

Refining with Vision

Condensed Interim
Financial Statements for
the Half Year Ended
December 31, 2019



National Refinery Limited





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Corporate Information

Board of Directors

Laith G. Pharaon

Alternate Director: Shuaib A. Malik

Wael G. Pharaon

Alternate Director: Babar Bashir Nawaz

Shuaib A. Malik - Chairman

Tariq Iqbal Khan

Abdus Sattar

Sajid Nawaz

Zaki Mohamad Mansoor

Chief Executive Officer

Jamil A. Khan

Chief Financial Officer

Nouman Ahmed Usmani

Company Secretary

Muhammad Atta ur Rehman Malik

Audit Committee

Tariq Iqbal Khan

Chairman

Abdus Sattar

Member

Babar Bashir Nawaz

Member

Alternate Director for Mr. Wael G. Pharaon

Shaikh Ather Ahmed

Secretary

Human Resource and Remuneration (HR&R) Committee

Tariq Iqbal Khan

Chairman

Abdus Sattar

Member

Babar Bashir Nawaz

Member

Alternate Director for Mr. Wael G. Pharaon

Jamil A. Khan

Member

Nouman Ahmed Usmani

Secretary

Auditors

A. F. Ferguson & Co.

Chartered Accountants

Legal Adviser

Ali Sibtain Fazli & Associates

Legal Advisers, Advocates & Solicitors

Bankers

Bank AL Habib Limited

National Bank of Pakistan

United Bank Limited

Meezan Bank Limited

Habib Bank Limited

Allied Bank Limited

Bank Alfalah Limited

MCB Bank Limited

Faysal Bank Limited

Habib Metropolitan Bank Limited

Samba Bank Limited

Askari Bank Limited

Registered Office

7-B, Korangi Industrial Area, P.O. Box 8228,
Karachi-74900

UAN: +92-21-111-675-675

PABX: +92-21-35064981-85

+92-21-35064977-79

+92-21-35064135-37

Website: www.nrlpak.com

E-mail: info@nrlpak.com

Share Registrar

CDC Share Registrar Services Limited

CDC House, 99-B, Block 'B', S.M.C.H.S.,
Main Shahra-e-Faisal, Karachi – 74400.

Tel: (Toll Free) 0800-23275

Fax: +92-21-34326053

Email: info@cdcsrsl.com

Website: www.cdcsrsl.com

Directors' Review

On behalf of the Board of Directors of National Refinery Limited, I am presenting a brief review of the financial results and operations of your Company for the half year ended December 31, 2019.

During the period, your company incurred a loss after tax of Rs. 2,985 million resulting in Loss per share of Rs. 37.33 as compared to loss after tax of Rs. 3,857 million which resulted in Loss per share of Rs. 48.24 in the corresponding period.

Fuel segment of the Company incurred loss after tax of Rs. 3,329 million as compared to loss after tax of Rs. 4,577 million in the same period last year. Fuel segment of the company is facing losses due to reduced margins in international market wherein product prices are not increasing in proportion to increase in crude oil prices. Particularly in the second quarter, the prices of furnace oil declined sharply in contrast to rising trend of crude oil prices which impaired the company's gross refining margins significantly. This trend together with continuing depressed demand of the furnace oil forced the Company to reduce throughput from 79% in the same period last year to 67% in order to curtail losses.

The loss has been further aggravated due to pricing mechanism whereby prices of regulated products are announced based on previous month's import parity prices and in case of High Speed Diesel & Motor Gasoline previous month's weighted average import prices of Pakistan State Oil Company.

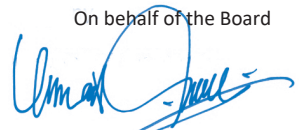
Lube Segment earned profit after tax of Rs. 344 million as compared to profit after tax of Rs. 720 million during the corresponding period. Despite positive margins, lower demand of Bitumen in domestic market resulted in decline in lube segment's profitability. As an alternate avenue, small parcels of Bitumen have been exported during the period however at uncompetitive price. As planned, turnaround along with tie-in activity of two stage unit revamp at Lube-I refinery has commenced. As a result, the throughput of the lube segment remained at 76% as compared to 104% in the same period last year.

Continuous losses and higher Bitumen inventory compelled the Company to finance working capital through short term borrowings, which coupled with higher interest rates resulted in markup cost amounting to Rs. 1,051 million as compared to Rs. 292 million in the same period last year.

Your company is constantly in discussion with the Government to devise a policy framework to resolve the current situation of Furnace oil up-liftment and pricing issue. Accordingly, the Government has formulated a working group of refineries' and Ministry of Energy (Petroleum Division's) representatives to propose remedial measures.

We thank all our stakeholders for their support and trust in the company.

