National Refinery Limited
Annual Report 1998

CONTENTS

COMPANY INFORMATION

Board of Directors

Chairman:	Aitzaz Shahbaz
Directors:	Ahmed Dawood Abdus Sattar G. A. Sabri Hussain Ahmad Khan J.M. Pereira Kamal Afsar Mohammad Abbas Tarik Kivanc
Managing Director:	M.M. Husain
Company Secretary:	Asad A. Siddiqui
Auditors:	Ford, Rhodes, Robson, Morrow
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 Bank Alfalab Citibank N.A. Deutsche Bank A.G. 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-74900 Pakistan.
Shares Department:	1st Floor, Karim Chambers Mereweather Road, Karachi-75530 Pakistan
Refinery:	7-B, Korangi Industrial Zone, Karachi-74900 Pakistan
	Phones (PABX) 310261-66 314160-62 5064135-37 Fax: 92-21-5054663
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BOARD OF DIRECTORS

Aitzaz Shahbaz
Abdus Sattar
G. A. Sabri
M.M. Husain
Mohammad Abbas
Hussain Ahmad Khan
Tarik Kivanc
Kamal Afsar
J.M. Pereira
Ahmed Dawood

NRL AT A GLANCE

	FIRST LUBE REFINERY
Design Capacity	- 539, 700 Tons per year of Crude processing - 76, 200 Tons 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 Tons per year of Crude
Date Commissioned	April 1977
Project Cost	607.5 Million Rupees
AFTER REVAMP	
Design Capacity	2,170,800 Tons per year of
Date Commissioning of Revamp	February 1990

Project Cost of Revamp	125.0 Million Rupees

B.T.X. UNIT

Design Capacity	25,000 Tons per year of B
Date Commissioned	April 1979
Project Cost	66.7 Million Rupees

SECOND LUBE REFINERY

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

SHARE HOLDERS' EQUITY

June 1966	20.0 Million Rupees
June 1998	1,603.2 Million Rupees

SUMMARY OF OPERATING RESULTS

(Rupees in million)

YEAR ENDED JUNE 30	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Sales including taxes	7193	8617	14888	14386	15095	15159	16239	18188	22400	22122
Less: Duties, taxes and development surcharge	239	195	766	794	940	1176	1018	1449	1403	1412
Sales after duties, etc.	6954	8422	14122	13592	14155	13983	15221	16739	20997	20710
Other income	30	20	14	12	9	18	15	10	71	105
	6984	8442	14136	13604	14164	14001	15236	16749	21068	20815
Deduct: Cost of sales and other expenses excluding depreciation	6269	7843	13354	12978	13357	13132	15082	15968	19986	19803
	715	599	782	626	807	869	154	781	1082	1012
Depreciation	219	225	229	220	218	236	277	315	308	273
Net Profit/(loss) after depreciation	496	374	553	406	589	633	(123)	466	774	739
Extraordinary items	-	-	-	-	-	-	-	-	-	-
Unappropriated profit/ (accumulated loss) brought forward	1	-	-	-	-	-	-	(254)	-	-
Taxation	217	161	234	179	298	280	131	187	318	247
Less: Dividend and other appropriations	200	186	250	220	267	300	-	-	167	167
Revenue Reserves-General	80	26	69	7	24	53	-	25	289	325

Unappropriated profit/(loss) carried to next year	-	1	-	-	-	-	(254)	-	-	-
Rate of dividend in %	30	28	37.50	33	40	45	-	-	25	25

NOTICE OF MEETING

Notice is hereby given that the Thirty fifth (35th) Annual General Meeting of National Refinery Limited will be held on Thursday, 31st December 1998 at 10:30 a.m. at Hotel Metropole, Karachi to transact the following business:-

ORDINARY BUSINESS:

1. To confirm the minutes of the Annual General Meeting held on December 29, 1997.

2. To receive and adopt the Audited Accounts of the Company for the year ended June 30, 1998 together with the Directors' Report and the Auditors' Report thereon.

3. To declare the final dividend.

4. To appoint auditors for the year 1998-99 and to fix their remuneration.

By Order of the Board

ASAD A. SIDDIQUI
Secretary

Karachi: December 03, 1998

NOTES:

1. Share Transfer Books of the Company will remain closed from 21st December, 1998 to 1st January, 1999 both days inclusive.

2. A member entitled to attend and vote at the meeting is entitled to appoint another member as 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 are requested to promptly notify the Company of any change in their address.

DIRECTORS' REPORT

The Directors have pleasure in presenting their report and the Audited Accounts for the year ended 30-Jun-98

		(Rs. in '000)
The profit of the company for the year ended June 30, 1998, taking into account the amount of Rs. 631.830 million taken to current income (Note. 23) and amount of Rs. 2,564.389 million receivable from the Government as at June 30, 1998 (Note.21.2) and after providing for administrative, selling, financial and other charges amounts to:-		794,432
Less: Provision for:		
-Workers Profit Participation Fund	39,722	
- Workers Welfare Fund	15,782	55,504
		738,928

Less :Taxation		
- For the year	254,258	
- For prior years	(62,607)	
- Deferred Tax	55,455	247,106
Profit after taxation		491,822
Amount of unappropriated profit brought forward from previous year		362
Profit available for appropriation		492,184

APPROPRIATIONS:

- The Directors proposed that this should be utilized in providing for final divided at the rate of 25% equivalent to Rs. 2.50 per share of Rs. 10 each	166,597
- Transfer to General Reserves	325,000
- Unappropriated profit carried forward to next year.	587

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. Mr. Firozuddin Ahmed held the charge of Chairman from 2nd June 1997 to 18th September 1997.

Mr. Mahmood Ahmed took over as Managing Director NRL with effect from 12th November 1997 to 2nd February, 1998. Messrs Zahiruddin and S.M. Ismail were Managing Director of NRL w.e.f. 2nd February 1998 to 16th April 1998 and 16th April 1998 to 10th November 1998 respectively.

The Government of Pakistan has decided to place National Refinery Limited under the administrative control of the Ministry of Petroleum & Natural Resources consequently the Board have been reconstituted w.e.f. 10th November 1998.

Mr. Aitzaz Shahbaz has been appointed as a new Chairman whereas Mr. Qazi Wajeehuddin took over the charge as Managing Director, National Refinery Limited w.e.f. 10th November 1998 to 17th November 1998. Mr. M. M. Husain has been appointed as Managing Director National Refinery Limited vice Mr. Qazi Wajeehuddin w.e.f. 17th November 1998.

Messrs Mohammad Abbas, Joint Secretary, Ministry of Petroleum & N/R. G.A. Sabri, Director General (Oil), Ministry of Petroleum & N/R. Abdus Sattar, Financial Advisor, Ministry of Petroleum & N/R. Tarik Kivanc, Representative of IDB, Ahmed Dawood, Represents Private Sector Shareholding, J.M. Pereira, Executive Director, State Life Insurance Corporation, Kamal Afsar, Managing Director, KESC and Hussain Ahmed Khan, Joint Secretary (Ops), Ministry of Industries & Production are presently on the NRL Board.

COMPLIANCE WITH YEAR 2000:

We are in continuous contact with our supplier to make our computer systems year 2000 compliant.

PATTERN OF SHAREHOLDINGS:

Pattern of shareholding is shown on page 46.

AUDITORS:
The Auditors M/s. Ford, Rhodes, Robson, Morrow, Chartered Accountants, retire and being eligible, offer themselves for reappointment.

CHAIRMAN'S REVIEW:
Chairman's Review is endorsed by the Directors of the Company.

On behalf of the Board

AITZAZ SHAHBAZ
Chairman

CHAIRMAN'S REVIEW

It gives me great pleasure to welcome you to the 35th Annual General Meeting of the Company and to present the Audited Accounts and the Audit Report of the Company for the year ended June 30 1998.

Financial results of the Fuel Refinery, for the year were adversely affected due to low level of margin on fuel products, and high financial charges due to large unrealised trade debts. Management being conscious of the inflationary pressures have exercised cost controls within certain limits.

