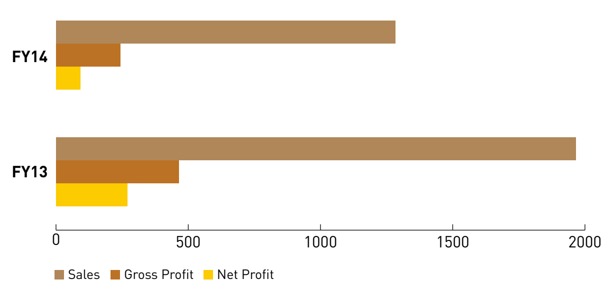
STEEL DIVISION – OPERATIONAL AND FINANCIAL REVIEW

The actual mix diameter bare pipe production during FY14 declined by 16% to 10,248 tons (FY13: 12,266 tons), while capacity utilization of the pipe plant was 24% (FY13: 30%). Coating activities decreased by 76% in terms of volume and stood at 58,650 square meters of pipe (FY13: 245,505 square meters).

On account of sluggish business activity and lower sales the division's performance remained under pressure. Revenue from the unit decreased by Rs. 683 million in FY14 to Rs. 1,282 million or 35% (FY13: 1,965 million). Fixed costs remained unabsorbed and consequently, GP during FY14 was lower by 48% at Rs. 243 million compared to Rs. 464 million during FY13.

OPERATING RESULTS – STEEL

Rs. in million



COTTON DIVISION – OPERATIONAL AND FINANCIAL REVIEW

Precarious energy supply resulted in stoppages and restricted the unit from running at full swing to meet targeted production. The unit produced 18.7 million Lbs. of mixed count yarn (FY13: 22.5 million Lbs.).

Cotton division recorded sales revenue of Rs. 2,749 million (FY13: Rs. 3,037 million), which includes revenue from yarn sales at outsourced facilities totalling Rs. 792 million and raw cotton sales of Rs. 132 million.

The gross loss for the period was Rs. 13 million against gross profit of Rs. 186.6 million in FY13; this is primarily due to an increase in cost of sales, underutilization of capacity.

The net loss for the year was Rs. 105.5 million, against a net profit of Rs. 89.3 million (excluding insurance claim settlement) in the previous year.

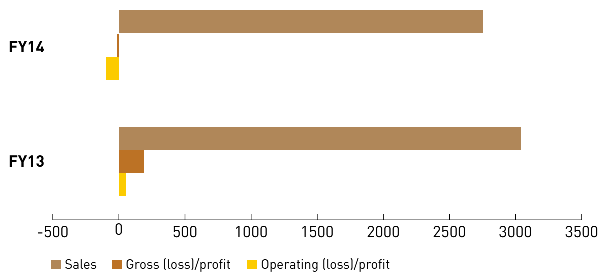
INVESTMENT AND INFRASTRUCTURE DEVELOPMENT (IID) DIVISION – OPERATIONAL AND FINANCIAL REVIEW

Fiscal year 2014 came to an end with the benchmark KSE-100 index posting a gain of 41% (FY13: 52%) to close at 29,653 points on the back of better corporate earnings, interest of offshore investors, and an improved economic environment. Addition of stocks on the MSCI index and government steps to address the looming energy crisis added to the positive sentiment however, the fragile security condition and political nuances affected activities at the bourse at the end of the year. Market capitalization, up by 36%, hit Rs. 7.02 trillion at the end of the year (FY13: Rs. 5.15 trillion). Key activities on the economic front kept the market volatile during the last quarter, specifically, given the news of privatization activities that led to investors seeking possible arbitrage opportunities.

The division's profit before tax for the year ended 30 June 2014 stood at Rs. 392.8 million, 11.3% lower when compared to Rs. 442.7 million last year. This includes an impairment provision of Rs. 51.3 million (FY13: An impairment reversal of Rs. 167.3 million), on shares of Shakarganj Mills Limited. Exclusive of the impairment impact FY14 PBT is Rs. 168.7 million (61%) higher at Rs. 444.1 million (FY13 PBT – net of impairment reversal: Rs. 275.4 million). The profit is mainly attributable to income from investments amounting to Rs. 440.1

