Thal Limited

DIRECTORS' REVIEW REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to share Directors' Review along with the unaudited interim condensed financial statements for the period ended December 31, 2017.

Financial Highlights

	Rupees in Millions	
	For the Half Year ended Dec. 31, 2017	**For the Half Year ended Dec. 31, 2016**
Sales Revenue	8,448	7,598
Profit Before Taxation	1,691	3,425
Profit After Taxation	1,273	2,582
Earnings Per Share	15.71	31.87

Performance Overview:

Sales revenue for the first half of the year ended on December 31, 2017, was Rs. 8.448 billion as compared to Rs. 7.598 billion in the corresponding period of last year, showing an increase of 11.2%. Profit after tax for the period was lower by Rs 1.309 billion compared to the corresponding period last year mainly on account of gain on the divestment of shares in Metro Habib Cash & Carry Pakistan (Private) Limited that took place in the comparative period last year. The basic & diluted Earnings Per Share (EPS) was Rs 15.71 compared to Rs 31.87 in the corresponding period last year.

Business Brief – Engineering Segment:

The domestic auto industry volumes registered a growth of 27% over the same period last year on the back of successful launches of new models by the local auto assemblers and an increase in auto leasing due to availability of attractive rates.

Import of used vehicles continues to rise sharply, exhibiting an increase of about 85% from last year, led by an increase in Hybrid passenger cars. This continues to have an adverse impact on the performance of the local auto industry with around 44,760 units imported during 6 months compared to 24,166 units imported in last year. Despite continuous efforts of Automobile Manufacturers and Auto Parts Suppliers, Government is yet to implement any policy to restrict the import of used cars.

The government is in the process of negotiating Free Trade Agreements (FTAs) with China, Thailand and Turkey. In this respect, the Company's management has put forward its opinion to the government with a view to protect the auto vendor industry and will continue its engagement on this issue.

Sales revenue for the half-year ended December 31, 2017 was Rs. 5.83 billion as compared to Rs. 5.53 billion in the corresponding period of last year, showing an increase of 5.4%.

The aftermarket segment has performed well during the half-year period. Demand for products of the company for the commercial vehicle segment performed particularly well with the induction of new customers and with the sales of new products to existing customers.

In line with the half-year performance, sales during next half of financial year are expected to remain strong. Robust demand of local products is expected with tightened regulations on imported cars.

The management will continue its focus on improving product quality, human health and safety and its environment preservation initiatives. Efforts towards continuous improvement yield higher efficiencies and assist in improving the economics of the business.

Business Brief – Building Material & Allied Product Segment

Sales revenue of Building Material & Allied Product Segment during the half year ended December 31, 2017 was Rs 2.62 billion against Rs 2.07 billion in the corresponding period last year reflecting in an increase of 27%.

Jute Operations

Jute Business, through its focused approach, was able to improve sales volume and market share. Despite challenging external conditions such as devaluation of the Pak Rupee and rising trend of fuel & energy cost, the management's prudent cost control measures; productivity improvement initiatives and market penetration strategies bore positive results.

Export prospects remain positive and we expect more penetration in international markets. While in the local market, we foresee a healthy demand of grain sacks from the Government buying departments in the ensuing wheat season and hope for improvement in the local market as well.

Papersack Operations

First half of the year remained challenging in terms of profitability due to raw material shortages and due to increase in the Euro exchange rate. Though the company has managed to increase selling prices to mitigate the erosion of the Pak Rupee, it has not been able to pass on the full impact of the increase in paper prices. Management is endeavoring to sustain margins and is also working to keep its overhead costs in control.

From a Sales Volume perspective, volumes of cement bags compared to the same period last year have shown an increase of 14%. The volumes of Industrial sacks & SOS bags have also improved as compared to same period last year.

The outlook for the year is expected to be challenging as a result of the exchange rate impact. Commercial production of Carrier bags has commenced after some delay and is expected to create more value for the business. The industrial sacks and food bag segments are also expected to show a healthy growth trend that the Company is geared up to capitalize upon.

Laminates Operations

The Laminates Business operates in three major segments High Pressure Laminates (HPL), Compact Laminates and Lamination of Boards. Competing in an undocumented environment, the Business has undertaken demanding measures to improve its processes to maintain competitiveness.

There has been a recent induction of large production lines to produce boards used as lamination substitutes by major players of the local industry. The Company relies on other manufacturers for its requirement of local boards and thus operates at a higher cost. The market shift from HPL to Lamination and lower prices by competition is an indication that the business wil remain challenging fin this segment.

The Company is looking to expand its customer base, as well as to develop new products by investing in new equipment in order to maintain customer interest and market share.

Subsidiaries

Thal Boshoku Pakistan (Private) Limited (TBPK)

During the first halfof FY 2017-18, the Sales Revenue for the Company registered a decline vis-à-vis budget mainly due to less off take by customers. However, the Company succeeded in largely mitigating the corresponding drop in profit, through effective financial management, improved cost control, and efficient inventory management.

