CHIEF EXECUTIVE'S REVIEW

DESPITE FINANCIAL YEAR 2015 BEING AN EXCEPTIONALLY CHALLENGING ONE FOR OUR BUSINESS, WE CLOSED THE YEAR WITH A POSITIVE BOTTOM LINE AND PROGRESSED WELL ON OUR PLANNED GROUP EXPANSION PROJECTS. I AM PROUD OF THE COMMITMENT AND HARD WORK OF MY TEAM AND COLLEAGUES ACROSS THE GROUP IN FACE OF A DIFFICULT OPERATING ENVIRONMENT.

IT IS A PLEASURE TO PRESENT THE ANNUAL REPORT OF YOUR COMPANY ALONG WITH AUDITED UNCONSOLIDATED AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015.

Ahsan M. Saleem
Chief Executive Officer

ECONOMIC AND DEVELOPMENT OUTLOOK

ADB estimates put GDP growth at 4.5% percent for fiscal year 2016, helped by macroeconomic stability, low oil prices, planned improvements in the domestic energy supply, sustained multi-lateral and bi-lateral programs and investment related to the China-Pakistan Economic Corridor. Inflation dropped to record lows in July, but is expected to increase in the coming months with the anticipated stabilization of commodity prices. Despite declining exports, the external current account deficit narrowed to 0.8 percent of GDP in FY15 on the back of favorable oil prices and strong growth of remittances. Foreign exchange reserves of the SBP continued to increase at a healthy pace, and reached US$13.5 billion at end-June 2015, covering about three months of imports.

Over the past two years government led reforms have helped narrow the budget deficit, rebuild depleted exchange reserves, and raise growth modestly despite sizeable energy deficits and a challenging security environment. During the year the Government has continued to make progress on the implementation of key programs and has been able to secure sizeable infrastructure investments through the China Pakistan Economic Corridor. Continued support from the IMF and the Pakistan sovereign ratings upgrade by Moody's and S&P will improve investment outlook for Pakistan markets.

The outlook in FY16 is for moderate growth, low single digit inflation, and a stable external position underpinned by low oil prices, strong capital inflows and remittances. Macroeconomic and structural reforms, good governance, improvement in the security and energy situation and political stability continue to remain the underpinning factors for a sustainable growth trajectory.

FINANCIAL AND OPERATIONAL PERFORMANCE

OVERALL FINANCIAL PERFORMANCE

During the year ended 30 June 2015 (FY15) the Company's after tax profit declined to Rs. 106.4 million (FY14: Rs. 360.2 million) whereas earnings per share (EPS) for the current year stood at Rs. 1.71 (FY14: Rs. 5.80).

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. 200 million (FY14: Rs. 553.4 million) and EPS stood at Rs. 3.22 (FY14: Rs. 8.91 million).

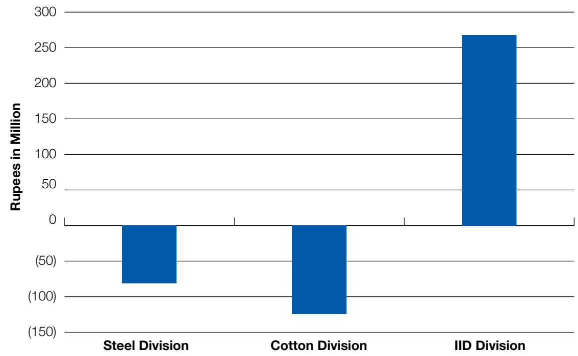
FINANCIAL AND OPERATIONAL PERFORMANCE BASED ON UNCONSOLIDATED FINANCIAL STATEMENTS

The Company's bottom line closed on a positive note primarily due to profits in the IID division. During the period under review the Company faced challenges in the core business divisions with both the Steel Division and Cotton Division closing the year in red.

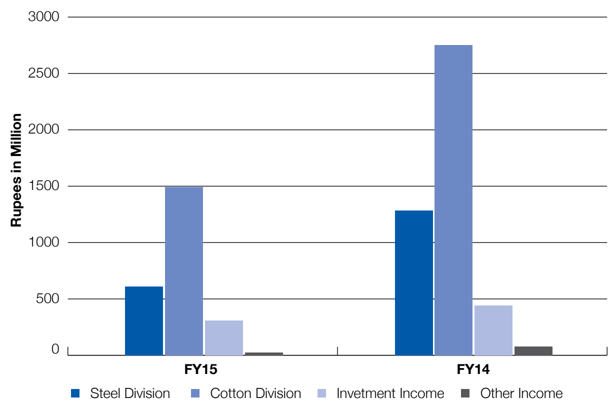
Sales revenue amounted to Rs. 2,101.6 million (FY14: Rs. 4,031.6 million), with the Cotton Division contributing 71.0% to turnover at Rs. 1,492.5 million (FY14: Rs. 2,749.5 million). Investment income from the IID Division amounted to Rs. 308.7 million (FY14: Rs. 440.1 million) mainly comprising dividend income. Investment income last year included one off disposal gains on AFS investments amounting to Rs. 193.7 million.