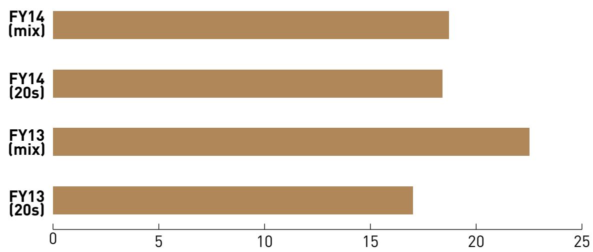
PROFITABILITY

Rs. in million



PRODUCTION

In million Lbs

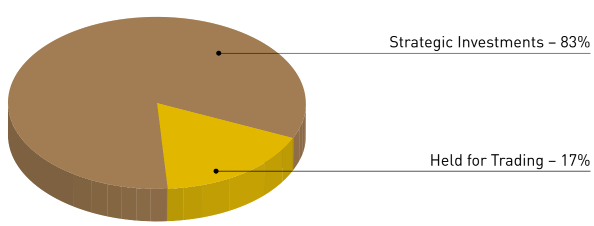


million. Total investment income includes dividend income of Rs. 97.6 million (includes dividend returns of Rs. 60.5 on investments in equity accounted associate, Altern Energy Limited) compared to Rs. 60.3 million last year.

Income from the HFT investments stood at Rs. 145.4 million, on average investments of Rs. 482 million. During the year, the IID division's portfolio of equity investments (HFT and AFS investments, excluding strategic and unquoted investments) recorded a return of 68% on average investments of Rs. 542.6 million – higher than the benchmark KSE–100 index, which increased by 41%.

At the year end, the value of investments in marketable securities (excluding strategic investments) amounted to Rs. 432.0 million (FY13: Rs. 768.1 million). During the period under review, shares valuing Rs. 213.1 million were purchased while shares equaling Rs. 719.6 million were sold on account of trading activities and switching positions.

INVESTMENT PORTFOLIO



FINANCIAL AND OPERATIONAL PERFORMANCE BASED ON CONSOLIDATED FINANCIAL STATEMENTS

Consolidated profit after tax and EPS for the Group for FY14 amounted to Rs. 553.4 million and Rs. 8.9 per share (FY13: Rs. 890.7 million and Rs. 14.3 per share), respectively. However, excluding the impact of deferred tax charge of Rs. 128.9 million on share of profit from associates, profit after tax and EPS of the Group for FY14 stands at Rs. 682.3 million and Rs. 10.99 per share, respectively.

In the current year, deferred tax amounting to Rs. 128.9 million on share of profits from Altern Energy Limited (AEL) has been booked out of which Rs. 95.1 million relates to prior years. Due to restraining policy by the lenders of Rousch Pakistan Limited (Rousch) on dividend distribution, deferred tax was not previously considered by the Company. However, due to negotiation with the lenders, Rousch was able to obtain conditional waiver for the distribution of dividend in FY14. Simultaneously, AEL was able to distribute the dividend. Therefore, as a measure of prudence, the above deferred tax liability has been provided in the current year.

During the year, Shakarganj Energy (Private) Limited (SEL) reported a loss after tax of Rs. 11.4 million as compared to Rs. 30.7 million last year. Profit after tax of CS Capital (Private) Limited (CSCL) increased to Rs. 56.8 million as compared to profit after tax of Rs. 48.2 million in FY13. Additionally, subsidiaries (SEL and CSCL) contributed an aggregate of Rs. 41.4 million to Group Profits against share of profits from associates.

BALANCE SHEET

The balance sheet as per separate financial statements continues to remain healthy with total assets amounting to Rs. 4,733 million in FY14 (FY13: Rs. 4,889 million). Current ratio stood at 2.3:1 (FY13: 2.4:1), reflective of prudent working capital management. The break-up value per share has improved to Rs. 64.5 (FY13: Rs. 64.0).

On a Group basis, the consolidated balance sheet footing stood at Rs. 6,165 million (FY13: Rs. 5,873 million). The break-up value per share has improved to Rs. 84.5 (FY13: Rs. 79.8). The shareholders' fund stood at Rs. 5,246.1 million (FY13: Rs. 4,955.5 million).

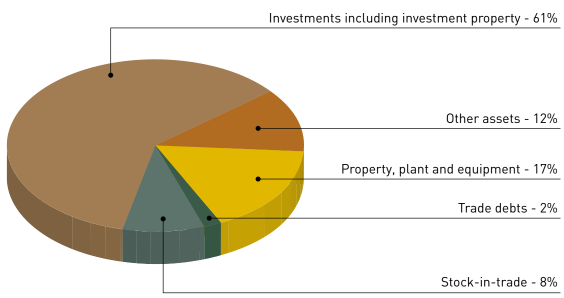
Consequent on the revision of IAS 19 "Employee Benefits", the Company has changed its accounting policy for 'retirement benefits' and has restated the financial information accordingly. This is further explained in note 4.1.1 to the unconsolidated financial statements.

