ANALYSIS OF OIL AND GAS MARKETING SECTOR- AN OVERVEW OF ITS GROWTH OVER THE LAST FIVE YEARS (2001 – 2005)

AUTHOR: Akhlaq Ahmad

Enroll No. 111031-004

Cell no: 03215008455

BBA-6 (Morning)

SUPERVISOR: Mr. Musbashir Sadiq

Bahria Institute of Management & Computer Sciences,

Bahria University

Shangrila Road, Sector E-8, Islamabad

ABSTRACT

Pakistan’s economy is undergoing significant structural changes since 1999-2000. The real GDP growth is accelerating over the last five years. Over the next five years, 7-8 percent growth is targeted to be sustained, which will demand a huge rise in the energy use. The energy sector in Pakistan comprises of oil, natural gas, power (hydro and nuclear) and coal.

The oil and gas sector has a lot of potential in Pakistan. Pakistan is classified as low priority by foreign investors because of the unstable economic and political situation. However, efforts are being made by the Government to promote investment in the oil and gas sector, by various incentives such as liberal granting of exploration licenses, restructuring and reform of the oil and gas sectors, deregulation of prices, and privatization of selected assets. The reform has enhanced transparency, making decision makers aware of the various

The objective of this thesis is to analyze whether the Oil and Gas sector in Pakistan has really progressed and whether there are better opportunities for investment and growth in this sector now than there were in the past.

For the purpose of determining the trend of growth in the Oil and Gas Sector, four Oil and Gas Marketing Companies (O&GMC) were selected and their financial data analyzed over a period of five years (2001 – 2005).

Financial data relevant to the sample companies was gathered from published accounts of the companies, in their annual reports. This data was condensed and summed up for the four companies and presented in tables and then used for analysis. The results were held to be representative of the entire Oil Marketing Sector and seem to show a marked trend of growth in the financial indicators reveal that there has been a marked improvement in the growth of this industry.

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CHAPTER 1

INTRODUCTION

Broad Problem Area/Background

It is universally recognized that energy is one of the most important inputs for economic growth and national development. The consumption of energy is one of the critical indicators of the level of development of any country. Developed countries use more energy per unit of economic output and far more energy per capita than developing countries. Economic growth is the key to this situation and for economic growth we need energy.

Pakistan’s economy is undergoing significant structural changes since 1999-2000. The real GDP growth is accelerating over the last five years. Over the next five years, 7-8 percent growth is targeted to be sustained, which will demand a huge rise in the energy use. The energy sector in Pakistan comprises of oil, natural gas, power (hydro and nuclear) and coal. The total primary energy supplies measured in terms of oil equivalent (toe) stood at 50.8 million tonnes in 2003-04.

Oil and gas account for almost 80% of the energy sector of Pakistan with oil and gas being 29.9 percent and 49.7 percent respectively.

In order to measure the growth of the energy sector the best proxy might be to evaluate the performance of the oil marketing companies. As these are the companies which are not only selling the oil based products which meet the major needs of the energy in Pakistan but also these companies are dealing in the recently made popular Compressed Natural Gas. As this Oil and Gas sector represents more than 80% of the energy consumed in Pakistan so the companies which are dealing with the marketing of these fuels need to be assessed for their financial performance and results in the past few years. If these companies are showing growth we might assume that the energy sector is growing and the economy is on the right path.

The first gas field was discovered in at Sui in 1952 and provides the basis for Pakistan's extensive gas network. Pakistan imports crude oil (it only produces 17% to 20% of what it needs), however is self sufficient in natural gas.

Of the companies that are being researched in the present study, Pakistan State Oil Company Limited (PSOCL) and Shell Pakistan are the main planks in the oil industry. Sui Northern Gas Pipelines Limited (SNGPL) and Sui Southern Gas Company (SSGC), distributes major portion of the natural gas.

Pakistan declared 1997-98 an "Oil and Gas Year". As a result of offering incentives to potential investors, including foreign companies, some $2.5 billion of investment was attracted.

Oil and Gas Consumption Figures*

Oil Consumption (In tones):

1999-00	2000-01	2001-02	2002-03	2003-04
17,768,000	17,648,000	16,950,000	16,542,00	13,421,00

Gas Consumption 2003 (In mmcft):

1999-00	2000-01	2001-02	2002-03	2003-04
712,001	768,068	872,604	872,264	1,051,418

Consumption of oil and gas has been fairly steady throughout the 1990s with the gas consumption increasing at a rate of 4.9 percent while the oil consumption increasing at a slightly reduced rate of 2.5 percent.

Until 1999, the government tightly controlled the oil and gas industries of Pakistan. No decision could be made without referring to the higher authorities, and when decisions were made, they were often based on political as opposed to economic considerations. Since early 2000, an ambitious pro-market reform program is being implemented, and gradually, the straightjacket under which the industry used to operate is being dismantled. As a result, the sector has changed dramatically over the last five years, and Pakistan now leads South Asia in sector reform (Economic Survey of Pakistan, 2004-05).

The government actions have focused on promoting private investments in the upstream, deregulating most of the market for petroleum products, establishing a regulatory

* Figures quoted from Economic Survey of Pakistan

agency for the gas sector, and introducing market-related price caps for petroleum products. The government’s long term goal is to create a competitive, efficiently-run, financially smooth, and a largely privatized oil and gas sector providing supplies to a large share of population.

It is important to note that a structural shift is taking place since 2000-01. The last five years have seen a positive trend towards greater gas consumption and a negative trend in the petroleum products consumption.

Substantial progress has been made in the restructuring and reform of the oil and gas sectors, deregulation of prices, and privatization of selected assets. The reform has enhanced transparency, making decision makers aware of the various aspects of the business.

Rationale

Oil and Gas is an important sector in Pakistan economy and it largely affects the GDP of Pakistan, therefore there is a great emphasis on exploration and marketing. The consumption of Oil was 16.45 million tonnes in 2002-3 and consumption of gas was 872,264 million cubic feet. The acceleration in growth of energy consumption is not surprising when seen against a 15.4 percent growth in large scale manufacturing and an 8.35 percent growth in real GDP. Higher consumption of energy simply reflects the rising of economic activity in a country.

Oil and natural gas are an integral part of the everyday life. Not only do they make the economy move, they heat and cool our homes and provide electricity. A large number of products are made from oil and gas, including plastics, life-saving medications, art silk, cosmetics, and many other items you may use daily. Even from Strategic point and defense view point Pakistan is dependent on oil and gas.

Problem Statement

Oil and gas sector of Pakistan has changed dramatically over the last five years and Pakistan now leads South Asia in sector reform. The endeavors made to increase the oil and gas supplies need to be analyzed and companies encouraged. With this premise in mind four, Oil and Gas marketing companies have been selected to analyze their financial performance that would also indicate their success.

Objectives of the study

The objective of research study is to analyze the growth and development of the Oil and Gas Marketing Sector in Pakistan. Currently according to the Board of Investment of Pakistan there are 26 (local and international) companies operating in upstream, 7 downstream companies, and 4 refineries.

The focus of this analysis is on the progress of downstream companies that are based in Pakistan. Four leading downstream companies have been selected and their financial performance studied for a period of five years from 2001 to 2005 to see whether these companies are financially stronger and what their rate of growth is and to determine reasons behind the growth.

