

## **NATIONAL REFINERY LIMITED**

**Annual Report 1997**

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### **BOARD OF DIRECTORS**

#### **CHAIRMAN**

S.M. Ismail

#### **DIRECTORS**

Ahmed Dawood  
Dato Ahmed Hassan Bin Osman  
G. A. Sabri  
Istaqbal Mehdi  
Kamal Afsar  
Mian Mohammad Farid  
Sultan Ahmad Shamsi  
Zafar Mahmood

#### **MANAGING DIRECTOR**

Mahmood Ahmad

#### **SECRETARY**

Altaf Hussain

### **COMPANY INFORMATION**

#### **AUDITORS**

TASEER HADI KHALID & CO.

**SOLICITORS**

QAMAR ABBAS & CO.

**BANKERS**

ABN-AMRO BANK

ALLIED BANK OF PAKISTAN LIMITED

AMERICAN EXPRESS BANK LIMITED

ANZ GRINDLAYS BANK PLC

BANK OF AMERICA NT & SA

CITIBANK N.A.

DEUTSCHE BANK AG.

HABIB BANK LIMITED

MUSLIM COMMERCIAL BANK LIMITED

NATIONAL BANK OF PAKISTAN

STANDARD CHARTERED BANK

UNITED BANK LIMITED

**REGISTERED OFFICE**

7-B, KORANGI INDUSTRIAL ZONE, KARACHI.

**SHARES DEPARTMENT**

3RD FLOOR, CENTRAL HOTEL BUILDING,

MEREWEATHER ROAD, KARACHI.

**REFINERY**

7-B, KORANGI INDUSTRIAL ZONE, KARACHI.

**NRL AT A GLANCE**

**FIRST LUBE REFINERY**

Design Capacity - 539,700 Tonnes per year of Crude processing

- 76,200 Tonnes per year of Lube Base Oils

Date Commissioned June 1966

Project Cost 103.9 Million Rupees

**FUEL REFINERY**

**BEFORE REVAMP**

Design Capacity 1,500,800 Tonnes per year of Crude processing

Date Commissioned April 1977

Project Cost 607.5 Million Rupees

**AFTER REVAMP**

Design Capacity 2,170,800 Tonnes per year of Crude processing

Date Commissioning of Revamp February 1990

Project Cost of Revamp 125.0 Million Rupees

**B.T.X. UNIT**

Design Capacity	25,000 Tonnes per year of B.T.X.
Date Commissioned	April 1979
Project Cost	66.7 Million Rupees

**SECOND LUBE REFINERY**

Design Capacity	100,000 Tonnes per year of Lube Base Oil
Date Commissioned	January 1985
Project Cost	2,082.4 Million Rupees

**SHARE HOLDERS' EQUITY**

June 1966	20.0 Million Rupees
June 1997	1,278.0 Million Rupees

**SUMMARY OF OPERATING RESULTS**

	RUPEES IN MILLION									
YEAR ENDED 30TH JUNE	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Sales including taxes	7410	7193	8617	14888	14386	15095	15159	16239	18188	22387
Less: Duties, taxes and development surcharge	90	239	195	766	794	940	1176	1018	1449	1390
Sales after duties, etc.	7320	6954	8422	14122	13592	14155	13983	15221	16739	20997
Other income	6	30	20	14	12	9	18	15	10	52
	7326	6984	8442	14136	13604	14164	14001	15236	16749	21049
Deduct: Cost of sales and other expenses excluding depreciation	6998	6269	7843	13354	12978	13357	13132	15082	15968	19967
	328	715	599	782	626	807	869	154	781	1082
Depreciation	208	219	225	229	220	218	236	277	315	308
Net Profit/(loss) after depreciation	120	496	374	553	406	589	633	(123)	466	774
Extraordinary items	-	-	-	-	-	-	-	-	-	-
Unappropriated profit/(accumulated loss) brought forward	1	1	-	-	-	-	-	-	(254)	-
Provision for current										

taxation	-	217	161	234	179	298	280	132	187	318
Less: Dividend and other appropriations	120	200	186	250	220	267	300	-	-	167
Revenue Reserves - General	-	80	26	69	7	24	53	-	25	289
Unappropriated profit/(Loss) carried to next year	1	-	1	-	-	-	-	(255)	-	-
Rate of dividend in %	18	30	28	37.5	33	40	45	-	-	25

### NOTICE OF MEETING

Notice is hereby given that the Thirty fourth (34) Annual General Meeting of National Refinery Limited will be held on Monday, 29th December, 1997 at 10:30 a.m. at Hotel Metropole Karachi to transact the following business:-

#### ORDINARY BUSINESS:

1. To confirm the minutes of the last Annual General Meeting held on December 28, 1996.
2. To receive and adopt the Audited Accounts of the Company for the year ended June 30, 1997 together with the Director's Report thereon.
3. To declare the final dividend.
4. To appoint auditors for the year 1997-98 and fix their remuneration.
5. To elect three (3) Directors of the Company representing private shareholding pursuant to the Article 7F of the Economic Order 1972 in place of those retiring namely (1) Mr. Ahmed Dawood (2) Mr. Sultan Ahmed Shamsi (3) Mr. Dato Ahmed Hassan Bin Osman.

#### NOTES:

1. Share Transfer Books of the Company will remain closed from 22nd December 1997 to 31st December 1997 both days inclusive.
2. A member entitled to attend and votes at the meeting is entitled to appoint another member as a proxy.
3. Proxies in order to be effective must be received at the Registered Office of the Company not less than 48 hours before the meeting and must be duly stamped, signed and witnessed.
4. Shareholders desirous of proposing any person for election as director are requested to fill in the attached nomination form and send it duly completed in all respects to the Secretary of the Company at 7B Korangi Industrial Zone, Karachi so as to reach him not later than December 15, 1997.
5. Federal Government of Pakistan and other corporations or institutions being shareholders of the Company, owned or controlled by the Federal Government shall not participate in the

election.

6. Election shall take place under provisions of Section 178(5) of the Companies Ordinance 1984, in the following manner:-

- a) A member shall have such number of vote as is equal to the product of the number of voting shares held by him and the number of directors to be elected.
- b) A member may give all his votes to a single candidate or divide them between more than one of the candidates in such manner as he may choose; and
- c) The candidate who gets the highest number of votes shall be declared elected as Director and then the candidate who gets the next highest number of votes shall be so declared and so on until the total number of directors to be elected has been so elected.

#### **DIRECTORS' REPORT**

The Directors of your Company are pleased in presenting the Annual Report together with Accounts & Auditors Report thereon for the year ended June 30, 1997.

#### **PROFIT & APPROPRIATION**

The Directors recommend the appropriation of the Profit together with un-appropriated profit brought forward from previous year as under:

(Rs. in million)

Net profit after taxation for the year taking into account the amount of Rs. 1,812.591 million taken to income currently (Note 26) and amount of Rs. 3,054.679 million receivable from the Government as at June 30, 1997 shown in .(Note No. 24) and after providing for workers' Profit Participation Funds amounts to

	455.826	
Un-appropriated profit being brought forward	0.13	
	-----	
Profit available for appropriation		455.96
Appropriations:		
- Interim dividend @15%	99.958	
-Proposed final dividend @10%	66.639	
-Transfer to General Reserve	289.000	455.597
	-----	-----
Un-appropriated profit being carried forward		0.362

The amount taken to income currently and receivable/payable to the Government under the formula is determined after the audited accounts are submitted to the Government and the approval is received in due course of time.