CASH FLOW MANAGEMENT

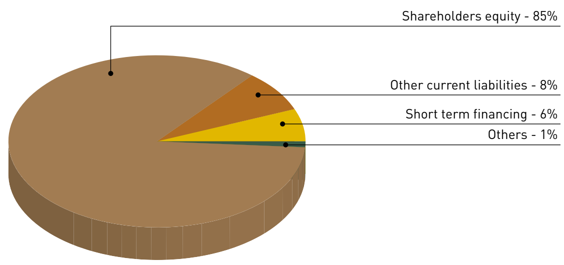
The company manages its working capital requirements through running finance facilities and other short term borrowing instruments. During FY14, the weighted average cost of borrowings was 13.7% per annum against last year's rate of 14.4%.

During FY14, net increase in cash and cash equivalents is Rs. 99.5 million which comprises of net cash generated from operating activities, net cash used in investing activities and net outflows from financing activities amounting to Rs. 567.9 million, Rs. 135.3 million and Rs. 333.1 million respectively. We have adequate ability to fund needs for operations in FY15. Our gearing ratio stood at 5.3%.

Total Assets as of 30 June 2014



Total Liabilities as of 30 June 2014



INITIATIVES

Innovation, machinery optimisation and process improvement initiatives are of great value to us at Crescent Steel. We remain relentless in our pursuit of enhancing output through continuous improvements in our processes and infrastructure. We believe that targeted improvement initiatives lead to increased productivity, enhanced uptime, better quality products, better service and environmental conservation.

STEEL DIVISION

During the year, our Quality lab was upgraded with SPECTROLAB, for reliable metal analysis. As a result requisite tests can be conducted in-house reducing turnaround time on product delivery to our line pipe clients. It also enables us to offer quality testing services to other manufacturers in the country. Our Engineering Services team also carried out extensive preventive checks and quality audits on the SP machine to replace certain parts and upgrade the unit.

We stay committed to remaining at the cutting edge of technology and in ensuring quality of our products, to maintain cost and quality leadership and, to uphold our position as market leaders.

COTTON DIVISION

To mitigate production losses and improve product quality and total productivity a compact attachment on 8 Ring machines was installed.

Steps were also taken to conserve energy and manage input costs at the unit by shutting down one shift of back process during peak tariff and process re-engineering of the blow room machinery line.

INVESTMENT AND INFRASTRUCTURE DEVELOPMENT DIVISION

The division invested in an Investment Management System to track and monitor equity investments in a real time environment providing decision support and reducing time costs on operations.

CONTRIBUTION TO NATIONAL EXCHEQUER AND ECONOMY

Contribution to the National Exchequer and the Economy aggregated Rs. 873.0 million. The Company has contributed Rs. 357.9 million towards the national exchequer on account of government levies and taxes (FY13: Rs. 730.2 million). Contribution to the Economy included Rs. 84.1 million on account of payments to providers of capital, societal investments of Rs. 22.3 million in the form of donations and sponsorships and Rs. 155.3 million in the shape of shareholders' returns through cash dividends. Crescent Steel continued to contribute to economic prosperity by providing employment for 742 full and part-time employees with compensation and benefits of Rs. 253.4 million.

During the year, the Company manufactured 10,248 tons of steel pipes and 18.7 million lbs. of cotton yarn; bought Rs. 3,629 million worth of goods and services from various suppliers.

SHARE PRICE SENSITIVITY ANALYSIS

The Company share price is generally related to its performance and operating results. The price is also sensitive to industry trends and cycles of the various business segments that it operates i.e. Engineering, Textiles and Capital Markets. During the first half of FY14 activity was low in the steel business segment, but picked up pace in the 3rd and 4th quarter. During the year, cotton spinning segment remained under pressure given cotton price fluctuations and the impact of China's yarn procurement policy. This affected the industry negatively and eroded profit margins.

'CSAP' opened in FY14 at Rs. 44.99, peaking at Rs. 74.80 in August 2013, mainly on back of FY13 results which

Company Share Price

were significantly higher when compared to FY12. For the remainder of the first half of FY14 the share price remained largely range bound between Rs. 50 and Rs. 60, dipping and remaining below Rs. 50 in the second half of FY14, closing the year at Rs. 43.51 – the lowest price seen during the fiscal year. The share price however, was adjusted for the total dividend pay-out of 10% announced after the third quarter of FY14 in addition to the 15% dividend and 10% bonus issue announced for FY13 during the first quarter of FY14.

QUALITY

Crescent Steel is committed to the highest standards of quality in product delivery and services while maintaining strong customer focus. We strive to apply cutting edge technology and remain client centric to drive profitability and efficiency, without compromising on quality. Every year, we make sure incremental improvements are made through specific quality improvement projects that run in parallel to our strategic and process improvement initiatives. Effectiveness of our Quality Management System is ensured through an independent quality function.

