

Half Yearly Report **09**

December 31,



PAKISTAN REFINERY LTD.



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 environmental friendly, and by protecting the interest of all stakeholders in a competitive market through sustainable development and quality human resources.



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COMPANY INFORMATION

Chief Financial Officer

Imran Ahmad Mirza

Company Secretary

Kashif Lawai

Auditors

A. F. Ferguson & Co.

Legal Advisor

Orr Dignam & Co.

Registrar & Share Registration Office

FAMCO Associates (Pvt) Ltd.
State Life Building 1-A, 1st Floor
I.I. Chundrigar Road, Karachi-74000

Bankers

Askari Bank Limited
Bank Alfalah Limited
Bank Al-Habib Limited
Citi Bank N.A.
Habib Metropolitan Bank Limited
Habib Bank Limited
HSBC Bank Middle East Limited
MCB Bank Limited
National Bank of Pakistan
NIB Bank Limited
Soneri Bank Limited
Standard Chartered Bank (Pakistan) Limited
The Royal Bank of Scotland Limited
United Bank Limited

Registered Office

P.O. Box 4612
Korangi Creek Road, Karachi-75190
Tel: (92-21) 3512 2131-40
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BOARD OF DIRECTORS

Mr. Farooq Rahmatullah

Chairman

Mr. Sabar Hussain

Director

Mr. Ardeshir Cowasjee

Director

Mr. Rafi Haroon Basheer

Director

Mr. Zaiviji Ismail bin Abdullah

Director

Mr. Saleem Butt

Director

Mr. Irfan K. Qureshi

Director

Mr. Khong Kok Toong

Director

Mr. Nadeem N. Jafarey

Director

Mr. Amr Ahmed

Director

Mr. Ijaz Ali Khan

Managing Director & CEO

BOARD COMMITTEES

Human Resource Committee

The HR Committee comprises of three members, including the Chairman, from the non-executive Directors of the Board. The HR Committee has been delegated the role of assisting the Board of Directors in ensuring that the Company is able to attract and retain a professional, motivated and competent workforce.

Technical Review Committee

The Board Technical Review Committee comprises of two non-executive Directors. It is responsible for removing barriers for realising the upgrade project for the Company's project team, institutionalising project execution process and governance for the upgrade project and endorsement of the investment decisions recommended by the Project Steering Committee.

Audit Committee

The Audit Committee comprises of three members, including the Chairman, from the non-executive Directors of the Board all of whom have sufficient financial management expertise. The Chief Internal Auditor is the Secretary of the Committee. The Committee assists the Board of Directors in ensuring adequate safeguard of Company's assets, effectiveness and adequacy of its system of internal controls and compliance with operational, financial and risk management policies.

MANAGEMENT COMMITTEES

Purchase Committee

Purchase Committee is responsible for ensuring that all procurement activities are conducted in a transparent and objective manner and the same is duly monitored by the senior management representatives of the Committee.

Recruitment and Selection Committee

Recruitment and Selection Committee is responsible for ensuring that the Company adds only top-class talent to its existing talent pool in order to sustain standards of professionalism and competence in the Company. The Committee consists of managers with diversified experience in order to ensure recruitment of well-rounded individuals.

Policies & Procedures Review Advisory Committee

This Committee is responsible for ensuring that Company's policies are as per market practices and in line with regulatory requirements and that well laid-out and documented procedures exist for these policies. The Committee is responsible for the regular review of these policies and procedures to ensure that they remain relevant and appropriate over time.

Ethics Committee

Ethics Committee is responsible for ensuring that Company's operations are conducted in conformity with organisational objectives and policies with high standards of values and ethical conduct. The Company has defined policies regarding harassment, acceptance of gifts, conflict of interest etc. and no deviations are tolerated.

Project Steering Committee

Project Steering Committee is responsible to facilitate and support the project manager by ensuring adequate involvement in the project by various stakeholders. It also acts in an advisory capacity regarding major decisions at venture level and scope decisions and provision of assistance for resolution of resourcing issues.

DIRECTORS' REVIEW

The Company continues to face challenges during the second quarter of the current financial year. The steep decline of accumulated reserves is mainly due to absence of a fair product pricing mechanism which is imperative for survival of refineries operating in a regulated environment. The refining sector is facing challenges on four fronts, which are international negative refining margins, Rupee depreciation, inter-corporate circular debt and unfavourable refinery product pricing mechanism.

