

Half Yearly Report December 31, 2019

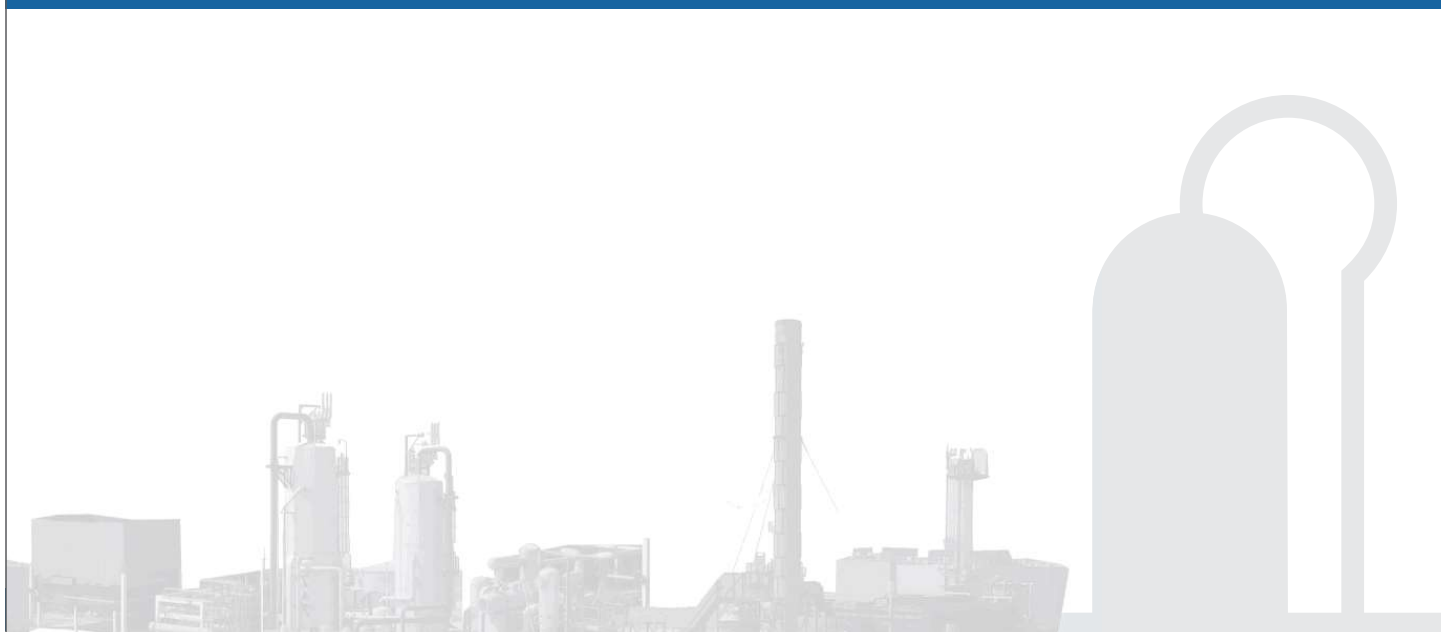
Committed to a promising
FUTURE



PAKISTAN REFINERY LIMITED

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Vision

To be the Refinery of first choice for all stakeholders.

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.

Company Information

Deputy Managing Director (Finance & IT) / CFO

Imran Ahmad Mirza

Company Secretary

Mustafa Saleemi

Auditors

A. F. Ferguson & Co.
Chartered Accountants

Tax Advisors

KPMG - Taseer Hadi & Co.
Chartered Accountants

Legal Advisors

Orr Dignam & Co.

Registrar & Share Registration Office

FAMCO Associates (Private) Limited.
8-F, Next to Hotel Faran,
Nursery Block-6, P.E.C.H.S.
Shahra-e-Faisal, Karachi.

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
JS Bank Limited
MCB Bank Limited
MCB Islamic Bank Limited
Meezan Bank Limited
National Bank of Pakistan
Soneri Bank Limited
Standard Chartered Bank (Pakistan) Limited
United Bank Limited

Registered Office

P.O. Box 4612, Korangi Creek Road,
Karachi-75190
Tel: (92-21) 35122131-40
Fax: (92-21) 35060145, 35091780
www.prl.com.pk
info@prl.com.pk

Board of Directors

Syed Asad Ali Shah

Chairman

Zahid Mir

Managing Director & CEO

Abdul Jabbar Memon

Director

Aftab Husain

Director

Babar Hamid Chaudhary

Director

Imtiaz Jaleel

Director

Mirza Mahmood Ahmad

Director

Mohammad Zubair

Director

Syed Jehangir Ali Shah

Director

Syed Mohammad Ali

Director

Tara Uzra Dawood

Director

Board Committees

Board Audit Committee (BAC)

BAC comprises of three members, from non-executive Directors of the Board all of whom have sufficient financial management expertise. The Company Secretary is the Secretary of the Committee.

