

1st Quarter Report
September 30,



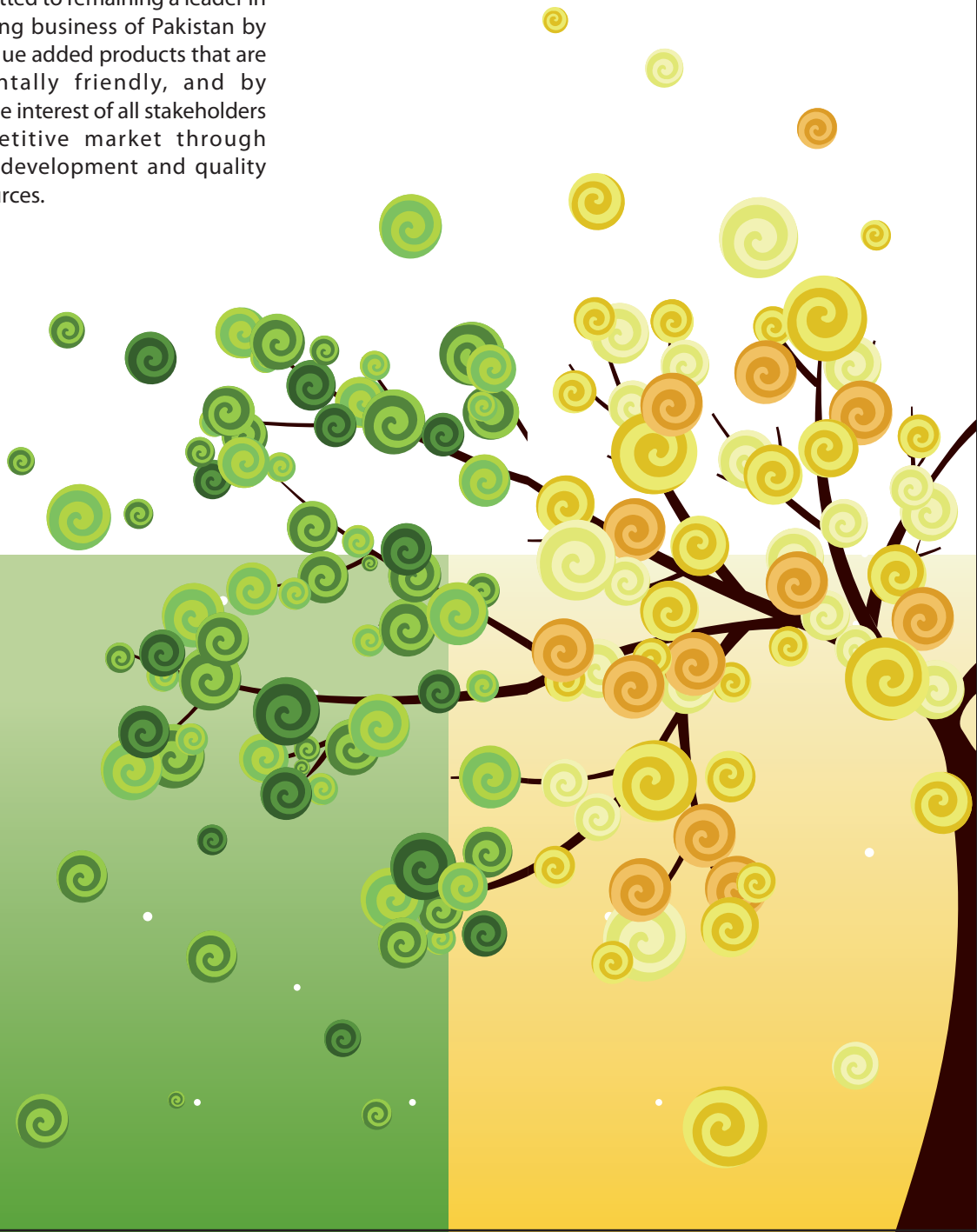
PAKISTAN REFINERY LIMITED

Vision

To be the Refinery of first choice for all stakeholders.

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

Company Secretary & Chief Financial Officer

Imran Ahmad Mirza

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.

