

PAKISTAN REFINERY LIMITED
3rd Quarter Report
March 31, 2011



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.

Faysal Bank Limited

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

United Bank Limited

Registered Office

P.O. Box 4612

Korangi Creek Road, Karachi-75190

Tel: (92-21) 35122131-40

Fax: (92-21) 35060145, 35091780

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

Email: info@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. 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

The Board of Directors of Pakistan Refinery Limited is pleased to present the un-audited condensed interim financial information for the nine months period ended March 31, 2011.

During the period under review, your Refinery posted profit after tax of Rs 47 million as compared to the loss of Rs 1.81 billion for the same period last year. During the third quarter, the Company incurred a loss of Rs 834 million as compared to loss of Rs 105 million last year. The loss after tax of Rs 834 million for the quarter under review includes a onetime charge of Rs 1.077 billion relating to the capital work in progress (CWIP). The Company had earlier recognised CWIP amounting to Rs 1.392 billion as at June 30, 2010 relating to cost associated with the refinery upgradation project out of which it has identified costs amounting to Rs 315 million that can be used in other cost effective project options.

The Company is continuing to strive for the completion of refinery upgrade project through alternate cost effective options including purchasing and installing pre-owned units for compliance with Government's directive to produce Euro 2 specs HSD and to improve profitability.

The ever volatile petroleum prices continued to show increasing trend and crude prices breached and remained above the psychological barrier of USD 100/bbl throughout the third quarter. Arab Light and Murban crude, your Refinery's main intake of crude, marked high of USD 110.15/bbl and USD 112.55/bbl respectively during the quarter.

During the current nine months period the Refinery operated at a capacity of 4,865 MT/Day as compared to 4,495 MT/Day for the corresponding period. The Refinery is undertaking a planned shutdown of 3 weeks during the month of May 2011.

HSEQ and Business Controls remained one of the primary areas of management focus and PRL continues to strengthen processes in these areas. 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: April 20, 2011

Condensed Interim Balance Sheet

as at March 31, 2011

	Note	Unaudited March 31, 2011	Audited June 30, 2010
(Rupees in thousand)			
ASSETS			
Non-current assets			
Property, plant and equipment	2	4,526,241	5,598,868
Investment in associate		71,462	66,663
Long-term loans and advances		6,310	8,742
Long-term deposits		13,800	13,673
Deferred taxation		19,077	8,320
		<u>4,636,890</u>	<u>5,696,266</u>
Current assets			
Stores, spares and chemicals		257,780	226,353
Stock-in-trade		12,872,458	6,810,970
Trade debts		17,432,695	16,120,819
Loans and advances		83,403	23,478
Trade deposits and short-term prepayments		21,988	46,776
Other receivables		5,467	1,387,088
Taxation - payments less provision		44,386	113,411
Tax refunds due from government - Sales tax		856,944	856,944
Cash and bank balances		18,705	9,590
		<u>31,593,826</u>	<u>25,595,429</u>
Total assets		<u>36,230,716</u>	<u>31,291,695</u>
EQUITY			
Share capital		350,000	350,000
Reserves		1,947	1,947
Accumulated loss	1.3	(1,094,055)	(1,141,096)
Fair value reserve		(2,461)	(5,966)
		<u>(744,569)</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		8,142	1,138
Current liabilities			
Trade and other payables		28,222,107	25,288,917
Short-term borrowing		2,997,708	2,992,036
Running finance under mark-up arrangements		1,131,167	179,674
Accrued interest / mark-up		18,339	49,138
Tax due to government - Sales tax		1,453,894	431,979
		<u>33,823,215</u>	<u>28,941,744</u>
Total liabilities		<u>33,831,357</u>	<u>28,942,882</u>
Contingencies and commitments	3		
Total equity and liabilities		<u>36,230,716</u>	<u>31,291,695</u>

The annexed notes 1 to 8 form an integral part of this condensed interim financial information.



Farooq Rahmatullah
Chairman



Ijaz Ali Khan
Chief Executive

Condensed Interim Profit and Loss Account

for the nine months period ended March 31, 2011 (Unaudited)