On the basis of reporting segments, IID Division reported a profit before tax of Rs. 268.2 million (FY14: Rs. 392.8 million) during the year mainly due to dividend income of Rs. 212.1 million of which Rs. 114.7 million was received from wholly owned subsidiaries. Cotton and Steel divisions

Division-wise composition of total (loss)/profit before taxation (FY15)



Total Revenue and Income (FY15)



reported a loss before tax (LBT) of Rs. 124.1 million (FY14: Rs. 105.5 million) and Rs. 81.4 (FY14: PBT Rs. 91.8 million), respectively.

Summary of operating results as per Separate Financial Statements:

- Sales revenue stood at Rs. 2,102 million (FY14: Rs. 4,032 million).
- Investment income decreased to Rs. 309 million (FY14: Rs. 440 million).
- Gross profit margin was 1.5% for current year as compared to 5.7% last year.
- EBIT declined to Rs. 143 million for the current year (FY14: 464 million).
- EBITDA stood at Rs. 255 million in FY15 (FY14: Rs. 563 million).
- EPS decreased to Rs. 1.71 for the current year (FY14: Rs. 5.80).
- Return on average capital employed was 3.2% (FY14: 10.5%).
- Return on average equity was 2.6% for the current period (FY14: 9%).
- Break-up value per share increased to Rs. 65.2 (FY14: Rs. 64.5).

BUSINESS SEGMENTS

STEEL DIVISION – OPERATIONAL AND FINANCIAL REVIEW

As already discussed earlier, Steel Division performance remained dull throughout the year due to low order intake although demand for line pipes and pipe coatings picked up during the year. The actual mix diameter bare pipe production during FY15 significantly declined to 2,837 tons (FY14: 10,248 tons), while capacity utilization of the pipe plant was negligible at 3.2% (FY14: 24%). Coating activities increased by 55% in terms of volume and stood at 90,735 square meters of pipe (FY14: 58,650 square meters).

The division's results were adversely affected by low order intake due to tariff anomalies in welded Steel line pipe category and misinterpretation of a Government regulation on price preference, which enabled easy entry for foreign suppliers into the local market. The issue has been taken up by us for greater clarity on its application to future tenders. The segment's revenue declined to Rs. 609.1 million (FY14: Rs. 1,282.0 million). Gross Profit of the division amounted to Rs. 90.9 million (FY14: Rs. 243.3 million) however, with low volumes and unabsorbed fixed costs, the division's bottom line closed at a net loss of Rs. 81.4 million (FY14: PBT Rs. 91.8 million).

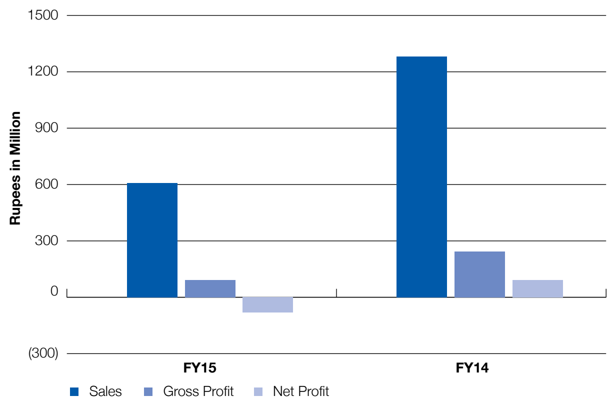
COTTON DIVISION – OPERATIONAL AND FINANCIAL REVIEW

The Textile sector had to face privation with intensified power outages and gas shortages bearing further load due to higher rates which affected the performance of sector as a whole and compelled the units to run under capacity boosting up their cost of production. Due to strong regional competition and devaluation of the US Dollar, the sector could not enjoy the benefit of GSP plus status awarded in FY 2014. Lower demand from China for yarn was another factor which kept the local yarn prices under pressure, marginally lower than export prices.

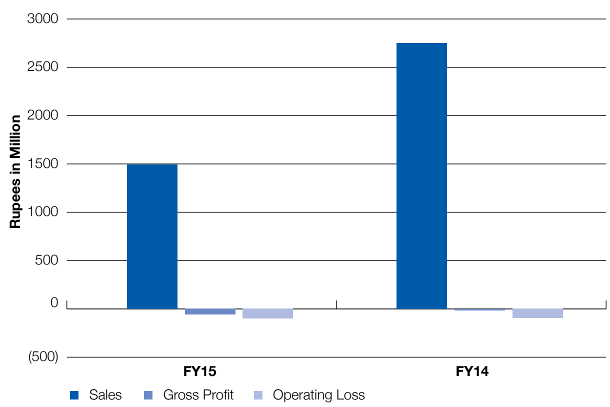
Limited energy supply and upgradation in production area resulted in closure of yarn production for nearly two months. In terms of volume, sales were down by 3.9% as compared to FY14. Turnover from the Cotton division amounted to Rs. 1,492 million, down by 46% (FY14: Rs. 2,749.5 million; including outside conversion, raw cotton and fabric sales: Rs. 954.8 million). The decline is attributable to lower production and discontinuation of yarn outsourcing contracts that were in place last year.

