Interim Report of The Directors

بسم الله الرحمن الرحيم

The Directors have pleasure in presenting the financial statements for the second quarter and half year ended December 31, 2008.

FINANCIAL RESULTS

As reported in the 1st quarterly report, the Company's financial results continued to be affected by unfavourable refiner's margins caused by fluctuations in international prices of petroleum products/crude oil and changes made by the Government in the Refineries Pricing formula for HSD and Motor gasoline. Further the profitability was also severely impacted by the exchange rate loss which accumulated to Rs. 1.335 billion during the current half year. The accumulated losses from refinery operations for the half year ended December 31, 2008 were Rs. 1.238 billion as against profit of Rs. 1.255 billion in similar period of last year. After accounting for dividend income (being non-refinery income) of Rs. 549 million the net loss for half year ended December 31, 2008 was Rs. 689 million (December, 2007 profit Rs. 1.633 billion) with a negative EPS of Rs. 8.08 (December, 2007 : Rs. 19.14 positive).

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 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.

With the adverse changes in the refineries pricing formula made from time to time and more particularly the irrational revision of motor gasoline pricing formula, the refineries profitability has been very severely affected adversely. The extent of these losses are in fact a continued threat to an economically sustainable operations of the refineries further aggravated by the serious liquidity crises caused by the inter-corporate debts. In these circumstances, the Company management is restrained from operating the Refinery at its full capacity and the operations are being continued only in the best national interests to maintain the supply chain for petroleum products as well as to save the local crude oilfields from closure.

Your Company alongwith other refineries is actively engaged in making representations to and deliberations with the Government to arrive at a consensus revision in the pricing formula that ensures economically viable refinery operations and safeguard the Investors interests.

REFINERY OPERATIONS

During the period under Report, the Company faced a severe liquidity crisis due to huge inter-corporate debts, unfavourable margins yielded by international market price fluctuations and pricing formula changes and exchange rate losses.

As a result the Refinery throughput during the half year under report was 6.535 million barrels (December 2007: 7.327 million barrels) which was 86% of its capacity. Overall sales volume in the half year was 6.324 million barrels as compared to 6.951 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

Construction of 150 MW AGL Power Plant has been completed and the plant after having been tested on full load capacity is currently undergoing commissioning tests in coordination with Power Purchaser (Wapda) and it is expected that Commercial Operations Date (COD) shall be declared by end February, 2009.

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

February 26, 2009