

HALF YEARLY REPORT
DECEMBER 31

2021

Moving forward



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

Shehrzad Aminullah

Auditors & Tax Advisors

KPMG - Taseer Hadi & Co.
Chartered Accountants

Legal Advisors

Orr Dignam & Co.

Registrar & Share Registration Office

FAMCO Associates (Private) Limited.
8-F, near 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
Bank of Punjab
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
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BOARD OF DIRECTORS

Tariq Kirmani

Chairman

Zahid Mir

Managing Director & CEO

Abid Shahid Zuberi

Director

Aftab Husain

Director

Hassan Mehmood Yousufzai

Director

Mohammad Abdul Aleem

Director

Mohsin Ali Mangi

Director

Nadeem Safdar

Director

Syed Jehangir Ali Shah

Director

Syed Muhammad Taha

Director

Tara Uzra Dawood

Director

DIRECTORS' REVIEW

The Board of Directors is pleased to present its review report along with Unaudited Condensed Interim Financial Information for the half year ended December 31, 2021 and the Review Report of Auditors thereon.

The Company posted a profit after tax of Rs. 264 million in the 2nd quarter of the current financial year. Cumulatively, the loss for the half year ended December 31, 2021 was Rs. 114 million.

Though the refining margins in the current period were better than the corresponding period however, Pak Rupee depreciated by 12.4% against USD resulting in exchange loss of Rs. 1.42 billion as compared to Rs. 503 million in the comparative period. As part of Government's efforts to stabilise Pak Rupee, the Company was again directed to obtain foreign currency loans to settle its crude oil import liabilities as explained in Note 16.3 to the annexed financial information.

The refining sector is again facing a challenge of reduced demand of High Sulphur Furnace Oil (HSFO) since November 2021, disrupting their operations and creating ullage constraints. This adversity forced the Refinery to shut down for 16 days in December 2021. Though the Refinery has resumed its operations, the situation is persisting and to continue uninterrupted operations, the Company may be required to export HSFO which may have a negative impact on the results. The Company is in liaison with the relevant ministries to address this situation.

A positive development during the period, which is expected to contribute towards the Company's cash flows, was reduction of sales tax on crude oil purchases from 17% to 0% through Finance (Supplementary) Act, 2022. The Company along with other refineries has been emphasising to the Government that by such imposition refineries were unnecessarily burdened and it is heartening that the Government has withdrawn this levy of sales tax on crude oil.

Consequent to the decision of the Board in December 2021, the Company made an announcement on Pakistan Stock Exchange regarding its plan to undertake Refinery Expansion & Upgrade Project (REUP) with a cost of USD 1.2 billion. The objectives of the REUP are; i) production of EURO V compliant environment friendly HSD and MS; ii) expand crude oil processing capacity to 100,000 barrels per day; and iii) reduction in production of HSFO. The Company is in the process of finalising appointment of financial advisor and technical consultant to undertake Front End Engineering Design (FEED) for REUP.

The Company, along with other refineries, is engaged with the government to conclude the Refining Policy. It is expected that these collaborative efforts in getting the policy approved will bring positive results and the said policy will support the refining sector in upgradation projects to produce high quality environment friendly fuels.

Health, Safety, Environment and Quality (HSEQ) remains a key area of focus for the Company and compliance with all the necessary standards was guaranteed during the period.

The Board of Directors would like to acknowledge the contributions of all stakeholders of the Company for their continuous support.

