PRL

Half yearly report December 31, 2006

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.

Health, Safety, Environment & QUALITY POLICY

PRL is committed to the protection of environment and to ensure health and safety of its employees, customers, contractors and communities where it operates and practice quality in all its business activities so as to exceed customer expectations.

PRL is also committed to comply with the applicable laws and requirements and work with the government and other stakeholders in their development and implementation.

PRL shall continually improve the effectiveness of health, safety, environment and quality management system by achieving its commitments through:

HEALTH

PRL seeks to conduct its activities in such a way as to avoid harm to the health of its employees and others, and to promote the health of its employees as appropriate.

SAFETY

PRL works on the principle that all hazards can be prevented through effective leadership and actively promoting a high standard of safety.

ENVIRONMENT

PRL prevents pollution through progressive reduction of emissions, effluents and disposal of waste material that are known to have a negative impact on the environment.

QUALITY

PRL focuses on customers satisfaction by operating efficiently and developing a culture, which promotes innovation, error prevention and teamwork.

PRL conducts periodic audits and risk assessment of its activities, processes and products for setting and reviewing its objectives and targets to provide assurance to improve HSEQ system and loss control. PRL encourages its contractors working on its behalf or on its premises to also apply health, safety, environment and quality standards.

Zafar Haleem
Managing Director & CEO

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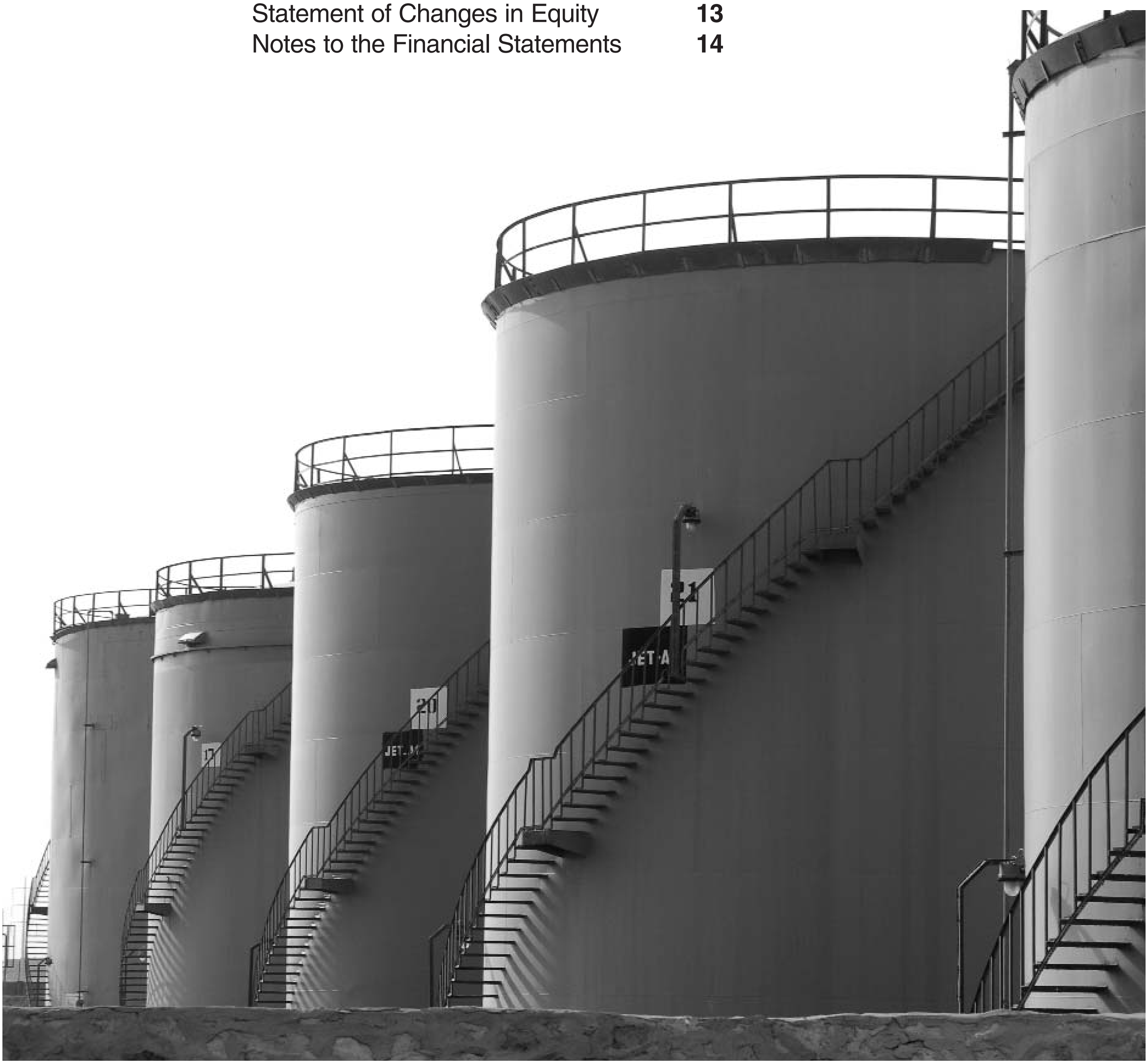