STEEL DIVISION

Since inception, the Company retains authorization to use the American Petroleum Institute (API) monogram; API signifies the highest international standard accredited for quality of steel line pipes. In 1997, the Company was awarded Certificate of ISO 9001 "Quality Management Systems-Requirements" which it continues to retain as ISO 9001:2008, and became the first Pakistani company to have acquired certification of API Specification Q1 "Specification for Quality Management System Requirements for Manufacturing Organizations for the Petroleum and Natural Gas Industry."

Crescent Steel also retains ISO 14001:2004 & OHSAS 18001:2007 standards certification awarded in 2010. Obtaining this HSE certification was possible through consistent dedication and hard work of all our people and reinforces our commitment to the highest standards of HSE and Quality.

COTTON DIVISION

The Division strives to make quality yarn for weaving mills in counts ranging from 6s to 30s and strives to maintain product quality. To achieve and maintain this level a competent quality team is established for both in-house and out sourced processing.

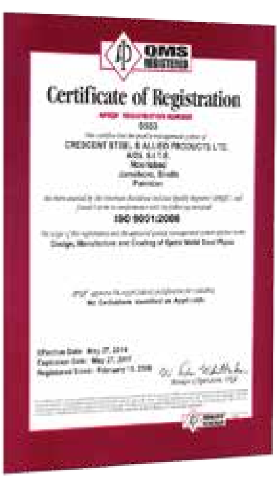
To ensure the highest quality standards, the division consistently retains Lloyd's Register Quality Assurance (LRQA) and ISO 9001:2008 certifications, applicable to manufacturers of Carded and Carded Compact Spun Yarn.

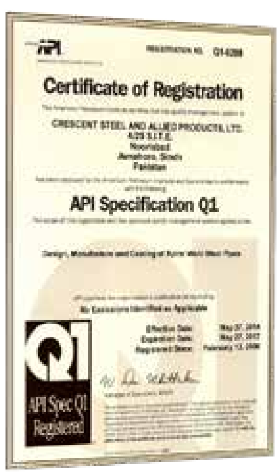
INFORMATION TECHNOLOGY GOVERNANCE

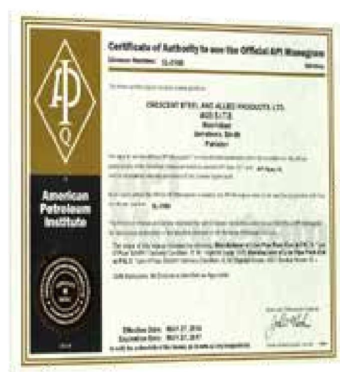
Information Management and Information Technology is built into our corporate strategy; our IT team is not structured as cost centre but a business partner. We strive to develop an agile IT infrastructure with well-integrated systems and resources to streamline operations, add value to business and enable informed decision making to channel growth.

BUSINESS CONTINUITY MANAGEMENT: DISASTER RECOVERY PLAN

Our Disaster Recovery Plan (DRP) refer to an action plan devised in advance to prevent breakdown of important







Company operations and restoring and restarting them in as little time as possible if they are interrupted by the occurrence of any man-made disaster or due to any natural catastrophe. The data loss and time to recover is measured within the defined concepts of Recovery Time Objective (RTO) and the Recovery Point Objective (RPO). The Company has a star network topology for internal Data Communication. Business sites are inter-connected for the various sort of data communication through high speed fiber over a Point to Point (PPP) dedicated connection with a secured backup link over the internet for redundancy.

The Primary Server, housed at a Tier-3 data center, is a state of the art machine, which has integrated servers, SAN storage, networking and I/O into a single chassis with inbuilt redundancy for each component. The server operates in a clustered virtual mode which ensures a high degree of availability. Backup of all data is a regimented practice with a copy of the backup stored safely at an offsite location.

On occurrence of any untoward event Company IT is fully equipped to initiate DRP response protocols at red alert to ensure full recovery, restoration and restarting of systems in minimum time.

STRATEGIC ALIGNMENT WITH ORACLE ERP:

Our information systems are integrated with manufacturing processes to capture real time data for process owners consistently providing business intelligence for enabling target oriented decision making. Implemented in 2009, our information management system consists of Oracle financials with 13 Modules covering all layers of Financials, Order Management, Inventory, Supply Chain, and Project Management.

SECURE AND UNINTERRUPTED INFRASTRUCTURE WITH OPEN CLOUD:

As a process improvement and cost reduction initiative, the entire IT infrastructure has been established at a Tier-3 Data Centre with a Tier-1 network and a backup link which gives us immense capability to grow and expand our services in a cost effective manner.

MOBILITY AND VALUE DELIVERY:

During the year our in-house IT team designed and developed a customer interface to provide real time order status information to Steel Division clients. The interface is currently under User Acceptance Testing (UAT) and is expected to be launched shortly.