	For the quarter		For the nine months period	
	January - March 2011	January - March 2010	July 2010 March 2011	July 2009 March 2010
	(Rupees in thousand)			
Sales	29,786,538	21,926,444	86,229,387	70,244,263
Less: Sales tax, excise duty and development levy / surcharge	(4,338,253)	(4,185,108)	(15,189,141)	(13,557,990)
	25,448,285	17,741,336	71,040,246	56,686,273
Cost of sales	(25,109,200)	(17,706,732)	(69,556,931)	(56,821,419)
Gross profit / (loss)	339,085	34,604	1,483,315	(135,146)
Distribution cost	(33,966)	(26,194)	(95,853)	(90,254)
Administrative expenses	(40,226)	(36,363)	(116,797)	(104,535)
Other operating expenses	4 (1,026,784)	(200)	(1,105,441)	(200)
Other income	104,355	25,834	326,207	116,819
Operating (loss) / profit	(657,536)	(2,319)	491,431	(213,316)
Share of income of associate	2,531	2,544	7,060	9,605
Finance costs	(35,919)	(93,911)	(139,419)	(945,416)
(Loss) / profit before taxation	(690,924)	(93,686)	359,072	(1,149,127)
Taxation - current	(148,122)	(16,156)	(397,903)	(63,393)
- prior years	-	-	73,226	-
- deferred	4,966	4,514	12,646	(592,644)
	(143,156)	(11,642)	(312,031)	(656,037)
(Loss) / profit after taxation	(834,080)	(105,328)	47,041	(1,805,164)
Other comprehensive income				
Change in fair value reserve on account of available for sale investments of associate	1,751	849	5,393	3,134
Deferred tax relating to component of other comprehensive income	(613) 1,138	(297) 552	(1,888) 3,505	(1,097) 2,037
Total comprehensive (loss) / income	(832,942)	(104,776)	50,546	(1,803,127)
(Loss) / earnings per share	Rs (23.83)	Rs (3.01)	Rs 1.34	Rs (51.58)

The annexed notes 1 to 8 form an integral part of this condensed interim financial information.



Farooq Rahmatullah
Chairman



Ijaz Ali Khan
Chief Executive

Condensed Interim Cash Flow Statement

for the nine months period ended March 31, 2011 (Unaudited)

	Note	March 31, 2011	March 31, 2010
(Rupees in thousand)			
CASH FLOW FROM OPERATING ACTIVITIES			
Cash used in operations	5	(563,525)	(78,251)
Mark-up paid		(117,910)	(69,582)
Taxes paid		(255,651)	(414,602)
Contribution to defined benefit plans		(7,652)	(37,350)
Decrease in long-term loans and advances		2,432	3,646
Increase in long-term deposits		(127)	(44)
Net cash used in operating activities		(942,433)	(596,183)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(126,377)	(175,086)
Proceeds from disposal of property, plant and equipment		1,460	283
Profit received on deposits		117,371	106,367
Dividend received		7,654	6,378
Net cash generated from / (used in) investing activities		108	(62,058)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		(53)	(37)
Short-term borrowing		-	(3,449,941)
Net cash used in financing activities		(53)	(3,449,978)
Net decrease in cash and cash equivalents		(942,378)	(4,108,219)
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	(1,112,462)	(198,386)

The annexed notes 1 to 8 form an integral part of this condensed interim financial information.



Farooq Rahmatullah
Chairman



Ijaz Ali Khan
Chief Executive

Condensed Interim Statement of Changes in Equity

for the nine months period ended March 31, 2011 (Unaudited)

	SHARE CAPITAL	RESERVES				FAIR VALUE RESERVE	TOTAL
		CAPITAL Exchange equalisation reserve	REVENUE General reserve	Unappropri- ated profit / (accumulat- ed loss)	SPECIAL RESERVE		
(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 nine months period ended March 31, 2010	-	-	-	(1,805,164)	-	-	(1,805,164)
Other comprehensive income	-	-	-	-	-	2,037	2,037
Total recognised (loss) / income for the nine months period ended March 31, 2010	-	-	-	(1,805,164)	-	2,037	(1,803,127)
Loss for the nine months period ended March 31, 2010 transferred to Special Reserve	-	-	-	1,805,164	(1,805,164)	-	-
Balance as at March 31, 2010	350,000	897	1,050	19,698	9,257	(4,687)	376,215
Balance as at July 1, 2010	350,000	897	1,050	(1,141,096)	-	(5,966)	(795,115)
Profit for the nine months period ended March 31, 2011 - Note 1.3	-	-	-	47,041	-	-	47,041
Other comprehensive income	-	-	-	-	-	3,505	3,505
Total recognised profit for the nine months period ended March 31, 2011	-	-	-	47,041	-	3,505	50,546
Balance as at March 31, 2011	350,000	897	1,050	(1,094,055)	-	(2,461)	(744,569)

The annexed notes 1 to 8 form an integral part of this condensed interim financial information.



Farooq Rahmatullah
Chairman



Ijaz Ali Khan
Chief Executive

Notes to and Forming Part of the Condensed Interim Financial Information

for the nine months period ended March 31, 2011 (Unaudited)

1. BASIS OF PREPARATION

- 1.1 This condensed interim financial information have 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, 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, profit after taxation for a year 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. Transfer to Special Reserves is considered on annual basis.

