National Refinery Limited
Annual Report 1999

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COMPANY INFORMATION

MANAGING DIRECTOR
M. M. Husain
COMPANY SECRETARY
Asad A. Siddiqui
AUDITORS
Ford, Rhodes, Robson, Morrow, Chartered Accountants
SOLICITORS
Qamar Abbas & Co.
BANKERS
ABN - AMRO Bank
Allied Bank of Pakistan Limited
American Express Bank Limited
ANZ Grindlays Bank PLC
Bank of America NT & SA
Bank Alfalah
Citibank N.A.
Deutsche Bank A.G.
Habib Bank Limited
Muslim Commercial Bank Limited
National Bank of Pakistan
Standard Chartered Bank
United Bank Limited
REGISTERED OFFICE
7 - B, Korangi Industrial Zone, Karachi - 74900, Pakistan
SHARE DEPARTMENT
1st Floor, Karim Chambers, Merewether Road, Karachi- 75530, Pakistan
REFINERY
7 - B, Korangi Industrial Zone, Karachi - 74900, Pakistan
PHONES (PABX)
310261 - 66, 314160 - 62, 5064135 - 37
FAX
92 - 21 .- 5054663
TELEX
29141 - ENAR - PK
20789- ENAR - PK
CABLE
ENARLUBE

BOARD OF DIRECTORS

Aitzaz Shahbaz	Chairman Petroleum Institute of Pakistan
Abdus Sattar	Financial Advisor Ministry of Petroleum & Nr
G.A. Sabri	Director General Oil Ministry of Petroleum &Nr
Mohammad Abbas	Joint Secretary Ministry of Petroleum & Nr
Tarik Kivanc	Executive Director, Islamic Development Bank, Jeddah

M.M. Husain	Managing Director NRL
Hussain Ahmad Khan	Joint Secretary Ministry of Industries & Production
Ahmed Dawood	Chairman Dawood Group of Industries
J.M. Pereira	Executive Director State Life Ins. Corp. of Pakistan
Brig Abu Rashid	Managing Director KESC.

NRL AT A GLANCE

FIRST LUBE REFINERY

Design Capacity	539,700 tons per year of crude processing
Design Capacity	76,200 tons per year of lube base oils
Date Commissioned	June 1966
Project Cost	103.9 million rupees

FUEL REFINERY

BEFORE REVAMP

Design Capacity	1,500,800 tons per year of crude processing
Date Commissioned	April 1977
Project Cost	607.5 million rupees

AFTER REVAMP

Design Capacity	2,170,800 tons peryearof crude processing
Date Commissioning of Revamp	February 1990
Project Cost of Revamp	125.0 million rupees

B.T.X. UNIT

Design Capacity	25,000 tons per year of B.T.X
Date Commissioned	April 1979
Project Cost	66.7 million rupees

SECOND LUBE REFINERY

Design Capacity	100,000 tons per year of lube base oils
Date Commissioned	January 1985
Project Cost	2,082.4 million rupees

SHARE HOLDERS' EQUITY

June 1996	20.0 million rupees
June 1999	1.980.0 million rupees

FINANCIAL HIGHLIGHTS

	1989-90	1991-92	1990-91	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1§§8-99
RETURN ON INVESTMENT										
				Rs. Per Share of Rs.10						
EARNING	3.20	476	3.41	4.36	530	(3.83)	4.19	6.84	7.38	965
BREAK-UP VALUE	12.18	13.21	13.32	13.68	14.48	10.65	14.84	1,918	24.06	29.71
DIVIDEND	2.80	3.75	3.30	4.00	4.50	0.00	0.00	2.50	2.50	4.00
FINANCIAL 6LIMSES										
				Rs. In 000's						
ISSUED & PAID-UP CAPITAL	666,388	666,388	666,388	666,388	666,388	666,388	666,388	666,388	666,388	666,388
SHARE HOLDERS' EQUITY	811,512	880,180	887,567	911,777	964,792	709,735	988,780	1,278,009	1,603,234	1,979,987
CAPITAL EXPENDITURE	156,034	67,751	45,791	65,441	134,355	627244	65,451	82,370	246,516	46,622
PROFIT BEFORE TAX	374,016	552,563	406,295	589,196	633,395	(123,285)	466,284	774,311	738,928	1,230,307
PROFIT AFTER TAX	213,081	318,563	227,295	290.77	352,889	(255,057)	279,045	455,826	491,822	643,308
TAXATION	160,935	234,000	179.00	298,431	280,506	131,772	187,239	318,485	247,106	586,999
MARKET VALUE OF SHARE	2510	37.40	96.00	83.75	103.00	53.50	39.25	28.50	17.50	30.54
FINANCIAL RATIOS										
CURRENT RATIO	1:0.99	1:1	1:0.98	1:0.96	1:0.95	1:0.95	1:1	1:1	1:1.02	1:1.06
LONG TERM DEBT: EQUITY	50:50	46: 54	40: 60	33: 67	34: 66	47: 53	53: 47	32: 68	18: 82	11: 89
TOTAL DEBT: EQUITY	81: 19	77: 23	84: 16	86: 14	85: 15	90: 10	90: 10	90: 10	89:11	85: 15

NOTICE OF MEETING

Notice is hereby given that the Thirty Sixth (36th) Annual General Meeting of National Refinery Limited will be held on Wednesday, 22rid December, 1999 at 9:00 a.m. at Hotel Beach Luxury, Karachi to transact the following business:-

ORDINARY BUSINESS

1. To confirm the minutes of the Annual General Meeting held on December 31, 1998.

2. To receive and adopt the Audited Accounts of the Company for the year ended June 30, 1999 together with the Directors' Report and the Auditors' Report thereon.

3. To declare the final dividend.

4. To appoint auditors for the year lg99 - 2000 and to fix their remuneration.

By order of the Board

ASAD A. SIDDIQUI
Company Secretary

Karachi' November 15, 1999.

NOTES:

1. Share Transfer Books of the Company will remain closed from 13th December, 1999 to 23rd December, 1999 both days inclusive.

2. A member entitled to attend and vote at the meeting is entitled to appoint another member as proxy.

3. Proxies in order to be effective must be received at the Registered Office of the Company not less than 48 hours before the meeting and must be duly stamped, signed and witnessed.

4. CDC shareholders are requested to bring their National Identity Card, Account and Participant's ID Numbers, while attending the Meeting for identification.

5. Shareholders are requested to promptly notify the Company of any change in their address.

DIRECTORS' REPORT

The Directors of the Company have pleasure in presenting their Annual Report and the Audited Financial Statements of the Company together with Auditors' Report thereon for the year ended June 30,1999.

		(Rupees in '000)
The profit of the company for the year ended June 30, 1999 after taking into account the amount of Rs. 1,063.295 million to current income, under import parity pricing formula and after providing for administrative, selling and financial charges amounts to:		1,330,368
Less: Provision for		
- Workers' Profit Participation Fund	66,518	
- Workers' Welfare Fund	33,543	100,061
	-------------------	-------------------
		1,230,307
Less: Taxation		
- For the year	545,716	
- For prior years	94,066	
- Deferred Tax	(52,783)	586,999
	-------------------	-------------------
Profit after taxation		643,308
Amount of unappropriated profit brought forward from previous year		587
	-------------------	-------------------
Profit available for appropriation		643,895

APPROPRIATIONS

- The Directors proposed that this should be utilized in providing for final dividend at the rate of 40% equivalent to Rs. 4.0 per share of Rs. 10 each.	266,555
- Transfer to General Reserve	377,000

Unappropriated profit carried forward to next year	340
	============

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

BOARD OF DIRECTORS

Since the date of last Annual General Meeting Mr. Kamal Afsar representing Karachi Electric Supply Corporation (KESC) has been replaced by the new Managing Director, KESC, Brig. Abu Rashid.

INFORMATION TECHNOLOGY AND Y2K COMPLIANCE

To meet the challenges of the 21st Century the Company is vigorously pursuing a policy to provide maximum computerized facilities to its staff and establishing local area network alongwith access to internet facilities.

The Company is taking measures to ensure that all its computer applications. operating facilities and hardware systems are free of the millennium bug and Y2K compliant well before the turn of the century.

The Company believes that all its major suppliers and customers and associated companies are taking measures to make their systems Y2K compliant and it is expected that no serious problem shall be encountered on this account.

PATTERN OF SHAREHOLDINGS

Pattern of shareholding is shown on page 43.

