vision of today is

tomorrow's achievement

annual report 2008

National Refinery Limited


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Contents

Our Vision

Our passion is to attain a distinctive leadership amongst the corporate success stories of tomorrow. We at NRL recognize that the realization of this passion needs superior professional competencies, continuous value addition and improvising, development of human capital and complete commitment to safety, occupational health and environment.

Our Mission

To remain the premium and preferred supply source for various petroleum products and petrochemicals.

Offer products that are not only viable in terms of desirability and price but most important give true and lasting value to our customers.

Deliver strong returns on existing and projected investment of our stakeholders by use of specialized and high quality corporate capabilities.

Business development by adoption of emerging technologies, growth in professional competence, support to innovation. Enrichment of human resource and performance recognition.

Be a responsible corporate citizen by serving the community through a variety of socio-economic acts and maintaining a high level of safety, occupational health and environmental care.

Core Values

Our success will not be a matter of chance, but of commitment to the following enduring beliefs and values that are engrained in the way we think and take actions to pursue a climate of excellence:

Integrity and Ethics:
Integrity, honesty, high ethical, legal and safe standards are cornerstone of our business practices.

Quality:
We pursue quality as a way of life. It is an attitude that affects everything we do for relentless pursuit of excellence.

Social Responsibility:
We believe in respect for the community and preserving the environment for our future generations and keeping National interests paramount in all our actions.

Learning and Innovation:
We embrace lifelong learning and innovation as an essential catalyst for our future success. We believe in continuous improvement and to seize opportunities inherent in change to shape the future.

Teamwork:
We believe that competent and satisfied people are the company's heart, muscle and soul. We savour flashes of genius in organisation's life by reinforcing attitude of teamwork and knowledge sharing based on mutual respect, trust and openness.

Empowerment:
We flourish under an ecosystem, of shared understanding founded on the concept of empowerment, accountability and open communication in all directions.

Corporate Information

Board of Directors

Dr. Ghaith R. Pharaon - Chairman
Laith G. Pharaon
Wael G. Pharaon
Shuaib A. Malik
Abdus Sattar
Tarik Kivanc
Firasat Ali

Alternate Director Bilal A. Khan
Alternate Director Babar Bashir Nawaz
Alternate Director S. Ahmed Abid

Chief Executive Officer

Shuaib A. Malik

Chief Financial Officer

Anwar A. Shaikh

Company Secretary

Shaikh Ather Ahmed

Audit Committee

Abdus Sattar	Chairman
Babar Bashir Nawaz	Member
S. Ahmed Abid	Member
Bilal A. Khan	Member
Afzal Hussain Khan	Secretary

Auditors
A. F. Ferguson & Co.
Chartered Accountants.

Solicitors
Ali Sibtain Fazli & Associates

Primary Bankers
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
Allied Bank Limited
Askari Bank Limited
Soneri Bank Limited

Registered Office
7-B, Korangi Industrial Area,
Karachi - 74900, Pakistan.
P.O Box 8228
UAN No. 111-675-675
Fax: +92-21-5054663
website: www.nrlpak.com

Share Registrar
Noble Computer Services (Pvt). Ltd
2nd Floor Sohni Center, Block 4,
F. B. Area Karachi.
Contact No. +92-21-6801880,
Fax: +92-21-6801129

Objectives & Development Strategy

National Refinery Limited is a petroleum refining and petrochemical complex engaged in manufacturing and supplying a wide range of fuel products, lubes, BTX, asphalts and specialty products for domestic consumption and export.

NRL objectives and development strategy are aimed at achieving sustainable productivity and profitability and high standards of safety, occupational health and environmental care. This entails human resource re-engineering & development, enhancing value addition, implementing conservation measures and continuing growth through upgradation of existing as well as addition of new facilities. In the changing global environment, corporate objectives and development strategy have been defined to meet the challenges of 21st century.

Corporate Objectives

- Ensure that business policies and targets are in conformity with the national goals.
- Contribute in meeting the Country's demand of petroleum and petrochemical products.
- Customer's satisfaction by providing best value and quality products.
- Optimization of the value of barrel of crude oil and cost reduction through conservation measures.
- Achieving and maintaining a high standard of Occupational Health, Safety and Environment.
- Ensure reasonable return on the shareholders' existing and projected investment.
- Maintain modern management system conforming to international standards needed for an efficient organization.

Development Strategy

- Contribute in national efforts towards attaining sustainable self-efficiency in petroleum products.
- Human resource development by upgrading training facilities and exposure to modern technologies / management techniques.
- Balancing and modernization for energy conservation and enhanced yield of value added products as well as revamping for environment friendly products.
- Expansion of refining capacity by debottlenecking and adding new facilities.
- Acquire newer generation technologies for the efficient refinery operations as well as for attaining highest standards of Occupational Health, Safety and Environment.
- Acquiring self-sufficiency in re-engineering, design and fabrication of equipments.


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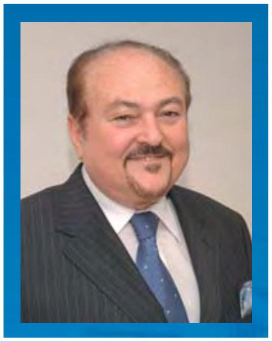
Board of Directors



Dr. Ghaith R. Pharaon
Chairman

Laith G. Pharaon

Wael G. Pharaon

Firasat Ali

Abdus Sattar

Tarik Kivanc

Babar Bashir Nawaz
Alternate for
Laith G. Pharaon

S. Ahmed Abid
Alternate for
Wael G.Pharaon

Bilal A. Khan
Alternate for
Dr. Ghaith R. Pharaon

Shuaib A. Malik
Deputy Chairman /
Chief Executive Officer

Statement of Ethics & Business Practices

National Refinery Limited is engaged in the manufacturing of wide range of petroleum products with the objective to achieve sustainable productivity, profitability and high standards of safety, occupational health and environmental care. This entails human resource development, enhancing value addition, implementing conservation measures and growth by up-gradation and addition of newer generation technologies. The Company solemnly believes in the application of business ethics as have been embodied in this document.

- The credibility, goodwill and repute earned over the years can be maintained through continued conviction in our corporate values of honesty, justice, integrity and respect for people. The Company strongly promotes trust, openness, teamwork and professionalism in its entire business activities.

- The business principles are derived from the above stated corporate values and are applied to all facets of business through well-established procedures. These procedures define behavior expected from each employee in the discharge of his/her responsibility.

- NRL recognizes following obligations, which need to be discharged with best efforts, commitment and efficiency:
  - Safeguarding of shareholders' interest and a suitable return on equity.
  - Service customers by providing products, which offer value in terms of price, quality, safety and environmental impact.
  - Respect human rights, provide congenial working environment, offer competitive terms of employment, develop human resource and be an equal opportunity employer.
  - Seek mutually beneficial business relationship with contractors, suppliers and investment partners.

- The Company believes that profit is essential for business survival. It is a measure of efficiency and the value that the customer places on products and services produced by the Company.

- The Company requires honesty and fairness in all aspect of its business and in its relationships with all those with whom it does business. The direct or indirect offer, payment, soliciting and accepting of bribe in any form are undesirable.

- The Company requires all its employees to essentially avoid conflict of interest between private financial activities and their professional role in the conduct of Company business.

- The Company is fully committed to reliability and accuracy of financial statements and transparency of transactions in accordance with established procedures and practices.

- The Company does not support any political party or contributes funds to groups having political interests. The Company will however, promote its legitimate business interests through trade associations.

- The Company, consistent with its commitments to sustainable developments, has a systematic approach to the management of health, safety and environment.

- The Company is committed to observe laws of Pakistan and is fully aware of its social responsibility. It would assist the community in activities such as education, sports, environment preservation, training programs, skills development and employment within the parameters of its commercial objectives.

- The Company supports free market system. It seeks to compete fairly and ethically within the framework of applicable competition laws in the country. The Company will not stop others from competing freely with it.

- In view of the critical importance of its business and impact on national economy, the Company provides all relevant information about its activities to legitimate interested parties, subject to any overriding constraints of confidentiality and cost.

On Behalf of the Board

Shuaib A. Malik
Deputy Chairman /
Chief Executive Officer

31st August, 2008

Notice of Annual General Meeting

Notice is hereby given that the Forty Fifth (45th) Annual General Meeting of National Refinery Limited will be held on Monday, October 20, 2008 at 4:00 p.m. at Hotel Sheraton, Karachi, to transact the following business:

Ordinary Business

1. To confirm the minutes of the Forty Fourth (44th) Annual General Meeting of the Company held on September 27, 2007.

2. To receive, consider and approve the Audited Accounts of the Company for the year ended June 30, 2008 together with the Directors' Report and the Auditors' Report thereon.

3. To consider and, if thought fit, to approve the payment of Final Cash Dividend at the rate of Rs.20/- per share i.e. 200% for the year ended June 30, 2008 as recommended by the Board of Directors.

4. To appoint Company's auditors for the year ending June 30, 2009 and to fix their remuneration. The present auditors M/s. A. F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for reappointment.

5. Any other business with the permission of the Chair.

By order of the Board

Karachi
September 26, 2008.

Shaikh Ather Ahmed
Company Secretary

NOTES:

1) The Register of Members of the Company will remain closed and no transfer of shares will be accepted for registration from Saturday, October 11, 2008 to Monday, October 20, 2008 (both days inclusive). Transfer received in order at the office of the Share Registrar Noble Computers Services (Pvt.) Ltd., 2nd floor, Sohni Center, Block-4, F.B. Area, Karachi-75950, at the close of business on Friday, October 10, 2008 will be in time for the purpose of determination of entitlement to the transferees.

2) A member entitled to attend, speak and vote at the Annual General Meeting is entitled to appoint a proxy to attend, speak and vote instead of him/her. No person shall act as proxy, who is not a Member of the Company except corporate entity may appoint a person who is not a Member. Proxy in order to be effective must be duly signed, witnessed and deposited at the office of the Share Registrar not less than 48 hours before the meeting.

3) The proxy shall produce his/her original CNIC or passport at the time of the meeting.

4) Shareholders are requested to promptly notify the office of the Share Registrar of any change in their address.

5) Members who may be seeking exemption from the deduction of income tax or are eligible for deduction at a reduced rate are requested to submit a valid tax certificate or necessary documentary evidence as the case may be. Members desiring non-deduction of zakat are also requested to submit a declaration for non-deduction of zakat. Necessary advice in either case must be submitted within not more than 15 days from the date of dividend entitlement.

6) CDC account holders will further have to follow the under mentioned guidelines as laid down in Circular 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

A) For attending the meeting:

i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his identity by showing his original Computerized National Identity Card, (CNIC) or original passport at the time of attending the Meeting.

ii) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produce (unless it has been provided earlier) at the time of the Meeting.

B) For appointing proxies:

i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account, and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.

ii) Two persons whose names, addresses and numbers shall be mentioned on the form shall witness the proxy form.

iii) Attested copies of CNIC or the passport, of the beneficial owners and the proxy shall be furnished with the proxy form.

iv) The proxy shall produce his/her original CNIC or original Passport at the time of the Meeting.

v) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

Chairman's Review

*In the Name of Allah,
Most Benevolent,
Most Gracious*

Dear Shareholders

Assalam-o-Alaikum

It gives me immense pleasure to welcome you all, on behalf of the Board of Directors, in the forty fifth Annual General Meeting of the Company. Your Company by the grace of Almighty persistently endeavors to achieve new landmarks and has recorded after tax profit of Rs. 6.005 billion for the year 2007-08.

The unpredictable rise in crude oil prices during the period marked its adverse effects on the growing economies of the world. On account of supply concerns, the crude oil price scored the highest ever increase to 147 US$ per barrel, putting enormous pressures on developing economies. While oil and gas sector targeted higher margins, rising inflation, food shortages and expensive fuel reduced the pace of global economic growth. Pakistan was no exception. Political transition, security concerns and devaluation of the currency not only significantly slowed the economic progress and disturbed the economical equilibrium but also increased the operating costs to a great extent.

Your Company maintained its focus on better management and succeeded in adding values through product mix optimization. Rising price trends combined with better product mix derived record profit of Rs. 3.064 billion in the fuel segment. However, high cost of feedstock and adjustments of duties declined the refining margins of lube refineries which resulted in earning profit of Rs. 2.941 billion. It is to be noted that due to unfavourable exchange fluctuation your company incurred highest ever exchange loss of Rs 1.243 billion on its foreign currency transactions relating to crude oil purchases.

Your Company maintained its corporate responsibility towards environment and the efforts have once again been acknowledged by independent financial and environmental assessment agencies. The Company maintained its credit rating at the highest level for the 4th successive year and also won the Environment Excellence Award from National Forum for Environment and Health for the 5th successive year.

Financial year 2008-09 has brought tough challenges for your Company. Rapidly reducing oil prices lead to predictions of inventory losses. A redefined pricing formula for Motor Gasoline, reduction of deemed duty on HSD and JP-8 shall add on towards slim refining margins. A significant reduction in custom duty on Lube Base Oil will also hurt the profitability of lube segment. The impact of devaluing Pakistani rupee will take its own course. Nevertheless, I have directed the management to take all possible measures to minimize the impact of these challenges and to provide fair return to the shareholders.

Acknowledgement

I extend my appreciation to the dedicated efforts of the Board of Directors, management and workers of the Company who combined their efforts to achieve another landmark.

I also expect that the Company shall continue to strive to protect the interests of all stakeholders through better management and improved efficiency and all efforts will be made to face the challenges that lie ahead.

May Allah be with you all.

Dr. Ghaith R. Pharaon

Chairman

August 31, 2008

Directors' Report

On behalf of the Board of Directors, I am pleased to present the 45th Annual Report of National Refinery Limited together with the audited financial statements and auditors' report thereon for the year ended June 30, 2008.

Overview

The year 2007-08 was dominated by escalating oil prices all over the world. Rising inflation, food prices and higher fuel costs slowed the pace of economic growth. Developing economies like Pakistan remained under immense pressure. A weak Rupee against US dollar and other important foreign currencies resulted in increased operational costs.

The price of Arabian Light per barrel fluctuated between US$ 67.42 to US$ 136.67 during the financial year mainly due to supply concerns against steadily rising demand. Though New York Brent peaked US$ 147 per barrel, the crude oil price has now shown a steady decline in the beginning of financial year 2008-09.

Your company performed fairly well during the year. Increasing fuel prices reduced the sale of Motor gasoline. However, focus was maintained to achieve a product mix that could deliver best results. Rising prices with better refining margins and increased production of high value products improved the profitability of fuel section significantly. However, higher cost of feedstock reduced the profits of lube refineries. These profits were also adversely affected by exchange losses of Rs 1.243 billion on foreign currency transactions relating to crude oil purchases.

Your company being the only refining complex in the country is the sole producer of Lube Base Oil and the largest producer of Asphalt along with fuel products. During the financial year 2007-08 it recorded sale volume of Lube Base Oil of 204,551 metric ton and Asphalt of 225,042 metric ton.