Research Questions

1. What is the importance of Oil and Gas sector in Pakistan economy?

2. What is the growth scenario of Oil and Gas Marketing companies in Pakistan?

3. What is the financial performance of the selected Oil and Gas marketing companies during the research period (2001-2005)?

4. What conclusions can be drawn about the industry based on the financial performance of the selected companies?

Limitations

Limitations:

This research study has certain limitations that are not easy for the researcher to overcome at this level.

- The general level of inflation has not been adjusted for.
- Overall prices of oil have increased due to unavoidable natural phenomenon like war in Iraq and Hurricane Katrina.
- The profitability of the oil marketing companies could be due to increase in prices of petroleum and it may not be the true measure of their financial performance.
- Some secondary data was not easily available and was very difficult to obtain.
- As the research work was given to the researcher during the semester so the time constraint played its role. Despite time constraint, the researcher has conducted a comprehensive research.
- The limited experience in the research field is also a matter of consideration. This is the first study that goes to researcher’s credit. Hence, the researcher does not possess any experience in the field.

CHAPTER 2

LITERATURE REVIEW

The firm itself and outside providers of capital- creditors and investors –all undertake financial statement analysis. The type of analysis varies according to the specific interests of the party involved. Trade creditors (suppliers’ owed money for goods and services) are primarily interested in the liquidity of a firm. Their claims are short term, and the ability to pay these claims quickly is best judged by an analysis of firm’s liquidity. The claims of bond bondholders, on the other hand are long-term. Accordingly, bondholders are more interested in the cash flow ability of the firm to service debt over a long period of time. They may evaluate this ability by analyzing the capital structure of the firm, the major sources and uses and uses of funds, the firm’s profitability over time, and projections of future profitability over time, and projections of future profitability.

The purpose of financial statement analysis is to examine past and current financial data so that a company's performance and financial position can be evaluated and future risks and potential can be estimated. Financial statement analysis can yield valuable information about trends and relationships, the quality of a company's earnings, and the strengths and weaknesses of its financial position (Woelfel, 1989).

Investors in a company’s common stock are principally concerned with present and expected future earnings as well as with the stability of these earnings about a trend line. As a result, investors usually focus on analyzing profitability. They would also be concerned with the firm’s financial condition insofar as it affects the ability of the firm to pay dividends and avoid bankruptcy.

Internally, management also employs financial analysis for the purpose of internal control and to better provide what capital suppliers seek in financial condition and performance from the firm. From an internal control stand point, management needs to undertake financial analysis in order to plan and control effectively. To plan for the future, the financial manager must assess the firm’s present financial position and evaluates opportunities in relation to this current position. With respect to internal control, the financial manager is particularly concerned with the return on investment provided by various assets of the company and in the efficiency of asset management. Finally, to bargain effectively for outside funds, the financial manager needs to be attuned to all aspects of financial analysis that outside suppliers of capital use in evaluating the firm (Horne & Wachowicz, 2001).

Financial analysis of a company should include an examination of the financial statements of the company, including notes to the financial statements, and the auditor's report. The auditor's report will state whether the financial statements have been audited in accordance with generally accepted auditing standards. The report also indicates whether the statements fairly present the

company's financial position, results of operations, and changes in financial position in accordance with generally accepted accounting principles. Notes to the financial statements are often more meaningful than the data found within the body of the statements. The notes explain the accounting policies of the company and usually provide detailed explanations of how those policies were applied along with supporting details.

Analysts often compare the financial statements of one company with other companies in the same industry and with the industry in which the company operates as well as with prior year statements of the company being analyzed (Foster, 1999).

Comparative financial statements provide analysts with significant information about trends and relationships over two or more years. Comparative statements are more significant for evaluating a company than are single-year statements.

The analysis of financial data employs various techniques to emphasize the comparative and relative importance of the data presented and to evaluate the position of the firm. These techniques include ratio analysis, common size analysis, study of difference in components of financial statements among industries, review of descriptive material, and comparisons of result with other types of data. The information derived from these types of analyses should be blended to determine overall position. No one type of analysis supports overall findings or serves all types of users.

Financial statement analysis is a judgmental process. One of the primary objectives is identification of major changes (turning points) in trends, amounts and relationships and investigation of the reasons underlying those changes. Often, a turning point may signal an early warning of a significant shift in the future success or failure of the business. The judgment process can be improved by experience and by the use of analytical tools.

The components of financial statements, specially the balance sheet and the income statements, will vary by type of industry (Gibson, 1998).

Economies -- all economies -- run on energy. Energy is needed to produce food and manufacture goods, power machines and appliances, transport raw materials and finished products, and provide heat and light. The more energy available to a society, the better its prospects for sustained growth; when energy supplies dwindle, economies grind to a halt and the affected populations suffer (Klare, 2005).

Since World War II, economic growth around the world has been fueled largely by abundant supplies of hydrocarbons -- that is, by petroleum and natural gas. Since 1950, worldwide oil consumption has grown eightfold, from approximately 10 to 80 million barrels per day; gas consumption, which began from a smaller base, has grown even more dramatically. Oil and gas will account for 65% of world energy in 2025, a larger share than at present; and because no other source of energy is currently available to replace them, the future health of the global economy rests

on our ability to produce and consume more and more of these hydrocarbons (U.S Department of Energy, 2004).

Petroleum refers to crude oil and natural gas or simply oil and gas, found in petroleum reservoirs generally thousands of feet below the surface. Exploratory wells are drilled to discover petroleum wells, while development wells are drilled to produce a portion of previously discovered oil and gas. Estimated volumes of recoverable gas within the reservoir are called oil and gas reserves (Brock, Jennings & Feiten, 1990).

The oil and gas sector or the petroleum industry has the following four major segments:

1. Exploration and Production or E&P where oil and gas companies explore for underground reservoirs, and produce the discovered oil and gas using drilled wells. This thesis focuses on this sector of the oil and gas industry.
2. Hydrocarbon processing which includes oil refineries and gas processing plants.
3. Transport, Distribution and Storage by which petroleum is moved from the producing well areas to crude oil refineries and gas processing plants. Oil is moved by pipeline, truck, barge or tanker and Natural gas is moved by pipeline.
4. Retail/Marketing which ultimately markets in various ways the refined products.

CHAPTER 3

METHOD

Sample

For the sample selection of four marketing companies, out of the population of 7 companies listed in the KSE, the criteria used were:

1. Share Capital of the company
2. Sales Revenue
3. Distribution data of the companies

Based on these criteria the four companies selected that are operating in Pakistan were the following:

Pakistan State Oil Company Limited (PSOCL)

Pakistan State Oil Company Limited (PSOCL) is the market leader in Pakistan having 73% of the share of Black Oil Market and around 59% of the share of White Oil market. It is engaged in the import, storage, distribution and marketing of various petroleum products including Fuel oil, HSD, Jet Oil, petro-chemicals, LPG and CNG.

Shell Pakistan Limited (SPL)

The Shell brand name enjoys a 100-year history in this part of the world, dating back to 1899. Shell Pakistan has been taking a keen interest in expanding recently which shows

the confidence in the economic growth and progress in the oil and gas sector.

Shell is at present controlling approximately 30% share of the white oil products presently and during the last financial year the Capital Expenditure amounted to Rs 1.1 billion.