AUDITORS

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

CHAIRMAN'S REVIEW

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

On behalf of the Board

AITZAZ SHAHBAZ
Chairman

CHAIRMAN'S REVIEW

Dear Shareholders,

Iam pleased to welcome you to the 36th Annual General Meeting and to present the Annual Report & the Financial Statements for the year ended June 30, 1999.

Despite the difficult economic scenario of the financial year 1998-99, by the Grace of Allah, the performance of your company was remarkable having achieved a record after tax profit of Rs. 643.308 million.

The year under report witnessed a squeeze in margins of fuel products. As a. result the profitability of the Fuel business was pegged to 10% of the equity as admissible under the import parity formula approved by the Government. The Lube business which was not subject to pricing control by the Government and operated in an open market and competitive environment was the key factor in achieving the record profit for the year.

Development surcharge due to the Government, on furnace oil used as feed stock in the Lube Refinery, in respect of the years ended June 30, 1996 to June 30, 1998 had not been accrued by the company in its accounts of prior years on the basis that the same was not a part of import incidentals and, as such, did not consider the same as due to the Government. The Government, on the other hand, had regarded the above referred development surcharge as a part of "identifiable charges and duties as applicable on import of furnace oil to be used as feed stock in the Lube Refinery" and, accordingly, expected the company to pay the same. Subsequent to the end of the current year, the Ministry of Petroleum and Natural Resources approved the computation of development surcharge, whereby the amount owed on this account was determined to be Rs. 131.365 million in respect of the years commencing July 01, 1995 to June 30, 1999. Accordingly, the company has now provided the same in the Accounts of the current year.

During the year ended June 30, 1998 an agreement for a loan amounting to US$ 30 million was entered into by the company with ANZ Grindlays Bank, Bahrain Branch guaranteed by the State Bank of Pakistan.

The company has not recorded the above loan in its books of account as the same was not received by the company and the proceeds were credited to the account of the Government of Pakistan.

CRUDE OIL:
The supplies of Arabian Light and Arabian Extra Light were arranged by the Government from Saudi Aramco. The crude oil throughput for the year was 2,893 million tons including 0.367 million tons received from indigenous sources as against 2.903 million tons (including 0.633 million tons received from indigenous sources) of the previous year which was slightly higher than this year.

PRODUCTION:
The production of finished products was reduced to 2.761 million tons as compared to 2.783 million tons last year mainly due to lesser crude oil throughput. The product mix was maintained according to the market demand maximizing production of deficit products as required by the Government. The production of Lube Base Oils was increased and was recorded at 177,751 tons compared to 162,995 tons of last year.

SALES:
Sales for the year were 2.795 million tons generating a revenue of Rs. 18.037 billion including Lube Base Oil sales of Rs. 3.725 billion (excluding refunds from the Government under the import parity formula amounting to Rs. 1.063 billion) compared to 2.785 million tons and Rs. 20.078 billion for the year 1997-98. The exports of Naptha and Asphalt for the year were 83,985 tons amounting to Rs. 531.057 million compared to last year figure of 73,094 tons amounting to Rs. 477.048 million.

MANUFACTURING, SELLING, ADMIN.
AND FINANCIAL EXPENSES:
In order to optimize profitability from operations the company continues to actively monitor and controls its internal costs. Nevertheless, the company had faced inflationary pressures prevailing in the country. Consequently the manufacturing expenses increased for the year to Rs. 2,034 million as against Rs. 1,932 million for the previous year. However due to control measures adopted by the management the selling and administrative expenses reduced to Rs. 230 million during the year as against Rs. 243 million for the previous year.

The position of inter corporate circular debts has improved during the year 1998-99 and consequently the financial expenses have been reduced by Rs. 101 million to Rs. 733 million as compared to previous year figure of Rs. 834 million.

PROJECTS:
M/s Siemens commenced work on the 7.5 MW steam turbo generator in August 1998. The generator was finally started and produced 200,000 KWH running up to 4 MW. Unfortunately on February 27,1999 due to some electrical problems (potential transformer failure), the turbo generator was stopped. At this point M/s Siemens raised certain claims. The case for payment against the claims to M/s Siemens is under process with the Government. As soon as the payment would be arranged, the turbo generator would be in operation within a period of three months.

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

NRL entered into an agreement with Anoud Power Generation Limited (APGL) for a guaranteed purchase of 15 MW electricity. However, the agreement could not be executed. APGL served legal notice for performance of the agreement and filed a claim of damages amounting to Rs. 2.758 billion, whereas NRL filed a counter-claim of Rs. 737 million against APGL.

The issue has now been settled out of the court. APGL has agreed in principle that the guaranteed purchase of 15 MW electricity by NRL is to be reduced to 4 MW electricity.

On the execution of the revised agreement, APGL and NRL, both would withdraw their claims from the courts.

INFORMATION TECHNOLOGY AND Y2K COMPLIANCE:

To meet the challenges of the 21st Century the company is vigorously pursuing a policy to provide maximum computerized facilities to its staff and establishing local area network alongwith access to internet facilities.

The company is taking measures to ensure that all its computer applications, operating facilities and hardware systems are free of the millennium bug and Y2K compliant well before the turn of the century.

The company believes that all its major suppliers and customers and associated companies are taking measures to make their systems Y2K compliant and it is expected that no serious problem shall be encountered on this account.

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

I wish to share with you my deep appreciation for the untiring efforts and dedication of all the executives, staff and workers during the year in keeping the Refinery operating under difficult conditions, which has enabled the company to achieve a record profit. I acknowledge their contribution and assure them of your full support.

I would also like to pay tribute to the Managing Director and the members of the Board for their keen participation and guidance in the affairs of the company. I am also thankful to all financial institutions, bankers, leasing companies, World Bank and other suppliers who extended their support and co-operations to the management in carrying out smooth operation of the company.

I conclude with a word about you, our esteemed shareholders. It is heartening to know that we continue to receive your support and confidence and trust that this will continue in the future as well.

AITZAZ SHAHBAZ
Chairman

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of NATIONAL REFINERY LIMITED as at June 30, 1999 and the related profit and loss account and the statement of changes in financial position together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that :

(a) the ANZ Grindlays Bank has confirmed a loan outstanding from the company of US $ 30 million which for reasons given in note 30 has not been recorded by the company in its books of account. Had the company recorded the same, both the current liabilities and current assets would have increased by US $ 31.463 (1998: US $ 31067) million (principal and interest), equivalent to approximately Rs. 1,632.904 (1990; Rs. 1,443.373) million, assuming that the Government would accept the liability for the loan and interest thereon and on this basis the above would have no effect on the financial results of the company.

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

(c) in our opinion:

(i) the balance sheet and the 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 accounts and are further in accordance with accounting policies consistently applied;

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

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

(d) in our opinion, except for the effect, if any, of the matter referred to in paragraph (a) above, and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and the statement of changes in financial position, together With the notes forming part thereof, give the information required by the

Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 1999 and of the profit and the changes in financial position for the year then ended;

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

(f) without qualifying our opinion, we draw attention to the matters stated in notes 22.1 and 22.2 the ultimate outcome of which cannot presently be determined and. hence, no provision that may result therefrom has been made in these accounts.

Karachi -	**FORD, RHODES, ROBSON, MORROW**
15-Nov-99	**Chartered Accountants.**

BALANCE SHEET AS AT JUNE 30, 1999

	Note	1999	1998
		(Rupees in '000)	
ASSETS			
NON-CURRENT ASSETS			
Fixed assets - Tangible			
Operating fixed assets at cost less			
accumulated depreciation	3	950,314	1,152,431
Capital work-in-progress	4	611,157	534,839
		1,561,471	1,687,270
Long-term investment	5	9	9
Long-term loans, advance and deposits	6	147,400	144,946
CURRENT ASSETS			
Stores, spares and chemicals	7	546,226	569,248
Stock-in-trade	8	1,711,974	1,140,130
Trade debts	9	5,380,423	8,548,248
Loans and advances	10	25,313	118,730
Deposits and prepayments	11	60,195	57,492
Other receivables	12	3,772,530	2,619,235
Cash and bank balances	13	68,612	486,271
		11,565,273	135,393.54
TOTAL ASSETS		13,274,153	15,371,579
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	14	666,388	666,388
Reserves	15	1,313,599	936,640
		1,979,987	1,603,234
NON-CURRENT LIABILITIES			
Long-term loans	16	242,758	356,438
Obligations under finance leases	17	3,812	--
Deferred liabilities			
Gratuity		50,975	36,588
Compensated absences		19,735	12,635
Deferred taxation	18	51,322	104,105
		122,032	153,328
CURRENT LIABILITIES			
Current maturities of long term loans			
and obligations under finance leases	19	151,742	277,919
Short term loans and running finances	20	157,633	4,928.57

Creditors, accrued and other liabilities	21	9,972,909	7,885,490
Provision for taxation - net		376,725	--
Proposed dividend		266,555	166.60
		10,925,564	13,258,579
CONTINGENCIES AND COMMITMENTS	22		
TOTAL EQUITY AN D LIABILITIES		13,274,153	15,371,579

The annexed notes form an integral part of these accounts.