Faysal Bank Limited

Habib Metropolitan Bank Limited

Habib Bank Limited

HSBC Bank Middle East Limited

MCB Bank Limited

National Bank of Pakistan

NIB Bank Limited

Standard Chartered Bank (Pakistan) Limited

United Bank Limited

Registered Office

P. O. Box 4612

Korangi Creek Road, Karachi-75190

Tel: (92-21) 35122131-40

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Board of Directors

Farooq Rahmatullah

Chairman

Aftab Husain

Managing Director & CEO

Chang Sern Ee

Director

Khawaja Nimr Majid

Director

Muhammad Azam

Director

Muhammad Zubair

Director

Muqtadar A. Quraishi

Director

Naeem Yahya Mir

Director

Omar Yaqoob Sheikh

Director

Rafi Haroon Basheer

Director

Saleem Butt

Director

Board Committees

Audit Committee

The Audit Committee comprises of three members, including the Chairman, from 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 Board has determined the Terms of Reference of the Audit Committee and has provided adequate resources and authority to enable the Audit Committee to carry out its responsibilities effectively. The Audit Committee recommends to the Board, the appointment of external auditors, their removal, audit fees and the provision by the external auditors of any service to the listed company in addition to audit of its financial statements. The Board gives due consideration to the recommendations of the Audit Committee in all these matters.

Human Resources and Remuneration Committee (HR&RC)

HR&RC comprises of four members from the non-executive Directors of the Board. The head of Human Resources is the Secretary of the Committee. HR&RC has been delegated the role of assisting the Board of Directors in:

- recommending human resource management policies to the Board;
- recommending to the Board the selection, evaluation, compensation (including retirement benefits) and succession planning of the Managing Director & Chief Executive Officer;
- recommending to the Board the selection, evaluation, compensation (including retirement benefits) of Deputy Managing Director, Chief Financial Officer, Company Secretary and Chief Internal Auditor;
- consideration and approval on recommendations of Managing Director & Chief Executive Officer on such matters for key management positions who report directly to Managing Director & Chief Executive Officer or Deputy Managing Director.

Board Technical Committee

The Board Technical Committee comprises of two non-executive Directors. It is responsible for removing barriers for realising the upgradation project for the Company's project team, institutionalising project execution process and governance for the upgradation project and endorsement of the investment decisions recommended by the Project Steering Committee. This committee also reviews and engages with technical managers for HSEQ matters.

Board Strategic Committee

The Board Strategic Committee has been set up to assist management in defining and putting up to the Board of Directors a structured strategic plan that will ensure future sustainability of the business and deliver sustainable returns to the shareholders.

Directors' Review

After a difficult last year, the Company posted profit after taxation of Rs 767 million for the quarter ended September 30, 2012 as compared to profit after taxation of Rs 24 million during the same period last year. This improved profitability was mainly due to improved refining margins and revised pricing mechanism introduced by Government of Pakistan effective June 2012.

Refinery operated smoothly during the quarter and met all the key performance indicators. Sales Revenue increased by 9% as compared to corresponding quarter last year. The Refinery processed 4,431 M.Tons/day as against 4,561 M.Tons/day in the corresponding quarter last year. However, the Company continued to face challenges on liquidity position which can further aggravate by high volatility in Rupee Dollar parity. The issue of minimum tax on turnover remains a threat to Company's profitability. The Company considers it extremely harsh because unlike other segments of economy which are enjoying relief from imposition of this tax through reduced rates, the refineries operating in Pakistan despite being highly documented, suffer the vigours of minimum tax due to high turnover.

In line with the Company's vision and the directives of the Government of Pakistan, the Company has entered into license and engineering agreements for development of Basic Engineering Package for setting up of Isomerisation Unit. The next step will be to engage the engineering contractor for the development of Front End Engineering Design (FEED) following which the EPC phase will start. Further, the Company is also considering different options to undertake the project to produce Euro II specs High Speed Diesel and refinery upgradation through the most efficient and economical means and within the deadlines given by the Government of Pakistan.

The Company continues to strive towards operational excellence through its commitment to produce quality products, protect the environment and ensure health and safety of its employees, customers and contractors. Health, Safety, Environment and Quality standards are continuously reviewed and strengthened by identification and mitigation of assessed risks. The Refinery remained compliant with all applicable HSEQ standards during the quarter.

The Board of Directors expresses their gratitude and appreciation to all our shareholders, customers, suppliers, employees and concerned Government ministries for their continuous support.