Sui Northern Gas Pipelines Limited (SNGPL)

Sui Northern Gas Pipelines Limited (SNGPL, is the largest integrated gas company serving more than 2 million consumers in North Central Pakistan through an extensive network in Punjab and NWFP. The Company has over 41 years of experience in operation and maintenance of high-pressure gas transmission and distribution systems. It has also expanded its activities to undertake the planning, designing and construction of pipelines, both for itself and other organizations. SNGPL operates in that region of the nation which has a rapidly growing demand for natural gas and power generation due to significant industrial development.

Sui Southern Gas Company (SSGC)

Sui Southern Gas Company (SSGC) is Pakistan's leading integrated gas Company. The company is engaged in the business of transmission and distribution of natural gas besides construction of high pressure transmission and low pressure distribution systems

SSGCL transmission system extends from Sui in Balochistan to Karachi in Sindh comprising over 2780 KM of high

pressure pipeline ranging from 12 - 24" in diameter. The distribution activities covering over 650 towns in the Sindh and Balochistan are organized through its regional offices. An average of about 234,553 million cubic feet (MMCFD) gas was sold in 2001-2002 to over 1.7 million industrial, commercial and domestic consumers in these regions through a distribution network of over 22,890 Km.

Type of Study

This study aims to analyze the financial statements of oil and gas marketing companies and then generalize the result for the whole industry. Thus due to the purpose of the study it is classifies as descriptive study.

Procedure

Base Year and Period of Analysis

For the analysis, 2001 has been taken as the base year, and the performance in the next five years has been compared with the base year.

Analysis Methods

The analysis of financial data uses various methods to evaluate the relative importance of the data that was presented in financial statements of a firm. The methods

used in the analysis of the marketing sector of Pakistan are a blend of

- Ratio analysis
- Common size analysis

Ratio Analysis

The following ratios were used on the composite data of five years:

1. *Liquidity Ratios* related to the liquidity of short term assets and short term debt paying ability were

   - Working Capital
   - Current Ratio
   - Sales to Working Capital

2. *Profitability Ratios* measure the ability of a firm to generate earnings. The ratios used were:

   - Total Asset Turnover
   - Operating Income Margin
   - Return on Total Equity
   - Return on Investment
   - Gross Profit Margin
   - Net Profit Margin

3. *Debt Ratios* that measure the long term debt paying ability of the firm used were:

   - Debt Ratio
   - Debt to Equity Ratio
   - Fixed charge coverage

4. *Market Value Ratios* that measure the return that is being given to the stockholders were:

    - Earning per share
    - Dividend per share
    - Dividend Payout

These financial ratios were calculated for each of the years from 2001 to 2005 and then plotted to see the general trend. They were then studied to identify various turning points in the trends, and to see the underlying reasons behind the changes in trends that were occurring.

Common Size Analysis

A common size analysis expresses comparisons in percentages. For the financial data there was

-Horizontal and vertical analysis of the following balance sheet items, using 2001 as a base year (horizontal) and total assets as base (vertical):

- Fixed asset
- Capital work in progress
- Long term investments
- Current assets
- Reserves & surplus

Equity and liabilities were shown as a percentage of total liabilities.

-Horizontal and vertical analysis of the following Profit and Loss items with 2001 as a base year (horizontal) and Net Sales as base (vertical):

- Financial Charges
- Operating expense
- Gross Profits
- Taxes
- Profit before Tax

CHAPTER 4

RESULTS AND DISCUSSION

Table 4.1: Pakistan State Oil Company Limited Balance Sheets (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Current Assets	24543.08	24542.91	22446.84	31634.83	40737.01
Fixed Assets (Gross)	6627.49	7904.52	9379.91	10773.69	11341.47
Depreciation	3321.73	3901.98	4514.54	5305.99	6290.01
Fixed Assets (Net)	3305.76	4002.54	4865.37	5467.7	5051.46
Capital work in Progress	686.04	892.88	1142.06	1169.81	1245.69
Long Term Investment & Deposits	1602.19	3354.12	3883.72	4136.18	5044.32
Total Assets	**30137.07**	**32792.45**	**32337.99**	**42408.52**	**52078.48**
Current Liabilities	19175.59	20460.53	17916.26	25326.31	32766.85
Deferred Taxation	1	473	373.5	565.25	631.18
Long Term Liabilities	1152.25	606.42	984.83	1071.01	1367.68
Total Liabilities	**20328.84**	**21539.95**	**19274.59**	**26962.57**	**34765.71**
Financed By					
Paid-Up Capital	1429.33	1429.33	1715.19	1715.19	1715.19
Reserves & Surplus	8378.9	9823.17	11348.21	13730.76	15597.58
Total Liabilities & Capital	**30137.07**	**32792.45**	**32337.99**	**42408.52**	**52078.48**

Table 4.2: Pakistan State Oil Company Limited Income Statements (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Sales (Net)	143305.67	133136.52	172445.77	161537.98	212503.65
Cost of Sales	136933.58	126359.13	163490.58	152346.86	198757.32
Gross Profit	6372.09	6777.39	8955.19	9191.12	13746.33
Operating Expenses	2367.97	2210.69	2750.26	4223.43	5443.58
Operating Profit	4004.12	4566.7	6204.93	4967.69	8302.75
Financial Charges	778.7	979.22	274.78	189.08	370.7
Other income	225.94	1549.77	279.17	1484.36	1294.34
Profit Before Taxation	3451.36	5137.25	6209.32	6262.97	9226.39
Taxation	1200	1949	2179	2181	2183
Profit After Taxation	2251.36	3188.25	4030.32	4081.97	7043.39

Table 4.3: Pakistan State Oil Company Limited Vertical Common Size of Balance Sheets (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Current Assets	81.44%	74.84%	69.41%	74.60%	78.22%
Fixed Assets (Gross)	21.99%	24.10%	29.01%	25.40%	21.78%
Depreciation	11.02%	11.90%	13.96%	12.51%	12.08%
Fixed Assets (Net)	10.97%	12.21%	15.05%	12.89%	9.70%
Capital work in Progress	2.28%	2.72%	3.53%	2.76%	2.39%
Long Term Investment & Deposits	5.32%	10.23%	12.01%	9.75%	9.69%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%
Current Liabilities	63.63%	62.39%	55.40%	59.72%	62.92%
Deferred Taxation	0.00%	1.44%	1.15%	1.33%	1.21%
Long Term Liabilities	3.82%	1.85%	3.05%	2.53%	2.63%
Total Liabilities	67.45%	65.69%	59.60%	63.58%	66.76%
Paid-Up Capital	4.74%	4.36%	5.30%	4.04%	3.29%
Reserves & Surplus	27.80%	29.96%	35.09%	32.38%	29.95%
Total Liabilities & Capital	100.00%	100.00%	100.00%	100.00%	100.00%

Analysis:

The vertical common size of the B/S of PSO shows that the current as well as fixed assets are pretty much the same and there is major improvement in long term investment & deposits while on the liability side again the current and long term liabilities are pretty much constant. The reserves & surplus have been increasing with the passage of time.