The Lube Refinery is not subjected to pricing control by the Government and it operated in an 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, substandard reclaimed lubricants from mushroom unregistered producers also flooded the market. However due to concerted efforts of the management it was possible to increase the sales volume of LBOs and Asphalt in the year 1997-98 as compared to last year.

PROFITABILITY:
The company registered highest ever, after tax profit of Rs. 491.822 million which gives a return of 73.8% on paid-up capital. Refinery wise profits are as under:-

	Rs. In Million
Fuel Refinery	22,917
Lube Refinery	468,905
Total	491,822

The Fuel Refinery's profitability remained under stress restricting its profit after tax to Rs. 22.917 million for the current year and same for the last year at a minimum of 10% as admissible under the pricing formula.

The Lube Refinery's after tax profit at Rs. 468.905 million increased as compared to last year's profit of Rs. 432.909 million showing an increase of 8.31%.

Management being conscious of the increasing costs due to inflationary conditions and devaluation of the Pak Rupees exercised all possible cost control measures within its powers. Consequently, the manufacturing cost and overheads were reduced to Rs. 771.2 million from Rs. 867.5 million of last year in the Fuel Refinery while the throughput was increased from 2.76 million tons of crude oil of last year to 2.9 million tons in the current year under report.

The pricing formula approved by Economic Co-ordination Committee (ECC) of the Federal Cabinet of the Government of Pakistan, stipulates that "identifiable Government charges and duties as applicable on import of furnace oil to be used as feed stock in the lube refinery". In this respect, the company has taken a view that Development Surcharge, included in the above referred charges and duties, is not a duty payable at the import stage, hence, the same is not a part of the import duty structure as is apparent from the customs tariff. The company further believes that Development Surcharge is a part of the pricing mechanism of the Ministry of Petroleum and Natural Resources, levied by them to regulate the prices of petroleum products in the country. In this regard, the Central Board of Revenue in their letter dated October 06,1996 clarified that the Development Surcharge is fixed by the Ministry of Petroleum and Natural Resources. Therefore, the company is of the view that Development Surcharge is not a part of the custom tariff and, hence, not an import incidental and the same is not applicable on the cost of feed stock of the lube refineries.

During the year, an agreement for a loan amounting to US$ 30 million was entered into by the company with ANZ Grindlays Bank, Bahrain Branch. The company has not recorded the above loan in its books of account as the same was not received by the company and its proceeds were credited to the account of the Government of Pakistan. The company would in any case show the loan and interest thereon as recoverable from the Government of Pakistan, hence, this transaction would have no effect on the financial results of the company. The matter is presently under discussion with the Bank and the Government and further action in this regard will be taken after the resolution of the same.

CRUDE OIL:

The supplies of Arabian Light crude oil were received from Saudi Aramco under an annual contract. The crude oil was shared and exchanged with Pakistan Refinery Limited for Iranian Light and Upper Zakum to give a blend mutually advantageous for both the refineries as well as for the country. The crude oil throughput for the year was 2.903 million tons including 0.633 million tons from the indigenous sources showing an increase of 5% over 2.766 million tons of last year.

PRODUCTION:

The production of finished products was 2.783 million tons with an increase of 5.7% due to an increase in throughput as well as saving in own use and losses. The product mix was maintained according to the market demand maximizing production of deficit products as required by the Government. The production of Lube Base Oils was kept lower at 162,995 tons compared to 179,730 tons of last year, as imported LBOs were available in the market at lower prices.

SALES:

The gross sales for the year were 2.785 million tons generating a revenue of Rs. 22.122 billion (including refunds from the Govt. under the import parity formula amounting to Rs. 0.632 billion) compared to 2.614 million tons for Rs. 22.400 billion for the year 1996-97. The sales for the year included export of 73,094 tons of Naphtha for Rs. 477.048 million.

NATIONAL OIL MARKETING:

NRL Board of Directors decided to establish its own marketing company. Accordingly, in April 1998 National Oil Marketing Company (Pvt.) Limited (NOM) a 100% owned subsidiary of NRL was incorporated and registered under Companies Ordinance, 1984. NOM started functioning from June 24,1998. Since then it has marketed non-regulated products.

MANUFACTURING, SELLING, ADMIN. & FINANCIAL EXPENSES:

The total manufacturing expenses for the year were Rs. 1,932 million compared to Rs. 1,984 million last year. This decrease of Rs. 52 million was mainly due to substantial saving in the use of chemicals.

The selling and administration expenses were Rs. 243 million this year against Rs. 200 million last year. As stated earlier, management exercised cost / expense control measures which were offset by significant inflation and devaluation of Pak Rupee causing an increase of Rs. 43 million.

Financial charges increased to Rs. 834 million this year compared to Rs. 476 million last year. The increase is attributed to heavy borrowing to overcome liquidity crunch created due to overdue of Rs. 8.0 billion of the products receivable from PSO upto June 30, 1998.

PROJECTS:

The installation of the self power generation plant of 7.5 MW electricity under the World Bank financing arrangements has been completed and will be commissioned shortly.

Additional tanks for storage of 45,000 tons crude oil are under installation. On completion, crude oil cover for production will increase to 22 days. The project is expected to be completed by March 1999.

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 under difficult conditions.

In addition I would like to thank all financial institutions, bankers, leasing company, World Bank and our suppliers who extended their support and co-operations to the Management in carrying out smooth operation of the company.

AITZAZ SHAHBAZ
Chairman

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of NATIONAL REFINERY LIMITED as at June 30, 1998 and the related profit and loss account and the statement of changes in financial position ~ 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) the ANZ Grindlays Bank has confirmed a loan outstanding from the company of US $ 30 million which for reasons given in note 37 has not been recorded by the company in its books of account. Had the company recorded the same, both the current liabilities and current assets would have increased by US$ 31.067 million (Principal and interest), equivalent to approximately Rs. 1,443.373 million, assuming that the Government would accept the liability for the loan and interest thereon and on this basis the above would have no effect on the financial results of the company.

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

(c) 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;

(d) in our opinion, except for the effect, if any, of the matter referred to in paragraph (a) above, and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and the statement of changes in financial position, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 1998 and of the profit and the changes in financial position for the year then ended;

(e) 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.

(f) without qualifying our opinion, we draw attention to the following matters:

(i) Provisions in respect of Development Surcharge on furnace oil used as feedstock in lube refineries, levied by the Ministry of Petroleum and Natural Resources in accordance with a Summary of Economic Co-ordination Committee (ECC) of the Federal Cabinet, amounting to Rs. 14.648 million in respect of the year ended June 30, 1996, Rs. 268.409 million in respect of the year ended June 30, 1997 and Rs. 395.187 million in respect of the year ended June 30, 1998, aggregating to Rs. 678.244 million at the end of the current year have not been made by the company in these accounts in view of certain reservations it has expressed against the above referred levy and has communicated the same to the Ministry. These are disclosed in note 32 to the accounts. Accordingly, provision in respect of Development Surcharge on furnace oil aggregating to Rs. 678.244 million, as referred to above, has not been made in the accounts of the current year, pending resolution of the matter relating to the Development Surcharge and a final decision in this regard by the relevant authorities. Therefore, the ultimate outcome of the action taken by the company cannot presently be determined.

(ii) refund from the Government of Pakistan amounting to Rs. 631.830 million, shown under Sales in note 23, and amount Due from the Government of Rs. 2,564.389 million, shown under Other receivables in note 21.2 to the accounts are subject to the agreement of the Government and are dependent on the resolution of the matter stated in (i) above.

(iii) the ultimate outcome of matters referred to in notes 11.2, 11.3 and 19.2 cannot presently be determined and, hence, no provision that may result has been made in these accounts.

