CHIEF EXECUTIVE'S REVIEW

Despite financial year 2016 being an exceptionally challenging one for some of our businesses, it was also an exceptionally rewarding one for our core business of line pipe manufacturing. Gas pipeline capacity augmentation projects pushed up demand for line pipes and we captured a meaningful part of the business. We closed the year with record line pipe production and profits and progressed well on our group expansion projects. Before getting into the details, including our financial performance and the important steps we are taking to become better, I would like to share a few observations about the outgoing fiscal year.

Ahsan M. Saleem
Chief Executive Officer

Over the past 12 months, I met with many of our shareholders, customers and key stakeholders. These interactions made it clear that Crescent Steel is widely viewed as having a strong industry position with excellent opportunities for growth. Our strategy is clear and well understood. Our customers appreciate the knowledge, expertise and commitment of our people and there is great pride in being in a position to contribute to Pakistan's energy and water infrastructure landscape as the most reliable line pipe manufacturer in Pakistan.

I am proud of the commitment and hard work of my team and colleagues across the group in face of a highly challenging and volatile 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 2016.

EPS FY16
RS. 12.97

SALES
RS. 7.4
BILLION

7.3% of the net profit as Community Care

ECONOMIC AND DEVELOPMENT OUTLOOK

Located at the crossroads of South Asia, Central Asia, China and the Middle East - at the fulcrum of a regional market with a vast population, large and diverse resources, and untapped potential for trade - Pakistan has important strategic geopolitical advantage and development potential. The increasing working-age population provides the country with a potential demographic dividend but also with the critical challenge to provide adequate services and jobs. Pakistan faces significant economic, governance and security challenges to achieve durable development outcomes. The lack of reliable energy and water infrastructure, a largely uneducated workforce, persistence of conflict in the border areas and security challenges throughout the country affect all aspects of life in Pakistan and impedes development and economic growth. An educated Pakistan, sustainable and reliable energy and water infrastructure alongside improved security is critical to economic growth in Pakistan.

On the back of low and stable international oil prices, falling commodity prices and steady implementation of its reforms program for increased energy availability and improved security conditions, economic conditions have improved leading rating agencies and capital markets to improve their outlook for Pakistan. Inflation hit a 15 year low averaging 2.86 percent during FY16, enabling the Central Bank to cut policy rates by 75 bps to 5.75 percent. Growth is slowly recovering supported by a favourable slump in international oil prices and fast-growing remittances, with GDP growth accelerating to 4.7 percent in FY16 and expected to uptick to 4.8 percent in FY17 as per ADB estimates. The government however is targeting GDP growth for FY17 at 5.5%.

Industrial growth is accelerating on the back of higher activity in large-scale manufacturing and construction, the latter being driven primarily by initiation of China Pakistan Economic Corridor (CPEC) infrastructure and energy projects, dampening the effect of setbacks in the agricultural sector.

Going into FY17, we maintain a positive outlook on country performance given oil prices are expected to remain range bound over the next 12 months continuing to ease pressure on the balance of payments. Capital Markets are well positioned in terms of liquidity and expected to perform on the back of healthy corporate earnings in a low interest rate environment while further progress on planned reforms and activity under CPEC is expected to boost growth and yield results.

FINANCIAL AND OPERATIONAL PERFORMANCE

OVERALL FINANCIAL PERFORMANCE

During the year ended 30 June 2016 (FY16) the Company's pre-tax profits stood at Rs. 1,315.6 million (FY15: Rs. 62.7 million) with the Steel Division contributing a record Rs. 1,370.8 million (FY15: loss before tax (LBT): Rs. 81.4 million) in pre-tax profits. The after-tax profit increased to Rs. 967.1 million (FY15: Rs. 106.4) whereas earning per share (EPS) for the current year stood at Rs. 12.97 (FY:15 Rs. 1.53)

On Group basis [including the results of the wholly owned subsidiary companies CS Capital (Private) Limited, Crescent Hadeed (Private) Limited and, Shakarganj Energy (Private) Limited (SEL)], consolidated profit after taxation of the year amounted to Rs. 1,122.2 million (FY15: Rs. 200 million) and EPS Stood at Rs. 15.05 (FY15: Rs. 2.87)

FINANCIAL AND OPERATIONAL PERFORMANCE BASED ON UNCONSOLIDATED FINANCIAL STATEMENTS

The company posted record profits for FY16 primarily on account of business generated by the Steel Division. IID division's performance was restricted in line with the volatility in the local bourse while the Cotton Division remained in-operational during the year as market conditions were not conducive for profitability. The IID Division however, remained a key driver of short term working capital to finance operations in the Steel Division through both short term borrowings and liquidity generated from the sale of trading investments.

