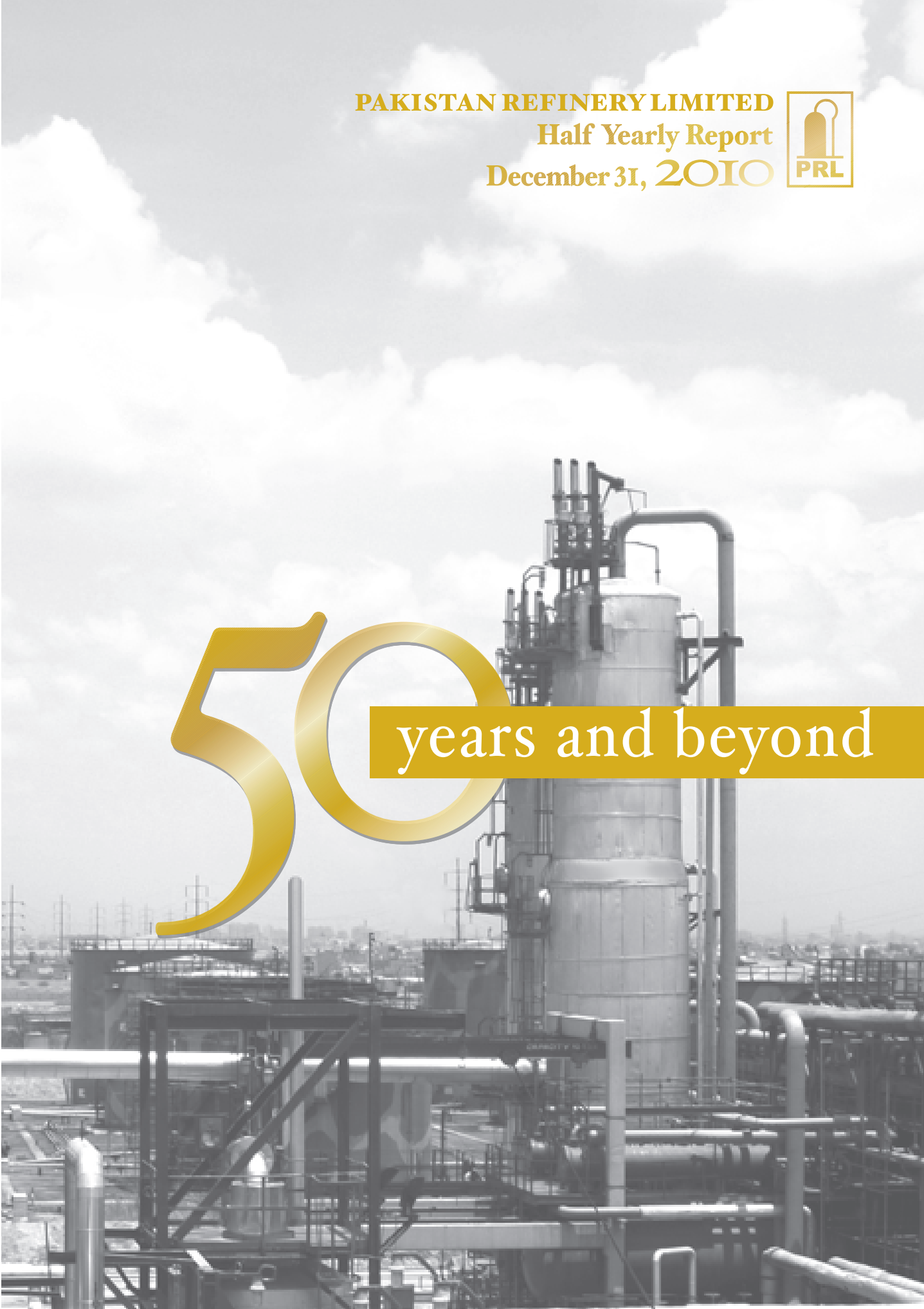
PAKISTAN REFINERY LIMITED

Half Yearly Report

December 31, 2010

PRL



Vision

The strength to look ahead

To be the Refinery of first choice for all stakeholders.

Mission

The strength to rise

PRL is committed to remaining a leader in the oil refining business of Pakistan by providing value added products that are environmental friendly, and by protecting the interest of all stakeholders in a competitive market through sustainable development and quality human resources.