Financial Results

After tax profit of the company increased to Rs. 6.005 billion in 2007-08 from Rs. 4.203 billion and is higher by 43% as compared to last year. Fuel segment has played major role in the remarkable profitability by earning record profit after tax of Rs. 3,064 million i.e. 405% higher than last year. Lube segment profitability reduced by 18% due to high cost of feed while gross refining margin did not respond in the same proportion.

This remarkable profitability has been achieved from increase in sales in monetary terms by 41.67 % and Gross Refining Margin from US$ 7.26 per barrel to US$ 11.61 per barrel. During the year the refinery operated at a throughput of 101% of its designed capacity.

The financial results for the year ended June 30, 2008 is summarized below:

Appropriations

	2008	2007
	(Rupees)	
Earning per share	75.10	52.55
	(Rupees in million)	
Profit available for appropriation	6,005	4,203
Transfer to Special Reserves	2,950	492
Transfer to General Reserves	1,457	2,244
Final Dividend @ 200% (2007: 200%)	1,599	1,333
Bonus shares @ nil (2007: 20%)	-	133

Dividend

The Board of Directors has recommended final cash dividend at 200% (Rs. 20. per share) for the year ended June 2008. The dividend recommended is subject to the approval by the shareholders in Annual General Meeting.

Credit Rating

Pakistan Credit Rating Agency (PACRA) for the 4th successive year has reaffirmed the credit rating of the Company; long-term rating "AAA" due to exceptionally strong capacity for timely payment of financial commitments and short-term rating "A1+" due to obligations supported by the highest capacity for timely repayment.

Key Operating & Financial Data

Key operating and financial data of last six years (2003 - 2008) is shown on page 28.

Contribution To National Exchequer

Due to consistent improved performance your company's contributions to the National exchequer, during the financial year is Rs.19.347 billion in the shape of direct and indirect taxes and bring in valuable foreign exchange of US$ 342.775 million through the export of Naphtha and Lube Base Oil.

Developments & Projects

Independent facilities and new additions to the existing facilities are required for optimization and productivity improvement. In this regard, the company has planned to utilize approximately Rs. 3,380 million, including Rs. 2,500 million for High Speed Diesel desulfurization during the next financial year on following projects:

- **High Speed Diesel (HSD) Desulfurization**
  In order to produce clean High Speed Diesel Euro-II with 500 part per million sulfur, Universal Oil Product (UOP) shall be completing the Engineering Design & Specification (EDS) project by September 2008. The Government has advised time line for clean diesel production by January 2012. However, the implementation of this project shall be subject to necessary incentives being negotiated with the Government justifying its economic feasibility and profitability of the company from the Fuel Section.

- **Debottlenecking study for increase in capacity and yields of distillates from vacuum tower**
  It is planned to replace the existing oil fired cylindrical vacuum heater installed at Vacuum Section of Two Stage Distillation unit at Lube Refinery. The capacity of new heater is envisaged for enhanced throughput, which will be based on maximum potential of vacuum column and associated equipments. Feasibility study of the project has been completed to initiate modifications in vacuum column based on simulations.

- **Product Metering System**
  Your Company has decided to implement Product Metering System at refinery and port oil terminal for transfer of product to Oil Marketing Companies (OMCs). This will bring more efficiency in operations. Commissioning target of flow meters is April 2009. Initially project will handle HSD pumping to OMCs.

- **Radar Gauging System**
  The project is required for custody transfer of products to storage tanks to calculate the accurate gauging. In Phase I, Radar gauges of 41 numbers have been installed and in Phase II additional 64 gauges will be installed by December 2008. It will cover all 105 tanks needed in custody transfer.

- **Storage Tanks**
  The Company has decided to construct additional tanks for crude as well as product storage. The new tanks will increase the operational flexibility and storage capacity to meet strategic market demand. Contract for fabrication and installation of storage tanks has been awarded and work is in progress which will be completed by December 2009.

- **New Water Reservoir and Reverse Osmosis (RO) Plant - III**
  The refinery is facing water shortage and therefore, it has been decided to undertake following projects:
  I. Construction of additional water reservoir of 3.0 million gallons capacity to run the refinery at the optimum capacity.

  II. One more Reverse Osmosis Plant of 200,000 Imperial Gallon Per Day (IGPD) would be added to existing plants. Boring of Brackish water wells is in progress to establish feed specifications for Reverse Osmosis Plant.

Safety And Environment

Your company puts the highest emphasis on protection of the environment and the health and safety of employees, neighbours, communities and stakeholders covering all business activities.

Self in-house HSE training programs were conducted for Executive and Non-Executive staff during the year. Safety talk sessions are conducted on daily basis at site during the turnaround period for safe execution. NRL also has comprehensive Permit to Work System.

In order to strictly practise the principles of Energy & Environment conservation NRL has acquired certification in International Standard Organization (ISO) 14001, Occupational Health & Safety Administration System 18001 and implementation of ISO 9001 Integrated Management System at all levels of production-oriented activities. By the grace of Almighty Allah and concentrated efforts of NRL staff we have achieved 11.43 million safe man-hours without LTI (Loss Time Injury).

Environment Excellence Awards

Your company is committed in efforts toward adherence to Health, Safety, Environment and Quality Management System and has enabled it to legacy of excellence awards. The company has won the Environment Excellence Award for the fifth time consecutively and Health & Environment Excellence Award. NRL is one of the major players in the petroleum refining sector of the country to become an environmental friendly energy enterprise.

Employees & Management Relations

The cordial relationship between the management and union persisted unabatedly. The productivity achieved reflects the concerted and sincere collective endeavors. An amicable bargained settlement was arrived at between the management and the collective bargaining agents for a period of two years, which will go long way to improve the cordial relationship between the two parties in the interest of the Company.

Human Resource Development

Your Company considers its employees as human capital and focused special attention on their training and development and nominated various staff members for local and overseas courses and workshops in different technical and non-technical disciplines. In addition to hands on executive training plans, the company also have apprenticeship program where theoretical and practical training is imparted prior to offering regular employment to successful candidates.

Corporate Social Responsibility

The company realizes the social responsibility towards economy apart from its customers, employees and shareholders. As a responsible corporate citizen, the company has planned to contribute to different social segments of the economy in various ways for improving quality of the life in the country. Company is ambitious to be recognized as social partner and not only as commercial entity.

Chairman's Review Endorsement

The Directors endorse the contents of the review.

Trading In The Company Shares

Chief Executive Officer, Chief Financial Officer, Company Secretary and their spouses and minor children have not traded in the shares of the Company during the year under consideration. Following directors purchased shares to comply the requirements of qualification shares of the Company's directors:

Director	No. of Shares
Dr. Ghaith R. Pharaon	1
Laith G. Pharaon	1
Wael G. Pharaon	1
Shuaib A. Malik	1
Abdus Sattar	601

Corporate Governance

The Board of Directors has throughout the year 2007-08 complied with the 'Code of Corporate Governance' contained in the listing requirements of the stock exchanges and the 'Corporate and Financial Reporting Framework' of the Securities & Exchange Commission of Pakistan.

Audit Committee

The Directors have established a Board of Audit Committee comprising of four non-executive directors. The details of the attendance of the directors at the Audit Committee Meetings are as follows:

Name of Directors	Total Number of Audit Committee Meetings*	Meeting Attended
Abdus Sattar	4	4
Babar Bashir Nawaz	4	4
Bilal Ahmad Khan	4	3
Iqbal A. Khwaja	1	1

* held during the period concerned members were on the Committee

Statement By Board Of Directors In Compliance With Code Of Corporate Governance

a) The Financial statements prepared by the management of the Company present fairly its state of affairs, the result of its operation, cash flows and change in equity.

b) Proper books of accounts have been maintained in the manner required under the Companies Ordinance, 1984.

c) Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

d) International Financial Reporting Standards, as notified in Pakistan, have been followed in the preparation of financial statements.

e) The financial statement prepared by the management conforms to the approved accounting standards as applicable in Pakistan, any departure there-from has been disclosed.

f) The system of internal control is sound in design and has been effectively implemented and monitored.

g) The Board of Directors considered that the Company is a going concern.

h) There has been no material departure from the best practices of the corporate governance as detailed in the listing regulations.

i) All major Government levies in the normal course of business, payable as at June 30, 2008 have been cleared subsequent to the year-end.

j) The values of investment of various funds, based on their respective un-audited accounts are as under:

	(Rs. in million)
Pension Fund	1,417
Gratuity Fund	68
Provident Fund (Officers)	318
Provident Fund (Workers)	115
Post Retirement Medical Fund	509

k) Significant deviations, plans, decisions and business expansion have been outlined in the report.

l) No trade in the shares of the Company were carried out by the Board of Directors, CEO, CFO, Company Secretary, Executives and their spouses and minor Children except that already mentioned.

Board of Directors

The Board comprises of seven Directors. The present Board was elected in the 43rd Annual General Meeting held on Wednesday, October 4, 2006 for a term of three years.

Present composition of Board of Directors:

Dr. Ghaith R. Pharaon Alternate Director Bilal Ahmad Khan / Shuaib A. Malik / Bilal Ahmad Khan	Chairman
Laith G. Pharaon Alternate Director Babar Bashir Nawaz	Director
Wael G. Pharaon Alternate Director Bashir A. Khan / Iqbal A. Khwaja / S. Ahmed Abid	Director
Shuaib A. Malik	Deputy Chairman / Chief Executive Officer
Abdus Sattar	Director
Tarik Kivanc	Director
Firasat Ali	Director

Meetings of the Board

During the financial year 2007-08 five meetings of the Board of Directors were held. The attendance of the Directors was as under.

Name of Directors	Total Number of Meetings *	Meeting Attended
Dr. Ghaith R. Pharaon- Chairman Alternate Director Bilal Ahmad Khan / Shuaib A. Malik	5	5
Laith G. Pharaon Alternate Director Babar Bashir Nawaz	5	5
Wael G. Pharaon Alternate Director Bashir A. Khan / Iqbal A. Khwaja	5	4
Shuaib A. Malik	5	5
Abdus Sattar	5	5
Tarik Kivanc	5	2
Firasat Ali	5	3

* held during the period concerned directors were on Board.

Pattern of Shareholding

Pattern of shareholding is shown on page 77

Auditors

The Auditors Messrs A. F. Ferguson & Co., Chartered Accountants retires and offers themselves for reappointment. The Audit Committee recommends the reappointment of Messrs A. F. Ferguson & Co., as auditors for the financial year ending June 30, 2009.

Acknowledgement

The board appreciates the company's management and its staff for their untiring efforts to achieve splendid results and sustain high level of performance. The board acknowledges the efforts and contributions of customers and other stakeholders for their patronage and business.