Table 4.4: Pakistan State Oil Company Limited Vertical Common Size of Income statement (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Sales (Net)	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Sales	95.55%	94.91%	94.81%	94.31%	93.53%
Gross Profit	4.45%	5.09%	5.19%	5.69%	6.47%
Operating Expenses	1.65%	1.66%	1.59%	2.61%	2.56%
Operating Profit	2.79%	3.43%	3.60%	3.08%	3.91%
Financial Charges	0.54%	0.74%	0.16%	0.12%	0.17%
Other income	0.16%	1.16%	0.16%	0.92%	0.61%
Profit Before Taxation	2.41%	3.86%	3.60%	3.88%	4.34%
Taxation	0.84%	1.46%	1.26%	1.35%	1.03%
Profit After Taxation	1.57%	2.39%	2.34%	2.53%	3.31%

Analysis:

The detailed analysis of the I/S of PSO shows that the oil marketing company has been able to slightly reduce its cost of sales which has resulted in a significant increase in the gross profit while the operating profit has also shown an increase as the operating expenses have increased but in a lesser proportion. The financial charges have been drastically cut down due to a better financial performance. There has been a marked improvement in the other income which shows that the company has increased its sources of income and all this has resulted in higher profits.

Table 4.5: Pakistan State Oil Company Limited Horizontal Common Size of Balance Sheets (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Current Assets	100%	-0.001%	-8.54%	28.90%	65.98%
Fixed Assets (Gross)	100%	19.269%	41.53%	62.56%	71.13%
Depreciation	100%	17.468%	35.91%	59.74%	89.36%
Fixed Assets (Net)	100%	21.078%	47.18%	65.40%	52.81%
Capital work in Progress	100%	30.150%	66.47%	70.52%	81.58%
Long Term Investment & Deposits	100%	109.346%	142.40%	158.16%	214.84%
Total Assets	100%	8.811%	7.30%	40.72%	72.81%
Current Liabilities	100%	6.701%	-6.57%	32.08%	70.88%
Deferred Taxation	100%	47200%	37250%	56425%	63018%
Long Term Liabilities	100%	-47.371%	-14.53%	-7.05%	18.70%
Total Liabilities	100%	5.958%	-5.19%	32.63%	71.02%
Financed By					
Paid-Up Capital	100%	0.000%	20.00%	20.00%	20.00%
Reserves & Surplus	100%	17.237%	35.44%	63.87%	86.15%
Total Liabilities & Capital	100%	8.811%	7.30%	40.72%	72.81%

Analysis:

The horizontal common size of the B/S of PSO significantly tells that the current assets have increased substantially mainly due to the increase in sales. Another important aspect to note is the great deal of increase in the long term investments which is due to various new projects that have been undertaken and this shows that the company is expanding. The increase in current liabilities is mainly due to the increase in credit sales and also because a significant portion of long term loans has been converted into current

portion while the increase in long term liabilities is mainly due to the increase in employee benefits which again shows that the company has been doing very well. Another good indicator of the good performance is the increase in the reserves & surplus section of the B/S.

Table 4.6: Pakistan State Oil Company Limited Horizontal Common Size of Income statement (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Sales (Net)	100%	-7.096%	20.33%	12.72%	48.29%
Cost of Sales	100%	-7.722%	19.39%	11.26%	45.15%
Gross Profit	100%	6.361%	40.54%	44.24%	115.73%
Operating Expenses	100%	-6.642%	16.14%	78.36%	129.88%
Operating Profit	100%	14.050%	54.96%	24.06%	107.36%
Financial Charges	100%	25.751%	-64.71%	-75.72%	-52.40%
Other income	100%	585.921%	23.56%	556.97%	472.87%
Profit Before Taxation	100%	48.847%	79.91%	81.46%	167.33%
Taxation	100%	62.417%	81.58%	81.75%	81.92%
Profit After Taxation	100%	41.614%	79.02%	81.31%	212.85%

Analysis:

The horizontal common size of the I/S clearly indicates the drastic improvement in the sales which is almost around 50% while due to a lesser increase in the cost of sales the gross profit is up by over 115%. The financial charges have been reduced to more than 50% and a huge increase in other sources of income has led to higher profit before taxation.

Table 4.7: Shell Pakistan Limited Balance Sheets (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Current Assets	6470.64	7145.22	6149.68	7912.63	12725.13
Fixed Assets (Gross)	6027.49	6705.37	7554.29	8708.05	9569.78
Accumulated Depreciation	2189.29	2738.78	3290.57	3852.84	4532.53
Fixed Assets (Net)	3838.20	3966.59	4263.72	4855.21	5037.25
Capital Work in Progress	464.52	534.61	564.44	544.07	582.38
Long Term Investment & Deposits	1294.68	186.27	1998.93	2032.22	1988.13
Total Assets	12068.04	11832.69	12976.77	15344.13	20332.89
Liabilities					
Current Liabilities	6470.65	5934.76	7029.83	9042.39	11951.06
Long Term Liabilities	66.84	47.51	77.86	43.49	48.22
Deferred Taxation	141	29.24	17.26	126.42	20.74
Financed By					
Paid-Up Capital	350.66	350.66	350.66	350.66	350.66
Reserves & Surplus	5038.89	5470.52	5501.16	5781.87	7962.21
Total Liabilities & Equity	12068.04	11832.69	12976.77	15344.13	20332.89

Table 4.8: Shell Pakistan Limited Income Statements (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Sales (Net)	65725.15	69042.05	77822.82	79180.35	98526.62
Cost of Sales	61628.48	64164.23	72049.47	72973.11	89684.58
Gross Profit	4096.67	4877.82	5773.35	6207.24	8842.04
Operating Expenses	2486.67	3292.92	3794.36	3806.01	4609.77
Operating Profit	1610.00	1584.90	1978.99	2401.23	4232.27
Financial Charges	50.27	46.76	51.48	224.33	596.55
Other Income	191.72	154.46	110.32	12.02	22.33
Profit Before Taxation	1630.45	1572.44	1899.91	2188.92	3658.05
Taxation	574.42	509.62	644.91	680.91	1197.19
Profit After Taxation	1056.03	1062.81	1255.00	1508.01	2460.86

Table 4.9: Shell Pakistan Limited Vertical Common Size of Balance Sheets (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Current Assets	53.62%	60.39%	47.39%	51.57%	62.58%
Fixed Assets (Gross)	49.95%	56.67%	58.21%	56.75%	47.07%
Accumulated Depreciation	18.14%	23.15%	25.36%	25.11%	22.29%
Fixed Assets (Net)	31.80%	33.52%	32.86%	31.64%	24.77%
Capital Work in Progress	3.85%	4.52%	4.35%	3.55%	2.86%
Long Term Investment & Deposits	10.73%	1.57%	15.40%	13.24%	9.78%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%
Current Liabilities	53.62%	50.16%	54.17%	58.93%	58.78%
Long Term Liabilities	0.55%	0.40%	0.60%	0.28%	0.24%
Deferred Taxation	1.17%	0.25%	0.13%	0.82%	0.10%
Financed By					
Paid-Up Capital	2.91%	2.96%	2.70%	2.29%	1.72%
Reserves & Surplus	41.75%	46.23%	42.39%	37.68%	39.16%
Total Liabilities & Equity	100.00%	100.00%	100.00%	100.00%	100.00%

Analysis:

Vertical common size of the B/S of Shell Pakistan shows that the company has been pretty much maintaining its proportion of all the assets, liabilities and the equity.

