

PAKISTAN REFINERY LIMITED
1st Quarter Report
September 30, 2010



50 years and beyond





Vision

The strength to look ahead

To be the Refinery of first choice for all stakeholders.

Mission

The strength to rise

PRL is committed to remaining a leader in the oil refining business of Pakistan by providing value added products that are environmental friendly, and by protecting the interest of all stakeholders in a competitive market through sustainable development and quality human resources.

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Company Information

Chief Financial Officer

Imran Ahmad Mirza

Company Secretary

Kashif Lawai

Auditors

A. F. Ferguson & Co.

Legal Advisor

Orr Dignam & Co.

Registrar & Share Registration Office

FAMCO Associates (Pvt) Ltd.

State Life Building 1-A, 1st Floor

I.I. Chundrigar Road, Karachi-74000

Bankers

Askari Bank Limited

Bank Alfalah Limited

Bank Al-Habib Limited

Citi Bank N.A.

Habib Metropolitan Bank Limited

Habib Bank Limited

HSBC Bank Middle East Limited

MCB Bank Limited

NIB Bank Limited

National Bank of Pakistan

Soneri Bank Limited

Standard Chartered Bank (Pakistan) Limited

The Royal Bank of Scotland Limited

United Bank Limited

Registered Office

P.O. Box 4612

Korangi Creek Road, Karachi-75190

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Board Of Directors

Mr. Farooq Rahmatullah

Chairman

Mr. Ijaz Ali Khan

Managing Director & CEO

Mr. Ardeshir Cowasjee

Director

Mr. Zaiviji Ismail bin Abdullah

Director

Mr. Irfan K. Qureshi

Director

Mr. Muqtadar A. Quraishi

Director

Mr. Sabar Hussain

Director

Mr. Rafi Haroon Basheer

Director

Mr. Saleem Butt

Director

Mr. Khong Kok Toong

Director

Mr. Amr Ahmed

Director

Board Committees

Human Resource Committee

The HR Committee comprises of three members, including the Chairman, from the non-executive Directors of the Board. The HR Committee has been delegated the role of assisting the Board of Directors in ensuring that the Company is able to attract and retain a professional, motivated and competent workforce.

Technical Review Committee

The Board Technical Review Committee comprises of two non-executive Directors. It is responsible for removing barriers for realising the upgrade project for the Company's project team, institutionalising project execution process and governance for the upgrade project and endorsement of the investment decisions recommended by the Project Steering Committee.

Audit Committee

The Audit Committee comprises of three members, including the Chairman, from the non-executive Directors of the Board all of whom have sufficient financial management expertise. The Chief Internal Auditor is the Secretary of the Committee. The Committee assists the Board of Directors in ensuring adequate safeguard of Company's assets, effectiveness and adequacy of its system of internal controls and compliance with operational, financial and risk management policies.

Management Committees

Purchase Committee

Purchase Committee is responsible for ensuring that all procurement activities are conducted in a transparent and objective manner and the same is duly monitored by the senior management representatives of the Committee.

Recruitment and Selection Committee

Recruitment and Selection Committee is responsible for ensuring that the Company adds only top-class talent to its existing talent pool in order to sustain standards of professionalism and competence in the Company. The Committee consists of managers with diversified experience in order to ensure recruitment of well-rounded individuals.

Policies & Procedures Review Advisory Committee

This Committee is responsible for ensuring that Company's policies are as per market practices and in line with regulatory requirements and that well laid-out and documented procedures exist for these policies. The Committee is responsible for the regular review of these policies and procedures to ensure that they remain relevant and appropriate over time.

Ethics Committee

Ethics Committee is responsible for ensuring that Company's operations are conducted in conformity with organisational objectives and policies with high standards of values and ethical conduct. The Company has defined policies regarding harassment, acceptance of gifts, conflict of interest etc. and no deviations are tolerated.

Project Steering Committee

Project Steering Committee is responsible to facilitate and support the project manager by ensuring adequate involvement in the project by various stakeholders. It also acts in an advisory capacity regarding major decisions at venture level and scope decisions and provision of assistance for resolution of resourcing issues.