On behalf of the Board of Directors



Farooq Rahmatullah
Chairman

Karachi: October 23, 2012

Condensed Interim Balance Sheet

as at September 30, 2012

	Note	Unaudited September 30, 2012	Audited June 30, 2012
(Rupees in thousand)			
ASSETS			
Non-current assets			
Fixed assets	2	4,567,747	4,461,581
Investment in associate		80,752	77,834
Long-term loans and advances		5,631	6,046
Long-term deposits		15,062	15,062
		<u>4,669,192</u>	<u>4,560,523</u>
Current assets			
Stores, spares and chemicals		275,623	257,868
Stock-in-trade		12,433,831	7,828,060
Trade debts		8,378,464	20,714,181
Loans and advances		48,113	32,897
Trade deposits and short-term prepayments		54,951	51,963
Other receivables		15,666	428,554
Taxation - payments less provision		2,185	30,491
Cash and bank balances		182,586	306,661
		<u>21,391,419</u>	<u>29,650,675</u>
		<u>26,060,611</u>	<u>34,211,198</u>
EQUITY			
Share capital		350,000	350,000
Reserves		1,947	1,947
Accumulated loss	1.5	(1,818,229)	(2,585,357)
Fair value reserve		2,164	1,265
		<u>(1,464,118)</u>	<u>(2,232,145)</u>
SURPLUS ON REVALUATION OF FIXED ASSETS			
	2.1	3,197,928	3,143,928
LIABILITIES			
Non-current liabilities			
Deferred taxation		20,971	20,205
Retirement benefit obligations		8,235	15,839
		<u>29,206</u>	<u>36,044</u>
Current liabilities			
Trade and other payables		22,449,847	32,129,273
Short-term borrowings		773,385	-
Running finance under mark-up arrangements		199,976	453,019
Accrued mark-up		16,592	19,922
Payable to government - sales tax		857,795	661,157
		<u>24,297,595</u>	<u>33,263,371</u>
		<u>24,326,801</u>	<u>33,299,415</u>
Contingencies and commitments	3		
		<u>26,060,611</u>	<u>34,211,198</u>

The annexed notes 1 - 7 form an integral part of this condensed interim financial information.



Farooq Rahmatullah
Chairman



Aftab Husain
Chief Executive

Condensed Interim Profit and Loss Account

for the quarter ended September 30, 2012 (Unaudited)

	September 30, 2012	September 30, 2011
	(Rupees in thousand)	
Sales	38,201,841	34,095,891
Less: Sales tax, excise duty and development levy	(6,545,495)	(4,951,324)
	31,656,346	29,144,567
Cost of sales	(30,339,183)	(28,577,397)
Gross profit	1,317,163	567,170
Distribution cost	(40,599)	(39,137)
Administrative expenses	(49,787)	(44,821)
Other operating expenses	(71,328)	(14,622)
Other operating income	24,290	17,124
Operating profit	1,179,739	485,714
Finance cost	(237,390)	(292,333)
Share of income of associate	1,699	3,911
Profit before taxation	944,048	197,292
Taxation - current	(176,474)	(164,410)
- deferred	(446)	(8,474)
	(176,920)	(172,884)
Profit after taxation	767,128	24,408
Other comprehensive income		
Change in fair value of available for sale investments of associate	1,219	1,514
Deferred tax relating to fair value change of available for sale investments of associate	(320)	(530)
	899	984
Total comprehensive income	768,027	25,392
Earnings per share	Rs 21.92	Rs 0.70

The annexed notes 1 - 7 form an integral part of this condensed interim financial information.



Farooq Rahmatullah
Chairman



Aftab Husain
Chief Executive

Condensed Interim Cash Flow Statement

for the quarter ended September 30, 2012 (Unaudited)

	Note	September 30, 2012	September 30, 2011
		(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash used in operations	4	(298,808)	(4,720,201)
Mark-up paid		(90,365)	(31,623)
Taxes paid		(148,168)	(150,072)
Payment for defined benefit plans		(19,010)	(24,936)
Decrease in long-term loans and advances		415	715
Net cash used in operating activities		(555,936)	(4,926,117)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(101,136)	(81,932)
Profit received on deposits		12,662	2,204
Dividend received		-	2,552
Net cash used in investing activities		(88,474)	(77,176)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		(7)	(1)
Net decrease in cash and cash equivalents		(644,417)	(5,003,294)
Cash and cash equivalents at the beginning of the period		(146,358)	(1,697,964)
Cash and cash equivalents at the end of the period	5	(790,775)	(6,701,258)

The annexed notes 1 - 7 form an integral part of this condensed interim financial information.