Company's sales revenue stood at Rs. 7,412 million (FY15: Rs. 2,101.6 million) and mainly constitutes turnover from Steel

CHIEF EXECUTIVE'S REVIEW

Division. The Steel Division posted sales of Rs. 7,378.1 million (FY15: 609.1 million). Investment income from IID Division amounted to Rs. 42.5 million (FY15: 308.7 million). Cotton Divisions' sales stood at Rs. 33.9 million (FY15: 1,492.5 million)

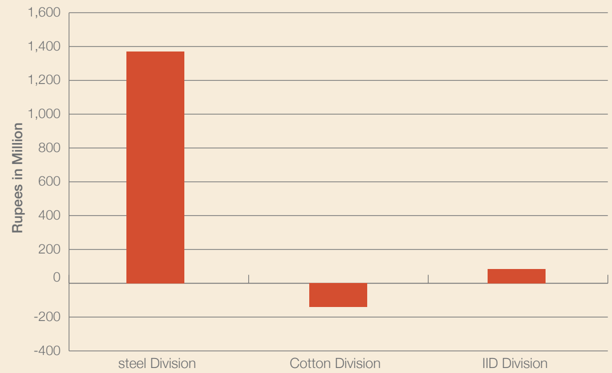
On the basis of reporting segments, Steel Division reported profit before tax of Rs. 1,370.8 million [FY15: loss before tax (LBT): Rs. 81.4 million] on account of higher sales and positive pricing impact of Hot Rolled Steel Coils. IID Division reported a profit before tax of Rs. 83.4 million (FY15: Rs. 268.2 million) during the period, mainly due to reversal of impairment of investment. The year-on- year dip in profit before tax of IID Division is primarily on account of low income from strategic investments. Cotton Division reported loss before tax (LBT) of Rs. 138.7 million [FY15: loss before tax (LBT) Rs. 124.1 million].

Company's profit before tax stood at Rs. 1,315.6 million (FY15: Rs. 62.7 million) and profit after tax stood at Rs. 967.1 million (FY15: Rs. 106.4 million). Other comprehensive income for the year was Rs. 183.5 million (FY15: 30.3 million) resulting in total comprehensive income for the year Rs. 1,150.7 million (FY15: Rs. 136.7 million).

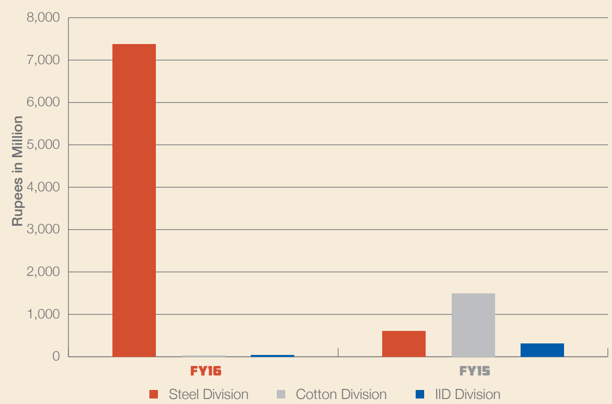
Summary of operating results as per Separate Financial Statements.

- Sales revenue increased to at Rs. 7,412 million (FY15: Rs. 2101.6 million)
- Investment income decreased to Rs. 42.6 million (FY15: Rs. 308.7 million)
- Gross profit increased to Rs. 2,142.9 million (FY15: Rs. 32.5 million)
- Gross profit margin increased to 28.9% (FY15: 1.5%)
- EBIT increased to Rs. 1,559.3 million (FY15: Rs. 143.4 million)
- EBITDA increased significantly to Rs. 1,675.5 million (FY15: Rs. 254.8 million)
- Profit before tax increased to Rs. 1,315.6 million (FY15: Rs. 62.7 million)
- Profit after tax increased to Rs. 967.1 million (FY15: Rs. 106.4 million)
- EPS increased to Rs. 12.97 (FY15: Rs. 1.53)
- Return on average capital employed was 23.5% (FY15: 3.1%)
- Return on average equity was 19.6% for the current period (FY15: 2.7%)

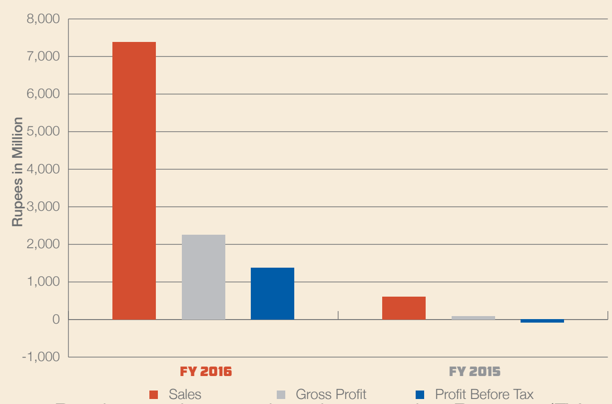
DIVISION-WISE COMPOSITION OF TOTAL PROFIT / (LOSS) BEFORE TAXATION (FY16)



TOTAL REVENUE AND INCOME (FY16)



OPERATING RESULTS- STEEL DIVISON (RS. IN MILLION)



- Break-up value per share increased to Rs. 74.8 (FY15: Rs. 65.2)

BUSINESS SEGMENTS

STEEL DIVISION – OPERATIONAL AND FINANCIAL REVIEW

Steel Division's performance was above average mainly due to a healthy order intake due to execution of planned capacity expansion in the gas distribution network and reduction in Hot Rolled Steel Coil prices. The actual mix diameter bare pipe production during FY16 leaped to 58,202 tons (FY15: 2,837 tons), capacity utilization of pipe plant increased to 64.7% (FY15: 3.2%). Coating activities also increased by manifold and in terms of volume stood at 590,738 square meters of pipe (FY15: 90,735 square meters). The Steel Division's revenue increased to Rs. 7,378.1 million (FY15: Rs. 609.1 million). Gross profit amounted to Rs. 2,254.0 million (FY15: Rs, 90.9 million) and resulting net profit stood at Rs. 1,370.8 million (FY15: Net loss 81.4 million) after taking in account one off non-cash charge of Rs. 90 million relating to discount on long term deposit.