Directors' Review

In the first quarter of the year 2010-11, the Company started well by making profit before tax of Rs. 181 million as compared to loss before tax of Rs. 650 million during the same period last year. This improved profitability is mainly on the back of stable hydrocarbon prices supported by improved refining margins, sustained Rupee-US Dollar parity, operational excellence and cost control through various management initiatives.

The Federal Government through Finance Act 2010 has doubled the rate of minimum tax, payable on a company's turnover, from 0.5 percent to 1.0 percent. Consequently, due to this harsh tax treatment the Company incurred after tax loss of Rs. 24 million compared to after tax loss of Rs. 672 million in the corresponding quarter last year. Currently refineries in Pakistan are operating under specified pricing mechanism where prices of most products are set by Oil & Gas Regulatory Authority. Refinery margins are often very thin and volatile, which means that minimum tax liability will always far exceed the normal tax liability for our Company, as has happened in the current quarter under review. This increased burden of tax has further aggravated the financial position of the Company which was severely hit by depressed margins, devaluation of Pak Rupee and uncontrollable inventory losses in the last 2 years. The Company management in coordination with the Oil Companies Advisory Committee have made many representations to the Federal Board of Revenue and have repeatedly approached the Ministry of Finance highlighting the adverse impact of this increase in the rate of minimum tax.

During the period under review, Iran light crude remained the main part of the crude recipe at average price of USD 73.93/bbl. At the end of the quarter, crude recipe has been slightly modified with increased processing of Murban crude oil. Throughput during the quarter under review is analysed as follows:

- 5,011 MT/Day of crude oil was processed as compared to 5,509 MT/Day for the corresponding quarter.
- Sales volume of products decreased by 16 percent over last year.
- Local crude was processed at 885 MT/Day as compared to 947 MT/Day in the corresponding period.

During the period under review, your Company started gantry operations supplying furnace oil to its cash paying customers in addition to supplies through pipelines resulting in better liquidity management and additional source of income.

The Company management has been engaging with the highest levels of the Ministry of Petroleum & Natural Resources to address pertinent issues including working out a suitable refinery pricing formula to ensure sustainable refinery operations on a long term basis as well as the implementation of the upgrade project.

HSEQ and Business Controls remained one of the primary areas of management focus and PRL continues to strengthen processes. During the quarter, Refinery remained compliant with all applicable HSEQ standards including National Environment Quality Standards.

The Board of Directors would like to express their gratitude to our valued customers, concerned Government ministries, all employees and shareholders of the Company for their continuous support.

On behalf of the Board of Directors



Farooq Rahmatullah
Chairman

Karachi: October 20, 2010

Condensed Interim Balance Sheet

as at September 30, 2010

	Note	Unaudited Sep 30, 2010	Audited June 30, 2010
(Rupees in thousand)			
ASSETS			
Non-current assets			
Property, plant and equipment	2	5,578,100	5,598,868
Investment in associate		65,068	66,663
Long-term loans and advances		8,224	8,742
Long-term deposits		13,753	13,673
Deferred taxation		13,952	8,320
		<u>5,679,097</u>	<u>5,696,266</u>
Current assets			
Stores, spares and chemicals		232,461	226,353
Stock-in-trade		9,909,973	6,810,970
Trade debts		19,268,124	16,120,819
Loans and advances		16,161	23,478
Trade deposits and short-term prepayments		48,103	46,776
Other receivables		17,461	1,387,088
Taxation - payments less provision		15,716	113,411
Tax refunds due from government - sales tax		856,944	856,944
Cash and bank balances		32,368	9,590
		<u>30,397,311</u>	<u>25,595,429</u>
Total assets		<u>36,076,408</u>	<u>31,291,695</u>
EQUITY			
Share capital		350,000	350,000
Reserves		1,947	1,947
Accumulated loss		(1,165,108)	(1,141,096)
Fair value reserve		(5,522)	(5,966)
		<u>(818,683)</u>	<u>(795,115)</u>
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT		3,143,928	3,143,928
LIABILITIES			
Non-current liabilities			
Retirement benefit obligations		4,885	1,138
Current liabilities			
Trade and other payables		29,410,291	25,288,917
Short-term borrowing		3,031,865	2,992,036
Running finance under mark-up arrangements		-	179,674
Tax due to government - sales tax		1,272,553	431,979
Accrued interest / mark-up		31,569	49,138
		<u>33,746,278</u>	<u>28,941,744</u>
Total liabilities		<u>33,751,163</u>	<u>28,942,882</u>
Contingencies and commitments	3		
Total equity and liabilities		<u>36,076,408</u>	<u>31,291,695</u>

