Half Yearly Report
December 31,

2012

PRL

PAKISTAN REFINERY LIMITED

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.

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Company Information

Chief Financial Officer
Imran Ahmad Mirza

Company Secretary
Asim Hamid Akhund

Auditors
A. F. Ferguson & Co

Legal Advisor
Orr Dignam & Co

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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
National Bank of Pakistan
NIB Bank Limited
Standard Chartered Bank (Pakistan) Limited
United Bank Limited

Board of Directors

Farooq Rahmatullah
Chairman

Aftab Husain
Managing Director & CEO

Chang Sern Ee
Director

Khawaja Nimr Majid
Director

Muhammad Zubair
Director

Muhammad Azam
Director

Muqtadar A. Quraishi
Director

Naeem Yahya Mir
Director

Omar Yaqoob Sheikh
Director

Rafi Haroon Basheer
Director

Saleem Butt
Director

Board Committees

Audit Committee

The Audit Committee comprises of three members, including the Chairman, from 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 Board has determined the Terms of Reference of the Audit Committee and has provided adequate resources and authority to enable the Audit Committee to carry out its responsibilities effectively. The Audit Committee recommends to the Board, the appointment of external auditors, their removal, audit fees and the provision by the external auditors of any service to the listed company in addition to audit of its financial statements. The Board gives due consideration to the recommendations of the Audit Committee in all these matters.

Human Resources and Remuneration Committee (HR&RC)

HR&RC comprises of four members from the non-executive Directors of the Board. The head of Human Resources is the Secretary of the Committee. HR&RC has been delegated the role of assisting the Board of Directors in:

- recommending human resource management policies to the Board;
- recommending to the Board the selection, evaluation, compensation (including retirement benefits) and succession planning of the Managing Director & Chief Executive Officer;
- recommending to the Board the selection, evaluation, compensation (including retirement benefits) of Deputy Managing Director, Chief Financial Officer, Company Secretary and Chief Internal Auditor;
- consideration and approval on recommendations of Managing Director & Chief Executive Officer on such matters for key management positions who report directly to Managing Director & Chief Executive Officer or Deputy Managing Director.

Board Technical Committee

The Board Technical Committee comprises of two non-executive Directors. It is responsible for removing barriers for realising the upgradation project for the Company's project team, institutionalising project execution process and governance for the upgradation project and endorsement of the investment decisions recommended by the Project Steering Committee. This committee also reviews and engages with technical managers for HSEQ matters.

Board Strategic Committee

The Board Strategic Committee has been set up to assist management in defining and putting up to the Board of Directors a structured strategic plan that will ensure future sustainability of the business and deliver sustainable returns to the shareholders.

Directors' Review

After steering through financial challenges of last year, the Company posted profit after taxation of Rs. 1,198 million for the half year ended December 31, 2012, as compared to loss after taxation of Rs. 340 million during the same period last year. This improved profitability is mainly due to improved global refining margins and revised pricing mechanism introduced by the Government of Pakistan in June 2012.

Refinery operations remained smooth during the current period and focus remained on maximum production of better margin products to improve profitability. Sales revenue increased by 6% as compared to corresponding period last year due to increase in product prices. The Refinery on an average processed 4,462 M. Tons of crude and condensates per day as compared to 4,643 M. Tons per day processing during corresponding period last year.

The Company is still confronted with financial challenges in the face of high volatility in Rupee Dollar parity which resulted in exchange loss of Rs. 405 million in the current period. Further, the issue of minimum tax on turnover remains a major threat to Company's profitability. The Company believes that minimum tax of 0.5% of turnover is extremely harsh on the refineries as they have huge revenues but very low margins, thus the impact of minimum tax far exceeds normal tax rate of 35 percent for refineries. It is important to mention here that some other segments of economy are enjoying relief from imposition of minimum tax in the form of complete exemptions or reduced rates. Your Refinery is constantly pursuing with the Federal Board of Revenue and the Government of Pakistan that similar relief should be made available to refineries so that they may also operate in a competitive environment.