The Board has determined the Terms of Reference of BAC and has provided adequate resources and authority to enable it to carry out its responsibilities effectively. The terms of reference of BAC have been adopted from the Listed Companies (Code of Corporate Governance) Regulations 2017. The board gives due consideration to the recommendations of BAC in all these matters.

Board Project Steering Committee

The Board Project Steering Committee is responsible for monitoring and controlling the Refinery Upgrade Project. This Committee will assist the Board of Directors in Refinery Upgrade Project which includes the following:

- oversee projects execution process and governance for the project;
- review and advise on program priorities for implementation of the project; and
- monitor and steer the project development to be consistent with the operating financial objectives for the project.

Human Resource & Remuneration Committee (HR&RC)

HR&RC comprises of five members, with four members being non-executive Directors of the Company. The MD & CEO is also a member of the Committee. General Manager Human Resources is the Secretary of the Committee.

HR&RC has been delegated the role of assisting the Board of Directors in following matters:

- recommendation to the Board for consideration and approval a policy framework for determining remuneration of directors (both executive and non-executive directors);
- undertaking, annually, a formal process of evaluation of performance of the Board as a whole and its committees either directly or by engaging external independent consultant and if so appointed, a statement to that effect shall be made in the directors' report disclosing therein name and qualifications of such consultant and major terms of his / its appointment;
- recommendation to the Board the Selection, Evaluation, Compensation (including Retirement Benefits) and Succession Planning of the Managing Director & Chief Executive Officer;
- recommendation for Human Resource Management policies to the Board;
- recommendation to the Board the selection, evaluation, development, compensation (including retirement benefits) of Chief Financial Officer, Company Secretary and Chief Internal Audit as well as all General Managers and above; and
- consideration and approval on recommendations of Managing Director & Chief Executive Officer on such matters relating to Refinery Leadership Team.

Board Share Transfer Committee

The Board Share Transfer Committee comprises of two Directors and is set up to approve registration of transfer of shares received by the Company. The Board Share Transfer Committee shall assist the Board of Directors in the following matters:

- approve and register transfer / transmission of shares;
- sub-divide, consolidate and issue share certificates; and
- issue share certificates in place of those which are damaged or in which the pages are completely exhausted, provided the original certificates are surrendered to the Company.

Directors' Review

During the current half year ended December 31, 2019 the re-emergence of decline in prices of Motor Gasoline (Petrol), which went below the cost of crude, put additional burden on the already depressed refining margins which were reeling under the effects of International Maritime Organisation's restrictions on the use of High Sulphur Furnace Oil. The only positive development during the period was the stability of Rupee USD parity that helped the Company in having exchange gains during this period. Cumulatively, the Company incurred a loss after tax of Rs. 1.68 billion during the six months period ended December 31, 2019 as against loss after tax of Rs. 3.01 billion during the comparative period.

Considering these challenges faced by the refining sector in Pakistan in general and your refinery in particular, the directors in consultation with management have evaluated and identified certain strategic including short-term projects and non-CAPEX options, implementation of which are expected to have a positive impact on the Company's financial results and sustainability. These strategies include making changes in some refinery units through de-bottlenecking/revamp, processing of low Sulphur crudes and savings in operating expenses through energy conservation measures. In parallel, the Company has continued work on the Refinery Upgrade Project that also include compliance with producing EURO II standard Diesel. As a consequence of the existing financial challenges and the developments affecting the global refining industry, the Company is evaluating conventional as well as some novel strategies to undertake the Refinery Upgrade Project, and the work on such these options is underway with the objective to attain sustainability and compliance with regulatory framework in most optimum way.

In addition to the aforementioned initiatives to address financial challenges, efforts are underway including representation at the highest government forums to resolve certain policy impediments. These include removing the negative impact of pricing mechanism of High Speed Diesel (HSD) upon refineries and disallowance of recovery of total forex losses through pricing of products by OGRA, although the Economic Coordination Committee (ECC) in its related decision has clearly allowed such recovery. It is important to note that Company's accumulated losses as at December 31, 2019 were Rs. 12.35 billion and Company has cumulatively suffered of Rs. 3.94 billion on account of exchange losses since 2017 and Rs. 6.81 billion on account of HSD pricing anomaly since May 2013. It has been stressed upon Ministry of Energy - Petroleum Division that it is apparent that if these negativities are addressed then the refineries will become self-sustained.

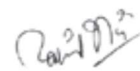
The Company successfully completed the "Planned Maintenance Turnaround" of the Refinery complex which began on December 2, 2019 and completed on January 6, 2020. The successful Turnaround was the result of cohesive work of Company's dedicated human resource. The activities were completed without any Lost Time Injury (LTI) which demonstrate Company's continued commitment and focus on safe operations under its Health, Safety, Environment and Quality (HSEQ) standards.