During the quarter ended December 31, 2009 the Company incurred a post tax loss of Rs. 1,027 million compared with loss of Rs. 2,586 million during the corresponding period last year. The cumulative loss after tax for the half year ended December 31, 2009 amounted to Rs. 1,699 million as against a loss of Rs. 3,977 million for the same period last year.

Due to the prevailing liquidity and financial crisis, your Company has been forced to operate at 60 percent of its capacity during the second quarter under review and accordingly sales volumes also reduced by 12% during the current quarter while comparing with same period last year. Also all operating expenses have been severely curtailed through effective management.

During the first half of current financial year, Refinery operated at a capacity of 4,662 MT/Day as compared to 5,199 MT/Day for the corresponding period. The Refinery processed 857,860 MT of crude which was 5 percent lower than the corresponding period. Arab Light and Iran Light crudes remained the key components of crude recipe.

The Company has recognised capital work-in-progress relating to refinery up-gradation project and also deferred tax asset as more fully explained in the attached financial information. The recoverability of these assets is considerably dependent on a favourable outcome of the petroleum pricing policy. It may not be out of place to mention that the Government considers the refineries as strategic assets helping in maintaining the oil reserves and providing country-wide integrated infrastructure base for mobility of oil products in the country. In this connection, the Ministry of Petroleum & Natural Resources has been working with the Refining Sector to arrive at a suitable pricing mechanism. During the recent meetings the Government has assured the industry for an early settlement of the pricing issue.

The entire energy sector, especially refineries, is facing yet another year of inter-corporate circular debt issue. The problems of refineries compounded further during the first half of current financial year as Pak Rupee depreciated almost by 3.7 percent against US Dollar, mainly because of the decision by the State Bank of Pakistan to settle crude oil import payments through interbank market.

Despite challenges, Health, Safety, Environment and Quality (HSEQ) continues to be a top priority for your Refinery and we have successfully completed three million man-hours without any recordable injury incident.

The Board would like to thank the staff, customers and other contributing stakeholders for their continued support in ensuring operations of the Company under challenging circumstances.

On behalf of the Board of Directors.



Farooq Rahmatullah
Chairman

Karachi: February 15, 2010

AUDITORS' REPORT TO THE MEMBERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim balance sheet of Pakistan Refinery Limited as at December 31, 2009 and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity for the half year then ended (here-in-after referred to as the "interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed interim profit and loss account for the quarters ended December 31, 2009 and 2008 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2009.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as of and for the half year ended December 31, 2009 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

Without qualifying our conclusion, we draw your attention to notes 2.1 and 3 to the financial information. As explained in these notes, the recoverability of the carrying value of capital work in progress of Rs 1.37 billion relating to refinery up-gradation project and deferred tax asset of Rs 457.90 million in respect of carry forward tax losses is dependent on the timely commissioning of the up-gradation project.

A. F. Ferguson & Co.
Chartered Accountants

Karachi: February 15, 2010
Name of the engagement partner: Ali Muhammad Mesia

Condensed Interim Balance Sheet

as at December 31, 2009

	Note	Unaudited Dec 31, 2009	Audited June 30, 2009
(Rupees in thousand)			
ASSETS			
Non-current assets			
Property, plant and equipment	2	2,409,288	2,336,063
Intangible assets		3,064	6,739
Investment in associate		63,650	57,280
Long-term loans and advances		15,813	16,466
Long-term deposits		14,004	14,012
Deferred taxation	3	380,257	978,215
Retirement benefit obligations - prepayments		5,510	4,161
		<u>2,891,586</u>	<u>3,412,936</u>
Current assets			
Stores, spares and chemicals		243,470	239,794
Stock-in-trade	4	5,341,316	8,367,282
Trade debts		13,531,561	14,431,063
Loans and advances		17,205	14,383
Accrued mark-up		-	13,160
Trade deposits and short-term prepayments		40,281	8,542
Other receivables		985,647	1,969,604
Tax refunds due from government - sales tax		1,095,058	1,095,058
Cash and bank balances		1,337,107	3,909,833
		<u>22,591,645</u>	<u>30,048,719</u>
Total assets		<u>25,483,231</u>	<u>33,461,655</u>
EQUITY			
Share capital		350,000	350,000
Reserves		16,406	14,921
Special reserve	1.3	114,585	1,814,421
		<u>480,991</u>	<u>2,179,342</u>
LIABILITIES			
Non-current liabilities			
Retirement benefit obligations		2,524	4,372
Current liabilities			
Trade and other payables		19,135,101	25,377,179
Short-term borrowing		4,248,443	4,105,936
Accrued mark-up		48,687	-
Payable to government - sales tax		1,012,843	894,810
Taxation - provision less payments		554,642	900,016
		<u>24,999,716</u>	<u>31,277,941</u>
Total liabilities		<u>25,002,240</u>	<u>31,282,313</u>
Contingencies and commitments	5		
Total equity and liabilities		<u>25,483,231</u>	<u>33,461,655</u>

