

Thal Limited

Directors' Review Report to the Shareholders

On behalf of the Board of Directors, I am pleased to share the Directors' Review along with the unaudited interim condensed financial statements for the period ended March 31, 2020.

Financial Highlights

	Rupees in Million			
	Standalone		Consolidated	
	For the Period Ended Mar 31, 2020	For the Period Ended Mar 31, 2019	For the Period Ended Mar 31, 2020	For the Period Ended Mar 31, 2019
Sales Revenue	13,494	16,493	14,076	17,372
Profit Before Taxes	2,158	3,403	3,784	4,499
Profit After Taxes	1,660	2,456	2,883	3,213
Earnings Per Share (Rs.)	20.49	30.32	32.69	35.79

Performance Overview

Sales revenue for the nine months ended on March 31, 2020, was Rs. 13.5 billion as compared to Rs. 16.5 billion in the corresponding period of last year. The basic & diluted Earnings Per Share (EPS) was Rs. 20.49 compared to Rs.30.32 in the corresponding period last year.

Business Brief - Engineering Segment

Turnover of the Engineering Segment for the nine months' period ended 31st Mar 2020 was recorded at Rs. 7.4 billion, registering a decline of 35% compared to Rs. 11.4 billion in the corresponding period last year.

FY2020 continues to be a challenging period for the Pakistan Auto Industry. Overall car sales registered a decline of 47% in the first nine months of FY 2020, as compared to the same period last year. After facing severe decline in automotive demand during the first half of the financial year due to the changes made by the government in the last Fiscal budget, consumer demand showed signs of improvement in the months of Jan and Feb'20. However, the proliferation of COVID-19 in Pakistan in the month of March resulted in the closure of factories as per the notification by Government of Sindh on 21st March 2020.

COVID-19 has created an unprecedented global economic crisis. Your management is of the view that the demand for automotive vehicles is going to slow down in the short term. However, management is also confident that the measures taken by the government, in containing the spread of the virus, will soon reap results and demand for the vehicles will also be normalized.

During this current downtrend of economic activities, your management successfully controlled the operating cost and maintained its focus on various initiatives to improve quality, health, safety and environment. Through determination and commitment, management has implemented different cost optimization controls, while rapidly progressing to materialize the localization and competitive sourcing opportunities, and actively developing new business.

Business Brief – Building Material & Allied Product Segment

Sales revenue of Building Material & Allied Product Segment during the nine months ended March 31, 2020 was Rs. 6.1 billion against Rs. 5.1 billion in the corresponding period last year, resulting in an increase of 20%.

Jute Operations

The Jute Business registered a healthy growth trend on YTD basis in comparison to the corresponding period of last year and retained its position as the leading supplier. The business faced considerable cost pressures from the depreciating Pak Rupee and rising cost of raw materials, but was able to offset these by export sales, better product mix and price increases.

The demand for PGS (Pakistan Grain Sacks) remained strong due to lower carryover stocks and wheat shortage in the country as compared to last year. The business plans to continue building its export base for growth, while maintaining its strong presence in the domestic market. Management will also maintain its focus on production efficiencies to ensure competitive advantage in both the local and export markets.

Going forward the business anticipates having a slow momentum while entering into the final quarter of the fiscal year as the lockdowns & closure of local markets and global economic and trade activities have been severely impacted due to COVID-19.

Papersack Operations

During nine months of this fiscal year, revenue of the business grew by 13.5%.

Due to stagnating construction industry, lower sales volumes of Cement segment coupled with continuous devaluation of Pak rupee and increased finance cost, profitability of the business eroded substantially. Customers are switching towards WPP bags for packaging which is attributed to unfair custom duty on paper. Your management is in continuous follow up with regulatory authorities for the rationalization of custom duties in order to get a level playing field.

Industrial Sacks, Fashion bags, Food grade bags/wraps have shown a healthy growth resulting in a revenue increase of 30% in these segments on year on year basis.

In the current quarter sales for the month of January and February grew well over last year, however due to the COVID-19 related lock down, sales in the month of March for all segments and the quarter were impacted in terms of volume and profitability.