RECORD MANAGEMENT:

Historical records are maintained offsite with adequate access controls. We are working to digitize records and information as far as possible to ensure a sustainable data warehousing and paperless environment. This will not only ensure safety of data, but also offer the advantage of being able to access this information anytime, anywhere.

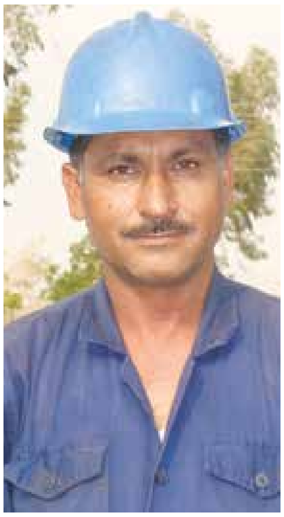
CORPORATE SOCIAL RESPONSIBILITY AND IMPACT INVESTING

Corporate Social Responsibility (CSR) is a strategic management-driven initiative that integrates our business, environmental and citizenship activities in a manner that upholds our values. While Crescent Steel competes hard to achieve leadership and business success, we are not concerned only with results, but with how the results are achieved and the impact of our activities for our stakeholders.

We believe that the long term success of our business is dependent on the socio-economic well-being of the communities in which we operate. We believe that if we are to function in a healthy climate in the future we must take actions now that will ensure our viability. Our success in business depends on our ability to meet a range of environmental and social challenges. We must show we can operate safely and manage the effect our activities can have on neighbouring communities and society as a whole.

The Crescent Steel Corporate Strategy includes a commitment to sustainable development that involves balancing short and long-term interests, and integrating economic, environmental and social aspects into our business decisions.

Our CSR is divided into four categories: the economic, legal, ethical and philanthropic/discretionary responsibilities to our stakeholders – these principles are already well integrated into our day to day work. Our philanthropic CSR policy allocates 2% to 5% of pre-tax profits towards focused community investments in the education, environment and health sectors. Working with selected community partners the Company made social investments of Rs. 22.3 million (FY13: Rs. 35.1 million) in the form of donations and sponsorships.



Impact Investing Initiatives for FY14 include investment in an Endowment Fund to support our educational investments, allocation to Scholarship Funds, and investment in hospital equipment – all these initiatives enable our community partners to invest funds for a financial or social return on a rolling basis. During the year we launched a matching contribution scheme enabling employees to donate to partner organisations directly through our counters and multiply their impact.

Detailed data and information on our 2014 environmental and social performance is published in the Crescent Steel Corporate Responsibility Report 2014 while selected partnerships are also captured below.

COMMITMENT TO EDUCATION:

EDUCATION NON-PROFIT PARTNER: THE CITIZENS FOUNDATION (TCF)

One out of every ten out of school children in the world are from Pakistan; Education is the right of every child. We support a robust community development program focusing on primary education through our non-profit partner, The Citizens Foundation (TCF).

Our Eighteen-year journey with TCF has been a tremendous experience. Starting with Crescent Steel campus I in 1997, today the Company has built 21 schooling units (16 primary and 5 secondary) and continues to support 15 schooling units (12 primary and 3 secondary). An estimated 2,000 children have graduated from primary schools supported by us, over 200 secondary school graduates from campuses supported by us have been awarded tertiary level scholarships arranged by TCF and in 2014 alone 75 students graduated from secondary schools supported by us. Combined enrolment in these schools today is 3,272 students, the majority of whom reside in some of the most impoverished communities of the country; 45% of these students are female.

JUGNOO SABAQ

An adult literacy program launched in 2003 within the Company to help improve literacy levels among workers at our facilities. This year three Employees from Nooriabad who had cleared their SSC Part-I from the Board of Secondary & Intermediate Education in Hyderabad appeared and have cleared their Matriculation Examination, held in April 2014.

COMMITMENT TO HEALTH:

We continue to support health care initiatives through selected partners by allocating a budget and volunteer activities in the Health Sector.

HEALTH NON-PROFIT PARTNER: THE HEALTH FOUNDATION (THF)

THF's main mandate is to educate the public on prevention and management methods of viral hepatitis - a disease that is affecting millions of people in Pakistan. Crescent Steel supported THF's "A Hepatitis Free Community – Model" project that spanned a period of four years and concluded in FY14.

COMMITMENT TO COMMUNITY AND THE ENVIRONMENT:

ENVIRONMENT NON-PROFIT PARTNER: WWF - PAKISTAN

WWF-Pakistan is a member of the WWF International Network, one of the world's largest environmental conservation organisations.