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

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 1999

	Note	**1999**	**1998**
			(Rupees in '000)
GROSS SALES	23	20,687,514	22,121,086
Duties, taxes, commission and levies	24	(1,587,498)	(1,412,021)
NET SALES		19,100,016	20,709,865
Cost of goods sold	25	(16,961,240)	(10,930,980)
GROSS PROFIT		2,138,776	1,770,085
Other operating income	26	120,546	47,756
Non- refining income	27	34,201	56,904
		2,293,523	1,883,545
Administrative, selling and general expenses	28	(229,709)	(243,016)
Other charges	29	(100,061)	(67,622)
		(329,770)	(310,638)
OPERATING PROFIT		1,963,753	1,572,907
Financial charges	30	(733,446)	(8,33,979)
PROFIT BEFORE TAXATION		1,230,307	738,928
Taxation	31	(586,999)	(247,106)
NET PROFIT FOR THE YEAR		643,308	491,822
UNAPPROPRIATED PROFIT BROUGHT FORWARD		587	362
PROFIT AVAILABLE FOR APPROPRIATION		643,895	492,184
APPROPRIATIONS			
Proposed final dividend @ Rs. 4.0 (1998:Rs.2.5) per			
Ordinary share of Rs. 10 each		(266,555)	(166,597)
Transfer to General reserve		(377,000)	(325,000)
		(643,555)	(491,597)
UNAPPROPRIATED PROFIT CARRIED FORWARD		340	587
BASIC EARNINGS PER SHARE	32	9.65	7.38

The annexed notes form an integral part of these accounts.

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

STATEMENT OF CHANGES IN FINANCIAL POSITION
(CASH FLOW STATEMENT) FOR THE YEAR ENDED JUNE 30, 1999

	Note	**1999**	**1998**
		(Rupees in '000)	

CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	34	5,787,199	595,051
Financial charges paid		(667,982)	(743,936)
Taxes paid		(236,522)	(339,839)
		---------------------	---------------------
Net cash inflow / (outflow) from operating activities		4,882,695	(488,724)
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(126,574)	(101,092)
Sale proceeds of fixed assets		1,917	2,514
Acquisition of subsidiary - National Oil Marketing (Pvt.) Ltd.		--	(1)
Long term loans and deposits		(2,454)	(334)
		---------------------	---------------------
Net cash used in investing activities		(127,111)	(99,713)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		(166,258)	(66,639)
Lease finances		(123,622)	(129,712)
Long term loans		(112,423)	(1,080,167)
		---------------------	---------------------
Net cash used in financing activities		(402,303)	(1,276,518)
		---------------------	---------------------
Net increase / (decrease) in cash and cash equivalents		4,353,281	(1,864,955)
Cash and cash equivalents at the beginning of the year		(4,442,302)	(2,577,347)
		---------------------	---------------------
Cash and cash equivalents at the end of the year	35	(89,021)	(4,442,302)
		============	============

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 1999

1. THE COMPANY AND ITS OPERATIONS

National Refinery Limited was in corporated in Pakistan on August 19, 1963 as a public limited company. The shares of the company are listed on the Karachi, Lahore and Islamabad Stock Exchanges. It is engaged in the production and sale of petroleum products.

The refinery complex of the company comprises of three refineries, consisting of two lube refineries, commissioned in 1966 and 1985, and a fuel refinery added to the complex in 1977.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention
These accounts have been prepared under the historical cost convention except that certain exchange differences referred to in notes 2.3, 2.8 and 2.11 have been in corporated in the cost of relevant assets.

2.2 Consolidated financial statements
The company has not prepared the consolidated financial statements comprising the financial statements of the company and its wholly owned subsidiary, National Oil Marketing (Private) Limited, as at June 30, 1999 in view of the current dormant status of the wholly owned subsidiary coupled with the company's plan to subsequently restructure the operations of the wholly owned subsidiary in the near future,

2.3 Tangible fixed assets
(a) Owned
These are stated at cost less accumulated depreciation. Exchange gains and losses in respect of long term foreign currency loans acquired and utilised for the acquisition of assets are included in the cost of the respective assets.
Depreciation is charged to income applying the straight line method whereby the cost of the asset is written off over its estimated useful life.

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

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

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

(b) Leased

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

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

2.4 Capital work-in-progress

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

2.5 Long term investments

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

2.6 Stores, spares and chemicals

Stores, spares and chemicals, excluding drum sheets, empty drums and items in transit are valued at moving average cost. Drum sheets and drums are valued at cost using first-in-first out (FIFO) basis whereas items in transit are valued at cost comprising invoice values plus other charges incurred thereon.

2.7 Stock-in-trade

Stock of crude oil is valued at cost determined on first-in-first out basis. Crude oil in transit is valued at costs comprising invoice values plus other charges incurred thereon. Stock of semi-finished and finished products are valued at lower of cost and net realisable value. Cost in relation to semi-finished and finished products represents cost of crude oil and an appropriate allocation of manufacturing overheads. Cost in respect of semi-finished items is adjusted to appropriate stage of processing.

Net realisable value represents import parity prices as published in the Platt's Oilgram notified by the Ministry of Petroleum and Natural Resources.

2.8 Foreign currency translation

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

2.9 Taxation

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

The Company accounts for deferred taxation on all timing differences using the liability method. However, deferred tax is not provided if it can be established with reasonable probability that these timing differences will not reverse in the foreseeable future.

2.10 Revenue recognition

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

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

Interest/return on bank deposits and advances to employee are recognized on accrual basis.

Interest income resulting from overdue balances, if any, included in trade debts and markup on long term loan to PERAC are accounted for on a receipt basis.

2.11 Borrowing costs

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

2.12 Staff retirement benefits

The company participates in the funded pension and gratuity schemes, established for the management staff of companies, administered by the State Petroleum Refining and Petrochemical Corporation (Pvt.) Limited (PERAC). These schemes are managed by PERAC through a fund established out of contributions from the participating companies and are based on actuarial valuation. The actuarial cost method has been adopted for valuation of the schemes. Actuarial valuation is carried out every third year and the latest valuation in this regard was carried out on January 01, 1998.
The company's share in the fair value of assets and liabilities, of the schemes for the past services of employees at the valuation date was Rs.382.983 million and Rs,353.852 million, respectively.

In addition to the above, the company operates:

(a) an unfunded gratuity scheme covering all workers and clerical staff whose period of service with the company is five years or more. Based on graduated rates fixed under the scheme and calculated with reference to the last drawn salary and length of service of the employee, amounts are provided annually by way of a charge to profit and loss account to cover obligations under the scheme.

9b) an approved contributory provident fund for all employees.

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

2.13 Research and development costs

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

2.14 Import parity entitled prices

Effective July 01, 1992 the Government introduced an Import Parity Formula under which product prices had been fixed at CIF level, restricting the profitability of the Fuel Refinery in the range of 10% to 40% (including "other income") on the paid up capital with no such restriction in respect of the Lube Refinery. Effective July 1, 1994, the company has retained the non-refining income in addition to the above restricted return on capital, in accordance with the 1994 petroleum policy.