The annexed notes 1 to 9 form an integral part of this condensed interim financial information.



Farooq Rahmatullah
Chairman




Ijaz Ali Khan
Chief Executive

Condensed Interim Profit and Loss Account

for the half year ended December 31, 2009 - Unaudited

Note	For the quarter		For the half year	
	October - December 2009	October - December 2008	July - December 2009	July - December 2008
	(Rupees in thousand)			
Sales	21,324,571	21,187,034	48,317,819	56,712,623
Less: Sales tax, excise duty and development levy	(4,084,356)	(4,660,370)	(9,372,882)	(9,044,195)
	17,240,215	16,526,664	38,944,937	47,668,428
Cost of sales	(17,334,508)	(19,130,039)	(39,114,687)	(51,527,064)
Gross loss	(94,293)	(2,603,375)	(169,750)	(3,858,636)
Distribution cost	(33,085)	(31,701)	(64,060)	(58,298)
Administrative expenses	(35,221)	(40,408)	(68,172)	(80,609)
Other operating expenses	-	(652)	-	(789)
Other income	19,284	13,873	90,985	78,158
Operating loss	(143,315)	(2,662,263)	(210,997)	(3,920,174)
Share of income of associate	3,934	3,592	7,061	6,640
Finance costs	6 (265,641)	(1,161,414)	(851,505)	(1,906,100)
Loss before taxation	(405,022)	(3,820,085)	(1,055,441)	(5,819,634)
Taxation - current	(22,463)	(25,254)	(47,237)	(52,150)
- deferred	(600,182)	1,258,538	(597,158)	1,894,697
	(622,645)	1,233,284	(644,395)	1,842,547
Loss after taxation	(1,027,667)	(2,586,801)	(1,699,836)	(3,977,087)
Other comprehensive income / (loss)				
Change in fair value reserve on account of available for sale investments of associate	151	(4,963)	2,285	(8,892)
Deferred tax relating to component of other comprehensive income / (loss)	(53)	1,737	(800)	3,112
	98	(3,226)	1,485	(5,780)
Total comprehensive loss	(1,027,569)	(2,590,027)	(1,698,351)	(3,982,867)
Loss per share	Rs (29.36)	Rs (73.91)	Rs (48.57)	Rs (113.63)

The annexed notes 1 to 9 form an integral part of this condensed interim financial information.



Farooq Rahmatullah
Chairman



Ijaz Ali Khan
Chief Executive

Condensed Interim Cash Flow Statement

for the half year ended December 31, 2009 - Unaudited

Note	Dec 31, 2009	Dec 31, 2008
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(Rupees in thousand)

CASH FLOWS FROM OPERATING ACTIVITIES

Cash used in operations	7	(2,019,589)	(5,132,970)
Mark-up paid		(21,947)	(244,315)
Taxes paid		(392,611)	(63,268)
Payment for defined benefit plans		(9,919)	(29,794)
Decrease / (increase) in loans and advances		653	(2,966)
Decrease in long term deposits		8	-
Net cash used in operating activities		(2,443,405)	(5,473,313)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property, plant and equipment		(150,848)	(597,946)
Sale proceeds from disposal of property, plant and equipment		283	1,976
Profit received on deposits		90,659	28,002
Dividend received		2,976	2,551
Net cash used in investing activities		(56,930)	(565,417)

CASH FLOWS FROM FINANCING ACTIVITIES

Dividend paid		(16)	(48,433)
Mark-up paid on short term borrowing		(72,375)	-
Net cash used in financing activities		(72,391)	(48,433)
Net decrease in cash and cash equivalents		(2,572,726)	(6,087,163)
Cash and cash equivalents at the beginning of period		3,909,833	2,646,115
Cash and cash equivalents at the end of period		1,337,107	(3,441,048)

The annexed notes 1 to 9 form an integral part of this condensed interim financial information.