#### **BOARD OF DIRECTORS:**

Mr. S. M. Ismail assumed charge as Chairman on 19th September 1997. Messrs Syed Shahid Husain

and Firozuddin Ahmed held the charge of Chairman from 4th February 1997 to 1st June 1997 and from 2nd June 1997 to 18th September 1997 respectively.

Mr. Mahmood Ahmed took over as Managing Director NRL with effect from 7th November 1997.

Mr. M. Yousuf Beg held the charge of MD, NRL from 26th May 1997 to 16th October 1997.

The Board wishes to place on record its deep shock and grief on the sad demise of Mr. Malik Shahid Hamid, a Director on NRL Board.

**PATTERN OF SHAREHOLDINGS:-**

Pattern of shareholding is shown on page 12.

**AUDITORS:**

The Auditors M/s. Taseer Hadi Khalid & Company Chartered Accountants, retire and being eligible, offer themselves for reappointment.

**MISCELLANEOUS:**

Chairman's Review is endorsed by the Directors of the Company.

**CHAIRMAN'S REVIEW**

It gives me great pleasure to welcome you to the 34th Annual General Meeting of the Company and to present the Audited Accounts and the Audit Report of the Company for the year ended 30th June, 1997.

The year under report witnessed squeeze in margins of fuel products due to increase in the prices of crude oil and comparatively lesser increase in CIF prices of fuel products. As a result, profitability of Fuel Refinery deteriorated and it was pegged to 10% of the paid-up capital as admissible under the Import Parity Formula which allows profit capping within the range of 10% to 40%.

The Lube Refinery is not subjected to pricing control by the Government and it operates in open market environment. Its main product namely Lube Base Oils faced severe competition especially from the imported Lube Base Oils which were abundantly available in the country at comparatively lower prices. Besides, sub-standard reclaimed lubricants from mushroom unregistered producers also flooded the market. Under these circumstances the sale of LBOs declined to 165,701 tons compared to 182,297

tons last year.

The Pricing Formula approved by ECC in 1993 stipulates that identifiable Government charges and duties as applicable on import of Furnace Oil would be levied on FO used as feedstock in Lube Refinery. Since development surcharge is not a duty levied at import stage, the management consider the same is not applicable to FO used as feedstock in Lube Refinery. Accordingly the accounts for the year 1995-96 were finalised without charging development surcharge on feedstock of Lube Refinery.

During the year 1996-97 the Ministry of Petroleum & Natural Resources devised a formula for computation of development surcharge for 1995-96 and 1996-97. According to the said formula the incidence of development surcharge has reduced. However, NRL's management still holds its position that development surcharge on feedstock of Lube Refinery is not payable. Accordingly the Accounts for the year 1996-97 have been finalised without charging development surcharge on feedstock of Lube Refinery.

**PROFITABILITY:**

The company registered highest ever, after tax, profit of Rs. 455.826 million which gives a return of 68.4% on paid-up capital.

As stated above the Fuel Refinery's profitability remained under stress of increase in crude oil prices by 40% against increase of 29% in CIF prices of products, restricting its profit after tax at a minimum of 10% as admissable under the pricing formula.

The Lube Refinery's after tax profit at Rs. 432.909 million increased substantially compared to last year's profit of Rs. 187.377 million. The increase in profit is attributed to better prices of Lube Base Oils.

**CRUDE OIL:**

The supplies of Arabian Light crude oil were received from Saudi Aramco under the annual contract. The crude oil was shared and exchanged with Pakistan Refinery Ltd. for Iranian Light and

Upper Zakkum to give a blend mutually advantageous for both the refineries as well as for the country. The crude oil throughput for the year

#### **CHAIRMAN'S REVIEW**

The aggregate production of finished products was 2.634 million tons. The product mix was maintained according to the market demand maximizing production of deficit items as required by the Government. The production of Lube Base Oils was kept lower at 179,730 tons compared to 189,042 tons last year, as imported LBOs were available in the market at lower prices.

#### **SALES:**

The sales for the year were 2.614 million tons generating revenue of Rs. 19.184 billion compared to 2.883 million tons for Rs. 15.858 billion for the year 1995-96. The sales for the year included export of 83,920 tons Naphtha for Rs. 655.0 million.

#### **MANUFACTURING, SELLING, ADMIN. &**

##### **FINANCIAL EXPENSES:**

The manufacturing expenses for the year were Rs. 1992 million compared to Rs. 1801 million last year. The increase of Rs. 191 million (10.6%) was mainly due to Rs. 95 million increase in the cost of Chemicals and increase of Rs. 36 million in Gas charges.

The selling and administration expenses were Rs. 191 million against Rs. 207 million last year.

Financial charges increased to Rs. 457 million compared to Rs. 233 million last year. The increase is attributed to heavy borrowing to overcome liquidity crunch created due to overdues of Rs. 4.6 billion receivable from PSO upto June 30, 1997.

#### **PROJECTS:**

Self Power Generation project of 7.5 MW electricity is nearing completion. On commissioning, it will ensure stable power supply for one of NRL's units.

Additional tanks for storage of 45,000 tons crude



oil are under installation. On completion, crude oil inventory level will increase to 22 days. The project is expected to be completed by end of 1998.

The Company is actively engaged in plans for putting up an Iso-merization Unit for M.S. and a Desulphurization Plant for HSD to produce both the environmental friendly products.

The projects feasibilities are being examined by the authorities to find ways and means as to their economic and financial viability due to extra cost of processing.

**STAFF:**

On the job training to technicians and engineers to meet the shortage of trained personnel continued during the year.

I would like to record my appreciation for the efforts and dedication of all the executives, staff and workers during the year in keeping the Refinery operating despite deteriorating law and order situation in Karachi.

**PATTERN OF SHAREHOLDINGS AS AT JUNE 30, 1997**

NO. OF SHARE HOLDERS	SHAREHOLDINGS		TOTAL SHARES HELD
	FROM	TO	
1371	1	100	65,290
1383	101	500	438,590
736	501	1000	608,885
965	1001	5000	2,202,224
101	5001	10000	716,709
18	10001	15000	225,159
13	15001	15001	223,0120000
4	20001	20001	84,6725000
2	25001	25001	57,8030000
3	30001	30001	99,5935000
2	35001	40000	72,550
3	40001	45000	126,385
3	45001	50000	145,965
2	50001	55000	101,932
2	55001	60000	117,000
5	60001	75000	336,504
3	75001	90000	248,400
1	90001	100000	92,000
1	100001	145000	102,100

2	145001	310000	455,100
1	310001	315000	312,717
1	315001	340000	339,320
1	340001	575000	571,600
1	575001	660000	658,040
1	660001	1305000	1,300,182
1	1305001	2840000	2,838,447
1	2840001	9430000	3,030,960
1	9430001	9995000	9,430,383
1	9995001	10755000	10,000,000
1	10755001	10760000	10,757,382
1	10760001	20880000	20,879,888
-----			-----
4,631			66,638,800
=====			=====

CATEGORIES OF SHAREHOLDERS	NUMBER	SHARES HELD	PERCENTAGE
Individuals	4552	4,440,872	6.66
Investment Companies	19	31,679,889	47.54
Joint Stock Companies	18	132,015	0.20
Financial Institutions*	10	14,617,787	21.94
Modaraba Companies	6	145,000	0.22
Insurance Companies	12	4,284,069	6.43
-----			-----
Others	9	10,927,068	16.39
-----			-----
1. PERAC	1	10,757,382	16.14
2. Administrator Abandoned Properties	1	46,630	0.07
3. Charitable Organizations	5	94,055	0.14
4. Corporate Law Authority	1	1	-
5. Employees old age benefits	1	29,000	0.04
-----			-----
Non Residents	5	412,100	0.62
-----			-----
TOTAL	4631	66,638,800	100.00
=====			=====

\* Including Islamic Development Bank Jeddah Holding 15% Shares.

#### AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed Balance Sheet of National Refinery Limited as at 30 June 1997 and the related Profit and Loss Account and Cash Flow Statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and after due verification thereof, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

ii) the expenditure incurred during the year was for the purpose of the Company's business; and

iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) the amount of Rs. 1,812.591 million taken to income currently (note 26) and the amount of Rs. 3,054.679 million receivable from the Government as at 30 June 1997 are subject to agreement of the Government.

(d) in accordance with the Economic Co-ordination Committee of the cabinet (ECC) summary dated March 31, 1993, the refinery is required to pay "identifiable government charges and duties as applicable on import of furnace oil on the furnace oil which is to be used as feedstock in the lube refinery. The matter of development surcharge on feedstock for lube oil refinery has been raised by the Company with relevant authorities. As per the import parity formula, it is contended by the Company that development surcharge is not a duty payable at import stage and is not part of the import duty structure as is apparent from the custom tariff, but it has been levied by the Ministry of Petroleum from time to time irrespective of the import tariff structures. The development surcharge is part of the pricing mechanism of the Ministry of petroleum and Natural Resources to regulate the petroleum products prices in the country. Central Board of Revenue vide their letter dated 6 October 1996 has stated that the development surcharge is applicable on Furnace Oil at import stage at the rate fixed by the Ministry of Petroleum and Natural Resources from time to time. Therefore, the management is of the opinion that development surcharge is not payable on the cost of feedstock of the lube refinery. Upto June 30, 1996 development surcharge was being charged at a fixed amount per metric ton but subsequent to year end a revised formula for calculation of development surcharge for the year 1995-96 and 1996-97 was advised by Ministry of Petroleum and Natural Resource vide letter No. PL- No(4)95-PT dated 10 September 1997. According to revised formula development surcharge is now payable as a difference between consumer price of HSFO and import parity price of furnace oil, fixed amount for inland freight, distribution margin and, excise/custom duty on import parity price. The refinery still contends that development surcharge is not payable on furnace oil used as feedstock in the lube refinery. Accordingly, development surcharge calculated on the basis of the revised formula amounting to Rs. 14.648 million for 1995-96 and Rs. 268.409 million for 1996-97 on furnace oil consumed as feedstock in the lube refinery has not been provided in these accounts. We are unable to determine with reasonable certainty whether development surcharge may be excluded from the definition of "identifiable government charges and duties as applicable on import of furnace oil".

(e) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and the cash flow statement, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and except for the effects, if any, of matters referred to in paragraph (c) and (d) above, respectively give a true and fair view of the state of the Company's affairs as at 30 June, 1997 and of the profit and the cash flows for the year then ended; and

(f) in our opinion, zakat deductible at source under the Zakat and Ushr Ordinance, 1980 was deducted by the company and deposited in the central zakat fund established under section 7 of that Ordinance.

**TASEER HADI KHALID & CO.**

**BALANCE SHEET AS AT JUNE 30, 1997**

	Note	1997 (Rupees '000)	1996 (Rupees '000)
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised capital 100,000,000 ordinary shares of Rs. 10 each		1,000,000	1,000,000
		=====	=====
Issued, subscribed and paid up capital 66,638,800 ordinary shares of Rs. 10 each	3	666,388	666,388
Capital reserves	4	14,259	14,259
Revenue reserves - general	5	597,000	308,000
Unappropriated profit		362	133
		-----	-----
		1,278,009	988,780
	6	-	1,308
<b>REDEEMABLE CAPITAL</b>			
<b>LONG TERM AND DEFERRED LIABILITIES</b>			
Loans	7	482,273	860,698
Staff retirement benefits		27,605	24,912
Compensated absences		13,116	12,441
Obligations under finance leases	8	129,123	255,305
Deferred taxation	9	48,650	11,024
		-----	-----
		700,767	1,164,380
<b>CURRENT LIABILITIES</b>			
Short-term loans and running finances	10	3,000,869	1,130,140
Current portion of long-term finances and loans	11	1,232,840	290,773
Creditors, accrued expenses and other liabilities	12	6,497,862	6,041,986
Taxation		121,653	174,201
Proposed Dividend		66,639	-
		-----	-----
		10,919,863	7,637,100
<b>CONTINGENCIES AND COMMITMENTS</b>			
	13		
		-----	-----
		12,898,639	9,791,568
		=====	=====
	Note	1997	1996
		(Rupees '000)	(Rupees '000)

**TANGIBLE FIXED ASSETS**

Operating assets	14	1,177,445	1,399,836
Capital work-in-progress	15	689,629	596,752
		-----	-----
		1,867,074	1,996,588
<b>LONG-TERM ASSETS</b>			
Investments	16	10,859	20
Loans	17	140,783	118,610
Deposits and prepayments		3,829	5,398
		-----	-----
		155,471	124,028
<b>CURRENT ASSETS</b>			
Stores and spares	18	602,917	760,163
Stock-in-trade	19	1,799,494	1,539,581
Trade debts	20	4,896,610	2,121,504
Loans and advances	21	34,586	45,610
Deposits and prepayments	22	62,385	151,961
Other receivables	23	8,459	15,413
Due from Government	24	3,054,679	2,828,793
Cash and bank balances	25	416,964	207,927
		-----	-----
		10,876,094	7,670,952
		-----	-----
		12,898,639	9,791,568
		=====	=====

The annexed notes form an integral part of these accounts.

#### PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 1997

		1997	1996
		(Rupees '000)	
Sales	26	20,997,026	16,739,198
Cost of goods sold	27	19,569,398	15,768,717
		-----	-----
Gross profit		1,427,628	970,481
Selling, administrative and general expenses	28	191,372	207,256
		-----	-----
Trading profit		1,236,256	763,225
Other income	29	39,538	7,967
Non-refining income	30	12,476	2,431
		-----	-----
		1,288,270	773,623
Financial expenses	31	456,975	233,080
Other charges	32	56,984	74,259
		-----	-----
		513,959	307,339
		-----	-----
Profit before taxation		774,311	466,284

Provision for taxation	33	(318,485)	(187,239)
		-----	-----
Profit after taxation		455,826	279,045
Unappropriated profit/(Accumulated loss) brought forward		133	(254,141)
		-----	-----
		455,959	24,904
Appropriations			
- Interim @ 15% (1996: Nil)		99,958	-
- Final @ 10% (1996: Nil)		66,639	-
Transfer to revenue reserve - general		289,000	24,771
		-----	-----
Unappropriated profit carried forward		362	133
		=====	=====

The annexed notes form an integral part of these accounts.

### CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 1997

		1997	1996
		(Rupees '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	34	(1,044,520)	623,232
Financial expenses paid		(413,304)	(143,929)
Taxes paid		(333,407)	(146,852)
		-----	-----
Net cash flows from operating activities		(1,791,231)	332,451
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		(180,114)	(511,341)
Fixed assets disposals		4,913	1,528
Long term investments		(10,850)	(50,000)
Long term loans receivable		(22,173)	(17,797)
Long term deposits and prepayments		1,569	(942)
		-----	-----
Net cash flows from investing activities		(206,655)	(578,552)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid		(99,958)	-
Lease finance		(126,122)	379,235
Long term loans		572,203	41,572
Repayment of redeemable capital		(9,929)	(8,071)
		-----	-----
Net cash flows from financing activities		336,194	412,736
		-----	-----
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		(1,661,692)	166,635
Cash and cash equivalents at beginning of the year		(922,213)	(1,088,848)
		-----	-----
Cash and cash equivalents at end of the year	35	(2,583,905)	(922,213)

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 1997

### 1. LEGAL STATUS AND OPERATIONS

The Company was incorporated in Pakistan on 19 August, 1963 as a public limited company. Its shares are quoted on Karachi, Lahore and Islamabad Stock Exchanges in Pakistan. It is principally engaged in the production and sale of petroleum products. The Refinery Complex i.e. Fuel and Lube Sections consist of three separate refineries i.e. the Lube Refinery I commissioned in 1966, Fuel Refinery added in 1977 and Lube Refinery II commissioned in 1985.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Accounting convention

These accounts have been prepared under the historical cost convention except that certain exchange differences referred to in note 2.9 have been incorporated in the cost of relevant assets.

#### 2.2 Staff retirement benefits

The Company participates in funded pension and gratuity schemes established for the management staff of companies managed by State Petroleum Refining and Petrochemical Corporation Limited (PERAC). These schemes are administered by PERAC through a fund established out of contributions based on actuarial valuation from the participating companies. Contributions made by the Company are charged to profit and loss account. The Company also operates an unfunded gratuity scheme covering all workers and clerical staff whose period of service with the Company is five years or more. Based on graduated rates fixed under the scheme and calculated with reference to the last drawn salary and length of service of the employee, amounts are provided annually by way of charge to profit and loss account to cover obligations under the scheme.

#### 2.3 Taxation

The Company accounts for current taxation on the basis of taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any.

The Company accounts for deferred taxation on all timing differences using the liability method. There was balance of tax effects of timing differences not accounted for till 1988 which was adjusted during 1992-93 after considering subsequent reversals on aggregate net change basis. The liability relating to periods prior to 1988 is being accounted for over a period of 5 years commencing from 30 June, 1993.

#### 2.4 Tangible fixed assets

These are stated at cost less accumulated depreciation except capital work-in-progress which is stated at cost. Exchange gains and losses in respect of long-term foreign currency

loans utilised for the acquisition of assets are reflected in the cost of the respective assets. Depreciation is charged to income applying the straight line method whereby the cost of the asset is written off over its estimated service life.

Maintenance and normal repairs are charged to income as and when incurred. Renewals and improvements are capitalised and the assets so replaced, if any, are retired.

Gains and losses on disposal of assets are included in income currently.

Assets acquired under finance leases are recorded at lower of fair value of assets acquired and the present value of minimum lease payments.

#### **2.5 Stores and spares**

Stores and spares excluding drum sheets, empty drums and items in transit are valued at moving average cost. Drum sheets and drums are valued at cost using first-in-first-out (FIFO) basis. Provision is made for slow moving and obsolete items, wherever considered necessary.

Items in transit are valued at cost accumulated to balance sheet date.

#### **2.6 Stock-in-trade**

Stock of crude oil is valued at cost determined on first-in-first-out basis. Crude oil in transit comprises costs incurred to date. Stock of own processed semi-finished and finished products are valued at lower of cost and net realisable value. Cost in relation to semi-finished and finished products represents cost of crude oil and an appropriate allocation of manufacturing overheads. Cost in respect of semi-finished items is adjusted to appropriate stage of processing.

#### **2.7 Capitalisation of borrowing cost**

Borrowing costs during construction period, on loans obtained for specific project net of return on deposit accounts out of the proceeds of such loans, if any, are taken to fixed capital expenditure.

#### **2.8 Import parity entitled prices**

Effective July 01, 1992 Government has introduced Import Parity Formula under which the product prices are fixed at CIF level restricting profitability in the Fuel Refinery in the range of 10% - 40% including "other income" on the paid up capital with no such restriction in respect of the Lube Refinery. Effective 01 July, 1994, the company has retained the non-refining income in addition to above restricted return on capital in accordance with 1994 petroleum policy.

#### **2.9 Foreign currency translation**

Assets and liabilities in foreign currencies at the year end are translated into rupees at the rates of exchange ruling on the balance sheet date. In accordance with the decision of the Government applicable to the Company, exchange gains and losses on repayments and translation of foreign currency loans are capitalised and included in the cost of fixed assets acquired from the proceeds of those loans and are depreciated over the remaining useful lives of those assets while other exchange gains or losses are included in income currently.



### 2.10 Revenue recognition

Local sales are recorded on the basis of products pumped to marketing companies' tanks and delivered to customers. Export sales are recorded on the basis of products pumped to tankers and shipped to customers. Rebate on exports, if any, is accounted for on receipt basis.

### 2.11 Obligations under the finance leases

Finance charge under the lease purchase agreements is allocated to periods during the lease term so as to produce constant periodic rate of financial cost on the remaining balance of principal liability for each period.

### 2.12 Research and development costs

Contributions made to the State Petroleum Refining and Petrochemical Corporation Limited (PERAC) Research and Development Fund and expenses incurred by the Company are charged to profit and loss account currently.

### 2.13 Compensated absences

The liability for the employees Compensated absences is accrued on the basis of accumulated leaves and the last drawn pay.

### 2.14 Investments

Investments in quoted shares are stated at lower of cost and market value.

Investments in unquoted shares are valued at cost. However, where in the opinion of the management there is a decline which is other than temporary, the carrying amount of the investment is reduced to recognize the decline.

## 3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

		1997	1996
		(Rupees '000)	
59,450,417	Ordinary shares of Rs. 10 each fully paid in cash	594,504	594,504
6,469,963	Shares of Rs. 10 each fully paid for consideration other than cash	64,700	64,700
718,420	Shares issued as fully paid bonus shares	7,184	7,184
-----		-----	-----
66,638,800		666,388	666,388
=====		=====	=====

## 4. CAPITAL RESERVES

Capital compensation:

(a) For premature termination of crude oil sales, bare boat charter-party and technical assistance agreements	17,396	17,396
(b) For design defects and terminated services agreements	613	613
(c) For termination of bare boat charter-party		

and affreightment agreements	395	395
	-----	-----
	18,404	18,404
Less: Amount capitalized by issue of bonus shares of Rs. 7.184 million and tax thereon	8,262	8,262
	-----	-----
	10,142	10,142
Exchange equalization	4,117	4,117
	-----	-----
Balance at beginning and end of the year	14,259	14,259
	=====	=====

**5. REVENUE RESERVE**

	1997	1996
	(Rupees '000)	
At beginning of the year	308,000	283,229
Transfer from appropriation account	289,000	24,771
	-----	-----
At the end of the year	597,000	308,000
	=====	=====

**6. REDEEMABLE CAPITAL - Secured**

Long-term running finance utilized under mark-up arrangement:

Purchase price payable	4,654	13,961
Less: Prompt payments rebate allowable	3,208	3,208
	-----	-----
	1,446	10,753
Less: Mark-up not due	138	824
	-----	-----
	1,308	9,929
Less: Payment made during the year/current maturity	1,308	8,621
	-----	-----
	-	1,308
	=====	=====

**7. LOANS**

	Note	Currency	Foreign Currency		Rupee equivalent	
			1997	1996	1996	1997
			Balance in thousands		(Rupees '000)	
<b>Secured loans</b>						
<i>From banks</i>						
Habib Bank Limited					-	12,000
Allied Bank of Pakistan	7.1				78,000	78,000
ANZ Grindlays Bank Karachi	7.2				120,000	160,000
Muslim Commercial Bank	7.3				58,096	76,515
					-----	-----
					256,096	326,515
Saudi Hollandi Bank	7.4	US Dollars	65,000	65,000	2,645,682	2,295,189
Counterpart funds						

in NSC account	10.4				(1,691,079)	(2,019,451)
					-----	-----
					954,603	275,738
<b>Unsecured loans</b>						
International Bank for Reconstruction and Development through PERAC	7.5	US Dollars	659	817	26,826	28,858
	7.6	US Dollars	8,555	10,831	348,223	382,434
					-----	-----
					375,049	411,292
					-----	-----
					1,585,748	1,013,545
Less: Installments due within one year, shown under current liabilities						
- Secured					1,019,493	70,419
- Unsecured					83,982	82,428
					-----	-----
					1,103,475	152,847
					-----	-----
					482,273	860,698
					=====	=====

7.1 The loan from Allied Bank of Pakistan carries mark-up at 16% per annum. The loan is secured by first charge ranking pari passu on the fixed assets of the company with senior creditors. The balance of the loan is payable in twenty equal half yearly installments commencing March 20, 1998.