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

	C O S T					ACCUMULATED DEPRECIATION				NETB00K VALUE AS AT
	AS AT JULY	ADDITIONS/ TRANSFERS*	DISPOSALS/ TRANSFERS*	AS AT JUNE 30, 1999	RATE %	AS AT JULY 01, 1998	FOR THE YEAR	DISPOSALS/ TRANSFERS*	AS AT JUNE 30, 1999	JUNE 30, 1999
OWNED										
Leasehold land (Note 3.1)	58,922	294	--	59,216	1	4,424	595	--	5,019	54,197
Building on leasehold land	56,559	2,721	--	59,280	5	37,081	2,068	--	39,149	20,131
Oil Terminal	102,350	--	--	102,350	6	95,487	691	--	96,178	6,172
Processing plant and storage tanks	3,052,874	5,989 395221*	--	3,454,084	5 to 7	2,757,088	180,401	-- 80,928 *	3,018,417	435,667
Power Generation Plant (4.0 M.W.)	223,653	--	--	223,653	7	15,656	15,656	--	31,312	192,341
Pipelines	107,326	3,669	--	110,995	8	104,964	620	--	105,584	5,411
Water power and other utilities	624,475	10,662 72,629 *	--	707,766	6	470,714	38,261	-- 13.074 *	522,049	185,717
Vehicles	12,066	1,725	(1,565) 10,056 *	22,282	20	10,174	3,799	(1,565) 5,160 *	17,568	4,714
Furniture and equipments	32,597	9,538 1,024*	(123)	43,036	7.5 to 15	23,695	3,875	(110) 413*	27,873	15,163
Other equipments	77.38	7,615	--	84,990	5 to 10	56,040	3,296	--	59,336	25,654

	4,348,197	42,213 478,930 *	(1,688)	4,867,652		3,575,323	249,262	(1,675) 99,575 *	3,922,485	945,167
LEASED										
Vehicles	10,393	8,043 (10,056) *	'(1,946)	6,434	20	5,295	1,287	(135) (5,160) *	1,287	5,147
Plant and Tanks	467,850	-- (467,850) *	--	--	7	94,002	--	-- (94,002) *	--	--
Computers	1,024	-- (1,024) *	--	--	15	413	--	-- (413) *	--	--
	479,267	8,043 (478,930) *	'(1,946)	6,434		99,710	1,287	(135) (99,575) *	1,287	5,147
June 30, 1999	4,827.46	50.26	(3,634)	4,874,086		3,675,033	250,549	(1,810)	3,923,772	950,314
June 30, 1998	4,580,948	253,893	(7,377)	4,827,464		3,403,503	273,517	(1,987)	3,675,033	1,152,431

3.1 Leasehold land includes a piece of land measuring 13,200 square yards sub-leased to Anoud Power Generation Limited (APGL) for the purposes of setting up a power plant to provide power to the refinery to make it self sufficient and independent of the KESC grid.

3.2 Depreciation for the year has been allocated as follows:

	Note	**1 999**	**1 998**
		(Rupees in '000)	
Cost of sales	25	241,589	267,138
Administrative expenses	28	8,960	6,379
		250,549	273,517

During the year the following amounts have been transferred from Capital Work-in-progress to:

Fixed Assets

Building on leasehold land	691	--
Processing plant and storage tanks	2,250	--
Pipelines	3,521	--
Water power and other utilities	4,436	7,102
Other equipment	914	--
Power generation plant (4.0 M.W.)	--	223,653
	11,812	230,755

3.4 The following fixed assets were disposed off during the year:

(Rupees in '000)

Description	**Cost**	**Accumulated Depreciation**	**Net book value**	**Sale proceeds**	**Mode of disposal**	**Particulars of buyers**
Equipment	18	5	13	13	Company policy	Mr. Iqbal Bawani Ex-Employee
Vehicle	337	135	202	370	Insurance claim	EFU General Insurance
Vehicle	1,609	-	1,609	1,200	Insurance claim	NDLC
Vehicles and Equipment with written down value of below Rs.5,000	1,670	1,670	-	334		
	3,634	1,810	1,824	1,917		

	Note	**1999**	**Additions/ (Transfers)**	**1998**

(Rupees in '000)

4. CAPITAL WORK-IN-PROGRESS

Power Generation Plant (7.5 M.w.)				
Fees & technical studies		53,631	7,648	45,983
Material, equipment and cost of related services		352,084	567	351,517
Borrowing costs		68,274	--	68,274
Other expenditure		646	--	646
		474,635	8,215	466,420
Processing Plant & Storage Tanks				
Fees & technical studies	4.1	811	354 (8,500)	8,957
Material, equipment and cost of related services		122,032	66,236 2,918 (766)	53,644
Advances to contractors		1,293	(2,918)	4,211
		124,136	57,324	66,812
Other Projects		12,386	21,825	1,607
Building on leasehold land			(691)	
Processing plant and storage tanks			(1,484)	
Pipelines			(3,521)	
Water power and other utilities			(4,436)	
Other equipment			(914)	
		611,157	76,318	534,839

4.1 Cost of survey fee amounting to Rs.8.5 million capitalised during the year ended June 30, 1992 has been charged against profit and loss account during the current year.

	Note	1999	1998
		(Rupees in '000)	
5. LONG TERM INVESTMENTS			
Wholly owned subsidiary			
National Oil Marketing (Pvt.) Limited 100 (1998: 100) Ordinary shares of Rs.10 each '[Break-up value Rs.5,481,88 (1998: Rs. Nil) per share on the basis of financial statements for the year ended June 30, 1999]	2.2	1	1
Listed			
Pakistan PVC Limited 3,125 Ordinary shares of Rs.10 each [market value Rs.8,125 (1998: Rs.8,125)]		9	9
Unlisted			
Anoud Power Generation Limited 1,080.000 Ordinary shares of Rs.10 each. Equity held 10% (1998: 10%), Chief Executive Shabbir A. Jumani. Break-up value of each Ordinary share of Rs.10 is Rs.10 (1998: Rs.10) per share based on the latest audited accounts available for the year ended June 30, 1996		10,800	10,800
Fuel Pipelines Limited 5,000 Ordinary shares of Rs.10 each. Equity held 10% (1998: 10%), Chief Executive Syed Amjad Hussain (audited accounts not available)		50	50
Provision for diminution in value of investments in Anoud Power Generation Limited, Pakistan PVC Limited and Fuel Pipelines Limited		(10,851)	(10,851)
		9	9

	Note	1999	1998
		(Rupees in '000)	
6. LONG TERM LOANS, ADVANCE AND DEPOSITS - considered good			
Loans - secured			
Executives		34,815	26,962
Employees		8,422	10,925
	6.1	43,237	37,807
Receivable within one year shown under current assets			
Executives		(9,276)	(5,598)
Employees		(2,220)	(2,402)
	10	(11,496)	(8,000)
		31,741	29,887
State Petroleum Refining and Petrochemical Corporation (Pvt.) Ltd (PERAC) - unsecured	6.2	60,000	60,000
		91,741	89,887
Advance- unsecured			
State Petroleum Refining and Petrochemical Corporation (Pvt.) Ltd (PERAC)	6.3	50,000	50,000
Deposits		5,659	5,059
		147,400	144,946
Loans outstanding for periods exceeding three years		14,851	1,760
Others		16,890	28,127
		31,741	29,887

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

The maximum aggregate amount due from executives in respect of loans at the end of any month during the year was Rs.36.951 (1998: Rs.29.132) million.

6.2 The company has provided a sum of Rs.60.00 million as a loan to the State Petroleum Refining and Petrochemical Corporation (Pvt.) Limited (PERAC) for the purposes of setting up the Iran-Pak Refinery Project, under the directives of the Government of Pakistan. Although the loan carries markup @ 14% (1998: 12%) per annum, the company has decided not to accrue the same in view of uncertainty regarding the realization of markup because of PERAC's financial position.

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

6.3 This represents an advance to PERAC for acquiring shares in National Crescent Petroleum Limited. The shares have not yet been allotted to the company.

	1999	1990
	(Rupees in '000)	
7. STORES, SPARES AND CHEMICALS		
Stores	212,085	172,288
Spares	468,525	420,679
Chemicals	120,605	189,705
Stores, spares and chemicals in transit	48,887	21,425
	850,102	804,097
Provision against obsolete stores, spares and chemicals	(303,876)	(234,849)
	546,226	569,240

	============	============

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

8. STOCK-IN-TRADE

Crude oil		
- in tanks	875,964	402,345
- in transit	208,699	2,152
	---------------------	---------------------
	1,084,663	404,497
Semi finished products	256,117	195,945
Adjustment relating to net realizable value	(126)	(4,357)
	---------------------	---------------------
	255,991	191,588
Finished products	371,320	575,139
Adjustment relating to net realizable value	--	(31,094)
	---------------------	---------------------
	371,320	544,045
	---------------------	---------------------
	1,711,974	1,140,130
	============	============

9. TRADE DEBTS

Unsecured		
Considered good	5,380,423	8,548,248
Considered doubtful	22,735	22,735
	---------------------	---------------------
	5,403,158	8,570,983
Provision against debts considered doubtful	(22,735)	(22,735)
	---------------------	---------------------
	5,380,423	8,548,248
	============	============

10. LOANS AND ADVANCES

Considered good			
Loans			
Current portion of long term loans			
Executives		9,276	5,598
Employees		2,220	2,402
		---------------------	---------------------
	6	11,496	8,000
Short term loans to employees		1,784	1,456
Advances			
Executives		606	271
Employees		27	267
Suppliers		11,400	108,736
		---------------------	---------------------
		12,033	109,274
		---------------------	---------------------
		25,313	118,730
		============	============

10.1 The maximum aggregate amount due from executives in respect of advances at the end of any month during the year was Rs.956,068 (1998: Rs.375,994).