FY15 saw a significant fall in cotton prices which resulted in inventory losses of Rs. 18.8 million. The unit posted a gross loss of Rs. 58.4 million for FY15 (FY14: Rs.12.9 million). Other than inventory losses, an increase in minimum wages

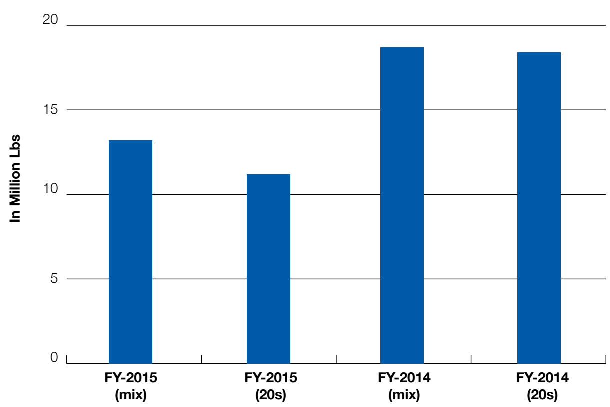
Operating Results - Steel Division



Operating Results - Cotton Division



Production - Cotton Division



and the imposition of Universal Obligation Surcharge and Gas Infrastructure Development Cess (GIDC) contributed significantly to the division's loss. The year ended with a pre-tax net loss of Rs. 124.1 million (FY14: Rs. 105.5 million).

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

KSE-100 performance

The benchmark index gained 16% in FY15 (13% in USD terms) compared to 42% in FY14 and 52% in FY13. The fall in returns was despite improved macroeconomic indicators, a stronger current account position, stable single digit inflation, interest rates at record low levels (slashed by 3% to close FY15 at 7%) and a strong FX position. Volumes of KSE-100 index remained largely flat YoY in FY15 to reach 219 million shares per day, however the value traded did improve by 28% to USD 109 million per day. Participant wise activity shows Mutual Funds taking the lead in terms of net buying, while Banks/DFI's remained net sellers.

The KSE-100 index growth slowed down considerably in FY15 with looming uncertainty as the legitimacy of general election had come under question and a substantial fall in net foreign investments (Net foreign investment was down by USD 218 million to USD 39 million in FY15). Liquidation of a key foreign fund and tightening of regulatory rules for brokers also held back the performance in the latter half of the year. The relatively dull performance in absolute terms can largely be attributed to a dip in oil prices affecting the index heavy weight Oil and Gas sector scrips. Performance of the banking sector also remained dull in a low interest rate environment.

The index return of 16% in FY15 was in excess of inflation, which averaged 6% during the same period with the local bourse outperforming regional peers (excluding China) by 10%, Gold by 22% and average money market rates by 9%. During the year, the IID division outperformed the benchmark index, generating significant cash and containing costs.

IID Operating Performance

The accumulated profit before tax of IID division for the year ended 30 June 2015 stood at Rs. 268.2 million [FY14: Rs. 392.7 million], down by 32%. The decline in PBT is primarily on account of profit impacts to the tune of Rs. 193.7 million from the redemption of investment in units of Safeway Mutual Fund Limited and Asian Stock Fund limited realized during FY14.

The division's CSAPL portfolio of HFT investments recorded an ROI of 27.4% on weighted average investments of Rs. 440.3 million compared to the benchmark KSE-100 index return of 16% in the same period. Realised gains and dividend income on HFT investments stood at Rs. 103.7 million.

At the year end, the value of investments in marketable securities (excluding strategic investments) amounted to Rs. 365 million (FY14: Rs. 432 million). During the period under review, shares valuing Rs. 388.8 million were purchased while shares equalling Rs. 536.6 million were sold on account of trading activities and switching positions.

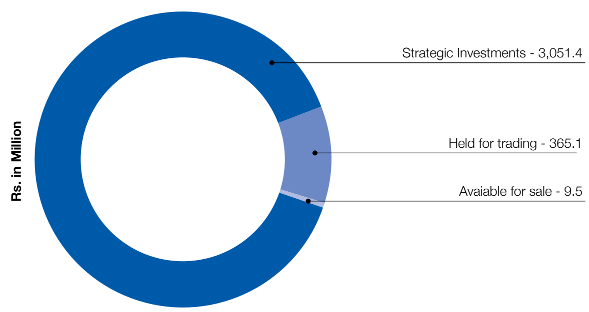
FINANCIAL AND OPERATIONAL PERFORMANCE BASED ON CONSOLIDATED FINANCIAL STATEMENTS

Consolidated profit after tax and EPS for the Group for FY15 stood at Rs. 200.0 million (FY14: Rs. 553.4 million) and Rs. 3.22 per share (FY14: Rs. 8.91). Net share of profit from equity-accounted associates amounted to Rs. 203.3 million (FY14: Rs. 340.6 million).

