PRL PAKISTAN REFINERY LTD.

The General Manager
Pakistan Stock Exchange Limited
Stock Exchange Building
Stock Exchange Road
Karachi

August 20, 2020

Dear Sir,

Subject: Financial Results of Pakistan Refinery Limited (PRL) for the year ended June 30, 2020

We have to inform you that the Board of Directors of PRL in their held on August 20, 2020 at 10:00 am at PSO House, Karachi has recommended a Nil dividend.

The statement of profit and loss account of the Company for the year ended June 30, 2020 is set out below:

	2020	2019
	(Rupees in thousand)	
Revenue from contracts with customers	**90,524,260**	115,740,971
Cost of sales	**(94,892,607)**	(118,915,466)
Gross loss	**(4,368,347)**	(3,174,495)
Distribution costs	**(206,096)**	(250,171)
Administrative expenses	**(459,767)**	(485,457)
Loss allowance on trade receivables	**-**	(121,939)
Other operating expenses	**(43,038)**	(23,763)
Other income	**163,901**	267,304
Operating loss	**(4,913,347)**	(3,788,521)
Finance cost	**(1,995,012)**	(1,442,624)
Share of net gain / (loss) of associate accounted for using the equity method	**3,258**	(13,963)
Loss before income tax	**(6,905,101)**	(5,245,108)
Income tax expense	**(685,625)**	(576,015)
Loss for the year	**(7,590,726)**	(5,821,123)
		(Restated)
Loss per share - basic and diluted	**(Rs. 17.74)**	(Rs. 13.68)

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A. EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 2.1.2 - BASIS OF PREPARATION

During the year, the company incurred loss after tax of Rs. 7.59 billion against corresponding year's loss after tax of Rs. 5.82 billion. As at June 30, 2020, the Company has accumulated loss of Rs. 18.36 billion (2019: Rs. 10.67 billion) and the current liabilities exceed its current assets by Rs. 16.84 billion (2019: Rs. 10.89 billion). The Company ended the year with net negative cash and cash equivalents amounting to Rs. 10.19 billion (2019: Rs. 14.05 billion).

In addition to above, under the policy framework for up-gradation and expansion of refinery projects issued by the Ministry of Energy (previously Ministry of Petroleum & Natural Resources) on March 27, 2013, refineries were required to install Diesel Hydrodesulphurisation 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. As at June 30, 2020 the Company did not meet the aforementioned deadline of setting up DHDS unit and hence was subjected to downward adjustments of its HSD pricing causing loss Rs. 1.03 billion (2019: Rs. 1.15 billion) which is part of aforementioned loss for the year.

The above mentioned conditions may cast 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.

To address the negative equity and liquidity issues the Board of Directors in their meeting dated February 10, 2020, decided to make a right issue of 1 ordinary share for every 1 share held amounting to Rs. 3.15 billion. The Right Issue has been fully subscribed subsequent to the year end.

In addition, as already announced in Pakistan Stock Exchange, the Company in light of new operational strategy has undertaken various non-capex options which will assist the Refinery to comply with the regulatory requirementsand will also have a positive impact on the Company's profitability. These measures include:

1) Sustained production of MS 92 RON and the ability to produce MS 95/97 RON has been achieved. This has already resulted in saving of RON differential price adjustment on MS which is paid to the Government, hence generating additional revenues.

2) Changes in crude recipe and operational philosophy has enabled the Refinery to produce EURO II compliant High Speed Diesel (HSD). This will make the Refinery compliant with the regulatory requirements and will also save price differential which the Company is required to pay to the Government due to production of HSD with higher Sulphur contents. It is to

be noted that the Company has suffered cumulative Rs. 7.18 billion on account of HSD price differential since March 2013. The Refinery produced EURO II compliant HSD subsequent to year end with the revised crude recipe and is currently exploring long term arrangements with relevant crude suppliers to continue producing EURO II compliant HSD on a sustainable basis.

3) The changes in crude recipe and operational philosophy made the Company the first refinery in Pakistan to produce IMO-2020 grade Marine Residual Fuel (MRF). MRF is a premium product and will add to the margins of the Company. The Company has already started production of MRF since June 2020, however, its sustained production is also tied with long term crude arrangements as explained above.

In addition, the Economic Coordination Committee of the Government of Pakistan (ECC) has approved a revised pricing mechanism effective March 1, 2020 whereby the Company will be able to recover a certain portion of exchange loss suffered on crude oil imports through pricing of MS and HSD. This will partly address the issue of exchange risk which the Company faces. The mechanism has been implemented from June 2020. Moreover, with the support of its parent company to uplift refined products and the availability of funded and unfunded credit facilities, the Company will be able to support its liquidity management efforts.

Based on the above factors and their expected positive impact on the Company's projections together with the support of its parent and continuous availability of financing facilities, the Company believes that it will meet the obligations and continue to operate for a period of at least twelve months from the date of approval of these financial statements. Accordingly, these 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 considered unable to continue as a going concern.

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B. EXTRACTS FROM THE INDEPENDENT AUDITORS' REPORT TO THE MEMBERS ON AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Material Uncertainty Relating to Going Concern

We draw attention to note 2.1.2 to the financial statements. As stated in the note, as at June 30, 2020 the Company has accumulated loss of Rs. 18.36 billion. Further, current liabilities of the Company exceed its current assets by Rs. 16.84 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. Our opinion is not modified in respect of this matter.

Yours truly,
for **PAKISTAN REFINERY LIMITED**

Imran Ahmad Mirza
Chief Financial Officer

Mustafa Saleemi
Company Secretary