FORD, RHODES, ROBSON, MORROW
Karachi: December 04, 1998 CHARTERED ACCOUNTANTS

BALANCE SHEET AS AT JUNE 30, 1998

	Note	1998	1997
		(Rupees '000)	
CAPITAL AND RESERVES			
Share capital			
Authorised			
100,000,000 ordinary shares			
of Rs. 10 each		1,000,000	1,000,000
		==========	==========
Issued, subscribed and paid-up	3	666,388	666,388
Reserves	4	936,846	611,621
		----------	----------
		1,603,234	1,278,009
LONG TERM LOANS	5	356,438	482,273
OBLIGATIONS UNDER FINANCE LEASES	6	-	129,123
DEFERRED LIABILITIES			
Gratuity		36,588	27,605
Compensated absences		12,635	13,116
Deferred taxation	7	104,105	48,650
		----------	----------
		153,328	89,371
CURRENT LIABILITIES			
Current maturities of long term loans			
and obligations under finance leases	8	277,919	1,232,840
Short term loans and running finances	9	4,928,573	3,000,869
Creditors, accrued and other liabilities	10	7,885,490	6,506,725
Provision for taxation		-	121,653
Proposed dividend		166,597	66,639
		----------	----------
		13,258,579	10,928,726
CONTINGENCIES AND COMMITMENTS	11	----------	----------
		15,371,579	12,907,502
		==========	==========
TANGIBLE FIXED ASSETS			
Operating fixed assets at cost less	12	1,152,431	1,177,445
accumulated depreciation			
Capital work-in-progress	13	534,839	683,071
		----------	----------
		1,687,270	1,860,516
LONG TERM INVESTMENTS	14	9	10,859
LONG TERM LOANS, ADVANCES AND			
DEPOSITS	15	144,946	144,612

CURRENT ASSETS

Stores, spares and chemicals	16	569,248	602,917
Stock-in-trade	17	1,140,130	1,799,494
Trade debts	18	8,548,248	4,896,610
Loans and advances	19	118,730	34,434
Deposits and prepayments	20	57,492	62,417
Other receivables	21	2,619,235	3,072,121
Cash and bank balances	22	486,271	423,522
		----------	----------
		13,539,354	10,891,515
		----------	----------
		15,371,579	12,907,502
		==========	==========

The annexed notes form an integral part of these accounts

M.M. HUSAIN	**ABDUS SATTAR**	**AITZAZ SHAHBAZ**
Chief Executive	Director	Chairman

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 1998

		1998	**1997**
		(Rupees in '000)	
GROSS SALES	23	22,121,886	22,400,188
Less: Duties taxes, commission and levies	24	1,412,021	1,403,162
		----------	----------
NET SALES		20,709,865	20,997,026
Cost of goods sold	25	18,930,980	19,560,521
		----------	----------
GROSS PROFIT		1,778,885	1,436,505
Administrative, selling and general expenses	26	243,016	200,249
		----------	----------
OPERATING PROFIT		1,535,869	1,236,256
Other income	27	47,756	41,825
Non-refining income	28	56,904	28,830
		----------	----------
		104,660	70,655
		----------	----------
		1,640,529	1,306,911
		----------	----------
Financial charges	29	833,979	475,616
Other charges	30	67,622	56,984
		----------	----------
		901,601	532,600
		----------	----------
PROFIT BEFORE TAXATION		738,928	774,311
TAXATION	31	247,106	318,485
		----------	----------
NET PROFIT FOR THE YEAR		491,822	455,826
UNAPPROPRIATED PROFIT BROUGHT FORWARD		362	133
		----------	----------
AVAILABLE FOR APPROPRIATION		492,184	455,959

APPROPRIATIONS

Interim dividend @ Rs. Nil (1997:Rs.1.5) per Ordinary

share of Rs. 10 each	-	99,958
Proposed final dividend @ Rs. 2.50 (1997:Rs.1) per		
Ordinary share of Rs. 10 each	166,597	66,639
Transfer to General reserve	325,000	289,000
	491,597	455,597
UNAPPROPRIATED PROFIT CARRIED FORWARD	587	362

The annexed notes form an integral part of these accounts.

M. M. HUSAIN	**ABDUS SATTAR**	**AITZAZ SHAHBAZ**
Chief Executive	Director	Chairman

STATEMENT OF CHANGES IN FINANCIAL POSITION (CASH FLOW STATEMENT) FOR THE YEAR ENDED JUNE 30, 1998

	Note	1998	1997
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	34	595,051	(1,024,532)
Financial charges paid		(743,936)	(433,292)
Taxes paid		(339,839)	(333,407)
Net cash out flow from operating activities		(488,724)	(1,791,231)
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(101,892)	(173,556)
Sale proceeds of fixed assets		2,514	4,913
Long term investment		-	(10,850)
Acquisition of subsidiary - National Oil Marketing (Pvt) Ltd.		(1)	-
Long term loans and deposits		(334)	(20,604)
Net cash used in investing activities		(99,713)	(200,097)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		(66,639)	(99,958)
Lease finances		(129,712)	(126,122)
Long term loans		(1,080,167)	572,203
Repayment of redeemable capital		-	(9,929)
Net cash used in financing activities		(1,276,518)	336,194
Net decrease in cash and cash equivalents		(1,864,955)	(1,655,134)
Cash and cash equivalents at the beginning of the year		(2,577,347)	(922,213)
Cash and cash equivalents at the end of the year	35	(4,442,302)	(2,577,347)

M. M. HUSAIN	**ABDUS SATTAR**	**AITZAZ SHAHBAZ**

Chief Executive Director Chairman

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 1998

1. THE COMPANY AND ITS OPERATIONS

National Refinery Limited was incorporated in Pakistan on August 19, 1963 as a public limited company. The shares of the company are listed on the Karachi, Lahore and Islamabad Stock Exchanges. It is engaged in the production and sale 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. 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 2.2, 2.7 and 2.10 have been incorporated in the cost of relevant assets.

2. Tangible fixed assets

(a) Owned
These are stated at cost less accumulated depreciation. Exchange gains and losses in respect of long term foreign currency loans acquired and utilised for the acquisition of assets are included 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 useful life.

Full year's depreciation is charged in the year of addition while no depreciation is charged in the year of disposal.

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.

(b) Leased
Assets held under finance leases are stated at cost less accumulated depreciation. The outstanding obligations under finance leases less financial charges allocated to future periods are shown as a liability. The financial charge to date is calculated at the interest rates implicit in the leases and is charged to profit and loss account.

Depreciation is charged at the same rates as charged on company owned assets or over the lease period as appropriate.

2.3 Capital work-in-progress
Capital work-in-progress is stated at cost. It consists of expenditure incurred in respect of fixed assets in the course of their construction and installation.

2.4 Long term 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.

2.5 Stores, spares and chemicals

Stores, spares and chemicals 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 whereas items in transit are valued at cost comprising invoice values plus other charges incurred thereon.

2.6 Stock-in-trade

Stock of crude oil is valued at cost determined on first-in-first-out basis. Crude oil in transit is valued at costs comprising invoice values plus other charges incurred thereon. Stock of 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.
Net realisable value represents import parity prices as published in the Platt's Oilgram notified by the Ministry of Petroleum and Natural Resources.

2.7 Foreign currency translation

Assets and liabilities in foreign currencies are translated into rupees at exchange rates approximating those prevailing at the balance sheet date. Exchange differences on loans obtained for acquisition of fixed assets are capitalised. All other exchange differences are routed through the profit and loss account.

2.8 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. However, deferred tax is not provided if it can be established with reasonable probability that these timing differences will not reverse in the foreseeable future.

2.9 Revenue recognition

Local sales are recorded on the basis of products delivered to the tanks of marketing companies and customers.

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

2.10 Borrowing costs

Borrowing Costs incurred in respect of loans obtained for specific projects are capitalised during their construction and are written off after their completion. Any income earned on unutilised loans is netted off against capitalised borrowing costs.

2.11 Staff retirement benefits

The Company participates in funded pension and gratuity schemes established for the management staff of companies managed by the 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:

(a) 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.

(b) an approved contributory provident fund for all employees.

Accrual is made for employees compensated absences on the basis of accumulated leaves and the last drawn pay.