Table 4.10: Shell Pakistan Limited Vertical Common Size of Income Statements (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Sales (Net)	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales	93.77%	92.94%	92.58%	92.16%	91.03%
Gross Profit	6.233%	7.065%	7.419%	7.839%	8.974%
Operating Expenses	3.783%	4.769%	4.876%	4.807%	4.679%
Operating Profit	2.450%	2.296%	2.543%	3.033%	4.296%
Financial Charges	0.076%	0.068%	0.066%	0.283%	0.605%
Other Income	0.292%	0.224%	0.142%	0.015%	0.023%
Profit Before Taxation	2.481%	2.278%	2.441%	2.764%	3.713%
Taxation	0.874%	0.738%	0.829%	0.860%	1.215%
Profit After Taxation	1.607%	1.539%	1.613%	1.905%	2.498%

Analysis:

The comparison of every part of the I/S with the sales shows that the cost of sales have been reduced which has resulted in higher gross profits and the increase in net profit margin shows that Shell Pakistan has been doing very well financially.

Table 4.11: Shell Pakistan Limited Horizontal Common Size of Balance Sheets (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Current Assets	100%	10.43%	-4.96%	22.29%	96.66%
Fixed Assets (Gross)	100%	11.25%	25.33%	44.47%	58.77%
Accumulated Depreciation	100%	25.10%	50.30%	75.99%	107.03%
Fixed Assets (Net)	100%	3.35%	11.09%	26.50%	31.24%
Capital Work in Progress	100%	15.09%	21.51%	17.13%	25.37%
Long Term Investment & Deposits	100%	-85.61%	54.40%	56.97%	53.56%
Total Assets	100%	-1.95%	7.53%	27.15%	68.49%
Liabilities					
Current Liabilities	100%	-8.28%	8.64%	39.74%	84.70%
Long Term Liabilities	100%	-28.92%	16.49%	-34.93%	-27.86%
Deferred Taxation	100%	-79.26%	-87.76%	-10.34%	-85.29%
Financed By					
Paid-Up Capital	100%	0.00%	0.00%	0.00%	0.00%
Reserves & Surplus	100%	8.57%	9.17%	14.74%	58.02%
Total Liabilities & Equity	100%	-1.95%	7.53%	27.15%	68.49%

Analysis:

The comparison with the base year shows that the current assets have increased almost by 100% while the long term investments and capital work in progress have also increased significantly indicating that the company is undertaking new projects and is expanding while the current liabilities have increased both due to credit sales and also due to the decrease of long term liabilities to current ones. The reserves & surplus is also a good indicator that the company

is keeping a good performance throughout the period of research.

Table 4.12: Shell Pakistan Limited Horizontal Common Size of Income Statements (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Sales (Net)	100%	5.05%	18.41%	20.47%	49.91%
Cost of Sales	100%	4.11%	16.91%	18.41%	45.52%
Gross Profit	100%	19.07%	40.93%	51.52%	115.83%
Operating Expenses	100%	32.42%	52.59%	53.06%	85.38%
Operating Profit	100%	-1.56%	22.92%	49.14%	162.87%
Financial Charges	100%	-6.98%	2.41%	346.25%	1086.69%
Other Income	100%	-19.43%	-42.46%	-93.73%	-88.35%
Profit Before Taxation	100%	-3.56%	16.53%	34.25%	124.36%
Taxation	100%	-11.28%	12.27%	18.54%	108.42%
Profit After Taxation	100%	0.64%	18.84%	42.80%	133.03%

Analysis:

The comparison of I/S with the base year also indicates that the sales have been greatly improved over the years and a check has been maintained over the cost of sales which has resulted in higher profits all the way.

Table 4.13: Sui Northern Gas Pipelines Limited Balance Sheets (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Current Assets	14021.06	15100.27	13525.68	19750.96	24354.12
Fixed Assets (Gross)	44401.58	49213.01	54399.83	60321.46	67541.23
Depreciation	19458.45	22015.14	24129.9	27239.61	31213.78
Fixed Assets (Net)	24943.13	27197.87	30269.93	33081.85	36327.45
Capital work in Progress	3889.06	2995.25	3277.81	3853.59	4389.89
Long Term Investment & Deposits	85.00	69.20	46.14	4.90	4.90
Total Assets	43237.22	45627.9	47300.59	56924.77	65076.36
Current Liabilities	13119.16	12511.31	11528.02	16178.44	19970.62
Deferred Taxation	4128.56	4551.91	4986.3	5546.78	6112.25
Long Term Liabilities	14672.35	15867.71	16341.41	12252.23	28139.65
Financed By					
Paid-Up Capital	4991.87	4991.87	4991.87	4991.87	4991.87
Reserves & Surplus	1760.48	2648.94	3564.49	4614	5861.97
Total Liabilities & Equity	43237.22	45627.9	47300.59	56924.77	65076.36

Table 4.14: Sui Northern Gas Pipelines Limited Income Statements (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Sales (Net)	35058.2	39294.39	43921.22	64206.08	83377.34
Cost of Sales	24849.1	28549.84	31349.36	52627.54	71192.39
Gross Profit	10209.1	10744.54	12571.86	11578.54	12184.95
Operating Expenses	6498.7	6830.91	8061.61	8679.26	9289.12
Operating Profit / (Loss)	3710.4	3913.63	4510.25	2899.28	2895.83
Financial Charges	1563.3	1599.9	1726.03	1165.71	1140.06
Other Income	182.2	455.73	422.83	1930.8	2524.55
Profit Before Taxation	2329.3	2769.46	3207.05	3664.37	4280.32
Taxation	992.75	877.41	1193.3	1366.9	1525.5
Profit After Taxation	1336.55	1892.05	2013.77	2297.47	2754.82

Table 4.15: Sui Northern Gas Pipelines Limited Vertical Common Size of Balance Sheets (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Current Assets	32.43%	33.09%	28.60%	34.70%	37.42%
Fixed Assets (Gross)	102.69%	107.86%	115.01%	105.97%	103.79%
Depreciation	45.00%	48.25%	51.01%	47.85%	47.96%
Fixed Assets (Net)	57.69%	59.61%	63.99%	58.12%	55.82%
Capital work in Progress	8.99%	6.56%	6.93%	6.77%	6.75%
Long Term Investment& Deposits	0.20%	0.15%	0.10%	0.01%	0.01%
Total Assets	100%	100%	100%	100%	100%
Current Liabilities	30.34%	27.42%	24.37%	28.42%	30.69%
Deferred Taxation	9.55%	9.98%	10.54%	9.74%	9.39%
Long Term Liabilities	33.93%	34.78%	34.55%	21.52%	43.24%
Paid-Up Capital	11.55%	10.94%	10.55%	8.77%	7.67%
Reserves & Surplus	4.07%	5.81%	7.54%	8.11%	9.01%
Total Liabilities & Equity	100%	100%	100%	100%	100%

Analysis:

The analysis shows that the current assets have increased due to the expansion being undertaken by SNGPL and there have been around more than 500,000 new customers have been added which has increased the cash and bank balances due to increase in demand and sales while the long term investments have been shifted to short term investments during this time. The liabilities have been pretty much maintained and that has led to the growth of the company.

