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, 2018.

Financial Highlights

	Rupees in Million	
	For the Half Year Ended Dec. 31, 2018	For the Half Year Ended Dec. 31, 2017
Sales Revenue	10,555	8,448
Profit Before Taxes	2,100	1,691
Profit After Taxes	1,494	1,273
Earnings Per Share (Rs.)	18.43	15.71

The Board has approved an interim cash dividend of Rs. 2.50 per share i.e.50% for the half year ended December 31, 2018.

Performance Overview

Sales revenue for the first half of the year ended on December 31, 2018, was Rs. 10.555 billion as compared to Rs. 8.448 billion in the corresponding period of last year, showing a growth of Rs 2.1 billion or 25%. The basic & diluted Earnings Per Share (EPS) was Rs 18.43 compared to Rs 15.71 in the corresponding period last year.

Business Brief - Engineering Segment

The Company's Engineering segment comprises of the Thermal & Engine Components Business and Electric Systems Business. These businesses are primarily focused on parts manufacturing for the auto industry.

The domestic auto industry volumes registered a decline of 3.2% over the same period last year. The demand is expected to remain slow in the near term due to a limiting macroeconomic environment and the impact of the legislation which requires car purchasers to be tax filers. During the period, import of used vehicles at 27,907 has shown a steep decline of 38% as compared to 44,760 units in the same period last year.

The turnover of the Engineering Segment for the half-year ended December 31, 2018 was Rs 7.3 billion, registering a growth of 25% compared to Rs 5.83 billion in the same period last year. The increase is partly due to increase in volumes and some positive price variance to set off the negative impact of rupee depreciation against the US Dollar.

The government continues to negotiate the 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 supporting the auto vendor industry by ensuring a cascading tariff and will continue its engagement on this issue.

The management continues to undertake initiatives for improving quality, health, safety and environment initiatives while enhancing cost efficiencies through continuous process improvement.

<u>Business Brief – Building Material & Allied Product Segment</u>

Sales revenue of Building Material & Allied Product Segment during the half year ended December 31, 2018 was Rs 3.1 billion against Rs 2.62 billion in the corresponding period last year demonstrating an increase of 18%.

Jute Operations

During the period under review, the Jute Business grew market share and maintained a positive momentum, despite a considerable slowdown in the agricultural sector and resultant low demand for Jute products. Business momentum was maintained through optimum use of resources and improved efficiencies.

The optimization measures taken by the business will aid in mitigating the continuing devaluation of the Pak Rupee and rising trend in cost of freight & energy, short supply of raw jute and an abnormal increase in its prices. Optimizing product sales mix in the local and international markets with enhanced penetration will also contribute towards remaining positive.

The demand from Government Procurement Agencies for grain sacks is expected to be on the lower side as compared to last year due to excessive carryover stocks of wheat from the previous year.

Papersack Operations

The business performance in the first half of the year has been better in terms of revenue and growth as compared to the same period of last year. All market segments and products viz Cement sacks, Industrial Sacks, Carrier bags, & food packaging have shown a healthy growth resulting in increased revenue.

Better profit margins are attributed to increased volumes, higher selling prices, improvement in management of raw materials and tighter cost controls.

The current downturn in cement demand is expected to reduce in the coming months. In view of the longer term growth potential of Pakistan's Cement industry, the business has decided to invest in improving its production efficiency and also enhance capacity by 100 million bags per annum. For that purpose, the Board has approved an investment of approximately Rs. 1.0 billion in the latest technology equipment for bag manufacturing.

The outlook for the business remains positive as the industrial sacks, fashion bag and food bag segments are also expected to show a trend upon which the company is geared to capitalize.

Laminates Operations:

The Laminates Business continues to build the image of its Brand "Formite" as the Pioneer in the industry. The business launched new finishes & an Ultra High Gloss Range of Boards under the name of Glossomite, ideally suited for Kitchens, as well as partitions made from our compact laminate-Melamite , which is an ideal and cost effective solution for washrooms for large projects offices, shops and Malls.

Cost and energy saving measures have also been adapted to help mitigate the significant increase in cost due to Gas tariff change and Raw Material prices on account of Rupee Devaluation. Sudden cost increases are not absorbed by the market and are further compounded by impact of Sales tax which continues to place the business at a pricing disadvantage versus largely undocumented, non-tax compliant competition.