11. DEPOSITS AND PREPAYMENTS

Deposits		
Development surcharge	5,517	2,430
Excise duty	13,085	14,758
Margin against letters of credit and guarantee	2,063	256
Lease deposits	701	1,302
Others	1,733	993
	---------------------	---------------------
	23,099	19,739
Prepayments		
Rent	96	303
Insurance	29,368	30,354
Miscellaneous	7,632	7,096

		---------------------	---------------------
		37,096	37,753
		---------------------	---------------------
		60,195	57,492
		============	============

12. OTHER RECEIVABLES

Considered good			
Due from National Oil Marketing (Pvt.) Limited			
a wholly owned subsidiary		1,425	--
Due from the Government of Pakistan	12.1	3,604,295	2,569,230
Due from Pakistan State Oil (PSO)	12.2	10,452	10,452
Due from Pakistan Refinery Ltd. -			
an associated undertaking	12.3	143,247	--
Interest accrued on long term loan to PERAC		7,531	7,531
Claims receivable	12.4	974	683
Income tax - net		--	26,535
Sales tax		2,230	3,045
Miscellaneous		2,376	1,759
		---------------------	---------------------
		3,772,530	2,619,235
		============	============

12.1 This represents the net balance of:
(a) claims receivable of Rs.3,759.048 (1998: Rs.2,564.389) million due from the Government of Pakistan under the Import Parity Formula, discussed in note 2.14 to these accounts, in respect of the period commencing 1994-95 to 1998-99.

(b) Rs.23.388 million (1998:Rs.4.841 million due from) to the Government of Pakistan in respect of net debt servicing costs whereby excess of interest earned on funds, previously set aside for the purposes of repayment of short term loan obtained by the company from the Islamic Development Bank in the past, over interest paid thereon and resulting exchange rate fluctuations is payable to the Government and, hence, the balance of Rs.23.388 million, as referred to above, is due in this regard.

(c) development surcharge due to the Government, on furnace oil used as feed stock in the lube refinery, amounting to Rs.131.365 million (1998: Rs. Nil). The said development surcharge, previously estimated at Rs.678.244 million in respect of the years ended June 30, 1996 to June 30, 1998 had not been accrued by the company in its accounts of prior years on the basis that the same was not a part of import incidentals and, as such, did not consider the same as due to the Government. The Government, on the other hand, had regarded the above referred development surcharge as a part of "identifiable charges and duties as applicable on import of furnace oil to be used as feed stock in the lube refinery" and, accordingly, expected the company to pay the same.

Subsequent to the end of the current year, the Ministry of Petroleum and Natural Resources in their letter dated October 7, 1999 approved the computation of development surcharge, as referred to above, under a revised formula whereby the amount owed on this account was determined to be Rs.131.365 million in respect of the years commencing June 30, 1996 to June 30, 1999 as opposed to Rs.678,244 million previously estimated. Accordingly, the company has now provided the same in the accounts of the current year and has netted it off against claims receivable in arriving at the net amount due from the Government at the end of the current year.

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

12.3 This represents amount due from Pakistan Refinery Limited (PRL) on account of custom duties and other related charges paid by the company on behalf of PRL on the import of crude oil under the directives of the Federal Government.

12.4 Included herein are claims in respect of insurance and customs duty amounting to Rs.0.207 and Rs.0.767 million respectively.

	Note	**1999**	**1998**
		(Rupees in '000)	
13. CASH AND BANK BALANCES			
In hand		570	556

At banks in				
current accounts			6,143	210,941
saving accounts			52,691	239,694
foreign currency deposit accounts			9,208	35,080
			68,042	485,715
			68,612	486,271

14. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

59,450,417	Ordinary shares of Rs.10 each fully paid in cash	594,504	594,504
6,469,963	Ordinary shares of Rs.10 each fully paid for consideration other than cash	64,700	64,700
718,420	Ordinary shares issued as fully paid bonus shares	7,184	7,184
66,638,800		666,388	666,388

15. RESERVES

Capital reserves			
Capital compensation reserves	15.1	10,142	10,142
Exchange equalisation reserve		4,117	4,117
		14,259	14,259
Revenue reserves			
General reserve	15.2	1,299,000	922,000
Unappropriated profit		340	587
		1,299,340	922,587
		1,313,599	936,846

15.1 Capital compensation reserves

(a) For premature termination of crude oil sales, bareboat charter-party and technical assistance agreements	17,396	17,396
(b) For design defects and terminated service agreements	613	613
(c) For termination of bareboat charter-party and affreightment agreements	395	395
	18,404	18,404
Capitalised by issue of bonus shares of Rs.7.184 (1998: Rs.7.184) million, including tax thereon	(8,262)	(8,262)
	10,142	10,142

15.2 General reserve

Balance at the beginning of the year	922,000	597,000
Appropriation during the year	377,000	325,000
	1,299,000	922,000

16. LONG TERM LOANS
Secured Loans from banks

Demand finance loans			
Allied Bank of Pakistan	16.1	66,300	74,100
ANZ Grindlays Bank	16.2	40,000	80,000
Muslim Commercial Bank	16.3	13,185	37,106

		119,485	191,206
Unsecured Loans			
State Petroleum Refining and Petrochemical Corporation (Pvt.) Limited (PERAC)	16.4	273,673	314,375
		393,158	505,581
Current maturities due within next twelve months shown under current liabilities			
- Secured loans from banks		(60,985)	(71,721)
- Unsecured loans from PERAC		(89,415)	(77,422)
	19	(150,400)	(149,143)
		242,758	356,438

16.1 The balance outstanding at the end of the current year in respect of the demand finance facility extended by Allied Bank of Pakistan Limited is repayable in seventeen equal half yearly instalments of Rs.3.9 million each, with last repayment due on September 21, 2007 together with markup thereon @ 16% (1998: 16%) per annum. The facility is secured against a first charge ranking pari passu on the fixed assets of the company.

16.2 The demand finance facility extended by ANZ Grindlays Bank carries mark-up @ 17% (1998: 16%) per annum and is secured against hypothecation over stock-in-trade and book debts amounting to Rs.257 million each.

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

16.3 The balance outstanding at the end of the current year in respect of the demand finance facility from Muslim Commercial Bank is repayable on November 12, 1999.

It carries mark-up @ 13.505% (1998:13.505%) per annum and is secured against a first charge ranking pari passu on the fixed assets of the company and joint hypothecation of stock of crude oil.

16.4 The balance outstanding at the end of the current year in respect of unsecured loans from PERAC is repayable thereto in Pak Rupees, equivalent to U.S. Dollars 5.273 (1998: U.S. Dollars 6.767) million. These loans, consisting of two separate loans of U.S. Dollars 19.625 million and U.S. Dollars 1.087 million, aggregating to U.S. Dollars 20.712 million, were originally arranged by PERAC from the International Bank for Reconstruction and Development (IBRD) for the purposes of improving the efficiency and operations of the company and, hence, PERAC relent the above referred 20.712 million U.S. Dollars equivalent to the company under two separate subsidiary loan agreements.

These loans, secured against the guarantees issued by the Islamic Republic of Pakistan, carry interest at the rate of one half of one percent per annum above the cost of qualified borrowings for the last semester ending prior to the commencement of such interest period. Accordingly, the effective rate of interest for the year thus worked out at 6.11% (1998: 6.45%) per annum.

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

17. OBLIGATIONS UNDER FINANCE LEASES

During the year, the company entered into two new lease finance agreements in respect of vehicles. The rates of interest used as the discounting factor are 14.95% and 18.06% (1998: 17% to 18%) per annum.