Farooq Rahmatullah
Chairman



Ijaz Ali Khan
Chief Executive

Condensed Interim Statement of Changes in Equity

for the half year ended December 31, 2009 - Unaudited

	SHARE CAPITAL	CAPITAL Exchange equalisation reserve	RESERVES		SPECIAL RESERVE	FAIR VALUE RESERVE	TOTAL
			General reserve	Unappropriated profit			
(Rupees in thousand)							
Balance as at July 1, 2008	350,000	897	1,050	69,698	6,386,076	(1,816)	6,805,905
Loss for the half year ended December 31, 2008	-	-	-	(3,977,087)	-	-	(3,977,087)
Other comprehensive loss	-	-	-	-	-	(5,780)	(5,780)
Total recognised loss for the half year ended December 31, 2008	-	-	-	(3,977,087)	-	(5,780)	(3,982,867)
Final dividend for the year ended June 30, 2008 @ Rs 1.42 per share	-	-	-	(50,000)	-	-	(50,000)
Loss for the half year ended December 31, 2008 transferred to Special Reserve	-	-	-	3,977,087	(3,977,087)	-	-
Balance as at December 31, 2008	<u>350,000</u>	<u>897</u>	<u>1,050</u>	<u>19,698</u>	<u>2,408,989</u>	<u>(7,596)</u>	<u>2,773,038</u>
Balance as at July 1, 2009	350,000	897	1,050	19,698	1,814,421	(6,724)	2,179,342
Loss for the half year ended December 31, 2009	-	-	-	(1,699,836)	-	-	(1,699,836)
Other comprehensive income	-	-	-	-	-	1,485	1,485
Total recognised (loss) / income for the half year ended December 31, 2009	-	-	-	(1,699,836)	-	1,485	(1,698,351)
Loss for the half year ended December 31, 2009 transferred to Special Reserve	-	-	-	1,699,836	(1,699,836)	-	-
Balance as at December 31, 2009	<u>350,000</u>	<u>897</u>	<u>1,050</u>	<u>19,698</u>	<u>114,585</u>	<u>(5,239)</u>	<u>480,991</u>

The annexed notes 1 to 9 form an integral part of this condensed interim financial information.



Farooq Rahmatullah
Chairman



Ijaz Ali Khan
Chief Executive

Notes to and Forming Part of the Condensed Interim Financial Information

for the half year ended December 31, 2009 - Unaudited

1. BASIS OF PREPARATION

- 1.1 This condensed interim financial information has been prepared in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting and is being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984 and the Listing Regulations of the Karachi and Lahore Stock Exchanges.
- 1.2 The accounting policies and methods of computation adopted for the preparation of this condensed interim financial information are the same as those applied in the preparation of the annual financial statements of the Company for the year ended June 30, 2009.
- 1.3 Certain refineries including the Company are operating under the tariff formula whereby Oil and Gas Regulatory Authority (OGRA) announces the prices of petroleum products, based on international price including deemed duty in respect of certain products. Profit after tax for a year above 50% of the paid-up capital as at the date of applicability of the tariff 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 up-gradation of the respective refineries and is therefore not available for distribution. Such transfer is recognised at interim stage and is reviewed for adjustment based on profit / loss on annual basis.

2. PROPERTY, PLANT AND EQUIPMENT

- 2.1 Included in property, plant and equipment are costs aggregating Rs 1.37 billion (June 30, 2009: Rs 1.29 billion) representing capital work in progress relating to the refinery up-gradation project. The recoverability of this asset is dependent on the arrangement of financing to complete the project. These arrangements are considerably dependent on a favourable outcome on the petroleum pricing mechanism presently under consideration of the Government of Pakistan.
- 2.2 Following are the additions to property, plant and equipment during the period:

	Dec 31, 2009	Dec 31, 2008
	(Rupees in thousand)	
Buildings	1,269	5,457
Processing plant, power generation and distribution	14,176	26,914
Equipment including furniture and fixtures	8,383	10,572
Vehicles and other automotive equipment	-	1,394
Capital work in progress	127,020	553,609
	<u>150,848</u>	<u>597,946</u>

There were no major disposals during the period.

3. DEFERRED TAXATION

Deferred tax asset of Rs 457.90 million (June 30, 2009: Rs 1.06 billion) has been recognised on the carried forward tax losses, the recoverability of which is mainly dependent on timely commissioning of the up-gradation project (referred to in note 2.1) based on which sufficient taxable profits will be available to recover this asset.