<u>Subsidiaries</u>

<u>Thal Boshoku Pakistan (Private) Limited (TBPK):</u>

During the period under review, the sales revenue of the Company registered an increase of 24% over the same period last year. This is attributed to an increase of 1,040 units in OEM volumes and some positive price variance to set off the negative impact of rupee deprecation against the US Dollar. The continuous devaluation of PKR against major foreign currencies including USD and JPY continues to exerts adverse pressure on profitability of the Company. However, with effective cost control measures and efficient inventory management, the Company managed to partially limit the negative impact on margins. The Company continued to enforce strict controls across its value chain and ensured strict adherence to the best industry practices.

The Company saw significant developments being undertaken during the current year. The completion of the new manufacturing facility that was initiated in the previous financial year was a major event during the current period. All required machinery was imported and installed by December 2018 and the Company manufactured the first in-house seat at its facility for trial and testing. The Company is on track to begin commercial production from November 2019. In addition to setting up a new seat plant, the Company is also taking steps towards increasing its product offering by working to increase its localization portfolio. It has successfully negotiated the business of new products from the OEM's and is the process of development of these products.

On the operations side, requirements of all customers were met in time with ZERO DEFECT, and the customers rated the business in the "GREEN ZONE" throughout the year. Focus remained on improving production efficiency, Kaizen and towards providing a healthy and safe working environment to our teams.

In terms of capital structure, Thal Limited holds 55% of the shareholding in Thal Boshuko Pakistan (Pvt) Ltd while 35% is held by Toyota Boshoku Corporation Japan and a further 10% shares are held by Toyota Tsusho Corporation Japan. However, during the previous year, the Company increased its authorized share capital to Rs. 1.0 billion in order to be able to generate funds for the construction of the new manufacturing facility. The Company approved the issuance of 50 million Right Shares at a par value of PKR 10 each for this. At the time of the offer of Rights, Toyota Boshoku Corporation Japan renounced the Right Shares in favour of its 100% owned subsidiary Toyota Boshoku Asia Corporation. Once the shares are formally allotted, the shareholding pattern for Thal Limited and Toyota Tsusho Corporation Japan will remain the same, whereas the ownership of Toyota Boshoku Corporation Japan will be reduced to 9.6% whereas, Toyota Boshoku Asia Corporation will own 25.4% of the Company. The revised structure will formally come into place by the end of Q1 2019.

The future outlook of the industry is stable at its best. Many experts believe the auto-market is likely to shrink in the near future. Further localization and increase in product range will provide the Company with the ability to succeed in challenging times, while being able to maintain profitability for the shareholders.

Habib METRO Pakistan (Private) Limited (HMPL):

The main business of Habib METRO Pakistan (Private) Limited (HMPL) is to own and manage properties. Thal Limited holds 60% shareholding in HMPL while 40% is held by Metro Cash & Carry International Holding B.V. 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. 106 million for payment to Thal Limited.

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.

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.

Energy Sector Investments

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. Phase I of the project, which shall supply 3.8 million tons of lignite per annum to Engro Powergen Thar Limited, achieved its Financial close on April 4, 2016. To date c. 110 Million BCM of overburden has been removed and the mine has reached a depth of 150 meters and is currently under final stages of completion. It is that Commercial Operations will start ahead of schedule in late 1H 2019.

For Phase I 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. 1,649 million, equivalent to US$ 15.26 million.

SECMC is also in advanced stages of achieving financial close for Phase II of the project which shall see the mine double its original coal supply capacity in Phase I. For the Phase II of the project, the Board of Directors of Thal Limited have approved a total exposure of Pak Rupee equivalent of US$ 7.1 million, which includes equity investment of US$ 4.6 million, US$ 1.3 million for cost over-run and US$ 1.2 million for debt servicing reserve (adjustable upwards due to LIBOR/KIBOR movement). 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

Thal Power (Private) Limited

The Company through its wholly owned subsidiary, Thal Power (Private) Limited had incorporated a JV project company, i.e., ThalNova Power Thar Private Limited ("ThalNova"), a 330 MW mine mouth coal-fired power generation plant located at Thar, Sindh.

ThalNova is a Joint Venture between Thal Power, Nova Powergen Ltd (subsidiary of Novatex Ltd) and Hub Power Company. This power plant will be run on lignite coal extracted from the mine operated by Sind Engro Coal Mining Company (SECMC).

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 a Coal Supply Agreement (CSA) with SECMC for 1.9 million tons per annum lignite & also a Power Purchase Agreement (PPA) with the Central Power Purchase Agency (Guarantee) Ltd. and an 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.
ThalNova is actively engaged in concluding all project agreements and securing financial close for the project.

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 21, 2019.