Condensed Interim Statement of Changes in Equity

for the quarter ended September 30, 2012 (Unaudited)

	SHARE CAPITAL	CAPITAL Exchange equalisation reserve	R E S E R V E S		SPECIAL RESERVE (note 1.3)	FAIR VALUE RESERVE	TOTAL
			REVENUE General reserve	Accumulated loss			
← (Rupees in thousand) →							
Balance as at July 1, 2011	350,000	897	1,050	(917,140)	-	(1,818)	(567,011)
Profit for the quarter ended September 30, 2011	-	-	-	24,408	-	-	24,408
Other comprehensive income	-	-	-	-	-	984	984
Total recognised profit for the quarter ended September 30, 2011	-	-	-	24,408	-	984	25,392
Balance as at September 30, 2011	<u>350,000</u>	<u>897</u>	<u>1,050</u>	<u>(892,732)</u>	<u>-</u>	<u>(834)</u>	<u>(541,619)</u>
Balance as at July 1, 2012	350,000	897	1,050	(2,585,357)	-	1,265	(2,232,145)
Profit for the quarter ended September 30, 2012	-	-	-	767,128	-	-	767,128
Other comprehensive income	-	-	-	-	-	899	899
Total recognised profit for the quarter ended September 30, 2012	-	-	-	767,128	-	899	768,027
Balance as at September 30, 2012	<u>350,000</u>	<u>897</u>	<u>1,050</u>	<u>(1,818,229)</u>	<u>-</u>	<u>2,164</u>	<u>(1,464,118)</u>

The annexed notes 1 - 7 form an integral part of this condensed interim financial information.


Farooq Rahmatullah
Chairman


Aftab Husain
Chief Executive

Notes to and Forming Part of the Condensed Interim Financial Information

for the quarter ended September 30, 2012 (Unaudited)

1. BASIS OF PREPARATION

- 1.1** This condensed interim financial information has been prepared in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting and is 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 this condensed interim financial information are the same as those applied in the preparation of the annual financial statements of the Company for the year ended June 30, 2012.
- 1.3** Under directive from the Ministry of Petroleum & Natural Resources' (the Ministry), any profit after taxation above 50% of the paid-up capital as 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 refineries, and is not available for distribution to shareholders. The formula under which deemed duty is built into the import parity based prices of some of the products, was introduced in order to enable certain refineries, including the Company, to operate on a self financing basis.

The Ministry through its notification dated October 14, 2010 has directed refineries not to adjust the losses against Special Reserve. However, Company's legal counsel has advised that the notification is not applicable as the matter is subjudice before the Supreme Court of Pakistan.

- 1.4** Sales of regulated products are based on prices notified by OGRA which are subject to policy clarification from the Federal Government. Sales of certain de-regulated products (MS, HOBC, LDO and Aviation Fuels) are based on prices set under notification No. PL-3(434)/2011 Vol-XII dated May 31, 2011 from Ministry of Petroleum and Natural Resources.
- 1.5** As at September 30, 2012 the Company has accumulated loss of Rs 1.82 billion (June 30, 2012: Rs 2.59 billion) resulting in net negative equity of Rs 1.46 billion (June 30, 2012: Rs 2.23 billion) and its current liabilities exceed its current assets by Rs 2.90 billion (June 30, 2012: Rs 3.61 billion). These conditions indicate the existence of material uncertainty that may cast a doubt on the Company's ability to continue as a going concern and realise its assets and discharge its liabilities in the normal course of business. The Company expects that the recent changes in pricing mechanism will continue to have a favourable impact on the Company's profitability. Further, the Company also has plans to set up an Isomerisation Unit to convert Naphtha into Motor Gasoline as per the directives of the Government of Pakistan. Motor Gasoline is a better margin product than Naphtha and will thereby increase the Refinery's future profitability. Based on the above facts and projected profitability and cashflows, the Company expects to realise its assets and discharge its liabilities in the normal course of business. Accordingly, this condensed interim financial information is prepared on a going concern basis.

2. FIXED ASSETS

Following are additions to fixed assets during the period:

	September 30, 2012	September 30, 2011
	(Rupees in thousand)	
Revaluation of freehold land - Note 2.1	54,000	-
Buildings	-	674
Processing plant, tank farm and power generation	-	13,925
Equipment including furniture and fixtures	100	10,533
Capital work in progress	101,036	56,800
	<u>155,136</u>	<u>81,932</u>

There were no disposal of fixed assets made during the period.