On behalf of the Board of Directors



Tariq Kirmani
Chairman



Zahid Mir
Managing Director & CEO

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF PAKISTAN REFINERY LIMITED

REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

INTRODUCTION

We have reviewed the accompanying condensed interim financial statement of financial position of Pakistan Refinery Limited ("the Company") as at December 31, 2021 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 interim financial information for the six-months period then ended (here-in-after referred to as the "condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

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

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INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF PAKISTAN REFINERY LIMITED

REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

EMPHASIS OF MATTERS

We draw attention to note 2.2 to the condensed interim financial information, which indicates that the Company incurred a net loss of Rs. 0.11 billion during the six months period ended December 31, 2021 and, as of that date, the Company's current liabilities exceeded its current assets by Rs. 16.73 billion. As stated in note 2.2 these events or conditions, along with the other matters as set forth in note 2.2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

OTHER MATTERS

The figures of the condensed interim financial information for the quarter ended December 31, 2021 have not been reviewed and we do not express a conclusion thereon. The engagement partner on the engagement resulting in this independent auditors' review report is Muhammad Nadeem.

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi: February 15, 2022

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2021

	Note	December 31, 2021 Unaudited	June 30, 2021 Audited
(Rupees in '000)			
ASSETS			
Non-current assets			
Property, plant and equipment	8	19,971,029	20,414,353
Right-of-use asset		139,211	147,165
Investment accounted for using the equity method		57,343	58,930
Long-term deposits and loans		28,928	27,240
Employee benefit prepayments		25,194	25,580
		20,221,705	20,673,268
Current assets			
Inventories	9	13,109,342	10,415,407
Trade receivables	10	3,967,864	6,588,913
Trade deposits, loans, advances and short-term prepayments	11	179,851	75,293
Other receivables	12	2,174,044	3,072,762
Taxation - payments less provision		165,376	95,697
Cash and bank balances		274,014	72,680
		19,870,491	20,320,752
		40,092,196	40,994,020
EQUITY AND LIABILITIES			
EQUITY			
Share capital		6,300,000	6,300,000
Accumulated loss		(18,299,321)	(18,184,869)
Special reserve		2,780,632	2,780,632
Revaluation surplus on property, plant and equipment		11,149,288	11,149,288
Other reserves		1,947	1,947
		1,932,546	2,046,998
LIABILITIES			
Non-current liabilities			
Long-term borrowing	13	1,031,673	293,924
Long-term lease liability		141,269	148,237
Deferred tax liabilities	14	6,719	4,902
Employee benefit obligations		377,551	377,551
		1,557,212	824,614
Current liabilities			
Trade and other payables	15	14,676,185	20,509,338
Short-term borrowings	16	21,888,690	17,573,548
Unearned revenue		10,774	15,084
Current portion of long-term lease liability		6,937	4,586
Unclaimed dividend		19,852	19,852
		36,602,438	38,122,408
		38,159,650	38,947,022
CONTINGENCIES AND COMMITMENTS			
	17	40,092,196	40,994,020

The annexed notes 1 to 25 form an integral part of this condensed interim financial information.

Zahid Mir
Managing Director & CEO

Mohammad Abdul Aleem
Director

Imran Ahmad Mirza
Chief Financial Officer

CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - UNAUDITED

FOR THE SIX MONTHS AND QUARTER ENDED DECEMBER 31, 2021

		Six months ended		Quarter ended	
	Note	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
		(Rupees in '000)			
Revenue from contracts with customers	18	59,884,413	37,621,872	24,255,890	19,963,015
Cost of sales		(58,435,688)	(36,389,820)	(23,279,594)	(19,612,165)
Gross profit		1,448,725	1,232,052	976,296	350,850
Distribution costs		(143,452)	(118,082)	(75,447)	(64,666)
Administrative expenses		(277,239)	(226,719)	(155,987)	(127,236)
Other operating expenses		(78,039)	(35,269)	(31,613)	1,878
Other income		49,792	178,093	24,149	144,138
Operating profit		999,787	1,030,075	737,398	304,964
Finance cost		(798,124)	(649,073)	(345,242)	(339,284)
Share of loss of associate accounted for using the equity method		(1,586)	(5,070)	(1,586)	(5,070)
Profit / (loss) before income tax		200,077	375,932	390,570	(39,390)
Taxation		(314,529)	(290,858)	(126,640)	(157,374)
(Loss) / profit for the period		(114,452)	85,074	263,930	(196,764)
Other comprehensive income / (loss)		-	-	-	-
Total comprehensive (loss) / profit		(114,452)	85,074	263,930	(196,764)
				(Re-stated)	
(Loss) / earnings per share - basic and diluted	19	(Rs. 0.18)	Rs. 0.14	Rs. 0.42	(Rs. 0.31)

The annexed notes 1 to 25 form an integral part of this condensed interim financial information.