Commercial operations of our subsidiary - Shakarganj Energy (Private) Limited (SEL) commenced in December 2014. Profit contributed by SEL for the year amounted to Rs. 9.8 million (FY14: Rs. 36.2 million) on account of Altern Energy Limited's share of profit amounting to Rs. 21.4 million (FY14: Rs. 55.5 million). CS Capital (Private) Limited (CSCL) added Rs. 56.8 million to the group's bottom line.

Major plant and machinery for Crescent Hadeed (Pvt) Limited (CHL) has been installed and civil works are in progress with the pre-engineering shed in completion phase. Erection of steel melting and casting equipment is almost complete and trial production is scheduled for the month of October 2015. Pre-commencement loss of CHL during the period amounted to Rs. 3.9 million mainly on account of administrative expenses.

Investment Portfolio



BALANCE SHEET

The balance sheet as per unconsolidated financial statements continues to remain healthy with total assets amounting to Rs. 5,392 million in FY15 (FY14: Rs. 4,733 million). Current ratio stood at 1.4:1 (FY14: 2.3:1), whereas, the break-up value per share has improved to Rs. 65.2 (FY14: Rs. 64.5).

On a Group basis, the consolidated balance sheet footing stood at Rs. 6,837 million (FY14: Rs. 6,165 million). The break-up value per share has improved to Rs. 86.8 (FY14: Rs. 84.5). The shareholders' fund stood at Rs. 5,390.2 million (FY14: Rs. 5,246.1 million).

CASH FLOW MANAGEMENT

The Company's cash flow management system projects cash inflows and outflows on a regular basis and monitors the cash position on a daily basis. The Company manages its working capital requirements through short term trading investments, running finance facilities and other short term borrowing instruments. During the year, the weighted average cost of borrowings stood 10.9% per annum against last year's rate of 13.7%.

Net decrease in cash and cash equivalents for the year is Rs. 138.2 million which comprises of net cash generated from operating activities, net cash used in investing activities and net inflows from financing activities amounting to Rs. 162.2 million, Rs. 399.2 million and Rs. 98.8 million respectively.

CHALLENGES

Tariff Anomalies

Of the total business tendered during the year, a significant portion of the business was awarded to foreign manufacturers as local manufacturers faced unfair competition in the face of export rebates available to foreign manufacturers coupled with local tariff anomalies on the import of pipe and, interpretation issues with the application of price preference to local manufacturers under SRO 827(I)/2001.

Local manufacturers in Pakistan face survival challenges as large diameter pipe imports are largely unregulated, with little difference between duties on imported raw material and finished product (for large diameter welded pipes). We remained persistent in our effort to engage the Engineering Development Board (EDB), Board of Investment (BoI) and FBR in an attempt to seek trade remedies/protection for local large diameter pipe manufacturers.

Energy Insecurity

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

Regional Competition

Regional players in the local line pipe industry, specifically Chinese manufacturers have a competitive edge and are able to beat local prices on the back of export rebates offered to them on the export of pipes. Consequently, local manufacturers are unable to beat foreign prices without significant erosion to margins.

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, good service, and environmental conservation.

Steel Division

During the year, we upgraded our lab and testing facilities. We have also added an extruder at the coating plant that will help us in cutting costs as well as saving energy along with improved productivity. Going forward we plan to further improve our existing machinery, upgrade our welding systems, and Non Destructive Testing facility.

Cotton Division

Due to falling cotton prices during FY14 and FY15 most local cotton spinning units switched over to shuttle-less yarn as a survival strategy. Keeping a close watch on the yarn market we shifted 50% of our production to Air jet yarn during the third quarter of FY15 to minimise losses.

During the year the division added 7,680 compact attachments, which improved production efficiency.

Information Systems

Our IT team developed and rolled out a Business Intelligence portal to track and monitor business performance in a real time environment providing decision support and reducing time costs on operations. The team is currently working on a customer portal to provide real time MIS to selected clients and is exploring solutions for an upgrade to the current HRMS.

CONTRIBUTION TO NATIONAL EXCHEQUER AND ECONOMY

Contribution to the National Exchequer and the Economy aggregated Rs. 553.4 million. The Company has contributed Rs. 157.2 million towards the national exchequer on account of government levies and taxes (FY14: Rs. 357.9 million).

Contribution to the economy included Rs. 80.7 million on account of payments to providers of capital and Rs. 43.5 million in the shape of shareholders' returns through cash dividends. Crescent Steel continued to contribute to economic prosperity by providing employment to 360 full and part-time employees with compensation and benefits of Rs. 262.9 million (on a group level, 397 full and part-time employees with compensation and benefits totalling Rs. 266.9 million).