On behalf of the Board



Shuaib A. Malik
Chairman

Dubai - UAE
January 21, 2020

ڈائریکٹرز کا جائزہ

نیشنل ریفرنسری لمیٹڈ کے بورڈ آف ڈائریکٹرز کی جانب سے میں آپ کی کمپنی کے 31 دسمبر 2019 کو مکمل ہونے والی ششماہی کے مالی نتائج اور آپریشنز کا ایک مختصر جائزہ پیش کرتا ہوں۔

موجودہ عرصہ میں، آپ کی کمپنی کو 2,985 ملین روپے کا ٹیکس کے بعد نقصان ہوا جو 37.33 روپے فی حصص نقصان کے مساوی ہے جبکہ گزشتہ مالی سال اسی مدت میں 3,857 ملین روپے کا ٹیکس کے بعد نقصان ہوا تھا جو 48.24 روپے فی حصص نقصان کے مساوی تھا۔

کمپنی کے فیول سیگمنٹ کو 3,329 ملین روپے کا ٹیکس کے بعد نقصان ہوا جبکہ گزشتہ مالی سال اسی مدت میں 4,577 ملین روپے کا ٹیکس کے بعد نقصان تھا۔ کمپنی کے فیول سیگمنٹ کو نقصان کا سامنا بین الاقوامی مارکیٹ میں مارجنز میں کمی جس میں خام تیل کی بڑھتی ہوئی قیمتوں کے مقابلے میں مصنوعات کی قیمتوں میں اسی رفتار سے اضافہ ہونے کی وجہ سے ہوا۔ خاص طور پر دوسرے سہ ماہی میں، خام تیل کی قیمتوں میں اضافے کے رجحان کے برعکس فرانس آئل کی قیمتوں میں تیزی سے کمی واقع ہوئی جس نے کمپنی کے مجموعی ریفاٹنگ مارجنز کو نمایاں طور پر نقصان پہنچایا۔ اس رجحان بشمول فرانس آئل کی مسلسل گرتی ہوئی طلب نے کمپنی کو اپنی پیداوار گزشتہ سال کے اسی عرصہ کے 79% کے مقابلے میں 67% تک کم کرنے پر مجبور کیا تاکہ نقصانات کو کم کیا جاسکے۔

نقصان میں مزید اضافہ قیمتوں کے تعین کے طریقہ کار کی وجہ سے ہوا جس کے تحت ریگولیٹڈ مصنوعات کی قیمتوں کا اعلان گزشتہ ماہ کے ایپورٹ پیریڈ پر آئسز اور ہائی اسپڈ ڈیزل اور مونو ریگسولین کے معاملے میں گزشتہ ماہ پاکستان اسٹیٹ آئل کی اوسط درآمدی قیمتوں پر ہوتا ہے۔

لیوب سیگمنٹ نے 344 ملین روپے کا ٹیکس کے بعد منافع کمایا جبکہ گزشتہ مالی سال اسی مدت میں یہ منافع 720 ملین روپے تھا۔ مثبت مارجنز کے باوجود، مقامی مارکیٹ میں تارکول کی کم طلب کے نتیجے میں لیوب سیگمنٹ کا منافع کم ہوا۔ ایک متبادل ایوبینو کے طور پر، موجودہ عرصہ کے دوران تارکول کی قابل مقدار غیر متقابل قیمت پر آمدنی گئی ہے۔ پلان کے مطابق، لیوب-1 ریفرنسری کے ٹرن اراؤنڈ بشمول ٹوائسٹ پوائنٹ کے ریوبیپ کی سرگرمی شروع ہوگئی ہے۔ نتیجتاً، لیوب سیگمنٹ کی پیداوار پچھلے سال کی اسی مدت میں 104% کے مقابلے میں 76% رہی۔

مسلسل نقصانات اور تارکول انٹنری کے اضافی حجم نے کمپنی کو قلیل المیعاد قرضوں کے ذریعہ ورکنگ کیپٹل کو فنانس کرنے پر مجبور کر دیا، اور اضافی مارک اپ کی شرح کے نتیجے میں 1,051 ملین روپے کے مارک اپ کے اخراجات آئے جبکہ گزشتہ مالی سال اسی مدت میں یہ اخراجات 292 ملین روپے تھے۔

آپ کی کمپنی فرانس آئل کی فروخت کے حجم کو بڑھانے اور قیمتوں کے مسئلہ کی موجودہ صورتحال کو حل کرنے کیلئے پالیسی فریم ورک وضع کرنے کے لئے حکومت سے مستقل رابطے میں ہے۔ اسی مناسبت سے حکومت نے ریفرنسریوں اور وزارت توانائی (پیٹرولیم ڈویژن) کے نمائندوں کا ایک ورکنگ گروپ تشکیل دیا ہے جو کہ اس بحران کے حل کے لیے اپنی تجاویز مرتب کرے گا۔

ہم تمام حصہ داروں کا انکی حمایت اور اعتماد کیلئے شکر گزار ہیں۔

بورڈ کی جانب سے



شعیب اے ملک

چیئرمین

دہی - یو اے ای

21 جنوری، 2020



A·F·FERGUSON&CO.

