

# 1st quarter

Contributing to nation's energy needs  
with a difference

september

report  
2008



PAKISTAN REFINERY LIMITED



## Our Vision

To be the Refinery of first choice for all stakeholders.

## Our Mission

PRL is committed to remaining a leader in the oil refining business of Pakistan by providing value added products that are environmentally 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.

P. O. Box 4716,

State Life Building 2-A, 4th 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

MCB Bank Limited

National Bank of Pakistan

Soneri Bank Limited

Standard Chartered Bank (Pakistan) Limited

The Hongkong and Shanghai Banking Corporation Limited

The Royal Bank of Scotland Limited

United Bank Limited

## Registered Office

P. O. Box 4612

Korangi Creek Road, Karachi-75190

Tel Off: (92-21) 512 2131-40

Fax: (92-21) 506 0145, 509 1780

<http://www.prl.com.pk>

## 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. Kaleem A. Siddiqui**

Director

**Mr. Nadeem N. Jafarey**

Director

**Mr. Muhammad Azam**

Director

**Mr. Asif S. Sindhu**

Director

**Mr. Khong Kok-Toong**

Director

**Mr. Saleem Butt**

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 realizing the upgrade project for the Company's project team, institutionalizing 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 assets, effectiveness and adequacy of the Company's system of internal control and compliance with operational, financial and risk management policies of the Company.

# 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 on the Committee as well as the internal audit function.

## **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 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 organizational 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

The year 2008-09 commenced with a very difficult first quarter as the Company incurred a pre-tax loss of Rs. 1,999.55 million during the period under review compared with a pre-tax profit of Rs. 413 million in the corresponding period. This is the result of unsustainable Refinery product pricing mechanism as stated in the Annual Report 2007-08. Additionally, a steep fall in international oil prices, global refining margins, Rupee depreciation and the issue of circular debt all contributed to the huge loss.

The downward trend of oil prices was observed during the quarter under review. Arab light crude which constitutes bulk of your refinery's crude recipe slumped to US\$ 87 / bbl with all time high of US\$ 143 / bbl during the period.

From August 2008 onwards, the Government has reduced custom/deemed duty on HSD from 10% to 7.5% and on top of this the Motor Spirit (MS) pricing is being calculated on the basis of MS 95 RON with RON penalty under the unitary method. This working brings the price of MS lower than its feed stock i.e. Naphtha.

The company management of PRL and other affected refineries collectively and individually have approached the Government continuously on the adverse impact of the changes made in the refineries pricing formula and have emphasized the need of urgent review in order to keep the refineries' operations financially sustainable. These efforts will be intensified as we discuss the first quarter results with the relevant senior parties in the government.

Further, progress on Company's \$400 million plus upgrade project may be seriously affected due to this pricing issue.

During the period July to September 2008, compared with corresponding period:

- 5,262 MT / day were processed as compared with 6,410 MT / day.
- Sales volume decreased by 20%.
- Local crude was processed at 815 MT / day as compared with 1,102 MT / day.

The economy of our country remained under high pressure during the quarter under review due to inflation and ever increasing trade deficit resulting in substantial financial burden of negative exchange differences coupled with increased cost of debt to the Company.

PRL achieved another quality milestone by getting third consecutive "Annual Environment Excellence Award" in recognition of its HSEQ commitments during the fiscal year 2007-2008.

The Board of Directors would like to thank the management and all employees of the Company and other contributing stakeholders for the smooth operations of the Company.

On behalf of the Board of Directors



Farooq Rahmatullah  
Chairman

Karachi: October 23, 2008

# Condensed Interim Balance Sheet

as at September 30, 2008

	Note	Unaudited	Audited
		September 30, 2008	June 30, 2008
(Rupees in thousand)			
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	2	1,317,868	975,774
Intangible assets		12,253	14,091
Investment in associate		54,805	58,238
Long-term loans and advances		13,991	13,588
Long-term deposits		12,683	14,012
Deferred taxation		597,493	-
Retirement benefit obligations - prepayments		11,768	9,520
		<u>2,020,861</u>	<u>1,085,223</u>
<b>Current assets</b>			
Stores, spares and chemicals		235,691	233,425
Stock-in-trade		9,261,744	9,102,109
Trade debts		18,081,406	10,427,821
Loans and advances		22,579	18,795
Accrued interest / mark-up		53	47
Trade deposits and short-term prepayments		41,720	48,844
Other receivables		28,925	21,180
Tax refunds due from Government - Sales tax		1,147,053	1,310,151
Financial assets at fair value through profit and loss		375	365
Cash and bank balances	4	258,007	2,646,115
		<u>29,077,553</u>	<u>23,808,852</u>
<b>Total assets</b>		<u>31,098,414</u>	<u>24,894,075</u>
<b>EQUITY AND LIABILITIES</b>			
Share capital		350,000	350,000
Reserves		17,275	69,829
Special reserve	1.3	4,995,790	6,386,076
		<u>5,363,065</u>	<u>6,805,905</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Retirement benefit obligations		7,411	7,078
Deferred taxation		-	40,042
		<u>7,411</u>	<u>47,120</u>
<b>Current liabilities</b>			
Trade and other payables		16,640,821	15,904,758
Accrued interest / mark-up		76,635	77,558
Short term borrowings	4	6,576,640	-
Tax due to Government - Sales Tax		1,502,244	1,121,999
Taxation - provision less payments		931,598	936,735
		<u>25,727,938</u>	<u>18,041,050</u>
<b>Total liabilities</b>		<u>25,735,349</u>	<u>18,088,170</u>
<b>Total equity and liabilities</b>		<u>31,098,414</u>	<u>24,894,075</u>