The annexed notes 1 - 7 form an integral part of these condensed interim financial statements.



Farooq Rahmatullah
Chairman




Ijaz Ali Khan
Chief Executive

Condensed Interim Profit and Loss Account

for the quarter ended September 30, 2010 (Unaudited)

	Sep 30, 2010	Sep 30, 2009
	(Rupees in thousand)	
Sales	26,453,836	26,993,248
Less: Sales tax, excise duty and development levy	5,390,476	5,288,526
	21,063,360	21,704,722
Cost of sales	(20,725,026)	(21,780,179)
Gross profit / (loss)	338,334	(75,457)
Distribution cost	(27,625)	(30,975)
Administrative expenses	(35,117)	(32,951)
Other operating expenses	(13,561)	-
Other income	26,009	71,701
Operating profit / (loss)	288,040	(67,682)
Finance cost	(109,907)	(585,864)
Share of income of associate	2,824	3,127
Profit / (loss) before taxation	180,957	(650,419)
Taxation - current	(210,841)	(24,774)
- deferred	5,872	3,024
	(204,969)	(21,750)
Loss after taxation	(24,012)	(672,169)
Other comprehensive income		
Change in fair value reserve on account of available for sale investments of associate	684	2,134
Deferred tax relating to component of other comprehensive income	(240)	(747)
	444	1,387
Total comprehensive loss	(23,568)	(670,782)
Loss per share	(Rs. 0.69)	(Rs. 19.20)

The annexed notes 1 - 7 form an integral part of these condensed interim financial statements.



Farooq Rahmatullah
Chairman



Ijaz Ali Khan
Chief Executive

Condensed Interim Cash Flow Statement

for the quarter ended September 30, 2010 (Unaudited)

	Note	Sep 30, 2010	Sep 30, 2009
		(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from / (used in) operations	5	371,503	(5,581,247)
Mark-up paid		(49,138)	(1,692)
Income tax paid		(113,146)	(222,838)
Contribution to defined benefit retirement plans		(1,138)	(326)
Decrease in long-term loans and advances		518	1,790
Increase in long-term deposits		(80)	(392)
Net cash inflow / (outflow) from operating activities		208,519	(5,804,705)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(17,279)	(28,709)
Proceeds from sale of disposal of property, plant and equipment		1,227	259
Return on deposits		4,936	80,364
Dividend received		5,102	-
Net cash (outflow) / inflow from investing activities		(6,014)	51,914
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		(53)	(6)
Net increase / (decrease) in cash and cash equivalents		202,452	(5,752,797)
Cash and cash equivalents at the beginning of the period		(170,084)	3,909,833
Cash and cash equivalents at the end of the period	6	32,368	(1,842,964)

The annexed notes 1 - 7 form an integral part of these condensed interim financial statements.