As part of its commitment to the Government of Pakistan to set up Isomerisation Unit, the Refinery has entered into license and engineering agreements for development of related Basic Engineering Package (BEP). It is expected that BEP will be completed in the current year following which the EPC phase will also start before the current year end. This project will convert light Naphtha into Motor Gasoline – a more profitable product and thereby contribute positively to the profitability of the Company on one hand and will reduce the burden of imports on the economy on the other. The Company is also actively pursuing different options to undertake the projects (i) to produce Euro II specs High Speed Diesel; and (ii) refinery upgradation through efficient and economical means.

The Refinery remains committed towards maintaining operational excellence, including cost control measures, and high standards for quality products, environmental protection and health and safety of its employees, customers and contractors. Health, Safety, Environment and Quality (HSEQ) and process safety is and always remain an area of focus and is further strengthened by continuous identification and mitigation of exposures. The Refinery remained compliant with all national standards of HSEQ during the period.

The Board of Directors expresses their gratitude and appreciation to all our shareholders, customers, suppliers, employees and concerned Government ministries for their continuous support.

On behalf of the Board of Directors

Farooq Rahmatullah
Chairman

Karachi: February 14, 2013

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, 2012 and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity together with the notes forming part thereof 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, 2012 and 2011 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2012.

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.

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, 2012 is not prepared, in all material respects, in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to note 1.5 to the interim financial information. As stated in the note, as at December 31, 2012 the company has accumulated loss of Rs. 1.39 billion resulting in net negative equity of Rs. 1.03 billion. Further, current liabilities of the company exceed its current assets by Rs. 2.60 billion. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

A.F. Ferguson & Co.
Chartered Accountants
Karachi: February 14, 2013

Name of the engagement partner: Mohammad Zulfikar Akhtar

Condensed Interim Balance Sheet

as at December 31, 2012

	Note	Unaudited December 31, 2012	Audited June 30, 2012
		(Rupees in thousand)	
ASSETS			
Non-current assets			
Fixed assets	2	4,698,044	4,461,581
Investment in associate		79,601	77,834
Long-term loans and advances		4,091	6,046
Long-term deposits		15,088	15,062
		4,796,824	4,560,523
Current assets			
Stores, spares and chemicals		264,140	257,868
Stock-in-trade	3	8,644,548	7,828,060
Trade debts		8,133,885	20,714,181
Loans and advances		45,733	32,897
Trade deposits and short-term prepayments		42,884	51,963
Other receivables		6,159	428,554
Taxation - payments less provision		51,946	30,491
Cash and bank balances		254,117	306,661
		17,443,412	29,650,675
		22,240,236	34,211,198
EQUITY			
Share capital		350,000	350,000
Reserves		1,947	1,947
Accumulated loss	1.5	(1,387,819)	(2,585,357)
Fair value reserve		3,514	1,265
		(1,032,358)	(2,232,145)
SURPLUS ON REVALUATION OF FIXED ASSETS		3,197,928	3,143,928
LIABILITIES			
Non-current liabilities			
Deferred taxation		20,668	20,205
Retirement benefit obligations		15,251	15,839
Current liabilities			
Trade and other payables		18,195,352	32,129,273
Accrued mark-up		8,795	19,922
Short-term borrowings		800,000	-
Running finance under mark-up arrangements		153,775	453,019
Payable to government - Sales tax		880,825	661,157
		20,038,747	33,263,371
		20,074,666	33,299,415
Contingencies and commitments	4		
		22,240,236	34,211,198

The annexed notes 1 to 8 form an integral part of this condensed interim financial information.