7.2 The loan from ANZ Grindlays Bank PIC carries mark-up at approximately 16.25% per annum. The loan is secured by first hypothecation charge over present and future plant and machinery of the company. The balance of the loan is repayable in six equal half yearly installments.

7.3 The loan from Muslim Commercial Bank carries mark-up at 13.5% per annum. The loan is secured by first charge ranking pari passu on the fixed assets of the company and joint hypothecation of crude oil. The balance of the loan is repayable in five equal half yearly installments.

7.4 The company has arranged foreign currency loan of US\$ 65 million through Saudi Hollandi Bank for purchase of crude-oil. The loan carries interest at 1.10% above LIBOR for the applicable interest period on the quotation date and is payable in US Dollars semi-annually. The entire principal is payable in August 1997. The loan including interest is secured by a guarantee of the State Bank of Pakistan. Exchange loss and interest thereon net of interest on counterpart Rupee deposit in NSC account will be payable or recoverable from the Government.

7.5 The loan from State Petroleum Refining and Petrochemical Corporation Limited (PERAC) is a subsidiary loan, out of the loan obtained by PERAC from International Bank for Reconstruction and Development (IBRD). The repayments commenced on July 15, 1988 and the balance of loan is repayable in twelve equal half-yearly installments on January 15 and July 15. The loan

carries interest at the rate of one half of one percent per annum above the cost of qualified borrowings for the last semester ending prior to the commencement of such interest period. The effective rate of interest for the year was 6.82% (1996: 6.98%).

7.6 The loan from PERAC is a subsidiary loan of US\$ 19.625 million, obtained by PERAC from International Bank for Reconstruction and Development (IBRD). Service charges are also payable to PERAC for managing, handling and executing various functions under the agreement at a rate of one half of one percent of the loan amount withdrawn. The repayment commenced on December 15, 1992 and the balance of loan is repayable in ten equal half yearly installments. The interest is payable at the rate of one half of one percent per annum above the cost of qualified borrowings for the last semester ending prior to the commencement of such interest period. The effective rate of interest for the year was 6.82% (1996: 6.98%)

#### 8. OBLIGATION UNDER FINANCE LEASES

	1997	1996
	(Rupees '000)	
Balance as on July 01	384,610	5,375
Acquired during the year	5,781	476,724
	-----	-----
Present value of minimum lease payments	390,391	482,099
Less: Payments made	131,903	97,489
	-----	-----
	258,488	384,610
Less: Rentals due within one year, shown under current liabilities	129,365	129,305
	-----	-----
	129,123	255,305
	=====	=====

8.1 The company entered into lease purchase agreement for vehicles, office equipment and sale and lease back agreements for plant and machinery and storage tanks. The financial cost ranges from 17% to 18% per annum (1996: 17% to 22.36%) on principal liability.

8.2 The amount of future lease payments and the periods in which these payments will become due are:

	1997	1996
	(Rupees '000)	
Year to 30 June 1997	-	178,830
Year to 30 June 1998	156,215	154,564
Year to 30 June 1999	132,936	130,752
	-----	-----
	289,151	464,146
Financial charges not due	32,342	81,155
Less: Prepaid amount included in other deposits	1,679	1,619

-----	-----
30,663	79,536
-----	-----
258,488	384,610
=====	=====

**9. DEFERRED TAXATION**

The liability for deferred taxation computed on liability method, comprises the timing differences relating to:

	1997	1996
	(Rupees '000)	
Accelerated tax depreciation allowances and borrowing cost in Capital Work in Progress	123,829	195,409
Tax recoverable due to provisions	(166,377)	(150,453)
Consideration for hire under lease purchase agreement	91,198	22,212
	-----	-----
	48,650	67,168
Liability not accounted for- (note 9.1)	-	56,144
	-----	-----
	48,650	11,024
	=====	=====

9.1 Until June 1988 the Company was operating on fixed return on equity formula regulated by the Government of Pakistan. During that period the company approached the Government to allow it to account for deferred taxation in order to comply with requirements of International Accounting Standards but the request was declined. While declining the request, the Government vide letter No. PL-3(56)/87 dated May 6, 1987 agreed to pick up tax liability as and when it arose. The processing fee formula was introduced in place of fixed return on equity with effect from July 1, 1988. Accordingly, with effect from financial year ended June 30, 1989, the company changed its accounting policy to account for deferred taxation under liability method for all timing differences except for those differences not accounted for till June 30, 1988 which remain unadjusted after considering subsequent reversal on aggregate net change basis. The above referred assurance was denied by Ministry of Production vide their letter No. 1-7/93-PERAC dated December 13, 1993. Effective July 1, 1992, the Company has decided to account for tax effect of timing differences not accounted for till 1988 over a period of 5 years in equal installments.

**10. SHORT TERM LOANS AND RUNNING FINANCES- SECURED**

	Note	Currency	Rupee equivalent			
			Foreign Currency		1996	
			1997	1996	1997	1996
			Balance in thousands		(Rupees '000)	
Finances under mark-up arrangements	10.1				618,599	535,766
<b>Short term loans</b>						
Citibank International plc.		US Dollars	-	88,500	-	3,124,988

Islamic Development Bank	10.2	US dollars	112,030	87,500	4,559,937	3,089,682
ABN Amro Bank NV.	10.3	US dollars	15,294	-	648,156	-
					-----	-----
					5,208,093	6,214,670
Less: Counterpaid funds in NSC account	10.4			(2,825,823)	(5,620,296)	
					-----	-----
					2,382,270	594,374
					-----	-----
					3,000,869	1,130,140
					=====	=====

10.1 The Company has arranged shod-term running finances from various banks on mark-up basis. Under these arrangements the Company can avail finances aggregating upto Rs. 565.5 million (1996:440 million) The rates of mark-up range from 14% to 17.15% (1996: 14% to 16.43%). The finances under mark-up arrangements are secured by hypothecation of stock-in-trade and stores and spares, assignment of trade debts and guarantee from one of the company's bankers.

10.2 The Company has arranged various shod term syndicated foreign currency loans of US\$ 112.030 million (1996: US\$ 87.5 million) through Islamic Development Bank for the import of crude oil. The principal amount along with interest thereon at the rate of 1.30% (1996: 1.30%) over six months LIBOR is payable in US Dollars in thirteen installments during November 1997 to June 1998. The loan including interest is secured against a guarantee of the State Bank of Pakistan. Exchange loss and interest thereon net of interest earned on counterpart rupee deposit in NSC account, referred to in note 10.4 below, will be payable or recoverable from the Government.