On behalf of the Board

Shuaib A. Malik
Deputy Chairman /
Chief Executive Officer

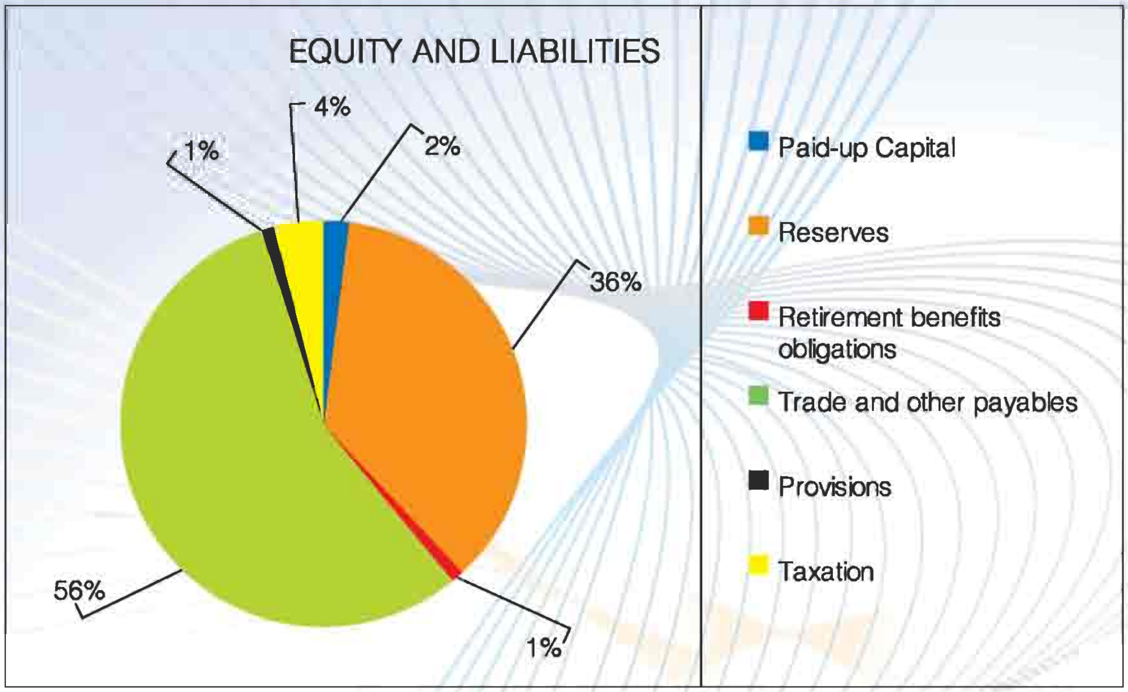
Damascus
August 31, 2008

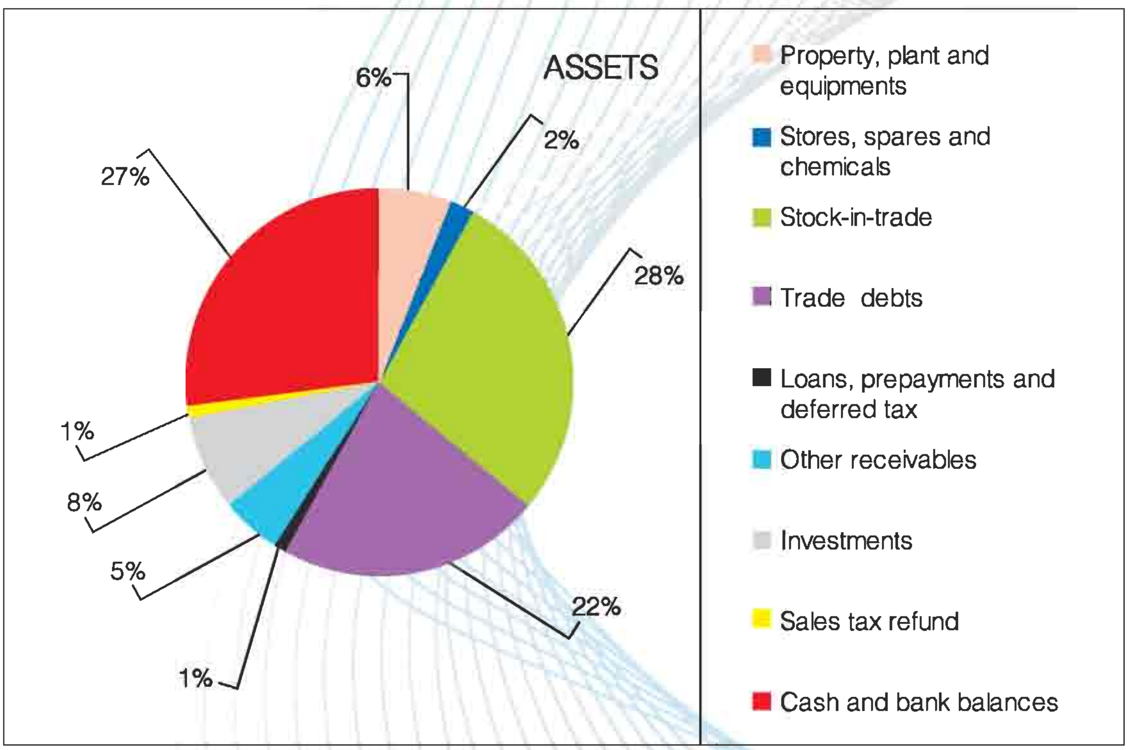
Stakeholders' information

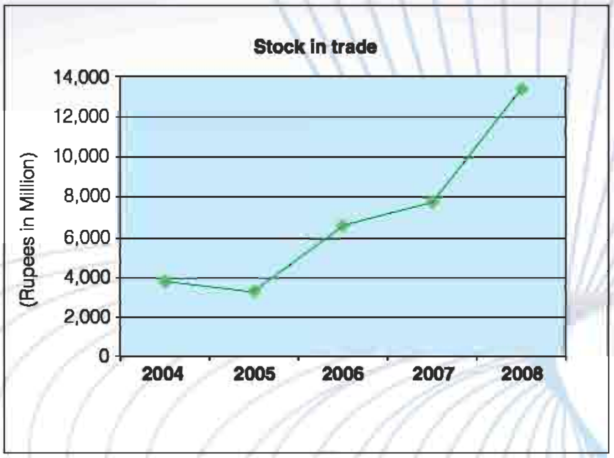
		2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
		(Rupees in million)					
Profit and Loss Account							
Net turnover		**129,386**	91,327	80,894	60,819	40,400	36,077
Gross profit		**10,681**	6,264	4,999	3,936	2,957	2,082
Operating profit		**10,163**	6,101	5,272	3,308	2,590	1,574
Profit before tax		**8,831**	6,095	5,262	3,295	2,765	1,838
Profit after tax		**6,005**	4,203	3,410	2,121	1,850	1,352
Balance Sheet							
Share Capital		**800**	666	666	666	666	666
Reserves		**16,619**	12,080	8,710	6,034	4,913	3,230
Shareholder equity		**17,419**	12,746	9,376	6,700	5,579	3,896
Property, plant and equipment		**2,032**	2,106	1,535	1,511	1,281	1,337
Current Assets		**43,747**	30,055	22,294	15,849	14,914	10,800
Current Liabilities		**28,873**	19,658	15,370	11,732	11,121	8,545
Net current assets/ liabilities		**14,874**	10,397	6,924	4,117	3,793	2,255
Long term /Deferred liabilities		**312**	237	175	-	183	128

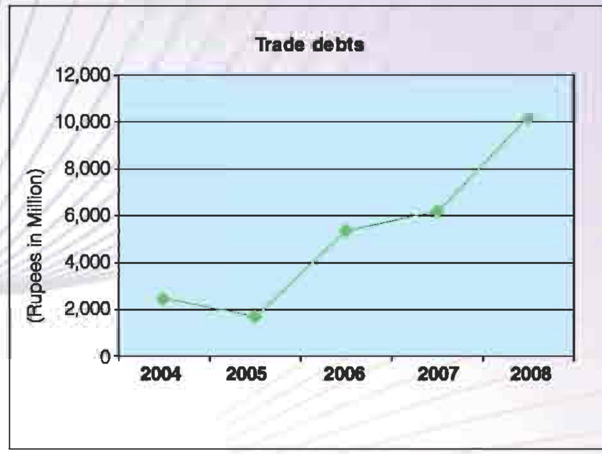
		2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
Investor information							
Gross profit ratio	:	**8.26**	6.86	6.18	6.47	7.32	5.77
Net profit ratio	:	**4.64**	4.60	4.22	3.49	4.58	3.75
Return on equity	%	**34.47**	32.98	36.37	31.66	33.16	34.70
Return on capital employed	%	**750.63**	631.08	512.01	318.47	277.62	202.87
Earning per shares (EPS)	Rs.10/share	**75.10**	63.07	51.17	31.82	27.75	20.29
Market value per share at year end	Rs.10/share	**297.47**	344.00	256.00	316.30	185.00	99.00
Inventory turnover ratio/No. of days in inventory	Times	**11.32**	12.01	15.68	16.62	11.63	11.19
Debtor turnover ratio/ No. of days in receivables	Days	**22.68**	22.61	15.57	12.02	36.97	56.78
Total assets turnover ratio/Fixed assets turnover ratio	Times	**63.30**	43.00	52.32	39.70	31.54	26.97
Quick /Acid test ratio	:	**1.05**	1.13	1.02	1.07	1.01	0.93
Price earning ratio	:	**3.96**	5.45	5.00	9.94	6.67	4.88
Cash Dividend per share	Rs.10/share	**20.00**	20.00	16.00	12.50	12.50	10.00
Dividend yield ratio	%	**6.72**	25.81	6.25	3.95	6.76	10.10
Bonus shares issued	%	**-**	20.00	-	-	-	-

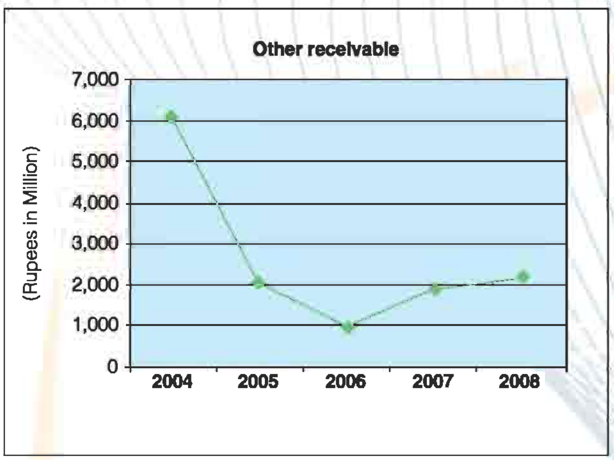
Graphic Representation

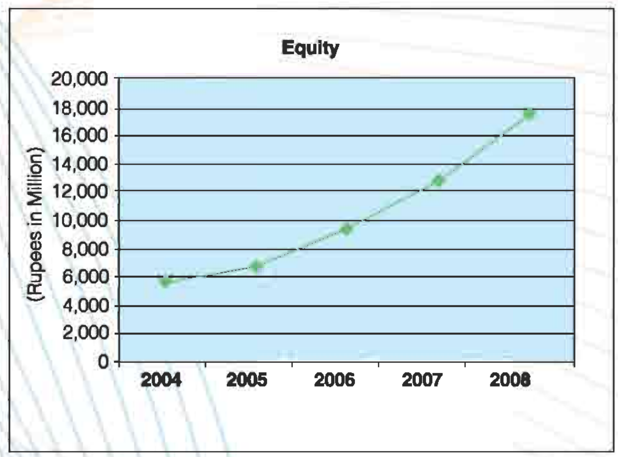


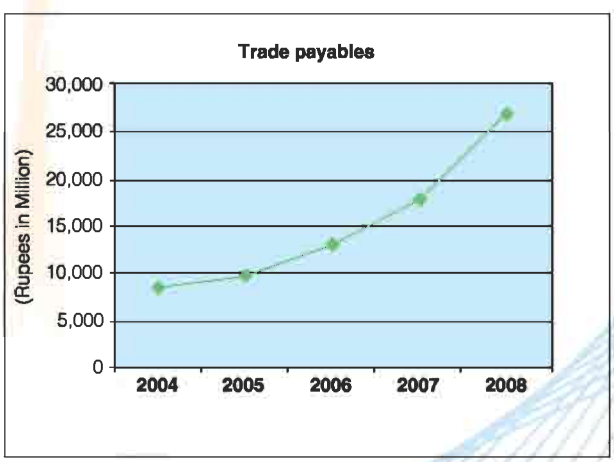


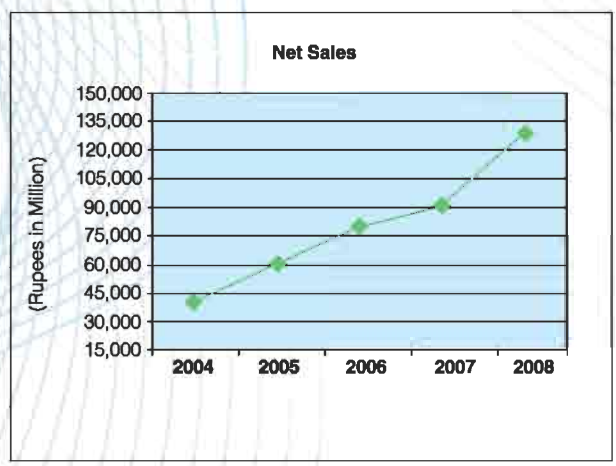

Stock in trade
(Rupees in Million)
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
2004
2005
2006
2007
2008


Trade debts
(Rupees in Million)
12,000
10,000
8,000
6,000
4,000
2,000
0
2004
2005
2006
2007
2008


Other receivable
(Rupees in Million)
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
2004
2005
2006
2007
2008


Equity
(Rupees in Million)
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
2004
2005
2006
2007
2008


Trade payables
(Rupees in Million)
30,000
25,000
20,000
15,000
10,000
5,000
0
2004
2005
2006
2007
2008


Net Sales
(Rupees in Million)
150,000
135,000
120,000
105,000
90,000
75,000
60,000
45,000
30,000
15,000
2004
2005
2006
2007
2008

A.F. FERGUSON & CO.

A member firm of
PRICEWATERHOUSECOOPERS

A.F.Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I.Chundrigar Road, P.O.Box 4716
Karachi-74000, Pakistan
Telephone: (021) 2426682-6 / 242671 -5
Facsimile: (021) 2415007 / 2427938

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of National Refinery Limited to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal controls covers all controls and the effectiveness of such internal controls.

Based on our review nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2008.

Chartered Accountants
Karachi

Dated: September 12, 2008

Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of Stock Exchanges where the shares of the Company are listed, for the purpose of establishing a framework of good governance, whereby a listed Company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

- The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes one independent non-executive director representing minority shareholders.

- The Directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

- All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as defaulter by that stock exchange.

- No casual vacancy occurred in the Board of directors during the year ended June 30, 2008.

- The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.

- The Board has developed a vision and mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

- The directors of the Company have exercised their powers and had carried out their fiduciary duties with a sense of objective judgment and independence in the best interest of the Company, all major decisions relating to various items mentioned in clause viii (d) and xiii of the Code of Corporate Governance has been taken or ratified by the Board.

- The meetings of the Board were presided over by the Chairman or Deputy Chairman and all the meetings were attended by the Chief Financial Officer and Company Secretary. The Board meets at least once in every quarter. Written notice of the Board meetings along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded, circulated and signed by the Chairman of the meeting of the Board of Directors.

- The Directors were apprised of their duties and responsibilities from time to time.

- The Board approved terms of appointment and remunerations of Chief Executive and appointment of Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.

- The director's report for this year has been prepared in compliance with the requirements of code and fully describes the salient matters required to be disclosed.

- The CEO and CFO duly endorsed the financial statements of the Company before approval of the Board.

- The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

- The Company has complied with all the corporate and financial reporting requirements of Code.

- The Board has formed an Audit Committee. It comprises of four members; all of them are non-executive directors including the Chairman of the committee.

- The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

- The Board has set-up an effective internal audit function and that is involved in the Internal Audit on full time basis relating to the business and other affairs of the Company.

- The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

- The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board

Shuaib A. Malik
Deputy Chairman /
Chief Executive Officer

31st August 2008

Statement of Value Added

	2008	2007
	Rupees in thousand	
Gross revenue	**146,233,271**	109,145,970
Less: Bought-in-materials and services	**120,690,803**	85,531,793
	25,542,468	23,614,177
Add: Income from investment	**945,030**	802,274
Other Income	**459,372**	190,415
	1,404,402	992,689
Total Value Added	**26,946,870**	24,606,866

Distributed as follows

	2008	2007
Employees remuneration as:		
Salaries ,wages and benefits	**1,129,778**	935,323
Government as:		
Company taxation	**2,825,860**	1,892,046
Levies	**16,085,860**	16,918,193
Worker's fund	**654,521**	451,735
	19,566,241	19,261,974
Shareholders as:		
Dividend	**1,599,331**	1,332,776
Bonus shares	**-**	133,278
Retained in business :		
Depreciation	**239,204**	195,769
Amortization	**6,215**	11,146
Net earnings	**4,406,101**	2,869,878
	4,651,520	3,076,793
	26,946,870	24,606,866

The Terms of Reference of the Audit Committee

The Board has constituted a fully functional audit committee. All members of the audit committee are non-executive directors. The features of the terms of reference of the committee in accordance of Code of Corporate Governance are:

a) recommending to the Board the appointment of external auditors;

b) determination of appropriate measures to safeguard the Company's assets;

c) review of preliminary announcements of results prior to publication;

d) review of quarterly, half-yearly and annual financial statements of the Company, prior to their approval by the Board of Directors;

e) facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary);

f) review of management letter issued by external auditors and management's response thereto;

g) ensuring coordination between the internal and external auditors of the Company;

h) review of the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Company;

i) consideration of major findings of internal investigations and management's response thereto;

j) ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective;

k) review the Company's statement on internal control system prior to endorsement by the Board of Directors;

l) instituting special projects, value for money studies or other investigations on any matter specified by the Board of Directors, in consultation with the Chief Executive and to consider remittance of any matter to the external auditors or to any other external body;

m) determination of compliance with relevant statutory requirements;

n) monitoring compliance with the best practices of corporate governance and identification of significant violations thereof; and

o) consideration of any other issue or matter as may be assigned by the Board of Directors.