Farooq Rahmatullah
Chairman

Aftab Husain
Chief Executive

Condensed Interim Profit and Loss Account

for the half year ended December 31, 2012 (Unaudited)

	For the quarter		For the half year	
	October - December 2012	**October - December 2011**	**July - December 2012**	**July - December 2011**
	(Rupees in thousand)			
Sales	41,934,819	39,905,509	80,136,660	74,001,400
Less : Sales tax, excise duty and petroleum levy	(7,218,349)	(6,376,148)	(13,763,844)	(11,327,472)
	34,716,470	33,529,361	66,372,816	62,673,928
Cost of sales	(33,692,075)	(33,272,672)	(64,031,258)	(61,850,069)
Gross profit	1,024,395	256,689	2,341,558	823,859
Distribution cost	(41,457)	(43,255)	(82,056)	(82,392)
Administrative expenses	(53,598)	(48,918)	(103,385)	(93,739)
Other operating expenses	(44,808)	12,577	(116,136)	(2,045)
Other income	31,901	211,783	56,191	228,907
Operating profit	916,433	388,876	2,096,172	874,590
Share of income of associate	2,971	3,573	4,670	7,484
Finance costs	(296,594)	(567,820)	(533,984)	(860,153)
Profit / (loss) before taxation	622,810	(175,371)	1,566,858	21,921
Taxation - current	(193,183)	(185,456)	(369,657)	(349,866)
- deferred	783	(3,812)	337	(12,286)
	(192,400)	(189,268)	(369,320)	(362,152)
Profit / (loss) after taxation	430,410	(364,639)	1,197,538	(340,231)
Other comprehensive income				
Change in fair value reserve on account of available for sale investments of associate	1,830	(1,200)	3,049	314
Deferred tax relating to component of other comprehensive income	(480)	448	(800)	(82)
	1,350	(752)	2,249	232
Total comprehensive income / (loss)	431,760	(365,391)	1,199,787	(339,999)
Earnings / (loss) per share	Rs 12.30	Rs (10.42)	Rs 34.22	Rs (9.72)

The annexed notes 1 to 8 form an integral part of this condensed interim financial information.

Farooq Rahmatullah
Chairman

Aftab Husain
Chief Executive

Condensed Interim Cash Flow Statement

for the half year ended December 31, 2012 (Unaudited)

	Note	December 31, 2012	December 31, 2011
		(Rupees in thousand)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (used in) operations	5	250,131	(4,273,545)
Mark-up paid		(137,788)	(177,553)
Taxes paid		(391,112)	(316,127)
Payment for defined benefit plans		(30,417)	(25,301)
Decrease / (increase) in loans and advances		1,955	(680)
Increase in long term deposits		(26)	(1,262)
Net cash used in operating activities		(307,257)	(4,794,468)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(282,407)	(135,872)
Proceeds from disposal of fixed assets		2,100	2,592
Profit received on deposits		28,325	60,560
Dividend received		5,952	5,103
Net cash used in investing activities		(246,030)	(67,617)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(13)	(50,800)
Short term borrowings		-	4,806,064
Net cash (used in) / from financing activities		(13)	4,755,264
Net decrease in cash and cash equivalents		(553,300)	(106,821)
Cash and cash equivalents at the beginning of period		(146,358)	(1,697,964)
Cash and cash equivalents at the end of period	7	(699,658)	(1,804,785)

The annexed notes 1 to 8 form an integral part of this condensed interim financial information.

Farooq Rahmatullah
Chairman

Aftab Husain
Chief Executive

Condensed Interim Statement of Changes in Equity

for the half year ended December 31, 2012 (Unaudited)

	SHARE CAPITAL	RESERVES					TOTAL
		CAPITAL	REVENUE		SPECIAL RESERVE (noted 1.3)	FAIR VALUE RESERVE	
		Exchange equalisation reserve	General reserve	Accumulated loss			
	(Rupees in thousand)						
Balance as at July 1, 2011	350,000	897	1,050	(917,140)	-	(1,818)	(567,011)
Final dividend for the year ended June 30, 2011 @ Rs. 1.50 per share	-	-	-	(52,500)	-	-	(52,500)
Loss for the half year ended December 31, 2011	-	-	-	(340,231)	-	-	(340,231)
Other comprehensive income	-	-	-	-	-	232	232
Total recognised loss for the half year ended December 31, 2011	-	-	-	(340,231)	-	232	(339,999)
Balance as at December 31, 2011	350,000	897	1,050	(1,309,871)	-	(1,586)	(959,510)
Balance as at July 1, 2012	350,000	897	1,050	(2,585,357)	-	1,265	(2,232,145)
Profit for the half year ended December 31, 2012	-	-	-	1,197,538	-	-	1,197,538
Other comprehensive income	-	-	-	-	-	2,249	2,249
Total recognised income for the half year ended December 31, 2012	-	-	-	1,197,538	-	2,249	1,199,787
Balance as at December 31, 2012	350,000	897	1,050	(1,387,819)	-	3,514	(1,032,358)

The annexed notes 1 to 8 form an integral part of this condensed interim financial information.