10.3 The company has arranged shod term syndicated foreign currency loan of USS 92.5 million through ABN Amro Bank NV. Karachi for the import of crude oil. The principal amount along with interest and fee thereon at the rate of 1.4% over LIBOR is repayable in US Dollars during December, 1997. The loan including interest is secured against a guarantee of State Bank of Pakistan. Exchange loss and interest thereon net of interest earned on counterpart rupee deposit in NSC account, referred to in note 10.4 below, will be payable or recoverable from the Government.

10.4 The company is depositing in National Saving Centre (NSC) equivalent local currency of the amount disbursed by the Islamic Development Bank, ABN Amro Bank NV and Saudi Hollandi Bank. The amounts deposited and the related mark-up will be used by the company for the repayment of the loans referred to in notes 10.2 and 10.3 above.

#### 11. CURRENT PORTION OF LONG-TERM FINANCES AND LOANS

	Note	1997	1996
		(Rupees '000)	
Redeemable capital		-	8,621
Long-term loans	7	1,103,475	152,847
Obligations under finance leases	8	129,365	129,305
		-----	-----

	1,232,840	290,773
	=====	=====

**12. CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES**

Advances from customers		376,915	367,527
Trade creditors		4,919,009	4,608,638
Other creditors		181,080	175,389
Deposits from contractors		18,099	12,794
Accrued expenses		236,813	248,842
Accrued interest on			
- Unsecured loans		112,144	129,929
- Bankers' acceptances		2,994	7,011
- Short term running finance		135,475	70,002
Sales tax		176,220	109,354
Income tax deducted at source		1	3
Workers' profits participation fund	12.1	41,565	27,027
Workers welfare fund		66,069	63,617
Custom duty payable		225,474	215,868
Unclaimed dividends		6,004	5,985
		-----	-----
		6,497,862	6,041,986
		=====	=====

## 12.1 Workers' profits participation fund

Balance at beginning of the year		27,027	-
Allocation for the year		40,174	27,027
Amount available to Company for its business operations/utilized by the Company		67,201	27,027
Interest on funds utilized in Company's business		1,501	-
		68,702	27,027
Less: Amount paid to the Trustees of the Fund		27,137	-
		-----	-----
Balance at end of the year		41,565	27,027
		=====	=====

**13. CONTINGENCIES AND COMMITMENTS**

13.1 Claims against the Company not acknowledged as debt Rs. 10.977 million 1996: Rs. 10.977 million) in respect of crude oil affreightment contracts.

13.2 During previous year, the company sold certain consignments of Asphalt for export. The consignments were not subject to excise duty and sales tax if exported within three months of despatch. However, the parties to whom these sales were made did not submit documents evidencing export. The Central Excise and Sales Tax department levied a penalty of Rs. 325 million on these consignments. The company has filed appeals against levy of penalty with Customs, Excise and Sales Tax Appellate Tribunal and also Sindh High Court. No provision has been made in these accounts for the penalty as the management considers there is a fair chance of its waiver as exports were made against foreign exchange remittances and

undertaking from the customers that they would submit the export documents.

13.3 One of the customers has invoked arbitration proceedings on account of a dispute pertaining to the alleged contamination of the cargo sold by the Company. To date both the parties have merely appointed their respective arbitrators and statement of claim is yet to be filed, therefore amount of claim cannot be estimated.

13.4 During previous year manufacturing contract for some packing materials was changed from one contractor to another contractor. The outgoing contractor has filed a suit claiming breach of his rights. In the opinion of the legal advisors of the company there is no exposure of National Refinery to payment of damages or suffering any loss and the company intends to defend its position vigorously.

13.5 Aggregate commitments contracted for but remaining to be executed at 30 June 1997 and not provided for in the accounts are as follows:

	1997	1996
	(Rupees '000)	
<b>Currency</b>		
US dollars	2,560	8,361
Sterling	-	791
Austrian Schilling	-	495
DM	-	6,033
Pak Rupee	16,945	-
	-----	-----
	19,505	15,680
	=====	=====

#### 14. TANGIBLE FIXED ASSETS

14.1 The following is a statement of operating assets:

	Cost at 01 July 1996	Addition/ transfer* (deletion)	Cost at 30 June 1997	Accumu- lated deprecia- tion (Rupees '000)	30 June 1997	Depreciation for the year	Annual rate %
	-----				-----		
Leasehold land	58,668	-	58,668	3,833	54,835	588	1
Building on leasehold land	54,404	2,140	56,544	34,763	21,781	2,532	5
Keamari terminal	102,225	-	102,225	94,796	7,429	690	6
Processing plant and storage tanks	2,984,856	53,982	3,038,838	2,577,251	461,587	230,149	5 to 7
Pipeline	107,326	-	107,326	104,637	2,689	400	8
Water, power and other utilities	598,298	20,205	618,503	437,420	181,083	32,961	6
Vehicles	10,224	2,506	12,971	9,441	3,530	696	20



		* 3,964					
		(3,723)					
Furniture and equipment	25,921	791	26,630	19,763	6,867	1,816	7.5 to 15
		(82)					
Other equipment	72,771	1,831	74,602	52,950	21,652	3,964	5 to 10
	-----	-----	-----	-----	-----	-----	
	4,014,693	81,455	4,096,307	3,334,854	761,453	273,796	
		(3,805)					
	-----	-----	-----	-----	-----	-----	
<b>Leased:</b>							
Vehicles	12,147	5,436	12,557	4,047	8,510	2,511	20
		*(3,964)					
		(1,062)					
Plant & tanks	467,850	-	467,850	62,668	405,182	31,334	7
Equipment	3,888	346	4,234	1,934	2,300	637	15
	-----	-----	-----	-----	-----	-----	
	483,885	5,782	484,641	68,649	415,992	34,482	
		(1,062)					
	-----	-----	-----	-----	-----	-----	
	4,498,578	87,237	4,580,948	3,403,503	1,177,445	308,278	
		(4,867)					
	=====	=====	=====	=====	=====	=====	
1996	4,433,127	569,395	4,498,578	3,098,742	1,399,836	314,645	
		(503,944)					
	=====	=====	=====	=====	=====	=====	

14.2 Lease hold land includes a piece of its land measuring 13,200 square yards which has been subleased to Anoud Power Generation Limited (APGL) for the purposes of setting up a power plant basically to provide power to the refinery to make it self sufficient and independent of KESC grid. The land has been mortgaged by APGL for obtaining a financing facility from the financial institutions. The sub-lease is for an initial period of 30 years. This period can be extended by mutual agreement.

14.3 Additions to processing plant and storage tanks include Rs. 2.408 million (1996: Rs. 11.696 million) representing exchange loss arising on repayments during the year and the year end translation of foreign currency loans utilised for the acquisition of such assets.

14.4 The Controller of Capital Issues requires through notification SRO 221(1)/75 dated February 11, 1975 that depreciation be charged at not less than the 'normal' rates prescribed under the Income Tax Ordinance, 1979 and the rules made thereunder. Although the depreciation rates charged by the company for certain items are less than these rates, on an overall basis depreciation charge for the year is higher than the depreciation calculated at rates specified in the Income Tax regulations.