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of National Refinery Limited

Report on review of Interim Financial Statements

Introduction

We have reviewed the accompanying condensed interim statement of financial position of National Refinery Limited as at December 31, 2019 and the related condensed interim statement of profit or loss, condensed interim statement of profit or loss and other comprehensive income, condensed interim statement of changes in equity, and condensed interim statement of cash flows, and notes to these financial statements for the half year then ended (here-in-after referred to as the "interim financial statements"). Management is responsible for the preparation and presentation of these interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these interim financial statements based on our review. The figures of the condensed interim statement of profit or loss, and condensed interim statement of profit or loss and other comprehensive income for the quarters ended December 31, 2019 and 2018 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2019.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements are not prepared, in all material respects, in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting.

The engagement partner on the audit resulting in this independent auditor's report is Syed Muhammad Hasnain.

A. Ferguson & Co.

Chartered Accountants
Karachi

Date: January 28, 2020

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State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan
Tel: +92 (21) 32426682-6/32426711-5; Fax: +92 (21) 32415007/32427938/32424740; <www.pwc.com/pk>

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019

	Note	Unaudited December 31, 2019	Audited June 30, 2019
(Rupees in thousand)			
ASSETS			
NON-CURRENT ASSETS			
Fixed assets	5	35,426,405	35,695,334
Long term investment		13,346	13,346
Long term loans	6	52,552	49,716
Long term deposits	7	30,265	30,265
Deferred taxation	8	4,384,296	2,874,070
Retirement benefit prepayments		9,605	15,618
		<u>39,916,469</u>	<u>38,678,349</u>
CURRENT ASSETS			
Stores, spares and chemicals		1,599,939	1,572,569
Stock-in-trade	9	16,688,647	25,668,594
Trade receivables		9,395,561	7,499,049
Loans and advances	10	39,072	31,400
Trade deposits and short-term prepayments	11	253,036	34,610
Interest accrued		33,847	14,215
Other receivables		2,188,765	1,662,812
Taxation - payments less provision		-	27,072
Cash and bank balances	12	542,745	978,680
		<u>30,741,612</u>	<u>37,489,001</u>
TOTAL ASSETS		<u>70,658,081</u>	<u>76,167,350</u>
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share capital		799,666	799,666
Reserves		30,088,830	33,073,803
		<u>30,888,496</u>	<u>33,873,469</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Long-term lease liability		187,507	-
Retirement benefit obligations		354,354	293,310
		<u>541,861</u>	<u>293,310</u>
CURRENT LIABILITIES			
Trade and other payables	13	17,646,481	16,418,255
Unclaimed dividend		64,635	65,278
Unpaid dividend		31,831	31,742
Accrued mark-up		336,424	365,037
Provisions		112,361	112,361
Borrowings	14	17,935,290	25,007,898
Current portion of long-term lease liability		15,395	-
Taxation - provisions less payments	15	3,085,307	-
		<u>39,227,724</u>	<u>42,000,571</u>
TOTAL LIABILITIES		<u>39,769,585</u>	<u>42,293,881</u>
CONTINGENCIES AND COMMITMENTS	16		
TOTAL EQUITY AND LIABILITIES		<u>70,658,081</u>	<u>76,167,350</u>

The annexed notes 1 to 25 form an integral part of this condensed interim financial statements.



Chief Financial Officer



Chief Executive



Director

CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS

FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

	Note	Quarter ended		Half year ended	
		December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
← (Rupees in thousand) →					
Revenue from contracts with customers	17	55,816,175	46,400,064	108,148,601	99,627,322
Trade discounts, taxes, duties, levies and price differential	18	(14,419,947)	(8,569,726)	(27,484,758)	(20,537,921)
Net revenue from contracts with customers		<u>41,396,228</u>	<u>37,830,338</u>	<u>80,663,843</u>	<u>79,089,401</u>
Cost of sales		(43,735,687)	(39,287,196)	(83,191,596)	(81,067,700)
Gross loss		<u>(2,339,459)</u>	<u>(1,456,858)</u>	<u>(2,527,753)</u>	<u>(1,978,299)</u>
Distribution cost		(245,684)	(220,886)	(442,566)	(411,439)
Administrative expenses		(203,050)	(216,143)	(437,452)	(443,555)
Other income	19	344,848	75,458	615,962	165,817
Other operating expenses		(5,141)	(3,829)	(10,177)	(7,951)
Operating loss		<u>(2,448,486)</u>	<u>(1,822,258)</u>	<u>(2,801,986)</u>	<u>(2,675,427)</u>
Finance cost	20	(529,148)	(1,755,528)	(1,069,359)	(2,223,465)
Loss before taxation		<u>(2,977,634)</u>	<u>(3,577,786)</u>	<u>(3,871,345)</u>	<u>(4,898,892)</u>
Taxation	21	671,426	786,611	886,372	1,041,549
Loss after taxation		<u>(2,306,208)</u>	<u>(2,791,175)</u>	<u>(2,984,973)</u>	<u>(3,857,343)</u>
Loss per share - basic and diluted		<u>(Rs. 28.84)</u>	<u>(Rs. 34.91)</u>	<u>(Rs. 37.33)</u>	<u>(Rs. 48.24)</u>

The annexed notes 1 to 25 form an integral part of this condensed interim financial statements.