Farooq Rahmatullah
Chairman

Aftab Husain
Chief Executive

Notes to and Forming Part of the Condensed Interim Financial Information
for the half year ended December 31, 2012 (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, 2012.

1.3 Under directive from the Ministry of Petroleum & Natural Resources' (the Ministry), 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. Transfer to Special Reserve is considered on annual basis.

The Ministry through its notification dated October 14, 2010 has directed refineries not to adjust the losses against Special Reserve. 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 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 (MS, HOBC, HSD, LDO and Aviation Fuels) are based on prices set under notifications of the Ministry of Petroleum and Natural Resources.

1.5 As at December 31, 2012 the Company has accumulated loss of Rs. 1.39 billion (June 30, 2012: Rs. 2.59 billion) resulting in net negative equity of Rs. 1.03 billion (June 30, 2012: Rs. 2.23 billion) and its current liabilities exceed its current assets by Rs. 2.60 billion (June 30, 2012: Rs. 3.61 billion). These conditions indicate the existence of material uncertainty that may cast a doubt on the Company's ability to continue as a going concern and realise its assets and discharge its liabilities in the normal course of business. Despite these conditions, during the half year ended December 31, 2012, the Company earned a profit after tax of Rs. 1.198 billion. Further, the Company also has plans to set up an Isomerisation Unit to convert Naphtha into Motor Gasoline as per the directives of the Government of Pakistan. Motor Gasoline is a better margin product than Naphtha and is thereby expected to increase the future profitability of the Company. Based on the above facts and projected profitability and cashflows, the Company expects 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. FIXED ASSETS

Following are revaluation and additions to fixed assets during the period:

	December 31, 2012	December 31, 2011
	(Rupees in thousand)	
Revaluation of freehold land - note 2.1	54,000	-
Additions:		
Buildings	-	1,369
Processing plant, tank farm and power generation	43,516	45,443
Equipments including furniture and fixtures	2,284	5,020
Vehicle and other automotive equipments	2,741	2,740
Capital work in progress - net of transfers	233,866	81,300
	336,407	135,872

There were no major disposals during the period.

2.1 During the half year ended December 31, 2012 the land measuring 200 acres located at Naclass No. 24, Deh Dih, Tappo Landhi, Taluka Karachi, District Karachi, where the Refinery is situated, was revalued resulting in a net surplus of Rs. 54 million. The revaluation was carried out by an independent valuer on July 10, 2012 on the basis of present market value keeping in view that the land is freehold to be used for oil refinery by the Company.

Had there been no revaluation the net book value of land would have amounted to Rs. 2.07 million.

Notes to and Forming Part of the Condensed Interim Financial Information

for the half year ended December 31, 2012 (Unaudited)

	As at December 31, 2012	As at June 30, 2012
	(Rupees in thousand)	
2.2 Capital work-in-progress		
Buildings	3,364	2,732
Processing plant - note 2.2.1	200,773	40,500
Korangi tank farm	156,077	112,476
Kemari terminal	76,023	71,748
Pipelines	17,317	9,759
Water treatment and cooling systems	771	837
Equipments	11,466	1,203
Fire fighting and telecommunication systems	7,330	-
	473,121	239,255

2.2.1 This includes Rs. 60.02 million (June 30, 2012: Rs. Nil) in respect of Isomerisation Project.

3. STOCK IN TRADE

As at December 31, 2012 stock of finished goods has been written down by Rs. 9.91 million (June 30, 2012: Rs. 332.46 million) to the net realisable value.

