

Thal Limited

DIRECTORS' 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 September 30, 2017.

Financial Highlights

	Rupees in Millions	
	For the quarter ended Sep. 30, 2017	For the quarter ended Sep. 30, 2016
Sales	4,091	3,560
Profit / (Loss) Before Taxes	652	793
Profit / (Loss) After Taxes	499	602
Earnings Per Share (Rs.)	6.17	7.43

Performance Overview:

During the first quarter ended on September 30, 2017, the Company posted sales revenue of Rs. 4.1 billion compared to Rs. 3.6 billion in the corresponding quarter last year, showing a growth of Rs. 531 million, or 15%. However, profit after tax for the period was lower by Rs. 103 million compared to the corresponding period last year, largely due to dividend declared by an associated company in the second quarter of the fiscal year as compared to the first quarter in the previous year, along with pressure on margins due to increased raw material prices in the Building Materials and Allied Product segment. The basic & diluted Earnings Per Share (EPS) are Rs 6.17 compared to Rs. 7.43 in the corresponding period last year.

Business Brief – Engineering Segment:

Domestic auto industry volumes registered strong growth 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 pricing.

Import of used vehicles also continues to rise very sharply, an increase of about 95% from last year Q1 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 16,921 units imported during Q1 FY18 compared to 8,667 units imported in Q1 FY17. 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 continues to negotiate 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 protecting the auto vendor industry and will continue its engagement on this issue.

Sales revenue of the Engineering Segment during the quarter ended September 30, 2017 was Rs. 2.90 billion against Rs. 2.68 billion in the corresponding quarter last year, showing an increase of 8.6%.

The aftermarket segment has performed well during the quarter, exhibiting a growth of 10% over the previous year. The commercial vehicle segment performed particularly well with the Business providing products and services for local and imported vehicles through customer focus and tailor made customized solutions.

In line with the Q1 performance, sales during Q2 are expected to remain strong. The management will continue its focus on improving quality, health, safety and environment initiatives while enhancing cost efficiencies through continuous process improvement.

Business Brief – Building Material & Allied Product Segment

Sales revenue of Building Material & Allied Product Segment during the quarter ended September 30, 2017 was Rs 1.19 billion against Rs 0.88 billion in the corresponding period last year resulting in an increase of 34%.

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Jute Operations

During the quarter, the Jute business concentrated its operations on sustaining its market share in the local industry, while continuously exploring new customers and markets.

The business continued to focus on export markets and development of new customers in the local market in order to further diversify our customer base and enhance our reach. These efforts were fruitful and the business was able to register a strong increase in its Sales revenue vs. the same period last year.

Going forward, the demand for Jute goods is expected to remain stable in the coming periods. Costs are being closely monitored & controlled to ensure price competitiveness and stability of the business.

Papersack Business

The quarter under review remained challenging for the Papersack business due to raw material availability, cost pressures and adverse exchange rate impact from the Euro along with certain technical challenges. There was a consequent rise in sales prices to offset the higher input costs.

From a Sales volume perspective, volumes of cement bags compared to same period last year have shown an increase of 20%. The volumes of Industrial sacks & SOS have also grown as compared to same period last year; however, margins remained depressed due to a lag in price adjustment to offset cost increases.

The outlook for the year is challenging as raw material pricing pressures, exchange rate impact and raw materials supply delays are likely to continue.

Laminates Operations

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

Demand for HPL boards remained strong while the Laminates market remained challenging.

There has been a recent induction of large production lines by major players of the local industry to produce lamination boards. The Company is looking to diversify its product range and invest in more efficient manufacturing.

Subsidiaries

Thal Boshoku Pakistan (Private) Limited (TBPk)

During the first quarter of FY 2017-18, the sales revenue for the Company registered a decline vis-à-vis budget mainly due to less offtake by customers. However, the Company succeeded in largely mitigating the corresponding drop in profit, through good financial management, effective cost control, better recoveries and efficient inventory management.

The future outlook of the Company is encouraging as auto sector is on rising trend and the remaining quarters should be better for the Company.

Habib- Metro Pakistan (Private) Limited (HMPL)

The main business of Habib METRO Pakistan (Private) Limited (HMPL) is to own and manage retail store properties. Thal Limited holds 60% shareholding in the subsidiary while 40% is held by Metro Cash & Carry Pakistan (Private) Limited. 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 final dividend of Rs. 62 million for payment to Thal Limited.

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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.

Investment in Power 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. 56 M BCM of overburden has been removed and the mine has reached a depth of 100 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. 1,044 million equivalent to US\$ 10 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.

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 Sindh 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.

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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.

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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

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: October 26, 2017.