2.12 Research and development costs

Contributions made to the Research and Development Fund operated by the State Petroleum Refining and Petrochemical Corporation Limited. (PERAC) are charged against current income together with other related expenses incurred by the company,

2.13 Import parity entitled prices

Effective July 01, 1992 the Government introduced an Import Parity Formula under which product prices had been fixed at ClF level, restricting the profitability of 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 July 01, 1994, the Company has retained the non-refining income in addition to the above restricted return on capital, in accordance with the 1994 petroleum policy.

3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

		Note	1998	1997
			(Rupees in '000)	
59,450,417	Ordinary shares of Rs. 10 each fully paid in cash		594,504	594,504
6,469,963	Ordinary shares of Rs. 10 each fully paid for consideration other than cash		64,700	64,700
718,420	Ordinary shares issued as fully paid bonus shares		7,184	7,184
----------			----------	----------
66,638,800			666,388	666,388
==========			==========	==========

4. RESERVES

	Note	1998	1997
Capital reserves			
Capital compensation reserves	4.1	10,142	10,142
Exchange equalisation reserve		4,117	4,117
		----------	----------
		14,259	14,259
Revenue reserves			
General reserve	4.2	922,000	597,000
Unappropriated profit		587	362
		----------	----------
		922,587	597,362
		----------	----------
		936,846	611,621
		==========	==========

	Note	1998	1997
		(Rupees'000)	

4.1 Capital compensation reserves

(a) For premature termination of crude oil sales, bareboat charter-party and

technical assistance agreements		17,396	17,396
(b) For design defects and terminated service agreements		613	613
(c) For termination of bareboat charter-party and affreightment agreements		395	395
		18,404	18,404
Less: Capitalised by issue of bonus shares of Rs. 7.184 (1997: Rs. 7.184) million, including tax thereon		8,262	8,262
		10,142	10,142

4.2 General reserve

Balance at the beginning of the year		597,000	308,000
Appropriation during the year		325,000	289,000
		922,000	597,000

5. LONG TERM LOANS

Secured loans from banks

Demand finance loans			
Allied Bank of Pakistan	5.1	74,100	78,000
ANZ Grindlays Bank	5.2	80,000	120,000
Muslim Commercial Bank	5.3	37,106	58,096
		191,206	256,096
		-	2,645,682
Saudi Hollandi Bank			
Counterpart fund in the National Savings Centre (NSC) account		-	(1,691,079)
		-	954,603
Unsecured Loans			
State Petroleum Refining and Petrochemical Corporation Limited (PERAC)	5.4	314,375	375,049
		505,581	1,585,748
Less: Current maturities due within next twelve months shown under current liabilities			
- Secured loans from banks		71,721	1,019,493
- unsecured loans from PERAC		77,422	83,982
	8	149,143	1,103,475
		356,438	482,273

5.1 The balance outstanding at the end of the current year in respect of the demand finance facility extended by Allied Bank Limited in repayable in nineteen equal half yearly installments of Rs. 3.9 million each, with last repayment due on September 21 2007 together with markup thereon @ 16% (1997: 16%) per annum.

The facility is secured against a first charge ranking pari passu on the fixed assets of the company.

5.2 The demand finance facility extended by ANZ Grindlays Bank carries mark-up @ 16% (1997: 16%) per annum and is secured against hypothecation over stock-in-trade and book debts amounting to Rs. 257 million each.

The balance outstanding at the end of the current year is repayable in four equal half yearly installments of Rs. 20 million each, with last repayment due on June 29, 2000.

5.3 The balance outstanding at the end of the current year in respect of the demand finance facility from Muslim Commercial Bank is repayable in three equal half yearly installments of Rs. 14.075 million each, with last repayment due on November 12, 1999.

It carries mark-up @13.5% (1997: 13.5%) per annum and is secured against a first charge ranking pari passu on the fixed assets of the company and joint hypothecation of stock of crude oil.

5.4 The balance outstanding at the end of the current year in respect of unsecured loans from PERAC is repayable thereto in Pak Rupees equivalent to U.S. Dollars 6.767 (1997: U.S. Dollars 9.214) million. These loans, consisting of two separate loans of U.S. Dollars 19.625 million and U.S. Dollars 1.087 million, aggregating to U.S. Dollars 20.712 million, were originally arranged by PERAC from the International Bank for Reconstruction and Development (IBRD) for the purposes of improving the efficiency and operations of the company and hence, PERAC relent the above referred 20.712 million U.S. Dollars equivalent to the company under two separate subsidiary loan agreements.

These loans, secured against the guarantees issued by the Islamic Republic of Pakistan, carry 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. Accordingly, the effective rate of interest for the year thus worked out at 6.45% (1997: 6.82%) per annum.

The repayments in respect of the loan of U.S. Dollars 19.625 million are being made in eight equal half yearly installments of U.S. Dollar 0.925 million equivalent whereas repayments in respect of U.S. Dollar 1.087 million are being made in ten equal half yearly installments of U.S. Dollar 0.036 million equivalent.

6. OBLIGATIONS UNDER FINANCE LEASES

The company entered into various lease finance agreements in respect of vehicles and office equipment and a sale and lease back agreement for plant and machinery and storage tanks. The rates of interest used as the discounting factor ranges between 17% to 18% (1997: 17% to 18%) per annum.

The amount of future lease payments and the periods during which they fall due are:

	Note	1998	1997
		(Rupees in '000)	
June 30, 1998		-	156,559
June 30, 1999		134,271	134,271
		----------	----------
		134,271	290,830

Less: Financial charges allocated to future periods		5,495	32,342
		128,776	258,488
Less: Current maturity shown under current liabilities	8	128,776	129,365
		-	129,123

There are options provided in the lease agreements to obtain ownership of the assets at the end of the terms of leases at amounts specified therein. There are no financial restrictions in the lease agreements.

7. DEFERRED TAXATION

Deferred tax credits arising from timing differences relating to fixed assets	249,736	215,027
Deferred tax debits arising from certain short term provisions	(145,631)	(166,337)
	104,105	48,650

8. CURRENT MATURITIES OF LONG-TERM LOANS AND OBLIGATIONS UNDER FINANCE LEASES

Long term Loans	5	149,143	1,103,475
Obligations under finance leases	6	128,776	129,365
		277,919	1,232,840

9. SHORT TERM LOANS AND RUNNING FINANCES - SECURED

Short term loans			
Islamic Development Bank	9.1	4,651,439	4,559,937
ABN AMRO Bank		-	648,156
		4,651,439	5,208,093
Less: Counterpart fund in the National Savings Centre (NSC) account		-	(2,825,823)
		4,651,439	2,382,270
Short term running finances	9.2	277,134	618,599
		4,928,573	3,000,869

9.1 As a result of an agreement signed during 1997 between the Islamic Development Bank (IDB) and the Government of Pakistan, the company and the State Bank of Pakistan, the IDB extended various foreign currency loans to the company with the objective of financing the import of crude oil. For this purpose, the IDB approves necessary import Trade Financing Operations (sanction advices) from time to time in the required amount at the request of the company to finance the above referred imports.

Out of the total balance outstanding at the end of current year, a sum of Rs. 4,513.456 million is payable by the company to the State Bank of Pakistan (SBP) in view of the directives of the Ministry of Petroleum and Natural Resources, requiring that with effect from November 21, 1997, the rupee equivalent of the foreign currency loans from IDB should be deposited on the date of their disbursements in the Federal Government Account for the purposes of repayments by the company to the IDB through the SBP. As a result, the above sum, equivalent to U.S. Dollars 101.460 million is payable to the SBP. The balance of the outstanding amount at the end of year amounting to Rs. 137.983 million, equivalent to U.S. Dollar 2.970 million, represents amount outstanding upto the date of the above referred directive of the Ministry and is directly payable to the IDB in U.S. Dollars within twelve months of each disbursement alongwith mark-up @ 6% per annum. This is secured against a guarantee issued by the State Bank of Pakistan to the IDB.

A penalty @ 14.6% per annum is levied by the State Bank of Pakistan on late payments thereto.

9.2 The facilities for short term running finances available from various banks amount to Rs. 565.5 (1997: Rs. 565.5) million.

