

Interim Report of The Directors

The Directors have pleasure in presenting the financial statements for the first quarter ended September 30, 2008

FINANCIAL RESULTS

The crude oil prices after having touched a peak of \$ 147/barrel in the international market finally started declining from September, 2008 and the product prices also declined correspondingly. As advised earlier the changes made by the Government in the refineries pricing formula whereby deemed duty on Jet Fuel was totally withdrawn and was cut from 10% to 7.5% on HSD and with the irrational change in the pricing formula for PMG, the gross refiner's margin was severely curtailed. This reduction was further compounded by the rising Rupee Dollar exchange parity rate that resulted in exchange loss of Rs. 1,240 million on foreign currency transactions relating to crude oil with the result the Company suffered a loss of Rs. 870.180 million from refinery operations during the first quarter ended on September 30, 2008 as against a profit of Rs. 1,241.571 million in corresponding period of last year.

PRICING FORMULA

The Company's profitability continues to be governed under an Import Parity Pricing Formula as modified with effect from July 1, 2002 whereby the minimum rate of return of 10% on paid-up capital was dispensed with and net profit after tax (if any) above 50% of paid-up capital as at July 1, 2002 is required to be diverted to a special reserve fund to offset any future losses and/or make investment for expansion or upgradation of the Refinery.

As the shareholders have continuously been advised in earlier reports, the Company has contested the abolition of the minimum guaranteed rate of return, as a clause in the existing Agreement between the Company and the Government of Pakistan to this effect cannot be changed unilaterally by either party.

With the recent changes in the refineries pricing formula and more particularly the irrational revision of motor gasoline pricing formula, the refineries profitability has been directly hit and with the fluctuations in the international prices of crude oil and petroleum products whereby the refiner's margin has drastically shrunk has vindicated the refineries continuous stand with the Government that refineries profitability under the pricing formula always fluctuated and the refiner's margin improves or narrows down with these fluctuations and therefore the pricing formula has to be examined from long-term perspective that ensures continued economically viable refineries operations. Your Company alongwith other refineries continues to represent to the Government the dire need for a review of the changes made to the refineries pricing formula in August, 2008. The Government has been reminded that there is an urgent need for a review of the pricing formula to ensure that refineries continue to operate on a sustainable basis.

REFINERY OPERATIONS

The Refinery throughput during the quarter was 3,287,604 barrels. Due to economic and market conditions the refinery throughput had to be curtailed to 92% of its capacity. Overall sales volume in the quarter was 3,145,331 barrels as compared to 3,605,873 barrels in the corresponding quarter of last year. All the processing units of the Refinery operated smoothly during the period.

PROJECTS

Construction of 150 MW AGL Power Plant is progressing satisfactorily and it is expected that the Power Plant will start commercial operations in the middle of December, 2008.

Work on the Front-End Engineering Design (FEED) on the projects relating to Isomerization and Diesel Hydro desulfurization Units is progressing as per the plan. The Government has, however, been advised that the implementation of these projects shall be dependent on the Company's profitability under the pricing formula and other concessions/exemptions and pricing incentives required for the successful implementation of these projects.

The Board of Directors would like to express their gratitude for the support received from its valued customers, suppliers, Ministry of Petroleum & Natural Resources and other relevant organizations.

On behalf of the Board

SD/-

Tariq Iqbal Khan
Chairman

October 30, 2008