Chief Financial Officer



Chief Executive



Director

CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

	Quarter ended		Half year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	← (Rupees in thousand) →			
Loss after taxation	(2,306,208)	(2,791,175)	(2,984,973)	(3,857,343)
Other comprehensive income / (loss)				
Items that will not be reclassified to profit or loss account				
Change in fair value of long term investment	-	-	-	-
Remeasurement of post employment benefit obligations	-	-	-	-
Deferred tax thereon	-	-	-	-
Total comprehensive loss	<u>(2,306,208)</u>	<u>(2,791,175)</u>	<u>(2,984,973)</u>	<u>(3,857,343)</u>

The annexed notes 1 to 25 form an integral part of this condensed interim financial statements.



Chief Financial Officer



Chief Executive



Director

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

	SHARE CAPITAL	CAPITAL RESERVES				REVENUE RESERVES			Total
	Issued, subscribed and paid-up	Capital compensation reserve	Exchange equalisation reserve	Special reserve	Utilised special reserve	General reserve	Investment at Fair value through OCI	Unappropriated profit / (loss)	
	(Rupees in thousand)								
Balance as at July 1, 2018	799,666	10,142	4,117	-	9,631,914	31,061,000	15,010	1,744,698	43,266,547
Final dividend for the year ended June 30, 2018 - Rs. 10 per share	-	-	-	-	-	-	-	(799,666)	(799,666)
Transfer to general reserve	-	-	-	-	-	900,000	-	(900,000)	-
Loss for the half year ended December 31, 2018	-	-	-	-	-	-	-	(3,857,343)	(3,857,343)
Other comprehensive income / (loss)	-	-	-	-	-	-	-	-	-
Total comprehensive loss for the half year ended December 31, 2018	-	-	-	-	-	-	-	(3,857,343)	(3,857,343)
Balance as at December 31, 2018	<u>799,666</u>	<u>10,142</u>	<u>4,117</u>	<u>-</u>	<u>9,631,914</u>	<u>31,961,000</u>	<u>15,010</u>	<u>(3,812,311)</u>	<u>38,609,538</u>
Balance as at July 1, 2019	799,666	10,142	4,117	-	9,631,914	31,961,000	13,346	(8,546,716)	33,873,469
Loss for the half year ended December 31, 2019	-	-	-	-	-	-	-	(2,984,973)	(2,984,973)
Other comprehensive income / (loss)	-	-	-	-	-	-	-	-	-
Total comprehensive loss for the half year ended December 31, 2019	-	-	-	-	-	-	-	(2,984,973)	(2,984,973)
Balance as at December 31, 2019	<u>799,666</u>	<u>10,142</u>	<u>4,117</u>	<u>-</u>	<u>9,631,914</u>	<u>31,961,000</u>	<u>13,346</u>	<u>(11,531,689)</u>	<u>30,888,496</u>

The annexed notes 1 to 25 form an integral part of this condensed interim financial statements.



Chief Financial Officer



Chief Executive



Director

CONDENSED INTERIM STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

	Note	December 31, 2019	December 31, 2018
(Rupees in thousand)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (utilised in) operations	22	6,525,829	(13,038,036)
Income tax refund		2,488,525	70,948
Finance cost paid		(1,080,354)	(166,093)
(Increase) / decrease in long term loans		(2,836)	47
Payments made to staff retirement benefit funds		-	(4,805)
Net cash generated from / (utilised in) operating activities		<u>7,931,164</u>	<u>(13,137,939)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,309,941)	(555,992)
Purchase of intangible assets		(45)	(339)
Proceeds from disposal of property, plant and equipment		4,900	1,780
Return on investments and bank accounts		11,149	22,126
Net cash used in investing activities		<u>(1,293,937)</u>	<u>(532,425)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(554)	(788,248)
Current portion of long term loan repaid		-	(76,610)
Repayment of long term borrowing		-	(12,870)
Net cash used in financing activities		<u>(554)</u>	<u>(877,728)</u>
Net increase / (decrease) in cash and cash equivalents		6,636,673	(14,548,092)
Cash and cash equivalents at beginning of the period		(24,029,218)	(798,436)
Cash and cash equivalents at end of the period		<u><u>(17,392,545)</u></u>	<u><u>(15,346,528)</u></u>

The annexed notes 1 to 25 form an integral part of this condensed interim financial statements.


Chief Financial Officer

Chief Executive

Director

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

1. LEGAL STATUS AND OPERATIONS

National Refinery Limited was incorporated in Pakistan on August 19, 1963 as a public limited company and its shares are listed on the Pakistan Stock Exchange. The registered office of the Company is situated at 7-B, Korangi Industrial Area, Karachi, Pakistan.

The Company is engaged in the manufacturing, production and sale of a large range of petroleum products. The refinery complex of the Company comprises of three refineries, consisting of two lube refineries, commissioned in 1966 and 1985, and a fuel refinery added to the complex in 1977.

2. BASIS OF PREPARATION

These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed.