Table 4.16: Sui Northern Gas Pipelines Limited Vertical Common Size of Income Statements (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Sales (Net)	100%	100%	100%	100%	100%
Cost of Sales	70.88%	72.66%	71.38%	81.97%	85.39%
Gross Profit	29.12%	27.34%	28.62%	18.03%	14.61%
Operating Expenses	18.54%	17.38%	18.35%	13.52%	11.14%
Operating Profit / (Loss)	10.58%	9.96%	10.27%	4.52%	3.47%
Financial Charges	4.46%	4.07%	3.93%	1.82%	1.37%
Other Income	0.52%	1.16%	0.96%	3.01%	3.03%
Profit Before Taxation	6.64%	7.05%	7.30%	5.71%	5.13%
Taxation	2.83%	2.23%	2.72%	2.13%	1.83%
Profit After Taxation	3.81%	4.82%	4.58%	3.58%	3.30%

Analysis:

The vertical analysis of the I/S tells that even though the cost of sales has increased due to the increase in prices by the government but the company has been able to cover it up by its latest technology and sound transmission system by reducing its operating expenses. Although this higher cost of sales have affected the profits but still SNGPL has been performing well.

Table 4.17: Sui Northern Gas Pipelines Limited Horizontal Common Size of Balance Sheets (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Current Assets	100%	7.70%	-3.53%	40.87%	73.70%
Fixed Assets (Gross)	100	10.84%	22.52%	35.85%	52.11%
Depreciation	100	13.14%	24.01%	39.99%	60.41%
Fixed Assets (Net)	100	20.32%	21.36%	32.63%	45.64%
Capital work in Progress	100	-22.98%	-15.72%	-0.91%	12.88%
Long Term Investment & Deposits	100	-18.59%	-45.72%	-94.24%	-94.24%
Total Assets	100	5.53%	9.40%	31.66%	50.51%
Current Liabilities	100	-4.63%	-12.13%	23.32%	52.22%
Deferred Taxation	100	10.25%	20.78%	34.35%	48.05%
Long Term Liabilities	100	8.15%	11.38%	-16.49%	91.79%
Paid-Up Capital	100	0.00%	0.00%	0.00%	0.00%
Reserves & Surplus	100	50.47%	102.47%	162.09%	232.98%
Total Liabilities & Equity	100	5.53%	9.40%	31.66%	50.51%

Analysis:

The comparison with the base year tells that the cash balances and trade debts and the conversion of long term investments into short term have caused increased in the current assets of more than 73% while the current liabilities and the long term liabilities have increased due to a large increase in the creditors for gas and supplies and government loans taken in order to expand the transmission system respectively.

Table 4.18: Sui Northern Gas Pipelines Limited Horizontal Common Size of Income Statements (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Sales (Net)	100	12.08%	25.28%	83.14%	137.83%
Cost of Sales	100	14.89%	26.16%	111.79%	186.50%
Gross Profit	100	5.24%	23.14%	13.41%	19.35%
Operating Expenses	100	5.11%	24.05%	33.55%	42.94%
Operating Profit / (Loss)	100	5.48%	21.56%	-21.86%	-21.95%
Financial Charges	100	2.34%	10.41%	-25.43%	-27.07%
Other Income	100	150.13%	132.07%	959.71%	1285.59%
Profit Before Taxation	100	18.90%	37.68%	57.32%	83.76%
Taxation	100	-11.62%	20.20%	37.69%	53.66%
Profit After Taxation	100	41.56%	50.67%	71.90%	106.11%

Analysis:

The horizontal analysis of the I/S tells that the sales have been improved but the cost of sales has risen by a greater amount and that has caused a reduction in operating profits over the years but due to good financial performance and sources of other income the profits are seen to have been increased by more than 100%.

Table 4.19: Sui Southern Gas Company Balance Sheets (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Current Assets	13381.82	12492.37	12711.68	13995.32	15681.60
Fixed Assets (Gross)	32866.26	34746.43	34925.88	36475.23	39415.89
Depreciation	15996.87	17422.77	18319.25	20257.07	22412.52
Fixed Assets (Net)	16869.37	16323.66	16606.64	16218.16	17003.37
Capital work in Progress	1077.74	1758.97	615.93	1418.85	4830.99
Long Term Investment & Deposits	320.1	443.04	301.53	204.49	166.53
Total Assets	31649.03	31018.04	30235.78	31836.82	37682.49
Current Liabilities	11292.11	9944.41	9359.71	10247.86	12792.28
Deferred Taxation	2628.24	2668.13	2600.61	2496.42	2875.24
Long Term Liabilities	9018.12	9407.2	8971.55	8726.75	11660.64
Paid-Up Capital	6711.74	6711.74	6711.74	6711.74	6711.74
Reserves & Surplus	1998.82	2286.56	2592.17	3654.05	3642.59
Total Liabilities & Equity	31649.03	31018.04	30235.78	31836.82	37682.49

Table 4.20: Sui Southern Gas Company Income Statements (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Sales (Net)	24317.07	28515.67	34836.46	44799.69	52702.68
Cost of Sales	18428.39	22216.54	28060.61	38,713.08	46,812.71
Gross Profit	5888.68	6299.13	6775.84	6086.61	5,889.97
Operating Expenses	4508.95	4702.3	5171.56	5,551.56	6,329.97
Operating Profit/Loss	1379.73	1596.83	1604.28	535.05	-440.00
Financial Charges	1318.89	900.31	1018.88	695.60	563.02
Other Income	1913.71	1457.95	1463.6	1732.89	2591.69
Profit Before Taxation	1974.55	2154.47	2049.00	1,572.34	1,588.67
Taxation	682.24	719.8	601.11	575.64	576.18
Profit After Taxation	1292.31	1434.67	1447.89	996.70	1,012.49

Table 4.21: Sui Southern Gas Company Vertical Common Size of Balance Sheets (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Current Assets	42.28%	40.27%	42.04%	43.96%	41.62%
Fixed Assets (Gross)	103.85%	112.02%	115.51%	114.57%	104.60%
Depreciation	50.54%	56.17%	60.59%	63.63%	59.48%
Fixed Assets (Net)	53.30%	52.63%	54.92%	50.94%	45.12%
Capital work in Progress	3.41%	5.67%	2.04%	4.46%	12.82%
Long Term Investment & Deposits	1.01%	1.43%	1.00%	0.64%	0.44%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%
Current Liabilities	35.68%	32.06%	30.96%	32.19%	33.95%
Deferred Taxation	8.30%	8.60%	8.60%	7.84%	7.63%
Long Term Liabilities	28.49%	30.33%	29.67%	27.41%	30.94%
Paid-Up Capital	21.21%	21.64%	22.20%	21.08%	17.81%
Reserves & Surplus	6.32%	7.37%	8.57%	11.48%	9.67%
Total Liabilities & Equity	100.00%	100.00%	100.00%	100.00%	100.00%

Analysis:

The vertical analysis of the B/S that almost all the assets have retained their percentage. However due to increase in projects undertaken by the company which include the laying of gas pipelines to cover up for the increase demand. On the liability side its pretty much the same with everything increasing with the passage of each financial year over.

Table 4.22: Sui Southern Gas Company Vertical Common Size of Income Statements (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Sales (Net)	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Sales	75.78%	77.91%	80.55%	86.41%	88.82%
Gross Profit	24.22%	22.09%	19.45%	13.59%	11.18%
Operating Expenses	18.54%	16.49%	14.85%	12.39%	12.01%
Operating Profit/Loss	5.67%	5.60%	4.61%	1.19%	-0.83%
Financial Charges	5.42%	3.16%	2.92%	1.55%	1.07%
Other Income	7.87%	5.11%	4.20%	3.87%	4.92%
Profit Before Taxation	8.12%	7.56%	5.88%	3.51%	3.01%
Taxation	2.81%	2.52%	1.73%	1.28%	1.09%
Profit After Taxation	5.31%	5.03%	4.16%	2.22%	1.92%

Analysis:

The comparison of each component of the I/S with the sales shows that the cost of sales has been increased again due to the government policies of increasing the prices. This has resulted in the decrease in profit margins even though they have been able to reduce the financial charges to a bare minimum.