In addition to supporting conservation activities through targeted employee engagement initiatives, at the head office, 800 Square Feet of office space has been allocated to WWF Pakistan enabling them to free up funds and labor in rent and maintenance so that the organization is able to focus on its core mission. We have enjoyed sharing our facilities with WWF for the past 18.5 years.

RECYCLE, REDUCE AND REUSE

Crescent Steel donated 211 kg of waste paper and plastic in FY14 to Gul Bahao – a not for profit recycling organisation. 70% of this annual report is printed on 100% recycled paper.

TREE PLANTATION ACTIVITIES AT OUR CAMPUSES

During the year 200 trees were added at our Nooriabad premises and a massive plantation of 1,100 bizrumia trees was added to our Jaranwala and Dalowal facilities.

Over the years our plantation size has increased to over 5,720 trees. These trees will help us reduce our carbon footprint by 34 tons of carbon annually.

MARINE CONSERVATION

MANGROVE PLANTATION

This fiscal year 75 mangrove saplings were planted by Crescent Steel volunteers at the WWF Wetland Centre. We also continue to maintain the 50 mangroves planted





last year through monetary contributions that ensure that for every mangrove that doesn't survive WWF will plant another sapling. This totals our mangrove plantation to 125, reducing our carbon footprint by an additional 739 kgs annually.

HEALTH, SAFETY, ENVIRONMENT AND SUSTAINABILITY

We have resolved to redouble our safety efforts and intensify our focus to avoid any accidents or incidents which could result in serious harm.

We manage safety risk across our businesses through controls and compliance systems combined with a safety-focused culture. Our standards and operating procedures define the controls and physical barriers we require to prevent incidents. We regularly inspect, test and maintain these barriers to ensure they meet our standards. The Company is committed to continually improve the work place environment by educating and briefing all its employees, contractors and visitors with regards to Health, Safety and Environment standards.

Through our reporting system we are building a culture in which all employees can discuss safety openly. This is reflected in the growing number of preventive reports, which enable us to take prompt and more effective action to prevent unsafe situations. Our Mission Zero (zero incidents and accidents) campaign continues and we are shifting the focus from the measurement of lagging indicators to increase the focus on leading indicators with emphasis on major risks. We have also strengthened our engagement and encourage employees to participate more meaningfully in this critical agenda.

We have achieved positive progress in our safety agenda during the year and a particular success has been a marked performance improvement in our Cotton Division. Employee engagement and reward systems were introduced to encourage safety and health practices particularly by the unskilled workforce, which is inherently unsafe. One such reward system awarded bicycles to employees that remained true to health and safety standards at the unit.

PEOPLE

The strength of our business and financial performance reflects in the positive contributions we have been able to make throughout the year. In everything from new projects and initiatives through to workplace diversity and charitable partnerships we have been mindful of our opportunities and our responsibilities to influence positive change.

Our employees have shown their desire to make a positive contribution, at work and in their communities. One of the things of which I am most proud is the continued improvement in our employee engagement and participation levels.

EMPLOYEE COMMUNICATION AND ENGAGEMENT

At Crescent Steel, we want an open and creative culture that harnesses diversity and inclusion to inspire ideas and ignite innovation. By designing new and creative models of engagement, we equip future leaders with tools to create a culture of openness and innovation, where new perspectives and ideas are invited, heard and considered. More ideas lead to better ideas, and better ideas lead to innovation. Our focus is on culture and innovation as an approach to diversity inclusion.

Two-way dialogue between management and staff – directly and, where appropriate, via employee representative bodies – is important and embedded in our work practices. On a quarterly basis, we brief our staff about Crescent Steel's operational and financial results through various channels, including electronic communications, publications and face-to-face gatherings.

The Crescent Steel Employee Satisfaction Survey is one of the principal tools used to measure employee engagement: the degree of affiliation and commitment to Crescent Steel. It provides insights into employees' views, and has had a consistently high response rate. The average employee engagement score in FY14 was 69.6% favourable, a 0.15 point increase from FY13. The Open House with the CEO is one of the key drivers of process improvements at Crescent Steel. The Open House is designed to enable direct employee communication with the CEO, one on one and face to face. 81% of employees that participate in the Open House are from lower management tiers. Feedback from employees through these sessions have brought to light key issues relating to work place processes and the workplace environment.

We promote safe reporting of views about our processes and practices. Our drop box to the CEO and whistle blowing mechanisms enable employees to report, confidentially and anonymously, breaches of the Crescent Steel Governing Principles and Code of Conduct.

DIVERSITY AND INCLUSION

We have a culture that embraces diversity and fosters inclusion. By embedding these principles in our operations, we have a better understanding of the needs of our varied customers, partners and stakeholders and can benefit from a wider talent pool. We provide equal opportunity in recruitment, career development, promotion, training and reward for all employees, including those with disabilities.