The rates of markup ranges between 14% and 16.425% (1997: 14% and 17.15%) per annum, payable quarterly.

The facilities are secured against hypothecation of stock in trade, stores and spares and assignment of trade debts.

	Note	**1998**	**1997**
		(Rupees in '000)	
10. CREDITORS, ACCRUED AND OTHER LIABILITIES			
Creditors		6,128,597	4,826,156
Accrued liabilities			
Markup/Interest accrued on:			
long term loans - secured		704	4,393
- unsecured		682	5,756
short term loans - secured		6,104	164,569
short term running finances - secured		3,818	2,994
finance leases		4,466	8,343
Accrued expenses		608,469	646,447
		----------	----------
		624,243	832,502
Other Liabilities			
Due to National Oil Marketing (Private) Limited a wholly owned subsidiary	10.1	4,596	-
Retention money		6,301	13,513
Deposits from contractors		25,060	19,547
Advances from customers		153,447	142,925
Sales tax		164,117	103,260
Workers' Profits Participation Fund	10.2	39,648	41,565
Workers' Welfare Fund		31,357	66,069
Wharfage		5,392	6,155
Customs duty		276,902	279,156
Tax deducted at source		38	1

Penalties	10.3	382,361	122,037
Unclaimed dividends		6,291	6,004
Miscellaneous		37,140	47,835
		1,132,650	848,067
		7,885,490	6,506,725

10.1 This represents amount due in respect of commission and advances received by the company from the customers of the wholly owned subsidiary.

10.2 Workers' Profits Participation Fund

Balance at the beginning of the year	41,565	27,027
Allocation for the year	39,722	40,174
	81,287	67,201
Interest on funds utilised in the company's business	3,149	1,501
	84,436	68,702
Less: Amount paid to the Trustees of the fund	44,788	27,137
Balance at the end of the year	39,648	41,565

10.3 These include penalties imposed by (a) the State Bank of Pakistan amounting to Rs. 261.310 million (1997: Nil) in respect of late payments made thereto (note 9), (b) the Excise and Sales Tax Department amounting to Rs. 58.827 (1997: Rs. 58.827) million on account of excise and sales tax not paid by the company on certain consignments of Asphalt originally meant for export and, hence, not subjected to excise and sales tax and (c) the local suppliers of crude oil on account of late payments made thereto amounting to Rs. 62.224 (1997: Rs. 63.210) million.

11. CONTINGENCIES AND COMMITMENTS

Contingencies

11.1 A customer of the company invoked arbitration proceedings against the company on account of a dispute resulting from the alleged contamination of certain cargo sold by the company. The customer and the company have appointed their respective arbitrators with no statement of claim filed todate by the customer. Accordingly, the amount of claim can not be determined at present.

11.2 During the year, Anoud Power Generation Limited filed a claim against the company for the recovery of damages amounting to Rs. 2,758 million, resulting from the alleged breach of the Power Project contract by the company. The matter is currently before the Arbitrators at the stage of issue. Pending a final decision in this respect, no provision has been made in these accounts for the above referred sum.

11.3 As a result of a claim of Rs. 468.024 million in respect of the cancellation of contract and a counter claim of Rs. 471.568 million with regard to the non-performance of the contract filed by a supplier and the company respectively with the Arbitrator, the Arbitrator awarded a net claim of Rs. 55.240 million against the company which has been filed in the High Court of Sindh. The company is in the process of filing objections against the above referred award and pending hearing in this regard by the High Court of Sindh, no provision has been made for the above referred sum in these accounts.

11.4 Outstanding guarantees at the end of the year amounted to Rs. 229.457 million.

11.5 Claim not acknowledged as debt amounted to Rs. 19.767 million at the end of the year.

Commitments

11.6 Contracts signed in respect of capital expenditure but not executed until the end of the year.

	1998	1997
	(Rupees in '000)	
Currency		
US Dollars	-	2,560
CHF	3,595	-
Pak Rupees	45,772	16,945
	49,367	19,505

11.7 Outstanding letters of credit at the end of the year amounted to Rs. 785.871 million.

12. OPERATING FIXED ASSETS **(Rupees in '000)**

	COST					ACCUMULATED DEPRECIATION				Net Book Value as at
	As at July 01, 1997	Additions/ Transfers*	Disposals/ Transfers*	As at June 30, 1998	Rate %	As at July 01, 1997	For the Year	Disposals/ Transfers*	As at June 30, 1998	June 30, 1998
OWNED										
Leasehold land (note 12.1)	58,668	254	-	58,922	1	3,833	591	-	4,424	54,498
Buildings on lease ho1d land	56,544	15	-	56,559	5	34,763	2,318	-	37,081	19,478
Oil Terminal	102,225	125	-	102,350	6	94,796	691	-	95,487	6,863
Processing plant and storage tanks	3,038,838	14,036	-	3,052,874	5 to 7	2,577,251	179,837	-	2,757,088	295,786
Power Generation Plant (4.0 M.W.)	-	223,653	-	223,653	7	-	15,656	-	15,656	207,997
Pipelines	107,326	-	-	107,326	8	104,637	327	-	104,964	2,362
Water power and 0ther utilities	618,503	5,972	-	624,475	6	437,420	33,294	-	470,714	153,761
Vehicles	12,971	18	(1,482)	12,066	20	9,441	1,634	(1,236)	10,174	1,892
		559*						335*		
Furniture and equipment	26,630	3,278	(521)	32,597	7.5 to 15	19,763	2,513	(256)	23,695	8,902
		3,210*	-					1,675*		
Other equipment	74,602	2,773	-	77,375	5 to 10	52,950	3,090	-	56,040	21,335
	4,096,307	250,124	(2,003)	4,348,197		3,334,854	239,951	(1,492)	3,575,323	772,874
		3,769*	-					2,010*		
LEASED:										
Vehicles	12,557	-	(1,605)	10,393	20	4,047	2,078	(495)	5,295	5,098
			(559)*					(335)*		

Plant & Tanks	467,850	-	-	467,850	7	62,668	31,334	-	94,002	373,848
Computers	4,234	-	-	1,024	15	1,934	154	-	413	611
			(3,210)*							
	484,641	-	(1,605)	479,267		68,649	33,566	(495)	99,710	379,557
			(3,769)*					(2,010)*		
June 30, 1998	4,580,948	253,893	(7,377)	4,827,464		3,403,503	273,517	(1,987)	3,675,033	1,152,431
June 30, 1997	4,498,578	87,237	(4,867)	4,580,948		3,098,742	308,278	(3,517)	3,403,503	1,177,445

12.1 Leasehold land includes a piece of land measuring 13,2OO square yards which had been sub-leased to Anoud Power Generation Limited (APGL) for the purposes of setting up a power plant. The agreement with APGL is currently under litigation. The company, therefore, intends to get the said sub-lease cancelled through the due process of law (note 11.2)

12.2 Certain rates of depreciation used by the company are lower than the normal rates of depreciation prescribed under the Income Tax Ordinance, 1979 and although the Controller of Capital issues through SRO 221 (1)/75 dated February 11, 1 975 requires that depreciation be charged at the rates not less than the "normal" rates prescribed under the above referred Ordinance, depreciation charge for the year, on an overall basis, in the accounts is higher than depreciation calculated at rates specified therein.