COTTON DIVISION – OPERATIONAL AND FINANCIAL REVIEW

After deep analysis in June 2016 it was decided to shift operations from 100% cotton to polyester cotton (PC) and polyester viscose (PV) blends.

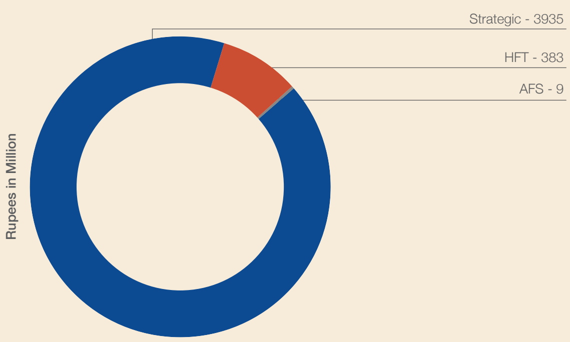
During the year, division recorded revenue of Rs. 33.9 million (FY15: Rs. 1,492 million). Gross loss of Rs. 111 million (FY15: Rs. 58.4 million) was recorded mainly due to fixed costs. The year ended with a loss before tax of Rs. 138.7 million (FY15: Rs. 124.1 million).

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

IID OPERATING PERFORMANCE

During the year ended 30 June 2016, the Investments and Infrastructure Development (IID) division's accumulated profit before tax (PBT) fell by Rs. 184.8 million or 69% to close the year ended 30 June 2016 at Rs. 83.4 million against the budgeted profit before tax of Rs. 62 million and, FY15 PBT of Rs. 268.2 million. The YoY variance in PBT is primarily on account of dividend income of Rs. 175.2 million received from subsidiary companies and Altern Energy Limited during FY15. The HFT segment recorded an ROI of 9.25% on weighted average investments of Rs. 341.8 million – during the same period, the benchmark KSE-100 index increased by 9.84%.

INVESTMENT PORTFOLIO



FINANCIAL AND OPERATIONAL PERFORMANCE BASED ON CONSOLIDATED FINANCIAL STATEMENTS

Consolidated pre-tax profits stood at Rs. 1,499.3 million with the Steel Division contributing Rs. 1,279.3 million. Consolidated profit after tax and EPS for the Group for FY16 stood at Rs. 1,122.2 million (FY15: Rs. 200 million) and Rs. 15.05 (FY15: Rs. 2.87). Net share of profit from equity-accounted association amounted to Rs. 347.1 million (FY15: Rs. 203.3 million). Other comprehensive income for the year was Rs. 200.5 million (FY15: 37.1 million) resulting in total comprehensive income for the year Rs. 1,322.7 million (FY15: 237.2 million)

During the period, our subsidiary Shakarganj Energy (Private) Limited (SEL) posted loss before tax of Rs. 55.3 million (FY15 PBT: Rs. 9.8 million) on account of fixed production overheads, low activity and high off-season bagasse cost. A 16.5 MW condensing extraction steam turbine generator was installed during the year for off-season power generation.

CS Capital (Private) Limited (CSCL) added Rs. 5.4 million to the Group's bottom line.

During the year plant and machinery for Crescent Hadeed (Private) Limited (CHL) was installed and trial production carried out in two phases. During the trial production in May power was provided from SEL. Commercial production has commenced from 1st June 2016. For the year, loss before tax stood at Rs. 66.5 million, which includes pre-commencement losses of Rs. 19.2 million and impairment of finished goods and raw materials of Rs. 27 million.

CHIEF EXECUTIVE'S REVIEW

BALANCE SHEET

The balance sheet as per unconsolidated financial statements continues to remain healthy with total assets amounting to Rs. 9,484 million in FY16 (FY15: Rs. 5,393 million). Current ratio stood at 1.4:1 (FY15: 1.4:1), whereas, the break-up value per share has improved to Rs. 74.8 (FY15: Rs. 65.2). Gearing ratio increased to 31.4% (FY15: 13.8%).

On a Group basis, the consolidated balance sheet footing stood at Rs. 11,457 million (FY15: Rs. 6,837 million). The break-up value per share has improved to Rs. 94.3 (FY15: Rs. 86.8). The shareholders' fund stood at Rs. 7,319.2 million (FY15: Rs. 5,390.2 million).

CASH FLOW MANAGEMENT

Since inception we have supported our organic growth programs and prioritized business needs while also investing our cash flows in investing and acquisition opportunities. With our strong balance sheet, we have the financial strength and flexibility to execute on all of our capital allocation priorities simultaneously.

The Company's cash flow management system forecasts cash flows on a regularly 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 at 8.4% per annum against 10.9% in FY15.