These condensed interim financial statements do not include all the information required for full financial statements and should be read in conjunction with the annual financial statements for the year ended June 30, 2019.

2.1 Changes in accounting standards, interpretations and pronouncements

(a) Standards, interpretations and amendments to published approved accounting standards that are effective and relevant

IFRS 16 'Leases' - IFRS 16 replaces the previous lease standard: IAS 17 Leases. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low value leases.

The changes laid down by this standard have been disclosed in note 3.1, of these condensed interim financial statements.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)**(b) Standards, interpretations and amendments to published approved accounting standards that are effective but not relevant**

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2019 are considered not to be relevant for the Company's financial statements and hence have not been detailed here.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this condensed interim financial statements are the same as those applied in the preparation of the annual financial statements of the Company for the year ended June 30, 2019, except as disclosed in note 3.1.

3.1 CHANGES IN ACCOUNTING POLICIES - IFRS 16

Effective July 1, 2019, the Company has adopted IFRS 16, "Leases" which replaces existing guidance on accounting for leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an arrangement contains a Lease', SIC-15 'Operating Leases-Incentive and SIC-27 'Evaluating the substance of transactions involving the legal form of a Lease'. IFRS 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right-of-use of the underlying asset and a lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The accounting policies relating to Company's right-of-use asset and lease liability are disclosed in note 3.2.

The Company has adopted IFRS 16 retrospectively from July 1, 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The impact of adoption of this standard is therefore recognised in the opening statement of financial position on July 1, 2019.

On adoption of IFRS 16, the Company recognised lease liability which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. This liability was measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of July 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liability on July 1, 2019 was 14%.

The following summary reconciles the Company's operating lease commitments at June 30, 2019 as previously disclosed in the Company's annual financial statements as at June 30, 2019 to the lease liability recognised on initial application of IFRS 16 at July 1, 2019.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

(Rupees in thousand)

Operating lease commitment as at July 01, 2019	407,288
Discounted using the lessee's incremental borrowing rate at the date of initial application	(217,661)
Total liability as at July 01, 2019	<u>189,627</u>
Of which are:	
Current lease liability	2,120
Non-current lease liability	187,507

The right-of-use asset were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at June 30, 2019.

December 31, 2019	July 01, 2019
(Rupees in thousand)	

The recognised right-of-use asset relate to the following types of asset:

Lease hold land	183,881	189,627
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The change in accounting policy affected the following in the condensed interim statement of financial position on July 1, 2019

Right-of-use asset - increased by	189,627
Lease liability - increased by	189,627

The change in accounting policy affected the following in the condensed interim statement of profit or loss account on December 31, 2019

Markup expense - increased by	13,275
Depreciation charged in cost of sale increased by	5,746

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

3.2 Lease liability and right-of-use asset

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

From July 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments include fixed payments, variable lease payment that are based on an index or a rate amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option, less any lease incentives receivable. The extension and termination options are incorporated in determination of lease term only when the Company is reasonably certain to exercise these options.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in fixed lease payments or an index or rate, change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. The corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit and loss if the carrying amount of right-of-use asset has been reduced to zero.

The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. The right-of-use asset is depreciated on a straight line method over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Company has elected to apply the practical expedient not to recognise right-of-use asset and lease liabilities for short term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognised as an expense on a straight line basis over the lease term.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

4. ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

4.1 The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts. Actual results may differ from these judgements, estimates and assumptions.

However, management believes that the change in outcome of judgements, estimates and assumptions would not have a material impact on the amounts disclosed in this condensed interim financial information.

4.2 Judgements and estimates made by the management in the preparation of this condensed interim financial information are the same as those that were applied to the financial statements as at and for the year ended June 30, 2019.

4.3 The Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended June 30, 2019.

December 31, 2019	June 30, 2019
(Rupees in thousand)	

5. FIXED ASSETS

Property, plant and equipment

- Operating assets	31,096,515	32,650,046
- Major spare parts and stand-by equipment's	302,558	337,292
- Right-of-use asset - note 5.1	189,627	-
Less: depreciation	(5,746)	-
	183,881	-
- Capital work-in-progress - note 5.3	3,781,937	2,604,318
	<u>35,364,891</u>	<u>35,591,656</u>
Intangible assets	61,514	103,678
	<u>35,426,405</u>	<u>35,695,334</u>

5.1 The right-of-use asset comprise a lease hold land at oil installation area, Kemari of Karachi Port Trust (KPT), used by the Company for its operations.