We actively monitor representation of women in senior leadership positions, and have talent-development processes to support us in delivering more diverse representation.

TRAINING, DEVELOPMENT AND SUSTAINABILITY

Crescent Steel's commitment to its workforce includes enabling managers and leaders to be pedals for accelerating the company's growth. We invest in our leaders by providing learning and development opportunities that teach managers how to amplify talent, energy and capabilities.

Our approach on talent multipliers rests on four core principles: to lead, coach, drive and inspire. These principles define how we reach our individual and collective potential. Managers are role models who inspire their teams, live the passion of our products and promote creative environments for innovative thinking and relevant work.

In building our teams, we focus on Crescent Steel's future business needs and how we can plan for growth. We have transitioned from a single product-based approach to a diverse product suite and multi-faceted businesses.

Our talent strategy focuses on critical assignment planning, manager accountability for coaching and mentoring, and a variety of innovative approaches to individual and team learning. We also work to ensure successful leadership transitions, develop the next generation of leaders and grow emerging and diverse talent.

DEVELOPING EMPLOYEES – FROM TRAINEE TO MANAGER:

Employee development is aimed at all levels – starting from career training through to further development of top management. The aim is to contribute to the successful professional and personal development of the employees.

SUCCESSION PLANNING

Talent management and succession planning is carried out annually. A performance development and retention plan is designed for selected candidates. This process allows us to strategize and develop management roles for the business ensuring that a talented pool of able employees is ready to step up once the need arises.

To ensure that we have an adequate leadership in pipeline required for Crescent Steel to continue to grow, we are investing significantly in the areas of sustainable talent practices and infrastructure.

REWARDS AND BENEFITS

We celebrate and compensate successful employee results through excellent benefits and rewards. Crescent Steel offers competitive compensation, including benefits that provide employees the opportunity to remain healthy, ensure the wellness of their families and create a positive working environment.

In addition to basic remuneration, our remuneration system reflects the particular responsibility and performance with which each employee contributes to the company's success. Variable - performance based remuneration components are becoming increasingly important in this context: Each year the management shares the company profits, which influences the amount of the variable remuneration. The basis for this is the business unit's key financial figures. In addition, variable remuneration is also influenced by individual achievement of operational and strategic objectives that are defined by mutual agreement in a target setting process.

As a Company located across Pakistan – every location is different yet each location provides for variable health coverage; our manufacturing facilities are equipped with designated fitness centers, provide adequate time off, retirement savings and more.

HR INTEGRATION – PROGRAM FOR IMPROVING HR MANAGEMENT

To better meet the requirements of a diverse workforce, we initiated HR Integration, a project to realign our HR role, in the year under review. The project focuses on harmonization, a stronger orientation of our HR processes and, based on this, redefining roles and responsibilities in our network of more than 742 staff members.

The aim of HR integration is to increase the efficiency, effectiveness and quality of HR work. We want everyone to think like an HR manager, to make our processes more efficient so that we can place an even stronger focus on strategic issues and challenges. In line with this, the project consists of four strands: HR processes, HR organization, HR shared services, and HR IT systems. In the year under review, the key aspects for the future alignment of the HR role were defined based on a comprehensive analysis and plans were approved for implementation in the coming years.

FIVE VALUES AS BASIS FOR CORPORATE CULTURE

Our five values are pivotal for all employees: Integrity, Ownership, Customer Focus, Continuous Improvement and Community Care. Always doing the right thing, the courage and freedom to act on one's own authority, always giving one's best in a fair manner, striving for better and giving back - all pulling together are the basis of our corporate culture. This provides the framework for how we work together, interact with each another, put leadership into practice and solve conflicts in our organization. We are convinced that our employees' involvement and participation on the basis of our shared values is crucial to our success.

GOVERNANCE

The Board places paramount importance on good governance and to this effect has developed effective governance structures through various processes and frameworks. These include "Core values", "Standard of Conduct for Directors", "Standard of Conduct for Employees" and "Policy statement of ethics and business practices" in conformance with the Code of Corporate Governance in Pakistan and International best practices.

Values and ethics exemplify an organization's relationship with its business and strategic alliances. Governance standards are regularly reviewed and updated to ensure their effectiveness and relevance in line with the long-term objectives of the Company. The Board acknowledges its responsibility for the overall strategy, management, identification of and solution for risks and challenges, sustained business prosperity and safeguarding shareholders' rights.

The Board endorses the Best Practices of the Code of Corporate Governance as an effective tool in discharging these duties in addition to enhancing the timeliness, accuracy, comprehensiveness and transparency of financial and non-financial information through accountability and integrity.