The outlook for the year is not very encouraging owing to prevailing COVID-19 pandemic. Though the Government has recently announced a package for the uplift of construction industry, however, its positive impact on the economy may possibly be delayed till after Ramadan. Exchange rate volatility along with unfair custom tariffs will continue to remain challenging for the business. In these hard times, Management continues to focus on sales opportunities & keeping costs under control.

Laminates Operations:

Despite the effects of the overall slowdown in the economy & recent closure of businesses during the third week of March, the Laminates Business was able to maintain sales momentum during the quarter. To mitigate the effect of recent rupee devaluation, the management is exploring ways of sourcing key raw materials locally.

Recent outbreak of pandemic and consequent implementation of lockdown across the country has resulted in extended stoppages in business activity across the country. It is expected that with gradual easing of lockdown

in Q4 and recent incentives announced by the Federal Government to support construction industry will result in its revival and we are confident that the business will achieve its projected targets.

Subsidiaries

Thal Boshoku Pakistan (Private) Limited (TBPK):

During the nine months ended 31st March 2020, the Company's sales have decreased due to negative volume variance at the back of declining market conditions. Moreover, the devaluation of PKR against major foreign currencies including USD and JPY was a constant pressure on profitability for the Company.

The Company witnessed significant milestones during the current period. Your Company started commercial production of seats in the newly constructed facility from February 2019. However, the operations came to a halt during the month of March due to the country-wide lockdown initiated by the Government in the wake of the COVID-19. Your management is actively engaged in increasing its product offering by working to increase its localization portfolio, along with introduction of new automotive parts, and aggressively pursuing new customers.

Due to significant pressures on cash flow, the Company approved a shareholder loan amounting to PKR 500 million in order to provide stability. The loan was received during the quarter ended 31st March 2020 and is for a period of one year, with an option to extend based on mutual agreement.

On the operations side, all customer supplies requirements 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 team members.

The future outlook of the industry is stable at best. With a further deterioration of the economy likely in the short term, the Company will face increased pressures on its cash flows for the next 6 to 12 months. Higher 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.

Business operations remained stable, but the retail lockdown has impacted some retail tenants adversely leading to partial reduction in revenue. During the quarter, HMPL approved interim dividend of Rs. 159.3 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.

Investment in Power Sector

Sindh Engro Coal Mining Company Limited:

Sindh Engro Coal Mining Company Limited ("SECMC") is a joint venture between the Government of Sindh, Thal Limited, Engro Powergen Limited, The 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. SECMC achieved commercial operations date for 3.8 million tons per annum capacity mine (Phase I) on July 10, 2019. Phase I of the Thar mining is supplying coal to a 2x330 MW power generation plant set up by Engro Powergen Thar (Private) Limited.

SECMC successfully achieved Financial Close for expansion of its mining operations to 7.6 mtpa on 31 Dec 2019. For Phase II, SECMC has entered into Coal Supply Agreements with ThalNova Power Thar (Private) Ltd and Thar Energy Ltd to supply additional 1.9 million tons of lignite per annum to each 330 MW power plant respectively.

In 1Q2020, the global COVID-19 pandemic has adversely affected the timelines for Phase II. Depending on how the COVID-19 scenario plays out over the next couple of months, the Project Company is now striving to achieve commercial operations date for Phase II in 2022.

Thal Ltd owns 11.9% ordinary shareholding in SECMC.

Thal Power (Private) Limited

ThalNova Power Thar (Private) Limited ("ThalNova") is a joint venture between Thal Power (Private) Limited, Nova Powergen Ltd (subsidiary of Novatex Ltd) and The Hub Power Company Limited to set up a 330 MW mine mouth coal-fired power generation plant located at Thar, Sindh. This power plant will be run on indigenous coal extracted from the mine operated by SECMC.

China Machinery & Engineering Corporation ("CMEC") 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 of lignite. It has also entered into a Power Purchase Agreement (PPA) with the Central Power Purchase Agency (Guarantee) Ltd (CPPA) and the Implementation Agreement ("IA") with Private Power Infrastructure Board (PPIB).

ThalNova (through shareholder's equity) has given Mobilization Advance along with Limited Notice to Proceed (LNTP) to the EPC contractor i.e. CMEC to initiate work on the site and expedite the achievement of Commercial Operations Date of the Project.