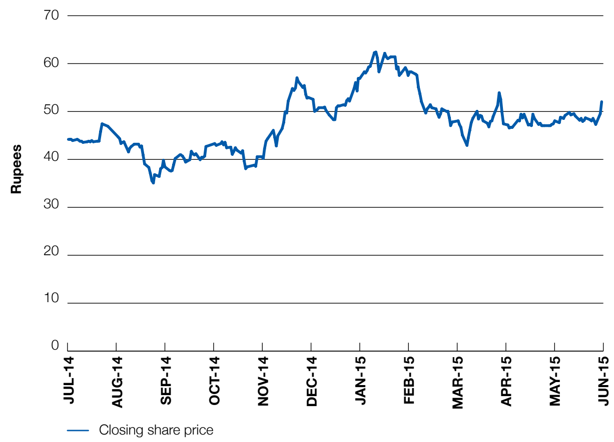
During the year, the Company manufactured 2,837 tons of steel pipes and 13.2 million lbs. of cotton yarn and purchased Rs. 1,901 million worth of goods and services from various suppliers.

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 year of FY15 business activity hit a 13 year low for the steel business segment while the cotton spinning segment also remained under pressure due to overall performance of the spinning industry. This affected the segment negatively and eroded profit margins. The IID segment acted as a buffer and the Company managed to report a positive bottom line.

'CSAP' opened in FY15 at Rs. 44, peaking at Rs.65.4 in January 2015 and dipping to a low of Rs. 34.2 in August 2014. For the first half of FY15 the share price remained between Rs. 34 and Rs. 58 and remained between Rs. 43 and Rs. 65 in the second half of FY15, closing the year at Rs. 51.97.

Company Share Price



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 parallel to our strategic and process improvement initiatives. Effectiveness of our Quality Management System is ensured through an independent quality function.

STEEL DIVISION

Our Steel division facilities are equipped with state of the art machinery which has been regularly upgraded for capacity enhancements and greater productivity. During the year we upgraded our testing facilities to include two new machines that would not only assist us in ensuring the quality of raw material but also help us in further improving product quality.

In order to ensure sustainability of our Quality Management System, we continue to maintain systems in line with API Q1 and ISO 9001 standards. An independent quality function is also in place to ensure the effectiveness of the QMS throughout the facility.

CSAPL realizes skilled manpower is yet another aspect that cannot be overlooked in producing a quality product and has been continuously training staff through internal and external training programs.

COTTON DIVISION

Cotton is the dominant fibre used as raw material in the textile industry. Pakistani cotton is more contaminated as compared to other countries' which affects quality and fetches lower rates while requiring intensive work to eliminate impurities. To overcome this issue state of the art Vision Shield was added during the year with successful results. Crescent Cotton Products continues to retain ISO 9001 standards certification and is also an active member of the Better Cotton Initiative (BCI).

INFORMATION TECHNOLOGY GOVERNANCE

IT Governance is an integral part of CSAPL Enterprise governance and consists of leadership, structures, and processes which ensure that CSAPL's IT sustains and extends its impact on business to meet its objectives. 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.

IT STRATEGY

Our IT department has a well defined strategic plan which provides a guide for IT strategic initiatives over next three

to five years. CSAPL's operations and achievement of business goals are heavily dependent on the technology we employ. Our IT department is a critical resource with limitless potential for effecting improvements in the Company's business processes.

CORPORATE SOCIAL RESPONSIBILITY AND IMPACT INVESTING

We acknowledge that our developments can impact stakeholders, and this is an area where we are constantly listening to and learning from stakeholders so that we can minimize our impact. We understand our duty of care to those in the communities in which we operate. Embedded in every project we undertake is community engagement, where we listen to community concerns, respond to their needs and take action to help mitigate the impact of our operations or the social and environmental ills that affect people around us.

At Crescent Steel, Corporate Social Responsibility (CSR) is a strategic management driven initiative that incorporates our business, environmental, and citizenship activities in a manner that supports our vision and upholds our values. Our 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. It is our commitment to contribute to sustainable economic development – working with employees, their families, the local community and society at large to improve the quality of life, in ways that are good for business and good for the overall development of our society.

Our CSR activities are 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, health and societal sectors. Working with selected community partners the Company made social investments of Rs. 10.3 million (FY14: Rs. 22.3 million) in the form of donations and sponsorships. In addition to cash contributions our people have volunteered time to structured community programs throughout the year.

Detailed information and analysis on our 2015 environmental and social performance is published in the Crescent Steel Corporate Responsibility Report 2015 while selected partnerships are also captured below.

COMMITMENT TO EDUCATION:

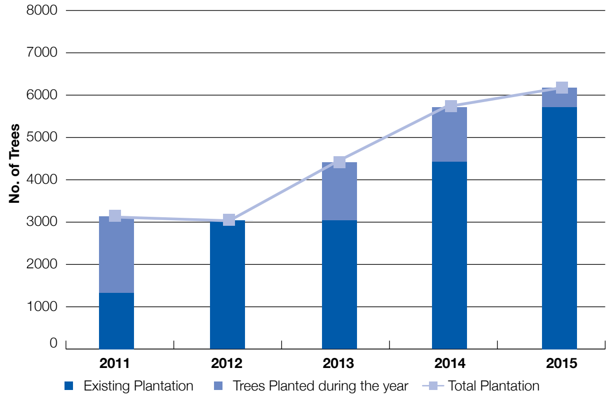
We see the lack of Education as the core of all problems faced by Pakistan today and primary education is the main focus area of our philanthropic CSR.