- 2.1** During the quarter ended September 30, 2012, the freehold land where the Refinery is situated was revalued resulting in net additional surplus of Rs 54 million. The revaluation was carried out by an independent valuer on July 10, 2012 on the basis of market rates of similar sized land in near vicinity, keeping in view that the land is freehold to be used for oil refinery by the Company. Had there been no revaluation, the net book value of land would have amounted to Rs 2.07 million.

Notes to and Forming Part of the Condensed Interim Financial Information

for the quarter ended September 30, 2012 (Unaudited)

3. CONTINGENCIES AND COMMITMENTS

3.1 Contingencies

3.1.1 Claims against the Company not acknowledged as debt amount to Rs 3.07 billion (June 30, 2012: Rs 3.02 billion). These include Rs 2.78 billion (June 30, 2012: Rs 2.71 billion) on account of late payment surcharge on purchase of crude oil.

3.1.2 The Company has raised claims aggregating Rs 6.83 billion (June 30, 2012: Rs 6.43 billion) on certain Oil Marketing Companies (OMCs) under the respective sale and purchase of product agreements in respect of interest on late payments from them against trade receivables. These claims, however, have not been recognised in this condensed interim financial information as these have not been acknowledged by the OMCs.

3.1.3 Bank guarantees of Rs 193 million (June 30, 2012: Rs 193 million) were issued in favour of third parties.

3.2 Commitments

3.2.1 Commitments outstanding for capital expenditure as at September 30, 2012 amounted to Rs 648.23 million (June 30, 2012: Rs 501.12 million).

3.2.2 Outstanding letters of credit as at September 30, 2012 amounted to Rs 6.29 billion (June 30, 2012: Rs 13.13 billion).

3.2.3 Aggregate commitments in respect of ijarah arrangements of motor vehicles and equipment amounted to Rs 34.78 million (June 30, 2012: Rs 37.82 million).

September 30, 2012	September 30, 2011
(Rupees in thousand)	

4. CASH USED IN OPERATIONS

Profit before taxation	944,048	197,292
Adjustments for non-cash charges and other items		
Depreciation	48,970	46,157
Share of income of associate	(1,699)	(3,911)
Mark-up expense	87,035	147,690
Profit on deposits	(12,662)	(1,304)
Provision for defined benefit retirement plans	11,406	12,909
	133,050	201,541
Working capital changes - note 4.1	(1,375,906)	(5,119,034)
Cash used in operations	(298,808)	(4,720,201)

4.1 Working capital changes

Decrease / (Increase) in current assets		
Stores, spares and chemicals	(17,755)	7,083
Stock-in-trade	(4,605,771)	(3,389,842)
Trade debts	12,335,717	(4,428,207)
Loans and advances	(15,216)	(6,128)
Trade deposits and short-term prepayments	(2,988)	(4,267)
Other receivables	412,888	1,132,031
	8,106,875	(6,689,330)
(Decrease) / Increase in current liabilities		
Trade and other payables	(9,679,419)	1,749,580
Payable to government - sales tax	196,638	(179,284)
	(9,482,781)	1,570,296
	(1,375,906)	(5,119,034)

Notes to and Forming Part of the Condensed Interim Financial Information

for the quarter ended September 30, 2012 (Unaudited)

September 30, 2012	September 30, 2011
(Rupees in thousand)	

5. CASH AND CASH EQUIVALENTS

Cash and bank balances	182,586	4,670
Short term loan	(773,385)	(855,040)
Running finance under mark-up arrangements	(199,976)	(5,850,888)
	<u>(790,775)</u>	<u>(6,701,258)</u>

6. TRANSACTIONS WITH RELATED PARTIES

Significant related party transactions are:

Relationship	Nature of transaction		
Associated companies	Sale of goods - net	24,775,274	23,910,165
	Services rendered	4,775	8,284
	Purchase of goods	8,062,699	7,099,250
	Mark-up paid	561	-
	Dividend received	-	2,551
	Bank charges	13	-
Key management personnel compensation	Salaries and other short term employee benefits	15,136	24,582
	Post-employment benefits	2,057	1,903
Contributions to retirement plans		27,300	29,744

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.

Key management personnel comprises of members of the Refinery Leadership Team.

7. DATE OF AUTHORISATION

This condensed interim financial information was authorised for issue on October 23, 2012 by the Board of Directors of the Company.





PAKISTAN REFINERY LIMITED

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