As per plan, the Company has launched its efforts towards expansion of its operations. The future outlook of the Company remains encouraging as auto sector demand exhibits a rising trend. The business is expected to show better performance in the second half of the year.

Habib- Metro Pakistan (Private) Limited (HMPL)

The main business of Habib METRO Pakistan (Private) Limited (HMPL) is to own and manage retail store properties and accordingly, about 90% of its revenue is generated from rental income. Thal Limited holds 60% shareholding in the subsidiary while 40% is held by METRO Cash & Carry International Holding BV. The Company is exploring various business opportunities to complement the cash & carry retail rental business and to enhance enterprise value from its store locations. During the quarter, HMPL approved interim dividend of Rs.98 million for payment to Thal Limited.

Makro-Habib Pakistan Limited (MHPL)

The Honorable Supreme Court of Pakistan dismissed MHPL's Review Petition for the Saddar Store and as a consequence, the Saddar Store of MHPL was closed down on September 11, 2015.

As a later development on December 9, 2015, the Honorable Supreme Court of Pakistan accepted the Army Welfare Trust's (AWT) request for restoration of its Review Petition. In its hearing held on February 2, 2016, the Honorable Chief Justice commented that while reviewing AWT's review petition, both MHPL and Ministry of Defense will also get a chance to argue their points on merit as they are respondents in AWT's petition.

AWT's review petition was fixed for hearing on October 17, 2017 before a new bench. However, there were no proceedings during the hearing on account of adjournment filed by counsel representing Shehri & KWSB. The Company is a wholly owned subsidiary of Thal Limited.

Investment in Power Sector

Thal Power (Private) Limited

The Company has entered into a Joint Venture Agreement with Novatex Limited, for collaboration to develop a 330 MW mine mouth coal-fired power generation plant located at Thar, Sindh. This power plant will be based on lignite coal extracted from the mine operated by Sind Engro Coal Mining Company (SECMC).

The Company through its wholly owned subsidiary, Thal Power (Private) Limited has incorporated a JV project company, i.e., ThalNova Power Thar Private Limited ("ThalNova"), to develop the project.

ThalNova has obtained the Letter of Intent (LOI) and the Letter of Support (LOS) from the Private Power Infrastructure Board (PPIB). National Electric Power Regulatory Authority (NEPRA) has issued the Generation License and awarded the Upfront Tariff on Thar coal to the project company. ThalNova has also been issued a No Objection Certificate (NOC) by the Sindh Environmental Protection Agency (SEPA). China Machinery & Engineering Corporation has been appointed as the EPC Contractor. ThalNova has entered into Coal Supply Agreement (CSA) with SECMC to supply 1.9 million tons per annum lignite. It has also entered into a Power Purchase Agreement (PPA) with the Central Power Purchase Agency (Guarantee) Ltd and the Implementation Agreement ("IA") with PPIB. China Development Bank ("CDB") and Habib Bank Limited ("HBL") have been engaged for arrangement of foreign and local currency project debt respectively. Whilst the project has sound fundamentals being based on indigenous resources and enjoys good support and encouragement from the respective governments, it also presents significant challenges in achieving timely financial close. ThalNova is actively engaged in concluding all project agreements and securing financial close for the project.

Sindh Engro Coal Mining Company Limited:

SECMC is a joint venture between the Government of Sindh, Thal Limited, Engro Powergen Limited, Hub Power Company Limited, Habib Bank Limited, CMEC Thar Mining Investments Limited and SPI Mengdong. It is engaged in developing Pakistan's first open pit mining project at Thar Coal Block II. The project achieved its Financial close on April 4, 2016.

The project is under construction and presently the progress is ahead of schedule. To date c. 72 Million BCM of overburden has been removed and the mine has reached a depth of 120 meters. Related infrastructure projects of Effluent Disposal Line and Left Bank Outfall Drainage Scheme are expected to come online as per schedule.

For the first phase of the project, the Board of Directors of Thal Limited approved a total exposure of Pak Rupee equivalent of US$ 36.1 million, which includes equity investment of US$ 24.3 million, US$ 5 million for cost over-run and US$ 6.8 million for debt servicing reserve. To date the Company has invested Rs. 1,199 million equivalent to US$ 11.51 million.

SECMC has entered into Coal Supply Agreements with ThalNova Power Thar (Pvt) Ltd and Thar Energy Ltd to supply additional 1.9 million tons of lignite per annum to each 330 MW power plant respectively.

Acknowledgement

We would like to thank the Almighty for all His blessings in these challenging times and to convey our appreciation to our Board of Directors, customers, dealers, bankers and the joint venture & technical partners for their continued support and confidence in the Company. We also want to recognize the efforts of all our fellow employees who have worked with commitment to achieve the results.

On behalf of the Board

Mazhar Valjee
Chief Executive
Karachi: February 23, 2018.