Zahid Mir
Managing Director & CEO



Mohammad Abdul Aleem
Director



Imran Ahmad Mirza
Chief Financial Officer

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CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY - UNAUDITED

	SHARE CAPITAL	SUBSCRIPTION MONEY AGAINST RIGHTS ISSUE	CAPITAL RESERVES			REVENUE RESERVES			TOTAL
			Special reserve	Revaluation surplus on property, plant and equipment	Exchange equalisation reserve	Accumulated loss	Fair value reserve	General reserve	
Balance as at July 1, 2020	3,150,000	1,943,175	1,943,476	11,149,288	897	(18,362,739)	-	1,050	(174,853)
Profit for the six months period ended December 31, 2020	-	-	-	-	-	85,074	-	-	85,074
Other comprehensive income for the six months ended December 31, 2020	-	-	-	-	-	-	-	-	-
Subscription money against right issues	-	1,207,277	-	-	-	-	-	-	1,207,277
Issuance costs for rights shares	-	(452)	-	-	-	1,766	-	-	1,314
Issue of rights shares	3,150,000	(3,150,000)	-	-	-	-	-	-	-
	3,150,000	(1,943,175)	-	-	-	86,840	-	-	1,293,665
Balance as at December 31, 2020	6,300,000	-	1,943,476	11,149,288	897	(18,275,899)	-	1,050	1,118,812
Balance as at July 1, 2021	6,300,000	-	2,780,632	11,149,288	897	(18,184,869)	-	1,050	2,046,998
Loss for the six month ended period December 31, 2021	-	-	-	-	-	(114,452)	-	-	(114,452)
Other comprehensive income for the six months ended December 31, 2021	-	-	-	-	-	-	-	-	-
Balance as at December 31, 2021	6,300,000	-	2,780,632	11,149,288	897	(18,299,321)	-	1,050	1,932,546

The annexed notes 1 to 25 form an integral part of this condensed interim financial information.

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Zahid Mir
Managing Director & CEO

H. L. Kern

Mohammad Abdul Aleem
Director

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Imran Ahmad Mirza
Chief Financial Officer

CONDENSED INTERIM STATEMENT OF CASH FLOWS - UNAUDITED

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2021

	Note	December 31, 2021	December 31, 2020
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	21	(3,499,458)	(1,802,064)
Interest paid		(807,851)	(698,841)
Taxes paid		(382,391)	(344,797)
Contribution made to retirement benefit plans		(60,646)	(61,064)
(Increase) / decrease in long-term deposits and loans		(1,688)	650
Net cash used in operating activities		(4,752,034)	(2,906,116)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(116,180)	(85,693)
Proceeds from disposal of property, plant and equipment		2,003	3,984
Interest received		12,244	50,291
Net cash used in investing activities		(101,933)	(31,418)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from foreign currency loan		15,328,142	-
Proceeds from / (repayment of) long term loans - net		800,000	(200,000)
(Repayment of) / proceeds from short term borrowings - net		(6,000,000)	1,850,000
(Repayment of) / proceeds from salary refinancing - net		(36,248)	145,301
Lease rentals paid		(25,573)	(24,358)
Share deposit money received net of rights issuance cost		-	1,208,591
Dividend paid		-	(12)
Net cash flow from financing activities		10,066,321	2,979,522
Net increase in cash and cash equivalents		5,212,354	41,988
Cash and cash equivalents at beginning of the period		(5,463,423)	(3,693,313)
Cash and cash equivalents at end of the period	22	(251,069)	(3,651,325)

The annexed notes 1 to 25 form an integral part of this condensed interim financial information.