Company INFORMATION

Company Secretary Saleem Butt
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 1-A, Off. I. I. Chundrigar Road, Karachi-74000.
Bankers ■ ABN AMRO Bank N.V. ■ Askari Commercial Bank ■ Bank Alfalah Limited ■ Bank Al-Habib Limited ■ Citi Bank, N.A. ■ Habib Metropolitan Bank Limited ■ Habib Bank Limited ■ MCB Bank Limited ■ Soneri Bank Limited ■ National Bank Limited ■ Standard Chartered Bank / Union Bank Limited ■ The Hongkong and Shanghai Banking Corporation Limited ■ United Bank Limited
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Board of DIRECTORS

Farooq Rahmatullah
Chairman

Nadeem N. Jafarey
Director

Ardeshir Cowasjee
Director

S. Ali Raza
Director

Asif S. Sindhu
Director

Sabar Hussain
Director

Hussain Dawood
Director

Zaiviji Ismail bin Abdullah
Director

Ijaz Ali Khan
Director

Zafar Haleem
Managing Director & CEO

Jalees Ahmed Siddiqi
Director

Board COMMITTEES

Audit Committee

Zaiviji Ismail bin Abdullah	Chairman
Jalees Ahmed Siddiqi	Member
Asif S. Sindhu	Member
Anwar Sadiq	Secretary

Human Resources Committee

Jalees Ahmed Siddiqi	Chairman
Ijaz Ali Khan	Member
Nadeem N. Jafarey	Member

Strategic Project Committee

Hussain Dawood	Chairman
Zaiviji Ismail bin Abdullah	Member

Management COMMITTEES

Purchase Committee

Chief Financial Officer

General Manager Human Resources & Administration

General Manager Operations & Supply

Executive Committee

General Manager Human Resources & Administration

General Manager Engineering & Construction

General Manager Operations & Supply

Chief Financial Officer

Recruitment & Selection Committee

General Manager Human Resources & Administration

General Manager Commercial & Technical Services

General Manager Operations & Supply

Policies & Procedures Review Advisory Committee

General Manager Human Resources & Administration - Coordinator

General Manager Engineering & Construction

General Manager Commercial & Technical Services

Chief Financial Officer

Directors' REVIEW

The meeting of the board of directors of Pakistan Refinery Limited held on February 13, 2007 to approve and to present to the members the un-audited condensed interim financial statements for the half-year ended December 31, 2006.

The period under review has witnessed a consistent downward trend of oil prices with a corresponding effect on international refining margins. Low demand of heating oil in US due to mild weather, high product inventories and higher crude throughputs pulled down refining margins to the lowest level during the half-year.

Petroleum products consumption in the country saw an overall increase of 1.424 million tons as compared with corresponding period last year. Motor Spirit consumption decreased by 5.1% despite car sales growth of 6.7% during July to December 2006 in the country. Main reason for this decline is an availability of cheap alternative fuel CNG. Furnace Oil consumption however, increased by 73.2% due to growth in electricity requirement and frequent interruption in gas supplies.

Tariff protection formula, applicable to refining sector, remained the key-differentiating factor between the global and local refining environment. Inspite of this factor, the Company made after tax loss of Rs. 813 million. Major factors contributing to this loss were the negative margins for hydroskiming refineries due to depressed product prices, closure of refinery for 28 days Turn-around and recording a Net Realisable Value (NRV) adjustment on the closing stock. This adjustment is the consequence of reduction in product prices effective in the month of January 2007. The adjustment will be reversed in the next period to reflect the actual amount realised from these stocks.