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

- 1.4 As at March 31, 2011 the company has accumulated losses of Rs 1.094 billion and its current liabilities exceed its current assets by Rs 2.23 billion. During the nine months period ended March 31, 2011 the company has earned profit after taxation of Rs 47 million. Based on estimated future cash flows, the management believes that the current situation will improve resulting in a positive impact on the profitability and liquidity of the company. Further, discussions are underway with the Government of Pakistan for revision of the petroleum pricing mechanism favouring the industry which will further add to the company's profitability. Therefore, the company expects to be able 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. PROPERTY, PLANT AND EQUIPMENT

- 2.1 Included in capital work in progress is cost amounting to Rs 315 million (June 30, 2010: Rs 1,392.6 million) relating to the refinery upgradation project.
- 2.2 Following are the additions to property, plant and equipment during the period:

	March 31, 2011	March 31, 2010
	(Rupees in thousand)	
Buildings	1,171	1,391
Processing plant, power generation and distribution	25,965	15,537
Equipment including furniture and fixtures	3,336	8,383
Vehicles and other automotive equipment	5,138	370
Capital work in progress	90,767	149,405
	<u>126,377</u>	<u>175,086</u>

There were no major disposals during the period.

Notes to and Forming Part of the Condensed Interim Financial Information

for the nine months period ended March 31, 2011 (Unaudited)

3. CONTINGENCIES AND COMMITMENTS

3.1 Contingencies

3.1.1 Claims against the company not acknowledged as debt, including late payment surcharges, amount to Rs 1.56 billion (June 30, 2010: Rs 775.30 million).

3.1.2 The company has raised claims aggregating Rs 4.63 billion (June 30, 2010: Rs 3.38 billion) 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 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, 2010: Rs 193 million) were issued in favour of third parties.

3.2 Commitments

3.2.1 Commitments outstanding for capital expenditure as at March 31, 2011 amounted to Rs 83.88 million (June 30, 2010: Rs 32.44 million).

3.2.2 Outstanding letters of credit as at March 31, 2011 amounted to Rs 115.77 million (June 30, 2010: Rs 40.03 million).

3.2.3 Aggregate commitments in respect of ijarah arrangements of motor vehicles and equipments amounted to Rs 29.49 million (June 30, 2010: Rs 33.59 million).

4. OTHER OPERATING EXPENSES

This amount includes write off of capital work in progress amount to Rs 1,077.6 million (March 31, 2010: Rs Nil) that was earlier recognised by company relating to cost associated with the refinery upgradation project.

March 31, 2011 March 31, 2010

(Rupees in thousand)

5. CASH USED IN OPERATIONS

Profit / (loss) before taxation	359,072	(1,149,127)
Adjustments for non-cash charges and other items		
Depreciation	121,047	121,510
Write off of capital work in progress	1,077,617	-
Share of income of associate	(7,060)	(9,605)
Gain on disposal of property, plant and equipment	(1,120)	-
Exchange (gain) / loss on short-term borrowing	(12,619)	156,364
Mark-up expense	105,402	231,793
Return on deposit accounts	(117,371)	(99,193)
Provision for defined benefit plans	14,656	11,177
Working capital changes - note 5.1	(2,103,149)	658,830
Cash used in operations	<u>(563,525)</u>	<u>(78,251)</u>

Notes to and Forming Part of the Condensed Interim Financial Information

for the nine months period ended March 31, 2011 (Unaudited)

March 31, 2011 March 31, 2010

(Rupees in thousand)

5.1 Working capital changes

(Increase) / decrease in current assets		
Stores, spares and chemicals	(31,427)	7,198
Stock-in-trade	(6,061,488)	1,215,503
Trade debts	(1,311,876)	(1,774,351)
Loans and advances	(59,925)	(668)
Trade deposits and short-term prepayments	24,788	(16,858)
Other receivables	1,381,621	938,769
	<u>(6,058,307)</u>	<u>369,593</u>
(Decrease) / increase in current liabilities		
Trade and other payables	2,933,243	148,833
Tax due to government - Sales tax	1,021,915	140,404
	<u>3,955,158</u>	<u>289,237</u>
	<u>(2,103,149)</u>	<u>658,830</u>

6. CASH AND CASH EQUIVALENTS

Cash and bank balances	18,705	66,290
Running finance under mark-up arrangements	(1,131,167)	(264,676)
	<u>(1,112,462)</u>	<u>(198,386)</u>

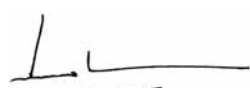
7. TRANSACTIONS WITH RELATED PARTIES

Relationship	Nature of transaction	Transactions during the period	
Significant related party transactions are:			
Associated companies	Sale of goods	38,451,836	45,482,928
	Purchase of goods	15,435,370	5,684,872
	Sale of services	24,758	1,543
	Dividend received	7,654	6,378
	Bank charges	7	-
Entity where a Director of the company is a key management personnel	Sale of goods	17,776,351	1,305,106
	Interest received	4,401	-
	Sale of services	3,451	-
Key management compensation	Salaries and other short-term employee benefits	36,341	35,745
	Post-employment benefits	5,002	3,820

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.

8. DATE OF AUTHORISATION

This condensed interim financial information was authorised for issue on April 20, 2011 by the Board of Directors of the company.



Farooq Rahmatullah
Chairman



Ijaz Ali Khan
Chief Executive





PAKISTAN REFINERY LIMITED

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