Annual Report 07

PRL

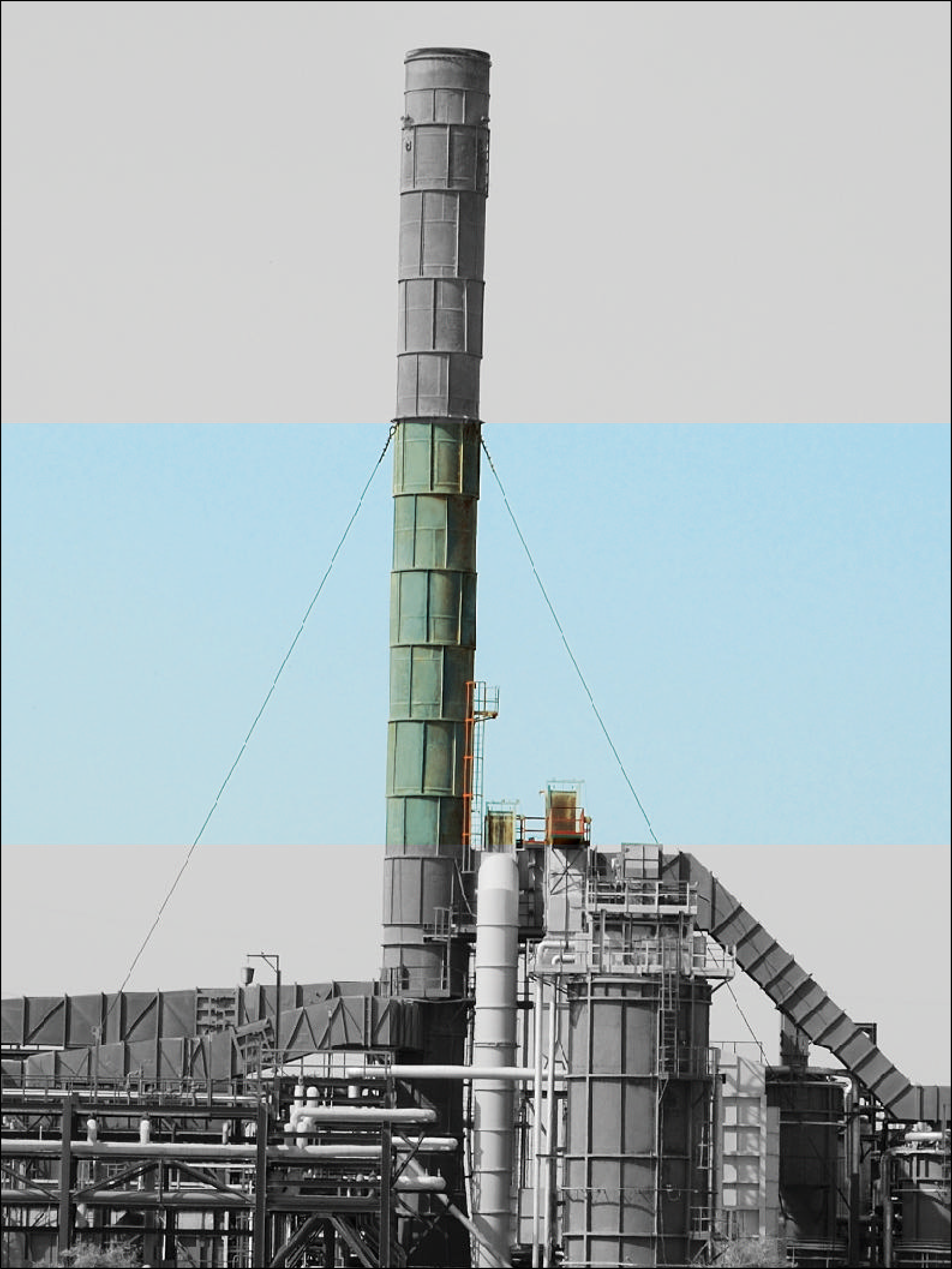
PAKISTAN REFINERY LIMITED

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.



Contents

Core Values

- Responsibility
- Health, Safety and Environment
- Ethics and Integrity
- Operational Excellence
- Corporate Social Responsibility

Responsibility

Pakistan Refinery Limited is cognizant of its responsibility to......

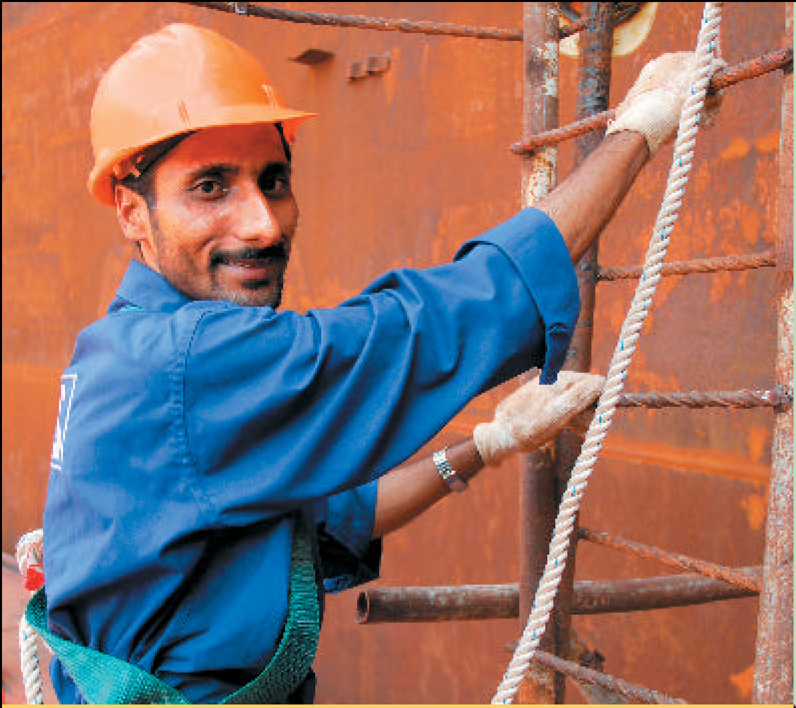
- **...shareholders;** To protect their investment and provide an attractive return.

- **...customers;** To win and retain customers by developing and providing products which offer value in terms of price, quality, safety and environmental impact, the sale of which is supported by the requisite technological, environmental and commercial expertise.

- **...employees;** To respect the rights of its employees and provide them with good and safe conditions of work, good competitive terms and conditions of service and to promote the development and best use of human talent and equal opportunity employment, and to encourage the involvement of employees in the planning and direction of its work, and in the application of these principles within the Company.

- **...business partners;** To seek mutually beneficial relationships with contractors, suppliers and joint-venture partners and to promote the application of these principles in so doing. The ability to promote these principles effectively will be an important factor in the decision to enter into or remain in such relationships.

- **...society;** To conduct business as a responsible corporate member of society, to observe the laws of Pakistan, to express support for fundamental human rights in line with the legitimate role of business, to not indulge in antisocial and unfair trade practices such as adulteration, hoarding and black marketing and to actively lead in contributing to community development activities.

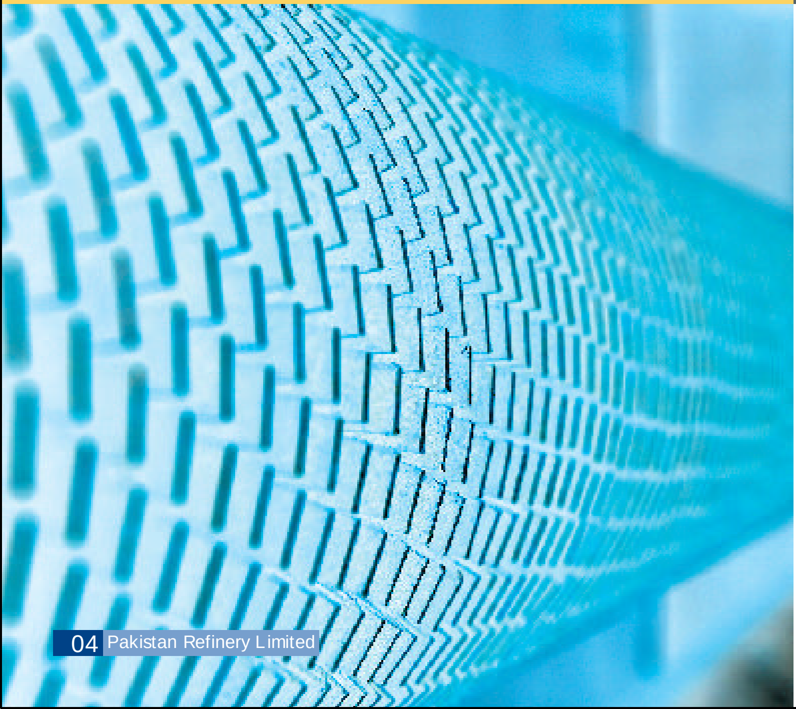


Health, Safety and Environment

Pakistan Refinery Limited has a systematic approach to health, safety and environmental management in order to achieve continuous performance improvement. To this end, the Company manages these matters as any other critical business activity, sets targets for improvement, and measures, appraises and reports performance.

Ethics and Integrity

Pakistan Refinery Limited aspires to espouse key values i.e. honesty, integrity and fairness in all aspects of its business and expects the same in its relationships with all those with whom it does business. The Company recognizes that given the importance of the activities in which it is engaged and its impact on national economies and individuals, open communication, both internal and external, is essential. Pakistan Refinery Limited supports free enterprise and seeks to compete fairly and ethically and within the framework of applicable competition laws. The Company is committed to providing equal opportunity and fair treatment to all individuals on the basis of merit along with a healthy, harassment free work environment for all employees.



Operational Excellence

Pakistan Refinery Limited is performance-driven with 273 employees committed to providing innovative and efficient solutions to achieve its goals. The Company serves diverse industries, providing quality distilled petroleum products that help move country commerce forward hence cost efficiency, operational excellence and innovativeness are paramount objectives. Pakistan Refinery Limited strives for excellence through sincere leadership and dynamic support staff along with using the right Management System Processes.

PRL & United Nations GLOBAL COMPACT PRINCIPLES

Human Rights

Principle1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: Make sure that they are not complicit in human rights abuses.

Labor Standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining:

Principle 4: The elimination of all form of forced and compulsory labor;

Principle 5: The effective abolition of child labor; and

Principle 6: The elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges:

Principle 8: Undertake initiatives to promote greater environmental responsibility; and

Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

Corporate Social Responsibility

Pakistan Refinery Limited takes a constructive interest in societal matters and it's Corporate Social Responsibility Program supports the organization's overall strategy and core values. The Company remains committed to safeguarding the health and safety of its employees and neighbours, protecting the environment and providing sustainable benefits to the communities where it operates. Pakistan Refinery Limited assesses the implications and effects of its decisions and policies on society and ensures that societal interest is not affected by Company actions.

Pakistan Refinery was incorporated in Pakistan as a public limited company in May 1960 and is quoted on the Karachi and Lahore Stock Exchanges. The Refinery is situated on the coastal belt of Karachi, Pakistan. PRL is a hydro skimming refinery designed to process various imported and local crude oil to meet the strategic and domestic fuel requirements of the country. The Refinery has a capacity of processing 47,000 barrels per day of crude oil into a variety of distilled petroleum products.

Company Information

Company Secretary
Hafsa Shamsie

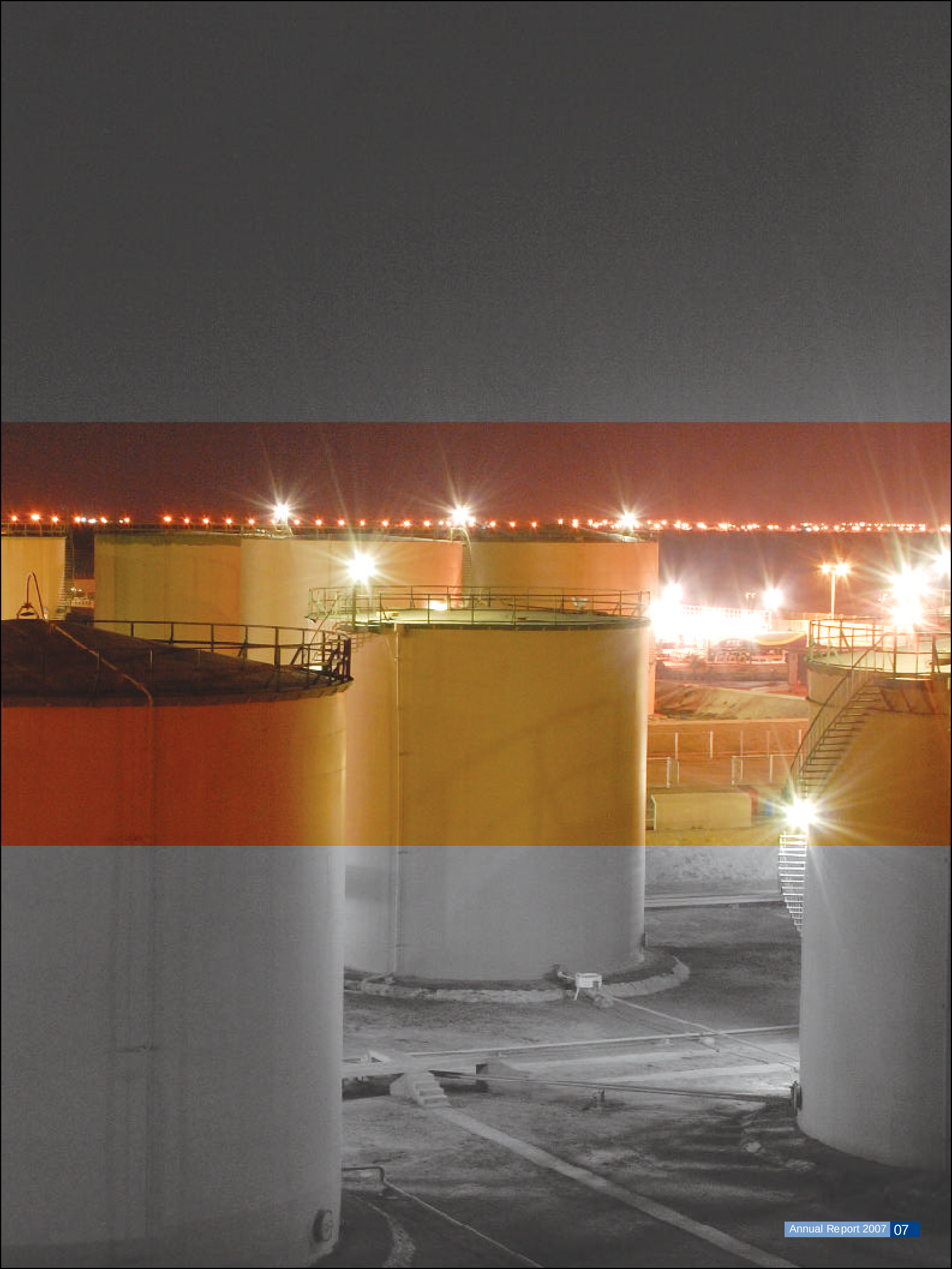
Auditor
A. F. Ferguson & Co.

Legal Advisor
Orr Dignam & Co.

Registrar & Share Registration Office
Ferguson Associates (Pvt.) Ltd.
P. O. Box 4716,
State Life Building 2-A, 4th Floor
I. I. Chundrigar Road, Karachi-74000.

Bankers
ABN AMRO Bank N.V., 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 Limited, Soneri Bank Limited, Standard Chartered Bank (Pakistan) Limited, The Hongkong and Shanghai Banking Corporation Limited, Union Bank Limited, United Bank Limited.

Registered Office
P. O. Box 4612 Korangi Creek Road, Karachi-74000.
Tel Off: (92-21) 5091771-79, 5091811-16
Fax: (92-21) 5060145, 5091780
http://www.prl.com.pk
info@prl.com.pk



Board of Directors

Mr. Farooq Rahmatullah

Mr. Rahmatullah is a law graduate from University of Peshawar. He joined Burmah Shell Oil and Distribution Company in 1968 and worked in different capacities i.e. Chemicals, Human Resources, Marketing, Supply, Distribution, Retail, etc. Transferred to Shell International London in 1994, Mr. Farooq was appointed as a Manager in the Business Strategy Division and was involved in various portfolios covering over 140 countries. On his return in 1998, Mr. Farooq was appointed as Head of Operations of Shell Pakistan and was looking after Middle East and South Asia (MESA). In 2001 Mr. Farooq was appointed as Chairman of Shell Companies in Pakistan and Managing Director of Shell Pakistan Limited. He has been a founding member of PAPCO (Pak Arab Pipeline Company). He retired from Shell on 30th June, 2006.

Mr. Farooq has been Chairman of Pakistan Refinery Limited (PRL) since June, 2005. In addition to this, he is currently the Director General of Civil Aviation Authority of Pakistan. He is also the Chairman of LEADS Pakistan, founding member of Pakistan Human Development Fund, Director on the Board of Society for Sustainable Development, member of Resource Development Committee of Aga Khan University Hospital, member of National Commission of Government Reforms, member of Pakistan Stone Development Company, and member of Board of Trustees of Legends Trust formed by the Government of Sindh.