At the management level, we have a robust system of monitoring performance of all business segments and overall entity performance. Each functional area has clearly spelt out objectives and key performance indicators. Employee performance measures and incentive compensation plans are linked to meeting the established goals and objectives, whereas entity performance is measured against a set of 48 financial and non-financial metrics that include: key financial ratios and operating statistics, Health & Safety indicators, sustainability indicators, customer and supply chain data, production parameters, a quality index, employee satisfaction results and employee turnover numbers.

The Board continuously reviews and approves its existing policies on rotation basis so that the said policies are reviewed at least once every three years.

WHISTLE BLOWING POLICY

Crescent Steel is committed to high standards of ethical, moral and legal business conduct. In line with this commitment, and our commitment to open communication, a whistle blowing policy is in place to provide an avenue for employees to raise concerns and reassurance that they will be protected from reprisals or victimization for whistle blowing.

The whistle blowing framework covers the following:

- Incorrect financial reporting;
- Unlawful activity;
- Activities that are not in line with Company's policies, including the Code of Conduct; or
- Activities, which otherwise amount to serious improper conduct.

No such incidence was highlighted or reported under the framework during the year.

AWARDS AND ACCOLADES

BEST CORPORATE REPORT AWARDS 2013 (ICAP AND ICMAP)

The Annual Report of the Company for the year 2013 secured 2nd position in the Engineering Sector of 'Best Corporate and Sustainability Report Awards 2013'.

BEST SUSTAINABILITY REPORT AWARDS 2013 (ICAP AND ICMAP).

Our Sustainability Report for the year 2013 secured 4th position among all participants in the 'Best Corporate and Sustainability Report Awards 2013'.

BEST CEO AWARD

Crescent Steel was awarded Best CEO Award for the industrial and mining sector in the 3rd CEO, CFO, CIO Conference & Leadership Awards ceremony, organized by the Mass Human Resource Services in collaboration with the Karachi Stock Exchange.

EMPLOYER OF THE YEAR AWARDS 2012

At the Employers' Federation of Pakistan's Employer of the Year Awards 2012 ceremony Crescent Steel was awarded for Best Enterprise for Work Place Safety in the large sector.

This award recognizes our contribution and commitment towards the provision of a safe and supportive work environment.

BEST PRACTICES AWARDS ON OSH&E (OCCUPATIONAL SAFETY, HEALTH AND ENVIRONMENT)

During the year, the Company secured 1st Prize in the 9th Employers' Federation of Pakistan Best Practices Award on OSH&E (Occupational Safety, Health and Environment) in the Processing and Allied Sector.

CORPORATE PHILANTHROPY AWARDS 2012

Crescent Steel and Allied Products Limited was selected by Pakistan Center of Philanthropy for the "Corporate Philanthropy Award 2012". Our Company was also awarded a Certificate of Recognition for the philanthropic contribution made and related activities carried out during 2012.

MAJOR BUSINESS RISKS AND THEIR MITIGATION

The Company is conducting business in a complex and challenging environment and is therefore exposed to a number of external and internal risks that may present threats to its success and profitability. Every business decision taken is based on weighing the associated risks against rewarding opportunities. We take measured risks as we strive to seize business opportunities that are compatible with our policies helping ensure measured sustainable growth.

Risk management is one of the essential elements of the Company's corporate governance and creates a balance between entrepreneurial attitude and risk levels associated with business opportunities. Given the changes in our business environment and the new projects that we have undertaken, we have undertaken a review of our enterprise wide risk management framework which will be implemented over the course of FY15. The aim of this system is to review identified risks as well as to assess, manage, and deal with them in a timely manner. It supports recognition of developments likely to jeopardize the future performance of the Company and helps take pre-emptive action against unnecessary risks.

The risk management system also serves as a means to systematically record business risks of the Company and present and control these risks in a transparent and comparable manner. It provides reasonable assurance that our business objectives can be achieved and our obligations to stakeholders; namely, customers, shareholders, employees and the surrounding communities are met with the highest level of compliance and integrity. Risk management is primarily the responsibility of the business managers; however, top management takes responsibility for the oversight of key risks, their associated controls and compliance with legal requirements.

Major risks and their mitigations are covered separately in this report.

ACKNOWLEDGEMENT

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

Our business model is resilient, and is underpinned by a management and performance framework that ensures we remain selective in securing projects which embrace our strength in engineering.

We expect to see strong performance from our engineering and capital markets businesses over the course of FY15. Our aim is to expand our product offering to capitalize on improving market conditions in the building and construction markets.

This financial year has proven our resilience. 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 to achieving this profitable result, in a very challenging time.

I would also like to thank you, our shareholders, and also our customers, for your continued patronage.

For and on behalf of the Board of Directors

Ahsan M. Saleem
Chief Executive Officer
21 August 2014