Net increase in cash and cash equivalents for the year is Rs. 142.3 million which comprises net cash used in operating activities, net cash used in investing activities and net inflows from financing activities amounting to Rs. 1,820.1 million, Rs. 816.3 million and Rs. 2,778.7 million, respectively. The negative cash flow position are primarily on account of working capital requirements where stock in trade constitutes an increase of Rs. 1,751.3 million as raw material for upcoming orders had been secured during the year.

CHALLENGES

TARIFF ANOMALIES

Historically, of the total business tendered, a significant portion of the business is awarded to foreign manufacturers as local manufacturers face 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 remain 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. FY16 saw an increased demand for line pipes and as the two gas transmission and distribution companies gear up their respective infrastructures to enhance capacity and ensure readiness for LNG import and local manufacturers were booked at capacity, however, the tariff anomalies remain unaddressed and a significant portion of line pipe demand is met by importing pipes. We are constantly in touch with the relevant regulatory authorities and trade bodies for a meaningful dialogue on these anomalies.

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 margin.

LIQUIDITY MANAGEMENT

The sharp increase in the volume of business and investment asks of newly established subsidiary units added liquidity pressures to meet working capital requirements. On the other hand, the opportunity for the Company to increase capacity and position itself to capture the immediate demand for line pipes also put of pressure on the liquidity/cash availability of the company. To address the liquidity challenges, the Company harvested trading investments, raised capital through a rights issue, and leveraged the balance sheet position to secure additional banking facilities.

INITIATIVES

Innovation, machinery optimization 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

In order to meet customer demand for large diameter heavy wall thickness pipes and to meet the increasing demand for line pipes in the interim we acquired and commissioned a second pipe manufacturing line at our plant. The plant was also upgraded with an automatic welding unit enhancing productivity. We are in the process of improving our pipe finishing capacity by installing additional pipe testing and handling equipment, with this addition we will be able to process two different pipe sizes at the same time. As a process innovation initiative the team optimized the setup of the finishing line to reduce throughput time at the finishing line. The new Spiral Pipe Plant has enabled us to more than double our production capacity to 200,000 tons and enhanced our product offering to 8”-120” in diameter range upto 25mm in thickness and material grades upto API 5L X100.

COTTON DIVISION

As a survival strategy to counter the prevailing disparity in cotton and cotton yarn prices in air-Jet and shuttle-less yarn during FY16, a number of local cotton spinning units switched over to PC & PV while some preferred to run at under capacity. After an in-depth analysis and close watch on the yarn market, in June 2016 we moved production to PC & PV yarn. During the year the division also added one Savio Polar to increase winding capacity.

INFORMATION SYSTEMS

After the excellent outcome of the initial Business Intelligence portal rollout, our IT team has vastly enhanced the scope of the BI portal to cover almost all areas including Manufacturing, Sales, Supply Chain, Quality and Finance giving a real time decision support system to the end users.

Reliability and uptime of IT systems is critical to the business and in order to maintain this our IT team has implemented a real time monitoring and measurement tool for all critical servers and services which has resulted in a much superior uptime and user experience.

A Customer Portal has been rolled out giving real time status of orders and deliveries to selected customers.

Successor cloud based HCM system has been identified and is now in an advanced stage of implementation.

Our Oracle EBS implementation has been extended to cover all aspects of business at subsidiary units Crescent Hadeed and Shakarganj Energy.

CONTRIBUTION TO NATIONAL EXCHEQUER AND ECONOMY

Contribution to the National Exchequer and the Economy aggregated Rs. 3,285.3 million (FY15: Rs. 553.4 million) and Group level aggregated to Rs. 3,355 million (FY15: Rs. 617.5 million).

The Company has contributed Rs. 2,250 million (FY15: Rs. 157.2 million) towards the national exchequer on account of government levies and taxes. Contribution to the Economy included Rs. 243.8 million (FY15: Rs. 80.7 million) on account of payments to providers of capital and Rs. 388.2 million (FY15: 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 891 (FY15: 360) full and part-time employees with compensation and benefits of Rs. 332.5 million (FY15: Rs. 262.9 million).

The Group has contributed Rs. 2,297 million (FY15: Rs. 210.7 million) towards the national exchequer on account of government levies and taxes. Contribution to the Economy included Rs. 253.9 million (FY15: Rs. 87.3 million) on account of payments to providers of capital and Rs. 388.2 million (FY15: Rs. 43.5 million) in the shape of shareholders’ returns through cash dividends. On a Group level the Company provided employment to 966 (FY15: 397) full and part-time employees with compensation and benefits of Rs. 345.1 million (FY15: Rs. 266.9 million).

CHIEF EXECUTIVE'S REVIEW

During the year, the Company manufactured 58,202 tons (FY15: 2,837 tons) of steel pipes, 0.8 million lbs. (FY15: 13.2 million lbs.) of cotton yarn and purchased Rs. 4,796 million (FY15: Rs. 1,901 million) worth of goods and services from various suppliers [Group Level: Rs. 5,036 million, FY15: Rs. 2,070.6 million].

SHARE PRICE SENSITIVITY ANALYSIS

Share price is related to the performance and operating result of the Company. 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 FY16, business activity for the steel segment hit record highs since its inception while the cotton spinning segment remained idle due to overall performance of the spinning industry. The IID segment remained under pressure as the local bourse remained volatile during the year.