Mr. Jalees A. Siddiqi

Mr. Siddiqi has vast multifunctional experience. Mr. Siddiqi is a broad based professional and as an Executive Director, Human Resource and Services was looking after the vital area of human resources along with services function. He assumed his responsibilities as Managing Director & CEO, Pakistan State Oil, on April 20, 2005. Mr. Siddiqi also has international working experience. Besides Pakistan he has worked in United States, Canada and also has been a member of various task forces in the Asia-Pacific region. He has attended several senior management internal programs on leadership, human resource and management of change, including those of the London Business School, University of Michigan, Darden Business School, and University of Virginia, USA.

Mr. Siddiqi is also on the board of Asia Petroleum Limited, Pak Arab Pipeline Company Limited, Pak Grease Manufacturing Company Limited, Petroleum Institute of Pakistan as well as Member, Business Role Focus Area Core Team of the world Business Council of Sustainable Development, Oil Companies Advisory Committee, Pakistan Society of Human Resource Management, Federation of Pakistan Chambers of Commerce & Industry Quality Awards Committee, Pakistan Advertisers Society and Board of Governors, Lahore University of Management Sciences. He is also on the Advisory Board for the Petroleum Engineering wing of the NED University, Karachi.

Mr. Zaiviji Ismail Bin Abdullah

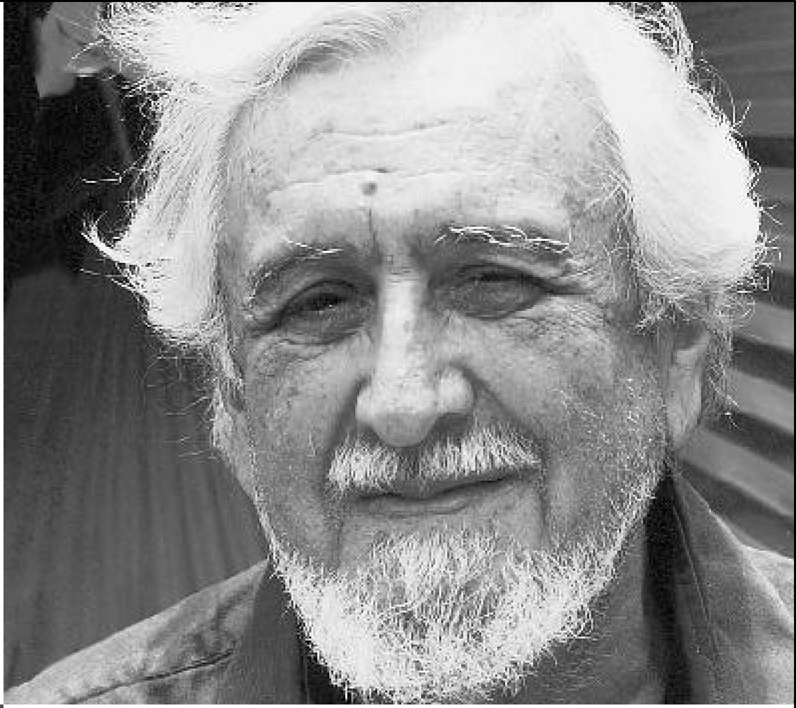
Mr. Ismail, an MBA from Cranfield UK, joined Shell Malaysia Trading in 1990 as Project Manager, Marketing Systems. He served in various positions in Marketing, Operations and Retail with Shell Malaysia Trading. He has also served as GM Retail Sales and Operations in Shell Oman from 1999 to 2002. He moved to Shell Pakistan Limited in 2003 as GM Retail Sales and Operations and is currently serving as Chairman of Shell Companies in Pakistan and Managing Director of Shell Pakistan Limited since September 2006.

Mr. Ijaz Ali Khan

Mr. Khan is an Engineer by qualification and has 37 years experience with International Oil Companies. He initially joined Burmah Shell Oil Company, Pakistan in 1967 but left after a few years to work for Aramco, Saudi Arabia. During his tenure in Aramco for over two decades, he worked in various professional and managerial capacities in Engineering, Planning and Operations. He returned in 1997 to re-join Shell in Pakistan. He is currently Director Operations in Shell Pakistan and is also a Director on the Board of Pak Arab Pipeline Company Limited.

Mr. Ardeshir Cowasjee

Mr. Cowasjee has been on the Board of Directors since 1979. Besides being on the Board of Pakistan Refinery Limited, Mr. Cowasjee is a landlord, ship-owner, merchant, senior partner of the Cowasjee Family firms, Chairman of Crescent Star Insurance Co. Ltd., and on the Board of Directors for Shahtaj Sugar Mills Ltd.

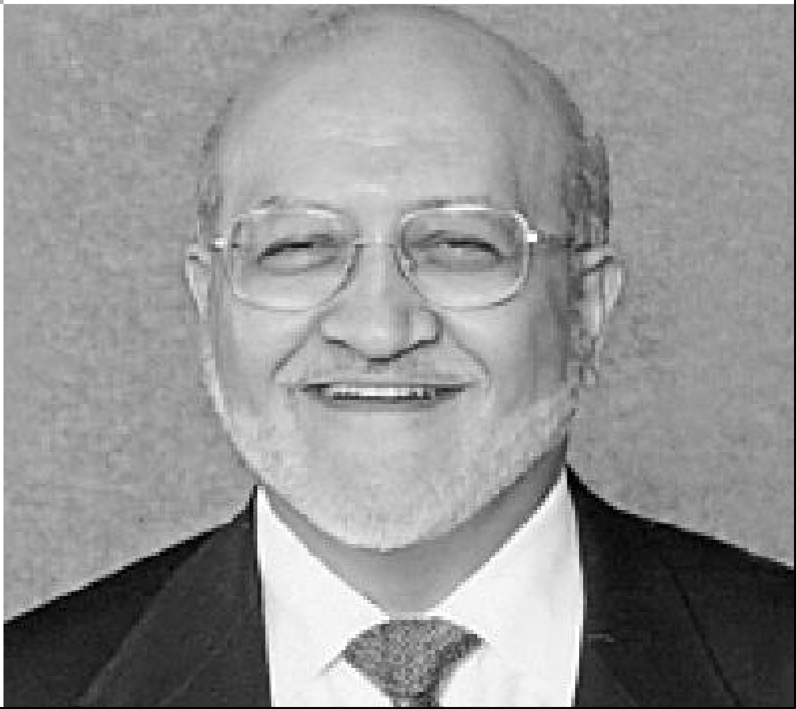


Mr. Asif S. Sindhu

Mr. Sindhu is a fellow member of the Institute of Chartered Accountants, with around 20 years of diversified financial experience. Mr. Sindhu was associated with A. F. Ferguson & Co. Chartered Accountants (Price Waterhouse Coopers) Karachi, from 1986 to 1991 as an Audit supervisor. He then joined ANZ Grindlays Bank in 1992 where he held various senior positions in Pakistan, Dubai and Melbourne, Australia. From 1997 to 2001 he held the position of CFO with ANZ Grindlays Bank (Now Standard Chartered Bank). Mr. Sindhu joined Shell Pakistan Limited in 2001 as Planning Manager and later he was appointed as Chief Financial Officer for the $480 million SPL joint venture, Pak Arab Pipeline Company Limited. He returned to SPL as Country Controller in 2005 and is currently working as Finance Director (CFO). He is responsible for the overall Finance, Accounting, Treasury and Governance & Control Activities of the Company and also has financial oversight responsibility for the other Shell businesses in Pakistan. Mr. Sindhu is also a Director on the Board of Pak Arab Pipeline Company Limited.

Mr. Hussain Dawood

Mr. Dawood is an MBA from the Kellogg School of Management, Northwestern University, USA, and a graduate in Metallurgy from Sheffield University, UK. He heads a group of diversified businesses with interests in Fertilizers, Chemicals, Energy, Chemical Terminal, Gas Distribution & Transmission, Foods, Industrial Automation, IT Solutions & Hardware, Textiles, Brokerage and Insurance. He is Chairman of Engro Chemical Pakistan Ltd., Dawood Hercules Chemicals Ltd., Central Insurance Company Ltd. and Dawood Lawrencepur Ltd. He is also a Director on the Board of Sui Northern Gas Pipelines Ltd. His Social Responsibilities include Chairmanship of the Board of Directors of Pakistan Poverty Alleviation Fund, which is one of the largest World Bank supported funds of its kind. He also serves as a Director of Pakistan Business Council, Beaconhouse National University and Institute of Strategic Studies. He is the Honorary Consul of Italy, in Lahore, and is a former Director of State Bank of Pakistan and Advisor to the Ministry of Commerce. He is the first Pakistani to become a member of the World Economic Forum. He has accompanied the President and the Prime Minister on foreign delegations.



Mr. Nadeem Jafarey

Mr. Jafarey is the Country Representative of Chevron Pakistan Ltd formerly known as Caltex Oil Pakistan Ltd. In addition, he is Director & General Manager Retail / C&I of the company. He is also member of the Africa-Pakistan Marketing Leadership Team which comprises South Africa, East & West Africa, Middle East and Pakistan. He has 23 years of diversified work experience in the petroleum sector both in refining and marketing.

Mr. Jafarey holds a Masters degree in Business Administration and a Bachelors degree in Mechanical Engineering. He is also Director on the Boards of Pak Arab Pipeline Company Ltd and Petroleum Institute of Pakistan. He is a member of the Pakistan Engineering Council and Institute of Engineers in Karachi. He has also served as a Chairman of the Oil Companies Advisory Committee in 2004 and on the executive committees of the American Business Council of Pakistan and the Overseas Investors Chamber of Commerce & Industry (OICCI).

Mr. Shahid Anwar Khan

Mr. Khan is an engineer by profession and has done his MBA (Major in Finance) from U.S.A. in 1981. He is also a Diplomat Associate of Institute of Bankers, in Pakistan. He joined National Bank of Pakistan in 1983 as Assistant Vice President. He has worked in all disciplines of the bank and has vast experience of Credit/Project Financing. He has attended a number of local and international seminars/trainings sponsored by World Bank and Asian Development Bank. He is also an alumni of International Centre of Leadership in Finance (ICLIF) Malaysia. He is presently working as a SEVP/ Group Head, Credit Management Group, National Bank of Pakistan, Head Office Karachi. Besides serving on various Management Credit Committees of the Bank, he also represents NBP as Director in various companies.

Mr. G. A. Sabri

Mr. Sabri is a Chemical Engineer by profession and has served in the Ministry of Petroleum and Natural Resources, Government of Pakistan in various capacities for almost 32 years including 27 years in the down stream sector. He has attended a number of international meetings and overseas courses. He has been on the Board of Directors of PERAC, Pakistan State Oil Co. Ltd., National Refinery Limited, PARCO, Attock Refinery Limited, Pak Iran Refinery Limited, Crescent Petroleum Limited, Marine Pollution Control Board, Pirkoh Gas Co. Ltd., Oil & Gas Development Co. Ltd, Pakistan Petroleum Limited, Mari Gas Co. Ltd, Hydrocarbon Development Institute of Pakistan, Alternate Energy Development Board. He has also been a member of various other Governmental Committees. Currently he is also on the Boards of PARCO and Total PARCO. In the academic sector he is a member of the Board of Studies in Chemical Engineering and Technology University of Punjab Lahore. He actively works in a couple of philanthropist organizations with Pakistan Kidney Institute, Islamabad in health sector and Tehzibul Akhlaq Trust, Lahore in the education sector.

Board Committees

Name of Directors	Total No. of Audit Committee Meetings	Meeting Attended
Mr. Zaiviji Ismail	4	3
Mr. Jalees A. Siddiqui	4	3
Mr. Ijaz Ali Khan*	1	1
Mr. Asif S. Sindhu	3	3

* Held during the period concerned director was on the committee

Human Resources Committee

The HR Committee comprises of three members, including the chairman, from the non-executive Directors of the Board. During the period the Committee held four meetings on a required/directed basis. 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. To this end, the Committee evaluates and recommends salary structures, variable pay, key-position recruitments, succession plans etc. to the Board of Directors for their review and approval.

Strategic Project Committee

The Strategic Project Committee comprises two members, including the chairman, from the non-executive Directors of the Board. The Committee held two meetings during the year on a required/directed basis. The Strategic Project Committee is responsible for evaluating potential project feasibilities, ranging from up gradation/enhancement to diversification projects, and recommending projects that ensure attractive return and growth prospects to the Board of Directors for their review and approval.

Audit Committee

The Audit Committee comprises 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 held four meetings during the year and held separate meetings with the Chief Financial Officer, Chief Internal Auditor and External Auditors as required under the Code of Corporate Governance. 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. The Committee supervises the Company's financial reporting process including review of interim and annual accounts prior to Board of Directors' approval and subsequent publication with focus on areas of material impact and compliance with applicable accounting standards, listing regulations and best practices as per the Code of Corporate Governance. The Committee is responsible for review of External Auditors' communications including management letters and discussion on major findings from interim and final audits and any matter that the External Auditors may wish to highlight. Additionally, the Committee has the permit to review and investigate any matter or issue as may be assigned by the Board of Directors.

Terms of Reference of the Audit Committee

The Audit Committee is responsible for the following:

Recommending to the Board of Directors the appointment of external auditors by the shareholders. The Committee shall consider any question of resignation/removal, audit fee and provision of other services by external auditor.

Determining appropriate measure to safeguard the Company's assets.

Review of preliminary announcements of results prior to publication.

Review of interim and annual accounts prior to the Board of Directors approval, focusing on:

- Major judgmental areas;
- Significant adjustments resulting from the audit;
- Going Concern assumption;
- Changes in accounting policies and practices;
- Compliance with applicable accounting standards, listing regulations, and other regulatory requirements.

Discussion on audit issues with external auditors, review of management letter and management response there-against and ensuring coordination between internal and external auditors.

Review of scope and extent of internal audit, consideration of major findings and ensuring that the Internal Audit function has adequate resources and is appropriately placed within the Company.

Consideration of major findings of internal investigations and management response thereto. Ascertaining the adequacy and effectiveness of internal control system.

Review of Company's statement of internal control prior to its endorsement by the Board of Directors.

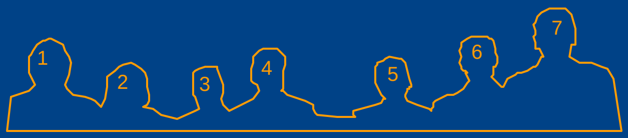
Instituting special projects, value for money studies or other investigations on any matter specified by the Board of Directors, in consultation with the Chief Executive and to consider remittance of any matter to the external auditors or to any other body.

Monitoring compliance with statutory requirements and Code of Corporate Governance and identification of significant violations thereof.

Consideration of any other issue or matter as may be assigned by the Board of Directors.

Management Committees

The Management Team is led by the Managing Director of the Company and is responsible for ensuring that the objectives and strategies of the Board are implemented whilst maintaining a culture of openness, integrity, accountability and commitment to the Company's principles.



1. Naman Shah
2. Hafsa Shamsie
3. Dr. Junaid Farouqui
4. Aftab Husain
5. Zafar Haleem
6. Khawaja Nauman
7. Akram Peracha

The **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. This helps build a climate of meritocracy and ethical conduct. The **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 the already-high 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. The **Policies & Procedures Review Advisory 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. The **Ethics Committee** is responsible for ensuring that Company 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.

On behalf of the Board of Directors, I am pleased to welcome you all to the 47th Annual General Meeting of your Company to present the annual review of its operations and audited financial results for the year ended June 30, 2007.

Chairman's Review

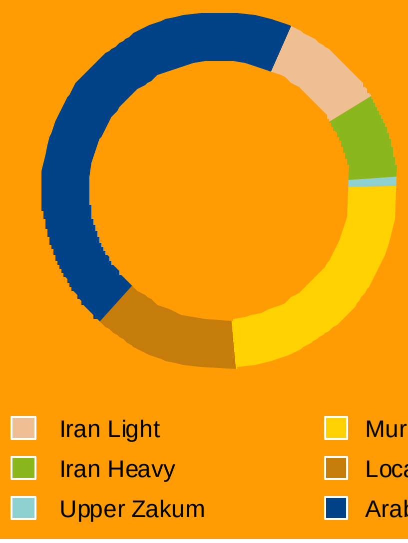
The year under review saw a fluctuating trend in international petroleum prices wherein the first half of the year depicted a consistent downward movement for prices and correspondingly refining margins. This trend in the first half of the year was triggered by various factors including low demand of heating oil in the US due to mild weather, high product inventories and higher crude throughputs thus resulting in a drag on refining margins. However, the second half of the year saw a trend reversal where international petroleum prices regained their upward momentum and remained consistently high thereby favorably impacting refining margins. This upsurge was mainly on account of increased demand for adequate supply of gasoline in USA ahead of the peak driving season, growing geo-political tension in the Middle East, buoyant Naphtha demand, planned refinery shut-downs and continuing supply restraint by OPEC. Arab Light crude which constitutes bulk of your refinery's crude recipe, reached an all time high of $69.9 per barrel in August 2006 and then to a year low of $52.1 per barrel in January 2007. On average, the price of Arabian Light crude increased to $61.4 per barrel depicting an increase of 5% in comparison with last year.

The economy of our country remained under pressure during the year due to the threat of increasing inflation and volatile movement in international petroleum product prices. Petroleum products off-take in the country increased to 16.76 million metric tons as compared to 14.48 million metric tons last year, registering an increase of 15.7%. This was mainly on the back of increased demand for furnace oil, which grew by 47.3%, from the power sector due to growth in electricity demand and frequent interruptions in gas supplies. This in turn led to an increase in import of furnace oil during the year. Despite sustained GDP growth of 7.0% on average for the past four years, its impact could not be translated into robust demand for other petroleum products. Motor Spirit sales volume remained depressed, registering a decline of 26.9% from the previous period due to a shift in consumer preference towards cheaper CNG alternative.