Contents

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

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

Board Of Directors

Mr. Farooq Rahmatullah
Chairman

Mr. Ijaz Ali Khan
Managing Director & CEO

Mr. Ardeshir Cowasjee
Director

Mr. Zaiviji Ismail bin Abdullah
Director

Mr. Irfan K. Qureshi
Director

Mr. Muqtadar A. Quraishi
Director

Mr. Sabar Hussain
Director

Mr. Rafi Haroon Basheer
Director

Mr. Saleem Butt
Director

Mr. Khong Kok Toong
Director

Mr. Amr Ahmed
Director

Board Committees

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

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

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

Management Committees

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

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

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

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

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

Directors' Review

The momentum of profitability continued in the second quarter of the current financial year resulting in profit after tax of Rs. 881 million for the first half of 2010-11 as compared to loss after tax of Rs. 1,700 million for the same period last year. The impressive performance is due to improved refining margins, efficient inventory management, effective utilisation of available finances and cost controls.

The Federal Government through Finance Act 2010 had doubled the rate of Turnover Tax, payable as minimum tax, from 0.5 percent of the turnover to 1.0 percent. Management of PRL and other affected oil sector companies collectively and individually approached the concerned authorities on the adverse impact of this change. The Government recognising the strategic importance of the oil sector has reduced the rate of Turnover Tax to the previous level of 0.5 percent of the turnover during the quarter under review.

The Company managed smooth operations during the period under review and all the key performance indicators were maintained within targets. The Company maintained targets of operational excellence and controls over operating costs without compromising plant integrity. Control systems were strengthened to promote good governance.

The management has continued to work with industry and the Government to work out a suitable refinery pricing formula for ensuring sustainable refinery operations and the execution of the refinery upgrade project.

HSEQ and Business Controls remained one of the primary areas of management focus and PRL continues to strengthen processes in these areas. During the quarter, Refinery remained compliant with all applicable HSEQ standards including National Environment Quality Standards.

The Board of Directors would like to express their gratitude to our valued customers, concerned Government ministries, all employees and shareholders of the Company for their continuous support.

On behalf of the Board of Directors

Farooq Rahmatullah
Chairman

Karachi: February 14, 2011

Auditors' Report to the Members on Review of Interim Financial Information

Introduction

We have reviewed the accompanying condensed interim balance sheet of Pakistan Refinery Limited as at December 31, 2010 and the related condensed interim profit and loss account, condensed interim cash flow statement, condensed interim statement of changes in equity and notes to the accounts 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 for interim financial reporting. 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, 2010 and 2009 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2010.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 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.

Basis for Qualified Conclusion

As discussed in note 2.1 to the condensed interim financial information, capital-work-in-progress includes an amount of Rs 1.39 billion relating to costs incurred for the refinery up-gradation project. The total cost of the project is estimated to be US$ 345 million (equivalent to approximately Rs 30 billion). Substantive evidence was not provided by the company to establish its ability to raise additional equity and / or arrange debt for financing the completion of the up-gradation project in relation to the financial statements of the company for the year ended June 30, 2010 and we were unable to determine whether the aforesaid cost aggregating Rs 1.39 billion on the up-gradation project should have been recognised as an asset as at June 30, 2010 which caused us to qualify our report to the members on the financial statements of the company for the year ended June 30, 2010. As the subject evidence has still not been provided to us, therefore we are unable to determine whether the aforesaid cost aggregating Rs 1.39 billion on the up-gradation project should have been recognised as an asset as at December 31, 2010; as there is no change in the status since June 30, 2010. Had this amount been charged to the profit and loss account for the year ended June 30, 2010 instead of being recognised as an asset under capital-work-in-progress as at that date, the opening balance of accumulated loss and opening net negative equity for the half year ended December 31, 2010 would have been higher by Rs 1.39 billion at Rs 2.53 billion and Rs 2.19 billion respectively, and accumulated loss and net negative equity as at December 31, 2010 would have been Rs 1.65 billion and Rs 1.30 billion respectively.

Conclusion

Based on our review, except for the effects of the matter disclosed in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended December 31, 2010 is not prepared, in all material respects, in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting.