'CSAP' opened FY16 at Rs. 54.56, peaking at a high Rs.137.85 in February 2016 on the back of a healthy order intake to close the year at Rs. 114.61 on 30 June, 2016. For the first half of FY16 the share price remained between Rs. 54.56 – Rs.128.72 and remained between Rs. 110.81 – Rs. 134.83 in the second half of FY16. The share price however, was adjusted for the 25% rights issue and the total dividend pay-out of 30% announced during FY16 in addition to the 7% dividend announced for FY15 during the first quarter of FY16.

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

This year Crescent Steel has carried out vast expansion of its manufacturing and testing facility and therefore has also added state of the art technologies to improve its quality of product.

In this regard an eight channel online ultrasonic testing has also been setup to strengthen the non-destructive testing facilities of Crescent Steel and Allied Products Limited. A low temperature freezer has been added in the laboratory to enhance testing capability of coated and steel impact test samples at -40 degree Celsius.

Crescent Steel realizes skilled manpower in yet another aspect that cannot be over looked in producing quality products. CSAPL has therefore inducted highly skilled personnel and has arranged further internal and external training to improve their skill set.

In order to ensure sustainability of the quality, we have acquired the Quality Management System in line with API Q1 and ISO 9001 and have been constantly maintaining it. An independent quality function is also in place to ensure the effectiveness of the QMS throughout the facility.

COTTON DIVISION

Crescent Cotton Products is committed to deliver best quality products (Yarn) with prediction approaches for determination/evaluation of the yarn properties through state of the art instruments by USTER Technologies. The division continues to retain ISO 9001 Standard Certification and is also an active member of 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 serves as a guide for IT strategic initiatives over next three to five years. Crescent Steel's operational agility is heavily dependent on our technology inputs and how we employ them. 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. 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. 71.5 million (FY15: Rs. 10.3 million) in the form of donations and sponsorships. In addition to cash contributions our people have volunteered 1,367 hours (FY15: 663 hours) to structured community programs throughout the year.

Detailed information and analysis on our 2016 environmental and social performance is published in the Crescent Steel Corporate Responsibility Report 2016 while selected partnerships are also captured below.

COMMITMENT TO EDUCATION

Access to education remains low and completion rate for primary education is among the lowest in the world. In FY14 public spending on education was 2.1% of GDP which reflects on the quality, poor teaching and learning outcomes and inadequate infrastructure. Pakistan is the sixth largest country in the world and according to UNESCO, ranks 159th (out of 177 countries) in literacy rate. It has almost 5.5 million children that are out of school, the second highest number in the world. In addition to targeted investments towards primary and secondary education, we also continue to support tertiary level education for children of employees and other merit students at recognised schools in Pakistan and abroad.

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

An educated Pakistan is critical to sustained economic development in Pakistan and a productive and inspired workforce. As our contribution to an educated Pakistan, we have been in partnership with our non-profit partner, The Citizens Foundation (TCF) since 1996 to support a robust 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 2,657 children have graduated from primary schools supported by us, approximately 285 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 3,362 students, the majority of whom reside in some of the most impoverished communities of the country; 49% of these students are female.

JUGNOO SABAQ

An adult literacy program, Jugnoo Sabaq was launched within the Company in 2003 to help improve literacy levels among workers at our facilities. 12 employees are enrolled in the Jugnoo Sabaq classes, out of which three employees from the Nooriabad campus have taken the part II Matriculation Examinations this year.

COMMITMENT TO HEALTH

Access to quality healthcare and emergency medical services remain an area of concern. We continue to invest in a healthy Pakistan by supporting healthcare initiatives through donations and volunteering time for selected partners in the Health Sector.

HEALTH NON-PROFIT PARTNER: THE AGA KHAN UNIVERSITY HOSPITAL

We contributed towards the construction of the Paediatric Intensive Care Unit at Aga Khan University Hospital. The contribution was dedicated in memory of our late Chairman, Mian Mazhar Karim

HEALTH NON-PROFIT PARTNER: THE AMAN FOUNDATION

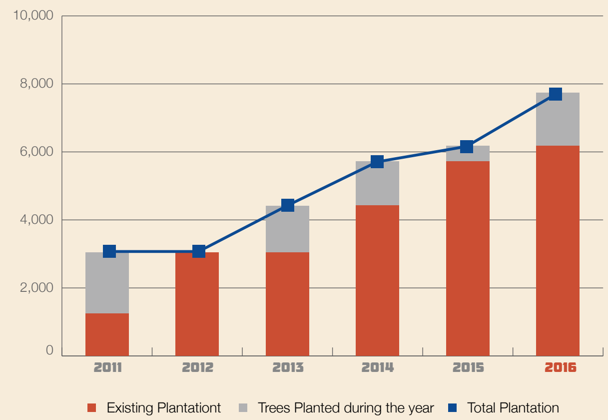
Aman Life Saving Ambulances are the first and only ambulances in Karachi that provide a tiered emergency response with cardiac care, advance and basic life support. We partnered with the Aman Foundation to sponsor an ambulance.

HEALTH NON-PROFIT PARTNER: THE INDUS HOSPITAL

Indus Hospital is a state of the art tertiary healthcare facility that is currently undergoing expansion to cater to a large segment of the society. Their goal is to become the largest hospital of Pakistan, comprising of 1,800 beds. We proudly supported Indus Hospital in their mission by contributing a General Ward Bed.