Zahid Mir
Managing Director & CEO



Mohammad Abdul Aleem
Director



Imran Ahmad Mirza
Chief Financial Officer

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION - UNAUDITED

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2021

1. THE COMPANY AND ITS OPERATIONS

- 1.1** 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).

- 1.2** The geographical locations and addresses of the Company's business units, including plant are as under:

- Refinery complex and registered office of the Company is at Korangi Creek Road, Karachi; and
- Storage tanks at Keamari, Karachi.

2. BASIS OF PREPARATION

- 2.1** This condensed interim financial information have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting which comprise of:

- International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where provisions of and directives issued under the Companies Act, 2017 differ from the IFRS, the provisions of and directives issued under the Companies Act, 2017 have been followed.

This condensed interim financial information of the Company does not include all of the information required for annual financial statements and should be read in conjunction with the annual financial statements of the Company as at and for the year ended June 30, 2021. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual audited financial statements.

- 2.2** The Company incurred a net loss of Rs. 0. 11 billion during the six months period ended December 31, 2021. As at December 31, 2021 accumulated losses were Rs. 18.30 billion (June 30, 2021: Rs. 18.18 billion) and as at that date current liabilities of the Company exceeded its current assets by Rs. 16.73 billion (June 30, 2021: 17.80 billion). These conditions may cast a significant doubt on the Company's ability to continue as a going concern as the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Net loss of Rs. 0.11 billion incurred by the Company during the period was mainly because of exchange loss of Rs 1.42 billion owing to significant depletion in the value of Pak Rupee against USD. However, the Company believes that current pricing mechanism which includes the allowance to recover exchange loss will enable the Company to recover a portion of cumulative exchange loss suffered during the period. The Government of Pakistan (GOP) through Finance Act, 2021 reduced the rate of Minimum Tax on Turnover from 0.75% to 0.5% and the rate of Custom Duty on crude oil from 5% to 2.5%. Subsequent to the period end, GOP through Finance Supplementary Act 2022, has reduced Sales Tax on crude oil from 17% to 0%. These changes are having favourable impacts on the results of the Company.

During December 2021, the refinery operations were temporarily shutdown for a period of 16 days owing to operational and ullage issues caused by shortfall in demand of furnace oil by Oil Marketing Companies. This industry-wide issue was caused due to the lower electricity demand in winters and supply of RLNG to power plants. Subsequent to the period end, the Company resumed its operations after ensuring smooth upliftment of its products, resolving the operational and ullage constraints.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION - UNAUDITED

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2021

In December 2021, the Board made a public announcement to undertake the Refinery Expansion and Upgrade Project with the objectives of production of EURO V compliant High Speed Diesel and Petrol, expansion of crude processing capacity to 100,000 barrels per day and upgradation from hydro-skimming to deep-conversion refinery, thereby significantly reducing the production of High Sulphur Furnace Oil and improving Company's results. Front-End Engineering and Design contract and appointment of financial advisor is expected by the end of third quarter of the current financial year.

In addition, the continued availability of financing facilities demonstrates the confidence of financial institutions on the Company's business model supporting the liquidity management.

Based on the above factors and their positive effect on the Company's projections together with the continuous availability of financing facilities, the Company believes that it will meet the obligations and will continue to operate as a going concern for a period of at least 12 months from the date of approval of this condensed interim financial information. Accordingly, this condensed interim financial information have been prepared on a going concern basis and therefore, do not include any adjustments to the carrying amounts and classification of assets and liabilities that may arise if, for any reason, the Company is unable to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of the Company's annual financial statements for the year ended June 30, 2021.

4. NEW OR AMENDMENTS / INTERPRETATIONS TO EXISTING STANDARDS, INTERPRETATION AND FORTHCOMING REQUIREMENTS

There are new and amended standards and interpretations that are mandatory for accounting periods beginning July 1, 2021, but are considered not to be relevant or do not have any significant effect on the Company's financial position and are therefore not stated in this condensed interim financial information.

5. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following relevant International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after January 1, 2022:

- IFRS 16 – The amendment partially amends Illustrative Example 13 accompanying IFRS 16 by excluding the illustration of reimbursement of leasehold improvements by the lessor. The objective of the amendment is to resolve any potential confusion that might arise in lease incentives.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) effective for annual periods beginning on or after January 1, 2022 clarifies that sale proceeds and costs of items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management are recognised in profit or loss in accordance with applicable Standards.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION - UNAUDITED

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- The entity measures the cost of those items by applying measurement requirements of IAS 2. The standard also removes the requirement of deducting the net sales proceeds from cost of testing. An entity shall apply those amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial information in which the entity first applies the amendments. The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.
- Classification of liabilities as current or non-current (Amendments to IAS 1) amendments are effective for annual periods beginning on or after January 1, 2023. These amendments in the standards have been added to further clarify when a liability is classified as current. The standard also amends the aspect of classification of liability as non-current by requiring the assessment of the entity's right at the end of the reporting period to defer the settlement of liability for at least twelve months after the reporting period. An entity shall apply those amendments retrospectively in accordance with IAS 8.
- Definition of Accounting Estimates (Amendments to IAS 8) – The amendments introduce a new definition for accounting estimates clarifying that they are monetary amounts in the financial information that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for periods beginning on or after January 1, 2023 and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the company applies the amendments.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) – the Board has issued amendments on the application of materiality to disclosure of accounting policies and to help companies provide useful accounting policy disclosures. The key amendments to IAS 1 include:
 - requiring companies to disclose their material accounting policies rather than their significant accounting policies;
 - clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
 - clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial information.

The Board also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted.

- Deferred Tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12) – The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) – The amendment amends accounting treatment on loss of control of business or assets. The amendments also introduce new accounting for less frequent transaction that involves neither cost nor full step-up of certain retained interests in assets that are not businesses. The effective date for these changes has been deferred indefinitely until the completion of a broader review.

The above amendments are not likely to have an impact on the Company's condensed interim financial information.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION - UNAUDITED

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2021

6. USE OF ESTIMATES AND JUDGEMENTS

In preparing this condensed interim financial information, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual result may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the annual financial statements as at and for the year ended June 30, 2021.

7. FINAL RISK MANAGEMENT

The Company's financial risk management policies and objectives are consistent with those disclosed in the annual financial statements as at and for the year ended June 30, 2021.

8. PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2021	December 31, 2020
	(Unaudited)	
	(Rupees in '000)	
Processing plant	19,207	9,108
Keamari Terminal	70,894	285,000
Pipelines	-	2,110
Steam Generation Plant	3,925	-
Power Generation	63,441	10,919
Water Treatment and Cooling System	3,895	-
Equipment and Furniture	1,095	23,533
Fire fighting and telecommunication system	-	759
Vehicle and other automotive equipment	6,715	-
Major spare parts and stand by equipments - net of transfer	(2,453)	(6,195)
Capital work-in- progress - net of transfer	(52,544)	(242,387)
	<u>114,175</u>	<u>82,847</u>

8.2 Fixed assets having Net Book Value of Rs. 2.0 million were disposed-off during the period.

9. INVENTORIES

As at December 31, 2021 stock of crude oil has been written down by Rs. 115.82 million (June 30, 2021: Nil) and finished products by Rs. 332.83 million (June 30, 2021: Nil) to arrive at their net realisable values.

10. TRADE RECEIVABLES

This includes an amount of Rs. 3.75 billion (June 30, 2021: 4.51 billion) due from PSO - (related party).