The Board of Directors acknowledges the contributions of all stakeholders for their incessant support during this period.

On behalf of the Board of Directors



Syed Asad Ali Shah
Chairman



Zahid Mir
Managing Director & CEO

Karachi : January 31, 2020

Independent Auditor's Review Report to the members of Pakistan Refinery Limited

Report on review of Interim Financial Statements

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Pakistan Refinery Limited (the Company) as at December 31, 2019 and the related condensed interim statement of profit or loss and other comprehensive income, condensed interim statement of changes in equity, and condensed interim statement of cash flows, and notes to the condensed financial statements for the six-month period then ended (here-in-after referred to as the "condensed interim financial statements"). Management is responsible for the preparation and presentation of this condensed interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these condensed financial statements based on our review. The figures of the condensed interim statement of profit or loss and other comprehensive income for the quarters ended December 31, 2019 and 2018 have not been reviewed, as we are required to review only the cumulative figures for the six month period December 31, 2019.

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 statements 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 condensed interim financial statements are not prepared, in all material respects, in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 2.2 to the condensed interim financial statements, which indicates that the Company incurred a net loss of Rs. 1.68 billion during the period ended 31 December 2019 and, as of that date, the Company's current liabilities exceeded its current assets by Rs. 13.30 billion. These conditions, along with other matters as set forth in note 2.2 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The engagement partner on the audit resulting in this independent auditor's report is Farrukh Rehman.

Chartered Accountants
Karachi.

Date: February 26, 2020

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019

	Note	(Unaudited) December 31, 2019 (Rupees in thousand)	(Audited) June 30, 2019
ASSETS			
Non-current assets			
Property, plant and equipment	5	19,643,825	18,975,232
Intangible assets		46	108
Investment accounted for using the equity method		63,755	62,036
Long-term deposits and loans		26,748	29,352
Employee benefit prepayments		17,622	17,622
		19,751,996	19,084,350
Current assets			
Inventories	6	5,582,363	9,447,424
Trade receivables		161,918	13,195,089
Trade deposits, loans, advances and short-term prepayments	7	1,469,044	181,427
Other receivables	8	39,059	553,503
Taxation - payments less provision		137,627	164,940
Cash and bank balances	9	247,359	253,889
		7,637,370	23,796,272
		27,389,366	42,880,622
EQUITY AND LIABILITIES			
Equity			
Share capital	10	2,940,000	2,940,000
Accumulated loss		(12,349,713)	(10,666,517)
Special reserve	2.4	1,943,476	1,943,476
Revaluation surplus on property, plant and equipment		9,290,728	9,290,728
Other reserves		1,947	1,554
		1,826,438	3,509,241
Liabilities			
Non-current liabilities			
Long-term borrowings		4,100,000	4,300,000
Long-term lease liability		142,001	-
Deferred tax liabilities		9,727	13,304
Employee benefit obligations	11	367,090	367,090
		4,618,818	4,680,394
Current liabilities			
Trade and other payables		12,058,740	19,967,440
Borrowings	12	8,862,558	14,701,779
Current portion of long-term lease liability		2,946	-
Unclaimed dividend		19,866	21,768
		20,944,110	34,690,987
		25,562,928	39,371,381
CONTINGENCIES AND COMMITMENTS			
	13	27,389,366	42,880,622

The annexed notes 1 to 20 form an integral part of these condensed interim financial statements.

Syed Asad Ali Shah
Chairman

Zahid Mir
Managing Director & CEO

Imran Ahmad Mirza
Chief Financial Officer

CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED DECEMBER 31, 2019 - UNAUDITED

	Note	For the quarter		For the half year	
		October - December 2019	October - December 2018	July - December 2019	July - December 2018
		(Rupees in thousand)			
Revenue from contracts with customers	14	22,596,860	29,115,777	58,318,302	54,625,413
Cost of sales		(23,741,651)	(31,049,757)	(58,460,703)	(56,515,398)
Gross loss		(1,144,791)	(1,933,980)	(142,401)	(1,889,985)
Distribution costs		(60,285)	(60,617)	(126,819)	(117,281)
Administrative expenses		(126,088)	(126,427)	(216,056)	(212,672)
Other operating expenses		(27,301)	(546)	(27,919)	(1,244)
Other income		74,810	37,530	137,796	79,786
Operating loss		(1,283,655)	(2,084,040)	(375,399)	(2,141,396)
Finance cost		(413,882)	(378,666)	(867,683)	(607,313)
Share of income / (loss) of associate accounted for using the equity method		1,719	(313)	1,719	(2,094)
Loss before income tax		(1,695,818)	(2,463,019)	(1,241,363)	(2,750,803)
Income tax expense	15	(168,299)	(126,901)	(441,440)	(259,593)
Loss for the period		(1,864,117)	(2,589,920)	(1,682,803)	(3,010,396)
Other comprehensive loss					
Items that may be subsequently reclassified to profit or loss					
Change in fair value of available for sale investments in associate		-	(2,226)	-	(2,617)
Deferred tax relating to fair value change of available for sale investments of associate		-	484	-	569
		-	(1,742)	-	(2,048)
Total comprehensive loss		(1,864,117)	(2,591,662)	(1,682,803)	(3,012,444)
Loss per share - basic and diluted	16	(Rs. 6.06)	(Rs. 8.42)	(Rs. 5.47)	(Rs. 9.78)