Table 4.23: Sui Southern Gas Company Horizontal Common Size of Balance Sheets (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Current Assets	100%	-6.65%	-5.01%	4.58%	17.19%
Fixed Assets (Gross)	100%	5.72%	6.27%	10.98%	19.93%
Depreciation	100%	8.91%	14.52%	26.63%	40.11%
Fixed Assets (Net)	100%	-3.23%	-1.56%	-3.86%	0.79%
Capital work in Progress	100%	63.21%	-42.85%	31.65%	348.25%
Long Term Investment & Deposits	100%	38.41%	-5.80%	-36.12%	-47.98%
Total Assets	100%	-1.99%	-4.47%	0.59%	19.06%
Current Liabilities	100%	-11.93%	-17.11%	-9.25%	13.29%
Deferred Taxation	100%	1.52%	-1.05%	-5.02%	9.40%
Long Term Liabilities	100%	4.31%	-0.52%	-3.23%	29.30%
Paid-Up Capital	100%	0.00%	0.00%	0.00%	0.00%
Reserves & Surplus	100%	14.40%	29.69%	82.81%	82.24%
Total Liabilities & Equity	100%	-1.99%	-4.47%	0.59%	19.06%

Analysis:

The horizontal common size tells that SSGC made heavy investments during the years 2001 and 2002 and projects were undertaken so as to expand and those projects have now started to pay off and this increase in customers has caused an increase in sales causing the current assets to increase heavily while on the liability side the loans taken from the government and also the company policy of giving employee benefits has caused the long term liabilities to increase.

Table 4.24: Sui Southern Gas Company Horizontal Common Size of Income Statements (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Sales (Net)	100%	17.27%	43.26%	84.23%	116.73%
Cost of Sales	100%	20.56%	52.27%	110.07%	154.02%
Gross Profit	100%	6.97%	15.07%	3.36%	0.02%
Operating Expenses	100%	4.29%	14.70%	23.12%	40.39%
Operating Profit/Loss	100%	15.73%	16.27%	-61.22%	-131.89%
Financial Charges	100%	-31.74%	-22.75%	-47.26%	-57.31%
Other Income	100%	-23.82%	-23.52%	-9.45%	35.43%
Profit Before Taxation	100%	9.11%	3.77%	-20.37%	-19.54%
Taxation	100%	5.51%	-11.89%	-15.63%	-15.55%
Profit After Taxation	100%	11.02%	12.04%	-22.87%	-21.65%

Analysis:

The horizontal analysis of the SSGC shows that although the sales have increased but due to a very large increase in the cost of sales has resulted in the operating losses and this has also resulted in the net profit margins to decrease considerably.

Table 4.25: Oil and Gas Marketing Sector Consolidated Balance Sheets (PSO, Shell, SNGPL, SSGC) (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Current Assets	58416.6	59280.77	54833.88	73293.74	93497.86
Fixed Assets (Gross)	89922.82	98569.33	106259.91	116278.43	127868.37
Depreciation	40966.34	46078.67	50254.26	56655.51	64448.84
Fixed Assets (Net)	48956.46	51490.66	56005.66	59622.92	63419.53
Capital work in Progress	6117.36	6181.71	5600.24	6986.32	11048.95
Long Term Investment & Deposits	3301.97	4052.63	6230.32	6377.79	7203.88
Total Assets	117091.36	121271.08	122851.13	146514.24	175170.22
Current Liabilities	50057.51	48851.01	45833.82	60795	77480.81
Deferred Taxation	6898.8	7722.28	7977.67	8734.87	9639.41
Long Term Liabilities	24909.56	25928.84	26375.65	22093.48	41216.19
Paid-Up Capital	13483.6	13483.6	13769.46	13769.46	13769.46
Reserves & Surplus	17177.09	20229.19	23006.03	27780.68	33064.35
Total Liabilities & Equity	117091.36	121271.08	122851.13	146514.24	175170.22

Table 4.26: Oil and Gas Marketing Sector Consolidated Income Statement (PSO, Shell, SNGPL, SSGC) (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Sales (Net)	268406.09	269988.63	329026.27	349724.1	447110.29
Cost of Sales	241839.55	241289.74	294950.02	316660.59	406447
Gross Profit	26566.54	28698.88	34076.24	33063.51	40663.29
Operating Expenses	15862.29	17036.82	19777.79	22260.26	25672.44
Operating Profit	10704.25	11662.06	14298.45	10803.25	14990.85
Financial Charges	3711.16	3526.19	3071.17	2274.72	2670.33
Other income	2513.57	3617.91	2275.92	5160.07	6432.91
Profit Before Taxation	9385.66	11633.62	13365.28	13688.6	18753.43
Taxation	3449.41	4055.83	4618.32	4804.45	5481.87
Profit After Taxation	5936.25	7577.78	8746.98	8884.15	13271.56

Table 4.27: Oil and Gas Marketing Sector Vertical Common Size of Balance Sheet (PSO, Shell, SNGPL, SSGC) (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Current Assets	49.89%	48.88%	44.63%	50.02%	53.38%
Fixed Assets (Gross)	76.80%	81.28%	86.49%	79.36%	73.00%
Depreciation	34.99%	38.00%	40.91%	38.67%	36.79%
Fixed Assets (Net)	41.81%	42.46%	45.59%	40.69%	36.20%
Capital work in Progress	5.22%	5.10%	4.56%	4.77%	6.31%
Long Term Investment	2.82%	3.34%	5.07%	4.35%	4.11%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%
Current Liabilities	42.75%	40.28%	37.31%	41.49%	44.23%
Deferred Taxation	5.89%	6.37%	6.49%	5.96%	5.50%
Long Term Liabilities	21.27%	21.38%	21.47%	15.08%	23.53%
Paid-Up Capital	11.52%	11.12%	11.21%	9.40%	7.86%
Reserves & Surplus	14.67%	16.68%	18.73%	18.96%	18.88%
Total Liabilities & Capital	100.00%	100.00%	100.00%	100.00%	100.00%

Analysis:

The vertical common size of the consolidated balance sheet for all the companies shows that the there has been a greater increase in current assets and lesser increase in the current liabilities which shows that the companies are well equipped to meet their current liabilities or short term solvency. There has been an increase in the long term investments which will give increased benefits in the coming years and also an increase in the long term liabilities which indicated that the companies are taking long term loans to expand. The reserves

and surpluses have also increased over the years showing that the firms are making increased profits throughout the period of research.