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NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION - UNAUDITED

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2021

	December 31, 2021 Unaudited	June 30, 2021 Audited
	(Rupees in '000)	
11. TRADE DEPOSITS, LOANS, ADVANCES AND SHORT-TERM PREPAYMENTS		
Trade deposits	17,547	19,180
Loans to employees recoverable within one year	8,831	7,887
Advances for supplies and services	16,305	30,963
Short-term prepayments	137,168	17,263
	179,851	75,293

11.1 Trade deposits, loans and advances do not carry any interest.

12. OTHER RECEIVABLES

12.1 This includes an amount of Rs. 2.15 billion (June 30, 2021: Rs. Nil) on account of excess of sales tax paid on purchase of crude oil and other goods and services after adjusting sales tax recovered from sale of products and services rendered. As at June 30, 2021, before imposition of sales tax on purchase of crude oil, an amount of Rs. 1.81 billion was payable to the government on account of excess output tax, shown under current liabilities.

12.2 It includes Rs. 8.34 million (June 30, 2021: Rs. 2.92 billion) due from Pak-Arab Refinery Limited (PARCO) - (related party) in respect of sharing of crude oil, freight and other charges. Due to the short-term nature of other receivables, their carrying amount is considered to be the same as their fair value.

13. LONG-TERM BORROWINGS

This includes term finance facility obtained by the Company under mark-up arrangements through Faysal Bank Limited (FBL) amounting to Rs. 1 billion at a mark-up of 6 month KIBOR + 0.75% per annum for a tenor of 1.5 years (including 1 year grace period). The loan is repayable in two equal quarterly installments after the grace period whereas markup is to be paid on a quarterly basis starting from November 2021. These loans are secured by way of hypothecation of property, plant and equipment (excluding land and building).

14. DEFERRED TAX LIABILITIES

Deferred tax debit balance of Rs. 3.25 billion (June 30, 2021: Rs. 3.26 billion) in respect of unabsorbed depreciation, tax losses and deductible temporary differences have not been recognised as their recoverability is dependent on improved profitability of the Company.

15. TRADE AND OTHER PAYABLES

15.1 It includes Rs. 8.70 billion (June 30, 2021: Rs. 13.69 billion) payable to trade creditors in respect of crude purchases.

15.2 Accrued liabilities include a net amount of Rs. 236.76 million (exchange gains of Rs. 618.95 million net of exchange losses of Rs. 382.19 million) (June 30, 2021: Rs. 396.1 million) in respect of foreign currency loans (FE loans) obtained by the Company for settlement of LCs of crude oil based on the directions of Ministry of Finance (MoF) dated November 27, 2013 and October 21, 2021. During the year ended June 30, 2016, MoF proposed a mechanism for calculation of such gains / losses on the FE loans by the oil importing companies and invited views / comments thereupon. The Company, along with other oil importing companies had discussions with MoF and SBP in this respect.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION - UNAUDITED

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2021

	December 31, 2021 Unaudited	June 30, 2021 Audited
	(Rupees in '000)	
16. SHORT TERM BORROWINGS		
Short-term borrowings - note 16.1	2,000,000	8,000,000
Running finance under mark-up arrangements - note 16.2	525,083	5,536,103
Foreign currency loan - note 16.3	15,328,142	-
Current portion of long-term borrowings	3,900,000	3,900,000
Current portion of salary refinancing	135,465	137,445
	21,888,690	17,573,548

16.1 This represents mark-up based short term finance from commercial banks repayable in 5 to 84 (June 30, 2021: 5 to 84) days from the date of condensed interim statement of financial position at a mark-up of 10.44% (June 30, 2021: 7.84% to 8.06%) per annum. These are secured by way of ranking charge on inventory and trade receivables.

16.2 As at December 31, 2021 available running finance facilities under mark-up arrangements from various banks amounted to Rs. 8.45 billion (June 30, 2021: Rs. 9.45 billion). These arrangements are secured by way of hypothecation over stock of crude oil, finished products and trade receivables of the Company. The mark-up rate ranging between one month KIBOR+1.5% to three months KIBOR+0.6% as at December 31, 2021 (June 30, 2021: three months KIBOR+0.5% to one month KIBOR+2.5%) per annum. Purchase prices are payable on demand. Facilities for invoice discounting as at December 31, 2021 amounted to Rs. 7 billion (June 30, 2021: Rs. 7 billion).