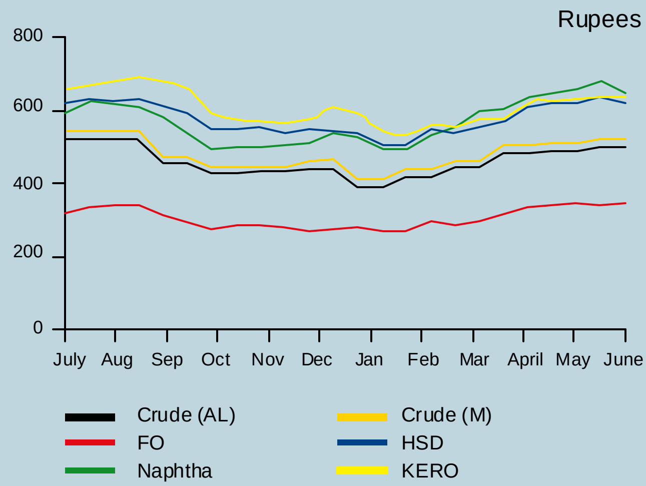
During the year, your refinery operated at a capacity of 5871 metric tons per day versus 5964 metric tons per day last year and successfully completed the 28 days turn-around which was carried out during August 2006 after 52 months of continuous operations of the refinery. The suspension of refinery operations during August impacted sales revenue which decreased by 5.8% as compared to last year. Your refinery successfully optimized its product slate to suit market conditions of product demand. Consequently, your refinery was able to increase its Naphtha exports by 20% in comparison to last year as local demand of Motor Gasoline registered marked decrease. Sales of jet fuel to defense forces, now completely on JP-8 product specification also saw a healthy rise in sales to 90,576 metric tons versus 72,898 metric tons, an increase of 24.3% as compared to last year.

The refinery also had the honor to receive the "Special Merit Exporter Award for 2006" for its exports and foreign exchange earnings of Rs. 8.4 billion by the Federation of Pakistan Chamber of Commerce & Industry (FPCCI).

Crude Mix (Volume)



FOB Prices 2006-2007



I am pleased to inform you that despite challenges posed by thin refining margins and scheduled turnaround in the first half of the year, your Company managed to earn robust after tax profit of Rs 250.8 million during the current year which translates into an earnings per share of Rs 8.36. The reserves of the Company continue to be healthy at Rs 4.5 billion as at June 30, 2007.

Your Company has been passionately involved in fulfilling its social responsibilities through its Corporate Social Responsibilities (CSR) program. The CSR program is designed with an aim to serve humanity and help alleviate the social and economic conditions of the needy, especially in areas of health and education. Since 2005, PRL has been voluntarily adopting the charter of United Nation's Global Compact Principles. During this year, your refinery made a focused effort towards assisting local charity-run hospitals to undertake much needed renovations and procuring updated equipment. In the area of education, a considerable sum was spent to renovate two government run primary schools where major structural renovations were carried out along with providing basic educational amenities like uniforms and stationary. Additionally, funds were handed over to various responsible institutions and non-governmental organizations (NGO's) who work on humanitarian grounds and provide free services like eye check up and surgery, AIDS awareness programs etc.

Your Company has once again successfully complied with all HSEQ parameters. Both internal and external surveillance audit by PRL and by the Bureau Veritas was carried out successfully for ISO-9001:2000, ISO-14001:2004 and OHSAS-18001:1999. The Total Recordable Case Frequency (TRCf) for the year is now reduced to 1.22 as compared to 1.5 last year. Your refinery also ensured that all parameters of effluent and emissions remain within the National Environmental Quality Standards (NEQS) and results are being voluntarily submitted to Pakistan & Sindh EPA. Your refinery has scored a hat-trick by receiving "ACCA-WWF Best Environment Reporting Award" for the third consecutive year for its responsible HSEQ reporting. Other accolades in HSEQ include, "Annual Environment Excellence Award 2006" organized by National Forum for Environment and Health, "Occupational Health and Safety Award" for best practices from Employers Federation of Pakistan and "Excellence in Environment Award" from HELP.

On behalf of the Board, I would like to thank the outgoing directors, Mr. Quentin D'Silva, Mr. S. Ali Raza and Mr. Sabar Hussain for their valuable contribution as guardian of all stakeholders of the Company and welcome on board Mr. Asif S. Sindhu, Mr. Shahid Anwar Khan and Mr. G. A. Sabri.

It has been a landmark year for the refinery as your Board has finalized the investment plan and I am pleased to inform you that your Company will be making a total investment of USD 320 million for up gradation of the refinery operations. This up gradation plan will help the refinery in meeting future product specification requirements and will also sustain future profitable operations of the refinery. This heralds a new era in the history of the refinery and makes way for your refinery to continue to be a strategic player in the economic scenario of the country.

The results of the year could not have been achieved without the devotion, hard work and commitment of all employees of the Company. On behalf of the Board, I would like to acknowledge and appreciate the employees' unyielding contributions for the Company.

Farooq Rahmatullah
Chairman

Karachi: August 27, 2007

Directors' Report

The Directors of your Company are pleased to present their Annual Report together with Audited Accounts for the year ended June 30, 2007.

Financial Results

	2007	2006
	(Rupees in '000)	
Profit for the year after taxation	250,814	1,344,942
Unappropriated profit as at July 01	69,698	69,698
Appropriations:		
Final stock dividend @ 20% (2005: cash dividend 25%)	(50,000)	(50,000)
Interim dividend @ Nil (2006: stock dividend 25%)	-	(50,000)
Transfer to Special Reserve	(150,814)	(1,244,942)
Unappropriated profit carried forward	119,698	69,698
Earnings per share	Rs. 8.36	Rs. 44.83

Dividend

The Directors are pleased to recommend a final cash dividend of Rs 100 million i.e. 33.33%, which will be paid to the shareholders on the Company's register on September 18, 2007.

Contribution to the National Exchequer

During the current year, Pakistan Refinery contributed an amount of Rs 286 million to the National Exchequer in the form of Direct Taxes. In addition, through the exports of Naphtha product, your Company brought valuable Foreign Exchange of approximately USD 140 million into the economy, thereby reducing burden on the country's balance of payments.

Corporate and Financial Reporting Framework

- The Financial Statements have been prepared by the Management and represent fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- The Company has maintained proper books of accounts as required under the Companies Ordinance, 1984.
- The Company has followed consistent and appropriate accounting policies in the preparation of the financial statements. Changes, wherever made, have been adequately disclosed. Accounting estimates are on the basis of prudent and reasonable judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of the financial statements and deviation, if any, has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored regularly.
- The fundamentals of the Company are strong and it has the ability to continue as a going concern free from uncertainties.

Corporate Governance

The Company is committed to high standards of corporate governance. There is no material departure from the best practice of corporate governance, as detailed in the listing regulations. The Company has been and shall remain committed to the conduct of its business in line with the Code of Corporate Governance and the listing regulations of the Stock Exchanges, which specify the role and responsibilities of the Board of Directors and management.

Key Operation and Financial Data

A Statement summarizing key operating and financial data for the last six years given on page 30

Value of Investment in Post - Employment Benefit Funds

The value of investments of provident, gratuity and pension funds on the basis of un- audited accounts as at June 30, 2007 are as follows:

	(Rupees in '000) 2007
Provident fund	318,856
Gratuity fund management	55,871
Gratuity fund non-management	31,325
Pension fund management	421,790
Pension fund non-management	12,113

Refinery Management and Operations

Turn Around 2006

This year witnessed a major milestone for your refinery as turnaround activity was carried out after 52 months of continuous operations, the longest period so far in the history of the refinery. The refinery was shut down for a total of 28 days to carry out major overhauling and maintenance work.

Planned shutdown of a refinery is a very complex and methodical process which requires meticulous execution as per documented plans. Various pre-shutdown activities are also required to be carried out many months prior to the shut-down itself to ensure smooth coordination between various business functions like Engineering, Operations, Procurement & Material Management and Inspection.

Throughout the turn-around period, a very spirited approach was taken by all concerned staff i.e. engineers, technician and contractors in order to successfully complete this mega project. Excellent planning, hard work and commitment on part of the refinery staff for carrying out all planned and unforeseen activities led to the successful completion of the activity without any incident or accident.

Advance Process Controls - The first implementation in Pakistan

Your refinery has yet again displayed technological leadership and innovativeness by successfully implementing a first of its kind cutting-edge technology in the refining sector i.e. Advance Process Control system. Historically, your refinery has been relying on the conventional pneumatic instruments which inherently cause larger variations in process and hence compliance with product specifications has always remained a challenge.

In 2002 your refinery kicked off a project to digitize process area instrumentation. Within two years the Crude Unit instrumentation was digitally automated. Consequently, the project to implement Advance Process Control (APC) system commenced and after rigorous quality control testing in late 2006, your refinery commissioned the first deployment of APC in Pakistan.

APC is a model predictive controller with builtin linear programming (LP) optimizer. APC optimizes Key Crude unit parameters keeping in perspective their control constraints and economic benefits. It also maximizes Gas oil and Kerosene yield from lower priced furnace oil thus minimizing fuel gas consumption in furnaces, and maintains crude unit process within operating and safety constraints. The system ensures that there are minimum product giveaways by maintaining product quality. It allows to operate optimum controlling and economically most feasible operating point while remaining within safe operating limits.

Construction of Crude Tank

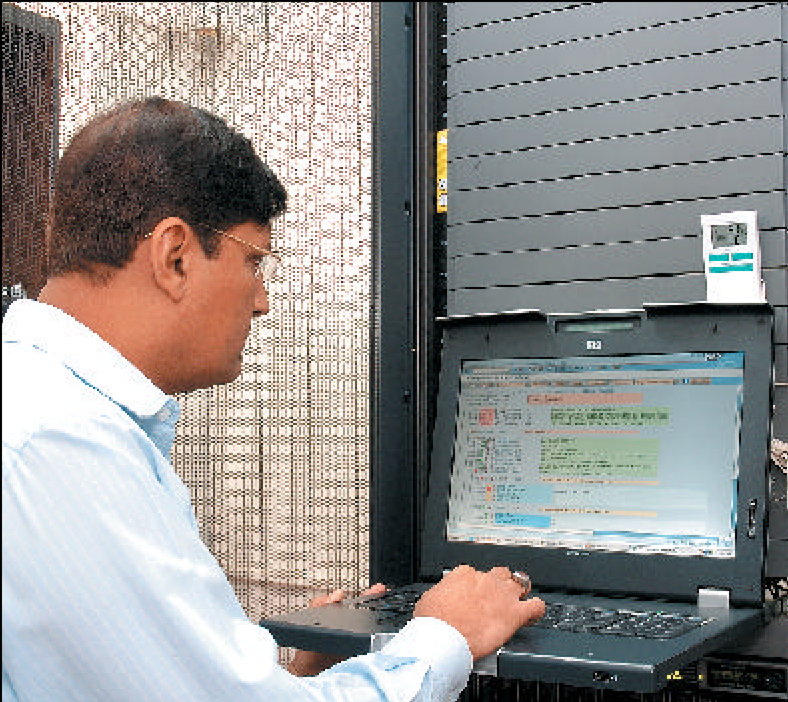
Given the existing storage capacity position at Korangi and Keamari locations and given the fact that two crude tanks are annually pulled out under the standard repair and maintenance cycle there was a shortage of 20,000 metric tons for crude storage. The construction of a new tank kicked off in 2006 and is now nearing completion. The commissioning of this tank will help fulfill all future crude storage requirements. Further, construction of the new tank will also facilitate storage of fuel oil during lean periods resulting in storage rental savings. The tank has a floating roof, 160 feet diameter and a height of 48 feet.

Human Resource

Your refinery considers Human Resource function to be a strategic business function as in today's global marketplace, the competitive advantage lies not just in product differentiation or cost leadership but in also being able to tap into the Company's special skills and core competencies of its staff. In other words, competitive advantage lies in management's ability to consolidate corporate-wide technologies and operational skills into competencies that empower individual businesses to adapt quickly to changing opportunities. Your refinery prides itself on its ability to tap into the available skill pool, recruit the best and train the human capital of the Company in order to develop a workforce which has specialized skills and competencies.

On the operational side, our HR department provides all the necessary support ranging from manpower planning to recruitment, from performance appraisal to training needs assessment, from compensation survey to salary and benefits adjustment and from training to training evaluations and feedback. On the developmental side in order to ensure human capital retention, HR plays its role through formal succession planning for the key organizational positions and facilitates employees in planning and managing their career paths.

On the technological front, one of the recent and commendable achievements has been the implementation of SAP Human Capital Module (HCM), a project that was completed well ahead of planned timelines. This module will greatly help in payroll, time, personnel and organizational management.



Information Technology

During the course of the year, a number of initiatives were taken by Information Technology department to ensure that all information services requirements are fulfilled. Following improvements have been successfully incorporated during the year:

- SAP services upgrade to ECC 6.0 version. This seamless upgrade was a complete success as the production server was kept online for all users during working hours.

- PRL network upgrade. To date approximately 50% of the entire network has been successfully modified to Gigabit platform. Gigabit platform allows for much quicker access to data and network connectivity. The remaining 10/100 mbps network is estimated to be phased out during the coming year.

- Disaster recovery procedures and new storage servers to facilitate data replication have been put in place. Each year a disaster recovery drill is carried out and various test scenarios are exercised to ensure integrity and availability of primary data.

- Active Directory Domain up gradation along with Domain Name Server (DNS) and Distributed File Systems (DFS) have now been migrated to new storage servers.

Future Expansion Project

During the year, the Board of your Company finalized the investment plan whereby a total investment of USD 320 million will be made for up gradation of refinery operations.

The Project's primary objective is to ensure compliance with Government of Pakistan's requirement of Euro-II diesel specification i.e. 500 parts per million (ppm) sulfur. Additionally, the Project will also help pave the way for sustained profitability by altering the production slate towards increased production of higher margin products and thereby justifying the investment. The entire future product slate would be marketable and mainly for local consumption.

During the year, the project governance structure has been put in place and the project team has been formed. Specific initiatives include;

- Installation, including all ancillary equipment, of diesel hydro-treating facility to treat the total diesel produced by the refinery for meeting (Euro-II) grade i.e. 500 parts per million sulfur.

- Installation, including all ancillary equipment, of Thermal Gas Oil Unit (TGU) facility to convert an appreciable amount of fuel oil into diesel.

Presently, preliminary work is ongoing which will be the basis for the Front End Engineering Design (FEED) stage which is expected to last approximately a year.

PRL thought its CSR strategy is demonstrating good faith, social legitimacy and commitment that goes beyond the financial bottom line.

Making a Difference

Your Company is dedicated to giving back to its community in many ways. It believes in doing work that has meaning and that makes a difference in the lives of people and the community at large.

Focused efforts during this year were made in the areas of health and education. Your Company supported local charity run hospitals by giving donations for equipment purchase and facility renovations. Further, during the year, our contribution included donations to HIV/AIDS awarness programs and even individual employee participation in these programs.

In the area of education your Company took on the task of renovating two government-run primary schools where major structural renovations were carried out along with providing basic educational amenities like uniforms and stationary.

Additionally assistance was provided to various responsible institutions and non-governmental organizations (NGO's) who work on humanitarian grounds and provide free services like eye check up and surgery, AIDS awareness mission etc.

Social Citizenship - A Corporate Commitment

Corporations have a clear responsibility to ensure that their operations and business practices are not detrimental to society. Over the past few years, there has been an increasing pressure to take this responsibility very seriously. One measure of successful globalization is a world in which corporate social responsibility (CSR) becomes a force for sound business practices, democratic reform, and healthy communities. The global framework for successful CSR continues to be constructed. Within this framework it is the responsibility of corporations to take the lead and make CSR a corporate commitment.

Your refinery regards social citizenship as a primary responsibility and we regard it as our commitment to ensure that our materials and products produced are both environmentally friendly and technically sound. For your refinery CSR means "doing the right thing". In developing meaningful CSR practices, your Company goes beyond the gut-check definition and analyzes how its actions impact a wide variety of stakeholder groups. Important stakeholders include shareholders, employees, suppliers, the environment, community members, customers and partners. Your Company at all times acts in a socially responsible manner and makes efforts to minimize any negative impact its business practices may have on any stakeholder group.

Your Company, through its CSR strategy, demonstrates good faith, social legitimacy and commitment that goes beyond the financial bottom line. To this end, since 2005, your refinery has voluntarily committed to the UN Global Compact Principles and submits a CSR report to the UN annually.

Corporate Social Responsibility

CSR for PRL means
"doing the right thing".

Health, Safety, Environment & Quality

Your refinery is proud to be amongst the industry leaders in upholding and maintaining HSEQ practices. The accolades and honors received during the year give a clear indication of your refinery's commitment and pursuance of controls in HSEQ.

For the third consecutive year, your refinery received the "ACCA-WWF Best Environment Reporting Award". Other accolades in HSEQ include, "Annual Environment Excellence Award 2006" organized by National Forum for Environment and Health, "Occupational Health and Safety Award" for best practices from Employers Federation of Pakistan and "Excellence in Environment Award" from HELP.