14.5 The following fixed assets were sold during the year.

Description	Cost	Accumu- lated	Book Value	Sale Proceeds	Mode of Disposal	Vendee's name and address
-------------	------	------------------	---------------	------------------	---------------------	------------------------------

**Depre-  
ciation**

(Rupees '000)

	-----		-----						
Vehicle	249	-	249	249	Transfer	PERAC			
Vehicle	387	155	232	232	Company	Mr. M. A. Siraj (Late)			
					policy	(Ex-Employee)			
Vehicle	675	135	540	540	Company	Mr. Mahmood Ali Khan			
					policy	(Late) (Ex-Employee)			
Vehicles and equipments with written down value below Rs. 5,000	3,556	3,227	329	3,892	Various				
	-----	-----	-----	-----					
	4,867	3,517	1,350	4,913					
	=====	=====	=====	=====					

**15. CAPITAL WORK-IN-PROGRESS**

**1997            1996**  
**(Rupees '000)**

**ENERGY CONSERVATION PROJECT:**

Fees & technical studies	74,898	62,564
Materials, equipment and cost of related services	575,464	468,858
Borrowing cost	99,460	35,685
Revolving fund bank account	6,558	4,519
Other costs	593	58,734
	-----	-----
	756,973	630,360

**TRANSFERRED TO OPERATING ASSETS**

Processing plant and storage tanks	(56,955)	(39,284)
Cost of yield and energy survey charged to Profit & Loss Account	(17,491)	-
	682,527	591,076
Other Items	7,102	5,676
	-----	-----
	689,629	596,752
	=====	=====

**16. LONG-TERM INVESTMENTS**

**1997            1996**  
**(Rupees '000)**

**Listed**

- Pakistan PVC Ltd.

3,125 ordinary shares of Rs. 10 each  
 (market value F{s. 9,000; 1996: Rs. 20,000) 9 20

**Unlisted**

- Anoud Power Generation Limited 10,800 --  
 (1,080,000 ordinary shares of Rs. 10 each  
 Equity held 10% Chief Executive,  
 Mr. Shabbir A. Jumani)

- Fuel Pipelines Limited 50 --  
 (5,000 ordinary shares of Rs. 10 each  
 Equity held 10%, Chief Executive,  
 Syed Amjad Hussain)

-----  
 10,859 20  
 =====

**17. LONG-TERM LOANS - CONSIDERED GOOD**

	1997		1996		1997 (Rupees '000)	1996 '000)
	Executives	Others	Executives	Others		
	----- (Rupees '000) -----					
Due from Employees	30,319	8,900	8,254	28,424	39,219	36,678
Less: Receivable within one year note - 21	6,049	2,387	1,958	6,110	8,436	8,068
	-----	-----	-----	-----	-----	-----
	24,270	6,513	6,296	22,314	30,783	28,610
	=====	=====	=====	=====		
Loan to PERAC - note 17.3					60,000	40,000
Advances to PERAC - note 17.4					50,000	50,000
					-----	-----
					140,783	118,610
					=====	=====

**17.1 Due from employees**

Outstanding for periods exceeding three years					1,760	1,622
Others					29,023	26,988
					-----	-----
					30,783	28,610
					=====	=====

17.2 It is the Company's policy to give loans to employees for purchase of furniture, car, house and motor cycle. The loans are recoverable in 144, 84, 96 and 84 equal monthly installments respectively and are secured by the creation of charge on the respective asset purchased.

The maximum aggregate amount due from executives in respect of loans at the end of any month during the year was Rs. 32.829 million (1996: Rs. 8.576 million).

17.3 The Company advanced a loan of Rs. 60 million to State Petroleum Refining and Petrochemical

Corporation (PERAC) for the purpose of Iran-Pak Refinery Project under Government of Pakistan directive. Mark-up accrued on this loan is at 12.8% per annum. The Company has the option to convert the loan into equity in the project.

17.4 This represents advance to PERAC for purchase of shares in National Crescent Petroleum Limited. The shares have not yet been allotted by the company.

#### 18. STORES AND SPARES

	1997	1996
	(Rupees '000)	
Stores		
In hand	203,421	381,710
Chemicals	137,128	167,366
In transit	43,675	6,675
	-----	-----
	384,224	555,751
Spares		
In hand	390,736	313,105
In transit	6,590	7,061
	-----	-----
	397,326	320,166
	-----	-----
	781,550	875,917
Less: Provision for slow moving and obsolete items	178,633	115,754
	-----	-----
	602,917	760,163
	=====	=====
Stores include		
- Items loaned	-	41
- Fabricated drums and drum sheets for fabrication, held by fabricators	46,549	84,461
	=====	=====

Due to nature of company's inventory, stores and spares held for capital expenditure purposes could not be separately identified.

	1997	1996
	(Rupees '000)	
<b>19. STOCK IN TRADE</b>		
Crude oil in transit	380,529	376,502
Crude oil stock in tanks	280,738	406,319
Own processed		
Semi-finished products		
- at cost	94,502	288,712
- at net realisable value (cost - Rs. 175,683)	170,078	-
Finished products		
- at cost	537,434	341,258
- at net realisable value (cost - Rs. 353.499)	336,213	126,790

**20. TRADE DEBTS- UNSECURED**

Considered good	4,896,610	2,121,504
Considered doubtful	29,819	29,819
	-----	-----
	4,926,429	2,151,323
Less: Provision for Doubtful debts	29,819	29,819
	-----	-----
	4,896,610	2,121,504
	=====	=====

**21. LOANS AND ADVANCES- CONSIDERED GOOD**

Short-term portion of long-term loans (note 17)		
- to executives	6,049	1,958
- to other employees	2,387	6,110
Shod term loans to other employees	1,623	1,656
Advances to		
- executives	45	32
- employees	301	507
- suppliers	24,181	35,347
	-----	-----
	34,586	45,610
	=====	=====

21.1 The maximum aggregate amount due from executives in respect of advances at the end of any month during the year was Rs. 55,000 (1996: Rs. 151,000).

**22. DEPOSITS AND SHORT-TERM PREPAYMENTS**

	1997	1996
	(Rupees '000)	
Deposits		
Development surcharge	11,889	28,390
Excise duty	23,460	37,897
Margin against letters of credit and guarantees	-	68
Surcharge	-	41,907
Others	2,867	1,100
	-----	-----
	38,216	109,362
Short-term prepayments	24,169	42,599
	-----	-----
	62,385	151,961
	=====	=====

**23. OTHER RECEIVABLES**

In respect of imported furnace oil

transactions on behalf of Government	5,563	-
Claims against insurance company and others	234	166
Custom duty refund claim	499	499
Miscellaneous	2,163	14,748
	-----	-----
	6,459	15,413
	=====	=====

**24. DUE FROM GOVERNMENT**

Sales tax - refundable	21	5,597
In respect of exchange loss on bankers' acceptances and interest thereon net of interest earned on counterpart rupee funds	1,122,099	439,477
In respect of arrangements with the Government under the import parity formula	1,932,559	2,383,719
	-----	-----
	3,054,679	2,828,793
	=====	=====

**25. CASH AND BANK BALANCES**

At banks - on current accounts	411,242	196,160
- on deposit accounts	5,365	11,510
In hand - cash	357	257
	-----	-----
	416,964	207,927
	=====	=====

**26. SALES**

Local Less excise duty, sales tax and development surcharge Rs. 1,390 million (1996: Rs. 1,449 million)	18,511,745	15,262,075
Bunker (Price differential payable by oil marketing Companies on such supplies)	18,002	34,580
Export After deducting wharfage and other charges Rs. 13.443 million (1996: Rs. 22.307 million)	654,688	560,307
Export Rebate	-	1,846
Refunds from Government under the import parity formula	1,812,591	880,390
	-----	-----
	20,997,026	16,739,198
	=====	=====