12.3 Depreciation for the year has been allocated as follows:

	Note	**1998**	**1997**
		(Rupees in '000)	
Cost of sales	25	267,138	302,619
Administrative expenses	26	6,379	5,659
		273,517	308,278

12.4 THE FOLLOWING FIXED ASSETS WERE DISPOSED OFF DURING THE YEAR:

(Rupees in '000)

Description	Cost	Accumulated Depreciation	Net Book Value	Sale Proceeds	Mode of Disposal	Particulars of buyers
Vehicle	733	146	587	587	Transfer	PERAC
Vehicle	468	374	94	222	Company policy	Mr. Zafar Iqtida Khan (Ex-Employee)
Vehicle	382	229	153	400	Insurance Claim	E.F.U. General Insurance
Vehicle	436	174	262	430	Insurance Claim	E.F.U. General Insurance
Vehicle	436	174	262	430	Insurance Claim	E.F.U. General Insurance
Equipment	10	3	7	7	Company Policy	Mr. Zafar Iqtida Khan (Ex-Employee)
Equipment	45	7	38	38	Company Policy	Mr. Zubair M. Zafar (Ex-Employee)
Equipment	55	8	47	47	Company	Mr. Zubair M. Zafar

					Policy	(Ex-Employee)
Equipment	11	2	9	9	Company Policy	Mr. Zubair M. Zafar (Ex-Employee)
Equipment	10	2	8	8	Company Policy	Mr. Mahmood Ahmed (Ex-Employee)
Equipment	7	1	6	6	Company Policy	Mr. Mahmood Ahmed (Ex-Employee)
Equipment	20	12	8	8	Company Policy	Syed Kazim Ali (Ex-Employee)
Equipment	39	23	16	16	Company Policy	Syed Kazim Ali (Ex-Employee)
Equipment	35	16	19	19	Company Policy	Mr. Akber Ahmed (Ex-Employee)
Equipment	20	-	20	20	Company Policy	Mr. M. Yousuf Baig (Ex-Employee)
Equipment	7	-	7	7	Company Policy	Mr. M Yousuf Baig (Ex-Employee)
Equipment	10	-	10	10	Company Policy	Mr. M. Yousuf Baig (Ex-Employee)
Equipment	12	-	12	12	Company Policy	Mr. M. Yousuf Baig (Ex-Employee)
Equipment	7	1	6	6	Company Policy	Mr. M. Yousuf Baig (Ex-Employee)
Equipment	15	7	8	1	Trade-In	M/s. Datanet Systems BC-7 Mitha Coud, Block-9 Clifton, Karachi
Vehicles and equipment with written down value of below Rs. 5,000/-	850	808	42	231	Various	
	3,608	1,987	1,621	2,514		

	Note	1998	Additions/ Transfers	1997
			(Rupees in '000)	
13. CAPITAL WORK-IN-PROGRESS				
Power Generation Plant (7.5 & 4.0 M.W.)				
Fees & technical studies		45,983	19,434 (19,353)	45,902
Material, equipment and cost of related services		351,517	6,970 (174,637)	519,184
Borrowing Costs	13.1	68,274	26,194 (57,380)	99,460
Other expenditure		646	169	477
		466,420	(198,603)	665,023
Processing Plant & Storage Tanks				
Fees & technical studies		8,957	457	8,500

Material, equipment and cost of related services	53,644	51,878	1,766
Advances to Contractors	4,211	3,531	680
	----------	----------	----------
	66,812	55,866	10,946
Other Projects	1,607	1,607	7,102
		(7,102)	
	----------	----------	----------
	534,839	(148,232)	683,071
	==========	==========	==========

13.1 Included in the transfers of Rs. 57.380 million is a sum of Rs. 27.717 million representing borrowing costs capitalised during 1996 and 1997 in respect of a project completed and transferred to fixed assets during 1995. Accordingly, the above referred sum is included in financial charges for the current year.

	1998	**1997**
	(Rupees in '000)	
14. LONG-TERM INVESTMENTS		
Wholly owned Subsidiary		
National Oil Marketing Company (Pvt.) Limited (100 ordinary shares of Rs. 10 each)	1	-
Listed		
Pakistan PVC Limited 3,125 ordinary shares of Rs, 10 each [market value Rs. 8,125; (1997: Rs. 9,000)]	9	9
Unlisted		
Anoud Power Generation Limited 1,080,000 ordinary shares of Rs. 10 each Equity held 10% (1997: 10%), Chief Executive, Shabbir A. Jumani. Break-up value of Ordinary share of Rs. 10 each is Rs. 10 (1997: Rs 10) per share based on the latest audited accounts available for the year ended June 30, 1996.	10,800	10,800
Fuel Pipelines Limited 5,000 ordinary shares of Rs. 10 each Equity held 10% (1997: 10%), Chief Executive, Syed Amjad Hussain (audited accounts not available)	50	50
Provision for diminution in value of investments in Anoud Power Generation Limited, Pakistan PVC Limited and Fuel Pipelines Limited	(10,851)	-
	----------	----------
	9	10,859
	==========	==========

15. LONG TERM LOANS, ADVANCES AND DEPOSITS-considered good

	Note	**1998**	**1997**
		(Rupees in '000)	
Loans-secured			
Executives		26,962	303,191
Employees		10,925	8,900

		----------	----------
		37,887	39,219
Less: Receivable within one year shown under current assets			
Executives		5,598	6,049
Employees		2,402	2,387
		----------	----------
		8,000	8,436
		----------	----------
	15.1	29,887	30,783
State Petroleum Refining and Petrochemical Corporation (PERAC) - unsecured	15.2	60,000	60,000
		----------	----------
		89,887	90,783
Advance-unsecured			
State Petroleum Refining and Petrochemical Corporation (PERAC)	15.3	50,000	50,000
Deposits		5,059	3,829
		----------	----------
		144,946	144,612
		==========	==========
Outstanding for periods exceeding three years		1,760	1,760
Others		28,127	29,023
		----------	----------
		29,887	30,783
		==========	==========

15.1 Loans to executives and employees are for the purchase of motor cars, furniture, motor cycles and house building. These are granted in accordance with the terms of their employment and are recoverable in monthly installments over a period ranging between 7 and 12 years. Some of these loans carry interest ranging between 3% and 7% per annum and are secured against respective assets purchased by them.

The maximum aggregate amount due from executives in respect of loans at the end of any month during the year was Rs. 29.132 (1997: Rs. 32.829) million.

15.2 The company advanced a sum of Rs. 60.00 million to the State Petroleum Refining and Petrochemical Corporation (PERAC) for the purposes of setting up Iran-Pak Refinery Project, under the directives of the Government of Pakistan. The loan carries markup @ 12% (1997: 12%) per annum.

The company has the option to convert the above referred loan into equity in the above referred project.

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

1998 1997
(Rupees in '000)

16. STORES, SPARES AND CHEMICALS

Stores	172,288	203,421
Spares	420,679	390,736
Chemicals	189,705	137,128
Stores, spares and chemicals in transit	21,425	50,265
	804,097	781,550
Less: Provision against obsolete stores, spares and chemicals	234,849	178,633
	569,248	602,917

Due to the nature of the inventory of the company, stores and spares held for capital expenditure purposes cannot be separately identified.

17. STOCK-IN-TRADE

Crude oil		
- in tanks	402,345	280,738
- in transit	2,152	380,529
	404,497	661,267
Semi finished products	1,959,451	270,185
Less: Adjustment relating to net realizable value	4,357	5,605
	191,588	264,580
Finished products	5,751,391	890,933
Less: Adjustment relating to net realizable value	31,094	17,286
	544,045	873,647
	1,140,130	1,799,494

18. TRADE DEBTS

Unsecured		
Considered good	8,548,248	48,966,101
Considered doubtful	22,735	29,819
	8,570,983	4,926,429
Less: Provision against debts considered doubtful	22,735	29,819
	8,548,248	4,896,610

19. LOANS AND ADVANCES

Considered good
Loans

Current potion of long term loans			
Executives	15	5,598	6,049
Employees	15	2,402	2,387
		8,000	8,436

		1,456	1,623
Advances			
		2711	45
		267	301
	19.2	1,087,361	24,029
		----------	----------
		109,274	24,375
		----------	----------
		118,730	34,434
		==========	==========

19.1 The maximum aggregate amount due from executives in respect of advances at the end of any month during the year was Rs. 375,994 (1997: Rs. 55,000)

19.2 Included herein is a sum of Rs. 104 million advanced by the company to a supplier for fabrication of drums. in view of the cancellation of the underlying contract by the company resulting in the filing of a claim by the supplier and a counter claim by the company, the matter was referred to an Arbitrator for adjudication. The Arbitrator awarded a net claim of Rs. 55.240 million against the company which judgement is being challenged by the company in the High Court of Sindh. Pending a final decision in this respect, no provision has been made against advances of Rs. 104 million in these accounts.