On an yearly basis, various environmental evaluation tests are carried out. These include:

Global Warming

In line with increased global focus on efficient energy consumption and emission reduction, your Company initiated a study with Foster Wheeler to design a waste heat recovery unit (WHRU) thereby helping to minimize emission of flue gases, emission of which contributes towards the global warming phenomenon. Resultantly, temperature of released gases through stack has markedly reduced by approximately 100 degrees. The Waste Heat Recovery Unit also helps improve the overall efficiency of the existing Platformer & Hydro Furnaces as the recovered heat is utilized to run the furnaces thereby resulting in utility cost savings.

PRL encourages its contractors working on its behalf or on its premises to also apply health, safety, environment and quality standards.

Crisis Management & Mock Drill Practices

Your refinery has an established Crisis Management Plan in place to make certain that the defined responsibilities of its employees are regularly exercised in case of any emergency or crisis situation. For this purpose, mock drills are conducted bi-annually to test the effectiveness of plans and to create awareness amongst the employees who will be responsible for playing pivotal roles during a crisis.

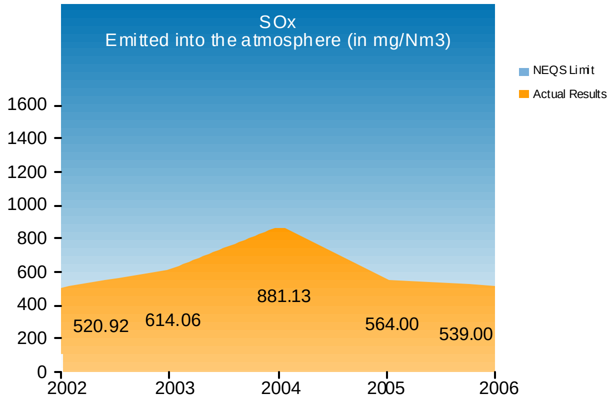
Due to the nature of refinery products the major focus of the mock drill is fire fighting. The fire section of your refinery comprises of trained professionals and further supported by nominated individuals from various business functions. We have a Mutual Aid Emergency Response Plan (MAERP) in place which allows your refinery to pull in additional support from other local refineries as well as OMC's. Lessons learnt through each mock drill help bring in continual improvements in the system.

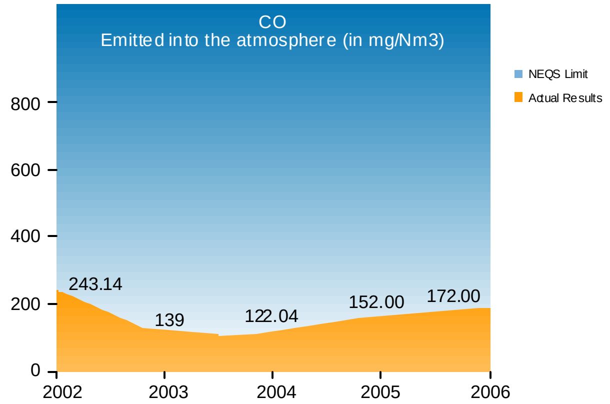
Soil and Ground Water Monitoring

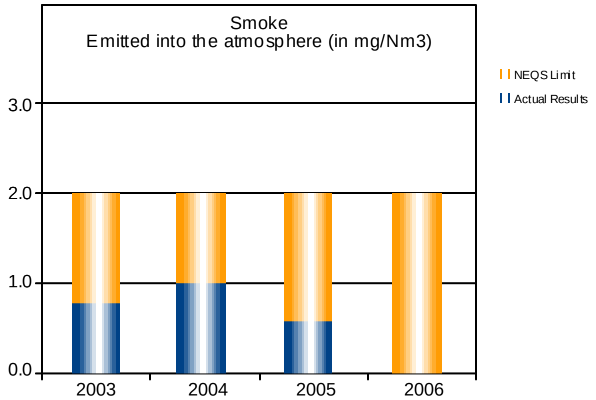
Your refinery, over the years, has taken concrete initiatives to reduce soil and ground water contamination and stricter controls have now been placed on activities that affect our environment. For this purpose, yearly soil & ground water monitoring is carried out. The objective is to pull in contamination levels of soil and ground water and at the same time develop base line data for analysis. The sampling points were identified in 2001 with the assistance of Environmental Technology Program for Industry (ETPI), a joint project of FPCCI & Government of Netherlands. For 2006 the monitored results of soil and ground water samples remain within the defined permissible limit of NEQS (National Environmental Quality Standards).

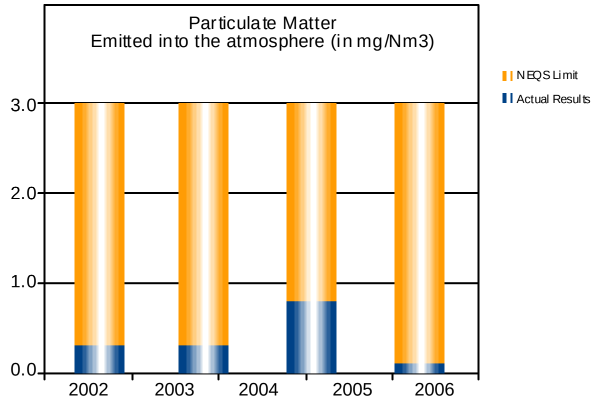
Air Quality Test

Your refinery carries out ambient air quality sampling on an annual basis of Oxides of Sulfur, Carbon Monoxide etc. at various locations of the refinery in order to check the pollutant level in the environment. The objective is to monitor pollutant level in our refinery so as to take concrete steps to alleviate the hazardous air contents. The annual air quality measurement results during 2006 in your refinery have remained within the defined permissible limit of NEQS (National Environmental Quality Standards).









PRL conducts monthly testing of all its emission sources such as Stacks, Boilers & Generators. Graphical representation of the emission level of different greenhouse gases as measured against NEQS limits are given above for the furnace stack.

Board Meetings held During the Year

The Board places on record its appreciation for the valuable services rendered by the outgoing directors Mr. Quentin D'Silva, Mr. S. Ali Raza and Mr. Sabar Hussain. The Board also welcomes aboard Mr. Asif S. Sindhu, Mr. Shahid Anwar Khan and Mr. G.A. Sabri.

During the year, five Board of Directors meetings were held and the attendance of each director is given below:

Name of Director	No. of Board Meetings*	No. of Meetings Attended
Mr. Farooq Rahmatullah	5	5
Mr. Ardeshir Cowasjee	5	4
Mr. Asif S. Sindhu	5	3
Mr. G. A. Sabri	1	-
Mr. Hussain Dawood	5	3
Mr. Ijaz Ali Khan	5	5
Mr. Jalees A. Siddiqi	5	4
Mr. Nadeem N. Jafarey	5	5
Mr. Sabar Hussain	4*	-
Mr. S. Ali Raza	4*	-
Mr. Shahid Anwar Khan	1	-
Mr. Zaiviji Ismail bin Abdullah	5	5
Mr. Zafar Haleem	5	5

*Held during the period concerned Directors were on Board.

Trading in Company Shares

Directors, CEO, CFO, Company Secretary and their spouses and minor children have not traded in the shares of the Company during the year under consideration.

Pattern of Shareholding

The statement of Pattern of Shareholding as at June 30, 2007 is given on page 71 of the Annual Report.

External Auditors

The Auditors Messrs A.F.Ferguson & Co. Chartered Accountants retire at the conclusion of the Annual General Meeting and being eligible, offer themselves for reappointment.

Acknowledgement

We would like to take this opportunity to thank our employees, customers and strategic partners for their support and commitment towards helping us achieve new heights of success and commendable results. The Board also places on record its gratitude to its esteemed shareholders, Government of Pakistan and regulatory bodies for their continued support.

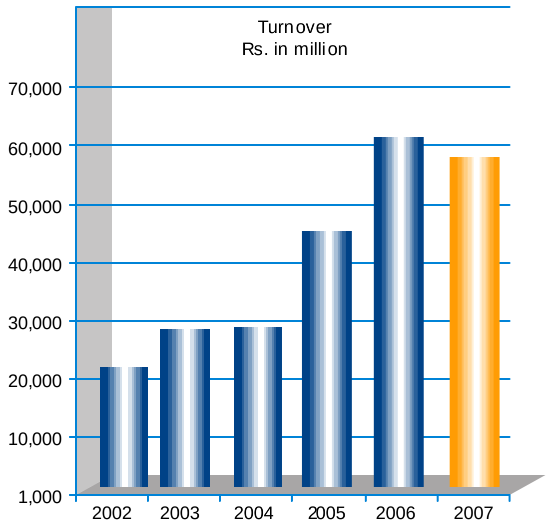
On Behalf of the Board of Directors

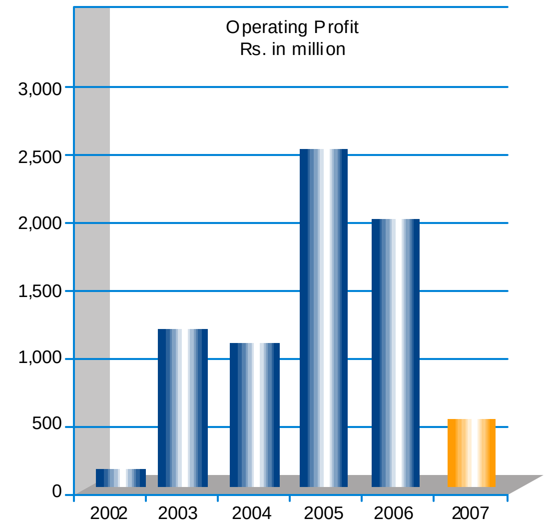
Farooq Rahmatullah
Chairman

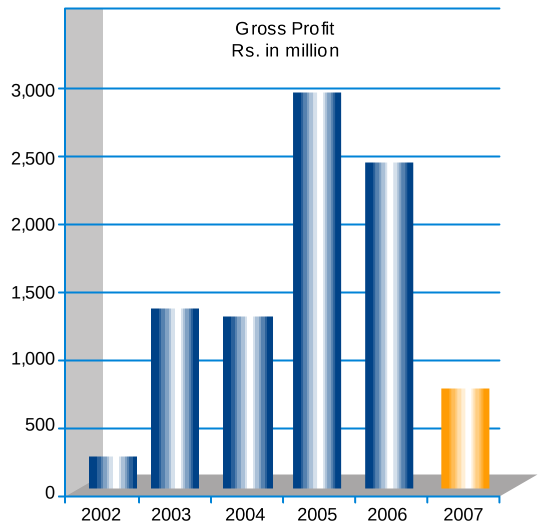
Karachi: August 27, 2007

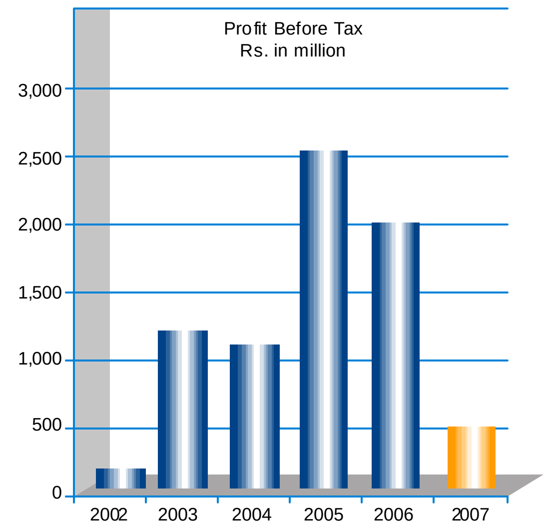
Six Years at a Glance

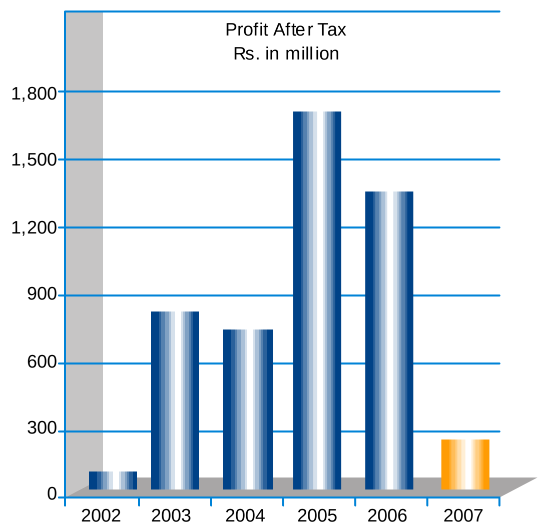
		2007	2006	Restated 2005	2004	2003	2002
Profit and Loss Account							
Net Turnover	Rs/mn	57,404.1	60,963.2	44,442.1	28,286.2	28,072.3	20,969.0
Gross profit	Rs/mn	776.0	2,401.4	2,936.8	1,370.0	1,397.9	250.1
Operating profit	Rs/mn	579.0	2,084.8	2,626.0	1,149.2	1,278.6	152.6
Profit before Tax	Rs/mn	504.3	2,063.4	2,605.3	1,130.9	1,235.0	158.5
Profit after Tax	Rs/mn	250.8	1,344.9	1,724.9	733.5	824.3	60.6
Dividend	Rs/mn	100.0	100.0	100.0	100.0	100.0	125.0
Balance Sheet							
Share Capital	Rs/mn	300.0	250.0	200.0	200.0	200.0	200.0
Reserves	Rs/mn	4,505.1	4,301.5	3,063.8	1,410.1	726.5	2.2
Property, Plant and Equipment - Net	Rs/mn	952.1	816.7	709.8	652.0	601.4	598.9
Net current assets/liabilities	Rs/mn	3,711.0	3,639.6	2,495.7	929.9	284.3	(204.0)
Investor Information							
Gross profit ratio	%	1.4	3.9	6.6	4.8	5.0	1.2
Earnings per share	Rs	8.4	44.8	69.0	36.7	41.2	3.0
Inventory turnover ratio	Days	29.0	18.4	19.8	28.0	23.7	30.0
Debtor turnover ratio	Days	26.9	22.7	25.8	26.0	19.7	26.5
Total assets turnover ratio	Times	3.9	5.1	5.8	4.6	5.8	4.6
Fixed assets turnover ratio	Times	71.2	113.0	80.4	53.3	50.0	39.2
Break-up value per share	Rs	160.2	182.1	163.2	80.5	46.3	10.1
Market value per share at the end of the year	Rs	222.0	213.9	207.9	150.0	181.7	35.9
Price earning ratio	X	26.5	4.8	3.0	4.1	4.4	11.8
Dividend per share	Rs	3.3	5.0	5.0	5.0	5.0	6.3
Dividend yield ratio	%	1.5	2.3	2.4	3.3	2.8	17.4
Dividend pay out	%	39.6	11.2	7.2	13.6	12.1	206.3
Return on capital employed	%	5.2	29.5	52.8	45.6	89.0	30.0
Debt : Equity Ratio		-	-	-	-	-	-
Current ratio		1.4:1	1.5:1	1.6:1	1.2:1	1.1:1	1:1
Interest coverage ratio	Times	7.7	58.7	100.6	87.5	23.2	2.4
Statement of Value Added and how distributed							
Employees as remuneration		328.1	260.1	224.4	206.6	187.6	181.4
Government as taxes		288.4	726.6	869.6	381.8	422.1	97.9
Shareholders as dividends		100.0	100.0	100.0	100.0	100.0	125.0
Retained within the business		150.8	1,244.9	1,624.9	633.5	724.3	-

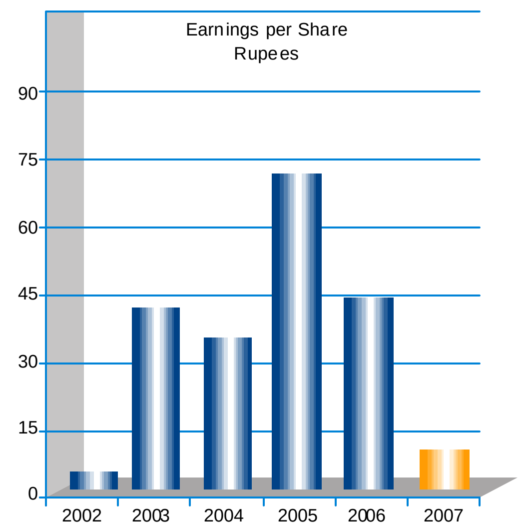

Turnover
Rs. in million
70,000
60,000
50,000
40,000
30,000
20,000
10,000
1,000
2002
2003
2004
2005
2006
2007

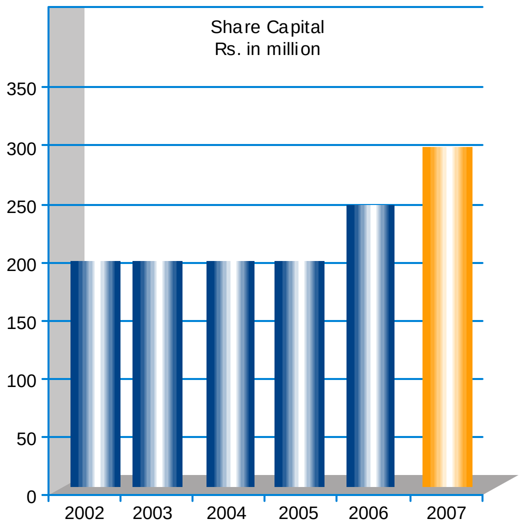

Operating Profit
Rs. in million
3,000
2,500
2,000
1,500
1,000
500
0
2002
2003
2004
2005
2006
2007