**27. COST OF GOODS SOLD**

Opening stock of semi-finished and finished products	756,760	558,612
Crude oil and drums consumed - (note 27.1)	17,958,120	14,165,676
Salaries, wages and staff benefits	279,817	298,899
Stores consumed	390,957	293,778
Fuel and power	649,186	603,893
Rent, rates and taxes	20,027	20,673
Insurance	30,742	29,024
Repairs and maintenance	220,405	182,204

Consultancy charges	3,578	3,038
Depreciation	302,619	306,558
Staff transport	14,066	13,312
Research & development outlay to PERAC	33,093	16,943
Energy Survey	17,491	-
Other expenses	30,764	32,867

-----  
 19,950,865 15,966,865  
 -----

20,707,625 16,525,477

Less: Closing stock of semi-finished and finished products

1,138,227 756,760

-----  
 19,569,398 15,768,717  
 =====

**27.1 Crude oil and drums consumed**

Crude oil -opening stock	406,319	315,039
- purchases	17,563,754	14,001,015
- closing stock	(280,738)	(406,319)

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 17,689,335 13,909,735

Drums - consumption

268,785 255,941

-----  
 17,958,120 14,165,676  
 =====

**28. SELLING, ADMINISTRATIVE AND GENERAL EXPENSES**

Salaries, wages and staff benefits	96,361	110,317
Rent, rates and taxes	524	489
Selling expenses	2,724	4,004
Depreciation	5,659	8,087
Legal and professional charges - (note 28.1)	2,117	1,521
Service charges - PERAC	35,000	29,500
Printing and stationery	3,214	3,879
Staff transport	3,503	4,007
Repairs and maintenance	9,599	7,927
Telephone	4,448	3,863
Electricity and water charges	2,818	2,643
Postage, telegrams and periodicals	1,185	1,426
Subscriptions	1,933	2,758
Sanitation and gardening	3,817	2,778
Afforestation charges to PERAC	10,000	-
Donations	-	10,044
Other expenses	8,470	14,013

-----  
 191,372 207,256  
 =====

**28.1 Auditors' Remuneration**

Audit fee	100	100
Special reports and certifications, audit of workers' profit participation fund, sundry accounting and advisory services	412	413
Out of pocket expenses	44	65
	-----	-----
	556	578
	=====	=====

**29. OTHER INCOME****Interest**

- on advance tax payments	4,852	-
- on long term loan to PERAC	8,093	5,944
- on advances to employees	105	110
Sales of scrap and empties	2,035	1,623
LBO transport co-ordination charges	4,550	290
LBO pipeline charges	1,676	-
Liabilities written back outstanding for more than three years	18,227	-
	-----	-----
	39,538	7,967
	=====	=====

**30. NON REFINING INCOME**

Gain on sale of fixed assets	3,563	980
Supply of utilities	4,182	733
Ground rent	799	180
Tender fees	424	137
Stores handling charges	3,037	3
Miscellaneous	471	398
	-----	-----
	12,476	2,431
	=====	=====

**31. FINANCIAL EXPENSES**

Mark-up on		
- finance leases	48,411	61,633
- long-term finance	62,500	71,588
- short-term running finance	343,134	97,440
- workers' profit participation fund	1,501	-
Guarantee commission	544	1,559
Bank charges	885	860
	-----	-----
	456,975	233,080
	=====	=====

**32. OTHER CHARGES**

Provision for doubtful debts	-	27,819
Provision for diminution in the value of investment	11	5
Workers' welfare fund	16,799	19,408



Workers' profit participation fund	40,174	27,027
	-----	-----
	56,984	74,259
	=====	=====

**33. PROVISION FOR TAXATION**

Current	280,859	321,053
Deferred		
- for the current year	(13,839)	(189,956)
-for period upto 1988- partial (note 2.3)	51,465	56,142
	-----	-----
	318,485	187,239
	=====	=====

The income tax assessments of the company have been finalised upto and including accounting year 1995-96. However, appeals against some of the orders are pending with various authorities. Demands pertaining to these appeals have been provided.

**34. CASH GENERATED FROM OPERATIONS**

Profit before taxation	774,311	466,284
Adjustments for:		
Provision for diminution in value of investment	11	5
Depreciation	308,278	314,645
Financial expenses	456,975	233,080
Staff retirement benefits	2,693	2,283
Deferred liability for compensated absences	675	67
Profit on sale of fixed assets	(3,563)	(980)
	-----	-----
	1,539,380	1,015,384

**(Increase)/decrease in operating assets**

Stores and spares	157,246	(136,874)
Stock-in-trade	(259,913)	(323,760)
(2,775,106)		(524,847)
Loans and advances	11,024	39,972
Deposits and shod term prepayments	89,576	(44,949)
Other receivables	6,954	10,410
Due from government	(225,886)	(1,162,624)
Increase/(decrease) in operating liabilities		
Creditors, accrued expenses and other liabilities	412,205	1,750,520
	-----	-----
Cash generated from operations	(1,044,520)	623,232
	=====	=====

**35. CASH AND CASH EQUIVALENTS**

Cash and bank balances	416,964	207,927
Shod-term loans and running finances	(3,000,869)	(1,130,140)
	-----	-----

(2,583,905) (922,213)

=====

**36. REMUNERATION OF THE DIRECTORS AND EXECUTIVES**

The aggregate amounts including all benefits charged in these accounts for remuneration to the directors, chief executive and executives of the Company were as given below:

	1997			1996		
	Directors	Chief Executive	Executives	Directors	Chief Executive	Executives
	(Rupees '000)					
Fee	17			14		
Managerial remuneration		409	41,231		507	46,167
Company's contribution to provident and pension funds		105	11,554		129	11,122
	17	514	52,785	14	636	57,289
Other perquisites and benefits						
Rent and housing		261	20,251		250	18,475
Conveyance		65	14,664		69	13,496
Leave benefits		118	5,124		145	4,913
		444	40,039		464	36,884
	17	958	92,824	14	1,100	94,173
Reimbursed expenses	0	103	8,289	6	54	4,769
Number of persons	8	1	211	8	1	209

The chief executive and some of the executives of the Company are also provided with free use of car and residential equipment under their terms of services.

**37. ASSOCIATED UNDERTAKINGS**

The Company shares crude oil imports with Pakistan Refinery Limited (PRL). Under this arrangement crude oil delivered to PRL amounted to Rs. 4,652.676 million (1996: Rs. 3,573.924 million) and it also received crude oil from PRL in an aggregate amount of Rs. 3,282.758 million (1996: Rs. 2,608.652 million).

**38. SEGMENT INFORMATION**

Fuel	Lube	Non refining	Total
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(Rupees '000)

1997

## Sales

- to outside customers	14,394,044	4,790,391	-	19,184,435
- to other segment	2,898,271	(2,898,271)	-	--
Profit after tax	22,917	420,433	12,476	455,826
Assets employed (as a percentage of consolidated total)	67%	33%	-	100%

1996

## Sales

- to outside customers	11,904,536	3,954,272	-	15,858,808
- to other segment	2,403,256	(2,403,256)	-	--
Profit after tax	91,668	184,946	2,431	279,045
Assets employed (as a percentage of consolidated total)	69%	31%	-	100%

Inter segment sales are made on the basis of cost.

**39. CAPACITY AND ACTUAL PERFORMANCE (IN METRIC TONS)**

	Annual Designed Throughput Capacity	1997	Actual Throughput for the year ended June 30 1996
Fuel Section			
- throughput of crude oil	2,710,500	2,766,431	3,058,025
	=====	=====	=====
Lube Section			
- throughput of reduced crude oil	620,486	687,117	696,765
	=====	=====	=====

40. Previous year's figures have been restated wherever necessary for the purposes of comparison.