During the period under review, your refinery operated at a capacity of 5,471 MT/Day. The refinery processes primarily Arabian Light 53.5% along with 8.6% local crude and condensate. The major event of the first six months of the year is the successful completion of 28 days Turn-around which was carried out in the month of August 2006. The suspension of refinery operations during such period has affected sales revenue, that has decreased by 13.27% in comparison with the corresponding half-year turnover.

Your Company successfully cleared the re-certification audit of ISO-9001, ISO-14001 and OHSAS-18001 Standards. At the end of the half-year, your Company achieved 11.90 million man-hours without Lost Time Injury and thereby setting a new HSE standard for the competitors.

The board of directors' would like to thank its valued customers and also place on record its appreciation for the hard work, dedication, professionalism and sincere efforts of all employees of the Company for the continuous support.

On behalf of the Board of Directors

Farooq Rahmatullah
Chairman

Zafar Haleem
Chief Executive

Karachi: February 13, 2007

Review Report
TO THE MEMBERS

We have reviewed the annexed condensed interim balance sheet of Pakistan Refinery Limited as at December 31, 2006 and the related condensed interim profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the "condensed interim financial statements"), for the half year then ended. These condensed interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these condensed interim financial statements based on our review. The figures of the condensed interim profit and loss account for the quarters ended December 31, 2005 and 2006 have not been reviewed as we are required to review only the cumulative figures for the half year ended December 31, 2006.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the condensed interim financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the annexed condensed interim financial statements are not presented fairly, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

A. F. Ferguson & Co.
Chartered Accountants

Karachi: February 13, 2007

Condensed Interim
BALANCE SHEET

as at December 31, 2006

	Note	Unaudited December 31, 2006	Audited June 30, 2006
		(Rupees in thousand)	
ASSETS			
Non-current assets			
Fixed assets	2	**909,464**	816,734
Investment in associate		**52,715**	50,609
Long-term loans and advances		**12,855**	11,231
Long-term deposits		**2,887**	2,887
Deferred taxation		**453,342**	4,195
Retirement benefit obligations - prepayments		**34,388**	31,893
		1,465,651	917,549
Current assets			
Stores, spares and chemicals		**220,333**	282,797
Stock-in-trade		**3,688,168**	3,843,622
Trade debts		**5,449,926**	3,674,774
Loans and advances		**36,042**	25,852
Accrued interest / mark-up		**6,210**	1,271
Trade deposits and short-term prepayments		**35,673**	56,025
Other receivables		**7,261**	3,532
Tax refunds due from Government - Sales tax		**1,020,245**	833,671
Financial assets at fair value through profit and loss		**-**	2,199
Cash and bank balances		**829,496**	2,363,107
		11,293,354	11,086,850
Total assets		**12,759,005**	12,004,399
EQUITY AND LIABILITIES			
Share capital		**300,000**	250,000
Reserves		**26,584**	77,030
Special reserve	1.4	**3,411,258**	4,224,518
		3,737,842	4,551,548
LIABILITIES			
Non-current liabilities			
Retirement benefit obligations		**2,395**	5,628
Current liabilities			
Trade and other payables		**6,859,936**	7,063,744
Accrued interest / mark-up		**41,217**	8,782
Short-term borrowings		**1,857,459**	29,080
Taxation - provision less payments		**260,156**	345,617
		9,018,768	7,447,223
Total liabilities		**9,021,163**	7,452,851
Total equity and liabilities		**12,759,005**	12,004,399

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

Farooq Rahmatullah
Chairman

Zafar Haleem
Chief Executive

Condensed Interim
PROFIT & LOSS ACCOUNT

for the half year ended December 31, 2006 (Unaudited)