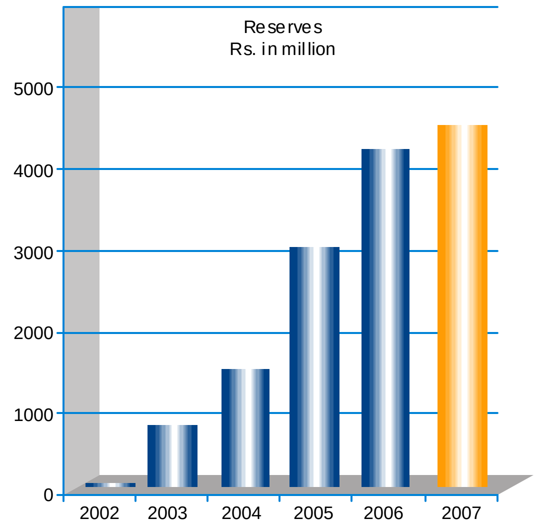

Gross Profit
Rs. in million
3,000
2,500
2,000
1,500
1,000
500
0
2002
2003
2004
2005
2006
2007

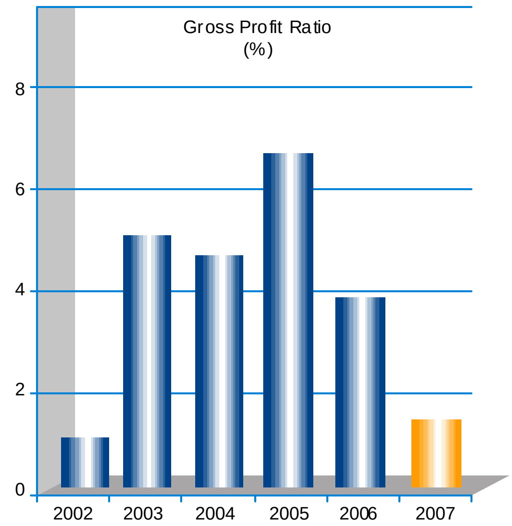

Profit Before Tax
Rs. in million
3,000
2,500
2,000
1,500
1,000
500
0
2002
2003
2004
2005
2006
2007

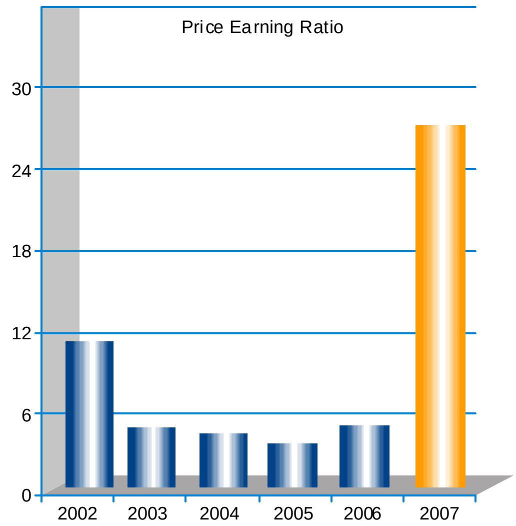

Profit After Tax
Rs. in million
1,800
1,500
1,200
900
600
300
0
2002
2003
2004
2005
2006
2007

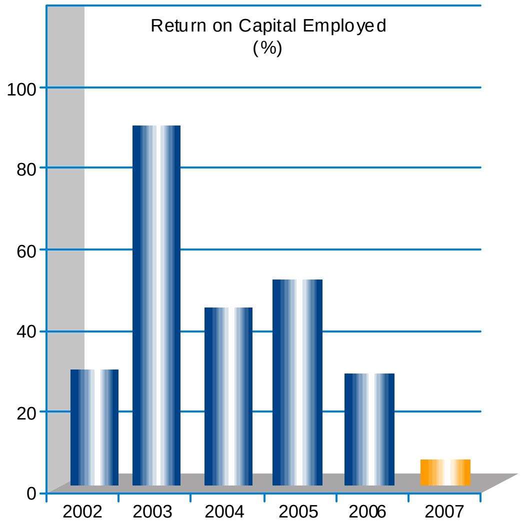

Earnings per Share
Rupees
90
75
60
45
30
15
0
2002
2003
2004
2005
2006
2007

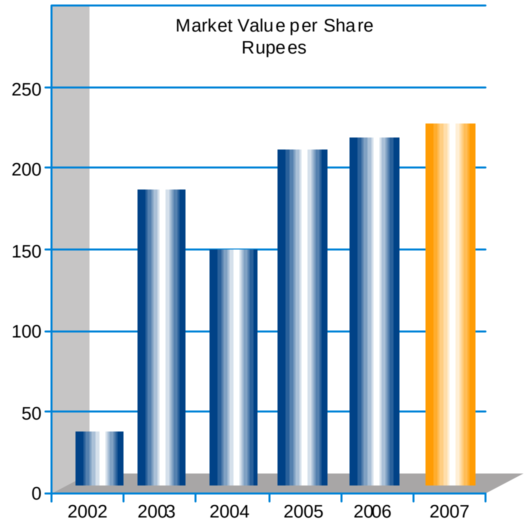

Share Capital
Rs. in million
350
300
250
200
150
100
50
0
2002
2003
2004
2005
2006
2007

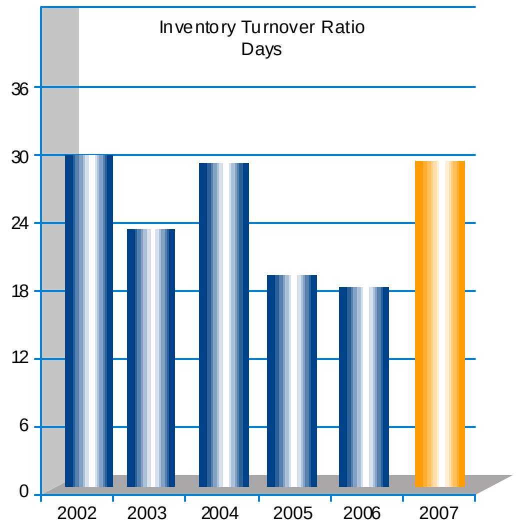

Reserves
Rs. in million
5000
4000
3000
2000
1000
0
2002
2003
2004
2005
2006
2007

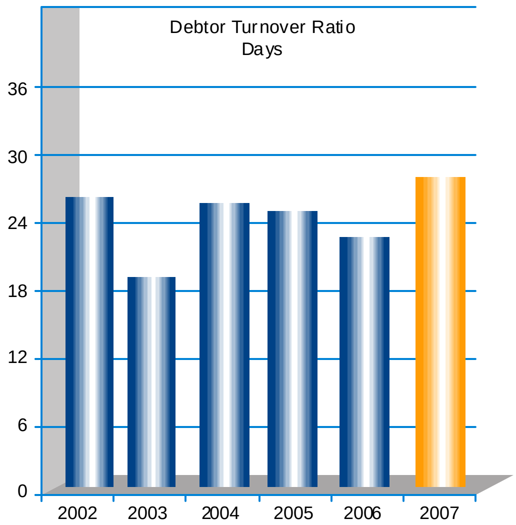

Gross Profit Ratio
(%)
8
6
4
2
0
2002
2003
2004
2005
2006
2007

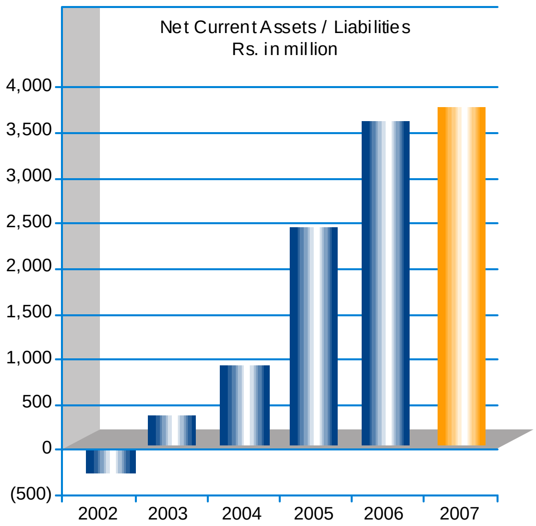

Price Earning Ratio
30
24
18
12
6
0
2002
2003
2004
2005
2006
2007

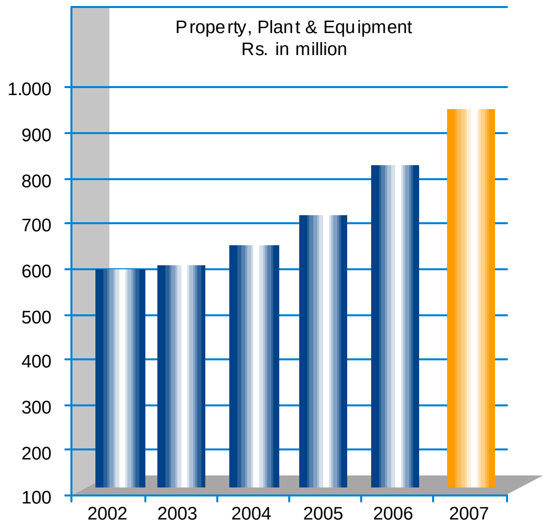

Return on Capital Employed
(%)
100
80
60
40
20
0
2002
2003
2004
2005
2006
2007

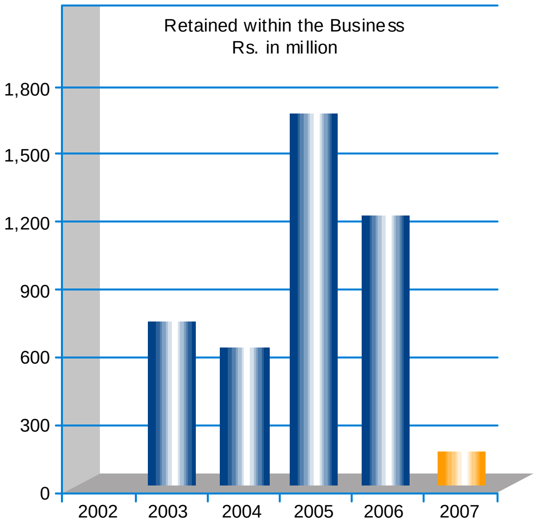

Market Value per Share
Rupees
250
200
150
100
50
0
2002
2003
2004
2005
2006
2007

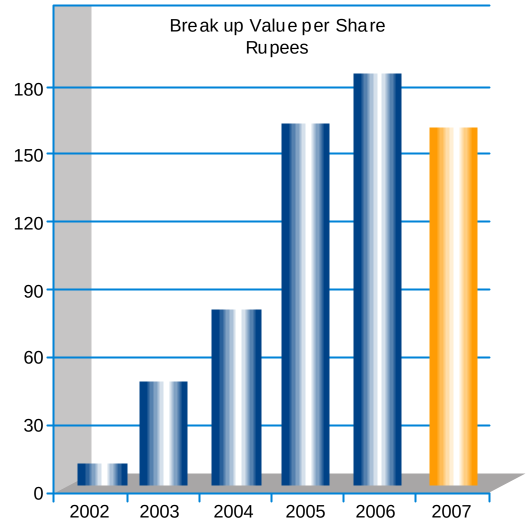

Inventory Turnover Ratio
Days
36
30
24
18
12
6
0
2002
2003
2004
2005
2006
2007


Debtor Turnover Ratio
Days
36
30
24
18
12
6
0
2002
2003
2004
2005
2006
2007


Net Current Assets / Liabilities
Rs. in million
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
(500)
2002
2003
2004
2005
2006
2007


Property, Plant & Equipment
Rs. in million
1.000
900
800
700
600
500
400
300
200
100
2002
2003
2004
2005
2006
2007


Retained within the Business
Rs. in million
1,800
1,500
1,200
900
600
300
0
2002
2003
2004
2005
2006
2007


Break up Value per Share
Rupees
180
150
120
90
60
30
0
2002
2003
2004
2005
2006
2007

Notice of Meeting

Notice is hereby given that the Forty Seventh Annual General Meeting of the Company will be held on September 25, 2007 at 10:00 AM at Marriot Hotel, Karachi to transact the following business:

ORDINARY BUSINESS

1. To confirm minutes of the Forty Sixth Annual General Meeting held on Thursday September 21, 2006.
2. To review and approve the Audited Accounts of the Company for the year ended June 30, 2007 together with the Directors' Report and Auditors' Report thereon.
3. To approve final dividend recommended by the Board of Directors.
4. To appoint Auditors for the next accounting period i.e. year ended June 30, 2008 and to fix their remuneration.

The Share Transfer Books of the Company will remain closed from September 19, 2007 to September 25, 2007 (both days inclusive) when no transfer of shares will be accepted for registration.

By Order of the Board

Hafsa Shamsie
Company Secretary

Karachi: September 03, 2007

Notes

1. A member of the Company entitled to attend and vote may appoint any other person as his/her proxy to attend and vote instead of him/her. Proxies must be received at the Registered Office of the Company not less than 48 hours before the time of holding the meeting.

   CDC Account Holders will further have to follow the undermentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan:

A. For Attending the Meeting:

(i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations shall authenticate his/her identity by showing his/her original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting.

(ii) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

B. For Appointing Proxies:

(i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.

(ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

(iii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.

(iv) The proxy shall produce his/her original CNIC or original passport at the time of the meeting.

(v) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

2. The minutes of Forty Sixth Annual General Meeting held on September 21, 2006 are available at the Registered Office of the Company.

Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 of listing regulations of the Karachi Stock Exchange and Chapter XIII of the Lahore Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes ten non-executive directors out of whom one independent non-executive director represents minority shareholders. The Board has only one executive director i.e. Chief Executive.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a Stock Exchange, has been declared as a defaulter by that Stock Exchange.

4. Three casual vacancies occurred on the Board on August 22, 2006, March 16, 2007 and March 29, 2007. All vacancies were filled by the directors within thirty days thereof and the concerned directors have given a declaration in their consent under clause (ii) of the Code of Corporate Governance.

5. The Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and employees of the Company.

6. The Board has developed a vision/mission statement, overall corporate strategy and framed significant policies as required by the Code. The Board, however, will consider any amendment to these policies or any new policy(s) as and when required. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and the Board has taken decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO. The Chairman is a non-executive director and the roles and responsibilities of Chairman and Chief Executive have been clearly defined.

8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. Directors are well conversant with the listing regulations, legal requirements and operational imperatives of the Company, and as such fully aware of their duties and responsibilities. Further, the Company has been updating them, in the board meetings held during the year, regarding their duties and responsibilities.

10. The Board approved the appointment of the Company Secretary and CFO including remuneration and terms and conditions of employment, as determined by the CEO. On the basis of legal advice received, the Company believes that in its case, the same person can act as Company Secretary and CFO. There was no new appointment of head of internal audit.

11. The directors' report for this year has been prepared in compliance with the requirements of the Code and it fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval by the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the Pattern of Shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee. It comprises of three members, including the chairman of the committee, all of whom are non-executive directors.

16. The meetings of the Audit Committee were held at least once every quarter, prior to the approval of the interim and final results of the Company, as required by the Code. The terms of reference of the committee have been formulated and advised to the committee for compliance.

17. The Board has set up an effective internal audit function that is involved in internal audit activities on a full time basis.

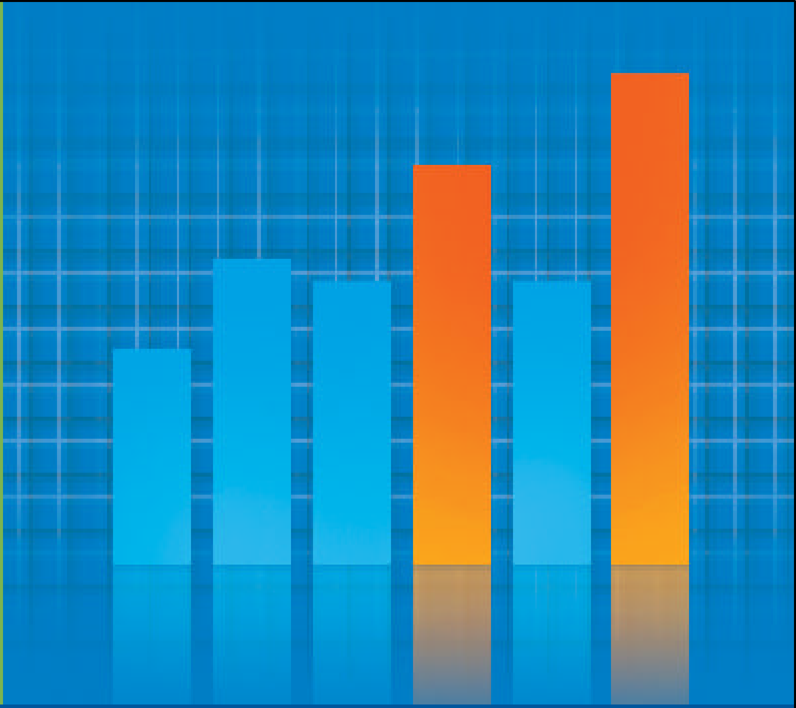
18. The statutory auditors of the Company have confirmed that they are maintaining a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. We confirm that all other material principles contained in the Code have been complied with.

Farooq Rehmatullah
Chairman

Karachi: August 27, 2007



Financial Statements
for the year ended June 30, 2007

Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Pakistan Refinery Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange and Chapter XIII of Lahore Stock Exchange where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal controls covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2007.