Financial Statements

A.F. FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

A.F.Ferguson & Co
Chartered Accountants
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I.I.Chundrigar Road, P.O.Box 4716
Karachi-74000, Pakistan
Telephone: (021) 2426682-6 / 2426711-5
Facsimile: (021) 2415007 / 2427938

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of National Refinery Limited as at June 30, 2008 and the related profit and loss account, cash flow statement and statement of changes in equity 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.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, 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) 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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and 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, 2008 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Chartered Accountants
Karachi

Dated: 12 SEP 2008

Balance Sheet

as at June 30, 2008

	Note	2008	2007
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	**2,601,276**	2,343,352
Intangible assets	4	**11,911**	18,126
Deferred taxation	5	**164,407**	161,118
Long term investment	6	**-**	-
Long term loans and deposits	7	**79,923**	64,390
		2,857,517	2,586,986
CURRENT ASSETS			
Stores, spares and chemicals	8	**779,076**	802,794
Stock-in-trade	9	**13,288,291**	7,687,420
Trade debts	10	**10,173,051**	6,130,324
Loans and advances	11	**51,028**	19,825
Deposits and prepayments	12	**95,899**	43,120
Accrued interest		**30,780**	45,246
Other receivables	13	**2,183,257**	1,821,036
Investments	14	**3,615,359**	962,092
Tax refunds due from Government - Sales tax		**408,221**	1,050,564
Cash and bank balances	15	**13,122,136**	11,492,152
		43,747,098	30,054,573
TOTAL ASSETS		**46,604,615**	32,641,559
EQUITY AND LIABILITIES			
SHARE 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	16	**799,666**	666,388
Reserves	17	**16,619,379**	12,080,001
		17,419,045	12,746,389
LIABILITIES			
NON - CURRENT LIABILITIES			
Retirement benefit obligations	18	**312,277**	236,940
CURRENT LIABILITIES			
Trade and other payables	19	**26,662,420**	17,669,110
Provisions	20	**298,569**	299,148
Taxation		**1,912,304**	1,689,972
		28,873,293	19,658,230
CONTINGENCIES AND COMMITMENTS	21		
TOTAL EQUITY AND LIABILITIES		**46,604,615**	32,641,559

The annexed notes 1 to 41 form an integral part of these financial statements.

Chief Executive

Director

Profit and Loss Account

for the year ended June 30, 2008

	Note	2008	2007
		(Rupees in thousand)	
Gross sales	22	**146,233,271**	109,145,970
Trade discounts, taxes, duties and levies	23	**(16,847,455)**	(17,819,432)
Net sales		**129,385,816**	91,326,538
Cost of products sold	24	**(118,705,060)**	(85,062,748)
Gross profit		**10,680,756**	6,263,790
Distribution and marketing expenses	25	**(889,008)**	(341,463)
Administrative expenses	26	**(376,170)**	(345,224)
Other operating income	27	**1,404,402**	992,689
Other operating expenses	28	**(657,019)**	(453,098)
Operating profit		**10,162,961**	6,116,694
Finance cost	29	**(1,331,669)**	(21,994)
Profit before taxation		**8,831,292**	6,094,700
Taxation	30	**(2,825,860)**	(1,892,046)
Profit after taxation		**6,005,432**	4,202,654
		(Rupees)	
Earnings per share	31	**75.10**	52.55

The annexed notes 1 to 41 form an integral part of these financial statements.

Chief Executive

Director

Cash Flow Statement

for the year ended June 30, 2008	Note	2008	2007
		(Rupees in thousand)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	32	**7,770,085**	7,194,231
Income tax paid		**(2,606,817)**	(2,151,576)
Long term loans and deposits - net		**(15,533)**	(2,456)
Gratuity paid		**(1,508)**	(2,548)
Pension fund contribution		**(3,205)**	(28,840)
Finance cost paid		**(259)**	(10,393)
Net cash from operating activities		**5,142,763**	4,998,418
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(497,682)**	(253,134)
Purchase of intangible asset		**-**	(18,644)
Proceeds on disposal of property, plant and equipment		**3,492**	1,660
Investments made		**(2,443,293)**	(950,000)
Interest received on balances with banks		**749,055**	783,229
Net cash used in investing activities		**(2,188,428)**	(436,889)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		**(1,326,308)**	(830,502)
Net increase in cash and cash equivalents		**1,628,027**	3,731,027
Cash and cash equivalents at beginning of the year		**11,492,152**	7,761,060
Exchange gain on foreign currency bank accounts		**1,957**	65
Cash and cash equivalents at end of the year	15	**13,122,136**	11,492,152

The annexed notes 1 to 41 form an integral part of these financial statements.

Chief Executive

Director

Statement of Changes in Equity

for the year ended June 30, 2008

	SHARE CAPITAL	CAPITAL RESERVES			REVENUE RESERVES		Special reserve	Total
	Issued, subscribed and paid-up	Capital compensation reserve	Exchange equalisation reserve	Reserve for issue of bonus shares	General reserve	Unappropriated profit		
	(Rupees in thousand)							
Balance as at July 1, 2006	666,388	10,142	4,117	-	3,651,700	1,868,359	3,176,014	9,376,720
Final dividend for the year ended June 30, 2006 - Rs. 12.5 per share	-	-	-	-	-	(832,985)	-	(832,985)
Transfer to general reserve	-	-	-	-	1,035,300	(1,035,300)	-	-
Profit for the year	-	-	-	-	-	4,202,654	-	4,202,654
Transfer to special reserve	-	-	-	-	-	(492,162)	492,162	-
Balance as at June 30, 2007	666,388	10,142	4,117	-	4,687,000	3,710,566	3,668,176	12,746,389
Final dividend for the year ended June 30, 2007 - Rs. 20 per share	-	-	-	-	-	(1,332,776)	-	(1,332,776)
Transfer to general reserve	-	-	-	-	2,244,400	(2,244,400)	-	-
Transfer to reserve for issue of bonus shares	-	-	-	133,278	-	(133,278)	-	-
Issue of 1 bonus share for every 5 shares held	133,278	-	-	(133,278)	-	-	-	-
Profit for the year	-	-	-	-	-	6,005,432	-	6,005,432
Transfer to special reserve	-	-	-	-	-	(2,949,521)	2,949,521	-
Balance as at June 30, 2008	799,666	10,142	4,117	-	6,931,400	3,056,023	6,617,697	17,419,045

The annexed notes 1 to 41 form an integral part of these financial statements.

Chief Executive

Director

Notes to the Financial Statements

for the year ended June 30, 2008

1. LEGAL STATUS AND OPERATIONS

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are; provision for income tax and provision for post employment benefits.

The Company recognises provision for income tax based on best current estimates. However, where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

Significant estimates relating to post employment benefits are disclosed in note 18.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management believes that the change in outcome of estimates would not have a material effect on the amounts disclosed in the financial statements.

No critical judgement has been used in applying the accounting policies.

Amendments to published standards and new interpretations effective in 2008

IAS 1 (Amendment) - 'Presentation of Financial Statements - Capital Disclosures', is mandatory for the Company's accounting periods beginning on or after January 1, 2007. It introduces capital disclosure requirements regarding how the entity manages its capital. Adoption of this amendment only impacts the format and extent of disclosures as presented in note 35.2 to the financial statements.

Standards, interpretations and amendments to published approved accounting standards that are considered relevant, but not yet effective

Following IAS, amendment to IAS, IFRS and IFRIC interpretation have been issued by the IASB and are likely to affect future financial statements, although none is expected to have a material impact on the results or the financial position of the Company.

Notes to the Financial Statements

for the year ended June 30, 2008

i. IAS 1 - 'Presentation of Financial Statements' was issued in September 2007 and will be effective for the periods beginning from or after January 1, 2009. The amendments to the standard requires various disclosures and presentation of transactions with owners in statement of changes in equity and with non-owners in the Comprehensive Income Statement.

ii. IAS 23 (Amendment) - 'Borrowing Cost' effective for the periods beginning from or after January 1, 2009, requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of cost of that asset.

iii. IFRS 8 - 'Operating segments 'effective for the periods beginning from or after January 1, 2009. IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

iv. IFRIC 14 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction' was issued in July 2007 and will be effective for the periods beginning from or after 1st January 2009. This interpretation provides general guidance on the amount of a pension surplus that may be recognised as an asset.

Interpretations to published approved accounting standards that are not yet effective and are not considered relevant

i.	IFRS 3 (Revised) - 'Business combinations'	Effective from January 1, 2010
ii.	IFRIC 11 - 'IFRS 2 - 'Group and treasury share transactions' "	Effective from January 1, 2008
iii.	IFRIC 12 - 'Service Concession Agreements'	Effective from January 1, 2008
iv.	IFRIC 13 - 'Customer Loyalty Programmes'	Effective from July 1, 2008

2.2 Overall Valuation Policy

These financial statements have been prepared under the historical cost convention except as otherwise disclosed in the respective accounting policies notes.

2.3 Property, plant and equipment

These are stated at cost less accumulated depreciation and impairment, if any, except capital work-in-progress, which is stated at cost.

Capital work-in-progress consists of expenditure incurred and advances made in respect of tangible and intangible assets in the course of their construction and installation. Transfers are made to relevant fixed assets category as and when assets are available for use.

Depreciation is charged to income using the straight-line method whereby the cost of an asset is written off over its estimated useful life at the rates stated in note 3.1 to the financial statements. Depreciation on additions is charged from the month in which the asset is put to use and on disposals up to the month immediately preceding the disposal. Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The carrying value of operating assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Notes to the Financial Statements

for the year ended June 30, 2008

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

Gains and losses on disposal or retirement of assets are recognised in income currently.

2.4 Intangible assets

An intangible asset is recognised if it is probable that future economic benefits attributable to the asset will flow to the Company and that the cost of such asset can be measured reliably.

Costs that are directly associated with identifiable software and have probable economic benefits exceeding the cost beyond one year, are recognised as intangible asset. Direct costs include the purchase cost of software, implementation cost and related overhead cost.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognised as a capital improvement and added to the cost of the software.

Intangible assets are amortised using the straight-line method over a period of three years or license period, whichever is shorter.

2.5 Investments

The Company determines the appropriate classification of its investment at the time of purchase.

Investment in securities which are intended to be held for an undefined period of time are classified as available for sale. These are initially measured at fair value including the transaction costs. Subsequent measurement of investments whose fair value can be reliably measured is stated at fair value with gains or losses taken to equity.

Available for sale investments in unlisted securities whose fair value can not be reliably measured are carried at cost less impairment.

Investment held for trading are stated at fair value through profit or loss. These are initially measured at fair value with transaction cost charged to income. Subsequent measurement is at fair value with changes taken to profit and loss account. In the case of investments in open ended mutual funds, fair value is determined on the basis of period end Net Asset Value (NAV) as announced by the Asset Management Company.

Impairment, if any is charged to profit and loss account.

2.6 Stores, spares and chemicals

Stores, spares and chemicals, except items in transit, are stated at moving average cost. Cost comprises invoice value and other direct costs. Provision is made for slow moving and obsolete items wherever necessary.

Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.

2.7 Stock-in-trade

Stock of crude oil is valued at lower of cost, determined on a first-in-first out (FIFO) basis, and net realisable value. Crude oil in transit is valued at cost comprising invoice value plus other charges incurred thereon.

Stocks of semi-finished and finished products are valued at lower of cost, determined on a weighted average basis, and net realisable value. Cost in relation to semi-finished and finished products represents cost of crude oil and an appropriate portion of manufacturing overheads.

Notes to the Financial Statements

for the year ended June 30, 2008

Net realisable value signifies the estimated selling price in the ordinary course of business, less costs necessarily to be incurred to make the sale.

2.8 Trade debts and other receivables

Trade debts and other receivables are recognised and carried at original invoice amount less a provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Trade debts and other receivables considered irrecoverable are written-off.

2.9 Cash and cash equivalents

Cash in hand and at banks, short-term bank deposits and short-term running finance, if any, are carried at cost. Cash and cash equivalents include cash in hand and balances with banks net of short-term running finance.

2.10 Staff retirement benefits

2.10.1 Defined contribution plan

The Company operates an approved contributory provident fund for all employees. Equal monthly contributions are made, both by the Company and the employees, to the fund at the rate of 10% per annum of the basic salary.

2.10.2 Defined benefit plans

The Company operates the following schemes:

i) Funded Pension Scheme for permanent, regular and full time managerial and supervisory staff of the Company. Contributions are made to the fund on the basis of actuarial valuation and are charged to income. The most recent valuation of the scheme was carried out as at June 30, 2008, using the 'Projected Unit Credit Method'. The fund has been established during the year and the balances from a multi-employer funded pension scheme, known as 'State Petroleum Refining and Petrochemical Corporation (Private) Limited (PERAC) Managerial and Supervisory Staff Pension Fund', where the Company was also a contributory, have been transferred.

ii) Funded gratuity scheme for non-management permanent employees. Provision is made annually to cover obligations under the scheme, as per actuarial valuation. The most recent valuation of the scheme was carried out as at June 30, 2008, using the 'Projected Unit Credit Method'.

iii) Funded medical scheme for its management employees who are eligible for pension on normal or early retirement and to their widows on death of employee in service or after retirement if they are entitled for pension. Provision is made annually to cover obligations under the scheme, by way of a charge to income, calculated in accordance with the actuarial valuation. The most recent valuation of the scheme was carried out as at June 30, 2008, using the 'Projected Unit Credit Method'.

Actuarial gains and losses are recognised as income or expense from the next year when the cumulative unrecognised actuarial gains or losses for each individual plan exceed 10% of the higher of (a) the defined benefit obligation and (b) the fair value of plan assets. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.

Amounts recognised in the balance sheet represent the present value of defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, if any, and as reduced by the fair value of plan assets. Any assets resulting from the calculation is limited

Notes to the Financial Statements

for the year ended June 30, 2008

to the unrecognised actuarial losses and unrecognised past service cost plus the present value of available refunds and reduction in future contribution to the plan.

2.11 Compensated absences

The Company provides facility to its employees for accumulating their annual earned leave. Under the scheme employees are entitled to 30 days annual leave. Unutilised leave can be accumulated upto a maximum of 2 years. At the time of retirement entire accumulated leave balance is encashable.

Provisions are made to cover the obligations under the scheme on the basis of actuarial valuation and are charged to income. The most recent valuation was carried out as at June 30, 2008 using the 'Projected Unit Credit Method'. The amount recognised in the balance sheet represents the present value of defined benefit obligation.

2.12 Trade and other payables

Trade and other payables are carried at the fair value of the consideration to be paid for goods and services.

2.13 Provisions

Provisions are recognised when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

2.14 Taxation

2.14.1 Current

Provision for current taxation is based on the taxable income for the year, determined in accordance with the prevailing law for taxation on income, using prevailing tax rates. The charge for current tax includes tax credits and adjustments for prior years determined during the year or otherwise considered necessary for such years.

2.14.2 Deferred

Deferred tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.15 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognised as follows:

a) Local sales of products delivered through pipelines are recorded when products passes through pipelines' flange. Sale of products loaded through gantry is recognised when products are loaded into tank lorries.

b) Export sales are recorded on the basis of products delivered to tankers.

Notes to the Financial Statements

for the year ended June 30, 2008

c) Handling and storage income, pipelines charges recovered, scrap sales and rental incomes are recognised on an accrual basis.

d) Return / Interest on bank deposits and advances to employees are recognised on an accrual basis.

2.16 Foreign currency transactions and translation

The financial statements are presented in Pakistan Rupees, which is the Company's functional and presentation currency.

Transactions in foreign currencies are converted into Pakistan Rupees using the exchange rates prevailing on the dates of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated into Pakistan Rupees using the exchange rates prevailing on the balance sheet date. Exchange differences are taken to income currently.