The annexed notes 1 to 20 form an integral part of these condensed interim financial statements.

Syed Asad Ali Shah
Chairman

Zahid Mir
Managing Director & CEO

Imran Ahmad Mirza
Chief Financial Officer

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED DECEMBER 31, 2019 - UNAUDITED

	SHARE CAPITAL	CAPITAL RESERVE			REVENUE RESERVE			TOTAL
		Special reserve	Revaluation surplus on property, plant and equipment	Exchange equalisation reserve	Accumulated loss	Fair value reserve	General reserve	
← (Rupees in thousand) →								
Balance as at July 1, 2018 - (audited)	2,940,000	1,943,476	3,997,928	897	(4,816,826)	(3,970)	1,050	4,062,555
Loss for the half year ended December 31, 2018	-	-	-	-	(3,010,396)	-	-	(3,010,396)
Other comprehensive loss for the half year ended December 31, 2018	-	-	-	-	-	(2,048)	-	(2,048)
	-	-	-	-	(3,010,396)	(2,048)	-	(3,012,444)
Balance as at December 31, 2018	<u>2,940,000</u>	<u>1,943,476</u>	<u>3,997,928</u>	<u>897</u>	<u>(7,827,222)</u>	<u>(6,018)</u>	<u>1,050</u>	<u>1,050,111</u>
Balance as at July 1, 2019 - (audited)	2,940,000	1,943,476	9,290,728	897	(10,666,517)	(393)	1,050	3,509,241
Loss for the half year ended December 31, 2019	-	-	-	-	(1,682,803)	-	-	(1,682,803)
Effect of change in accounting policy due to adoption of IFRS 9 by associate	-	-	-	-	(393)	393	-	-
	-	-	-	-	(1,683,196)	393	-	(1,682,803)
Balance as at December 31, 2019	<u>2,940,000</u>	<u>1,943,476</u>	<u>9,290,728</u>	<u>897</u>	<u>(12,349,713)</u>	<u>-</u>	<u>1,050</u>	<u>1,826,438</u>

The annexed notes 1 to 20 form an integral part of these condensed interim financial statements.

Syed Asad Ali Shah
Chairman

Zahid Mir
Managing Director & CEO

Imran Ahmad Mirza
Chief Financial Officer

CONDENSED INTERIM STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED DECEMBER 31, 2019 - UNAUDITED

	Note	December 31, 2019 (Rupees in thousand)	December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (used in) operations	17	8,377,262	(3,182,505)
Mark-up paid		(929,164)	(410,535)
Income tax paid		(417,704)	(78,082)
Contribution to retirement benefit plans		(57,524)	(51,855)
Decrease in long-term deposits and loans		2,604	123
Net cash generated from / (used in) operating activities		6,975,474	(3,722,854)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(953,862)	(547,730)
Proceeds from disposal of property, plant and equipment		-	95
Return received on bank deposits		33,847	25,671
Net cash used in investing activities		(920,015)	(521,964)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(1,902)	(88)
Repayment of long term borrowings		(200,000)	(200,000)
Redemptions against term finance certificates		-	(229,390)
Lease rentals paid		(21,551)	-
Net cash used in financing activities		(223,453)	(429,478)
Net increase / (decrease) in cash and cash equivalents		5,832,006	(4,674,296)
Cash and cash equivalents at the beginning of the period		(14,047,890)	(3,414,786)
Exchange gains on cash and cash equivalents		685	19,650
Cash and cash equivalents at the end of the period	19	(8,215,199)	(8,069,432)

The annexed notes 1 to 20 form an integral part of these condensed interim financial statements.



Syed Asad Ali Shah
Chairman



Zahid Mir
Managing Director & CEO



Imran Ahmad Mirza
Chief Financial Officer

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED DECEMBER 31, 2019 – UNAUDITED

1. THE COMPANY AND ITS OPERATIONS

Pakistan Refinery Limited was incorporated in Pakistan as a public limited company in May 1960 and is listed on Pakistan Stock Exchange. The Company is engaged in the production and sale of petroleum products.