A. F. Ferguson & Co.
Chartered Accountants
Karachi: August 27, 2007

Auditors' Report to the Members
for the year ended June 30, 2007

We have audited the annexed balance sheet of Pakistan Refinery Limited as at June 30, 2007 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

    (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

    (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

    (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2007 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

A. F. Ferguson & Co.
Chartered Accountants
Karachi: August 27, 2007

Balance Sheet
as at June 30, 2007

	Note	2007	2006
		(Rupees in thousand)	
ASSETS			
Non-current assets			
Fixed assets	4	952,118	816,734
Investment in associate	5	54,077	50,609
Long-term loans and advances	6	10,943	11,231
Long-term deposits		2,887	2,887
Deferred taxation	7	38,583	4,195
Retirement benefit obligations - prepayments	8	39,809	31,893
		1,098,417	917,549
Current assets			
Stores, spares and chemicals	9	229,371	282,797
Stock-in-trade	10	5,107,781	3,843,622
Trade debts	11	4,779,465	3,674,774
Loans and advances	12	22,439	25,852
Accrued interest / mark-up	13	7,726	1,271
Trade deposits and short-term prepayments	14	49,091	56,025
Other receivables	15	15,891	3,532
Tax refunds due from Government - Sales tax		1,476,306	833,671
Investments	16	201,769	2,199
Cash and bank balances	17	1,698,277	2,363,107
		13,588,116	11,086,850
Total assets		14,686,533	12,004,399
EQUITY AND LIABILITIES			
Share capital	18	300,000	250,000
Reserves		129,751	77,030
Special reserve	19	4,375,332	4,224,518
		4,805,083	4,551,548
LIABILITIES			
Non-current liabilities			
Retirement benefit obligations	8	4,373	5,628
Current liabilities			
Trade and other payables	20	9,526,925	7,063,744
Accrued interest / mark-up		1,989	8,782
Short-term borrowings	21	-	29,080
Taxation - provision less payments		348,163	345,617
		9,877,077	7,447,223
Total liabilities		9,881,450	7,452,851
Commitments	22		
Total equity and liabilities		14,686,533	12,004,399

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

Farooq Rahmatullah Chairman	Zafar Haleem Chief Executive

Profit and Loss Account
for the year ended June 30, 2007

	Note	2007	2006
		(Rupees in thousand)	
Sales	23	57,404,065	60,963,200
Cost of sales	24	(56,628,114)	(58,561,787)
Gross profit		775,951	2,401,413
Distribution cost	24	(89,434)	(84,752)
Administrative expenses	24	(134,977)	(121,203)
Other operating expenses	25	(46,252)	(185,246)
Other income	26	73,746	74,602
Operating profit		579,034	2,084,814
Finance costs	27	(81,718)	(40,999)
Share of income of associate		6,949	19,568
Profit before taxation		504,265	2,063,383
Taxation	28	(253,451)	(718,441)
Profit after taxation		250,814	1,344,942
Earnings per share - basic and diluted	29	Rs. 8.36	Rs. 44.83

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

Farooq Rahmatullah
Chairman

Zafar Haleem
Chief Executive

Cash Flow Statement

for the year ended June 30, 2007

	Note	2007	2006
		(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	34	33,515	3,275,798
Mark-up paid		(83,431)	(36,529)
Income taxes paid		(285,894)	(839,761)
Payments for defined benefit retirement plans		(40,288)	(49,621)
Long-term loans and advances (net)		288	(3,374)
Net cash used in operating activities		(375,810)	2,346,513
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(268,919)	(217,131)
Proceeds from sale of fixed assets		2,254	1,010
Dividend received		6,803	5,528
Net cash used in investing activities		(259,862)	(210,593)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		(78)	(50,380)
Net (decrease) / increase in cash and cash equivalents		(635,750)	2,085,540
Cash and cash equivalents at the beginning of the year	35	2,334,027	248,487
Cash and cash equivalents at the end of the year	35	1,698,277	2,334,027

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

Farooq Rahmatullah
Chairman

Zafar Haleem
Chief Executive

Statement of Changes in Equity

for the year ended June 30, 2007

	SHARE CAPITAL	RESERVES				SPECIAL RESERVE	TOTAL
		CAPITAL	REVENUE		FAIR VALUE RESERVE		
		Exchange Equalisation Reserve	General Reserve	Unappropriated Profit			
	(Rupees in thousand)						
Balance as at June 30, 2005	200,000	897	1,050	69,698	12,608	2,979,576	3,263,829
Final dividend for the year ended June 30, 2005 @ Rs. 2.5 per share	-	-	-	(50,000)	-	-	(50,000)
Net profit for the year 2006	-	-	-	1,344,942	-	-	1,344,942
Change in fair value reserve on account of available for sale investment of associate	-	-	-	-	(7,223)	-	(7,223)
Transferred to Special Reserve	-	-	-	(1,244,942)	-	1,244,942	-
Issue of 1 bonus share for every 4 shares held	50,000	-	-	(50,000)	-	-	-
Balance as at June 30, 2006	250,000	897	1,050	69,698	5,385	4,224,518	4,551,548
Issue of 1 bonus share for every 5 shares held	50,000	-	-	(50,000)	-	-	-
Net profit for the year 2007	-	-	-	250,814	-	-	250,814
Change in fair value reserve on account of available for sale investment of associate	-	-	-	-	2,721	-	2,721
Transferred to Special Reserve	-	-	-	(150,814)	-	150,814	-
Balance as at June 30, 2007	**300,000**	**897**	**1,050**	**119,698**	**8,106**	**4,375,332**	**4,805,083**

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

Farooq Rahmatullah
Chairman

Zafar Haleem
Chief Executive

1. THE COMPANY AND ITS OPERATIONS

Pakistan Refinery Limited was incorporated in Pakistan as a public limited company in May 1960 and is quoted on Karachi and Lahore Stock Exchanges. The address of its registered office is Korangi Creek Road, Karachi. The Company is engaged in the production and sale of petroleum products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below:

2.1 Basis of preparation

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Financial Reporting Standards as have been notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ from the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives have been followed.

Amendments to published standards and new interpretations that are effective in 2006 and relevant

IAS 19 (Amendment) - Employee Benefits, is mandatory for the Company's accounting periods beginning on or after January 1, 2006. It introduces the options of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. The Company does not intend to adopt the alternative approach for recognition of actuarial gains and losses. Adoption of this amendment only impacts the format and extent of disclosures as presented in note 8 to the financial statements.

Standards, amendments and interpretations effective in 2006 but not relevant

IFRIC 4 - Determining whether an Arrangement contains a Lease, requires the determination that whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Company has assessed its arrangements with its suppliers and service providers and is of the view that none of these contain arrangements which meet the criteria for recognition as Lease, as laid down in IFRIC 4.

Standards, interpretations and amendments to published approved accounting standards that are relevant, but not yet effective

Following amendments to existing standards and interpretations have been published that are mandatory for accounting periods beginning on the dates mentioned below:

i. IAS 1 Presentation of Financial Statements - Capital Disclosures	effective from January 1, 2007
ii. IAS 23 Borrowing Cost	effective from January 1, 2009

Adoption of the above amendments and interpretations are not expected to have any material effect on the amounts recognised in these financial statements.

2.2 Overall valuation policy

These financial statements have been prepared under the historical cost convention except as stated below in the respective policy notes.

2.3 Fixed assets

Fixed assets are stated at cost less accumulated depreciation / amortisation except capital work-in-progress, which is stated at cost.

Depreciation / amortisation is charged to income by applying the straight-line method whereby the cost less residual value, if not insignificant, of an asset is written off over its estimated useful life to the Company. Full month's depreciation / amortisation is charged in the month of acquisition and no depreciation / amortisation is charged in the month of disposal. Cost of leasehold land is amortised fairly over the period of lease.

Costs associated with developing or maintaining computer software programmes are recognised as an expense when incurred. However, costs that are directly associated with identifiable and unique software products controlled by the Company and that have probable economic benefits exceeding their cost and beyond one year, are recognised as intangible assets.

Assets' residual values and useful lives are reviewed and adjusted if expectations significantly differ from previous estimates, at each balance sheet date.

Company accounts for impairment, where indication exists, by reducing its carrying value to the assessed recoverable amount.

Maintenance and normal repairs are charged to income as and when incurred. Renewals and improvements are capitalised and assets so replaced, if any, are retired.

Gains and losses on disposal of fixed assets are included in income currently.

2.4 Investment in associate

Investment in associate is accounted for using equity method of accounting and is initially recognised at cost. The Company's share in its associate post-acquisition profits or losses is recognised in the income statement and its share in post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2.5 Taxation

2.5.1 Current

Charge for the current taxation is based on applicable provisions of the Income Tax Ordinance, 2001.

2.5.2 Deferred

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.

2.6 Stores, spares and chemicals

These are valued at cost, determined using weighted average method, less provision for obsolescence. Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.

2.7 Stock-in-trade

Stock of crude oil is valued at lower of cost determined using "first-in first-out" method and net realisable value except crude oil in transit which is valued at cost. Finished products are valued at lower of cost and net realisable value. Cost in relation to finished products represents cost of crude oil and appropriate manufacturing overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

2.8 Trade debts

Trade debts are carried at the fair value of consideration to be received against goods and services. Provision is made in respect of doubtful debts, if any.

2.9 Investments

Financial assets at fair value through profit and loss

Financial assets held for trading are classified in this category. These are initially measured at fair value which is reassessed at each reporting date. In the case of investments in open ended mutual funds, fair value is determined on the basis of period end Net Asset Value (NAV) as announced by the Asset Management Company.

2.10 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, with banks on current, savings and deposit accounts, running finance under mark-up arrangements and short-term finance.

2.11 Trade and other payables

Trade and other payables are carried at the fair value of the consideration to be paid for goods and services.

2.12 Borrowing costs

Borrowing costs are recognised as an expense in the period in which these are incurred.

2.13 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate of the amount can be made.

2.14 Retirement benefits

The Company operates recognised Provident, Gratuity and Pension Funds for all its eligible employees. The Provident Fund is a defined contribution plan. All others are defined benefit plans. Actuarial valuations of defined benefit plans are carried out on periodical basis using the projected unit credit method and the latest valuations were carried out at the balance sheet date (June 30, 2007). Actuarial gain / loss is amortised over a period of 11 years for the management staff gratuity and pension funds and 17 years for non-management staff pension and gratuity funds, if it exceeds the 10% corridor limit. The unrecognised past service cost is amortised over its vesting period.

2.15 Foreign currency translation

These financial statements are presented in Pak Rupees which is also the functional currency of the Company.

Transactions in foreign currencies are translated to rupees at the rates of exchange prevailing on the date of the respective transactions. Monetary assets and liabilities in foreign currencies are translated to rupees at rates prevailing at the balance sheet date. Gains and losses resulting from the above are recognised in the profit and loss account.

2.16 Financial instruments

All financial assets and liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Any gains and losses on derecognition of financial assets and liabilities are taken to income statement currently.

2.17 Revenue recognition

(a) Local sales are recorded on the basis of products pumped in oil marketing companies' tanks.

(b) Export sales are recorded on the basis of products shipped to customers.

(c) 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, the Government effective from July 1, 2002 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 (Rs 200 million), 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.

Discount on local crude, if any, wharfage and insurance is paid to Government.

(d) Dividends are recognised when the right of receipt is established.

(e) Income on bank deposits is recognised on accrual basis.

2.18 Government grants

Government grants related to costs are deferred and recognised in the income statement as a deduction from the related expense over the period necessary to match them with the costs that they are intended to compensate.

2.19 Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved.

3. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND POLICIES

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are provision for income tax and provision for post employment benefits.

The Company recognises provision for income tax based on best current estimates. However, where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

Significant estimates relating to post employment benefits are disclosed in note 8.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management believes that the change in outcome of estimates would not have a material effect on the amounts disclosed in the financial statements.

No critical judgement has been used in applying the accounting policies.

	2007	2006
	(Rupees in thousand)	
4. FIXED ASSETS		
Property, plant and equipment		
Operating assets - note 4.1	805,841	539,611
Capital work-in-progress - note 4.2	124,834	277,123
	930,675	816,734
Intangible asset - note 4.3	21,443	-
	952,118	816,734

4.1 Operating assets

	TANGIBLE												TOTAL
	Leasehold land and improvements thereon	Buildings on leasehold land	Processing Plant	Korangi tank farm	Keamari terminal	Pipelines	Steam generation plant	Power generation, transmission and distribution	Water treatment and cooling system	Equipment including furniture	Fire fighting and tele-communication systems	Vehicles and other automotive equipment	
	(Rupees in thousand)												
Net carrying value basis													
Year ended June 30, 2007													
Opening net book value (NBV)	2,225	27,936	193,486	51,576	32,570	59,722	19,865	17,628	32,579	83,777	10,033	8,214	539,611
Additions (at cost)	-	9,227	261,455	10,833	8,842	-	-	27,695	5,204	53,290	14,251	8,355	399,152
Disposals (at NBV)	-	-	-	-	-	-	-	-	-	(284)	-	(528)	(812)
Depreciation charge	(39)	(3,127)	(71,578)	(10,155)	(2,893)	(7,982)	(3,654)	(2,501)	(5,181)	(19,540)	(1,287)	(4,173)	(132,110)
Closing net book value	**2,186**	**34,036**	**383,363**	**52,254**	**38,519**	**51,740**	**16,211**	**42,822**	**32,602**	**117,243**	**22,997**	**11,868**	**805,841**
Gross carrying value basis													
At June 30, 2007													
Cost	3,939	59,308	763,699	159,065	96,887	100,096	44,378	61,258	60,300	286,690	35,552	45,568	1,716,740
Accumulated depreciation	(1,753)	(25,272)	(380,336)	(106,811)	(58,368)	(48,356)	(28,167)	(18,436)	(27,698)	(169,447)	(12,555)	(33,700)	(910,899)
Net book value	**2,186**	**34,036**	**383,363**	**52,254**	**38,519**	**51,740**	**16,211**	**42,822**	**32,602**	**117,243**	**22,997**	**11,868**	**805,841**
Net carrying value basis													
Year ended June 30, 2006													
Opening net book value (NBV)	2,264	21,200	243,360	60,748	35,957	24,054	11,159	14,916	37,582	85,007	10,719	5,525	552,491
Additions (at cost)	-	9,217	7,838	363	247	39,768	11,322	4,741	-	17,391	619	5,792	97,298
Disposals (at NBV)	-	-	-	-	-	-	-	-	-	(56)	-	-	(56)
Depreciation charge	(39)	(2,481)	(57,712)	(9,535)	(3,634)	(4,100)	(2,616)	(2,029)	(5,003)	(18,565)	(1,305)	(3,103)	(110,122)
Closing net book value	2,225	27,936	193,486	51,576	32,570	59,722	19,865	17,628	32,579	83,777	10,033	8,214	539,611
Gross carrying value basis													
At June 30, 2006													
Cost	3,939	50,081	502,244	148,232	88,045	100,096	44,378	33,563	55,096	235,621	21,301	40,861	1,323,457
Accumulated depreciation	(1,714)	(22,145)	(308,758)	(96,656)	(55,475)	(40,374)	(24,513)	(15,935)	(22,517)	(151,844)	(11,268)	(32,647)	(783,846)
Net book value	2,225	27,936	193,486	51,576	32,570	59,722	19,865	17,628	32,579	83,777	10,033	8,214	539,611
Depreciation rate													
% per annum	1	5 to 20	10 to 33	10	5 to 10	10	10	10	10	10 to 33	5 to 10	25	

4.1.1 Details of fixed assets disposed off during the year:

There were no disposals of assets having net book value exceeding Rs 50,000 except for a motor vechicle in respect of which an insurance claim amounting to Rs 678,000 was received during the year.

Assets disposed off having net book value not exceeding Rs 50,000 are as follows:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds
	(Rupees in thousand)			
Equipment including furniture (in aggregate)	1,563	1,279	284	352
Vehicles and other automotive equipment (in aggregate)	3,058	3,058	-	1,224
	4,621	4,337	284	1,576
Assets written off				
Equipment including furniture (in aggregate)	658	658	-	-
	5,279	4,995	284	1,576

	2007	2006
	(Rupees in thousand)	
4.2 Capital work-in-progress - at cost		
Buildings	17,292	11,268
Processing plant	13,958	198,022
Korangi tank farm	52,454	33,442
Keamari terminal	9,554	5,682
Pipelines	3,455	1,518
Steam generation plant	-	228
Power generation, transmission and distribution	5,996	53
Water treatment and cooling systems	5,103	7,454
Equipment	12,806	18,239
Fire fighting and telecommunication systems	4,216	1,217
	124,834	277,123

	2007	2006
	(Rupees in thousand)	
4.3 Intangible - Computer software		
Net carrying value basis		
Opening net book value (NBV)	-	-
Additions (at cost) - note 4.3.1	22,056	
Amortisation charge	(613)	-
Closing net book value	21,443	-
Gross carrying value basis		
Cost	33,834	11,778
Accumulated amortisation	(12,391)	(11,778)
Net book value	21,443	-
Amortisation is charged at the rate of 33.33% per annum.		