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



**Farooq Rahmatullah**  
Chairman



**Ijaz Ali Khan**  
Chief Executive



# Condensed Interim Profit and Loss Account (unaudited)

for the quarter ended September 30, 2008

	September 30, 2008	September 30, 2007
	(Rupees in thousand)	
Sales	35,525,589	21,994,236
Less: Sales tax, excise duty and development surcharge	4,383,825	2,979,728
	31,141,764	19,014,508
Cost of sales	(33,109,814)	(18,550,278)
Gross (loss) / profit	(1,968,050)	464,230
Distribution cost	(26,597)	(15,814)
Administrative expenses	(40,201)	(39,596)
Other operating expenses	(137)	(33,789)
Other income	109,322	35,349
Operating (loss) / profit	(1,925,663)	410,380
Finance costs	(76,934)	(710)
Share of income of associate	3,048	2,853
(Loss) / profit before taxation	(1,999,549)	412,523
Taxation - current	(26,896)	(165,639)
- deferred	636,159	(40,989)
	609,263	(206,628)
(Loss) / profit after taxation	(1,390,286)	205,895
(Loss) / earnings per share (Rupees)	(39.72)	5.88

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

  
**Farooq Rahmatullah**  
 Chairman

  
**Ijaz Ali Khan**  
 Chief Executive

# Condensed Interim Cash Flow Statement (unaudited)

for the quarter ended September 30, 2008

	Note	September 30, 2008	September 30, 2007
(Rupees in thousand)			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash (used in) / generated from operations	3	(8,503,829)	2,450,506
Mark-up paid		(77,857)	(1,989)
Taxes paid		(32,033)	(154,889)
Contribution to defined retirement benefit plans		(8,595)	(1,793)
Long-term loans and advances (net)		(403)	(2,902)
Long term deposits		1,329	-
Net cash (outflow) / inflow from operating activities		(8,621,388)	2,288,933
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		(373,372)	(43,027)
Proceeds from sale of fixed assets		1,764	-
Profit on deposits received		25,704	33,684
Dividend received		2,551	-
Net cash outflow from investing activities		(343,353)	(9,343)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Dividend paid		(7)	(139)
Net (decrease) / increase in cash and cash equivalents		(8,964,748)	2,279,451
Cash and cash equivalents at the beginning of the period		2,646,115	1,698,277
Cash and cash equivalents at the end of the period	4	(6,318,633)	3,977,728

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



**Farooq Rahmatullah**  
Chairman



**Ijaz Ali Khan**  
Chief Executive

# Condensed Interim Statement of Changes in Equity (unaudited)

for the quarter ended September 30, 2008

	SHARE	CAPITAL	RESERVES		FAIR	SPECIAL	TOTAL
	CAPITAL		REVENUE	General			
		Exchange	reserve	profit	RESERVE		
		equalisation					
		reserve					
(Rupees in thousand)							
<b>Balance as at June 30, 2007</b>	300,000	897	1,050	119,698	8,106	4,375,332	4,805,083
Net profit for the quarter ended September 30, 2007	-	-	-	205,895	-	-	205,895
Change in fair value reserve on account of available for sale investments of associate - net of deferred tax	-	-	-	-	(2,109)	-	(2,109)
Final dividend for the year ended June 30, 2007 @ Rs. 3.33 per share	-	-	-	(100,000)	-	-	(100,000)
<b>Balance as at September 30, 2007</b>	<u>300,000</u>	<u>897</u>	<u>1,050</u>	<u>225,593</u>	<u>5,997</u>	<u>4,375,332</u>	<u>4,908,869</u>
<b>Balance as at June 30, 2008</b>	350,000	897	1,050	69,698	(1,816)	6,386,076	6,805,905
Net loss for the quarter ended September 30, 2008	-	-	-	(1,390,286)	-	-	(1,390,286)
Change in fair value reserve on account of available for sale investments of associate - net of deferred tax	-	-	-	-	(2,554)	-	(2,554)
Final dividend for the year ended June 30, 2008 @ Rs. 1.42 per share	-	-	-	(50,000)	-	-	(50,000)
Transferred to Special Reserve	-	-	-	1,390,286	-	(1,390,286)	-
<b>Balance as at September 30, 2008</b>	<u>350,000</u>	<u>897</u>	<u>1,050</u>	<u>19,698</u>	<u>(4,370)</u>	<u>4,995,790</u>	<u>5,363,065</u>