20. DEPOSITS AND PREPAYMENTS

Deposits		
Development surcharge	2,430	11,889
Excise duty	14,758	23,460
Margin against letters of credit and guarantees	188	-
Lease deposits	1,302	1,679
Others	1,061	1,188
	----------	----------
	19,739	38,216
Prepayments		
Rent	303	841
Insurance	30,354	3261
Commission in respect of standby letters of credit	-	16,467
Miscellaneous	7,096	65,671
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	37,753	24,201
	----------	----------
	57,492	62,417
	==========	==========

21. OTHER RECEIVABLES

	Note	**1998**	**1997**
		(Rupees in '000)	
Due from the Government of Pakistan	21.1&21.2	2,569,230	3,054,658
Due from Pakistan State Oil (PSO)	21.3	10,452	8,415
Interest accrued on long term loan to PERAC		7,531	8,093
Claims receivable	21.4	683	733
Income tax-net		26,535	-
Sales tax		3,045	21
Miscellaneous		1,759	201
		----------	----------
		2,619,235	3,072,121

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21.1 Included herein is a sum of Rs. 4.841 (1997: Rs. 1,122.099) million due from the Government of Pakistan in respect of net debt servicing costs. Prior to the issuance of a directive in respect of short term loans due to the Islamic Development Bank, as stated in note 9.1, the company had set aside funds in the National Savings Centre (NSC) for the purposes of repayments of the short term loans. The excess of interest thereon and resulting exchange rate fluctuations over interest earned on the set aside funds in NSC were receivable from the Government of Pakistan. Accordingly, the balance of Rs. 4.841 million represents amount due in this regard.

21.2 Also included herein is a sum of Rs. 2,564.389 (1997: Rs. 1,932.559) million due from the Government of Pakistan in respect of arrangements with them under the Import Parity Formula, (refer note 2.13). The recovery of this amount is subject to the agreement of the Government and is dependent upon the resolution of the matter stated in note 32 of these accounts.

21.3 This represents amount due in respect of furnace oil imported by the company for the PSO under the directives of the Federal Government.

21.4 Included herein are claims in respect of insurance and customs duty amounting to Rs. 0.184 and Rs. 0.499 million respectively.

22. CASH AND BANK BALANCES

At banks		
in current accounts	210,941	11,544
in saving accounts	239,694	386,555
in foreign currency deposit accounts	35,080	25,066
	----------	----------
	485,715	423,165
In hand	556	357
	----------	----------
	486,271	423,522
	==========	==========

23. GROSS SALES

	Note	**1998**	**1997**
		(Rupees in '000)	
Local Sales		20,995,407	19,901,464
Bunker (Price differential payable by oil marketing companies on such supplies)		-	18,002
Export Sales		494,649	668,131
Refunds from the Government under the Import Parity Formula		631,830	1,812,591
		----------	----------
		22,121,886	22,400,188
		==========	==========

24. DUTIES, TAXES, COMMISSION AND LEVIES

Development surcharge	315,112	204,461
Excise duty	301,985	288,152
Sales tax	776,661	897,106
Commission - National Oil Marketing (Private) Limited	662	-

Custom duty, wharfage and other levies		17,601	13,443
		1,412,021	1,403,162

25. COST OF GOODS SOLD

Opening stock of semi-finished and finished products		1,138,227	756,760
Crude oil and drums consumed	25.1	16,596,061	17,958,120
Provision against obsolete stores, spares and chemicals		56,216	62,879
Salaries, wages and staff benefits		357,165	279,817
Stores, spares and chemicals consumed		223,232	328,078
Fuel and power		667,644	649,186
Rent, rates and taxes		27,392	19,531
Insurance		32,156	30,571
Repairs and maintenance		262,999	220,405
Consultancy charges		3,550	3,100
Depreciation	12.3	267,138	302,619
Staff transport		13,728	14,066
Research & Development outlay		10,000	33,093
Energy Survey		-	17,491
Miscellaneous		11,105	23,032
		18,528,386	19,941,988
		19,666,613	20,698,748
Less: Closing stock of semi-finished and finished products		735,633	1,138,227
		18,930,980	19,560,521

25.1 CRUDE OIL AND DRUMS CONSUMED	Note	1998	1997
		(Rupees in '000)	
Crude Oil-Opening stock		280,738	406,319
-Purchases		16,523,204	17,563,754
-Closing stock		(402,345)	(280,738)
		16,401,597	17,689,335
Drums consumption		194,464	268,785
		16,596,061	17,958,120

26. ADMINISTRATIVE, SELLING AND GENERAL EXPENSES

Salaries and staff benefits		126,393	96,361
Rent, rates and taxes		1,433	1,020
Selling expenses		9,107	2,724
Depreciation	12.3	6,379	5,659
Legal and professional charges		3,402	1,561
Auditors' remuneration	26.1	719	556
Service charges-PERAC		45,500	35,000
Printing and stationery		2,980	3,214

	Note	1998	1997
Staff transport		3,211	3,503
Repairs and maintenance		9,796	9,599
Telephone		3,940	4,448
Electricity and water charges		3,656	2,818
Postage, telegrams and periodicals		1,158	1,185
Subscriptions		1,641	1,933
Sanitation and gardening		2,962	3,817
Afforestation charges-PERAC		-	10,000
Donations	26.2	396	-
Miscellaneous		20,343	16,851
		243,016	200,249

26.1 Auditors' remuneration

	Year ended 1998 Ford, Rhodes Robson, Morrow	1998 Taseer Hadi Khalid & Co.	1998	1997 Taseer Hadi Khalid & Co.
Audit fee	100	-	100	100
Special reports and certifications, audit of workers' profit participation fund, sundry accounting and advisory services	20	508	528	412
Out-of-pocket expenses	45	46	91	44
	165	554	719	556

26.2 No directors or their spouses have any interest in any donees fund to which donations were made.

27. OTHER INCOME

	Note	1998 (Rupees in '000)	1997
Interest/Return on:			
bank deposits		12,495	17,773
advance tax payments		-	4,852
advances to employees		114	105
Accured liabilities written back		32,711	18,227
Exchange gain		2,436	868
		47,756	41,825

28. NON-REFINING INCOME

Interest on long term loan to PERAC	7,531	8,093
Gain on sale of fixed assets	893	3,563
Sale of scrap and empties	728	2,035
LBO transport coordination charges	280	4,550
LBO pipeline charges	804	1,676
Supply of utilities	701	4,182
Ground rent	376	799
Tender fees	601	424

Store handling charges		9	3,037
Training & seminar		810	-
Accured liabilities written back		41,864	-
Miscellaneous		2,307	471
		----------	----------
		56,904	28,830
		==========	==========

29. FINANCIAL CHARGES

Mark-up/Interest on:			
Finance leases		23,027	48,411
Long term loans	13.1	91,954	62,500
Short term running finances		22,578	29,110
Short term loans		386,558	294,748
Workers' profit participation fund	10.2	3,149	1,501
		----------	----------
		527,266	436,270
Penalties	10.3	305,000	37,917
Guarantee commission		446	544
Bank charges		1,267	885
		----------	----------
		833,979	475,616
		==========	==========

30. OTHER CHARGES

Provision for doubtful debts	1,267	-
Provision for diminution in the value of investments	10,851	11
Workers' Welfare Fund	15,782	16,799
Workers' Profit Participation Fund	39,722	40,174
	----------	----------
	67,622	56,984
	==========	==========

31. TAXATION

Current	254,258	335,445
Prior	(62,607)	(54,586)
Deferred	55,455	37,626
	----------	----------
	247,106	318,485
	==========	==========

The income tax assessments of the company have been finalized upto and including accounting year ended June 30, 1997. However, appeals against some of the assessment orders are pending with various authorities. Income-tax demands pertaining to these appeals have been provided for in these accounts.