5.2 In the current period variable lease for right-of-use of assets amounts to Rs. 13.85 million.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

5.3 Capital work-in-progress

	Balance as at July 1, 2019	Additions during the period	Transfers	Balance as at December 31, 2019	Balance as at July 1, 2018	Additions during the period	Transfers	Balance as at June 30, 2019
	← (Rupees in thousand) →							
Buildings on leasehold land	16,420	10,961	(2,527)	24,854	12,261	30,461	(26,302)	16,420
Refineries upgradation projects	1,580,129	902,055	-	2,482,184	1,077,221	566,511	(63,603)	1,580,129
Plant and machinery	770,160	395,790	(128,397)	1,037,553	712,973	693,649	(636,462)	770,160
Office and other equipments	26,001	33,520	(6,564)	52,957	25,110	19,609	(18,718)	26,001
	<u>2,392,710</u>	<u>1,342,326</u>	<u>(137,488)</u>	<u>3,597,548</u>	<u>1,827,565</u>	<u>1,310,230</u>	<u>(745,085)</u>	<u>2,392,710</u>
Advances to contractors / suppliers - note 5.5	211,608	56,964	(84,183)	184,389	178,301	168,415	(135,108)	211,608
	<u>2,604,318</u>	<u>1,399,290</u>	<u>(221,671)</u>	<u>3,781,937</u>	<u>2,005,866</u>	<u>1,478,645</u>	<u>(880,193)</u>	<u>2,604,318</u>

5.4 Additions and disposals to the operating assets during the half year end are as follows:

	Additions (at cost)		Disposals (at net book value)	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	← (Rupees in thousand) →			
Plant and machinery	20,366	460,510	-	-
Office and other equipments	16,463	13,254	-	-
Buildings	1,534	10,691	-	-
Utilities	97,873	7,650	-	-
Vehicles	330	49,952	286	2,415
Furniture and fixtures	335	530	220	-
Computer equipment	2,087	3,315	-	-
Storage tanks	28,068	80,962	-	-
	<u>167,056</u>	<u>626,864</u>	<u>506</u>	<u>2,415</u>

5.5 The advance to supplier does not carry any interest or markup arrangement.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

6. LONG TERM LOANS

These include secured loans to executives and employees for the purchase of motor cars and house building. Out of these, car loans amounting to Rs. 11.13 million (June 30, 2019: Rs. 11.82 million) carry interest ranging from 3% to 7% (June 30, 2019: 3% to 7%). These also include unsecured loans to executive and employees which are interest free.

7. LONG TERM DEPOSITS

These deposits do not carry any markup arrangement.

8. DEFERRED TAXATION

The deferred tax asset on minimum tax, alternative corporate tax and tax loss will be recoverable based on the estimated future taxable income.

9. STOCK-IN-TRADE

As at December 31, 2019 stock of finished products and semi-finished products have been written down by Rs. 252 million (June 30, 2019: Rs. 628 million) to arrive at its net realisable value.

10. LOANS AND ADVANCES

Out of these, car loans amounting to Rs. 2.01 million (June 30, 2019: Rs. 2.58 million) carrying interest as disclosed in note 6. Advances do not carry any markup arrangement.

11. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS

These deposits do not carry any markup arrangement.

December 31, June 30,
2019 2019
(Rupees in thousand)

12. CASH AND BANK BALANCES

Cash in hand	500	500
With banks in:		
- current accounts	51,390	60,282
- savings accounts	792	427,835
- deposit accounts	490,063	490,063
	542,245	978,180
	542,745	978,680

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

	December 31, 2019	June 30, 2019
	(Rupees in thousand)	
13. TRADE AND OTHER PAYABLES		
Trade creditors	9,991,461	9,851,697
Due to the Government of Pakistan	620,992	756,362
Due to related parties:		
- Attock Petroleum Limited	24,995	23,393
- Pakistan Oilfields Limited	295,237	414,427
Accrued liabilities	2,016,283	1,876,057
Surplus price differential payable	7,582	7,582
PMG-RON differential payable	245,448	54,495
Custom duty payable - note 13.1	1,737,700	1,719,988
Retention money	298,082	120,703
Deposits from contractors	50,890	51,225
Advances from customers - note 13.2	341,439	226,236
Workers' welfare fund	87,515	80,917
Income tax deducted at source	20,696	9,071
Excise duty and petroleum levy	1,829,075	1,221,012
Others	79,086	5,090
	<u>17,646,481</u>	<u>16,418,255</u>

13.1 This represents the differential of custom duty levied on import of crude oil and sale of petroleum products based on SROs issued by the Government of Pakistan and Ministry of Energy (MOE). In 2018, the Oil and Gas Regulatory Authority (OGRA) in compliance with the directives of MOE approved a recovery mechanism for regulated products through which refineries would operate on no gain / loss basis on this account. The Company has adjusted the net regulatory duty impact on regulated products and crude oil portion in trade payables and in case of regulatory duty on deregulated products in the sales and cost of sales respectively. Based on mechanism devised by OGRA together with subsequent changes / instructions as communicated from time to time, the amount of liability is being directly adjusted / paid by refineries.

13.2 This includes advances received from related party - Pakistan Oilfields Limited amounting to Rs. 7.49 million (June 30, 2019: Rs. 21.81 million) against supply of goods.

14. BORROWINGS

14.1 The facilities for running finance under mark-up arrangements with various banks amounted to Rs. 17.65 billion (June 30, 2019: Rs. 17.65 billion) of which the amount remaining unutilised at the period end was Rs. 8.72 billion (June 30, 2019: 1.40 billion). The rates of mark-up applicable on running finance ranges from 0.15% to 1.10% above KIBOR (June 30, 2019: KIBOR + 0.15% to 1.10%) per annum.