Education Non-Profit Partner: The Citizens Foundation

We believe that every child has a right to education. Currently there are 25 million boys and girls between the ages of 5 and 16 who are classified as out-of-school children in Pakistan. Supporting the cause of education, we have been in partnership with our non-profit partner, The Citizens Foundation (TCF) since 1996 to support a robust community development program focusing on education.

To date the Company has helped build 21 schooling units (16 primary and 5 secondary school units) and continues to support 15 schooling units (12 primary and 3 secondary school units). An estimated 2,300 children have graduated from primary schools supported by us, approximately 260 secondary school graduates from campuses supported by us have been awarded intermediate and tertiary level scholarships arranged by TCF. Combined enrolment in these schools today is 3,140 students, the majority of whom reside in some of the most impoverished communities of the country; 45% of these students are female.

Tree Plantation



Jugnoo Sabaq

An adult literacy program was launched in 2003 within the Company to help improve literacy levels among workers at our facilities. Three employees at our Nooriabad campus, who were enrolled in the programme, passed their part II matriculation examinations this year and 3 employees will give their part I matriculation examinations next year.

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 Indus Hospital

Indus Hospital has established the first centralized blood bank of Pakistan with an aim to save lives by collecting blood through voluntary donations. Availability of blood, especially in cases of emergency is a major issue in Pakistan where blood is only issued against blood. A centralized blood bank is an immediate requirement of our society. Crescent Steel supported the Indus Hospital by providing space for a blood drive through which 15,000 ml of blood was donated by our employees at the Head Office.

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 organizations. In March 2015, we partnered with WWF to celebrate Earth Hour by switching off all unnecessary lights at our campuses.

Mangrove Plantation

This fiscal year, 100 mangrove saplings were planted by Crescent Steel volunteers at the WWF Wetland Centre. We also continue to maintain the 125 mangroves planted in previous years through monetary contributions that ensure that for every mangrove that doesn't survive, WWF will plant another sapling. This totals our mangrove plantation to 225, reducing our carbon footprint by 1.3 tons annually.

Recycle, Reduce and Reuse

Crescent Steel donated 40 kg of waste paper, plastic and clothes in FY15 to community partners.

Tree Plantation activities at our campuses

During the year, we planted 360 trees at our Nooriabad campus. Over the years our plantation size has increased to over 6,160 trees. These trees will help us reduce our carbon footprint by 36 tons of carbon annually.

COMMITMENT TO SOCIETY:

Society Non-Profit Partner: Dar-ul-Sukun

Dar-ul-Sukun was recently added to our family of community partners. During the year, our employees volunteered to visit Dar-ul-Sukun and interact with physically and intellectually challenged individuals at their facility in Karachi.

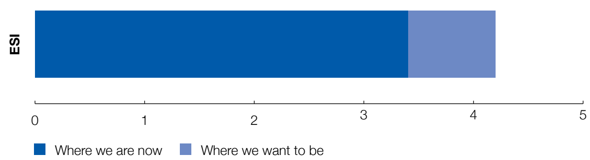
HEALTH, SAFETY, ENVIRONMENT AND SUSTAINABILITY

While focusing on quality of our product and services, strong emphasis has always been placed on Health, Safety and Environment (HSE). CSAPL has opted to adopt proactive approach in improving the workplace safety standards while ensuring compliance with all the related laws and regulation. As a result of this approach we have acquired and maintained standard certifications against OHSAS 18001 and ISO 14001.

In order to sustain the HSE system, the Company continually improves the work place environment by educating and briefing all its employees, contractors and visitors with regards to Health, Safety and Environment standards. We also take input from all of our employees through suggestion boxes, open house activities, walk around exercises and town hall meetings.

The philosophy of our HSE management system is focused on zero accident for which we perform hazard and environmental impact identification, assess them and make objectives to mitigate them. A performance monitoring system is also in place to incrementally improve the health and workplace standards. We urge our employees to be prepared for any emergencies and provide them necessary training, guidance and consultation on matters affecting their health, workplace safety, and environment. We seek to

Employee Satisfaction Index



embed lifesaving rules as mandatory behaviour for our entire workforce, including contractors. The rules are now clearly entrenched in our health, safety and environment systems and processes and are taught in day-one inductions for all new employees.

PEOPLE

We understand that positive attitude, strong skills and creative abilities of our Human Capital assets will create value by enabling greater organizational performance and productivity. Our HR goal is to continually align the aspirations of our people with those of the Company, encouraging a performance-oriented culture and a place where people love to work.

EMPLOYEE COMMUNICATION AND ENGAGEMENT

Employees represent an important audience not only in terms of their contributions at the workplace, but also in terms of their ability to serve as ambassadors of the Company. With this vision, we have developed an open and effective environment of communication for our employees where they are given an opportunity to express their ideas, which are heard, valued and respected. These ideas should lead to innovation, process improvements and ultimately towards the growth of the Company.