Further, without qualifying our conclusion, we also draw attention to note 1.4 to the condensed interim financial information. As stated in the note, as at December 31, 2010 the company has accumulated loss of Rs 259.98 million and its current liabilities exceed its current assets by Rs 2.46 billion. These conditions, along with the effects of the matter referred in basis for qualified conclusion paragraph indicate the existence of a material uncertainty which may affect the company's ability to continue as a going concern.

A.F. Ferguson & Co
Chartered Accountants
Karachi: February 14, 2011

Name of engagement partner: Ali Muhammad Mesia

Condensed Interim Balance Sheet

as at December 31, 2010

	Note	Unaudited Dec 31, 2010	Audited June 30, 2010
		(Rupees in thousand)	
ASSETS			
Non-current assets			
Property, plant and equipment	2	5,595,264	5,598,868
Investment in associate		67,180	66,663
Long-term loans and advances		5,987	8,742
Long-term deposits		13,800	13,673
Deferred taxation		14,724	8,320
		5,696,955	5,696,266
Current assets			
Stores, spares and chemicals		231,939	226,353
Stock-in-trade		5,933,717	6,810,970
Trade debts		15,258,778	16,120,819
Loans and advances		12,995	23,478
Trade deposits and short-term prepayments		36,738	46,776
Other receivables		383,852	1,387,088
Taxation - payments less provision		98,552	113,411
Tax refunds due from government - Sales tax		856,944	856,944
Cash and bank balances		76,027	9,590
		22,889,542	25,595,429
Total assets		28,586,497	31,291,695
EQUITY			
Share capital		350,000	350,000
Reserves		1,947	1,947
Accumulated loss	1.3	(259,975)	(1,141,096)
Fair value reserve		(3,599)	(5,966)
		88,373	(795,115)
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT		3,143,928	3,143,928
LIABILITIES			
Non-current liabilities			
Retirement benefit obligations		5,326	1,138
Current liabilities			
Trade and other payables		20,728,054	25,288,917
Short-term borrowing		3,003,537	2,992,036
Running finance under mark-up arrangements		358,338	179,674
Accrued mark-up		2,975	49,138
Payable to government - Sales tax		1,255,966	431,979
		25,348,870	28,941,744
Total liabilities		25,354,196	28,942,882
Contingencies and commitments	3		
Total equity and liabilities		28,586,497	31,291,695

The annexed notes 1 to 7 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, 2010 (Unaudited)

	For the quarter		For the half year	
	October - December 2010	October - December 2009	**July - December 2010**	July - December 2009
	(Rupees in thousand)			
Sales	29,989,013	21,324,571	56,442,849	48,317,819
Less: Sales tax, excise duty and development levy / surcharge	(5,460,412)	(4,084,356)	(10,850,888)	(9,372,882)
	24,528,601	17,240,215	45,591,961	38,944,937
Cost of sales	(23,722,705)	(17,334,508)	(44,447,731)	(39,114,687)
Gross profit / (loss)	805,896	(94,293)	1,144,230	(169,750)
Distribution cost	(34,262)	(33,085)	(61,887)	(64,060)
Administrative expenses	(41,454)	(35,221)	(76,571)	(68,172)
Other operating expenses	(65,096)	-	(78,657)	-
Other income	218,242	19,284	244,251	90,985
Operating profit / (loss)	883,326	(143,315)	1,171,366	(210,997)
Share of income of associate	1,705	3,934	4,529	7,061
Finance costs	(15,992)	(265,641)	(125,899)	(851,505)
Profit / (loss) before taxation	869,039	(405,022)	1,049,996	(1,055,441)
Taxation - current	(38,940)	(22,463)	(249,781)	(47,237)
- prior years	73,226	-	73,226	-
- deferred	1,808	(600,182)	7,680	(597,158)
	36,094	(622,645)	(168,875)	(644,395)
Profit / (loss) after taxation	905,133	(1,027,667)	881,121	(1,699,836)
Other comprehensive income				
Change in fair value reserve on account of available for sale investments of associate	2,958	151	3,642	2,285
Deferred tax relating to component of other comprehensive income	(1,035)	(53)	(1,275)	(800)
Other comprehensive income	1,923	98	2,367	1,485
Total comprehensive income / (loss)	907,056	(1,027,569)	883,488	(1,698,351)
Earnings / (loss) per share	Rs. 25.86	Rs. (29.36)	Rs. 25.17	Rs. (48.57)

The annexed notes 1 to 7 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, 2010 (Unaudited)