32. Pursuant to the Summary dated March 31, 1993 of the Economic Co-ordination Committee (ECC) of the Federal Cabinet of the Government of Pakistan, the Company was required to pay "identifiable charges and duties as applicable on import of furnace oil to be used as feedstock in the lube refinery". In this respect, the company has taken a view that Development Surcharge, included in the above referred charges and duties, is not a duty payable at the import stage and, hence, the same is not a part of the import duty structure as is apparent from the customs tariff. The company further believes that Development Surcharge is a part of the pricing mechanism of the Ministry of Petroleum and Natural

Resources, levied by them to regulate the prices of petroleum products in the country. In this regard, the Central Board of Revenue in their letter dated October 6, 1996 clarified that the Development Surcharge is applicable on furnace oil at the import stage at a price fixed by the Ministry of Petroleum and Natural Resources from time to time. However, the company is of the view that Development Surcharge is not a part of the custom tariff and, hence, not an import incidental. Therefore, the same is not payable on the cost of feedstock of the lube refineries.

The company has taken up this matter with the Ministry of Petroleum and Natural Resources and has requested for a letter of waiver and suggested to the Ministry to obtain approval of the ECC, if considered necessary by the Ministry. Pending the outcome of this matter, provisions in respect of Development Surcharge on furnace oil used as feedstock in lube refineries, aggregating to Rs. 678.244 million, in respect of the years ended June 30, 1996, 1997 and 1998 have not been made in these accounts.

	1998	**1997**
	(Rupees in '000)	
33. UNAVAILED CREDIT FACILITIES		
Short term running finances	554,188	2,108
Letters of Credit	539,290	150,220
	==========	==========
34. CASH GENERATED FROM OPERATIONS		
Profit before taxation	738,928	774,311
Adjustment for non cash charges and other items:		
Provision for diminution in value of investments	10,851	11
Depreciation	273,517	308,278
Financial expenses	833,979	475,616
Gratuity	8,983	2,693
Compensated absences	(481)	675
Profit on sale of fixed assets	(893)	(3,563)
Provision for doubtful debts	1,267	-
	----------	----------
Profit before working capital changes	1,866,151	1,558,021
Working capital changes		
(Increase)/Decrease in current assets		
Store and spares	33,669	157,246
Stock-in-trade	659,364	(259,913)
Trade debts	(3,652,905)	(2,775,106)
Loans and advances	(84,296)	11,176
Deposits and shod term prepayments	4,925	89,544
Other receivables	479,421	(221,904)
Increase/(Decrease) in current liabilities		
Creditors, accrued expenses and other liabilities	1,288,722	416,404
	----------	----------
Cash generated from operations	595,051	(1,024,532)
	==========	==========
35. CASH AND CASH EQUIVALENTS		
Cash and bank balances	486,271	423,522
Shod term loans and running finance	(4,928,573)	(3,000,869)
	----------	----------
	(4,442,302)	(2,577,347)

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36. REMUNERATION OF THE DIRECTORS AND EXECUTIVES

	Chief Executive	Directors	Executives	1998	1997
			(Rupees in '000)		
Fee	-	26	-	26	17
Managerial remuneration	538	-	52,978	53,516	41,640
Company's contribution to provident and pension funds	110	-	12,212	12,322	11,659
	648	26	65,190	65,864	53,316
Other perquisites and benefits					
Rent and housing	241	-	20,541	20,782	20,512
Conveyance	159	-	16,715	16,874	14,729
Leave benefits	217	-	6,505	6,722	5,242
	617	-	43,761	44,378	40,483
June 30, 1998	1,265	26	108,951	110,242	93,799
June 30, 1997	958	17	92,824	93,799	95,287
			Number of Persons		
June 30, 1998	1	10	236	247	220
June 30, 1997	1	8	211	220	218

36.1 The Chief Executive and some of the executives of the company are also provided with free use of car and residential equipment in accordance with their terms of services.

37. LOAN ON BEHALF OF THE GOVERNMENT

During the year, an agreement for a loan amounting to US$ 30 million was entered into by the company with ANZ Grindlays Bank, Bahrain Branch.

The loan carried interest at 7% per annum (LIBOR + 1.25%) and is guaranteed by the State Bank of Pakistan. The loan is payable on September 29, 1998.

The company has not recorded the above loan in its books of account as the same was not received by the company and its proceeds were credited to the account of the Government of Pakistan. Government of Pakistan, hence, this transaction would have no effect on the financial results of the

The matter is presently under discussion with the Bank and the Government and further action in this regard will be taken after the resolution of the same.

38. ASSOCIATED UNDERTAKING

The Company shares crude oil imports with Pakistan Refinery Limited (PRL). Under this arrangement crude oil delivered to PRL amounted to Rs. 4,352.066 (1997: Rs. 4,652.676) million and it also received crude oil from PRL in an aggregate amount of Rs. 3,061.163 (1997: Rs. 3,282.758) million.

39. SEGMENT INFORMATION

	Fuel	Lube	Non Refining	Total
1998		(Rupees in '000)		
Sales				
- to outside customers	14,975,740	5,102,295	-	20,078,035
- to other segment	2,585,554	(2,585,554)	-	-
Profit after tax	22,917	412,001	56,904	491,822
Assets employed (as a percentage of consolidated total)	68%	32%		100%
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	404,079	28,830	455,826
Assets employed (as a percentage of consolidated total)	67%	33%		100%

39.1 Inter segment sales are made on the basis of cost.

40. CAPACITY AND ACTUAL PERFORMANCE

	Annual Designed Throughput Capacity	Actual Throughput for the year ended June 30 1998	1997
		(In Metric Tons)	
Fuel Section - throughput of crude oil	2,710,500	2,902,630	2,766,431
Lube Section - throughput of reduced crude oil	620,486	650,012	687,117

41. GENERAL

41.1 Figures have been rounded-off to nearest thousand of rupees.

41.2 Previous year's figures have been rearranged, wherever necessary, for the purpose of comparison.

M.M. HUSAIN	**ABDUS SATTAR**	**AITZAZ SHAHBAZ**
Chief Executive	Director	Chairman

PATTERN OF SHAREHOLDINGS AS AT JUNE 30, 1998

NO. OF SHARE HOLDERS	SHAREHOLDINGS FROM	TO	TOTAL SHARES HELD
1364	1	100	64,552
1371	101	500	434,540
734	501	1000	606,005
948	1001	5000	2,178,681
122	5001	10000	887,744
19	10001	15000	235,759
16	15001	20000	275,065
3	20001	25000	68,600
2	25001	30000	57,800
2	30001	35000	65,147
1	35001	40000	35,150
4	40001	45000	167,885
2	45001	55000	95,965
1	55001	60000	60,000
5	60001	75000	328,404
3	75001	90000	258,700
1	90001	100000	100,000
4	100001	145000	446,932
2	145001	310000	301,500
1	310001	315000	312,717
1	315001	340000	339,320
1	340001	660000	658,040
1	660001	700000	696,600
1	700001	1305000	1,300,182
1	1305001	2840000	2,838,447
1	2840001	2910000	2,909,060
1	2910001	9080000	9,077,035
1	9080001	10000000	10,000,000
1	10000001	10760000	10,757,382
1	10760001	21085000	21,081,588
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4,615			66,638,800
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CATEGORIES OF SHAREHOLDERS	NUMBER	SHARES HELD	PERCENTAGE
Individuals	4537	4,695,260	7.04
Investment Companies	19	31,636,441	47.47
Joint Stock Companies	20	283,376	0.43
Financial Institutions*	10	14,519,787	21.79
Modaraba Companies	5	158,100	0.24
insurance Companies	12	4,171,669	6.26
Others	9	10,908,567	16.37
1. PERAC	1	10,757,382	16.14
2. Administrator Abandoned Properties	1	46,630	0.07
3. Charitable Organizations	5	75,554	0.11
4. Corporate Law Authority	1	1	-
5. Employees old age benefits	1	29,000	0.05
Non Residents	3	265,600	0.04
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TOTAL	4615	66,638,800	100.00
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*Including Islamic Development Bank Jeddah, Holding 50/0 Shares.