Thal Limited

DIRECTORS' REPORT TO THE SHAREHOLDERS

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to share the Directors' Review along with the unaudited interim condensed financial accounts for the period ended December 31, 2016.

Financial Highlights

	Rupees in Millions	
	For the half year ended Dec. 31, 2016	**For the half year ended Dec. 31, 2015**
Sales Revenue	7,598	6,978
Profit Before Taxation	3,424	1,007
Profit After Taxation	2,582	812
Earnings Per Share (Rs.)	31.87	10.03

The Board has approved an interim cash dividend of Rs. 3.75 per share i.e. 75% for the half year ended December 31, 2016.

Performance Overview:

Sales revenues for the first half of the year ended on December 31, 2016, was Rs. 7.6 billion as compared to Rs. 6.9 billion in the corresponding period of last year, showing an increase of 10%. Profit after tax for the period was higher by Rs 0.7 billion compared to the corresponding period last year mainly on account of gain onthe divestment of shares in Metro Habib Cash & Carry Pakistan (Private) Limited. The basic & diluted Earnings Per Share (EPS) was Rs 31.87 compared to Rs 10.03 in the corresponding period last year.

Business Brief

Engineering Segment

With the continuous increase in the import of cars to around 18,200 units into the country during the first half of the year, the local auto industry continues to face challenge as this is severely impacting the growth of the auto vendor industry. The concerns of the auto parts industry are continuously being highlighted and discussed at the government level. The industry expects the government to revisit its Automotive Development Policy to discourage such imports which will not only save valuable foreign exchange for the country, but will also lead to increased job creation in the local auto parts industry.

Another challenge being faced by the local auto vendor industry is the government's efforts towards trade liberalization and signing of Free Trade Agreements (FTAs) with various countries. The Ministry of Commerce (MoC) has started negotiating the next phase of Pakistan-China FTA and is also negotiating the Pakistan-Thailand and Pakistan-Turkey FTAs. The management has put forward its opinion to the government to protect the auto parts industry and will continue its engagement on this issue through various business forums as well.

Despite continuous challenges, the sales revenue of the Engineering Segment of the Company for the first half of the year was Rs. 5.91 billion compared to Rs. 5.46 billion in the corresponding period last year, showing an increase of 8%. Although the overall auto sector registered a decline of 12% over the same period last year on account of the discontinuation of Punjab Government's Apna Rozgar Taxi Scheme, the growth in sales by the Engineering Segment was attributed to the launch of a new model by one of our main customers and improved performance in the commercial vehicle segment.

Moving forward, the Engineering Segment expects sales in the second half of 2016-17 to remain strong, in line with the performance during the first half of the year.

Building Materials & Allied Product Segment

Sales revenue of the Building Materials & Allied Products Segment during the period under review was Rs. 2.0 billion compared to Rs.1.9 billion in the last year, registering a growth of over 7%.

Jute Operations

The Jute Division has been able to maintain its market share, manage its cost and improve efficiency which has enabled it to face considerable challenges arising from current market conditions. Despite various external conditions, the management's prudent cost control measure, efficiency improvement initiatives and market retention strategies bore positive results, which will require further efforts in order to ensure the long term sustainability of the operations.

The export horizon is quite optimistic and we expect more penetration in the international market. In the local market, we foresee a healthy demand for grain sacks in the ensuing wheat season from the government food departments and also expect improvement in the local market conditions.

The outlook for the year remains positive as all indicators are showing that the grain sacks demand will remain strong and the business is striving to capitalize on the same, while it continues to focus on increasing sales of jute products in other segments.

Papersack Operations

The cement sector continues to show a healthy growth of 8.7% in the first half of the year in comparison to the corresponding period of the previous year. Unfortunately, the business was unable to capture this increase in demand due to severe competition in the market and lost volumes to import of cement bags from Sri Lanka, availing duty free status under FTA. The company has taken up this matter with the relevant government departments to counter this duty free import.

The volumes of industrial sacks & others have improved considerably as compared to last year.

An increase in custom duty on raw materials by 1% impacted the prices of products. However, the effect of the same could not be passed on to the customers because the prices of alternate packing products (woven polypropylene) remained at lower due to low prices of crude oil in the international market.

The outlook for the year remains positive as the business is focusing on keeping its material cost under control and has been largely successful.