2.17 Financial assets and liabilities

All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortised cost or cost, as the case may be.

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognised amount and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.18 Segment reporting

The Company's operating businesses are organised and managed separately according to the nature of production process for products and services provided, with each segment representing a strategic business unit. The fuel segment is primarily a diverse supplier of fuel products and offers gasoline, diesel oils, kerosene and furnace oil. The lube segment mainly provides different types of lube base oils, asphalt, wax free oil and other petroleum products for different sectors of the economy. Intersegment transfers are made at relevant costs to each segment.

2.19 Dividends and appropriation to general reserve

Dividends and appropriation to general reserves are recognised in the financial statements in the period in which these are approved.

3. PROPERTY, PLANT AND EQUIPMENT

	2008	2007
	(Rupees in thousand)	
Operating assets (note 3.1)	**2,031,962**	2,106,266
Capital work-in-progress (note 3.2)	**569,314**	237,086
	2,601,276	2,343,352

Notes to the Financial Statements

for the year ended June 30, 2008

3.1 Operating assets

	Leasehold land (note 3.1.1)	Building on leasehold land	Oil terminal	Processing plant and storage tanks	Power generation plant	Pipelines	Water power and other utilities	Vehicles	Furniture and fixtures	Computers and other related accessories	Office and other equipments	TOTAL
	(Rupees in thousand)											
Year ended June 30, 2008												
Opening net book value	**50,225**	**210,982**	**184,043**	**724,544**	**337,723**	**164,605**	**249,278**	**20,047**	**5,557**	**4,996**	**154,266**	**2,106,266**
Additions including transfers (note 3.1.2)	**-**	**10,332**	**6,624**	**50,346**	**6,668**	**22,748**	**1,431**	**20,442**	**670**	**5,892**	**40,301**	**165,454**
Disposals												
Cost	**-**	**-**	**-**	**-**	**-**	**-**	**(1,766)**	**(5,471)**	**-**	**(76)**	**-**	**(7,313)**
Depreciation	**-**	**-**	**-**	**-**	**-**	**-**	**1,766**	**4,993**	**-**	**-**	**-**	**6,759**
	-	**-**	**-**	**-**	**-**	**-**	**-**	**(478)**	**-**	**(76)**	**-**	**(554)**
Depreciation charge	**(600)**	**(13,288)**	**(14,800)**	**(89,979)**	**(51,922)**	**(15,269)**	**(24,259)**	**(8,088)**	**(618)**	**(5,804)**	**(14,577)**	**(239,204)**
Closing net book value	**49,625**	**208,026**	**175,867**	**684,911**	**292,469**	**172,084**	**226,450**	**31,923**	**5,609**	**5,008**	**179,990**	**2,031,962**
As at June 30, 2008												
Cost	**60,035**	**369,414**	**339,988**	**4,138,645**	**747,293**	**306,111**	**920,205**	**78,088**	**9,250**	**42,531**	**326,295**	**7,337,855**
Accumulated depreciation	**(10,410)**	**(161,388)**	**(164,121)**	**(3,453,734)**	**(454,824)**	**(134,027)**	**(693,755)**	**(46,165)**	**(3,641)**	**(37,523)**	**(146,305)**	**(5,305,893)**
Net book value	**49,625**	**208,026**	**175,867**	**684,911**	**292,469**	**172,084**	**226,450**	**31,923**	**5,609**	**5,008**	**179,990**	**2,031,962**
Year ended June 30, 2007												
Opening net book value	50,825	223,423	116,145	363,898	378,098	56,349	190,971	27,788	6,094	9,575	111,650	1,534,816
Additions including transfers (note 3.1.2)	-	550	78,941	426,427	10,582	115,173	78,995	1,501	57	1,100	54,657	767,983
Disposals												
Cost	-	-	-	-	-	-	-	(3,332)	-	-	(362)	(3,694)
Depreciation	-	-	-	-	-	-	-	2,567	-	-	362	2,929
	-	-	-	-	-	-	-	(765)	-	-	-	(765)
Depreciation charge	(600)	(12,991)	(11,043)	(65,781)	(50,957)	(6,917)	(20,688)	(8,477)	(594)	(5,679)	(12,041)	(195,768)
Closing net book value	50,225	210,982	184,043	724,544	337,723	164,605	249,278	20,047	5,557	4,996	154,266	2,106,266
As at July 1, 2007												
Cost	60,035	359,082	333,364	4,088,299	740,625	283,363	920,540	63,117	8,580	36,715	285,994	7,179,714
Accumulated depreciation	(9,810)	(148,100)	(149,321)	(3,363,755)	(402,902)	(118,758)	(671,262)	(43,070)	(3,023)	(31,719)	(131,728)	(5,073,448)
Net book value	50,225	210,982	184,043	724,544	337,723	164,605	249,278	20,047	5,557	4,996	154,266	2,106,266
Annual Rate of Depreciation %	1	5	5 to 8	5 & 7	7	8	6	20	7.5	33.33	5 to 15	

Notes to the Financial Statements

for the year ended June 30, 2008

3.1.1 Leasehold land includes land subleased / licensed to the following lessees / licensees:

- Pak-Hy Oils (Private) Limited
- Chevron Pakistan Limited
- Shell Gas LPG (Pakistan) Limited
- Pakistan State Oil Company Limited
- PERAC Research & Development Foundation
- Petroleum Packages Limited
- Anoud Power Generation Limited
- Pakistan Oilfields Limited
- Attock Petroleum Limited

The carrying value of each of the above is immaterial.

3.1.2 During the year, the following amounts have been transferred from capital work-in-progress (note 3.2) to operating assets (note 3.1):

	2008	2007
	(Rupees in thousand)	
Buildings on leasehold land	**8,205**	169
Oil terminal	**4,217**	78,157
Processing plant and storage tanks	**4,187**	426,427
Power generation plant	**6,668**	10,509
Pipelines	**22,748**	115,173
Water power and other utilities	**1,431**	78,599
Vehicles	**4,266**	748
Office and other equipment	**31,068**	37,018
	82,790	746,800

Notes to the Financial Statements

for the year ended June 30, 2008

3.1.3 The details of property, plant and equipment disposed of during the year are as follows:

	Cost	Accumulated depreciation	Net book value	Sales proceeds	Mode of disposal	Particulars of buyers
	(Rupees in thousand)					
Vehicles	956	733	223	442	Company Policy	Mr. Shahid Kamal (Ex-employee)
	806	551	255	435	Company Policy	Mr. K. M. Ismail (Ex-employee)
written down value below Rs. 50,000 each	3,709	3,709	-	1,317		
	5,471	4,993	478	2,194		
Computer	76	-	76	70	Insurance Claim	National Insurance Company Limited
Office and other equipments						
written down value below Rs. 50,000 each	1,766	1,766	-	1,228		
	7,313	6,759	554	3,492		

3.2 Capital work-in-progress

	LUBE REVAMP PROJECT				Other Project	Advance to Other contractors/ suppliers	Total
	Advance to contractors	Fee and technical studies	Material cost	Other related expenditure			
	(Rupees in thousand)						
Balance as at July 1, 2007	**-**	**-**	**-**	**-**	**228,591**	**8,495**	**237,086**
Additions during the year	**281**	**1,995**	**7,626**	**3**	**403,505**	**1,608**	**415,018**
Transfers during the year (note 3.1.2)	**-**	**-**	**-**	**-**	**(78,524)**	**(4,266)**	**(82,790)**
Balance as at June 30, 2008	**281**	**1,995**	**7,626**	**3**	**553,572**	**5,837**	**569,314**
Balance as at July 1, 2006	3,893	88,309	432,195	3,015	222,825	1,698	751,935
Additions during the year	-	15,167	42,833	-	165,456	8,495	231,951
Transfers during the year (note 3.1.2)	(3,893)	(103,476)	(475,028)	(3,015)	(159,690)	(1,698)	(746,800)
Balance as at June 30, 2007	-	-	-	-	228,591	8,495	237,086

Notes to the Financial Statements

for the year ended June 30, 2008

4. INTANGIBLE ASSETS – Computer software

	2008	2007
	(Rupees in thousand)	
Net carrying value		
Balance at beginning of the year	**18,126**	10,628
Additions at cost	**-**	18,644
Amortisation charge for the year	**(6,215)**	(11,146)
Balance at end of the year	**11,911**	18,126
Gross carrying value		
Cost	**50,525**	50,525
Accumulated amortisation	**(38,614)**	(32,399)
Net book value	**11,911**	18,126

Amortisation is charged at the rate of 33.33% per annum.

5. DEFERRED TAXATION

	2008	2007
Deferred tax Debit balances in respect of:		
Provisions in respect of		
- slow moving and obsolete stores, spares and chemicals	**173,927**	172,922
- duties and taxes	**70,553**	71,031
- retirement benefits	**39,826**	40,096
- discount on crude oil purchases	**84,258**	84,828
- long term investment, doubtful debts and pending litigations	**14,022**	7,897
	382,586	376,774
Old outstanding liabilities offered for tax	**130,108**	138,444
	512,694	515,218
Deferred tax Credit balances in respect of:		
Accelerated tax depreciation and amortisation	**(348,287)**	(354,100)
	164,407	161,118

6. LONG TERM INVESTMENT

	2008	2007
Investment in related party (unlisted)		
– available for sale		
Anoud Power Generation Limited [1,080,000 (2007: 1,080,000) Ordinary shares of Rs.10 each, Equity held 9.09 percent (2007: 9.09 percent)]	**10,800**	10,800
Less: Provision for impairment	**10,800**	10,800
	-	-

Notes to the Financial Statements

for the year ended June 30, 2008

7. LONG TERM LOANS AND DEPOSITS

	2008	2007
	(Rupees in thousand)	
Loans - considered good		
Secured (note 7.2)		
- Executives	**26,461**	22,665
- Employees	**39,512**	39,885
	65,973	62,550
Less: Recoverable within one year shown under current assets (note 11)		
- Executives	**5,968**	5,735
- Employees	**6,655**	6,626
	12,623	12,361
	53,350	50,189
Unsecured (note 7.3)		
- Executives	**2,779**	3,469
- Employees	**883**	1,498
	3,662	4,967
Less: Recoverable within one year shown under current assets (note 11)		
- Executives	**673**	866
- Employees	**241**	272
	914	1,138
	2,748	3,829
	56,098	54,018
Deposits		
- Utilities	**7,938**	7,938
- Others	**15,887**	2,434
	23,825	10,372
	79,923	64,390

7.1 Reconciliation of carrying amount of loans:

	2008			2007		
	Executives	Employees	Total	Executives	Employees	Total
	(Rupees in thousand)					
Balance at beginning of the year	**26,134**	**41,383**	**67,517**	24,398	39,875	64,273
Effect of promotions to Executives	**2,484**	**(2,484)**	**-**	-	-	-
Disbursements	**10,326**	**10,575**	**20,901**	5,598	14,876	20,474
Repayments	**(9,704)**	**(9,079)**	**(18,783)**	(3,862)	(13,368)	(17,230)
Balance at end of the year	**29,240**	**40,395**	**69,635**	26,134	41,383	67,517

Notes to the Financial Statements

for the year ended June 30, 2008

7.2 The secured loans to executives and employees are for the purchase of motor cars 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 5 to 10 (2007: 5 to 10) years. Certain of these loans are interest free, whereas others carry interest ranging from 3% to 7% (2007: 3% to 7%) per annum in case of motor car loans and 5% (2007: 5%) per annum in case of house loans. These loans are secured against original title documents of respective assets.

7.3 The unsecured loans to executives and employees are either personal loans or given for the purchase of furniture and motor cycles. These are granted in accordance with the terms of their employment and are recoverable in monthly installments over a period of 4 to 12 (2007: 4 to 12) years and are interest free.

	2008	2007
	(Rupees in thousand)	
8. STORES, SPARES AND CHEMICALS		
In hand		
- Stores	**230,301**	228,436
- Spares	**941,613**	959,926
- Chemicals	**86,445**	62,503
	1,258,359	1,250,865
In transit	**100,572**	124,553
	1,358,931	1,375,418
Provision for slow moving and obsolete stores, spares and chemicals	**(579,855)**	(572,624)
	779,076	802,794
9. STOCK-IN-TRADE		
Raw materials		
- Crude oil and condensate (note 9.1)	**8,315,621**	4,219,692
- Naphtha	**21,193**	24,160
	8,336,814	4,243,852
Semi finished products	**925,522**	881,547
Finished products (note 9.2)	**4,025,955**	2,562,021
	13,288,291	7,687,420

9.1 Includes stocks-in-transit amounting to Rs. 4.70 billion (2007: Rs. 611.71 million).

9.2 **Includes stocks held with the following third parties:**

- Karachi Bulk Storage & Terminals (Pvt.) Limited	**-**	105,240
- Pakistan State Oil Company Limited	**7,021**	94,843
- Attock Refinery Limited	**-**	20,314
	7,021	220,397

Notes to the Financial Statements

for the year ended June 30, 2008

	2008	2007
	(Rupees in thousand)	
10. TRADE DEBTS - unsecured		
Considered good		
- related party - Attock Petroleum Limited	**5,660,998**	2,842,486
- others	**4,512,053**	3,287,838
Considered doubtful	**21,174**	-
	10,194,225	6,130,324
Provision for doubtful debts	**(21,174)**	-
	10,173,051	6,130,324
11. LOANS AND ADVANCES		
Loans - considered good		
Current portion of long term loans (note 7)		
Secured		
- Executives	**5,968**	5,735
- Employees	**6,655**	6,626
	12,623	12,361
Unsecured		
- Executives	**673**	866
- Employees	**241**	272
	914	1,138
Short term loans to employees - unsecured, interest free	**448**	973
Advances		
- Executives	**33**	816
- Employees	**894**	60
- Suppliers	**36,116**	4,477
	37,043	5,353
	51,028	19,825
12. DEPOSITS AND PREPAYMENTS		
Deposits		
- Margin against letters of credit and guarantees	**18,063**	7,491
- Others	**559**	523
	18,622	8,014
Prepayments		
- Insurance	**75,418**	10,029
- Gratuity fund	**28**	28
- Workers' profits participation fund (note 19.5)	**-**	22,646
- Others	**1,831**	2,403
	77,277	35,106
	95,899	43,120

Notes to the Financial Statements

for the year ended June 30, 2008

13. OTHER RECEIVABLES – considered good

	2008	2007
	(Rupees in thousand)	
Receivable from related parties:		
- Attock Petroleum Limited	**1,316**	6,842
- Attock Refinery Limited	**6,245**	5
- The Attock Oil Company Limited	**-**	2
	7,561	6,849
Others:		
- Pakistan Refinery Limited (note 13.1)	**1,185,710**	1,463,099
- Government of Pakistan (note 13.2)	**973,622**	347,291
- Claims receivable	**1,563**	2,378
- Insurance rebate receivable	**7,000**	-
- Others	**7,801**	1,419
	2,183,257	1,821,036

13.1 This represents amount due in respect of purchase of crude oil, freight and other charges paid by the Company on behalf of Pakistan Refinery Limited.