In addition to this, 70 employees from our Head Office and Nooriabad facility donated 35000 ml of blood through the Indus Hospital Blood Drive. Indus Hospital has established the first centralized blood bank of Pakistan with an aim to save lives by collecting blood through voluntary donations.

TREE PLANTATION



COMMITMENT TO COMMUNITY AND THE ENVIRONMENT

A lack of understanding and awareness about environmental protection and conservation practices in Pakistan has led to practices that exploit the country's vast natural resources without replenishing them. A growing population and increasing infrastructure needs have also resulted in damage to the environment. Our environmental investments seek to partner to help create environmental awareness and to sensitize all stakeholders to protect the planet and consume responsibly.

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. During Earth Hour 2016, we went beyond just switching off unnecessary lights by partnering with WWF-Pakistan to visit Kheenjar Lake in Thatta District, the second largest fresh water lake in Pakistan. The activity involved planting neem trees, engaging with the surrounding community and helping put into place a waste management system for the community.

These neem trees will reduce up to 0.29 tonnes of carbon dioxide annually, which is equivalent to burning 39 gallons of gasoline.

MARINE CONSERVATION: MANGROVE PLANTATION

During the year, we planted 150 mangrove saplings at WWF's Wetland Centre. We also continue to maintain the 225 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 375, reducing our carbon footprint by 2.2 tons annually. The plantation was followed by a beach cleaning activity.

RECYCLE, REDUCE AND REUSE

Crescent Steel donated 1,224 kg of paper in FY16 to our non-profit partner - Gul Bahao.

TREE PLANTATION ACTIVITIES AT OUR CAMPUSES

During the year, we planted 1,361 trees at our Bhone campus. Over the years our plantation size has increased to over 7,741 trees. These trees will help us reduce our carbon footprint by 46 tons of carbon annually.

COMMITMENT TO SOCIETY

Pakistan faces a number of social issues that impact the community and the society at large. Alongside targeted community investments in the education, healthcare and environmental segments, we also focus on Community Development programs that seek to provide welfare and rehabilitation services by engaging communities.

SOCIETY NON-PROFIT PARTNER: DAR-UL-SUKUN

Dar-ul-Sukun recently launched a Wheelchairs and Assistive Devices Program. The initiative of the program was to provide the primary need of mobility to people with disabilities in 24 districts of Sindh. Their goal was to distribute 1,000 wheelchairs and assistive devices. Crescent Steel contributed by sponsoring 36 wheelchairs. Our employees also volunteered time to spend a day with the physically and intellectually challenged at their facility in Karachi.

SOCIETY NON-PROFIT PARTNER: IMKAAN WELFARE ORGANISATION

Imkaan Welfare Organisation works towards monitoring issues leading to infanticide and child abandonment. The organization has set up Sehat Ghar - a maternal and child health care program that provides support to women and children in Machar Colony. Through Sehat Ghar, Imkaan has established a clinic that provides free of cost healthcare to the community. We partnered with Imkaan to support opex for medical treatment extended to 6,213 women and children to fight Hepatitis B and C, tuberculosis, waterborne diseases, scabies and respiratory disorders. Our employees also volunteered 20 hours of community work with Imkaan during Crescent Cares Week.

HEALTH, SAFETY, ENVIRONMENT AND SUSTAINABILITY

The safety of our people, the environment and the communities in which we work is incorporated into everything we do. Every employee has authority to stop work, and can refuse and stop work that is unsafe without fear of repercussion. Safety is more than something we talk about; we incorporate it into everything we do despite challenges in implementation in certain areas of our operations. The safety and health of our people, our contractors and our customers is a priority and our mission is to ensure our people return home safely each day. Our manufacturing facilities and corporate offices are supported by an HSE team that ensures safety by providing training, conducting audits, addressing and identifying hazards to keep our workplaces safe. Our managers and HSE team are responsible for exploring innovative ways to reduce our carbon footprint and conserve the environment. We hold ourselves to HSE standards that comply with regulatory and legislated requirements as well as international standards, and create a safe and environmentally friendly workplace. This is reflected in the retention of the HSE management system certifications against ISO 14001 and OHSAS 18001.

SAFETY IS NOT AN ACT, IT IS A HABIT

Our approach to HSE is apparent in our Mission Zero agenda that targets zero accidents and work related illnesses. To effectively implement the mission zero agenda we empower and encourage our people to play their part.

CULTURAL CHANGE THROUGH COMMUNICATION

We believe communication is critical to creating the conditions to meet our objectives on safety at the workplace. We have one-on-one HSE orientations for all new starters and an HSE briefing for all new visitors. One of the key aims of this exercise is to encourage a culture of care and safe practices.

RAISING AWARENESS AND ENGAGING OUR PEOPLE

We all have a part to play in keeping our workplaces safe. One of the most effective ways we can do this is by being aware of the risks around us and taking action to address these. That's why we actively encourage all our people to regularly assess their working environments and report any identified risks - as they arise.

ENHANCING WELLBEING

A key priority of our agenda is the prevention of work-related illness. While there is clear evidence that employment can have a positive effect on personal wellbeing, poor health in the workplace can present significant safety risks.