We have established two-way dialogue between the management and the staff to encourage new ideas and suggestions to improve existing processes. On a quarterly basis, we brief our staff about Crescent Steel's operational and financial results through various channels, including electronic communications, publications and informal or formal meetings and casual gatherings. We hold an annual Open House with the CEO where anyone can meet the CEO on a one on one basis to share ideas and/or concerns. The Open House with the CEO is one of the key drivers of process improvements at Crescent Steel. Our whistle blowing policy and suggestion box to the CEO encourages employees to express their views and raise valid concerns regarding the Company without fear of repercussions.

We manage an internal communications channel, designed to keep our people informed of latest developments in the organization. These communications are routed via our communications desk, Crescent Internal Communications.

VOICE OF EMPLOYEES: EMPLOYEE SATISFACTION SURVEY

Using a reviewed employee satisfaction survey, we are gaining an understanding of our core strengths and opportunities to improve. In 2015, our overall employee satisfaction score was 3.4 (2014: 3.5). Areas that need attention include collaboration and clarity around growth opportunities and career paths. Another area of focus is job engagement and remuneration. Strong scores were registered for our brand, strategy, values and culture, with particularly positive results on individual commitment and conduct.

DIVERSITY AND INCLUSION

We are committed to providing equality of opportunity and creating a rewarding workplace for all employees. Increasing female representation, especially in senior and management level roles, is an ongoing priority. As at 30 June 2015, 3.2% of our employees were female. 12.5% of the Executive Management Team roles were filled by women.

We are developing work practices to accommodate a diverse workforce such as flexible work and we are pleased to see these are being adopted by our people.

We go beyond abilities, age, ethnicity, gender and religion to create an environment that welcomes all forms of diversity. We provide equal opportunity in recruitment, career development, promotion, training and reward for all employees. We actively monitor representation of women in senior leadership positions, and have talent-development processes to support us in delivering more diverse representation.

SUCCESSION PLANNING

Talent management and succession planning is carried out annually. A performance development and retention plan is designed for selected candidates. This enables us to identify potential successors and ensures that they are appropriately developed so that they have the skills and experience necessary to step up and fill a key role within the company when the time is right.

HR INTEGRATION – PROGRAM FOR IMPROVING HR MANAGEMENT

We have developed an integrated HR function. HR integration is vital for business as it enables to determine the best HR strategy and necessary resources for strong business results. The aim of HR integration is to increase the efficiency, effectiveness and quality of HR work. Our focus areas include: HR processes, HR organization, HR shared services and HR IT systems. These aspects link HR with the overall organization. They enable our managers to integrate HR into their planning; thereby making processes more efficient.

FIVE VALUES AS BASIS FOR CORPORATE CULTURE

Our values are the core of our corporate culture. They shape the culture and define the character of our Company. Our Five values: Integrity, Ownership, Customer Focus, Continuous Improvement and Community Care, define who we are, how we work, what we believe in, and what we stand for. These values are our operating philosophies that guide our Company's internal conduct as well as its relationship with customers, suppliers and shareholders. They are the essence of the Company's identity, principles and beliefs.

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. 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. The Board Governance and Evaluation Committee monitors the compliance with the governing principles and periodically advises the Board on any changes in the Governance requirements.

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 and 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 rotational basis so that each and every policy is 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

KSE TOP 25 COMPANIES 2013 AWARD

Crescent Steel was ranked eighth in the Karachi Stock Exchange Limited (KSE) Top 25 Companies award for the year 2013. The award was presented to our CEO by the Prime Minister of Pakistan, Nawaz Sharif for the years 2010, 2011 and 2013.

MANAGEMENT ASSOCIATION OF PAKISTAN CORPORATE EXCELLENCE AWARDS

We ranked first in the category of Forestry and Industrial Metals and Mining in Management Association of Pakistan's 30th Corporate Excellence Awards.

CORPORATE REPORT AWARDS 2013 (ICAP AND ICMAP)

The Annual Report 2013 secured second position in the Engineering Sector of Best Corporate and Sustainability Report Awards 2013 organized by ICAP and ICMAP.

SUSTAINABILITY REPORT AWARDS 2013 (ICAP AND ICMAP)

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

SAFA'S BEST PRESENTED ANNUAL REPORT AWARDS 2013

Crescent Steel was ranked First Runner-up in the Manufacturing Sector category by the South Asian Federation of Accountants (SAFA) under the Best Presented Accounts Award for 2013 in addition to being announced a Merit winner of the SAARC Anniversary Awards for Corporate Governance Disclosures in the Manufacturing Sector.

EMPLOYER'S FEDERATION OF PAKISTAN'S BEST PRACTICES AWARD ON OHS&E 2014

Ranked third in Employer's Federation of Pakistan's 10th Best Practices Award on Occupational Health, Safety and Environment in the category of Processing and Allied Sector.

MAJOR BUSINESS RISKS AND THEIR MITIGATION

The Company conducts business in a complex and challenging environment and is therefore exposed to 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 long term vision.

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. Our risk management system supports recognition of developments likely to jeopardize the future performance of the Company and helps take pre-emptive action against unnecessary risks. Initiatives are underway to take management of risks to a new level by putting a comprehensive Enterprise Risk Management Framework in place in fiscal year 2016.