4.3.1 This represents capitalisation of a computer software named 'Advanced Process Control' (APC) for crude unit (CDU).

	2007	2006
	(Rupees in thousand)	
5. INVESTMENT IN ASSOCIATE		
Investment in related party		
In an unquoted associated company - equity method		
850,401 (2006: 850,401) fully paid ordinary shares of Rs. 10 each of Pak Grease Manufacturing Company (Private) Limited - note 5.1	54,077	50,609
5.1 The Company holds 27.26% (2006: 27.26%) of the investee's total equity.		
Opening balance	50,609	50,298
Share of income for the year	6,949	19,568
Change in fair value reserve on account of available for sale investment	3,322	(13,729)
Dividend received	(6,803)	(5,528)
	54,077	50,609

	2007	2006
	(Rupees in thousand)	
5.2 Summarised results of the Company's associate (2007: unaudited) are as follows:		
Total assets	215,570	209,780
Total liabilities	17,206	25,141
Revenue	165,599	171,350
Profit after tax	25,491	70,787
6. LONG-TERM LOANS AND ADVANCES - secured and considered good		
To executives	6,120	6,864
To other employees	14,292	13,211
	20,412	20,075
Recoverable within one year - note 12		
Executives	(3,221)	(2,865)
Other employees	(6,248)	(5,979)
	(9,469)	(8,844)
	10,943	11,231
Reconciliation of carrying amount of loans to executives		
Opening balance	6,864	2,135
Promotion to executive	63	562
Disbursements	4,514	6,236
Repayments	(5,321)	(2,069)
	6,120	6,864

The maximum amount due from executives at the end of any month during the year was Rs. 7.33 million (2006: Rs 6.86 million).

The loans and advances to all eligible employees are given in accordance with the Company's policy for payment of house rent, to defray personal expenditure and for purchase of motor vehicles. These carry interest ranging from 1% to 10% per annum and are repayable over a period of three to six years.

	2007	2006
	(Rupees in thousand)	
7. DEFERRED TAXATION		
Debit / (Credit) balance arising in respect of temporary differences:		
stores, spares and chemicals	8,756	7,389
property, plant and equipment	(7,852)	(707)
investment in associate	(5,320)	(2,487)
excess of minimum tax over normal tax - note 7.1	42,999	-
	38,583	4,195

7.1 Management believes that sufficient profits will be available in future periods to take benefit of excess of minimum tax paid over normal tax.

8. RETIREMENT BENEFITS

	PENSION FUNDS				GRATUITY FUNDS			
	Management		Non-Management		Management		Non-Management	
	2007	2006	2007	2006	2007	2006	2007	2006
	(Rupees in thousand)							
8.1 Expense / (income) recognised during the year								
Current service cost	16,351	13,923	834	586	2,856	2,508	562	450
Interest cost	38,367	34,048	2,210	1,844	4,227	3,610	729	553
Expected return on plan assets	(38,027)	(31,661)	(315)	(372)	(4,207)	(3,585)	(2,204)	(1,866)
Amortisation of past service cost	145	145	543	543	-	-	-	-
Net actuarial loss / (gain) recognised	-	-	673	343	-	-	(484)	(437)
	16,836	16,455	3,945	2,944	2,876	2,533	(1,397)	(1,300)
Amount not recognised as an asset	-	-	-	-	1,014	-	7,843	-
	16,836	16,455	3,945	2,944	3,890	2,533	6,446	(1,300)
8.2 Balance sheet reconciliation								
Prepayment / (liability) as at July 1	27,780	(333)	(5,628)	(2,684)	2,667	(4,853)	6,446	5,146
(Expense) / income recognised during the year	(16,836)	(16,455)	(3,945)	(2,944)	(3,890)	(2,533)	(6,446)	1,300
Contributions	28,705	39,568	5,200	-	6,383	10,053	-	-
Prepayment / (liability) as at June 30	34,649	22,780	(4,373)	(5,628)	5,160	2,667	-	6,446
8.3 Prepayment / (liability) as at June 30								
Present value of obligations to members	(451,412)	(424,303)	(20,769)	(24,634)	(48,544)	(48,401)	(6,120)	(8,283)
Obligation to company	-	-	-	-	-	-	(2,071)	(2,071)
Fair value of plan assets	456,440	421,475	7,740	3,301	55,871	48,165	31,325	25,654
Funded status	5,028	(2,828)	(13,029)	(21,333)	7,327	(236)	23,134	15,300
Unrecognised net actuarial loss / (gain)	28,028	23,870	4,711	11,217	(1,153)	2,903	(15,291)	(8,854)
Unrecognised past service cost	1,593	1,738	3,945	4,488	-	-	-	-
Amount not recognised as an asset	-	-	-	-	(1,014)	-	(7,843)	-
Prepayment / (liability) as at June 30	34,649	22,780	(4,373)	(5,628)	5,160	2,667	-	6,446
Actual return on plan assets	35,619	40,135	197	183	8,023	8,009	5,671	4,227

	PENSION FUNDS				GRATUITY FUNDS			
	Management		Non-Management		Management		Non-Management	
	2007	2006	2007	2006	2007	2006	2007	2006
	(Rupees in thousand)							
8.4 Movement in defined benefit obligation								
Beginning of the year	424,303	377,061	24,634	20,709	48,401	39,985	8,283	5,954
Current service cost	16,351	13,923	834	586	2,856	2,508	562	450
Interest cost	38,367	34,048	2,210	1,844	4,227	3,610	729	553
Acturial (gains) / losses	1,750	11,722	(5,951)	2,472	(240)	3,729	(3,454)	1,326
Actual benefits paid by the Fund during the year	(29,359)	(12,451)	(958)	(977)	(6,700)	(1,431)	-	-
End of year	451,412	424,303	20,769	24,634	48,544	48,401	6,120	8,283
8.5 Movement in the fair value of plan assets								
Beginning of the year	421,475	351,129	3,301	4,095	48,165	39,695	25,654	21,427
Adjustment	(3,094)	3,094	-	-	-	(8,161)	-	-
	418,381	354,223	3,301	4,095	48,165	31,534	25,654	21,427
Expected return on assets	38,027	31,661	315	372	4,207	3,585	2,204	1,866
Actual contributions by the employer	28,705	39,568	5,200	-	6,383	10,053	-	-
Actual benefits paid by the Fund during the year	(29,359)	(12,451)	(958)	(977)	(6,700)	(1,431)	-	-
Asset Gain / (Loss)	686	8,474	(118)	(189)	3,816	4,424	3,467	2,361
End of year	456,440	421,475	7,740	3,301	55,871	48,165	31,325	25,654

	2007	2006
8.6 The principal actuarial assumptions used were as follows:		
Discount rate	10%	9%
Expected return on plan assets	10%	9%
Future salary increases	10%	9%
Future pension increases	5%	4%

	2007	2006	2005	2004	2003
	(Rupees in thousand)				
8.7 Comparison for five years					
MANAGEMENT PENSION FUND					
Present value of defined benefit obligation	(451,412)	(424,303)	(377,061)	(315,022)	(278,258)
Obligation to Company	-	-	-	(8,522)	-
Fair value of plan assets	456,440	421,475	351,129	311,579	265,996
Surplus/(Deficit)	5,028	(2,828)	(25,932)	(11,965)	(12,262)
Experience loss on obligation	1,750	11,722	44,420	22,764	54,729
Experience (loss)/gain on plan assets	(2,408)	8,474	35,602	26,710	17,240
NON-MANAGEMENT PENSION FUND					
Present value of defined benefit obligation	(20,769)	(24,634)	(20,709)	(22,618)	(18,333)
Fair value of plan assets	7,740	3,301	4,095	4,737	5,006
Deficit	(13,029)	(21,333)	(16,614)	(17,881)	(13,327)
Experience (gain)/loss on obligation	(5,951)	2,472	3,335	3,158	(1,974)
Experience (loss)/gain on plan assets	(118)	(189)	(164)	(171)	110
MANAGEMENT GRATUITY FUND					
Present value of defined benefit obligation	(48,544)	(48,401)	(39,985)	(33,233)	(30,694)
Obligation to Company	-	-	(8,162)	(2,134)	-
Fair value of plan assets	55,871	48,165	39,695	33,927	30,105
Surplus/(Deficit)	7,327	(236)	(8,452)	(1,440)	(589)
Experience (gain)/loss on obligation	(240)	3,729	4,856	3,398	4,309
Experience gain on plan assets	3,816	4,424	3,230	2,551	1,519
NON-MANAGEMENT GRATUITY FUND					
Present value of defined benefit obligation	(6,120)	(8,283)	(5,954)	(8,852)	(8,256)
Obligation to Company	(2,071)	(2,071)	(2,071)	(1,395)	-
Fair value of plan assets	31,325	25,654	21,427	18,019	15,427
Surplus	23,134	15,300	13,402	7,772	7,171
Experience (gain)/loss on obligation	(3,454)	1,326	(56)	725	(3,648)
Experience gain on plan assets	3,467	2,361	1,892	1,518	837

	PENSION FUNDS				GRATUITY FUNDS			
	Management		Non-Management		Management		Non-Management	
	2007	2006	2007	2006	2007	2006	2007	2006
8.8 Plan assets comprise the following:								
Equity	**6.6%**	13.4%	**0.0%**	0.0%	**0.6%**	0.1%	**0.7%**	0.7%
Debt	**92.5%**	86.0%	**96.9%**	76.5%	**93.9%**	93.4%	**99.3%**	99.3%
Others	**0.9%**	0.6%	**3.1%**	23.5%	**5.5%**	6.5%	**0.0%**	0.0%
	100%	100%	**100%**	100%	**100%**	100%	**100%**	100%

	2007	2006
	Years	
The average life expectancy of a pensioner retiring at age 60 on the balance sheet date is as follows:		
Male	16.8	16.8
Female	21.2	21.2
The average life expectancy of a pensioner retiring at age 60, 20 years after the balance sheet date is as follows:		
Male	17.8	17.8
Female	21.7	21.7

8.9 During the year, Company recognised Rs. 7.83 million (2006: Rs. 6.89 million) as contribution for employees' provident fund.

	2007	2006
	(Rupees in thousand)	
9. STORES, SPARES AND CHEMICALS		
Stores	23,634	67,735
Spares	214,347	217,545
Chemicals	16,406	18,627
	254,387	303,907
Provision for slow moving stores, spares and chemicals	(25,016)	(21,110)
	229,371	282,797
10. STOCK-IN-TRADE		
Raw material		
Crude oil [including in transit Rs. 38.50 million (2006: Rs. 12.65 million)]	3,279,878	2,642,301
Finished products	1,827,903	1,201,321
	5,107,781	3,843,622
11. TRADE DEBTS - considered good		
Due from related parties - note 11.1	4,112,174	2,718,432
Others	667,291	956,342
	4,779,465	3,674,774

11.1 These represent receivables from Pakistan State Oil Company Limited, Shell Pakistan Limited and Chevron (Pakistan) Limited and are in the normal course of business.

	2007	2006
	(Rupees in thousand)	
12. LOANS AND ADVANCES - considered good		
Loans and advances recoverable within one year - note 6		
Executives	3,221	2,865
Other employees	6,248	5,979
	9,469	8,844
Advances for supplies and services	12,970	17,008
	22,439	25,852

13. ACCRUED INTEREST / MARK UP

This represents interest accrued on term deposits.

	2007	2006
	(Rupees in thousand)	
14. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS		
Trade deposits	664	580
Short-term prepayments	48,427	55,445
	49,091	56,025
15. OTHER RECEIVABLES		
Receivable from related parties		
Provident Fund	1,876	-
Non-management staff gratuity fund	2,071	2,071
Insurance commission receivable - note 15.1	7,606	-
Workers' profits participation fund - note 20.4	2,915	-
Others	1,423	1,461
	15,891	3,532

15.1 The balance includes Rs 6.98 million receivable from Central Insurance Company Limited.

	2007	2006
	(Rupees in thousand)	
16. INVESTMENTS		
Financial assets at fair value through profit and loss		
Investment in open ended mutual fund - held for trading		
1,830,198 (2006: 19,948) units of United Money Market Fund	201,769	2,199
17. CASH AND BANK BALANCES		
With banks on		
current accounts	13,350	3,454
savings accounts	652,082	454,277
term deposits - 17.1	1,027,794	1,900,000
Cash and cheques in hand	5,051	5,376
	1,698,277	2,363,107

17.1 This includes an amount of Rs 725 million that has been deposited for a period of 90 days in accordance with the notification of MoP & NR as described in note 20.2.

17.2 As at June 30, 2007 the effective rates of mark-up on savings accounts and term deposits range from 0.50 % to 12 % per annum (2006: 0.75 % to 10 % p.a). Maturity of term deposits ranges from 2 days to 89 days (2006: 3 days to 86 days).

	2007	2006
	(Rupees in thousand)	
18. SHARE CAPITAL		
Authorised		
40,000,000 'A' ordinary shares of Rs. 10 each	400,000	400,000
60,000,000 'B' ordinary shares of Rs. 10 each	600,000	600,000
	1,000,000	1,000,000

Issued, subscribed and paid-up
Ordinary shares of Rs. 10 each

2007	2006		2007	2006
2,400,000	2,400,000	'A' ordinary shares fully paid in cash	24,000	24,000
3,600,000	3,600,000	'B' ordinary shares fully paid in cash	36,000	36,000
6,000,000	6,000,000		60,000	60,000
9,600,000	7,600,000	'A' ordinary shares issued as fully paid bonus shares	96,000	76,000
14,400,000	11,400,000	'B' ordinary shares issued as fully paid bonus shares	144,000	114,000
24,000,000	19,000,000		240,000	190,000
30,000,000	25,000,000		300,000	250,000

	2007	2006
	Number of Shares (in thousand)	
18.1 RECONCILIATION OF NUMBER OF ORDINARY SHARES OUTSTANDING		
At the beginning of the year	25,000	20,000
Issue of 1 bonus share for every 5 (2006: 4) shares held - Note 18.2	5,000	5,000
At the end of the year	30,000	25,000

18.2 Issue of bonus shares

The Company made a bonus issue of 20% (i.e. one bonus share for every five shares held) accumulating to Rs. 50 million out of the reserves available as at June 30, 2006 in its annual general meeting held on September 21, 2006.

18.3 As at June 30, 2007 the number of ordinary shares held by associates was 18,009,580 shares of Rs. 10 each (2006: 17,341,317).

19. SPECIAL RESERVE

This represents the reserve created under the Ministry of Petroleum and Natural Resources' (the Ministry) directive making the new tariff protection formula applicable to the Company, as described in note 2.17(c). This amount is not available for distribution to shareholders.

The Ministry through its directive further clarified that the refineries can distribute dividend out of net profit after tax up to a maximum of 50% of the paid-up capital of the Company as at the date of applicability of the tariff protection formula i.e. July 1, 2002 and the remaining amount should be transferred to the Special Reserve.

	2007	2006
	(Rupees in thousand)	
20. TRADE AND OTHER PAYABLES		
Creditors - note 20.1 and 20.2	8,465,693	6,324,011
Accrued liabilities	196,228	157,076
Advances from Customers- note 20.1	127,483	11,114
Payable to the Government - note 20.3	667,298	468,731
Retention money	3,969	1,046
Workers' profits participation fund - note 20.4	-	21,515
Workers' welfare fund	44,263	58,986
Unclaimed dividend	18,971	19,049
Tax deducted at source	2,033	702
Others	987	1,514
	9,526,925	7,063,744
20.1 Related party balances		
Creditors } note 20.1.1	3,013	18,957
Advances from customers } note 20.1.1	20,014	8,051

20.1.1 These include payables to Central Insurance Company Limited, and advances from Pakistan State Oil Company Limited, Shell Gas LPG (Pakistan) Limited and Chevron (Pakistan) Limited.

20.2 These include Rs 1.36 billion representing amount payable in respect of local crude supplies exceeding the maximum slab rates for calculation of discount to government as provided in the respective Crude Oil Sale and Purchase Agreements (COSAs). The Ministry of Petroleum and Natural Resources (MoP & NR) through its directive dated December 17, 2005 instructed the refineries to withhold such payments until the matter is resolved among the parties to the above agreements. Further, through another directive dated December 23, 2006 MoP & NR instructed refineries to release 50% of the amount witheld to all the producers in respect of fields of which COSAs are not finalised and to deposit the remaining 50% in 90 days interest bearing accounts.

20.3 The balance is net of Rs 134 million receivable from the Government of Pakistan in respect of price differential claims. Such claims resulted from restricting the ex-refinery prices charged by the Company to the oil marketing companies on instructions from the MoP & NR.

	2007	2006
	(Rupees in thousand)	
20.4 WORKERS' PROFIT PARTICIPATION FUND		
Balance as at July 1	21,515	139,430
Allocation for the year	27,106	110,736
Interest on funds utilised in company's business	464	1,349
	49,085	251,515
Amount paid to		
Trustees	(30,000)	-
Government	(22,000)	(230,000)
	(52,000)	(230,000)
Balance as at June 30	(2,915)	21,515

21. SHORT-TERM BORROWINGS

Running finance under mark-up arrangements

The running finance facilities available under mark-up arrangements from various banks amounted to Rs 2.57 billion (2006: Rs 2.57 billion).

The arrangements are secured by way of hypothecation over stock of crude oil and finished products and trade debts of the Company.

The rates of mark-up range between 9.12 % to 11.5 % per annum as at June 30, 2007 (2006: 9.54% to 10.46% per annum). The purchase prices are payable by November, 2007.

21.1 Unutilised credit facility

The facility for opening letters of credit and guarantees as at June 30, 2007 amounted to Rs 13.29 billion (2006: Rs 12.90 billion) of which the amount remaining unutilised at year end was Rs 11.4 billion (2006: Rs 11.00 billion).

22. COMMITMENTS

22.1 Aggregate commitments for capital expenditure as at June 30, 2007 amounted to approximately Rs 18.89 million (2006: Rs 38.56 million).