The Company is a subsidiary of Pakistan State Oil Company Limited (PSO) which holds 52.68% shares in the Company.

2. BASIS OF PREPARATION

2.1 These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed.

These condensed interim financial statements do not include all the information required for full financial statements and should be read in conjunction with the annual financial statements for the year ended June 30, 2019.

2.2 During the period ended December 31, 2019, the Company incurred a loss after tax of Rs. 1.68 billion (December 31, 2018: loss after tax of Rs. 3.01 billion) resulting in accumulated losses of Rs. 12.35 billion (June 30, 2019: Rs. 10.67 billion). Further, current liabilities exceeded its current assets by Rs. 13.30 billion as at December 31, 2019 (June 30, 2019: 10.89 billion). The Company ended the period with negative cash and cash equivalents amounting to Rs. 8.22 billion (June 30, 2019: Rs. 14.05 billion).

In addition, under the policy framework for up-gradation and expansion of refinery projects issued by the Ministry of Energy on March 27, 2013, refineries were required to install Diesel Hydro Desulphurisation Unit (DHDS) by June 30, 2017 to produce EURO II compliant High Speed Diesel (HSD) and in case of non-compliance, the ex-refinery price of HSD based on Import Parity Pricing (IPP) formula would be downward adjusted / reduced due to higher Sulphur content. The Company did not meet the aforementioned deadline of setting up DHDS unit and hence is subjected to downward adjustment of its HSD causing a loss of Rs. 655 million (December 31, 2018: Rs. 758 million) which is part of aforementioned loss for the period.

Further, the Company operates under IPP regime and is dependent on the margin between the crude oil and refined products prices in the international market. During the period, prices of furnace oil which is already a loss making product, further deteriorated due to the effects of regulations of International Maritime Organisation (IMO) which require marine sector to shift to low sulphur fuels. These regulations will be effective from January 1, 2020. The margins of other products have also remained depressed during the period thus significantly affecting the profitability of refining sector in Pakistan.

The above conditions may cast a significant doubt on the Company's ability to continue as a going concern and the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Company believes that current volatility in international refining margins will stabilise in future thereby eliminating negative impacts on profitability of the Company. Further, Government of Pakistan's efforts to control Rupee-USD parity have materialised in the current financial year and there has been no devaluation in Pak Rupee. The Company also plans to undertake short and medium term projects to revamp certain units improving yields of Motor Gasoline and HSD thus contributing positively to the results of the Company. These projects are in addition to Company's plans to upgrade the Refinery including installation of DHDS for which the Company is evaluating various technological and financial options.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED DECEMBER 31, 2019 – UNAUDITED

Based on the above factors and the projected profit and loss account and cash flows, the Company believes that it will be able to continue as a going concern and realise its assets and discharge its liabilities in the normal course of business. Therefore, these condensed interim financial statements have been prepared on a going concern basis and therefore, do not include any adjustments to the carrying amount and classification of assets and liabilities that may arise if the Company was unable to continue as a going concern.

2.3 Changes in accounting standards, interpretations and pronouncements

a) Standards, interpretations and amendments to published approved accounting standards that are effective and relevant

IFRS 16 'Leases' - IFRS 16 replaces the previous lease standard: IAS 17 Leases. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low value leases.

The changes laid down by this standard have been disclosed in note 3.1, of these condensed interim financial information.

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

The new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2019 are considered not to be relevant for Company's financial statements and hence have not been detailed here.

2.4

Under directive from the Ministry of Energy (MoE), any profit after taxation above 50% of the paid-up capital as 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 refineries, and is not available for distribution to shareholders. The formula under which deemed duty is built into the import parity based prices of some of the products, was introduced in order to enable certain refineries, including the Company, to operate on a self financing basis.

On March 27, 2013, the Government of Pakistan issued a policy framework for up-gradation and expansion of refinery projects, amended through a letter dated April 25, 2016, which interalia state that:

- till completion of the projects refineries will not be allowed to offset losses, if any, for year ended June 30, 2013 or subsequent years against the amount of profit above 50% accumulated or to be accumulated in the Special Reserve Account as per current pricing formula; and
- the refineries are required to install Diesel Hydro Desulphurisation (DHDS) plant by June 30, 2017. If any refinery fails to install DHDS by June 30, 2017 then the ex-refinery price of High Speed Diesel (HSD) based on Import Parity Price (IPP) formula will be adjusted / reduced due to higher sulphur content.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these condensed interim financial statements are same as those applied in the preparation of the annual financial statements of the Company for the year ended June 30, 2019, except as disclosed in note 3.1.