	Note	Dec 31, 2010	Dec 31, 2009
		(Rupees in thousand)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (used in) operations	4	138,280	(2,019,589)
Mark-up paid		(114,934)	(94,322)
Taxes paid		(161,695)	(392,611)
Payment for defined benefit plans		(5,583)	(9,919)
Decrease in loans and advances		2,755	653
(Increase) / decrease in long term deposits		(127)	8
Net cash used in operating activities		(141,304)	(2,515,780)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(73,452)	(150,848)
Proceeds from disposal of property, plant and equipment		1,387	283
Profit received on deposits		93,541	90,659
Dividend received		7,654	2,976
Net cash generated from / (used in) investing activities		29,130	(56,930)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash used in financing activities - Dividend paid		(53)	(16)
Net decrease in cash and cash equivalents		(112,227)	(2,572,726)
Cash and cash equivalents at the beginning of period		(170,084)	3,909,833
Cash and cash equivalents at the end of period	5	(282,311)	1,337,107

The annexed notes 1 to 7 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, 2010 (Unaudited)

	SHARE CAPITAL	RESERVES					TOTAL
		CAPITAL	REVENUE		SPECIAL RESERVE	FAIR VALUE RESERVE	
		Exchange equalisation reserve	General reserve	Unappropr-iated profit / (accumulat-ed loss)			
	(Rupees in thousand)						
Balance as at July 1, 2009	350,000	897	1,050	19,698	1,814,421	(6,724)	2,179,342
Loss for the 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	350,000	897	1,050	19,698	114,585	(5,239)	480,991
Balance as at July 1, 2010	350,000	897	1,050	(1,141,096)	-	(5,966)	(795,115)
Profit for the half year ended December 31, 2010 - Note 1.3	-	-	-	881,121	-	-	881,121
Other comprehensive income	-	-	-	-	-	2,367	2,367
Total recognised income for the half year ended December 31, 2010	-	-	-	881,121	-	2,367	883,488
Balance as at December 31, 2010	**350,000**	**897**	**1,050**	**(259,975)**	**-**	**(3,599)**	**88,373**

The annexed notes 1 to 7 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, 2010 (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, 2010.

1.3 The prices of refinery products are notified by the Oil & Gas Regulatory Authority (OGRA) which are primarily based on import parity pricing formula. However, in order to enable certain refineries including the company to operate on a self financing basis, effective from July 1, 2002 the Government had introduced a tariff protection formula under which deemed duty is built into the import parity based prices of some of the products. Under this formula, profit after taxation for a year above 50% of the paid-up capital as it was on July 1, 2002 is required to be transferred to a "Special Reserve" to offset any future losses or to make investment for expansion or upgradation of the respective refineries. Transfer to Special Reserves is considered on annual basis.

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

1.4 As at December 31, 2010 the company has accumulated losses of Rs 259.98 million and its current liabilities exceed its current assets by Rs 2.46 billion. During the half year ended December 31, 2010 the company has earned profit after taxation of Rs 881.12 million. Based on estimated future cash flows, the management believes that the current situation will further improve resulting in a positive impact on the profitability and liquidity of the company. Further, discussions are underway with the Government of Pakistan for revision of the petroleum pricing mechanism favouring the industry which will further add to the company's profitability. Therefore, the company expects to be able to realise its assets and discharge its liabilities in the normal course of business, accordingly this condensed interim financial information is prepared on a going concern basis.

2. PROPERTY, PLANT AND EQUIPMENT

2.1 Included in property, plant and equipment are costs aggregating Rs 1.39 billion (June 30, 2010: Rs 1.39 billion) representing capital work in progress relating to cost associated with front end engineering designs, Basic Design Packages (BDPs), process licenses and other costs in relation to the refinery upgradation project. The project has been undertaken; (i) to comply with the government's directive to produce High Speed Diesel with low sulphur contents and; (ii) to enhance the company's profitability on a sustainable basis by partially converting fuel oil into high value products.

The BDPs are complete and include the Contracting and Procurement strategy and Instructions to Tender (ITT) for complete Engineering, Procurement and Construction (EPC) contract. BDPs' other major components are:

- Health, Safety & Environment (HSE) Premises
- Environmental Impact Assessment
- Process Flow Schemes
- Equipment data sheets
- Plot Plan
- Materials of construction

The licensor is fully responsible for its technology, and licenses for BDP implementation are valid for five years from the date of signing of the licenses.