16.3 This represent short term FE loans obtained from banks at mark-up rates ranging from three months LIBOR +2.5% to six months LIBOR +4.44% per annum and repayable by January 20 and June 20, 2022. FE loan due on January 20, 2022 has been rolled over for 90 days at a mark-up of 3%.

17. CONTINGENCIES AND COMMITMENTS

17.1 CONTINGENCIES

17.1.1 Claims against the Company not acknowledged as debt amount to Rs. 6.95 billion (June 30, 2021: Rs. 6.01 billion). These include Rs. 0.81 billion on account of HSD price differential claim by OGRA (Refer note 17.1.2). These also include Rs. 5.52 billion (June 30, 2021: Rs. 5.39 billion) on account of late payment surcharge on purchase of crude oil. The Company has raised similar claims aggregating to Rs. 7.40 billion (June 30, 2021: Rs. 7.40 billion) relating to interest on late payments against trade receivables from certain Oil Marketing Companies.

17.1.2 During April 2020, the Company sold HSD at a price lower than the PSO's benchmark price. Such determination of price is permitted by ECC vide its decision No. ECC-51/05/2013 dated February 26, 2013, read with earlier ECC decision No. ECC - 113/12/2012 dated September 4, 2012. Consequently, the price differential in April 2020 on HSD was less than the price differential had the Company sold HSD at PSO's benchmark price. During the period, through its letter dated November 26, 2021, OGRA raised a price differential claim of Rs. 805 million for April 2020. The Company through its reply and in meetings with OGRA officials has reiterated that the aforementioned ECC decisions were correctly followed in fixing the HSD price for April 2020 and consequently there is no additional price differential as claimed by OGRA. The Company's stance has also been affirmed by independent legal counsel.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION - UNAUDITED

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17.1.3 The Company's share in Pak Grease Manufacturing Company (Private) Limited - an associate company, in respect of various tax matters is Rs. 3.74 million (June 30, 2021: 3.74 million).

17.1.4 There has been no significant changes during the period in the status of contingencies reported in annual financial statements for the year ended June 30, 2021, except as detailed in note 17.1.2.

17.1.5 Bank guarantee of Rs. 124.63 million (June 30, 2021: Rs. 124.63 million) was issued in favour of Sui Southern Gas Company Limited - (related party).

17.2 COMMITMENTS

As at December 31, 2021 commitments outstanding for capital expenditure amounted to Rs. 239.25 million (June 30, 2021: Rs. 35.98 million).

18. REVENUE FROM CONTRACTS WITH CUSTOMERS

	Six months ended		Quarter ended	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
	(Unaudited)			
	(Rupees in '000)			
Local sales - note 18.1	71,602,972	62,233,595	28,121,626	32,001,073
Exports	2,491,288	1,572,060	1,551,075	1,572,060
Gross sales	74,094,260	63,805,655	29,672,701	33,573,133
Less:				
- Sales tax	(8,095,279)	(9,022,159)	(2,379,262)	(4,649,778)
- Excise duty and petroleum levy	(2,287,157)	(15,418,892)	(1,430,268)	(7,982,167)
- Custom Duty	(2,077,160)	(1,396,165)	(850,610)	(696,981)
- Surplus price differential	(1,750,251)	(346,567)	(756,671)	(281,192)
	59,884,413	37,621,872	24,255,890	19,963,015

18.1 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 set under notifications of the MoE.

	Six months ended		Quarter ended	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
	(Unaudited)			
	(Rupees in '000)			

19. (LOSS) / EARNINGS PER SHARE

(Loss) / earnings attributable to ordinary shareholders (Rs. in '000)	(114,452)	85,074	263,930	(196,764)
Weighted average number of ordinary shares outstanding during the period (in '000)	630,000	605,344	630,000	630,000
Basic and diluted (loss) / earnings per share	(Rs. 0.18)	Rs. 0.14	Rs. 0.42	(Rs. 0.31)

19.1 There were no dilutive potential ordinary shares in issue as at December 31, 2021 and December 31, 2020.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION - UNAUDITED

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2021

20. TRANSACTIONS WITH RELATED PARTIES

The Company has related party relationship with parent company, associated undertakings, directors, key management personnel and retirement benefit funds.