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

MARKET REVIEW AND FUTURE PROSPECTS:

STEEL LINE PIPES

Development in gas infrastructure projects has acted as a demand stimulus for the local large diameter line pipe manufacturers in Pakistan and the region, triggered by the escalating energy shortages and increasing energy demand across the country. Fiscal year 2015 closed with the initial agreement to build a 1,200 km pipeline from Karachi to Lahore, closely following the announcement of the 700km Gawadar-Nawabshah pipeline project through the CPEC. In addition to this four LNG terminals were built in Pakistan during the year alongside plans to distribute LNG up country for which the local gas distributors are in advanced stages of tendering for large diameter line pipes. These projects will be the key demand drivers for line pipes in the short term. Multiple projects have been planned for FY16-FY17, including the Karachi Bulk Water Supply (K4) project, Thar Coal Power Project and, Islamabad Water Supply Project. In addition to these, Port/Jetty Construction Projects if initiated will also generate demand for steel line pipes in the short-medium term. The Federal Budget for FY16 has targeted an aggregate outlay of Rs. 4.45 trillion and allocated Rs. 1.5 trillion to the Public Sector Development Programme (PSDP).

In the medium term, expansion in the gas transmission network will remain a major demand stimulant of large diameter steel line pipes necessary for transmission. Limited opportunities for demand growth are also available in the water, sewerage, and construction sectors. Ageing pipeline infrastructure requires replacement and holds long term opportunities for growth in this segment.

Steep fall in steel prices during the year will help us secure higher margins on some orders. Prices have now stabilised and are expected to remain range bound going forward.

PIPE COATINGS

The market for external pipe coatings in Pakistan is gradually expanding, however, the market for internal coating remains underdeveloped. We continue to work with our main customer base in meaningful dialogue on the benefits of flow efficient coatings. Our experience in high temperature external coatings with several coating systems including 3-layer polyolefin, heat shrink tape, and epoxy coatings gives us a competitive edge as first movers, and market leaders in Pakistan.

Outlook on Line Pipe and Pipe Coatings

FY15 remained a challenging year for both the line pipe manufacturing and line pipe coating unit as we faced stiff competition from foreign manufacturers and a bulk of business was awarded to them. Activity picked up during the last quarter of the year and we expect to start the next fiscal year with a significant order intake for both bare pipe and coatings.

We expect demand for local line pipe to pick up and in order to position ourselves for the same, we intend to augment capacity and product offering with an aggregate CAPEX outlay of Rs. 1.5 bn.

Cotton Yarn Outlook

China's policy shift on cotton yarn substantially dampened Chinese demand for Pakistani yarn. Textile exports in the first 11 months (Jul-May) of fiscal year 2015 were down 1.7% compared to the previous year, while cotton yarn exports fell by 8.0% YoY. Declining demand from EU and USA coupled with Chinese yarn procurement policies continue to add pressure to the domestic yarn prices, while imported yarn prices remain stagnant. The air jet weaving sector relies heavily on Chinese demand and also continues to face the same issues.

As a result of reduction in Chinese sowing acreage in 2015-16 by 10-15%, yarn prices may go up. However, performance of yarn products is dependent on the local cotton production targeted at 15 million bales by the GoP against USDA cotton crop forecast of 10 million bales for market year (MY) 2015-16. Prices are expected to remain under pressure during fiscal year 2016.

Equities Market Outlook

Going forward in FY16, investor sentiment is likely to improve with the judicial commission maintaining the integrity of the 2013 general elections. Macroeconomic improvements are also expected to strengthen investor confidence. We expect net foreign flows to improve in FY16 with the launch of the Pakistan-ETF and in view of Pakistan's anticipated qualification to the MSCI-EM index paving the way for a substantially large investor pool to start investing in Pakistan's market (although the reclassification will result in a lower Pakistan weightage). Additionally, with ratings upgraded and an improved investor outlook on Pakistan risk, international fund allocations to Pakistan will likely be reviewed and enhanced creating greater liquidity for the Pakistan capital markets.

Domestically, given that oil prices remain range bound, and the government continues to keep pace with its reform agenda, Pakistan's GDP growth is set to reach 4.5% which should gain traction from emerging market funds. With fixed income returns substantially lower than the past, interest in equity investments is likely to remain intact despite a revision in the tax structure to include investments of up to 48 months.

The market is expected to post average annual returns between 12-16% on the back of an improved macroeconomic environment, better corporate earnings and payouts enabled by a low interest rate environment, low inflation, stable commodity prices and a stronger PKR. Liquidity and foreign investment however, remain key drivers of market performance in FY16.

ACKNOWLEDGEMENT

Financial year 2015 turned out to be very challenging for our core businesses – Steel and Cotton, however, as a Group we remained positive and moved forward in achieving our medium and long term objectives with a strong financial position and growth plan for the future. We are strongly positioned for profitability and growth in fiscal year 2016 and are confident that we will ride the challenges and deliver value through different business avenues and continued commitment.

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
31 July 2015