

Interim Report of The Directors



The Directors have pleasure in presenting the financial statements for the first quarter ended September 30, 2009.

FINANCIAL RESULTS

The Company's financial results continued to be affected by the adverse changes made by the Government in the refineries pricing formula for HSD and Motor Gasoline. However, the loss in the period Jul-Sep 2009 as compared to corresponding period of last year was lower due to decreased exchange rate loss on crude purchases from Rs 1,240 million to Rs 127 million. Fluctuations in products and crude prices remained unfavorable throughout the period and consequently the Company ended its 1st quarter with net aggregate loss of Rs 553.182 million from its refinery operations as against loss of Rs 870.180 million in corresponding period of last year. After accounting for dividend income (being non-refinery income) of Rs 156.933 million the net loss for the three months ended September 30, 2009 was Rs 396.249 million (September 30, 2008: Rs 870.180 million).

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. The Government continued to adversely modify the pricing formula from time to time and with the more particular revision made in the formula for HSD and motor gasoline in August 2008, the refineries profitability suffered very badly.

The Company maintains its contest against the abolition of the minimum guaranteed rate of return on the basis that a clause in the existing Agreement between the Company and the Government of Pakistan to this effect cannot be changed unilaterally by either party.

As reported earlier, the Company has been actively engaged in refineries joint representations to and deliberations with the Government to negotiate a revision in the pricing formula to ensure that refineries operations are conducted on an economically sustainable basis and protect the investors' interest. After discussions on various options, a summary of proposed changes in the import parity pricing formula has been finalised by the Ministry of Petroleum & Natural Resources and it is expected that a revision in the import parity pricing formula shall be approved by ECC in the best national interests to keep the refineries operations economically sustainable.

REFINERY OPERATIONS

The Company continued to face severe liquidity crisis due to extra-ordinary inter-corporate debts. The outstanding receivables by the Company which had accumulated to a figure of over Rs 15 billion as at June 30, 2009 remained unchanged at September 30, 2009. Thus, due to adverse liquidity position and refinery margins, Refinery throughput during the three months under report was curtailed to 3.243 million barrels (September 30, 2008: 3.288 million barrels) which was 88% of its capacity. Overall sales volume in the three months was 3.143 million barrels as compared to 3.145 million barrels in the corresponding period of last year. Besides the under capacity operations on account of above factors all the processing units of the Refinery operated smoothly during the period.

PROJECTS

Front-End Engineering Design (FEED) work for isomerization complex, diesel hydrodesulfurization unit and offsites/auxiliary units along with ITB documents for soliciting Engineering, Procurement, Construction & Commissioning (EPCC) bids has been completed and now ARL is in a position to move to the EPCC phase. However, it is possible only if the Government makes a positive commitment to provide certain incentives to cover the cost of these Projects to make them economically viable. FEED work for the preflash unit, to increase refining capacity, has already been completed and now ARL is prepared to enhance its crude distillation capacity on fast-track depending on the future crude availability.

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/-

Dr. Ghaith R. Pharaon
Chairman

October 22, 2009