22.2 Commitments for rentals under lease agreements amounted to Rs 32.19 million (2006: Rs 18.84 million), payable as follows:

	2007	2006
	(Rupees in thousand)	
Not later than 1 year	9,477	5,890
Later than 1 year but not later than 5 years	22,717	12,952
	32,194	18,842

23. SALES

	2007	2006
Gross sales - note 23.1 and 23.2	67,385,920	71,991,159
Less:		
- Sales tax	(7,681,796)	(8,602,757)
- Excise duty and development surcharge - note 23.3	(2,300,059)	(2,425,202)
	57,404,065	60,963,200

23.1 These include price differential claims from the Government amounting to Rs 86.21 million (2006: Rs. 105.36 million) - Note 23.3

23.2 Sales pertaining to the year are based on prices notified by OGRA which are subject to policy clarification from the Federal Government. Any subsequent adjustment arising therefrom shall be accounted for as and when the said policy is finalised.

23.3 Excise duty invoiced to customers in line with Federal Excise Act, 2005 has been included in the gross sales and separately presented as a deduction therefrom. Effective June 10, 2007, excise duty has been withdrawn.

24. OPERATING COSTS

	Cost of sales		Distribution cost		Administrative expenses		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	(Rupees in thousand)							
Crude oil consumed - note 24.1	56,317,752	58,288,867	-	-	-	-	56,317,752	58,288,867
Stores, spares and chemicals	148,919	84,894	-	-	-	-	148,919	84,894
Consultancy	10,078	24,421	-	-	-	-	10,078	24,421
Transportation and handling charges	-	-	3,000	18,708	-	-	3,000	18,708
Fuel, power and water	247,794	244,566	6,390	6,117	1,793	1,608	255,977	252,291
Salaries and wages	198,210	158,579	17,230	13,361	58,057	47,063	273,497	219,003
Retirement benefits	30,004	20,870	2,020	1,706	6,921	4,942	38,945	27,518
Repairs and maintenance	92,638	66,880	15,530	8,495	2,088	1,702	110,256	77,077
Insurance	34,730	32,657	12,580	11,558	3,946	2,719	51,256	46,934
Staff transport	9,742	9,076	1,549	1,279	4,362	3,186	15,653	13,541
Lease rentals	4,123	2,756	326	171	4,154	2,733	8,603	5,660
Depreciation	115,035	88,276	11,408	12,695	5,667	9,151	132,110	110,122
Amortisation of intangible	613	-	-	-	-	-	613	-
Travelling and entertainment	4,753	7,000	405	469	8,794	11,122	13,952	18,591
Subscription	4,888	3,717	2,916	1,664	2,395	962	10,199	6,343
Rent, rates and taxes	19,485	12,247	12,628	5,796	-	-	32,113	18,043
Security expenses	7,210	6,015	2,812	2,148	-	-	10,022	8,163
Publicity	-	-	-	-	2,461	1,957	2,461	1,957
Printing and stationery	-	-	-	-	4,247	3,845	4,247	3,845
Computer related and software license expenses	-	-	-	-	4,929	7,494	4,929	7,494
Communication	-	-	-	-	5,353	5,906	5,353	5,906
Directors' fee	-	-	-	-	272	272	272	272
Legal and professional charges	-	-	-	-	4,861	3,252	4,861	3,252
Auditors' remuneration - note 24.2	-	-	-	-	3,694	3,859	3,694	3,859
Other expenses	8,722	6,184	640	585	10,983	9,430	20,345	16,199
Cost of goods manufactured	57,254,696	59,057,005	89,434	84,752	134,977	121,203	57,479,107	59,262,960
Opening stock of finished products	1,201,321	706,103						
Closing stock of finished products	(1,827,903)	(1,201,321)						
	56,628,114	58,561,787						

24.1 Crude oil consumed

	2007	2006
Opening stock	2,642,301	1,334,846
Purchases	56,086,782	59,034,938
Discount to Government	868,547	561,384
Closing stock	(3,279,878)	(2,642,301)
	56,317,752	58,288,867

	2007	2006
	(Rupees in thousand)	
24.2 Auditors' remuneration		
Audit fee	550	500
Taxation services	1,500	1,635
Limited review, special reports and certifications, consultation services and audit of staff retirement funds	1,394	1,474
Out of pocket expenses	250	250
	3,694	3,859
25. OTHER OPERATING EXPENSES		
Donations - note 25.1	8,855	21,191
Workers' profits participation fund	27,106	110,736
Workers' welfare fund	10,291	39,257
Reversal of accrued interest income	-	14,062
	46,252	185,246

25.1 Donations

Donations include the following in whom a director, Mr. Farooq Rahmatullah is interested:

		2007	2006
		(Rupees in thousand)	
Interest in Donee	**Name and address of Donee**		
Member Resource Development Committee	Aga Khan University Hospital Stadium Road, Karachi	1,000	1,000

	2007	2006
26. OTHER INCOME		
Income from financial assets		
Profit on savings accounts and term deposits	37,187	32,064
Gain on redemption of open ended mutual fund units	2,444	2,180
Gain on re-measurement of fair value of open ended mutual fund units	1,769	19
Others		
Rent of equipment, storage and handling charges [including Rs 1.58 million (2006: Rs 2.54 million) from related parties]	10,050	22,116
Insurance commission [including Rs 6.98 million (2006: Rs 5.38 million) from a related party]	7,606	7,097
Sale of scrap	7,250	9,719
Gain on disposal of fixed assets	1,442	954
Others	5,998	453
	73,746	74,602

	2007	2006
	(Rupees in thousand)	
27. FINANCE COSTS		
Mark-up on		
running finance under mark-up arrangements	76,638	28,834
short-term finance	-	6,968
Interest on workers' profits participation fund	464	1,349
Bank charges	1,316	1,604
Exchange loss	3,300	2,244
	81,718	40,999
28. TAXATION		
Current - for the year	288,440	726,621
Deferred	(34,989)	(8,180)
	253,451	718,441
28.1 Relationship between tax expense and accounting profit		
Accounting profit	504,265	2,063,383
Tax at the applicable tax rate of 35%	176,493	722,184
Expenses not deductible for tax purposes	24,295	27,445
Income not subject to tax	(1,475)	(763)
Effect of applicability of final tax	54,138	(30,425)
Tax expense for the year	253,451	718,441
29. EARNINGS PER SHARE		
Profit after taxation attributable to ordinary shareholders	250,814	1,344,942
Number (in thousand) of ordinary shares of Rs.10 each issued and subscribed at the end of the year	30,000	30,000
Basic and diluted earnings per share	Rs. 8.36	Rs. 44.83

For the purposes of calculating earnings per share, number of ordinary shares outstanding as at June 30, 2006 has been increased to reflect the bonus shares issued during the year.

30. REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND EXECUTIVES

The aggregate amounts of remuneration including all benefits to Directors, Chief Executive and Executives of the Company are as follows

	2007			2006		
	Directors	Chief Executive	Executives	Directors	Chief Executive	Executives
	(Rupees in thousand)					
Fees	272	-	-	264	-	-
Managerial remuneration	113	4,327	60,135	112	3,643	36,977
Honorarium	600	-	-	-	-	-
Retirement benefits	-	1,018	12,882	-	786	8,486
Housing	-	1,351	15,863	-	1,043	11,000
Utilities	-	300	3,732	-	232	2,383
Leave passage	-	348	4,260	-	304	2,810
Club memberships	-	-	1,515	-	1,101	2,541
Others	36	72	3,630	-	24	1,874
	36	2,071	29,000	-	2,704	20,608
	1,021	7,416	102,017	376	7,133	66,071
Number of persons	10	1	36	10	1	27

One director, the Chief Executive and certain executives of the company are provided with free use of cars and household equipments.

31. TRANSACTIONS WITH RELATED PARTIES

	Relationship	Nature of transaction	2007	2006
			(Rupees in thousand)	
1	Associated companies	Dividend received	6,803	5,528
		Sale of goods	44,796,012	51,905,188
		Sale of services	1,580	2,265
		Purchase of services	13,297	35,714
2	Entities whose directors and that of the Company have been appointed by the same person(s)	Sale of goods	1,206,089	-

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

	2007	2006
	(Rupees in thousand)	
Key management compensation:		
Salaries and other short-term employee benefits	43,722	32,561
Post-employment benefits	6,115	4,546
	49,837	37,107

The status of outstanding balances in respect of related parties as at June 30, 2007 is included in trade debts, other receivables and trade and other payables.

32. CAPACITY AND ACTUAL PERFORMANCE

Against the designed nominal annual capacity of 2,133,705 metric tons, the actual throughput during the year excluding turnaround period of 28 days for which the refinery remained shut down was 1,978,563 metric tons (2006: 2,176,818 metric tons).

33. FINANCIAL INSTRUMENTS

33.1 Financial assets and liabilities

	Interest / Mark-up bearing			Non-interest bearing			Total
	Maturity up to one year	Maturity after one year	Total	Maturity up to one year	Maturity after one year	Total	
	(Rupees in thousand)						
FINANCIAL ASSETS							
Loans to employees	6,986	8,976	15,962	2,483	1,967	4,450	20,412
Deposits	-	-	-	-	2,887	2,887	2,887
Trade debts	-	-	-	4,779,465	-	4,779,465	4,779,465
Accrued interest / mark-up	-	-	-	7,726	-	7,726	7,726
Other receivables	-	-	-	12,976	-	12,976	12,976
Financial assets at fair value through profit and loss	-	-	-	201,769	-	201,769	201,769
Cash and bank balances	1,679,876	-	1,679,876	18,401	-	18,401	1,698,277
2007	1,686,862	8,976	1,695,838	5,022,820	4,854	5,027,674	6,723,512
2006	2,361,375	8,603	2,369,978	3,693,013	4,854	3,697,867	6,067,845
FINANCIAL LIABILITIES							
Trade and other payables	-	-	-	9,353,146	-	9,353,146	9,353,146
Accrued interest / mark-up	-	-	-	1,989	-	1,989	1,989
2007	-	-	-	9,355,135	-	9,355,135	9,355,135
2006	29,080	-	29,080	6,980,209	-	6,980,209	7,009,289

33.2 Financial risk management objectives and policies

The company finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimise risk.

Taken as a whole, risk arising from the company's financial instruments is limited as there is no significant exposure to price and cash flow risk in respect of such instruments.

(i) Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties failed to perform as contracted. The financial assets that are subject to credit risk amount to Rs 4.78 billion (2006: Rs 3.67 billion).

The company believes that it is not exposed to any major credit risk as it operates in an essential products industry and has as its customers only a few sound organisations.

(ii) Foreign exchange risk

Foreign currency risk arises mainly when payables exist due to transactions in foreign currencies. Amounts exposed to such risk included in creditors are Rs 2.82 billion (2006: Rs 3.71 billion).

(iii) Liquidity Risk

The company manages liquidity risk by maintaining sufficient cash balances and the availability of financing through banking arrangements.

(iv) Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

	2007	2006
	(Rupees in thousand)	
34. CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	504,265	2,063,383
Adjustments for non-cash charges and other items		
Depreciation / Amortisation	132,723	110,122
Share of income of associate	(6,949)	(19,568)
Gain on disposal of property, plant and equipment	(1,442)	(954)
Mark-up expense	76,638	35,802
Provision for defined benefit retirement plans	31,117	20,632
	232,087	146,034
Working capital changes - note 34.1	(702,837)	1,066,381
Cash generated from operations	33,515	3,275,798

34.1 Working capital changes

	2007	2006
(Increase) / Decrease in current assets		
Stores, spares and chemicals	53,426	(72,843)
Stock-in-trade	(1,264,159)	(1,802,673)
Trade debts	(1,104,691)	249,874
Loans and advances	3,413	(8,520)
Accrued interest / mark-up	(6,455)	12,791
Trade deposits and short-term prepayments	6,934	(6,157)
Other receivables	(12,359)	9,029
Tax refunds due from Government - Sales tax	(642,635)	(428,699)
Investments	(199,570)	(2,199)
	(3,166,096)	(2,049,397)
Increase in trade and other payables	2,463,259	3,115,778
	(702,837)	1,066,381

	2007	2006
	(Rupees in thousand)	

35. CASH AND CASH EQUIVALENTS

	2007	2006
Cash and bank balances	1,698,277	2,363,107
Short term borrowings - running finance under mark-up arrangements	-	(29,080)
	1,698,277	2,334,027

36. PROPOSED DIVIDEND

The Board of Directors in their meeting held on August 27, 2007 have proposed a cash dividend of Rs 3.33 per share accumulating to a total of Rs 100 million, that has not been accounted for in these financial statements.

37. DATE OF AUTHORISATION

These financial statements were authorised for issue on August 27, 2007 by the Board of Directors of the Company.

Farooq Rahmatullah
Chairman

Zafar Haleem
Chief Executive

Pattern of Shareholding
as at June 30, 2007

	Shareholding			
Number of Shareholders	From		To	Number of Shares Held
893	1	-	100	29,430
731	101	-	500	207,388
328	501	-	1000	253,572
512	1001	-	5000	1,156,430
77	5001	-	10000	563,066
23	10001	-	15000	272,503
19	15001	-	20000	327,494
12	20001	-	25000	275,150
5	25001	-	30000	144,998
3	30001	-	35000	97,999
2	35001	-	40000	77,040
4	40001	-	45000	165,360
2	45001	-	50000	96,500
3	50001	-	55000	156,700
4	55001	-	60000	234,300
4	60001	-	65000	243,542
1	65001	-	70000	66,897
2	70001	-	75000	149,900
-	75001	-	80000	-
1	80001	-	85000	83,622
-	85001	-	90000	-
1	90001	-	95000	90,500
-	95001	-	100000	-
1	100001	-	105000	104,761
-	105001	-	110000	-
1	110001	-	115000	110,600
-	115001	-	125000	-
2	125001	-	130000	255,899
-	130001	-	215000	-
1	215001	-	220000	216,930
-	220001	-	245000	-
1	245001	-	250000	247,800
-	250001	-	295000	-
1	295001	-	300000	300,000
-	300001	-	490000	-
1	490001	-	495000	493,394
-	495001	-	1365000	-
1	1365001	-	1370000	1,368,528
-	1370001	-	1405000	-
1	1405001	-	1410000	1,409,697
-	1410001	-	2795000	-
1	2795001	-	2800000	2,800,000
-	2800001	-	3500000	-
1	3500001	-	3650000	3,600,000
-	3650001	-	5300000	-
1	5300001	-	5450000	5,400,000
-	5450001	-	8000001	-
1	7495001	-	7500000	9,000,000
Total 2,641				30,000,000

Pattern of Shareholding
as at June 30, 2007

Shareholder's Category	No of Shareholders	No of Shares	Percentage Issued Capital
Associated Companies	5	18,009,580	60.03
NIT and ICP	3	2,791,761	9.31
Public Sector Companies and Corporations	3	793,514	2.65
Bank, DFI's, Modarba, Insurance, M.Fund	29	839,770	2.79
Joint Stock Companies and Body Corporates	58	3,115,608	10.39
Individuals	2,527	4,248,643	14.16
Others	16	201,124	0.67
Total	**2,641**	**30,000,000**	**100.00**

Associated companies, undertaking and related parties			
Shell Petroleum Co. Limited, London	1	9,000,000	30.00
Pakistan State Oil Company Limited	1	5,400,000	18.00
Chevron Texaco Global Energy Inc.	1	3,600,000	12.00
Central Insurance Company Limited	1	9,430	0.03
Dawood Corporation (Private) Limited	1	150	0.00
NIT / ICP			
National Bank of Pakistan - Trustee Dept.	1	2,778,225	9.26
Investment Corporation of Pakistan	1	2,537	0.01
National Investment Trust	1	10,999	0.04
Directors, Chief Executive and their spouses and minor children			
Mr. Hussain Dawood	1	15,349	0.05
Mr. Ardeshir Cowasjee	1	217,429	0.72
Mrs. Nancy Ardeshir Cowasjee	1	31,999	0.11
Public Sector Companies and Corporations	3	793,514	2.65
Bank, DFI's, NBFIs, Insurance Companies, Modarabas and Mutual Funds	29	839,770	2.79
			-
Joint Stock Companies and Body Corporates	58	3,115,608	10.39
			-
Individuals - other than Directors & their spouses	2,524	3,983,866	13.28
Others	16	201,124	0.67
Total	**2,641**	**30,000,000**	**100.00**

Form of Proxy

47th Annual General Meeting 2007

I/ We ____

of ______________________________________ being a Member(s)

of Pakistan Refinery Ltd. holding ______________________________

ordinary shares hereby appoint ________________________________

of __________________________ or failing him / her ____________

of ____

____

as my / our proxy in my / our absence to attend and vote for me / us and on my / our behalf at the Forty-seventh Annual General Meeting of the Company to be held on September 25, 2007 and at any adjournment thereof.

As witness my / our hand / seal this ____________ day of ____________ 2007

Signed by the ______________________________

In the presence of 1. ______________________________

____

2. ______________________________

____

Signature on Revenue Stamp of appropriate value

Shareholder No.

This signature should agree with the specimen registered with the Company.

IMPORTANT

Instruments of Proxy will not be considered as valid unless they are deposited or received at the Company's Registered Office at Korangi Creek Road, Karachi, or share registrar's office not later than 48 hours before the time of holding the meeting.

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The Secretary
Pakistan Refinery Limited
P.O. Box 4612, Korangi Creek Road, Karachi-74000, Pakistan.
Tel Off: (92-21) 5091771-79, 5091811-16
Fax: (92-21) 5060145, 5091780, Email: info@prl.com.pk
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