3.1 CHANGES IN ACCOUNTING POLICIES - IFRS 16

Effective July 1, 2019, the Company has adopted IFRS 16, "Leases" which replaces existing guidance on accounting for leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an arrangement contains a Lease', SIC-15 'Operating Leases- Incentive' and SIC-27 'Evaluating the substance of transactions involving the legal form of a Lease'. IFRS 16 introduces a single, on balance sheet lease accounting model for a lessee. A lessee recognises "right-of-use" asset representing its right-to-use of the underlying asset and a lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The accounting polices relating to Company's lease liability and right-of-use asset are disclosed in note 3.2.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED DECEMBER 31, 2019 – UNAUDITED

The Company has adopted IFRS 16 from July 1, 2019, and has not restated comparatives for 2019 reporting period, as permitted under the specific transitional provisions in the standard.

On adoption of IFRS 16, the Company recognised lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of July 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on July 1, 2019 was 13.71%.

The following summary reconciles the Company's operating lease commitments previously considered as land rentals at June 30, 2019 to the lease liabilities recognised on initial application of IFRS 16 at July 1, 2019.

	(Rupees in thousand)
Operating lease commitment as at July 1, 2019	315,389
Discounted using the lessee's incremental borrowing rate at the date of initial application	(148,891)
Total liability as at July 1, 2019	<u>166,498</u>
Of which are:	
Current lease liabilities	1,679
Non-current lease liabilities	164,819

3.2 Lease liability and right-of-use asset

At inception of a contract, the Company assesses whether a contract is, or contains, a lease i.e. it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

From July 1, 2019 leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments include fixed payments, variable payment that are based on an index or a rate amounts expected to be payable by the lessee under residual value guarantees, exercise price of a purchase option, payments of penalties for terminating the lease, less any lease incentives receivable. The purchase, extension and termination options are incorporated in determination of lease term only when the Company is reasonably certain to exercise these options.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future payments arising from a change in fixed payments or an index or rate, Company's estimate of the amount expected to be payable under a residual value guarantee or its assessment of whether it will exercise a purchase, extension or termination option. The corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit and loss if the carrying amount of right-of-use asset is reduced to zero.

The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any payments made at or before the commencement date and any incentive received, plus any initial direct costs and estimate of costs to dismantle, remove or restore the underlying asset (if any) or to restore the site on which it is located. The right-of-use asset is depreciated on a straight line method over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED DECEMBER 31, 2019 – UNAUDITED

The Company does not recognise right-of-use assets and lease liabilities for short term leases that have a term of 12 months or less, leases of low-value assets and recognises associated payments in the period in which these are incurred.

4. ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

4.1 The preparation of these condensed interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts. Actual results may differ from these judgements, estimates and assumptions.

However, management believes that the change in outcome of judgements, estimates and assumptions would not have a material impact on the amounts disclosed in these condensed interim financial statements.

4.2 The Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended June 30, 2019.

5. PROPERTY, PLANT AND EQUIPMENT

5.1 Following are additions to Property, Plant and Equipment during the period:

	December 31, 2019 (Rupees in thousand)	December 31, 2018
Processing plant, tank farm, terminal, pipelines and power generation	217,998	395,828
Buildings	2,777	1,644
Equipment including furniture	5,890	14,540
Fire fighting and telecommunication systems	1,322	7,422
Major spare parts and stand by equipments - net of transfers	8,665	(5,909)
Capital work-in-progress - net of transfers	717,210	134,205
	953,862	547,730

	(Unaudited) As at December 31, 2019 (Rupees in thousand)	(Audited) As at June 30, 2019
5.2 Capital work-in-progress		

Buildings	-	2,775
Processing plant	1,341,121	581,007
Korangi tank farm	16,031	72,396
Keamari terminal	570,191	467,703
Pipelines	132,492	129,158
Power generation, transmission and distribution	65,428	68,083
Water treatment and cooling system	30,051	22,169
Equipment including furniture	13,397	19,924
Fire fighting and telecommunication systems	45,429	43,667
Advances to contractors / suppliers	206	90,254
	2,214,346	1,497,136

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED DECEMBER 31, 2019 – UNAUDITED

5.2.1 During the period, the Company has capitalised borrowing costs amounting to Rs. 39.66 million (June 30, 2019: Rs. 12.39 million). Borrowing costs were capitalised at the current weighted average rate of its general borrowings of 13.71% (June 30, 2019: 10.42%) per annum.

6. INVENTORIES

As at December 31, 2019 stock of crude oil has been written down by Rs. 42.31 million (June 30, 2019: Nil) and finished products by Rs. 3.33 million (June 30, 2019: Rs. 88.68 million) to arrive at their net realisable values.