We offer a range of services to help enhance the health of our employees. These include medicals for employees in certain roles and healthcare benefits for staff – as well as targeted communication campaigns aimed at tackling lifestyle-related issues.

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

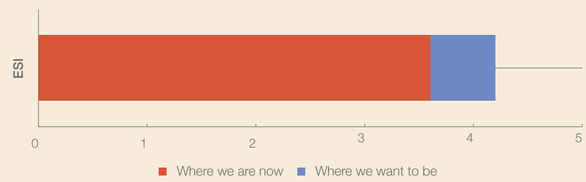
Employees represent an important audience not only in terms of their contributions at the workplace, but also in terms of their ability to serve as ambassadors of the Company. With this vision, we strive to develop an open and effective environment of communication for our employees where they are given an opportunity to express their ideas, which are heard, valued and respected.

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 and are available on the Crescent SharePoint portal.

VOICE OF EMPLOYEES: EMPLOYEE SATISFACTION SURVEY

Our annual Employee Satisfaction Survey (ESS) is key for us in determining what matters to our people and to the business. It provides us with the intelligence essential to our strategy of building better, happy, more productive workplaces. In 2016, our overall employee satisfaction index was 3.6 (2015: 3.4). Areas of concern included collaboration and clarity around growth opportunities and career paths. Another area of focus is job engagement and remuneration. Strong scores were registered for our market value and

EMPLOYEE SATISFACTION INDEX



perception, strategy, values, culture and communication, with particularly positive results on individual commitment, quality of management 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 2016, 1.3% of our employees were female. 12.5% of the Executive Management Team roles were filled by women and 2.3% of our workforce consisted of minorities. We are developing work practices to accommodate a diverse workforce such as flexible work schedules at our Head Office 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.

TRAINING, DEVELOPMENT AND SUSTAINABILITY

In an ever changing and fast paced corporate world, training and development is an indispensable function. At Crescent Steel, we believe that training is not a cost, but an investment. We have established effective development opportunities for our employees that ensure that our Company is a desirable place to work.

We provide our employees adequate opportunities for learning both on and off the job in relation to their job requirement, career development and succession planning. 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.

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

We harness employee strengths, interests and passions to create greater value for the organization. Our hallmark is to systematically link organizational performance and individual development goals in the search for learning opportunities and better ways to work. We support development at all levels – starting from career training through to further development of top management. The aim is to encourage employees in shaping the future direction of their careers by enabling them to gain relevant experience and knowledge. We also have regular career conversations as they serve as a reminder of the organization's commitment to employee learning, which in turn strengthens employee commitment.

SUCCESSION PLANNING

Talent management and succession planning is carried out annually. Through succession planning, we identify capable individuals and develop them through training, job rotation or through educational activities for them to succeed in decision-making positions at various grades and levels within the organization.

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 arises.

REWARDS AND BENEFITS

We provide employees with a complete package of total rewards, which go beyond competitive pay to include: support for employees' health and financial security, opportunities to grow, recognition for employees' contributions, and a good working environment.

Our compensation and benefits philosophy is to provide competitive rewards to attract and retain the best talent and foster a sense of ownership in the company. Compensation as part of our total rewards package is an important element that should motivate and inspire employees to strive towards excellence. We believe in rewarding for performance, so when our employees contribute, they gain. We want all of our employees to be inspired by the difference they make and the recognition they receive for great results.

In addition to basic remuneration, we offer variable – performance based incentives to employees depending on the performance, with which each employee contributes to the Company's success. 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 results and also depends upon the accomplishment of individual goals and objectives defined during the 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 centres, provide adequate time off, retirement savings and more.

HR INTEGRATION – PROGRAM FOR IMPROVING HR MANAGEMENT

We have developed an integrated HR function. It contributes to the mission and objectives of the organization, linking its components with each other, integrating the primary processes of the organization and contributes to its resilience and sustainability. 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.

HUMAN RESOURCE INFORMATION SYSTEM

We have recently acquired a Human Capital Management System and are currently in advanced stages of implementing core modules of the system. Focused on an e-environment and pushing HR roles to managers the system will enable us to instil value for and a culture of HR actions, automate HR operations, effectively manage employee data and will support HR processes, such as performance management, benefits administration and employee lifecycle management. This in turn will save time, cost and resources and will bring greater visibility to both HR and unit heads about their human capital universe.

FIVE VALUES AS BASIS FOR CORPORATE CULTURE

Our values support our vision, shape our culture and reflect what the Company values. They are the essence of the Company's identity, principles and beliefs. They guide the perspective of the organization as well as its actions. 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 transform our Company's mission and vision into reality, they are our corporate culture and drive our people's behavior as well as its relationship with its customers, suppliers and shareholders.

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.

AWARDS AND ACCOLADES

SAFA'S BEST PRESENTED ANNUAL REPORT AWARDS 2014

Crescent Steel was ranked first in the Diversified Holdings Sector by South Asian Federation of Accountants (SAFA) under the ‘Best Presented Annual Report Awards’.

EMPLOYER'S FEDERATION OF PAKISTAN'S 3RD EMPLOYER OF THE YEAR AWARD 2014

Crescent Steel ranked second in the category of Large Companies for the Best Enterprise for Human Resource Development by Employer’s Federation of Pakistan.