Notes to and Forming Part of the Condensed Interim Financial Information

for the half year ended December 31, 2009 - Unaudited

4. STOCK IN TRADE

As at December 31, 2009, stock of finished products has been written down by Rs 49.73 million (June 30, 2009: Rs nil) and stock of raw materials has been written down by Rs 84.03 million (June 30, 2009: Rs 111.37 million) to arrive at its net realisable value.

5. CONTINGENCIES AND COMMITMENTS

5.1 Contingencies

5.1.1 Claims against the Company not acknowledged as debt amounted to Rs 350.65 million (June 30, 2009: Rs 168.27 million).

5.1.2 The Company has raised claims aggregating Rs 2.54 billion (June 30, 2009: Rs 1.77 billion) on certain oil marketing companies (OMCs) under the respective sale and purchase of products agreements in respect of interest on late payments from them against receivables. These claims, however, have not been recognised in this condensed interim financial information as these have not been acknowledged by the OMCs.

5.2 Commitments

Aggregate commitments for capital expenditure as at December 31, 2009 amounted to Rs 11.60 million (June 30, 2009: Rs 3.25 million).

Outstanding letters of credit as at December 31, 2009 amounted to Rs 3.30 billion (June 30, 2009: Rs 13.53 million).

Aggregate commitments in respect of leasing and ijarah arrangements of motor vehicles and equipments amounted to Rs 36.17 million (June 30, 2009: Rs 33.46 million).

6. FINANCE COSTS

This includes exchange loss on foreign currency transactions amounting to Rs 632.17 million (December 31, 2008: Rs 1,523.95 million).

7. CASH USED IN OPERATIONS

	Dec 31, 2009	Dec 31, 2008
	(Rupees in thousand)	
Loss before taxation	(1,055,441)	(5,819,634)
Adjustments for non-cash charges and other items:		
Depreciation and amortisation	81,015	67,194
Mark-up expense	134,037	382,146
Exchange loss on short-term borrowing	151,479	-
Provision for defined benefit plans	6,722	13,359
Share of income of associate	(7,061)	(6,640)
Profit on deposits	(77,499)	(29,893)
Gain on disposal of property, plant and equipment	-	(1,752)
Working capital changes - note 7.1	(1,252,841)	262,250
Cash used in operations	<u>(2,019,589)</u>	<u>(5,132,970)</u>

Notes to and Forming Part of the Condensed Interim Financial Information

for the half year ended December 31, 2009 - Unaudited

Dec 31, 2009

Dec 31, 2008

(Rupees in thousand)

7.1 Working capital changes

(Increase) / decrease in current assets		
Stores, spares and chemicals	(3,676)	(7,303)
Stock-in-trade	3,025,966	6,135,213
Trade debts	899,502	(5,079,059)
Loans and advances	(2,822)	3,856
Trade deposits and short-term prepayments	(31,739)	17,483
Other receivables	983,957	(15,662)
Tax refunds due from government - sales tax	-	154,454
Investment at fair value through profit and loss	-	365
	<u>4,871,188</u>	<u>1,209,347</u>
(Decrease) / increase in current liabilities		
Trade and other payables	(6,242,062)	(675,244)
Payable to government - sales tax	118,033	(271,853)
	<u>(6,124,029)</u>	<u>(947,097)</u>
	<u>(1,252,841)</u>	<u>262,250</u>

8. TRANSACTIONS WITH RELATED PARTIES

Relationship	Nature of transaction	Transactions during the period	
Significant related party transactions are:			
i) Associated companies	Sale of goods	31,510,875	41,337,683
	Purchase of goods	3,602,277	12,943,859
	Dividend received	2,976	2,551
	Sale of services	697	1,321
ii) Entity where a Director of the Company is a key management personnel	Sales of goods	658,978	-
iii) Entities whose directors and that of the Company have been appointed by same person(s)	Purchase of services	63,285	458,931
iv) Key management compensation	Salaries and other short-term		
	employee benefits	24,587	26,718
	Post-employment benefits	1,795	1,497

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

9. DATE OF AUTHORISATION

This condensed interim financial information was authorised for issue on February 15, 2010 by the Board of Directors of the Company.



Farooq Rahmatullah
Chairman



Ijaz Ali Khan
Chief Executive





PAKISTAN REFINERY LTD.

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