4. CONTINGENCIES AND COMMITMENTS

4.1 Contingencies

4.1.1 Claims against the Company not acknowledged as debt amount to Rs. 3.19 billion (June 30, 2012: Rs. 3.02 billion). These include Rs. 2.85 billion (June 30, 2012: Rs. 2.71 billion) on account of late payment surcharge on purchase of crude oil. The Company has raised similar claims aggregating to Rs. 6.85 billion (June 30, 2012: Rs. 6.43 billion) relating to interest on late payments against trade receivables from certain Oil Marketing Companies.

4.1.2 Bank guarantees of Rs. 193 million (June 30, 2012: Rs. 193 million) were issued in favour of third parties.

4.2 Commitments

As at December 31, 2012 commitments outstanding for capital expenditure amounted to Rs. 1,047.58 million (June 30, 2012: Rs. 501.12 million).

Outstanding letters of credit as at December 31, 2012 amounted to Rs. 12.72 billion (June 30, 2012: Rs. 13.13 billion).

Aggregate commitments in respect of ijarah arrangements of motor vehicles and equipments amounted to Rs. 35.53 million (June 30, 2012: Rs. 37.82 million).

	December 31, 2012	December 31, 2011
	(Rupees in thousand)	
5. CASH GENERATED FROM / (USED IN) OPERATIONS		
Profit before taxation	1,566,858	21,921
Adjustments for non-cash charges and other items:		
Depreciation	98,808	93,848
Mark-up expense	126,661	219,077
Exchange loss on short term borrowing	-	172,305
Provision for defined benefit plans	29,829	22,815
Share of income of associate	(4,670)	(7,484)
Return on deposit accounts	(28,325)	(59,660)
Gain on disposal of fixed asset	(2,100)	(2,469)
Fixed assets written off	1,136	-
Working capital changes – note 5.1	(1,538,066)	(4,733,898)
Cash generated from / (used in) operations	250,131	(4,273,545)

Notes to and Forming Part of the Condensed Interim Financial Information

for the half year ended December 31, 2012 (Unaudited)

	December 31, 2012	December 31, 2011
	(Rupees in thousand)	
5.1 WORKING CAPITAL CHANGES		
(Increase) / decrease in current assets		
Stores, spares and chemicals	(6,272)	9,719
Stock-in-trade	(816,488)	539,103
Trade debts	12,580,296	(6,696,213)
Loans and advances	(12,836)	1,171
Trade deposits and short-term prepayments	9,079	9,655
Other receivables	422,395	872,848
	12,176,174	(5,263,717)
(Decrease) / increase in current liabilities		
Trade and other payables	(13,933,908)	1,022,982
Payable to government - Sales tax	219,668	(493,163)
	(13,714,240)	529,819
	(1,538,066)	(4,733,898)

6. TRANSACTIONS WITH RELATED PARTIES

Significant related party transactions are:

Relationship	Nature of transactions	December 31, 2012	December 31, 2011
Associated companies	Sale of goods	53,384,403	50,799,354
	Sale of services	15,217	11,709
	Purchase of goods	13,712,481	15,260,037
	Mark-up paid	561	-
	Dividend paid	-	31,805
	Dividend received	5,952	5,103
	Bank charges	128	-
Key management compensation	Salaries and other short-term employee benefits	30,443	38,381
	Post-employment benefits	4,113	3,616
Contributions to retirement plans		44,668	43,709
Directors' fee including honorarium		870	645

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

Key management personnel comprises of members of Refinery Leadership Team.

7. CASH AND CASH EQUIVALENTS

	December 31, 2012	December 31, 2011
Cash and bank balances	254,117	6,490
Short term loan	(800,000)	-
Running finance under mark-up arrangements	(153,775)	(1,811,275)
	(699,658)	(1,804,785)

8. DATE OF AUTHORISATION

This condensed interim financial information was authorised for issue by the Board of Directors of the Company on February 14, 2013.

Farooq Rahmatullah
Chairman

Aftab Husain
Chief Executive

PRL

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JWT