Condensed Interim Statement of Changes in Equity

for the quarter ended September 30, 2010 (Unaudited)

	SHARE CAPITAL	CAPITAL Exchange equalisation reserve	R E S E R V E S		SPECIAL RESERVE	FAIR VALUE RESERVE	TOTAL
			General reserve	Unappropri- ated profit / (accumulat- ed loss)			
	(Rupees in thousand)						
Balance as at July 1, 2009	350,000	897	1,050	19,698	1,814,421	(6,724)	2,179,342
Loss for the quarter ended September 30, 2009	-	-	-	(672,169)	-	-	(672,169)
Other comprehensive income	-	-	-	-	-	1,387	1,387
Total recognised loss for the quarter ended September 30, 2009	-	-	-	(672,169)	-	1,387	(670,782)
Loss for the period transferred to Special Reserve	-	-	-	672,169	(672,169)	-	-
Balance as at September 30, 2009	350,000	897	1,050	19,698	1,142,252	(5,337)	1,508,560
Balance as at July 1, 2010	350,000	897	1,050	(1,141,096)	-	(5,966)	(795,115)
Loss for the quarter ended September 30, 2010	-	-	-	(24,012)	-	-	(24,012)
Other comprehensive income	-	-	-	-	-	444	444
Total recognised loss for the quarter ended September 30, 2010	-	-	-	(24,012)	-	444	(23,568)
Balance as at September 30, 2010	350,000	897	1,050	(1,165,108)	-	(5,522)	(818,683)

The annexed notes 1 - 7 form an integral part of these condensed interim financial statements.



Farooq Rahmatullah
Chairman



Ijaz Ali Khan
Chief Executive

Notes to and Forming Part of the Condensed Interim Financial Statements

for the quarter ended September 30, 2010 (Unaudited)

1. BASIS OF PREPARATION

- 1.1** These condensed interim financial statements have been prepared in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting and are being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984 and the Listing Regulations of the Karachi and Lahore Stock Exchanges.
- 1.2** The accounting policies and methods of computation adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual financial statements of the Company for the year ended June 30, 2010.
- 1.3** The prices of refinery products are notified by the Oil & Gas Regulatory Authority (OGRA) which are primarily based on import parity pricing formula. However, in order to enable certain refineries including the Company to operate on a self financing basis, effective from July 1, 2002 the Government had introduced a tariff protection formula under which deemed duty is built into the import parity based prices of some of the products. Under this formula, any profit after taxation above 50% of the paid-up capital as it was on July 1, 2002 is required to be transferred to a "Special Reserve" to offset any future losses or to make investment for expansion or upgradation of the respective refineries.

The Ministry of Petroleum through its letter dated October 14, 2010 has directed refineries not to adjust the losses against Special Reserves.

- 1.4** The Company has incurred a loss after taxation of Rs. 24 million during the quarter ended September 30, 2010 and its accumulated losses are Rs. 1.165 billion as at September 30, 2010 resulting into negative equity of Rs. 818.7 million. Further, current liabilities have exceeded the current assets by Rs. 3.35 billion. Based on estimated future cash flows and profitability, management believes the current loss situation and liquidity issues will be overcome in future. Furthermore, discussions are underway with the Government of Pakistan for revision of the petroleum pricing mechanism favouring the industry which will further add to the profitability. Therefore, these condensed interim financial statements are prepared on a going concern basis.

2. PROPERTY, PLANT AND EQUIPMENT

- 2.1** Included in property, plant and equipment are costs aggregating Rs. 1,392.6 million (June 30, 2010: Rs. 1,392.6 million) representing capital work in progress relating to the Refinery upgradation project. The project is dependent on the arrangement of financing to complete the project which is expected to be further facilitated by a favourable outcome of the petroleum pricing mechanism presently under consideration of the Government of Pakistan.
- 2.2** Following are the additions to property, plant and equipment during the period:

	Sep 30, 2010	Sep 30, 2009
	(Rupees in thousand)	
Processing plant, tank farm and power generation	2,702	160
Equipment including furniture	1,152	844
Capital work in progress	13,425	27,705
	<u>17,279</u>	<u>28,709</u>

There were no major disposals during the period.

