

Chairman's Review



On behalf of the Board I am pleased to welcome our esteemed shareholders to the 30th Annual General Meeting of the Company and to present annual review of the results of Company's operations and audited financial statements for the financial year ended 30 June, 2008.

Business Review

The increasing price trend which started last year continued during the current financial year with both the crude and petroleum products prices rising to record levels. The crude prices witnessed a highest ever price of \$ 147/barrel in the international market. These high prices had a global impact on all the economies of the world and more particularly the under developed and developing economies including Pakistan. The oil industry experienced a very challenging and testing times when the Government, for political and economic reasons, was reluctant to pass the full impact of the rising prices to the end consumer. Resultantly, huge subsidies were given in the prices of motor gasoline, diesel, kerosene oil and other petroleum products. These subsidies in turn were financed heavily by the oil industry including the refineries and the oil marketing companies crippling the entire industry and creating a huge inter corporate debt. These inter corporate debts and price differential claims receivable from the Government are still outstanding, seriously hampering the operations of the oil industry.

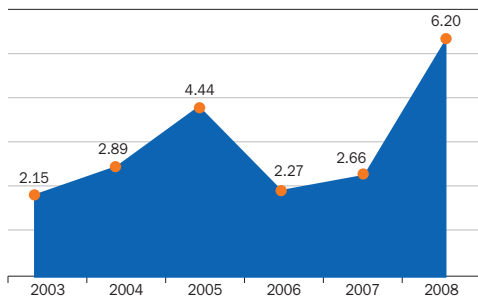
While the issue of subsidies and stuck up finances remained a major issue, the fluctuations in the international prices of petroleum products and crude oil provided abnormally high refiners margins during the year with refineries profits rising to unprecedented levels.

Profit from refinery operations increased to Rs 2,007.57 million in the current year as against Rs 504.33 million in the year 2006-07. With dividend income of Rs 377.43 million from its investments in associated undertakings and gain on sale of shares of an associated company of over Rs 3,762.78 million, the total profit for the year jumped up to Rs 6,147.77 million which is the highest ever profit earned by the Company. Accordingly the EPS for the current year was Rs 28.24 from refinery operations and Rs 58.25 from non-refinery operations with total EPS of Rs 86.49. The detailed financial results of the Company's operations for the year ended June 30, 2008 are given in the annexed Directors' Report and financial statements.

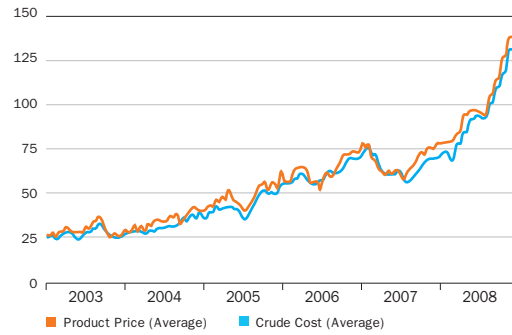
Business Risks, Challenges and Future Outlook

Due to the high international prices, there was a strong public reaction even with impact of the increase being only partially passed on to the consumers. With mounting public pressure, the Government initiated a review of the Refineries Pricing Formula as discussed in more detail in the Directors Report. The revision in Pricing Formula has been notified in August 2008 which has severe adverse impact on the revenues of the Company with prices of its two main products HSD and PMG having been reduced. Earlier the Government had withdrawn deemed duties on Jet Fuel, kerosene oil and LDO. These measures combined with the declining prices of petroleum products in the international market pose a serious challenge to the continued operations of the refinery. The refineries have been forced to curtail their operations to minimize their losses and the implementation of the Projects has been temporarily put on hold. Your Company has made strong representations to the Government for a review of the Pricing Formula to enable the refineries to maintain their normal operations so that there is no break in the supply chain. It has been emphasized upon the Government that continued operations of the local refineries is critical as it relates to strategic petroleum supplies, local crude oil production as well as to safeguard the investors interest in the oil refinery sector. It is expected that Government shall shortly undertake a review of the pricing formula after receiving the financial results of the 1st quarter of 2008-09.

Gross Refiner's Margin (\$ Per Barrel)



Products and Crude Average Prices (\$ Per Barrel)



Due to changes in product specifications warranted by environmental considerations, your Company had undertaken the task of implementing certain projects that shall cater to the market requirements of cleaner fuels, higher RON motor gasoline as well as to maintain and enhance its oil refining facilities to meet any future growth in crude oil availability in the northern region. These plans include construction of a Pre-Flash Unit to enhance the overall refining capacity, an Isomerisation Unit that shall upgrade the motor gasoline by raising its octane level and a Hydro-desulphurisation unit to reduce sulphur contents in HSD to meet Euro Standards. These projects shall not only let your company retain its market share in production and supply of petroleum products but also provide operational flexibility in its future operations.

Your Company has advised the Government that unless the pricing formula is reviewed that ensures economically viable operations, it will not be possible to undertake the above projects and that for continued development of environmental clean products it is imperative to provide sufficient incentives to the refineries for them to undertake refinery upgradation projects which require intensive capital outlay.