	For the quarter		For the half year	
	October - December 2006	October - December 2005 (Restated)	**July - December 2006**	July - December 2005 (Restated)
	------------------------(Rupees in thousand)------------------------			
Sales	**16,710,745**	16,777,823	**28,854,967**	32,788,383
Less : Sales tax, excise duty and development levy	**2,767,633**	2,938,222	**4,659,597**	4,891,022
	13,943,112	13,839,601	**24,195,370**	27,897,361
Cost of sales	**(14,421,434)**	(13,455,858)	**(25,219,052)**	(26,742,784)
Gross (loss) / profit	**(478,322)**	383,743	**(1,023,682)**	1,154,577
Distribution cost	**(18,052)**	(19,789)	**(39,513)**	(55,592)
Administrative expenses	**(35,689)**	(25,960)	**(69,170)**	(51,579)
Other operating expenses	**(1,679)**	(37,316)	**(1,809)**	(88,053)
Other income	**10,876**	39,326	**30,416**	59,695
Operating (loss) / profit	**(522,866)**	340,004	**(1,103,758)**	1,019,048
Share of income of associate	**2,791**	8,193	**6,827**	8,193
Finance costs	**(34,731)**	(12,390)	**(43,942)**	(20,829)
(Loss) / Profit before taxation	**(554,806)**	335,807	**(1,140,873)**	1,006,412
Taxation - Current	**70,249**	115,481	**121,510**	351,563
- Deferred	**(443,403)**	(13,675)	**(449,123)**	(17,859)
	373,154	101,806	**327,613**	(333,704)
(Loss) / Profit after taxation	**(181,652)**	234,001	**(813,260)**	672,708
(Loss) / Earnings per share - basic and diluted	**Rs. (6.06)**	Rs. 7.80	**Rs. (27.11)**	Rs. 22.42

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

Farooq Rahmatullah
Chairman

Zafar Haleem
Chief Executive

Condensed Interim
CASH FLOW STATEMENT

for the half year ended December 31, 2006 (Unaudited)

	Note	**December 31, 2006**	December 31, 2005
		(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash (used in) / generated from operations	3	**(2,965,978)**	1,622,050
Mark-up paid		**(16,550)**	(23,393)
Taxes paid		**(206,971)**	(473,496)
Payments for defined benefit retirement plans		**(21,433)**	(4,386)
Loans and advances (net)		**(1,624)**	95
Net cash (outflow) / inflow from operating activities		**(3,212,556)**	1,120,870
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(153,679)**	(82,139)
Dividend received		**4,252**	-
Net cash outflow from investing activities		**(149,427)**	(82,139)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		**(7)**	(41,368)
Net (decrease) / increase in cash and cash equivalents		**(3,361,990)**	997,363
Cash and cash equivalents at the beginning of the period		**2,334,027**	248,487
Cash and cash equivalents at the end of the period	4	**(1,027,963)**	1,245,850

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

Farooq Rahmatullah
Chairman

Zafar Haleem
Chief Executive

Condensed Interim Statement of
CHANGES IN EQUITY

for the half year ended December 31, 2006 (Unaudited)

	SHARE CAPITAL	RESERVES — CAPITAL: Exchange Equalisation Reserve	RESERVES — CAPITAL: General Reserve	RESERVES — REVENUE: Unappropriated Profit	RESERVES — SPECIAL RESERVE	RESERVES — FAIR VALUE RESERVE	TOTAL
	(Rupees in thousand)						
Balance as at July 1, 2005	200,000	897	1,050	69,698	2,979,576	12,608	3,263,829
Net income recognised directly in equity - Change in fair value reserve on account of available for sale investments of associate	-	-	-	-	-	(175)	(175)
Profit for the half year December 31, 2005	-	-	-	672,708	-	-	672,708
Total recognised income for the half year December 31, 2005	-	-	-	672,708	-	(175)	672,533
Issue of bonus shares	50,000	-	-	(50,000)	-	-	-
Final dividend for the year June 30, 2005 @ Rs. 2.5 per share	-	-	-	(50,000)	-	-	(50,000)
	50,000	-	-	(100,000)	-	-	(50,000)
Balance as at December 31, 2005	250,000	897	1,050	642,406	2,979,576	12,433	3,886,362
Balance as at July 1, 2006	**250,000**	**897**	**1,050**	**69,698**	**4,224,518**	**5,385**	**4,551,548**
Net income recognised directly in equity - Change in fair value reserve on account of available for sale investments of associate	**-**	**-**	**-**	**-**	**-**	**(446)**	**(446)**
Loss for the half year December 31, 2006	**-**	**-**	**-**	**(813,260)**	**-**	**-**	**(813,260)**
Total recognised loss for the half year December 31, 2006	**-**	**-**	**-**	**(813,260)**	**-**	**(446)**	**(813,706)**
Issue of bonus shares	**50,000**	**-**	**-**	**(50,000)**	**-**	**-**	**-**
Loss for the half year December 31, 2006 transferred to Special Reserve	**-**	**-**	**-**	**813,260**	**(813,260)**	**-**	**-**
Balance as at December 31, 2006	**300,000**	**897**	**1,050**	**19,698**	**3,411,258**	**4,939**	**3,737,842**

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

Farooq Rahmatullah
Chairman

Zafar Haleem
Chief Executive

1. BASIS OF PREPARATION

1.1. These financial statements have been prepared in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting and are being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984 and the listing regulations of the Karachi and Lahore Stock Exchanges.