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

	Note	**1999**	**1998**
		(Rupees in '000)	
June 30, 1999		--	134,271
June 30, 2000		2,123	--
June 30, 2001		2,123	--

June 30, 2002		2,069	--
September 30, 2002		409	--
		6,724	134,271
Financial charges allocated to future periods		(1,570)	(5,495)
		5,154	128,776
Current maturity shown under current liabilities	19	(1,342)	(128,776)
		3,812	--

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

18. DEFERRED TAXATION

Deferred tax credits arising from timing differences relating to fixed assets	249,736	201,911
Deferred tax debits arising from certain short term provisions	(150,589)	(145,631)
	51,322	104,105

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

Long term loans	16	150,400	149,143
Obligations under finance leases	17	1,342	128,776
		151,742	277,919

20. SHORT TERM LOANS AND RUNNING FINANCES - SECURED

Short term loans			
Islamic Development Bank		--	4,651,439
Short term running finances	20.1	157,633	277,134
		157,633	4,928,573

20.1 The facilities for short term running finances available from various banks amount to Rs.540.5 (1998- Rs.565.5) million.
The rates of markup ranges between 14% and 16.425% (1998: 14% and 16.425%) per annum, payable quarterly.
The facilities are secured against hypothecation of stock in trade, stores, spares and chemicals.

21. CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors	8,364,439	6,128,597
Accrued liabilities		
Markup / Interest accrued on :		
long term loans - secured	237	704
- unsecured	1,311	682
short term loans - secured	1,016	267,414
short term running finances -- secured	628	3,818
finance leases	--	4,466
custom duty	481,123	139,017
Accrued expenses	541,458	670,693
	1,025,773	1,086,794
Other liabilities		
Due to National Oil Marketing (Private) Limited - a wholly owned subsidiary	--	4,596
Retention money	9,972	6,301
Deposits from contractors	25,487	25,060

Advances from customers		166,884	153,447
Sales tax		158,418	164,117
Workers' Profits Participation Fund	21.1	16,443	39,648
Workers Welfare Fund		43,662	31,357
Wharfage		10,839	5,392
Customs duty		75,401	137,885
Tax deducted at source		14	38
Penalties	21.2	56,077	58,827
Unclaimed dividend		6,630	6,291
Miscellaneous		12,870	37,140
		582,697	670,099
		9,972,909	7,885,490

21.1 Workers' Profits Participation Fund

Balance at the beginning of the year		39,648	41,565
Allocation for the year	29	66,518	39,722
		106,166	81,287
Interest on funds utilised in the Company's business	30	1,789	3,149
		107,955	84,436
Amount paid to the Trustees of the fund		(91,512)	(44,788)
Balance at the end of the year		16,443	39,648

21.2 This represent penalties imposed by the Sales Tax Department on account of late payments in respect of sales tax on certain consignments of Asphalt and other items.

22. CONTINGENCIES AND COMMITMENTS

(a) Contingencies

22.1 Subsequent to the end of the current year, the Collectorate of Sales Tax (East) vide their order dated August 31, 1999 demanded a sum of Rs.144,907,700 on account of sales tax together with additional sales tax of Rs.271,809,988 and penalties of Rs.21,736,614, aggregating to Rs.438,454,302, from the company. The said demand was made by the above referred authority on account of the company's use of a sub-stance called "Naphtha" as an intermediatory product in the manufacturing of a product "JP - 4". The Collectorate of Sales Tax (East) has maintained that while the above referred product is exempted from the payment of sales tax under the sixth schedule of the Sales Tax Act, 1990, the intermediatory product, Naphtha, is not and, hence, the same is liable to sales tax under section 3 (1) (A) of the Sales Tax Act, 1990. The company has outrightly rejected this view and has. therefore, filed an appeal against the above referred demand with the Sales Tax Appellate Tribunal for setting aside the above referred order.

Although hearings in respect of the appeal in question are currently in progress, the company is, none-the-less, confident that based upon the technical facts of the case, the demand raised by the Collectorate of Sales Tax (East) would be set aside and that a decision will be rendered in its favour. Accordingly, pending a final decision in this regard, no provision has, therefore, been made against Rs.438,454,302 demanded by the Collectorate of Sales Tax (East.)

22.2 A contractor has filed a claim of Rs.9,571,971 against the company for (a) alleged delay in the completion of certain storage tanks, causing the contractor a loss on that account and (b) in respect of extra work performed by the contractor. Although the matter is currently under arbitration, the company is, none-the-less, confident that the case will be decided against the contractor and, hence, pending a final decision by the arbitrator, no provision has been made by the company against the above referred claim.

22.3 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 rodate by the customer. Accordingly, the amount of claim can not be determined at present.

22.4 Outstanding guarantees at the end of the year amounted to Rs.57.962 (1998: Rs.229.457) million.

22.5 Claim not acknowledged as debt amounted to Rs.21.577 (1998: Rs.19.767) million at the end of the year.

(b) Commitments

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

	Note	1999	1998
		(Rupees in '000)	
Currency			
CHF		--	3,595
Pak .Rupees		20,000	45,772
		20,000	49,367

22.7 Outstanding letters of credit at the end of the year amounted to Rs.98.83 (1998: Rs.785.871) million.

	Note	1999	1998
23. GROSS SALES			
Local sales		19,079,153	20,995,407
Export sales		545,066	494,649
Refund from the Government under the Import Parity Formula		1,063,295	631,830
		20,687,514	22,121,886
24. DUTIES, TAXES, COMMISSION AND LEVIES			
Development surcharge		513,365	315,112
Excise duty		324,906	301,985
Sales tax		735,218	776,661
Commission - National Oil Marketing (Private) Limited		--	662
Custom duty, wharfage and other levies		14,009	17,601
		1,587,498	1,412,021
25. COST OF GOODS SOLD			
Opening stock of semi-finished and finished products		735,633	1,138,227
Crude oil and drums consumed	25.1	14,819,417	16,596.06
Provision against obsolete stores, spares and chemicals		69,027	56,216
Salaries, wages and staff benefits	25.2	373,699	357,165
Stores, spares and chemicals consumed		260,486	223,232
Fuel and power		680,408	667,644
Rent, rates and taxes		23,231	27,392
Insurance		33,030	32,156
Repairs and maintenance		302,354	262,999
Depreciation	3.2	241,589	267,138
Staff transport		11,873	13,728
Research and development outlay		8,000	10,000
Consultancy / survey fee	4.1	8,752	3,550
Miscellaneous		21,052	11,105
		16,852,918	18,528,386
		17,588,551	19,666,613
Closing Stock of semi finished and finished products		(627,311)	(735,633)
		16,961,240	18,930,980

25.1 Crude Oil and Drums Consumed

	1999	1998
Crude oil- Opening stock	402,345	280,728
Purchases	14,979,253	16,523,204
Closing stock	(875,964)	(402,345)
	14,505,634	16,401,597
Drums consumed	313,783	194,464

		14,819,417	16,596,061

25.2 Included herein is a sum of Rs.36.384 (1998: Rs.60.213) million in respect of staff retirement benefits.

26. OTHER OPERATING INCOME

Interest / return on:			
bank deposits		50,229	12,495
advances to employees		117	114
Accrued liabilities written back		68,879	32,711
Exchange gain		1,321	2.44
		120,546	47,756

27. NON-REFINING INCOME

Interest on long term loan to PERAC	6.2	--	7,531
Gain on sale of fixed assets		93	893
Sale of scrap and empties		9,043	728
LBO transport coordination charges		--	280
LBO pipeline charges		609	804
Supply of utilities		978	701
Ground rent		440	376
Tender fees		656	601
Store handling charges		14	9
Training and seminar		2,484	810
Accrued liabilities written back		17,946	41,864
Miscellaneous		1,938	2,307
		34,201	56,904

28. ADMINISTRATIVE, SELLING AND GENERAL EXPENSES

Salaries and staff benefits	28.1	129,911	126,393
Rent, rates and taxes		2,260	1,433
Selling expenses		3,146	9,107
Depreciation	3.2	8,960	6,379
Legal and professional charges		3,518	3,956
Auditor's remuneration	28.2	787	165
Service charges		35,000	45,500
Printing and stationery		3,419	2,980
Staff transport		2,932	3,211
Repairs and maintenance		14,256	9,796
Telephone		5,201	3,940
Electricity and water charges		4,503	3,656
Postage, telegrams and periodicals		706	747
Subscriptions		1,751	1,641
Sanitation and gardening		2,810	2,962
Donations		--	396
Miscellaneous		10,549	20,754
		229,709	243,016

28.1 included herein is a sum of Rs.12.590 (1998: Rs.24.717} million in respect of staff retirement benefits.