ThalNova executed key financial agreements with project lenders in 2H CY2019. In 1Q2020, the global COVID-19 pandemic has adversely affected the timelines for financial close; firstly, due to lockdown in China and more recently in Pakistan. Depending on how the COVID-19 scenario plays out over the next couple of months, the Project Company is now striving to achieve financial close in 2Q CY2020

In Memoriam

The Board of Directors of Thal Limited express their profound sadness and loss on the demise of their Board Member and Chairman House of Habib - **Mr. Ali S. Habib**.

The Company has lost a visionary leader - passionate, focused, entrepreneurial and a life - long learning enthusiast. Mr. Habib personally touched lives of so many during his 4 decades with the group, He will be missed

for his persona which commanded immediate respect, for the immense wisdom he brought to every discussion, for constantly challenging the status quo, for always striving for perfection, for not believing in the word impossible, for his remarkable mind to analyze, and simplify & above all for being a truly remarkable human being.

Mr. Habib spent a large part of his life in building a conglomerate spanning business interests ranging from automobiles to auto-parts, ceramic tiles to packaging materials, property management to building material; and the energy sector amongst others. Under his leadership, HoH grew into a diverse portfolio of companies.

He started his career with Baluchistan Laminate which launched the famous Formite brand and then went on to manage Thal Jute which now employs 4000 people & has now grown into one of the largest & finest Jute Mills of Pakistan. He was the brain behind bringing MAKRO to Pakistan – one of the largest food retail chains in the world, the idea culminated into a successful JV with 8 stores nationwide. He also contributed towards the growth and expansion of Shabbir Tiles & Pakistan Paper-sack business which has now grown and diversified into food and retail packaging other than cement being its flagship product range.

However, his watershed contribution came in the form of transforming the Automobile Industry in Pakistan. Mr. Ali Habib was the pioneering force behind the JV with Toyota – the largest global automobile brand. Under his iconic leadership, unwavering support and hard-work, IMC has grown into one of the finest corporations of the Pakistan. This did not stop Mr. Ali Habib from further venturing into the automobile sector of the country – in fact, it gave him a stepping stone to enter the auto-part manufacturing Industry of Pakistan. With his sheer zeal and entrepreneurship spirit he founded three Auto-Part companies which now cater to majority of the auto-parts demand across Pakistan.

Through his business acumen and foresight, he always believed in the power of strong partnerships. Our energy investments are testimony to the same. With his philosophy of creating positive impact across Pakistan Mr. Ali Habib contributed towards the Thar dream & became part of Sindh Engro Coal Mining Company (SECMC). Furthermore, he also ventured into setting up a JV for construction of a 330MW coal-fired plant which would further the mission of providing energy security to the country.

He dedicated a large part of his time towards social welfare & was a stalwart supporter of education in Pakistan who believed in the power and talent of youth. His philanthropic goals were even loftier. He remained personally invested in all social causes and actively participated by being on the Board of Governors of Habib Public Schools, and Habib University whilst also acting as a trustee on various social initiatives of the group which included Mohammedali Habib Welfare Trust; Habib Education Trust; and the Duke of Edinburgh's Award Programme. He also served for a large part as a Board of Governor of Shaukat Khanum Memorial Trust.

Mr. Ali Habib had a profound effect on the world outside House of Habib. His last 06 months were spent advising the Government of Pakistan on Commerce, Industries and Trade and was working closely with the Prime Minister on increasing the country's exports. No force could have stopped him from making a larger impact with his brilliance.

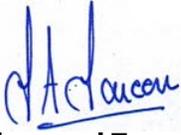
No words can adequately express our sadness at Mr. Ali Habib's passing or our gratitude for the opportunity to work with him. House of Habib has lost a visionary leader and the world has lost an amazing human being. Those who worked with him have lost a friend and an inspiring mentor. He will forever live in our hearts and we will honor his memory by dedicating ourselves to continue advancing the legacy he has left behind.

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



Muhammad Tayyab Ahmad Tareen
Chief Executive



Salman Burney
Director

Karachi: April 23, 2020