1.2. New accounting standards, interpretations and amendments in existing standards becoming mandatory for accounting periods beginning on or after January 1, 2006 are not considered to have any affect on these condensed interim financial statements. IAS-1 Presentation of Financial Statements - Capital Disclosures becoming mandatory for accounting periods beginning on or after January 1, 2007 may only impact the extent of disclosures presented.

1.3 The accounting policies and methods of computation adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual financial statements of the Company for the year ended June 30, 2006.

As at December 31, 2006, adjustments amounting to Rs. 209.7 million have been made to closing inventory to write down finished products and raw material (Crude Oil) to their Net Realisable Value.

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

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

2. FIXED ASSETS

Following are the major additions to fixed assets during the period:

	December 31, 2006	December 31, 2005
	(Rupees in thousand)	
Building	**4,196**	8,706
Processing plant, Power generation and distribution	**171,091**	2,420
Equipment including furniture	**15,281**	10,606
Vehicles and other automotive equipment	**7,093**	2,528
	197,661	24,260

3. CASH GENERATED FROM OPERATIONS

(Loss) / Profit before taxation	**(1,140,873)**	1,006,412
Adjustments for non-cash charges and other items:		
Depreciation	**60,948**	54,792
Mark-up expense	**48,985**	18,879
Provision for defined benefit retirement plans	**15,705**	11,352
Share of income of associate	**(6,827)**	(8,193)
Working capital changes - Note 3.1	**(1,943,916)**	538,808
Cash (used in) / generated from operations	**(2,965,978)**	1,622,050

3.1 Working Capital Changes

	December 31, 2006	December 31, 2005
	(Rupees in thousand)	
(Increase)/decrease in current assets		
Stores, spares and chemicals	**62,464**	(12,801)
Stocks-in-trade	**155,454**	(2,493,016)
Trade debts	**(1,775,152)**	(7,215)
Loans and advances	**(10,190)**	(4,304)
Trade deposits and short-term prepayments	**20,352**	12,717
Other receivables	**(3,729)**	(373)
Tax refund due from Government	**(186,574)**	(293,461)
Accured interest / mark-up	**(4,939)**	(35,615)
Financial assets at fair value through profit and loss	**2,199**	-
	(1,740,115)	(2,834,068)
(Decrease) / Increase in trade and other payables	**(203,801)**	3,372,876
	(1,943,916)	538,808

4. CASH AND CASH EQUIVALENTS

Cash and bank balances	**829,496**	1,545,850
Short-term borrowings	**(1,857,459)**	(300,000)
	(1,027,963)	1,245,850

5. TRANSACTIONS WITH RELATED PARTIES

Significant related party transactions are:

Relationship	Nature of transactions	Transactions during the period **December 31, 2006**	December 31, 2005
		(Rupees in thousand)	
Associated companies	Dividend income	**4,252**	2,976
	Sale of goods	**19,006,464**	24,472,435
	Sale of services	**790**	820
	Insurance premium	**8,616**	11,536

Key management employees compensation:

Salaries and other short-term employee benefits	**16,084**	12,325
Post-employment benefits	**3,210**	2,492

6. BONUS ISSUE

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 annual general meeting held on September 21, 2006.

7. CORRESPONDING FIGURES

Following reclassfication has been made in prior period's figure for better presentation.

Reclassification from component	Reclassification to component	(Rupees in thousand)
Face of Profit and loss account - Reimbursement to Government	Cost of Sales	261,736

For the purpose of calculation of earnings per share, number of ordinary shares outstanding at December 31, 2005 has been increased to reflect the bonus shares issued during the period.

8. DATE OF AUTHORISATION

These financial statements were authorised for issue on February 13, 2007 by the Board of Directors of the Company.

Farooq Rahmatullah
Chairman

Zafar Haleem
Chief Executive

PAKISTAN REFINERY LIMITED

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