

## Interim Report of The Directors

The Directors have pleasure in presenting the financial statements for the third quarter and nine months ended March 31, 2008.

### FINANCIAL RESULTS

During the third quarter ended March 31, 2008 prices of both products and crude in the international market remained erratic with gross refiner's margin (GRM) shrinking in comparison to the previous two quarters. As a result net profits from refinery operations during the third quarter January to March, 2008 declined to Rs160 million with total profit of Rs 1,415 million from refinery operations for the 9 months ended 31<sup>st</sup> March, 2008 in comparison to loss of Rs 49.124 million in the corresponding period of last year. After accounting for dividend income of Rs 378 million on investments made by the Company in associated companies, the net profit after tax amounts to Rs 1,793 million with an EPS of Rs 25.22 (July 2006-March 2007 : Rs 2.81).

### 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 from refinery operations (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. It is expected that with the cessation of publication of an element of pricing used in determining of price of motor gasoline, an alternate pricing formula for the motor gasoline has to be found in consultation with the Government. Furthermore, with the rising petroleum products prices there is mounting pressure on Government to review the refineries pricing formula. The Company maintains a very clear stand that the pricing formula must ensure continued economically viable refinery operations that simultaneously ensures the Company undertaking upgradation projects to meet the changing market demands. The Company shall continue to defend its interest to ensure viable operations.

### REFINERY OPERATIONS

The Refinery throughput during the nine months was 10.998 million barrels. All the processing units of the Refinery operated smoothly. The Company management successfully continued with its efforts to enhance the sale of motor gasoline and to increase the production of value added products, debottleneck the process operations and optimize the operating costs. Overall sales volume increased to 10.695 million barrels in the nine months as compared to 10.081 million barrels in the corresponding period of last year.

As reported in the last quarter, following the decision of Government of Pakistan (GOP) with respect to discount rates in respect of crude oil prices in excess of US \$ 50 per barrel, the balances withheld from the crude oil suppliers on this account, have been released in accordance with the GOP directives.

## PROJECTS

Construction phase of AGL Power Plant is in full swing and major equipment has already arrived in Pakistan. It is expected that the power plant will start commercial operations in the second quarter of financial year 2008-09.

Front End Engineering Design (FEED) work by M/s UOP for the Isomerization and Diesel Hydro desulfurization Units is in progress and the final Process Design package is expected to be received shortly. The contract for the Front End Engineering Design (FEED) for off sites and preparation of ITB document for Engineering, Procurement, Construction and Commissioning (EPCC) of Isomerization and Diesel Hydro desulfurization Units, has also been awarded.

In the meantime, the Refineries are deliberating with the Government on their joint proposal to the Ministry of Petroleum for the concessions / exemptions and pricing incentives needed for the successful implementation of their projects.

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

On behalf of the Board

**Sd/-**

**Tariq Iqbal Khan**  
Chairman

April 22, 2008