Laminates Operations:

Through its focused approach, the business was able to improve sales while remaining cost effective. Local markets of HPL and boards performed well, whereas demand of technical grade melamite stayed low. Exports remained sluggish due to unethical practices of competitors coupled with lower demand.

For the remaining part of the year, the outlook for the business looks better as the business plans to add new designs and products. Moreover, we are anticipating good demand of technical melamite in the third quarter along with incremental share in the sale of Boards.

Subsidiaries

Thal Boshoku Pakistan (Pvt.) Ltd. (TBPK):

Revenue was down by 5% over the corresponding period for last year. The main reason for lower sales was lesser off-take by OEM customers.

On the operations side, the team commitment was visible through improved operational efficiency. All customer supply requirements were met in time with zero defect.The Company continues its focus towards Health, Safety & Environment and on reducing carbon footprint.

Makro-Habib Pakistan Limited (MHPL):

The Honorable Supreme Court of Pakistan dismissed the 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 (AWT) request for restoration of its Review Petition. In its hearing 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 respondent in AWT's petition.

The matter was last fixed for hearing on October 13, 2016 in which constitution of different bench from previous one was discussed and matter was referred to the Chief Justice for reconstitution of fresh bench, if required.

Habib METRO Pakistan (Private) Limited (HMPL):

The main business of HMPL is to own and manage retail store properties and accordingly, over 90% of the revenue is generated from rental income. The Company's holding is 60%.

During the half year ended 31 December 2016, HMPL declared interim dividend amounting to a total of Rs. 121 million.

The company is exploring various business opportunities to complement the cash & carry retail rental business and to enhance value from its store locations.

A-One Enterprises (Private) Limited (A-One)

A-One is a wholly owned subsidiary of Thal Limited. During the period, A-One's land situated at Multan Road, Lahore was acquired by the Lahore Development Authority (LDA) for the Metro Orange Line Project. A-One filed a writ petition for obtaining adequate relief for its land, for which LDA has paid almost all the compensation as demanded by A-One. However, the matter is still in court for the remaining portion of land.

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 initiate the preliminary development works of the aforementioned project and obtain the necessary regulatory and operational approvals and permissions required.

ThalNova has at present obtained the Letter of Intent ("LOI") and the Letter of Support ("LOS") from the Private Power Infrastructure Board ("PPIB") and is currently engaged in project development activities. The total project cost is estimated at approximately US$ 500 million. Preliminary development expenses & commitments are being carried out by ThalNova, and are being funded equitably by the JVA partners. Whilst the project has sound fundamentals being based on indigenous resources and enjoys good support and encouragement from the government, it also presents significant challenges in achieving timely financial close. Discussions are underway with other potential equity partners to join in the ThalNova project.

METRO Habib Cash & Carry Pakistan (Private) Limited (MHCCP)

In line with Note 10.3 of the audited financial statements of Thal Limited for the year ended June 30, 2016, where Thal Ltd. holds a put option with respect to its holding in Metro Habib Cash & Carry Pakistan (Private) Limited (MHCCP) if MHCCP does not achieve certain specified financial performance targets, Thal Limited may require Metro Cash & Carry International Holding BV (Metro BV) to acquire the shares of MHCCP at a price to be determined on the basis of a predefined mechanism.

Based on the audited financial statements of MHCCP for the year ended September 30, 2016 which was approved by the Board of MHCCP on November 28, 2016, the Board of Thal Limited decided to exercise the put option to sell 201,529,290 shares of MHCCP at the price mutually determined by Thal Limited and Metro BV.

In line with the board's decision, Thal Limited exercised its put option and sold its shareholding for a sum of Rs. 2.12 billion on December 19, 2016 and transferred 201,529,290 shares to Metro BV.

Sindh Engro Coal Mining Company Limited (SECMC) :

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 had achieved its Financial close on April 4, 2016.

For the first phase of the project, the Board of Directors of Thal Limited approved a total investment 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. 899 million equivalent to US$ 8.70 million.

Acknowledgement:

In the end we would like to thank the Almighty for all His blessings in these challenging times and convey our appreciation to all our Customers, Dealers, Bankers, Joint Venture and Technical Partners for their continued support and confidence in the Company. We also wish to recognize the efforts of all our team members who have worked diligently to achieve the results.

On behalf of the Board

(ASIF RIZVI)
Chief Executive Officer
Karachi: February 27, 2017.