14.2 The facility from Tijarah arrangement from an Islamic bank amounted to Rs. 5 billion of which none remained unutilised as at the period end (June 30, 2019: Rs. 0.24 billion). The rate of mark-up applicable is based on three months KIBOR + 0.15% (June 30, 2019: three months KIBOR + 0.15%) per annum.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

- 14.3 Short term loan obtained on weekly rollover basis from a commercial bank amounted to Rs. 4 billion (June 30, 2019: Rs.4 billion). The rate of mark-up applicable on this loan is based on 1 week KIBOR + 0.40% (June 30, 2019: 1 week KIBOR + 0.10%) per annum.

15. TAXATION - PROVISIONS LESS PAYMENTS

The Company has received orders from the Appellate Tribunal Inland Revenue (ATIR) in respect of various appeals filed for the tax years 2003, 2004 and 2006 to 2012. The main issue involved in these appeals was the apportionment of expenses between normal income and exports on the basis of 'gross sales' as compared to 'net sales'. The ATIR has allowed the apportionment of expenses on the basis of 'gross sales' which has resulted in a refund of Rs. 6.19 billion (June 30, 2019: Rs. 6.19 billion) out of which Rs. 4.65 billion (June 30, 2019: Rs. 1.50 billion) has been received till December 31, 2019. However, the Federal Board of Revenue has filed an appeal in the High Court of Sindh against the ATIR orders. The Company has also filed an appeal in the High Court of Sindh in respect of apportionment of expenses to be based on quantity sold rather than on net sales. The Company continues to carry the provision until the principal issue is decided by the Court. During the period another similar order of ATIR has been received for tax year 2013, and it is expected that tax refund of Rs. 1.28 billion will be determined in favour of the Company.

16. CONTINGENCIES AND COMMITMENTS

16.1 Contingencies

- 16.1.1 There has been no significant changes during the period in the contingencies reported in the annual financial statement for the year ended June 30, 2019, except as disclosed in note 16.1.2.

- 16.1.2 Claims not acknowledged by the Company as debt at the end of the year amounted to Rs. 4.57 billion (June 30, 2019: Rs. 4.51 billion). These include claims accumulating to Rs. 4.40 billion (June 30, 2019: Rs. 4.34 billion) in respect of late payment surcharge claimed by crude oil suppliers and Rs. 49.64 million (June 30, 2019: Rs. 49.64 million) relating to freight claims.

16.2 Commitments

- a) Commitments outstanding for capital expenditure as at December 31, 2019 amounted to Rs. 0.605 billion (June 30, 2019: Rs.1.33 billion).
- b) Outstanding letters of credit and guarantees as at December 31, 2019 amounted to Rs. 60.15 billion (June 30, 2019: Rs. 56.57 billion) of which the amount remaining unutilised at the period end was Rs. 45.92 billion (June 30, 2019: Rs. 41.90 billion).

17. REVENUE FROM CONTRACTS WITH CUSTOMERS

	Quarter ended		Half year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	← (Rupees in thousand) →			
Local	51,173,789	44,228,228	100,005,655	93,943,543
Export	4,642,386	2,171,836	8,142,946	5,683,779
	<u>55,816,175</u>	<u>46,400,064</u>	<u>108,148,601</u>	<u>99,627,322</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

18. TRADE DISCOUNTS, TAXES, DUTIES, LEVIES AND PRICE DIFFERENTIAL

	Quarter ended		Half year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	← (Rupees in thousand) →			
Trade discounts	68,136	94,251	184,349	230,674
Sales tax	7,435,613	5,373,324	14,530,911	13,253,448
Excise duty	150	191	238	356
Petroleum levy	5,511,508	2,123,608	10,171,343	4,925,498
Custom duty	1,193,268	897,511	2,284,050	1,939,272
PMG-RON differential	211,272	80,841	313,867	188,673
	<u>14,419,947</u>	<u>8,569,726</u>	<u>27,484,758</u>	<u>20,537,921</u>

19. OTHER INCOME

This includes net exchange gain of Rs. 380.08 million (2018: net exchange loss of Rs. 1,929 million, was included in finance cost) on foreign currency transactions relating to purchase and sale of crude oil / products. This exchange gain / loss relates to actual currency fluctuations and not due to derivative financial instruments.

20. FINANCE COST

This includes interest on short term borrowings amounting to Rs. 1,051.48 million (2018: Rs. 292.05). The rates of mark-up applicable are provided in note - 14.