However, the project is dependent on the arrangement of financing to complete the project which will be further facilitated by a favourable outcome of 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, 2010	Dec 31, 2009
	(Rupees in thousand)	
Buildings	-	1,269
Processing plant, power generation and distribution	24,402	14,176
Equipment including furniture and fixtures	2,349	8,383
Vehicles and other automotive equipment	1,692	-
Capital work in progress	45,009	127,020
	73,452	150,848

There were no major disposals during the period.

3. CONTINGENCIES AND COMMITMENTS

3.1 Contingencies

3.1.1 Claims against the company not acknowledged as debt, including late payment surcharges, amount to Rs 1.30 billion (June 30, 2010: Rs 775.30 million).

3.1.2 The company has raised claims aggregating Rs 4.26 billion (June 30, 2010: Rs 3.38 billion) on certain Oil Marketing Companies (OMCs) under the respective sale and purchase of product agreements in respect of interest on late payments from them against receivables. These claims, however, have not been recognised in this condensed interim financial information as these have not been acknowledged by the OMCs.

3.1.3 Bank guarantees of Rs 193 million (June 30, 2010: Rs 193 million) were issued in favour of third parties.

3.2 Commitments

Commitments outstanding for capital expenditure as at December 31, 2010 amounted to Rs 10.16 million (June 30, 2010: Rs 32.44 million).

Outstanding letters of credit as at December 31, 2010 amounted to Rs 4.1 billion (June 30, 2010: Rs 40.03 million).

Aggregate commitments in respect of ijarah arrangements of motor vehicles and equipments amounted to Rs 33.62 million (June 30, 2010: Rs 33.59 million).

4. CASH GENERATED FROM / (USED IN) OPERATIONS

	Dec 31, 2010	Dec 31, 2009
	(Rupees in thousand)	
Profit / (loss) before taxation	1,049,996	(1,055,441)
Adjustments for non-cash charges and other items:		
Depreciation	76,778	81,015
Mark-up expense	69,838	134,037
Exchange loss on short term borrowing	10,435	151,479
Provision for defined benefit plans	9,771	6,722
Share of income of associate	(4,529)	(7,061)
Return on deposit accounts	(93,541)	(77,499)
Gain on disposal of property, plant and equipment	(1,110)	-
Working capital changes - note 4.1	(979,358)	(1,252,841)
Cash generated from / (used in) operations	138,280	(2,019,589)

Notes to and Forming Part of the Condensed Interim Financial Information

for the half year ended December 31, 2010 (Unaudited)

	Dec 31, 2010	Dec 31, 2009
	(Rupees in thousand)	
4.1 Working capital changes		
(Increase) / decrease in current assets		
Stores, spares and chemicals	(5,586)	(3,676)
Stock-in-trade	877,253	3,025,966
Trade debts	862,041	899,502
Loans and advances	10,483	(2,822)
Trade deposits and short-term prepayments	10,038	(31,739)
Other receivables	1,003,236	983,957
	2,757,465	4,871,188
(Decrease) / increase in current liabilities		
Trade and other payables	(4,560,810)	(6,242,062)
Payable to government - Sales tax	823,987	118,033
	(3,736,823)	(6,124,029)
	(979,358)	(1,252,841)
5. CASH AND CASH EQUIVALENTS		
Cash and bank balances	76,027	1,337,107
Running finance under mark-up arrangements	(358,338)	-
	(282,311)	1,337,107

6. TRANSACTIONS WITH RELATED PARTIES

Relationship	Nature of transactions	Transactions during the period	
Significant related party transactions are:			
Associated companies	Sale of goods	35,196,829	31,510,875
	Purchase of goods	2,972,567	3,602,277
	Sale of services	21,072	697
	Dividend received	7,654	2,976
Entity where a Director of the company is a key management personnel	Sale of goods	1,150,063	658,978
	Interest received	2,355	-
	Sale of services	373	-
Key management compensation	Salaries and other short-term employee benefits	21,106	24,587
	Post-employment benefits	3,378	1,795

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.

7. DATE OF AUTHORISATION

This condensed interim financial information was authorised for issue on February 14, 2011 by the Board of Directors of the company.

Farooq Rahmatullah
Chairman

Ijaz Ali Khan
Chief Executive

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JWT