7. TRADE DEPOSITS, LOANS, ADVANCES AND SHORT TERM PREPAYMENTS

This includes sales tax paid in advance to Federal Board of Revenue (FBR) amounting to Rs. 1.138 billion (June 30, 2019: nil).

8. OTHER RECEIVABLES

This includes an amount of Rs. 34.18 million (June 30, 2019: Rs. 551.2 million) due from Pak Arab Refinery Limited in respect of import of crude oil, freight and other charges and National Refinery Limited in respect of pipeline charges.

(Unaudited)	(Audited)
As at	As at
December 31,	June 30,
2019	2019
(Rupees in thousand)	

9. CASH AND BANK BALANCES

With banks on		
- current accounts - note 9.1	6,504	75
- mark-up bearing savings accounts - note 9.2	240,102	252,935
Cash in hand	753	879
	247,359	253,889

9.1 These bank balances are maintained under current accounts and do not carry any interest.

9.2 The rates of mark-up on savings accounts during the period ranged from 10.25% to 11.75% per annum (June 30, 2019: 6.5% to 10.25% per annum).

10. SHARE CAPITAL

During the year ended June 30, 2016, Pakistan State Oil Company Limited (PSO) had filed a suit in the High Court of Sindh (Suit no. 931 of 2015) claiming the following reliefs:

- Direct Chevron Global Energy Inc (Chevron) and Shell Petroleum Company Limited (Shell) to offer all their right shares as per the Shareholders' Agreement to PSO.
- Direct Chevron and Shell to maintain status quo on the ordinary and right shares of Chevron and right shares of Shell being offered to Chevron and restrain Chevron from creating any third party interests in the rights shares offered by Shell to Chevron.

As per the court order received on October 12, 2018, PSO and Shell entered into a compromise arrangement wherein Shell consented to sell its right shares to PSO. The case consequently is disposed off against Shell, however, the case against Chevron is pending adjudication.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED DECEMBER 31, 2019 – UNAUDITED

11. DEFERRED TAX LIABILITIES

Deferred tax debit balances of Rs. 2.27 billion (June 30, 2019: Rs. 1.81 billion) in respect of unabsorbed depreciation, tax losses, and deductible temporary differences have not been recognised as their recoverability will be dependent on improved profitability of the Company.

(Unaudited) As at December 31, 2019 (Rupees in thousand)	(Audited) As at June 30, 2019
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12. BORROWINGS

Short-term borrowings - note 12.1	6,400,000	9,500,000
Running finance under mark-up arrangements - note 12.2	2,062,558	4,801,779
Current portion of long-term borrowings	400,000	400,000
	8,862,558	14,701,779

12.1 This represents mark-up based short term finance from commercial banks repayable in 3 to 48 (June 30, 2019: 1 to 62) days from the date of interim statement of financial position at a mark-up ranging from 13.00% to 14.31% (June 30, 2019: 13.00% to 13.37%) per annum. These are secured by way of ranking charge on inventory and trade receivables.

12.2 As at December 31, 2019 available running finance facilities under mark-up arrangements from various banks amounted to Rs. 8.30 billion (June 30, 2019: Rs. 8.55 billion).

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

The rates of mark-up range between three months KIBOR+0.50% to one month KIBOR+3% per annum as at December 31, 2019 (June 30, 2019: three months KIBOR+0.50% to six months KIBOR+1.75% per annum). Purchase prices are payable on demand.

13. CONTINGENCIES AND COMMITMENTS

13.1 Contingencies

13.1.1 Claims against the Company not acknowledged as debt amount to Rs. 4.99 billion (June 30, 2019: Rs. 5.54 billion). These include Rs. 4.41 billion (June 30, 2019: Rs. 4.40 billion) on account of late payment surcharge on purchase of crude oil. The Company has raised similar claims aggregating to Rs. 7.36 billion (June 30, 2019: Rs. 7.36 billion) relating to interest on late payments against trade receivables from certain Oil Marketing Companies.

13.1.2 There has been no significant changes during the period in the contingencies reported in annual financial statements for the year ended June 30, 2019.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED DECEMBER 31, 2019 – UNAUDITED

- 13.1.3** Bank guarantee of Rs. 124 million (June 30, 2019: Rs. 124 million) was issued in favour of Sui Southern Gas Company Limited*

**During the period, with effect from October 28, 2019 Sui Southern Gas Company Limited (SSGC) ceased to be a related party of the Company.*

13.2 Commitments

As at December 31, 2019 commitments outstanding for capital expenditure amounted to Rs. 0.18 billion (June 30, 2019: Rs. 0.52 billion).

Aggregate commitments in respect of ijarah arrangements of motor vehicles and equipment amounted to Rs. 48.49 million (June 30, 2019: Rs. 29.85 million).