Notes to and Forming Part of the Condensed Interim Financial Statements

for the quarter ended September 30, 2010 (Unaudited)

3. CONTINGENCIES AND COMMITMENTS

3.1 Contingencies

- a) The Company has raised claims aggregating Rs. 3,841.81 million (June 30, 2010: Rs. 3,382.51 million) on certain Oil Marketing Companies (OMCs) under the respective sale and purchase of products agreements in respect of interest on late payments from them against receivables. These claims, however, have not been recognised in these condensed interim financial statements as these have not been acknowledged by the OMCs.
- b) Claims against the Company not acknowledged as debt, including late payment surcharges, amount to Rs. 938.62 million (June 30, 2010: Rs. 775.30 million).
- c) Bank guarantees of Rs. 193 million (June 30, 2010: Rs. 193 million) were issued in favour of third parties.

3.2 Commitments

- a) Commitments outstanding for capital expenditure as at September 30, 2010 amounted to Rs. 39.15 million (June 30, 2010: Rs. 32.44 million).
- b) Outstanding letters of credit as at September 30, 2010 amounted to Rs. 37.44 million (June 30, 2010: Rs. 40.03 million).
- c) Commitments for rentals under ijarah arrangements amounted to Rs. 32.308 million (June 30, 2010: Rs. 33.59 million).

Sep 30, 2010 Sep 30, 2009
(Rupees in thousand)

4. TRANSACTIONS WITH RELATED PARTIES

	Relationship	Nature of transaction		
i	Associated companies	Dividend received	5,102	-
		Sale of goods	17,258,706	18,060,979
		Services rendered	10,904	338
		Purchase of goods	2,227,528	1,894,361
ii	Entity where a Director of the Company is a key management personnel	Sale of goods	564,922	283,124
		Interest received	1,948	-
iii	Key management employees' compensation	Salaries and other short-term employee benefits	11,099	11,993
		Post-employment benefits	1,186	1,274

Sale of certain products is transacted at prices fixed by the Oil and Gas Regulatory Authority. Other transactions with related parties are carried out on commercially negotiated terms.

Notes to and Forming Part of the Condensed Interim Financial Statements

for the quarter ended September 30, 2010 (Unaudited)

Sep 30, 2010 **Sep 30, 2009**

(Rupees in thousand)

5. CASH GENERATED FROM / (USED IN) OPERATIONS

Profit / (loss) before taxation	180,957	(650,419)
Adjustments for non-cash charges and other items		
Depreciation and amortisation	37,930	39,357
Share of income of associate	(2,824)	(3,127)
Gain on disposal of property, plant and equipment	(1,110)	-
Exchange loss on short term borrowing	21,044	75,462
Mark-up expense	50,355	58,585
Profit on deposits	(4,936)	(67,204)
Provision for defined benefit retirement plans	4,885	3,873
	105,344	106,946
Working capital changes - note 5.1	85,202	(5,037,774)
Cash generated from / (used in) operations	<u>371,503</u>	<u>(5,581,247)</u>

5.1 Working capital changes

(Increase) / decrease in current assets		
Stores, spares and chemicals	(6,108)	(17)
Stock-in-trade	(3,099,003)	995,268
Trade debts	(3,147,305)	(2,369,132)
Loans and advances	7,317	(511)
Trade deposits and short-term prepayments	(1,327)	(45,191)
Other receivables	1,369,627	1,043,789
	<u>(4,876,799)</u>	<u>(375,794)</u>
Increase / (decrease) in current liabilities		
Trade and other payables	4,121,427	(4,880,629)
Tax due to government - sales tax	840,574	218,649
	<u>4,962,001</u>	<u>(4,661,980)</u>
	<u>85,202</u>	<u>(5,037,774)</u>

6. CASH AND CASH EQUIVALENTS

Cash and bank balances	32,368	215,783
Running finance under mark-up arrangements	-	(2,058,747)
	<u>32,368</u>	<u>(1,842,964)</u>

7. DATE OF AUTHORISATION

These condensed interim financial statements were authorised for issue on October 20, 2010 by the Board of Directors of the Company.



Farooq Rahmatullah
Chairman



Ijaz Ali Khan
Chief Executive





PAKISTAN REFINERY LIMITED

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