Sale of certain products is transacted at prices regulated by the Oil & Gas Regulatory Authority. Transactions with employee benefit funds are carried out based on the terms of employment of the employees and according to the actuarial advice. All other related party transactions are carried out on commercial terms.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity. The Company considers all members of their Refinery Leadership Team including the Chief Executive Officer and Directors to be its key management personnel.

There are no transactions with key management personnel other than under their terms of employments / entitlements.

Relationship	Nature of transaction	Six months ended	
		December 31, 2021	December 31, 2020
		(Unaudited (Rupees in '000))	
(a) Parent company	Sale of goods - net	34,672,611	23,966,666
	Services rendered	296	168
(b) Taxes paid	Purchase of goods - net	1,416,335	4,712,373
	Sale of goods - net	-	1,048,285
	Services received	1,577	519,289
	Services rendered	16,729	10,960
(c) Key management personnel compensation (excluding non-executive directors)	Salaries and other short-term employee benefits	80,912	64,822
	Post-employment benefits	5,768	5,380
(d) Staff retirement benefit funds	Payments to staff retirement benefit funds	105,036	101,295
(e) Non-executive Directors	Remuneration and fees	17,320	11,538

21. CASH GENERATED FROM OPERATIONS

Profit before income tax	200,077	375,932
<i>Adjustments for non-cash charges and other items:</i>		
Mark-up expense	787,959	638,620
Depreciation and amortisation	562,754	549,029
Provision for employee benefit obligations	61,032	61,064
Reversal of provision for slow moving stores and spares - net	2,491	7,321
Share of loss of associate	1,586	5,070
Profit on deposits	(12,244)	(50,291)
Assets written-off	-	4,849
Gain on disposal of operating assets - net	-	(1,091)
	1,403,578	1,214,571
Working capital changes - note 21.1	(5,103,113)	(3,392,567)
Cash used in operations	(3,499,458)	(1,802,064)

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NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION - UNAUDITED

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2021

	Six months ended	
	December 31, 2021	December 31, 2020
	(Unaudited (Rupees in '000))	
21.1 WORKING CAPITAL CHANGES		
(Increase) / decrease in current assets		
Inventories	(2,695,728)	(1,735,696)
Trade receivables	2,621,049	(2,108,117)
Trade deposits, loans, advances and short-term prepayments	61,032	61,064
Other receivable	898,718	(201,486)
	719,481	(4,173,134)
(Decrease) / Increase in current liabilities		
Trade and other payables	(5,822,594)	780,567
	(5,103,113)	(3,392,567)
22. CASH AND CASH EQUIVALENTS		
Cash and bank balances	274,014	20,804
Running finance under mark-up arrangements - note 16	(525,083)	(3,672,129)
	(251,069)	(3,651,325)
23. OPERATING SEGMENTS		

This condensed interim financial information has been prepared on the basis of a single reportable segment.

Sales to 2 (December 31, 2020: 2) customers represent 69.49% (December 31, 2020: 77.83%) of the revenue and each customer individually exceeds 10% of the revenue during the current and corresponding period.

24. FAIR VALUE FINANCIAL INSTRUMENTS

The carrying values of all financial assets (loans and receivables) and other financial liabilities reflected in this condensed interim financial information are estimated to approximate their fair values, as these are either short term in nature or repriced periodically.

25. DATE OF AUTHORISATION

This condensed interim financial information were authorised for issue by the Board of Directors of the Company on February 7, 2022.



Zahid Mir
Managing Director & CEO



Mohammad Abdul Aleem
Director



Imran Ahmad Mirza
Chief Financial Officer

Contact

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PAKISTAN REFINERY LIMITED