13.2 This includes price differential claims amounting to Rs. 935.12 million (2007: Rs. 308.78 million).

14. INVESTMENTS

At fair value through profit or loss

Investment in open ended mutual funds

2008 (Units)	2007 (Units)		2008 (Rupees in thousand)	2007 (Rupees in thousand)
26,681,542	23,625,247	NAFA Cash Fund	**287,544**	261,610
9,472,905	4,510,193	Pakistan Income Fund	**487,476**	250,045
1,993,352	1,798,243	Dawood Money Market Fund	**220,670**	200,435
4,705,006	447,531	JS Abamco UTP Income Fund	**489,659**	250,002
5,922,593	-	Faysal Income & Growth Fund	**612,574**	-
5,710,672	-	AMZ Plus Income Fund	**633,157**	-
5,547,542	-	United Income & Growth Fund	**572,543**	-
1,980,012	-	AKD Income Fund	**101,816**	-
1,031,231	-	Askari Income Fund	**107,227**	-
994,609	-	KASB Liquid Fund	**102,693**	-
			3,615,359	962,092

The fair value of these investments is the Net Asset Value (NAV) as at June 30, 2008 as quoted by the respective Asset Management Company.

Notes to the Financial Statements

for the year ended June 30, 2008

15. CASH AND BANK BALANCES

	2008	2007
	(Rupees in thousand)	
In hand	**500**	**500**
With banks on:		
- current accounts	**302,508**	19,741
- savings accounts	**3,379,143**	4,254,884
- local currency deposit accounts (note 15.1)	**9,422,474**	7,201,473
- foreign currency deposit accounts (note 15.2)	**17,511**	15,554
	13,121,636	11,491,652
	13,122,136	11,492,152

15.1 Includes Rs. 2.32 billion (2007: Rs. 2.67 billion) withheld from suppliers and deposited with banks, as explained in note 19.3.

These carry interest at the rates varying from 11% to 14% (2007: 9% to 12%) per annum.

15.2 Represents amount of US $ 258 thousand (2007: US $ 258 thousand)

16. ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

2008	2007		2008	2007
(Number of Shares)			(Rupees in thousand)	
59,450,417	59,450,417	Ordinary shares of Rs. 10 each fully paid in cash	**594,504**	594,504
6,469,963	6,469,963	Ordinary shares of Rs. 10 each issued for consideration other than cash	**64,700**	64,700
14,046,180	718,420	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	**140,462**	7,184
79,966,560	66,638,800		**799,666**	666,388

Notes to the Financial Statements

for the year ended June 30, 2008

	2008	2007
	(Number of Shares)	
16.1 Reconciliation of number of ordinary shares outstanding		
At the beginning of the year	**66,638,800**	66,638,800
Issue of 1 bonus share for every 5 shares held	**13,327,760**	-
At the end of the year	**79,966,560**	66,638,800

16.2 As at June 30, 2008 and 2007, Attock Oil Group holds 51% equity stake in the Company through the following companies:

	2008	2007
	(Number of Shares)	
- Attock Refinery Limited	**19,991,640**	16,659,700
- Pakistan Oilfields Limited	**19,991,640**	16,659,700
- Attock Petroleum Limited	**799,665**	666,388

17. RESERVES

	2008	2007
	(Rupees in thousand)	
Capital reserves		
Capital compensation reserve (note 17.1)	**10,142**	10,142
Exchange equalisation reserve	**4,117**	4,117
	14,259	14,259
Revenue reserves		
General reserve	**6,931,400**	4,687,000
Unappropriated profit	**3,056,023**	3,710,566
	9,987,423	8,397,566
Special reserve (note 17.2)	**6,617,697**	3,668,176
	16,619,379	12,080,001

17.1 Capital compensation reserve includes net amounts for (a) premature termination of crude oil sales, bareboat charter-party and technical assistance agreements, (b) design defects and terminated service agreements and (c) termination of bareboat charter-party and affreightment agreements.

17.2 This represents the reserve created under the directives of Ministry of Petroleum & Natural Resources. The directive, with effect from July 1, 2002, replaced the formula of guaranteed return and in lieu thereof provided a new formula. Under the new mechanism the refineries were directed to transfer to a 'Special Reserve', from their profit after taxation attributable to fuel segment an amount in excess of 50% of paid-up capital, as on July 1, 2002 attributable to fuel segment, to offset against any future losses or to make investment for expansion or upgradation. The amount transferred to 'Special Reserve' is not available for distribution to the shareholders.

Notes to the Financial Statements

for the year ended June 30, 2008

18. STAFF RETIREMENT BENEFITS

The details of staff retirement benefits are as follows:

	2008			2007		
	Pension Fund	Gratuity Fund	Medical Fund	Pension Fund	Gratuity Fund	Medical Fund
	(Rupees in thousand)					
18.1 Reconciliations of obligations						
Present value of defined benefit obligations	**2,181,529**	**67,945**	**553,929**	1,961,320	56,823	548,940
Fair value of plan assets	**(2,128,896)**	**(82,668)**	**(525,739)**	(1,997,522)	(67,595)	(499,257)
Funded status	**52,633**	**(14,723)**	**28,190**	(36,202)	(10,772)	49,683
(Receivable from Gratuity) / Payable to Pension Fund	**(10,760)**	**10,760**	**-**	(260)	260	-
Unrecognised net actuarial gain	**197,385**	**3,935**	**44,829**	218,137	10,484	5,582
Recognised liability / (asset)	**239,258**	**(28)**	**73,019**	181,675	(28)	55,265
18.2 Movement in liability / (asset)						
Liability / (asset) at beginning of the year	**181,675**	**(28)**	**55,265**	137,972	(28)	37,383
Charge for the year	**60,788**	**1,508**	**17,754**	72,543	2,548	17,882
Contribution paid to the fund	**(3,205)**	**(1,508)**	**-**	(28,840)	(2,548)	-
Liability / (asset) at end of the year	**239,258**	**(28)**	**73,019**	181,675	(28)	55,265
18.3 Charge for the year						
Current service cost	**63,820**	**2,807**	**13,023**	63,923	2,656	12,942
Interest cost	**194,571**	**5,777**	**54,715**	162,453	4,636	43,965
Expected return on plan assets	**(195,932)**	**(6,789)**	**(49,984)**	(153,833)	(4,744)	(39,025)
Net actuarial gain recognised during the year	**(1,671)**	**(287)**	**-**	-	-	-
	60,788	**1,508**	**17,754**	72,543	2,548	17,882
18.4 Movement in present value of defined benefit obligations						
Opening balance	**1,961,320**	**56,823**	**548,940**	1,811,027	50,859	488,747
Service cost	**63,820**	**2,807**	**13,023**	63,923	2,656	12,942
Interest cost	**194,571**	**5,777**	**54,715**	162,453	4,636	43,965
Benefits paid	**(107,134)**	**-**	**(13,422)**	(105,946)	(40)	(15,087)
Transfer from Gratuity / (to Pension) Fund	**11,430**	**(11,430)**	**-**	973	(973)	-
Actuarial loss / (gain)	**57,522**	**13,968**	**(49,327)**	28,890	(315)	18,373
Present value of defined benefit obligations at the end of the year	**2,181,529**	**67,945**	**553,929**	1,961,320	56,823	548,940
18.5 Movement in fair value of plan assets						
Opening balance	**1,997,522**	**67,595**	**499,257**	1,758,226	52,110	433,941
Expected return	**195,932**	**6,789**	**49,984**	153,833	4,744	39,025
Contributions	**3,205**	**1,508**	**-**	28,840	2,548	-
Benefits paid	**(107,134)**	**-**	**(13,422)**	(105,946)	(40)	(15,087)
Actuarial gain / (loss)	**38,441**	**7,706**	**(10,080)**	161,482	9,320	41,378
Transfer from Gratuity / (to Pension) Fund	**930**	**(930)**	**-**	1,087	(1,087)	-
Fair value of plan assets at the end of the year	**2,128,896**	**82,668**	**525,739**	1,997,522	67,595	499,257
Actual return on plan assets	**234,373**	**14,495**	**39,904**	315,315	14,064	80,403

Notes to the Financial Statements

for the year ended June 30, 2008

18.6 Historical information

	2008	2007	2006	2005	2004
	(Rupees in thousand)				
PENSION FUND					
As at June 30					
Present value of defined benefit obligation	**2,181,529**	1,961,320	1,811,027	1,751,423	947,788
Fair value of plan assets	**(2,128,896)**	(1,997,522)	(1,758,226)	(1,625,638)	(934,542)
Deficit / (Surplus)	**52,633**	(36,202)	52,801	125,785	13,246
Experience loss on obligation	**57,522**	28,890	44,795	223,319	23,579
Experience gain on plan assets	**38,441**	161,482	93,238	232,289	25,561
GRATUITY FUND					
As at June 30					
Present value of defined benefit obligation	**67,945**	56,823	50,859	46,087	84,412
Fair value of plan assets	**(82,668)**	(67,595)	(52,110)	(44,644)	(66,875)
Deficit / (Surplus)	**(14,723)**	(10,772)	(1,251)	1,443	17,537
Experience (gain) / loss on obligation	**13,968**	(315)	(329)	15,306	20,387
Experience gain / (loss) on plan assets	**7,706**	9,320	1,263	(2,781)	(82)
MEDICAL FUND					
As at June 30					
Present value of defined benefit obligation	**553,929**	548,940	488,747	431,233	261,525
Fair value of plan assets	**(525,739)**	(499,257)	(433,941)	(408,587)	-
Deficit	**28,190**	49,683	54,806	22,646	261,525
Experience (gain) / loss on obligation	**(49,327)**	18,373	15,022	17,438	15,646
Experience gain / (loss) on plan assets	**(10,080)**	41,378	12,927	-	-

18.7 Major categories / composition of plan assets are as follows:

	Pension fund		Gratuity fund		Medical fund	
	2008	2007	**2008**	2007	**2008**	2007
Debt Instrument	**69.07%**	67.67%	**63.74%**	57.84%	**-**	50.07%
Equity	**2.02%**	2.53%	**4.65%**	5.57%	**4.61%**	5.67%
Mixed Funds	**26.11%**	28.40%	**13.06%**	17.51%	**92.16%**	37.83%
Others	**2.80%**	1.40%	**18.55%**	19.08%	**3.23%**	6.43%

Notes to the Financial Statements

for the year ended June 30, 2008

18.8 Principal actuarial assumptions

	Pension fund		Gratuity fund		Medical fund	
	2008	2007	**2008**	2007	**2008**	2007
Rate of discount	**12% p.a**	10% p.a	**12% p.a**	10% p.a	**12% p.a**	9% p.a
Expected rate of increment of salary / increase in cost	**11% p.a**	9% p.a	**12% p.a**	7% p.a	**9% p.a**	9% p.a
Expected rate of increase in pension	**5% p.a**	5% p.a	**-**	-	**-**	-
Expected rate of return on assets	**12% p.a**	10% p.a	**12% p.a**	10% p.a	**12% p.a**	9% p.a
Expected retirement age	**60 years**	60 years	**60 years**	60 years	**60 years**	60 years

18.9 The effects of a 1% movement in the assumed medical cost trend rate are as follows:

	Increase	Decrease
	(Rupees in thousands)	
Effect on the aggregate of current service cost and interest cost	13,533	10,389
Effect on the defined benefit obligation	102,191	78,853

The average life expectancy in years of a pensioner retiring at age 60 on the balance sheet date is as follows:	**2008**	2007
	(Years)	
Male	**16.8**	16.8
Female	**21.2**	21.2

Notes to the Financial Statements

for the year ended June 30, 2008

19. TRADE AND OTHER PAYABLES

	2008	2007
	(Rupees in thousand)	
Creditors		
Government of Pakistan (note 19.1)	**2,627,871**	1,735,362
Other trade creditors:		
- Related parties (note 19.2)	**63,822**	18,392
- Others (note 19.3 and 19.4)	**22,250,221**	14,730,273
	22,314,043	14,748,665
	24,941,914	16,484,027
Mark-up accrued on:		
- unsecured customs duty - overdue	**310,264**	310,264
- secured short-term running finance	**46**	-
- late payment to suppliers	**86,686**	-
Accrued liabilities	**500,013**	488,202
Retention money	**15,687**	19,388
Deposits from contractors	**19,760**	20,109
Advances from customers	**227,273**	61,818
Workers' profits participation fund (note 19.5)	**74,291**	-
Workers' welfare fund	**289,838**	207,791
Income tax deducted at source	**10,362**	1,362
Unclaimed dividend	**37,855**	31,387
Excise duty and petroleum development levy	**139,219**	36,079
Others	**9,212**	8,683
	26,662,420	17,669,110

19.1 This includes Rs. 1.76 billion (2007: Rs. 1.11 billion) representing amount payable in respect of local crude supplies exceeding the maximum slab rates for calculation of discount to Government of Pakistan (GoP) as provided in the respective Crude Oil Sale and Purchase Agreements (COSAs). The Ministry of Petroleum and Natural Resources (MoP & NR) through its directive dated December 17, 2005, instructed the refineries to withhold such payments until the matter is resolved among the parties to the above agreements. A directive was issued by MoP & NR dated December 4, 2007 requiring the amounts above the maximum slab rates to be equally distributed to the GoP and Oil Exploration Companies (E&Ps).

Notes to the Financial Statements

for the year ended June 30, 2008

19.2 Amounts due to related parties are as follows:

	2008	2007
	(Rupees in thousand)	
Attock Petroleum Limited	**63,406**	18,392
The Attock Oil Company Limited	**416**	-
	63,822	18,392

19.3 As also discussed in 19.1, the balance includes Rs. 1.58 billion (2007: Rs. 1.11 billion) representing amount payable in respect of local crude supplies exceeding the maximum slab rates provided in the respective COSAs. Payments of such amounts have again been directed to be withheld through notification dated March 7, 2008 in case E&Ps do not get the supplement COSAs signed till May 10, 2008.

Further, an amount of Rs. 739.85 million (2007: Rs. 446.70 million) has been withheld on amounts of COSAs not finalised under the directives of MoP & NR. The amounts withheld are required to be kept at 90 days interest bearing accounts to be paid with the principal amount when the matter is finalised.

19.4 Includes an amount of Rs. 280.91 million (2007: Rs. 280.91 million) on account of invoices raised by local crude oil suppliers in respect of excess discounts given to the Company for the period 1998-99 to 2000-01 consequent to amendment in Master Crude Oil Sale and Purchase Agreement. As the benefit of these discounts have been passed on to the Government of Pakistan (GoP), the Company is of the view that such claim be settled by the GoP directly or the GoP should pay the amount to the Company for onward settlement with suppliers. The Company is pursuing the matter and is hopeful that the amount will ultimately be settled by GoP. However, as an abundant caution, liability for the aforementioned amount has been recognised pending acceptance by GoP for settlement thereof.

