

Thal Limited

DIRECTORS' REPORT TO THE SHAREHOLDERS



Dear Shareholders,

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

Financial Highlights

	Rupees in Millions	
	For the period ended	For the period ended
	March 31, 2017	March 31, 2016
Sales	12,501	10,896
Profit Before Taxes	4,583	1,976
Profit After Taxes	3,434	1,517
Earnings Per Share (Rs.)	42.38	18.73

Performance Overview:

Sales revenue for the nine months ended March 31, 2017, was Rs. 12.50 billion as compared to Rs. 10.89 billion in the corresponding period of last year, showing an increase of 15%. Profit after tax for the period was higher by Rs1.93 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. The basic & diluted Earnings Per Share (EPS) was Rs 42.38 compared to Rs18.73in the corresponding period last year.

Business Brief

Engineering Segment

Sales revenue of the Engineering Segment during the nine-month period ended March31, 2017 was Rs9.36 billion against Rs8.50 billion in the corresponding period last year, resulting in an increase of 10%.

The auto industry registered a decline of 5% over the same period last year on account of the discontinuation of Punjab Government's Apna Rozgar Taxi Scheme, however the Engineering Segment still managed to increase its sales primarily due to the launch of a new model by one of our main customer.

The government continues to negotiate the Free Trade Agreements (FTAs) with China, Thailand and Turkey. In this respect, the management has put forward its views to protect the auto vendor industry and will continue its engagement on this issue.

Under the new Automotive Development Policy, which provides lucrative incentives for new automotive entrants in the country, some new OEMs have expressed interest in setting up assembling plants and are in discussions with the government. These are expected to achieve completion over the next few years and will adversely impact volumes of our main customers.

Sales in the last quarter of 2016-17 are expected to remain in line with the corresponding period of last year. There is a phase out of a model by one of our customers, however the impact of which is partially mitigated by improved demand for a new car model launched by one of the other customer. Additionally, the growth in demand for air-conditioning solutions in the commercial vehicle segment had a positive impact, although it only constitutes 5% of the total sales.

The management will continue its focus on improving quality, health, safety and environment initiatives while enhancing cost efficiencies through continuous process improvement.

Building Materials & Allied Product Segment

Sales revenue of the Building Material and Allied Products Segment during the nine months ended March 31, 2017 was Rs 3.73 billion compared to Rs 3.03 billion in the corresponding period of last year, resulting in an increase of 23%.

Jute Business

The Jute business maintained a positive trend during the nine-month period and also improved its market share. The business undertook initiatives to improve production efficiencies, reduce wage costs & overheads and optimized inventory levels, which translated into positive results.

Thal retained its position as a major supplier of packaging materials for wheat and was able to meet higher demand for grain sacks as compared to last year due to low carryover stocks.

The business also witnessed growth in demand in other sectors, adding new customers, and is making efforts to grow exports to various markets.

The outlook for the year remains positive as all indicators are showing that demand for the year will remain strong and the business is striving to capitalize on the same.

Papersack Business

The cement industry registered healthy growth of around 6.9% on YTD basis in comparison to the corresponding period of last year, however our cement bag business remained under pressure for the quarter under review due to manufacturing issues & delays in installation of new equipment. The business also lost orders for certain types of bags due to imports of finished bags under FTA at zero duty whereas we are paying higher duty on our raw material. The business is following up with the relevant government departments to rationalize this anomaly.

Going forward the business anticipates to have a positive momentum while entering into the final quarter of the fiscal year.

Volumes for Industrial sacks & SOS have grown significantly as compared to last year, given the good growth in the economy.

Laminates Business

Sales during the period were down by 12.1% as compared to the same period of last year. This was mainly due to lower demand of technical grade melamite and laminated boards market. The business aims to improve selling prices for its products, however due to the presence of unethical practices by some other players in the market, the business is facing challenges such as price competitiveness and low volumes.

The business plans to increase its sales volume by repositioning its selling prices without compromising on profit margins. Moreover, new products and colors have been added to enhance the market share. We are also anticipating good orders of general grade melamite in the fourth quarter.

Subsidiaries

Thal Boshoku Pakistan (Pvt.) Ltd.:

The third quarter of FY 2016-17 has been comparatively better for the Company than the first two quarters of the current year, however planned sales target could not be met due to less off take by customers.

On the operations side, all customer requirements were met in time with zero defects and the Company was rated in the GREEN ZONE by the customers throughout the year. Focus remained on improving production efficiency, Kaizen and towards providing healthy and safe working environment to our team members.

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'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.

The matter was last fixed for hearing on October 13, 2016 in which the constitution of a different bench from the previous one was discussed and the matter was referred to the Chief Justice for reconstitution of a 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 quarter ended March 31, 2017, HMPL declared interim dividend amounting to a total of Rs. 123 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. 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 had filed a writ petition for obtaining adequate relief payment for its land, for which LDA has now paid all due compensation as per notification and the legal case has been satisfactorily settled.

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 a 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 and realized a one-time gain of Rs. 1.84 billion before tax.

Investments in Energy Sector

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 achieved its Financial close on April 4, 2016.

The project is under construction and presently the progress is ahead of schedule. To date c. 29 M BCM of overburden has been removed and the mine has reached a depth of 72 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 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.

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.

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 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.

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 these results.

On behalf of the Board



(ASIF RIZVI)
Chief Executive Officer
Karachi: April 24, 2017.