Your Company is confident that the Government shall continue to support the oil refineries in a manner that it provides due incentives for fresh investment that can bring substantial economic benefits to the country.

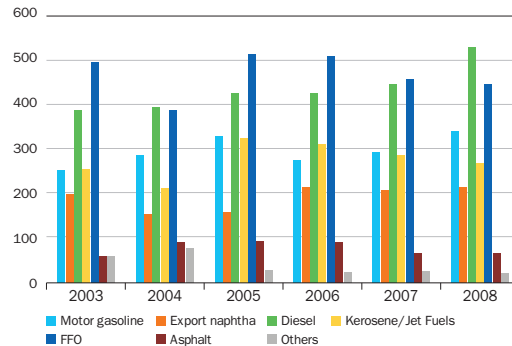
Your Company would continue to pursue new business opportunities, focus its operating strategies on reliability, efficiency and profitability to create shareholders value which would however remain subject to conducive economic conditions.

Corporate Awards and Recognitions

i. Best Sustainability Report Award 2007

Your Company was awarded the 'Best Sustainability Report Award 2007' in the local listed companies' category by Association of Chartered Certified Accountants (ACCA) and WWF. This Award is recognition of ARL's efforts to report and disclose environmental, social or sustainability performance and to encourage best

Production (M.tons in thousand)



practices in environmental, social and sustainability reporting.

ii. International Platts Global Energy Award 2007

Your Company won its first international award 'The International Platts Global Energy Award 2007' for the Community Development Program of the Year. These awards recognize excellence and innovation by companies in more than a dozen sectors within the global energy industry. PLATTS received more than 200 nominations from energy companies around the world for this award.

iii. People as Key Resource Award 2007

Your Company received the 'People as Key Resource Award' instituted by the Employers' Federation of Pakistan and is awarded to top five companies nominated in Pakistan for promoting best business practices in the area of Human Resource Management. Your Company was the first recipient of this award in the oil sector.

iv. NFEH Environmental Excellence Award 2008

For the 3rd year in a row, your Company was awarded 'Environmental Excellence Award' of the National Forum for Environment and Health (NFEH). This award demonstrates your Company's commitment to establish, implement and maintain a successful HSEQ management system and its continued efforts to improve its effectiveness in accordance with the requirements of ISO 14001 and OHSAS 18001 standards.



v. Corporate Social Responsibility (CSR) Award 2007

Your Company was awarded the 'CSR National Excellence Award 2007' organized by the Help International Welfare Trust in collaboration with CSR Association of Pakistan. This award is a mark of recognition of companies/ corporations for their active participation in social causes of Pakistan.

vi. AASHA Award 2007 For One Of The Most Gender Friendly Companies In Pakistan

Your Company was awarded 'Alliance Against Sexual Harassment (AASHA) Award 2007' for being one of the most gender friendly companies in Pakistan. This Award reflects ARL's total commitment towards making the organizational culture more gender friendly and to creating a conducive working environment for men and women free of any harassment, abuse and intimidation. ARL is one of the few companies in Pakistan which has adopted the Code of Gender Justice at Work Place.

vii. Best Corporate Report Award

Your Company once again emerged as winner of first prize among all the companies in Fuel & Energy sector listed on all three Stock Exchanges in the country, for presenting best corporate report for the year 2006 adjudged by the joint committee of the Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost & Management Accountants of Pakistan (ICMAP). The Company has received these Awards ever since its inception and has won the First Position Award in the sector on three different occasions.

viii. Export Trophy (RCCI) 2008

Based on achieving highest exports in the region, your Company also won the 'Rawalpindi Chamber of Commerce and Industry Export Trophy' for the year 2007-08.

Employee Relations

Your Company maintains an exemplary relationship with its employees and has provided a congenial

atmosphere at work place. The management is actively engaged in employees career development and progression. An environment exists where employees understand the Company's objectives, the market conditions in which the Company operates and the risks it must mitigate to ensure ideal working conditions for both, labour and management. The labour – management relationship continues to be cordial and depicts a will to maintain mutual respect, co-existence and growth on the part of both parties. The settlement for a 2 years period 2007-09 between ARL and Refinery Employees Union (CBA) was successfully concluded and signed on April 15, 2008. I would like to appreciate the efforts and dedication of the officers, staff, workers of the Company and the CBA who enabled the management to run the Company smoothly and efficiently during the year for profitable operations.

Acknowledgement

On behalf of the Board, I wish to put on record our appreciation and thanks for the continued support received from the Ministry of Petroleum & Natural Resources and other Government institutions and express gratitude to our valued customers, crude oil suppliers, banks, suppliers and contractors for their continued cooperation.

Further, I would also like to thank my colleagues on the Board and record my appreciation of the services and contributions of the Directors who are representing the Audit, Technical and Finance Committees of the Board.

Before concluding, I also wish to express my thanks for the continued interest and support of our esteemed shareholders and on behalf of the Board would like to extend our assurance that the Board of Directors would continue to work in the best interest of the Company and to create value addition for its shareholders.

SD/-

Tariq Iqbal Khan
Chairman

October 8, 2008