19.5 Workers' profits participation fund

	2008	2007
	(Rupees in thousand)	
Balance at beginning of the year	**(22,646)**	6,936
Allocation for the year (note 28)	**474,291**	327,354
Interest on funds utilised in the Company's business (note 29)	**-**	638
	451,645	334,928
Less: Amount paid to the Trustees of the Fund	**377,354**	357,574
Balance at end of the year	**74,291**	(22,646)

20. PROVISIONS

	2008	2007
Duties and taxes (note 20.1)	**215,214**	215,214
Others	**83,355**	83,934
	298,569	299,148

20.1 These represent provisions for:

	2008	2007
Claim by the Government (note 20.1.1)	**165,214**	165,214
Sales tax, central excise duty and penalties (note 20.1.2)	**50,000**	50,000
	215,214	215,214

Notes to the Financial Statements

for the year ended June 30, 2008

	2008	2007
	(Rupees in thousand)	

20.1.1 This represents amount claimed by the Government of Pakistan (GoP), alleging that the Company had been allowed excess refund in prior years on account of Import Parity Formula. The Company has taken up this matter with the GoP and is contesting the same.

20.1.2 This represents provision made by the Company in respect of sales tax, central excise duty and penalties, aggregating to Rs. 50 million, determined by the Collectorate of Customs, Sales Tax and Central Excise (Adjudication) in 2004 in respect of goods sold by the Company to one of its customer without deduction of sales tax and central excise duties.

20.2 Reconciliation of provisions

	2008	2007
Balance at the beginning of the year	**299,148**	320,588
Reversal due to settlement	**(579)**	(21,440)
Balance at the end of the year	**298,569**	299,148

21. CONTINGENCIES AND COMMITMENTS

21.1 Contingencies

21.1.1 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 to date by the customer. Accordingly, the amount of claim cannot be determined at present.

21.1.2 The Company had filed an appeal with the CIT(A) for the assessment year 2001-2002 in respect of various disallowances made by the Assessing Officer, of which Rs. 19.10 million remained unresolved. CIT(A) decided the case in favour of Company and allowed the said disallowances. However, the department has filed an appeal in this regard before the ITAT.

21.1.3 The company has raised claims to certain Oil Marketing Companies (OMCs) in respect of late payments against sales receivables accumulating to Rs. 245.22 million. However, these have not been recognised in the financial statements as these have not been acknowledged by the OMCs in view of their contention that delays in making payments is attributed to their non-receipts from the Government of Pakistan.

21.1.4 Outstanding counter guarantees at the end of the year amounted to Rs. 108.62 million (2007: Rs. 104.04 million).

21.1.5 Claims not acknowledged as debt at the end of the year amounted to Rs. 111.55 million (2007: Rs. 116.42 million).

21.2 Commitments

21.2.1 Contracts signed in respect of capital expenditure but outstanding at the end of the year are as follows:

	2008	2007
	(Rupees in thousand)	
CURRENCY		
- Foreign currency (US $ 200 thousand)	**13,640**	-
- Pak Rupees	**57,146**	46,344
	70,786	46,344

21.2.2 Outstanding letters of credit at the end of the year amounted to Rs. 16.39 billion (2007: Rs. 10.12 billion).

Notes to the Financial Statements

for the year ended June 30, 2008

	2008	2007
	(Rupees in thousand)	

22. GROSS SALES

Local (note 22.1)	**124,753,735**	92,926,185
Export	**21,479,536**	16,219,785
	146,233,271	109,145,970

22.1 Includes price differential claims from the Government of Pakistan amounting to Rs. 1.841 billion (2007: Rs. 479.57 million).

23. TRADE DISCOUNTS, TAXES, DUTIES AND LEVIES

Trade discounts	**761,595**	901,239
Sales tax	**13,806,025**	11,962,643
Excise duty	**1,496,336**	2,053,308
Petroleum development levy	**783,499**	2,902,242
	16,847,455	17,819,432

24. COST OF PRODUCTS SOLD

Opening stock of semi-finished products	**881,547**	1,131,843
Crude oil, condensate, naphtha and drums consumed (note 24.1)	**116,916,214**	82,694,046
Stores, spares and chemicals consumed	**520,239**	375,747
Salaries, wages and staff benefits (note 24.2)	**803,090**	651,848
Staff transport and canteen	**58,109**	46,690
Fuel, power and water (note 24.3)	**1,274,407**	1,020,978
Rent, rates and taxes	**42,192**	28,930
Insurance	**69,758**	56,989
Contract services	**36,642**	34,740
Repairs and maintenance	**184,395**	101,374
Provision for slow moving and obsolete stores, spares and chemicals	**7,231**	-
Depreciation	**209,259**	170,395
Amortisation of intangible assets (note 4)	**6,215**	518
Health, safety, environment and related cost	**4,746**	3,712
Professional charges	**4,059**	3,187
Consultancy charges (note 24.4)	**64,697**	-
Pipeline charges	**3,546**	4,339
Others	**8,170**	11,530
	120,212,969	85,205,023
Closing stock of semi-finished products (note 9)	**(925,522)**	(881,547)
Cost of products manufactured	**120,168,994**	85,455,319
Opening stock of finished products	**2,562,021**	2,169,450
Closing stock of finished products (note 9)	**(4,025,955)**	(2,562,021)
	(1,463,934)	(392,571)
	118,705,060	85,062,748

Notes to the Financial Statements

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	2008	2007
	(Rupees in thousand)	

24.1 Crude oil, condensate, naphtha and drums consumed

Crude oil, condensate and naphtha		
- Opening stock	**4,243,852**	3,173,902
- Purchases	**120,598,663**	83,511,196
- Closing stock	**(8,336,814)**	(4,243,852)
	116,505,701	82,441,246
Drums	**410,513**	252,800
	116,916,214	82,694,046

24.2 Includes Rs. 60.85 million (2007: Rs. 69.51 million) and Rs. 22.46 million (2007: Rs. 19.89 million) in respect of defined benefit and defined contribution plans respectively.

24.3 These include a sum of Rs. 42.12 million (2007: Rs. 44.05 million) being cost incurred under arrangement for purchase of electricity, identified as lease.

24.4 This represents costs incurred on consultancy in respect of designing and other related studies for the installation of High Speed Diesel Desulphurisation unit.

	2008	2007
	(Rupees in thousand)	

25. DISTRIBUTION AND MARKETING EXPENSES

Salaries and staff benefits (note 25.1)	**27,035**	19,136
Stores, spares and chemicals consumed	**8,068**	3,539
Commission on local sales	**444,230**	-
Commission on export sales	**215,786**	168,772
Export expenses	**124,482**	118,868
Depreciation	**11,802**	7,523
Repairs and maintenance	**15,191**	11,792
Postage, telegrams and periodicals	**2,649**	3,352
Provision for doubtful debts	**21,174**	-
Bad debts	**1,973**	-
Technical Fee	**1,432**	-
Selling expenses	**8,618**	6,163
Others	**6,568**	2,318
	889,008	341,463

25.1 Includes Rs. 2.05 million (2007: Rs. 2.04 million) and Rs. 0.76 million (2007: Rs. 0.58 million) in respect of defined benefit and defined contribution plans respectively.

Notes to the Financial Statements

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26. ADMINISTRATIVE EXPENSES

	2008	2007
	(Rupees in thousand)	
Salaries and staff benefits (note 26.1)	**226,412**	200,837
Staff transport and canteen	**15,132**	16,812
Rent, rates and taxes	**6,145**	3,188
Depreciation	**18,143**	17,850
Amortisation of intangible assets (note 4)	**-**	10,628
Legal and professional charges	**13,149**	9,111
Printing and stationery	**7,136**	6,695
Repairs and maintenance	**51,507**	46,523
Telephone and communication	**4,610**	3,902
Electricity and power (note 26.2)	**14,339**	10,484
Insurance	**1,650**	1,510
Training and seminar	**1,356**	1,252
Postage, telegrams and periodicals	**4,664**	2,487
Others	**11,927**	13,945
	376,170	345,224

26.1 Includes Rs. 17.15 million (2007: Rs. 21.42 million) and Rs. 6.33 million (2007: Rs. 6.13 million) in respect of defined benefit and defined contribution plans respectively.

26.2 These include a sum of Rs. 0.89 million (2007: Rs. 0.87 million) being cost incurred under arrangement for purchase of electricity, identified as lease.

27. OTHER OPERATING INCOME

	2008	2007
	(Rupees in thousand)	
Income from financial assets		
Return / interest / mark-up on:		
- PLS savings and deposit accounts	**734,589**	789,711
- Secured loans to employees and executives	**467**	472
Gain on re-measurement of fair value of open ended mutual fund units	**209,974**	12,092
Others		
Handling and storage income	**198,838**	147,842
Hospitality charges	**12,123**	13,092
Provision and liabilities no longer required or payable, written back (note 27.1)	**221,786**	9,531
Gain on disposal of property, plant and equipment	**2,938**	895
Sale of scrap and empties	**6,315**	3,034
Pipeline charges recovered	**5,811**	4,124
Rental income	**4,234**	5,624
License fees - land	**-**	477
Tender fees	**65**	29
Rebate against insurance expense	**7,000**	-
Others	**262**	5,766
	1,404,402	992,689

27.1 These primarily represent write back of liabilities in respect of provisional pricing of crude oil from fields whose agreements have been finalised.

Notes to the Financial Statements

for the year ended June 30, 2008

	2008	2007
	(Rupees in thousand)	

28. OTHER OPERATING EXPENSES

	2008	2007
Workers' profits participation fund (note 19.5)	**474,291**	327,354
Workers' welfare fund	**180,230**	124,381
Donations	**-**	15
Auditors' remuneration (note 28.1)	**2,498**	1,348
	657,019	453,098

28.1 Auditors' remuneration

	2008	2007
Audit fee	**750**	300
Taxation services	**854**	300
Fee for review of half yearly financial statements, special reports and certifications	**561**	503
Out-of-pocket expenses	**333**	245
	2,498	1,348

29. FINANCE COST

	2008	2007
Mark-up on short term running finance	**46**	4,738
Mark-up on late payments to suppliers	**86,945**	-
Interest on workers' profits participation fund (note 19.5)	**-**	638
Exchange loss	**1,242,919**	15,440
Guarantee commission and service charges	**932**	536
Bank charges	**827**	642
	1,331,669	21,994

30. TAXATION

	2008	2007
Current		
- for the year	**2,917,200**	2,003,100
- for prior years	**(88,051)**	(218,926)
	2,829,149	1,784,174
Deferred	**(3,289)**	107,872
	2,825,860	1,892,046

30.1 Relationship between tax expense and accounting profit

	2008	2007
Accounting profit before taxation	**8,831,292**	6,094,700
Tax at the applicable tax rate of 35% (2007: 35%)	**3,090,952**	2,133,145
Tax effect of income exempt from tax	**(73,491)**	-
Tax effect of expenses not allowed for tax	**6,214**	5
Effect of tax on export sales under Final Tax Regime	**(109,764)**	(22,178)
Effect of prior years tax	**(88,051)**	(218,926)
Tax expense for the year	**2,825,860**	1,892,046

Notes to the Financial Statements

for the year ended June 30, 2008

31. EARNINGS PER SHARE

There is no dilutive effect on the basic earnings per share of the Company, which is based on:

	2008	2007
	(Rupees in thousand)	
Profit after taxation	**6,005,432**	4,202,654
Weighted average number of ordinary shares (in thousand)	**79,967**	79,967
Earnings per share - basic and diluted (Rupees)	**75.10**	52.55

For the purposes of calculating earnings per share, number of ordinary shares outstanding as at June 30, 2007 has been increased to reflect the bonus shares issued during the year.

32. CASH GENERATED FROM OPERATIONS

	2008	2007
	(Rupees in thousand)	
Profit before taxation	**8,831,292**	6,094,700
Adjustment for non cash charges and other items:		
Depreciation and amortisation	**245,419**	206,914
Finance cost	**86,991**	4,738
Provision for gratuity	**1,508**	2,548
Provision for post retirement medical benefits	**17,754**	17,882
Provision for pension	**60,788**	72,543
Return / interest on bank deposits	**(734,589)**	(789,711)
Gain on re-measurement of fair value of open ended mutual fund units	**(209,974)**	(12,092)
Gain on disposal of property, plant and equipment	**(2,938)**	(895)
Exchange gain on foreign currency bank accounts	**(1,957)**	(65)
(Increase) / Decrease in working capital (note 32.1)	**(524,209)**	1,597,669
	7,770,085	7,194,231

Notes to the Financial Statements

for the year ended June 30, 2008

	2008	2007
	(Rupees in thousand)	
32.1 (Increase) / Decrease in working capital		
(Increase) / Decrease in current assets		
Stores, spares and chemicals	**23,718**	(86,085)
Stock-in-trade	**(5,600,871)**	(1,212,225)
Trade debts	**(4,042,727)**	(787,560)
Loans and advances	**(31,203)**	(1,583)
Deposits and short term prepayments	**(52,779)**	(33,692)
Other receivables	**(362,221)**	(921,835)
Tax refunds due from Government - Sales tax	**642,343**	(17,689)
	(9,423,740)	(3,060,669)
Increase / (Decrease) in current liabilities		
Trade and other payables	**8,900,110**	4,679,778
Provisions	**(579)**	(21,440)
	(524,209)	1,597,669

33. UNAVAILED CREDIT FACILITIES

	2008	2007
Short term running finance (note 33.1)	**1,850,000**	1,350,000
Letters of credit and guarantee	**16,638,615**	9,049,034

33.1 Short term running finance

The rates of mark-up on these finance ranges between 9.81% and 14.39% (2007: 9.4% and 10.8%) per annum, payable quarterly.

The facilities are secured against joint pari passu charge on the Company's stocks, receivables and other current assets.

The purchase prices are repayable on various dates, latest by March 31, 2009.

Notes to the Financial Statements

for the year ended June 30, 2008

34. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2008		2007	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees in thousand)			
Managerial remuneration	4,380	115,113	4,151	95,671
Bonus	2,184	38,622	1,290	20,222
Retirement benefits	1,239	27,734	-	24,087
House rent	-	43,763	-	38,363
Conveyance	166	7,642	161	6,613
Leave benefits	416	9,668	628	8,000
	8,385	242,542	6,230	192,956
Number of person (s)	1	126	1	112

34.1 In addition to the above, fee to two non-executive Directors during the year amounted to Rs. 55 thousand (2007: Rs. 80 thousand).

34.2 The Chairman, Chief Executive and some of the executives of the Company are provided with free use of Company's cars and additionally, executives are also entitled to medical benefits and club subscriptions in accordance with their terms of service.

35. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

35.1 Financial assets and liabilities

	Interest/mark-up bearing			Non-interest/mark-up bearing			
	Maturity up to one year	Maturity after one year	Sub total	Maturity up to one year	Maturity after one year	Sub total	Total
	(Rupees in thousand)						
Financial assets							
Loans and advances	2,610	14,225	16,835	10,927	41,873	52,800	69,635
Deposits	-	-	-	18,622	23,825	42,447	42,447
Trade debts	984,236	-	984,236	9,188,815	-	9,188,815	10,173,051
Accrued interest	-	-	-	30,780	-	30,780	30,780
Other receivables	-	-	-	2,183,257	-	2,183,257	2,183,257
Investments	-	-	-	3,615,359	-	3,615,359	3,615,359
Cash and bank balances	12,801,617	-	12,801,617	320,519	-	320,519	13,122,136
2008	13,788,463	14,225	13,802,688	15,368,279	65,698	15,433,977	29,236,665
2007	11,458,682	11,718	11,470,400	9,020,007	52,672	9,072,679	20,543,079
Financial liabilities							
Trade and other payables	-	-	-	25,921,437	-	25,921,437	25,921,437
2008	-	-	-	25,921,437	-	25,921,437	25,921,437
2007	-	-	-	17,398,139	-	17,398,139	17,398,139

Notes to the Financial Statements

for the year ended June 30, 2008

35.2 Financial risk management objectives and policies

(i) Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as going concern in order to provide returns for shareholders and benefit for other stakeholders. The Company manages its capital through adjusting its dividend policy. Further, as also mentioned in note - 17.2, the company operates under tariff protection formula for fuel operations whereby profits after tax attributable to fuel segment in excess of 50% of the paid up capital as of July 1, 2002 attributable to fuel segment are diverted to special reserve.

Taken as a whole, risk arising from the Company's financial instruments is limited as there is no significant exposure to price and cash flow risk in respect of such instruments.

(ii) Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties failed to perform as contracted. The financial assets that are subject to credit risk amounted to Rs. 28.30 billion (2007: Rs. 20.17 billion).

The Company believes that it is not exposed to any major concentration of credit risk as it operates in an essential products industry and has customers only a few sound organisations.

(iii) Foreign exchange risk

Foreign currency risk arises mainly when receivables or payables exist due to transactions in foreign currencies. Financial assets include Rs. 17.51 million (2007: Rs. 15.55 million) and financial liabilities include Rs. 9.85 billion (2007: Rs. 6.96 billion) which are subject to foreign currency risk. The Company believes that it is not materially exposed to foreign exchange risk as its product prices are linked to the currency of its imports.

(iv) Liquidity Risk

The Company manages liquidity risk by maintaining sufficient cash balances and the availability of financing through banking arrangements.

(v) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Company is exposed to market risk with respect to its investments in open ended mutual funds.

The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in open ended mutual funds. In addition, the Company actively monitors the key factors that affect the open ended mutual funds.

(vi) Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

Notes to the Financial Statements

for the year ended June 30, 2008

36. SEGMENT INFORMATION

The financial information regarding business segments is as follows:

	FUEL		LUBE		TOTAL	
	2008	2007	**2008**	2007	**2008**	2007
	(Rupees in thousand)					
Segment Revenue						
Sales to external customers						
- local, net of discounts, taxes, duties and levies	**81,459,366**	55,648,365	**26,446,914**	19,458,387	**107,906,280**	75,106,752
- export	**20,736,974**	15,003,224	**742,562**	1,216,562	**21,479,536**	16,219,786
	102,196,340	70,651,589	**27,189,476**	20,674,949	**129,385,816**	91,326,538
Inter segment sales	**21,190,530**	13,356,758	**-**	-	**21,190,530**	13,356,758
Elimination of inter segment sales	**-**	-	**-**	-	**(21,190,530)**	(13,356,758)
Net sales	**123,386,870**	84,008,347	**27,189,476**	20,674,949	**129,385,816**	91,326,538
Segment results after tax	**3,064,106**	606,747	**2,941,326**	3,595,907	**6,005,432**	4,202,654
Segment assets	**30,597,851**	19,759,356	**13,968,888**	11,551,928	**44,566,739**	31,311,284
Unallocated assets	**-**	-	**-**	-	**2,037,876**	1,330,275
Total assets	**30,597,851**	19,759,356	**13,968,888**	11,551,928	**46,604,615**	32,641,559
Segment liabilities	**25,478,331**	16,830,895	**1,794,935**	1,374,302	**27,273,266**	18,205,197
Unallocated liabilities	**-**	-	**-**	-	**1,912,304**	1,689,973
Total liabilities	**25,478,331**	16,830,895	**1,794,935**	1,374,302	**29,185,570**	19,895,170
Other Segment Information:						
Capital expenditure	**9,556**	37,462	**65,549**	613,263	**75,105**	650,725
Unallocated capital expenditure	**-**	-	**-**	-	**90,349**	135,902
	9,556	37,462	**65,549**	613,263	**165,454**	786,627
Depreciation and amortisation	**90,620**	88,926	**154,799**	117,988	**245,419**	206,914
Non-cash expenses other than depreciation	**5,918**	5,961	**11,836**	11,921	**17,754**	17,882

Notes to the Financial Statements

for the year ended June 30, 2008

37. TRANSACTIONS WITH RELATED PARTIES

37.1 The following transactions were carried out with related parties during the year:

Nature of relationship	Nature of transactions	2008	2007
		(Rupees in thousand)	
Associated companies			
	Sale of petroleum products	**30,601,364**	31,799,318
	Rental income	**2,183**	2,602
	Hospitality charges	**12,123**	13,092
	License fees - land	**-**	560
	Handling income	**78,704**	-
	Trade discounts and commission on sales	**1,421,270**	1,023,911
	Reimbursement of expenses	**7,284**	10,015
Post employment staff benefit plans			
	Contributions	**109,604**	119,578
Others			
	Purchase of electricity	**693,180**	466,470
	Rental income	**408**	532
Key management employees compensation			
	Salaries and other employee benefits	**20,826**	18,082
	Post retirement benefits	**2,110**	1,054

37.2 The related party status of outstanding balances as at June 30, 2008 is included in trade debts, other receivables and trade and other payables respectively.

38. CAPACITY

	Annual designed throughput	Actual throughput 2008	Actual throughput 2007
	(in metric tons)		
Fuel section - throughput of crude oil	2,710,500	**2,733,797**	2,801,871
Lube section - throughput of reduced crude oil	620,486	**707,388**	705,495

Notes to the Financial Statements

for the year ended June 30, 2008

39. CORRESPONDING FIGURES

Previous year's figures are re-arranged and re-classified wherever necessary for the purpose of comparison.

Major changes made for better presentation during the year are as follows:

Note	Reclassification from component	Note	Reclassificaion to component	(Rupees in thousand)
13	Other receivables -Return accrued on balances with banks		Face of the balance sheet -accrued interest	45,246
19	Trade and other payables -Mark-up accrued on amounts withheld from suppliers	19	Trade and other payables -Other trade creditors - Others	13,699
25	Distribution and marketing expenses -Others	25	Distribution and marketing expenses -Stores, spares and chemicals consumed	3,539
28	Other expenses -Exchange loss	29	Finance cost -Exchange loss	15,440

Reclassifications due to directives of MoP & NR in relation to local crude purchases are as follows:

Note	Reclassification from component	Note	Reclassificaion to component	(Rupees in thousand)
19	Trade and other payables -Other trade creditors - Others	19	Trade and other payables - Government of Pakistan	1,100,000
19	Trade and other payables -Mark-up accrued on amounts withheld from suppliers	19	Trade and other payables -Government of Pakistan -Other trade creditors - Others	 75,660 75,660 151,320

Reclassification due to finalisation during the year of provisional product specification in relation to local condensate purchases.

Note	Reclassification from component	Note	Reclassificaion to component	(Rupees in thousand)
19	Trade and other payables -Government of Pakistan	19	Trade and other Payables Other trade creditors - Others	2,063,058

Notes to the Financial Statements

for the year ended June 30, 2008

40. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

40.1 The Board of Directors in its meeting held on August 31, 2008 (i) approved transfer of Rs. 1.46 billion from unappropriated profit to general reserve; and (ii) proposed a final cash dividend of Rs. 20 per share for the year ended June 30, 2008 amounting to Rs. 1.60 billion for approval of the members at the Annual General Meeting to be held on October 20, 2008. These financial statements do not recognise these appropriations which will be accounted for in the financial statements for the year ending June 30, 2009.

40.2 Subsequent to the year end, the Government has changed the pricing formula of certain products including reduction in deemed duty impacting future selling prices of the products.

41. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 31, 2008 by the Board of Directors of the Company.

Chief Executive

Director

Pattern of Shareholding

NUMBER OF SHARES FROM	TO	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD	% ON ISSUED
1	100	1,228	46,601	0.06
101	500	1,188	311,321	0.39
501	1,000	579	422,314	0.53
1,00	5,000	876	1,948,959	2.44
5,00	10,000	160	1,134,318	1.42
10,001	15,000	42	531,260	0.66
15,001	20,000	33	589,780	0.74
20,001	25,000	20	452,973	0.57
25,001	30,000	13	385,600	0.48
30,001	35,000	7	226,960	0.28
35,001	40,000	2	78,000	0.10
40,001	45,000	6	257,111	0.32
45,001	50,000	6	288,620	0.36
50,001	55,000	2	105,100	0.13
55,001	60,000	2	111,516	0.14
60,001	65,000	3	194,200	0.24
65,001	70,000	3	205,839	0.26
70,001	75,000	3	220,078	0.28
75,001	80,000	1	80,000	0.10
80,001	85,000	3	251,397	0.31
85,001	90,000	2	176,100	0.22
90,001	95,000	2	185,800	0.23
95,001	100,000	2	197,000	0.25
105,001	110,000	1	109,000	0.14
125,001	130,000	1	126,437	0.16
135,001	140,000	2	271,600	0.34
140,001	145,000	1	144,880	0.18
145,001	150,000	1	150,000	0.19
150,001	155,000	2	307,300	0.38
160,001	165,000	1	162,000	0.20
190,001	195,000	1	193,500	0.24
200,001	205,000	1	202,156	0.25
215,001	220,000	1	215,960	0.27
220,001	225,000	1	222,525	0.28
225,001	230,000	1	226,400	0.28
230,001	235,000	1	231,740	0.29
235,001	240,000	1	238,600	0.30
270,001	275,000	1	272,371	0.34
405,001	410,000	1	407,184	0.51
455,001	460,000	1	459,100	0.57
475,001	480,000	1	477,028	0.60
485,001	490,000	1	487,000	0.61
505,001	510,000	1	509,480	0.64
685,001	690,000	1	686,647	0.86
795,001	800,000	1	799,665	1.00
965,001	970,000	1	965,200	1.21
3,165,001	3,170,000	1	3,167,766	3.96
4,065,001	4,070,000	1	4,069,502	5.09
4,475,001	4,480,000	1	4,479,392	5.60
11,995,001	12,000,000	1	12,000,000	15.00
19,990,001	19,995,000	2	39,983,280	50.00
		4,214	79,966,560	100.00

Categories of Shareholdings

CATAGORIES	Number of Shareholders	Number of Shares held	% on Issued
Associated Companies	2	39,983,280	50.00
Individuals	3,984	6,187,020	7.74
Investment Companies	16	690,019	0.86
Joint Stock Companies	80	1,755,768	2.20
NIT & ICP	8	9,069,479	11.34
Banks, Insurance, Modaraba & Mutual Fund	42	16,638,264	20.81
Foreign investors	22	2,516,728	3.15
Charitable Trusts	8	64,820	0.08
Others	52	3,061,182	3.83
	4,214	**79,966,560**	**100.00**

INFORMATION AS REQUIRED UNDER CODE OF CORPORATE GOVERNANCE

Associated Companies	2	39,983,280
NIT & ICP		
National Investment Trust	2	510,180
National Bank of Pakistan Trustee Department	2	4,488,992
NBP Trustee-NI(U) (LOC) Fund	1	4,069,502
Investment Corporation of Pakistan	2	466
IDBP (ICP Unit)	1	339
Chief Executive Officer, Directors, their spouse and mior children		
Dr. Ghaith R. Pharaon		1
Laith G. Pharaon		1
Wael G. Pharaon		1
Shuaib A. Malik		1
Abdus Sattar		601
Executive	9	445
Public Sector Companies	80	1,755,768
Banks, Development Financial Institutions, Non-Banking Financial Institutions, Insurance Companies, Modarabas and Mutual Funds	42	16,638,264
Shareholders holding 10 % or more voting intrest		
Attock Refinery Limited	25%	19,991,640
Pakistan Oilfields Limited	25%	19,991,640
Islamic Development Bank, Jeddah	15%	12,000,000
NIT & ICP	11%	9,069,479

Form of Proxy

45th Annual General Meeting of National Refinery Limited

Folio No. ______________________ and/or CDC Participant I.D. No. __________

I/We ______________________ of ______________________

being a member(s) of National Refinery Limited holding __________ ordinary shares

hereby appoint ______________________ of ______________________

also a member of National Refinery Limited. Folio No. ______________ (or failing

him/her ______________ of __________ also a member of National Refinery Ltd.

Folio No. ______________) as my / our proxy to vote for me / us and on my / our behalf at the 45th Annual General Meeting of the National Refinery Limited., to be held at 4:00 p.m. on Monday, October 20, 2008 and at any adjournment thereof.

Signed by the said Member

Affix Revenue
Stamp of Five Rupees

As witness my/our hand(s) this ______________ day of __________ 2008.

Signed in the presence of:

1. Signature ______________

   Name: ______________

   Address: ______________

   ____

   CNIC/Passport No:______________

2. Signature ______________

   Name: ______________

   Address: ______________

   ____

   CNIC/Passport No:______________

Notes:

1. A member entitled to attend and vote at Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him/her. No person shall act as proxy, who is not a member of the Company except corporate entity may appoint a person who is not a member.
2. This Proxy Form, duly completed and signed, together with Board Resolution / Power of Attorney, if any, under which it is signed or a notarially certified copy thereof, should be deposited, with our Registrar, M/s. Noble Computer Services (Pvt) Ltd. 2nd Floor, Sohny Center, Block 4, F. B. Area, Karachi, telephone No. 6801880 or 6802326, not later than 48 Hours before the time of holding the meeting.
3. The instrument appointing a proxy should be signed by the member or his/her attorney duly authorized in writing. If the member is a corporate entity its common seal should be affixed on the instrument.
4. Any alteration made in this instrument of proxy should be initialled by the person who signs it.
5. Attested copies of CNIC or the passport of the beneficial owners and of the proxy shall be provided with the proxy form.
6. If a member appoints more than one proxy and more than one instruments of proxies are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.
7. In the case of joint holders the vote of the senior who tenders a vote whether in person or by Proxy will be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority will be determined by the order in which the names stand in the Register of Members.
8. The proxy shall produce his / her original CNIC or passport at the time of the meeting.

AFFIX
CORRECT
POSTAGE

The Company Secretary

National Refinery Limited

7-B, Korangi Industrial Area,
Karachi-74900, Pakistan.

National Refinery Limited

7-B, Korangi Industrial Area,
Karachi-74900, Pakistan.
UAN: 111-675-675
Fax: 92-21-5054663

www.nrlpak.com