CORPORATE REPORT AWARDS 2014 (ICAP & ICMAP)

The Annual Report of the Company for the year 2014 secured third position in the Engineering Sector of Best Corporate and Sustainability Report Awards 2014.

SUSTAINABILITY REPORT AWARDS 2014 (ICAP & ICMAP)

Our Sustainability Report for the year 2014 secured second position in the Best Corporate and Sustainability Report Awards 2014.

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.

CHIEF EXECUTIVE'S REVIEW

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 2017.

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

MARKET REVIEW AND FUTURE PROSPECTS

STEEL DIVISION

This year the local gas distribution companies kicked off the planned large scale augmentation of the existing gas distribution network, thus creating a demand for large diameter line pipes. The demand stimulus was further triggered by the inking of agreements to finalize a consensus on the commercial aspects of the 1200 km "North-South" gas pipeline construction project and to soon sign contract for construction of the gas pipeline. Further it's expected that Pakistan and Iran are set to negotiate Gas Sale purchase agreement to facilitate the implementation of the already-delayed Iran-Pakistan gas pipeline project. Moreover, construction work on the 700-kilometre Gwadar-Nawabshah gas pipeline is expected to start soon on the same route of the Iran-Pakistan gas pipeline project in collaboration with China. With the country facing power shortage and current gas reserves depleting fast, the construction of these gas supply pipelines to transport gas to the new upcountry power plants remains a priority. In short-term these projects will be key demand driver in the local large diameter industry.

Multiple projects have been planned for FY17-FY18, 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 FY17 has targeted an aggregate outlay of Rs. 4.394 trillion and allocated Rs. 1.675 trillion to the Public Sector Development Programme (PSDP).

The overall HRC prices are showing an upward trend, which will make it challenging to secure margins at the same level. However, our focus will be to concentrate on capacity utilization to the fullest.

OUTLOOK STEEL DIVISION

FY16 was a booming year for both line pipe manufacturing and line coating unit. High activity during the year was recorded and it's expected to continue on the basis of the upcoming gas pipeline projects in the country. Like the previous fiscal year, we continue to expect a significant order intake for both bare pipe and coating. To take advantage of this we have placed ourselves in an ideal positon by augmenting our capacity by adding another SP Line.

COTTON YARN OUTLOOK

World ending stock of raw cotton at close of FY15-16 was 99 million bales of 480 lbs and expected production of 101 million bales of 480 lbs during FY 2016-17 against expected consumption of 111 million bales resulting in lower ending stock by 10 million bales of 480 lbs as compared to last year. China's raw cotton consumption will increase due to addition of about 8 million spindles instigating an increase in international prices. Chinese demand for Yarn and fabric import will also reduce consequently that will assert more pressure on Pakistan, Vietnam and India in exporting their products.
Pakistan's textile industry is going through one of the toughest period in decades. Recession in the textile industry globally compounded with internal issues such as the energy crisis, increase in cost of inputs, falling quality of locally produced cotton and withdrawal of subsidy etc. has effected Pakistan's textile industry adversely.

More than 100 units have been forced to shut down in the face of unfavourable circumstances whereas others spinners are shifting production towards man-made fibres and blended yarns. The shift from pure cotton yarn will temporarily enable spinners to mitigate the challenges of ever falling marginal returns.

KSE-100 PERFORMANCE AND OUTLOOK

During FY2015-16, Pakistan benchmark equity index, KSE-100, gained 9.8% (6.8% in US Dollar terms). Pakistan's reclassification to the MSCI-EM index and recovering crude oil prices lifted the index to record high of 38,777 on 17 June, 2016 compared to a low of 30,564 on 23 February, 2016 and 34,399 at the beginning of the year. During Q4FY16 the index yielded 20.4% in returns.

While returns posted during the year were the lowest since 2008 (FY15: 16%, FY14: 42%), KSE-100 outperformed both the MSCI-EM and MSCI-FM indices which closed lower by 15.5% and 15.1%, respectively. The index also outperformed regional peers India, Bangladesh and Sri Lanka which declined by 4%, 2% and 10%, respectively.

Volumes of KSE-100 index remained impaired as the average daily volume clocked in at 208 million shares (3.1%) while the average daily traded value registered at USD 91 million (14.3%) during FY16 amid growing investors focus on mid-tier stocks.

Foreign participants remained net sellers throughout the year with an offload of USD 282 million recuperating during the last quarter with net foreign buying of USD 74 million (highest monthly inflow in the past 26 months) on the back of Pakistan's inclusion to MSCI-EM index.

Going forward developments on domestic politics, liquidity and oil prices will set the tone and direction of the index performance. With Pakistan being reclassified to the MSCI-EM index, we expect foreign participation to increase adding some much needed liquidity.

ACKNOWLEDGEMENT

Financial year 2016 turned was a rewarding year for our core operations in the Steel Division. As a Group we were able to achieve some of our interim strategic objectives and closed the year with a strong financial position and growth plan for the future. We are strongly positioned for profitability and growth in fiscal year 2017 and are confident that we will ride the challenges and deliver value through different business avenues and the continued commitment of our people.

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 and volatile 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
15 August 2016