28.2 Auditors' remuneration

Audit fee	125	100
Special reports and certifications, audit of workers' profit participation fund, sundry accounting and advisory services	570	20
Out-of-pocket expenses	92	45
	787	165

29. OTHER CHARGES

Provision for doubtful debts	--	1,267
Provision for diminution in the value of investments	--	10,851

Workers' Welfare Fund		33,543	15,782
Workers' Profit Participation Fund	21.1	66,518	39,722
		100,061	67,622

30. FINANCIAL CHARGES

Mark-up /interest on:			
Finance leases		1,655	23,027
Long term loans		96,555	82,348
Custom duty		342,106	9,606
Short term running finances		5,564	22,578
Short term loans		284,521	691,558
Workers' Profit Participation Fund	21.1	1,789	3,149
		732,190	832,266
Guarantee commission		249	446
Bank charges		1,007	1,267
		733,446	833,979

31. TAXATION

Current	545,716	254,258
Prior	94,066	(62,607)
Deferred	(52,783)	55,455
	586,999	247,106

The income tax assessments of the company have been finalized upto and including assessment year 1998-99, corresponding to the year ended June 30, 1998. However, as a result of various appeals filed by the company against the assessment orders finalized by the department in respect of prior years, the Income Tax Appellate Tribunal decided the same in favour of the company. The Income Tax Department has preferred to file appeals thereagainst in the High Court of Sindh, which are currently pending hearings.

32. BASIC EARNINGS PER SHARE

Basic earnings per share has been computed by dividing the net profit for the year after taxation with the number of Ordinary shares issued by the company,

33. UNAVAILED CREDIT FACILITIES

Short term running finances	382,867	554,188
Letters of credit	1,226,170	539,290

34. CASH GENERATED FROM OPERATIONS

Profit before taxation	1,230,307	738,928
Adjustment for non cash charges and other items:		
Provision for diminution in value of investments	--	10,851
Depreciation	250,549	273,517
Financial expenses	733,446	833,979
Gratuity	14,387	8,983
Compensated absences	7,100	(481)
Profit on sale of fixed assets	(93)	(893)
Provision for doubtful debts	--	1,267
Profit before working capital changes	2,235,696	1,866,151
Working capital changes		
(Increase) / Decrease in current assets		
Store and spares	23,022	33,669
Stock-in-trade	(571,844)	659,364
Trade debts	3,167,825	(3,652,905)
Loans and advances	93,417	(84,296)
Deposits and short term prepayments	(2,703)	4,925
Other receivables	(1,179,830)	479,421
Increase / (Decrease) in current liabilities		
Creditors, accrued expenses and other liabilities	2,021,616	1,288,722
Cash generated from operations	5,787,199	595,051

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35. CASH AND CASH EQUIVALENTS

Cash and bank balances	68,612	486,271
Short term loans and running finance	(157,633)	(4,928,573)
	(89,021)	(4,442,302)

36. REMUNERATION OF THE CHIEF EXECUTIVE AND EXECUTIVES

	Chief Executive	Executives	TOTAL 1999	1998
	(Rupees in '000)		(Rupees in '000)	
Managerial remuneration	455	98,213	98,668	53,516
Company's contribution to provident and pension funds	3	14,797	14,800	12,322
	458	113,010	113,468	65,838
Other perquisites and benefits				
Rent and housing	55	22,449	22,504	20,782
Conveyance	64	24,848	24,912	16,874
Leave benefits	--	7,415	7,415	6,722
	119	54,712	54,831	44,378
June 30, 1999	577	167,722	168,299	110,216
June 30, 1998	1,265	108,951	--	110,216
		Number of persons		
June 30, 1999	1	298	299	237
June 30, 1998	1	236	--	237

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

36.2 Fees paid to non-executive directors were Rs.26,000 (1998: Rs. 26,000).

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(a) Financial assets

The financial assets of the company amounts to Rs.9,417.386 (1998: Rs 11,910.643) million of which Rs.133.023 (1998: Rs.342.027) million are interest bearing and are subject to interest rate risk.

Credit risk

The company's trade receivable which are part of the financial assets are subject to credit risk. These trade receivables relate to the sale of fuel products as per the directives of the Government. The company mitigate credit risk by executing formal agreements with the debtors.

Foreign exchange risk

The assets subject to foreign exchange risk amounts to Rs.9.208 (1998: Rs.35.080) million.

(b) Financial liabilities

The financial liabilities of the company amounts to Rs.10,599.780 (1998: Rs.13,664,240) million out of which Rs.555.945 (1998: Rs. 5,562.930) million are interest bearing, which represent loan in both local currency and foreign currencies.

Interest rate risk

Interest bearing financial liabilities of the company included Rs.282.272 (1998: Rs.5,248.555) million subject to fixed interest rates and Rs.273.673 (1998: Rs.314.375) million subject to floating interest rates. The floating rate liabilities comprise of two unsecured loans from the International Bank of Reconstruction and Development through PERAC, bearing interest at the rate of one half of one percent per annum above the cost of qualified borrowings for the last semester ending prior to the commencement of such interest period.

Foreign exchange risk
The liabilities exposed to foreign exchange risk amounts to Rs.3,987.453 (1998: Rs.965.778) million.

38. LOAN ON BEHALF OF THE GOVERNMENT
During the year ended June 30, 1998, an agreement for a loan amounting to US$ 30 million was entered into by the company with ANZ Grindlays Bank, Bahrain Branch.

The loan carried interest at 6.5% (LIBOR + 1%) [1998: 7% (LIBOR + 1.25%)] per annum and is guaranteed by the State Bank of Pakistan. The loan was originally payable on September 30, 1998, however, the same has now been rescheduled and will be repaid in 3 years with 60% of principal amount to be paid in year 2 and 40% in year 3. Interest on the same is payable on a quarterly basis.

The company has not recorded the above loan in its books of account as the same was not received by the company and the proceeds were credited to the account of the Government of Pakistan.

The company would in any case show the loan and interest thereon as recoverable from the Government of Pakistan, hence, this transaction would have no effect on the financial results of the company.

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

39. ASSOCIATED UNDERTAKING
The Company shares crude oil imports with Pakistan Refinery Limited (PRL). Under this arrangement crude oil delivered to PRL amounted to Rs.8,182.397 (1998: Rs.4,352.066) million and it also received crude oil from PRL in an aggregate amount of Rs.687.595 (1998: Rs.3,061.163) million.

40. SEGMENT INFORMATION

	Fuel	Lube	Non-Refining (Rupees in '000)	Total
1999				
Sales				
- to outside customers	12,010,382	6,026,339	--	18,036,721
- to other segment	2,645,353	(2,645,353)	--	--
Profit after tax	22,917	586,190	34,201	643,308
Assets employed (as a percentage of consolidated total)	35%	65%	--	100%
1998				
Sales				
- to outside customers	14,975,740	5,102,295	--	20,078,035
- to other segment	2,585,554	(2,585,554)	--	--
Profit after tax	22,917	412,001	56,904	491,822
Assets employed (as a percentage of consolidated total)	32%	68%	--	100%

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

41. CAPACITY AND ACTUAL PERFORMANCE

	Annual designed throughput capacity	Actual throughput for the year ended dune 30, 1999	1998
		(In Metric Tons)	
Fuel section - throughput of crude oil	2,710,500	2,892,766	2,902,630
Lube section - throughput of reduced crude oil	620,486	691,495	650,012

GENERAL

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

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

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

PATTERN OF SHAREHOLDINGS AS AT JUNE 30, 1999

NO. OF SHARE HOLDERS	**SHARE HOLDINGS FROM**	**TO**	**TOTAL SHARES HELD**
1329	1	100	61,760
1299	101	500	406,968
688	501	1,000	567,315
893	1,001	5,000	2,036,797
109	.5,001	10,000	775,948
15	10,001	15,000	179,749
16	15,001	20,000	278,065
2	20,001	25,000	48,100
2	25,001	30,000	57,800
2	30,001	35,000	65,147
1	35,001	40,000	35,150
2	40,001	45,000	85,885
3	45,001	55,000	144,665
1	55,001	60,000	60,000
2	60,001	75,000	131,904
1	75,001	90,000	88,600
1	90,001	110,000	107,500
1	110,001	115,000	115,000
1	115,001	155,000	153,000
1	155,001	315,000	312,717
1	315,001	340,000	339,320
1	340,001	660,000	658,040
1	660,001	700,000	696,600
1	700,001	1,305,000	1,300,182
1	1,305,001	2,825,000	2,823,060
1	2,825,001	2,840,000	2,838,447
1	2,840,001	5,040,000	5,039,435
1	5,040,001	5,395,000	5,393,176
1	5,395,001	10,000,000	10,000,000
1	10,000,001	10,760,000	10,757,382
1	10,760,001	21,085,000	21,081,086
4380			66,638,800