	Quarter ended		Half year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	← (Rupees in thousand) →			
Current	319,619	-	623,854	-
Deferred	(991,045)	(786,611)	(1,510,226)	(1,041,549)
	<u>(671,426)</u>	<u>(786,611)</u>	<u>(886,372)</u>	<u>(1,041,549)</u>

21. TAXATION

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

	December 31, 2019	December 31, 2018
	(Rupees in thousand)	
22. CASH GENERATED FROM / (UTILISED IN) OPERATIONS		
Loss before taxation	(3,871,345)	(4,898,892)
Adjustment for non cash charges and other items:		
Depreciation and amortisation	1,768,036	1,753,996
Provision for staff retirement benefit funds	67,057	68,851
Finance cost	1,051,741	293,849
Return on investments and bank accounts	(30,781)	(27,405)
(Gain) / loss on disposal of property, plant & equipment	(4,394)	635
Interest on lease liability	13,275	-
Changes in working capital - note 22.1	7,532,240	(10,229,070)
	<u>6,525,829</u>	<u>(13,038,036)</u>
22.1 Changes in working capital		
Decrease / (increase) in current assets		
Stores, spares and chemicals	(27,370)	(135,913)
Stock-in-trade	8,979,947	(9,399,551)
Trade receivables	(1,896,512)	4,356,239
Loans and advances	(7,672)	29,349
Trade deposits and short-term prepayments	(218,426)	(275,248)
Other receivables	(525,953)	1,844,708
	6,304,014	(3,580,416)
Increase / (decrease) in current liability		
Trade and other payables	1,228,226	(6,648,654)
	<u>7,532,240</u>	<u>(10,229,070)</u>

23. TRANSACTIONS WITH RELATED PARTIES

Related party transactions are:

Nature of relationship	Nature of transactions	Quarter ended		Half year ended	
		December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
(Rupees in thousand)					
Associated Companies	Sale of petroleum products	24,549,880	22,890,988	51,631,273	51,795,085
	Purchase of crude oil and condensate	395,185	292,863	1,142,462	416,564
	Price differential claim paid	-	9,209	-	29,421
	Rental income	1,696	1,542	3,367	3,083
	Hospitality charges	23,904	13,057	54,949	34,390
	Handling income	30,686	25,299	69,727	51,447
	Trade discounts and commission on sales	275,183	215,294	518,198	491,370
	Reimbursement of expenses made	972	1,410	1,438	4,026
	Reimbursement of expenses received	739	138	1,021	976
	Purchase of petroleum products	1,145	2,226	2,286	2,454
	Sale of Asset	4,900	-	4,900	-
	Dividend paid	-	407,829	-	407,829
Post employment staff benefit plans	Contributions	11,797	16,607	23,776	30,305
Key management personnel compensation	Salaries and other employee benefits	9,481	11,225	21,585	34,876
	Post employment benefits	912	687	1,767	1,354
	Directors' fees	1,596	951	4,490	2,799

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED DECEMBER 31, 2019 (UNAUDITED)

24. SEGMENT INFORMATION

24.1 Segments results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated assets include property, plant and equipment.

The financial information regarding operating segments is as follows:

	FUEL		LUBE		TOTAL	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	← (Rupees in thousand) →					
Segment Revenue						
Sales to external customers						
- local (net of discounts, taxes, duties and levies and price differential)	55,044,651	53,910,117	17,476,246	19,495,505	72,520,897	73,405,622
- export	7,275,992	4,996,942	866,954	686,837	8,142,946	5,683,779
	62,320,643	58,907,059	18,343,200	20,182,342	80,663,843	79,089,401
Inter segment transfers	13,056,811	19,188,607	-	-	13,056,811	19,188,607
Elimination of inter-segment transfers	-	-	-	-	(13,056,811)	(19,188,607)
Net sales	75,377,454	78,095,666	18,343,200	20,182,342	80,663,843	79,089,401
Segment results after tax	(3,329,423)	(4,576,855)	344,450	719,512	(2,984,973)	(3,857,343)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive (loss) / income	(3,329,423)	(4,576,855)	344,450	719,512	(2,984,973)	(3,857,343)
	FUEL		LUBE		TOTAL	
	December 31, 2019	June 30, 2019	December 31, 2019	June 30, 2019	December 31, 2019	June 30, 2019
	← (Rupees in thousand) →					
Segment assets	48,690,827	55,916,954	13,352,603	14,456,607	62,043,430	70,373,561
Unallocated assets	-	-	-	-	8,614,651	5,793,789
Total assets as per balance sheet	48,690,827	55,916,954	13,352,603	14,456,607	70,658,081	76,167,350
Segment liabilities	22,011,226	23,436,357	14,318,698	18,564,214	36,329,924	42,000,571
Unallocated liabilities	-	-	-	-	3,439,661	293,310
Total liabilities as per balance sheet	22,011,226	23,436,357	14,318,698	18,564,214	39,769,585	42,293,881

24.2 Incremental expenses of Diesel Hydro De-sulphurisation (DHDS) and Isomerisation (ISOM) units have been charged to fuel segment in accordance with note 24.1 above.

25. DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue by the Board of Directors of the Company on January 21, 2020.



Chief Financial Officer



Chief Executive



Director



National Refinery Limited

**7-B, Korangi Industrial Area, Karachi-74900. UAN: 111-675-675
Website: www.nrlpak.com E-mail: info@nrlpak.com**