December 31, 2019 (Rupees in thousand)	December 31, 2018
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14. REVENUE FROM CONTRACTS WITH CUSTOMERS

Local sales - note 14.1	78,857,582	65,776,558
Exports	2,362,886	4,053,926
Gross sales	81,220,468	69,830,484
Less:		
- Sales tax	(11,458,039)	(9,104,635)
- Petroleum levy	(8,597,510)	(3,731,654)
- Excise duty	(626)	(534)
- Surplus price differential	(910,259)	(896,511)
- Custom duty	(1,935,732)	(1,471,737)
	58,318,302	54,625,413

- 14.1** Sales of regulated products are based on prices notified by OGRA which are subject to policy clarification from the Federal Government. Sales of certain de-regulated products (Motor Spirit, High Octane Blending Component, High Speed Diesel, Light Diesel Oil and Aviation Fuels) are based on prices determined in the light of notifications of the MoE.

December 31, 2019 (Rupees in thousand)	December 31, 2018
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15. INCOME TAX EXPENSE

Current for the year	444,023	259,943
Deferred	(2,583)	(350)
	441,440	259,593

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED DECEMBER 31, 2019 – UNAUDITED

16. LOSS PER SHARE - BASIC AND DILUTED

	For the quarter		For the half year	
	October - December 2019	October - December 2018	July - December 2019	July - December 2018
	(Rupees in thousand)			
Loss for the period attributable to ordinary shareholders	(1,864,117)	(2,589,920)	(1,682,803)	(3,010,396)
Weighted average number of ordinary shares outstanding during the period (in thousand)	307,741	307,741	307,741	307,741
Basic loss per share	(Rs. 6.06)	(Rs. 8.42)	(Rs. 5.47)	(Rs. 9.78)

There were no dilutive potential ordinary shares in issue as at December 31, 2019 and 2018.

December 31,
2019
(Rupees in thousand)

December 31,
2018

17. CASH GENERATED FROM / (USED IN) OPERATIONS

Loss before income tax	(1,241,363)	(2,750,803)
Adjustments for non-cash charges and other items:		
Depreciation and amortisation	451,947	458,838
Reversal of provision for slow moving stores and spares	(1,500)	(626)
Mark-up expense	935,912	507,124
Provision for employee benefit obligations	57,524	42,070
Exchange gains on cash and cash equivalents	(685)	(19,650)
Share of income of associate	(1,719)	2,094
Profit on deposits	(33,847)	(25,671)
Gain on disposal of operating assets - net	-	(95)
Agreement signing fee	-	(6,667)
Working capital changes – note 17.1	8,210,993	(1,389,119)
Cash generated from / (used in) operations	8,377,262	(3,182,505)

17.1 WORKING CAPITAL CHANGES

Decrease / (increase) in current assets		
Inventories	3,866,444	(474,079)
Trade receivables	13,033,171	2,259,886
Trade deposits, loans, advances and short-term prepayments	(1,287,617)	(115,062)
Other receivables	514,444	556,004
	16,126,442	2,226,749
Decrease in current liabilities		
Trade and other payables	(7,915,449)	(3,615,868)
	8,210,993	(1,389,119)

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED DECEMBER 31, 2019 – UNAUDITED

18. TRANSACTIONS WITH RELATED PARTIES

Relationship	Nature of transactions	Transactions during the period	
		December 31, 2019 (Rupees in thousand)	December 31, 2018
Parent company	Sale of goods - net	39,879,532	5,149,724
	Services rendered	315	69
Associated companies	Sale of goods - net	-	37,154,829
	Purchase of goods	1,453,330	24,000
	Services rendered	-	341
	Services received	504,938	79,455
	Mark-up paid	-	25,214
	Bank charges	-	16
Key management personnel compensation (excluding non-executive directors)	Salaries and other short-term employee benefits	77,474	67,966
	Post-employment benefits	4,776	4,887
Staff retirement benefit funds	Payments to staff retirement benefit funds	118,540	81,226
	Markup paid on TFCs	-	3,358
Non-executive Directors	Fee including honorarium	9,435	2,250

Sale of certain products is transacted at prices fixed by the Oil and Gas Regulatory Authority (OGRA).

Key management personnel comprises of members of Refinery Leadership Team.

December 31, 2019 (Rupees in thousand)	December 31, 2018
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19. CASH AND CASH EQUIVALENTS

Cash and bank balances	247,359	1,443,890
Short-term borrowings	(6,400,000)	(6,690,000)
Running finance under mark-up arrangements	(2,062,558)	(2,823,322)
	<u>(8,215,199)</u>	<u>(8,069,432)</u>

20. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue by the Board of Directors of the Company on January 31, 2020.

Syed Asad Ali Shah
Chairman

Zahid Mir
Managing Director & CEO

Imran Ahmad Mirza
Chief Financial Officer



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