CATEGORIES OF SHAREHOLDERS	NUMBERS	SHARES HELD	PERCENTAGE
Individuals	4,456	4,748,275	7.13
Investment Companies	21	31,405,591	47.13
Joint Stock Companies	24	525,589	0.79
Financial Institutions*	10	14,608,109	21.92
Modaraba Companies	5	168,500	0.25
Insurance Companies	12	4,142,169	6.22
Others	9	10,907,067	16.36
1. PERAC	1	10,757,382	16.14
2. Administrator Abandoned Properties	1	46,630	0.07
3. Charitable Organizations	5	74,054	0.11
4. Corporate Law Authority	1	1	--
5. Employees old age benefits	1	29,000	0.04
Non Residents	4	133,500	0.20
TOTAL	4,541	66,638,800	100.00

** Including Islamic Development Bank Jeddah, Holding 5% Shares*

SUBSIDIARY COMPANY REPORT AND ACCOUNTS

OF

NATIONAL OIL MARKETING

(A wholly owned subsidiary company of National Refinery Limited)

NATIONAL OIL MARKETING (PRIVATE) LIMITED

DIRECTORS' REPORT

The Directors have pleasure in presenting their Report and the Audited Financial Statements for the year ended June 30, 1999.

	(Rupees)
Profit for the year	1,537,243
Less: Accumulated loss carried forward	607,231

	930,012
Less: Taxation - current	412,824

Profit available for appropriation	517,188
APPROPRIATIONS:	
Transfer to General Reserve	500,000

Unappropriated profit carried forward to next y6ar	17,188
	============

COMMERCIAL ACTIVITIES

During December 1998 the commercial activities of the Company were on hold and its activities have been taken over by the Commercial Division of National Refinery Limited (NRL). The NRL Board is restructuring the commercial activities of the Company, keeping in view, that in the year 2000 PARCO Refinery will be in production. At that time there would be tough competition between various Oil Marketing Companies with regard to product disposal.

BOARD OF DIRECTORS

Mr. M. M. Husain has been appointed as new Chairman and Chief Executive who took over the charge from Mr. S. M Ismall, whereas, Mr. Samiullah Sahrif, Mr. Mahmood All Ahmed and Mr. Iqbal Rashid Siddqui retired, on November 24, 1998. On the same date Mr. Zahiruddin, Mr. Asad A. Siddiqui, Khawaja Shahid Waheed and Mr. Mohammad Wasi Khan were retired and reappointed as the Directors.

PATTERN OF SHAREHOLDINGS

National Refinery Limited owns 100 shares of Rs. 10 each.

AUDITORS

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

On behalf of Board

M. M. HUSAIN
Chairman and Chief Executive

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of NATIONAL OIL MARKETING (PRIVATE) LIMITED as at dune 30, 1999 and the related profit and loss account, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, we report that:

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

(b) in our opinion:

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

(ii) the expenditure incurred during the year was for' the purposes 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, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and. fair view of the state of the company's affairs as at June 30, 1999 and of the profit for the year then ended.

(d) in our opinion no Zakat deductible at source under the Zakat and Ushr Ordinance 1980.

Karachi: November 12, 1999

FORD. RHODES, ROBSON. MORROW
Chartered Accountants

BALANCE SHEET AS AT JUNE 30, 1999

	Note	1999	1998
		(.Rupees)	
CAPITAL AND RESERVES			
Share Capital			
Authorised			
10,000,000 (1998:10,000,000) Ordinary shares of Rs. 10 each		100,000,000	100,000,000
Issued, subscribed and paid-up	3	1,000	1,000
Reserve	4	517,188	(607,231)
		518,188	(606,231)
CURRENT LIABILITIES			
Current account with National Refinery Limited, the Parent company		1,425,445	--
Accrued and other liabilities	5	1,717,129	7,101,689
Provision for taxation - net		61,017	--
		3,203,591	7,101,689
		3,721,779	6,495,458
CURRENT ASSETS			
Current account with National Refinery Limited, the Parent company		--	4,596,000
Cash and bank balances	6	3,721,779	1,899,458
		3,721,779	6,495,458

The annexed notes form an integral part of these accounts.

M. M. HUSAIN
Chief Executive

ASAD A. SIDDIQUI
Director

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 1999

	Note	June 30, 1999	For the period commencing April 18, 1998 to June 30, 1998
		(Rupees)	
INCOME			
Commission on Sale of Products		1,293,881	--
Return on bank deposits		4,137,382	437
Commission on the placement of Human Rights		1,332,260	--
		6,763,523	437

	Note	1999	1998
EXPENDITURE			
Administration expenses	7	(5,117,329)	(246,341)
Selling expenses	8	(145,241)	--
Preliminary expenses written-off		--	(361,233)
		(5,262,570)	(607,574)
OPERATING PROFIT / (LOSS)		1,500,953	(607,137)
Financial charges - bank charges		(15,255)	(50)
Other income	9	51,545	--
PROFIT / (LOSS) BEFORE TAXATION		1,537,243	(607,187)
TAXATION - Current		(412,824)	(44)
NET PROFIT/(Loss) FOR THE YEAR / PERIOD		1,124,419	(607,231)
(ACCUMULATED Loss) BROUGHT FORWARD		(607,231)	--
		517,188	(607,231)
TRANSFER TO GENERAL RESERVE		(500,000)	--
UNAPPROPRIATED PROFIT / (ACCUMULATED Loss) CARRIED FORWARD		17,188	(607,231)

The annexed notes form an integral part of these accounts.

M. M. HUSAIN
Chief Executive

ASAD A. SIDDIQUI
Director

NOTES TO THE ACCOUNT FOR THE YEAR ENDED JUNE 30, 1999

1. THE COMPANY AND ITS OPERATIONS

National Oil Marketing (Private) Limited was incorporated in Pakistan on April 18, 1998 as a private limited company. It is engaged in the marketing of the products of National Refinery Limited, the Parent company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention
These accounts have been prepared under the historical cost convention.

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

2.3 Revenue recognition
Commission on sale of products is recognised on despatch of goods to customers. Return on bank deposits and commission on the placement of human resources are recognised on an accrual basis.

	1999	1998
	(Rupees)	
3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL		
100(1998: 100) Ordinary shares of Rs. 10 each fully paid in cash	1,000	1,000

National Refinery Limited, the Parent company, held 100 Ordinary shares of Rs. 10 each of the company at the end of the year.

	1999	1998
4. RESERVE		
Revenue reserve		
General reserve	500,000	--
Unappropriated profit / (loss)	17,188	(607,231)
	517,188	(607,231)

5. ACCRUED AND OTHER LIABILITIES
Accrued liabilities

Accrued expenses	736,460	15,000
Other liabilities		
Advances from customers	980,669	7,086,689
	----------------------	----------------------
	1,717,129	7,101,689
	============	============

6. CASH AND BANK BALANCES

In hand	203	--
At banks in		
current account	62,967	1,065
deposit account	3,658,609	1,898,393
	----------------------	----------------------
	3,721,779	1,899,458
	============	============

	June 30, 1999	**For the period commencing April 18. 1998 to June 30. 1998 (Rupees)**
7. ADMINISTRATIVE EXPENSES		
Salaries	4,944,478	231,341
Repairs and maintenance	138,775	--
Printing and stationery	18,405	--
Audit Fee	15,000	15,000
Miscellaneous	671	--
	----------------------	----------------------
	5,117,329	246,341
	============	============
8. SELLING EXPENSES		
Travelling	58,351	--
Advertisement	33,719	--
Commission on sale of Asphalt	53,171	--
	----------------------	----------------------
	145,241	--
	============	============
9. OTHER INCOME		
Advances from customers written back	51,545	--
	============	============

10. GENERAL

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

M. M. HUSAIN	**ASAD A. SlDDIQUI**
Chief Executive	Director