  
**Farooq Rahmatullah**  
 Chairman

  
**Ijaz Ali Khan**  
 Chief Executive

# Notes to the Condensed Interim Financial Statements (unaudited)

for the quarter ended September 30, 2008

## 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, 2008.
- 1.3** The Refineries were operating till June 30, 2002, under the 1992 Import Parity Pricing Formula whereby the rate of return on paid-up capital was limited to a range of 10% to 40%. The price fixation of products under the above formula was handled by the Government until it was handed over to Oil Companies Advisory Committee with certain amendments from July 1, 2001 up to March 31, 2006. Subsequently under a directive from the Government, prices are now notified by Oil and Gas Regulatory Authority.

The formula was further amended, effective, July 1, 2002, for certain refineries including the Company when the capping of 10% to 40% was removed. Under the new tariff protection formula the concerned refineries have been allowed to charge a deemed duty on some of their products enabling them to run their operations on a self-financing basis. After tax profit for a year above 50% of the paid-up capital as at the date of applicability of the tariff protection formula i.e. July 1, 2002, is to be transferred to a "Special Reserve Account" to offset against future losses or to make investments for expansion or upgradation of the respective refineries and is therefore not available for distribution.

September 30, 2008	September 30, 2007
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(Rupees in thousand)

## 2. FIXED ASSETS

Following are the additions to fixed assets during the period:

Building	1,254	-
Processing plant, power generation and distribution	1,859	-
Equipment including furniture	6,633	4,323
	<u>9,746</u>	<u>4,323</u>

There were no major disposals during the period.

# Notes to the Condensed Interim Financial Statements (unaudited)

for the quarter ended September 30, 2008

	September 30, 2008	September 30, 2007
	(Rupees in thousand)	
<b>3. CASH GENERATED FROM OPERATIONS</b>		
(Loss) / profit before taxation	(1,999,549)	412,523
Adjustments for non-cash charges and other items:		
Depreciation	33,099	39,645
Provision for defined retirement benefit plans	6,680	2,737
Share of income of associate	(3,048)	(2,854)
Gain on disposal of fixed assets	(1,747)	-
Profit on deposits	(25,710)	(30,458)
Finance costs	76,934	701
Working capital changes - note 3.1	(6,590,488)	2,028,212
Cash (used in) / generated from operations	<u>(8,503,829)</u>	<u>2,450,506</u>
<b>3.1 Working capital changes</b>		
(Increase) / decrease in current assets		
Stores, spares and chemicals	(2,266)	(3,360)
Stock-in-trade	(159,635)	(123,307)
Trade debts	(7,653,585)	(199,827)
Loans and advances	(3,784)	(3,374)
Trade deposits and short-term prepayments	7,124	7,422
Other receivables	(7,745)	5,075
Tax refunds due from Government - Sales tax	163,098	(13,439)
Financial assets at fair value through profit and loss	(10)	-
	<u>(7,656,803)</u>	<u>(330,810)</u>
Increase / (decrease) in current liabilities		
Trade and other payables	686,070	2,359,022
Tax due to Government - Sales Tax	380,245	-
	<u>1,066,315</u>	<u>2,359,022</u>
	<u>(6,590,488)</u>	<u>2,028,212</u>
<b>4. CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	258,007	3,977,728
Short-term borrowings	(6,576,640)	-
	<u>(6,318,633)</u>	<u>3,977,728</u>

# Notes to the Condensed Interim Financial Statements (unaudited)

for the quarter ended September 30, 2008

September 30, 2008	September 30, 2007
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(Rupees in thousand)

## 5. TRANSACTIONS WITH RELATED PARTIES

Relationship	Nature of transaction	Transactions during the period		
Significant related party transactions are:				
(i)	Associated companies	Dividend received	2,551	-
		Sale of goods	27,008,324	15,145,269
		Sale of services	300	685
		Purchase of goods	10,437,050	-
(ii)	Entities whose directors and that of the company are appointed by the same person(s)		310,618	-
(iii)	Key management employees compensation:			
		Salaries and other short-term employee benefits	15,330	13,794
		Post employment benefits	1,111	1,524

## 6. DATE OF AUTHORISATION

These condensed interim financial statements were authorised for issue on October 23, 2008 by the Board of Directors of the Company.



**Farooq Rahmatullah**  
Chairman



**Ijaz Ali Khan**  
Chief Executive





## **PAKISTAN REFINERY LIMITED**

P.O. Box 4612, Korangi Creek Road, Karachi-75190, Pakistan.

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