Table 4.28: Oil and Gas Marketing Sector Vertical Common Size of Income Statement (PSO, Shell, SNGPL, SSGC) (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Sales (Net)	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Sales	90.10%	89.37%	89.64%	90.55%	90.91%
Gross Profit	9.90%	10.63%	10.36%	9.45%	9.09%
Operating Expenses	5.91%	6.31%	6.01%	6.37%	5.74%
Operating Profit	3.99%	4.32%	4.35%	3.09%	3.35%
Financial Charges	1.38%	1.31%	0.93%	0.65%	0.60%
Other income	0.94%	1.34%	0.69%	1.48%	1.44%
Profit Before Taxation	3.50%	4.31%	4.06%	3.91%	4.19%
Taxation	1.29%	1.50%	1.40%	1.37%	1.23%
Profit After Taxation	2.21%	2.81%	2.66%	2.54%	2.97%

Analysis:

The vertical analysis of the income statement of the oil and gas sector shows consistency in most of the items compared with the sales. However a couple of things are important to note that the gross profits have been reducing over the years but the companies have been able to cover with good financial performance over the years and also an increase in the other incomes of the companies which has resulted the profits to rise even when the cost of sales are increasing.

Table 4.29: Oil and Gas Marketing Sector Horizontal Common Size of Consolidated Balance Sheet (PSO, Shell, SNGPL, SSGC) (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Current Assets	100%	1.479%	-6.13%	25.47%	60.05%
Fixed Assets (Gross)	100%	9.62%	18.17%	29.31%	42.20%
Depreciation	100%	12.48%	22.67%	38.30%	57.32%
Fixed Assets (Net)	100%	5.18%	14.40%	21.79%	29.54%
Capital work in Progress	100%	1.05%	-8.45%	14.20%	80.62%
Long Term Investment	100%	22.73%	88.68%	93.15%	118.17%
Total Assets	100%	3.57%	4.92%	25.13%	49.60%
Current Liabilities	100%	-2.41%	-8.44%	21.45%	54.78%
Deferred Taxation	100%	11.94%	15.64%	26.61%	39.73%
Long Term Liabilities	100%	4.09%	5.89%	-11.31%	65.46%
Paid-Up Capital	100%	0.00%	2.12%	2.12%	2.12%
Reserves & Surplus	100%	17.77%	33.93%	61.73%	92.49%
Total Liabilities & Capital	100%	3.57%	4.92%	25.13%	49.60%

Analysis:

The horizontal common size verifies the facts that the companies short term debt paying ability is getting better with the passage of each financial year and also that the oil marketing companies are becoming financially very sound and their profitability is also increasing.

Table 4.30: Oil and Gas Marketing Sector Horizontal Common Size of Consolidated Income Statement (PSO, Shell, SNGPL, SSGC) (2001-2005)

	2001	***2002***	***2003***	***2004***	***2005***
Sales (Net)	100%	0.590%	22.59%	30.30%	66.58%
Cost of Sales	100%	-0.227%	21.96%	30.94%	68.06%
Gross Profit	100%	8.026%	28.27%	24.46%	53.06%
Operating Expenses	100%	7.405%	24.68%	40.33%	61.85%
Operating Profit	100%	8.948%	33.58%	0.92%	40.05%
Financial Charges	100%	-4.984%	-17.25%	-38.71%	-28.05%
Other income	100%	43.935%	-9.45%	105.29%	155.93%
Profit Before Taxation	100%	23.951%	42.40%	45.85%	99.81%
Taxation	100%	17.580%	33.89%	39.28%	58.92%
Profit After Taxation	100%	27.653%	47.35%	49.66%	123.57%

Analysis:

The horizontal common size of the consolidated income statement of the oil marketing companies shows that the sales have increased by more than 67 percent indicating that the demand is growing extensively and the firms are expanding with each financial year. However another important aspect to note down is the huge increase in the cost of sales which means that the governments are charging more prices from the companies. One more important item to be discussed is the reduction in the companies' ability to cover their fixed expenses. All this along with the increase in the other income has resulted in increased profits for the firms showing that the oil & gas sector is growing.

Table 4.31: Important figures to be used in the calculating the ratios

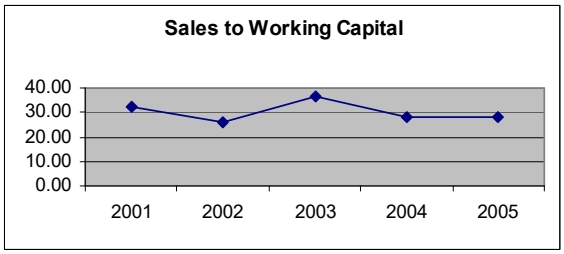
		2001	2002	2003	2004	2005
1	Current Assets	58,416.60	59,280.77	54,833.88	73,293.74	93,497.86
2	Current Liabilities	50,057.51	48,851.01	45,833.82	60,795.00	77,480.81
3	Total Assets	117,091.36	121,271.08	122,851.13	146,514.24	175,170.22
4	Total Liabilities	81,865.87	82,502.13	80,187.14	91,623.35	128,336.41
5	Total Shareholders Equity	30,660.69	33,712.79	36,775.49	41,550.14	46,833.81
6	Fixed Assets	48,956.46	51,490.66	56,005.66	59,622.92	63,419.53
7	Operating Assets	686.04	892.88	1,142.06	1,169.81	1,245.69
8	Net or Credit Sales	268,406.09	269,988.63	329,026.27	349,724.10	447,110.29
9	Gross Profit	26,566.54	28,698.88	34,076.24	33,063.51	40,663.29
10	Gross Receivables					
11	Average Gross Receivables					
12	Operating Profit	10,704.25	11,662.06	14,298.45	10,803.25	14,990.85
13	Earning Before Taxation (EAT)	9,385.66	11,633.62	13,365.28	13,688.60	18,753.43
14	Earning After Taxation (EAT)	5,936.25	7,577.78	8,746.98	8,884.15	13,271.56
15	Market Price of Shares (on June 30)	132.50	140.00	225.40	256.80	386.00
16	Dividend Per Share	25.70	34.75	55.00	56.75	57.50
17	Fixed Expenses	3711.16	3526.19	3071.17	2274.72	2670.33

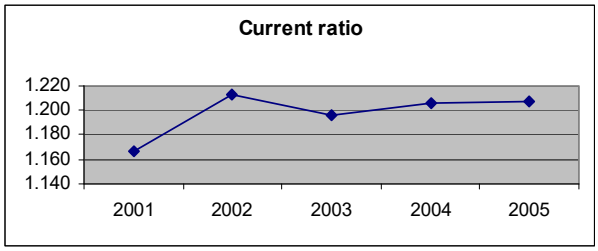
These figures have been utilized to calculate a number of ratios for the oil marketing companies which will give an idea how well the sector is progressing and what is the trend in the industry.

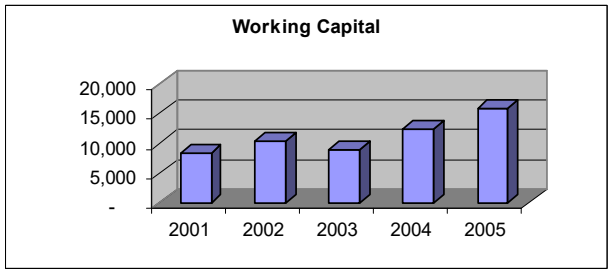
Table 4.32: Ratios for measuring the Liquidity of the sector

	2001	*2002*	*2003*	*2004*	*2005*
Current Ratio: (in Times)	1.167	1.214	1.196	1.206	1.207
Working Capital: (in Rupees)	8,359	10,430	9,000	12,499	16,017
Sales to Working Capital	32.11	25.89	36.56	27.98	27.91

Figure 4.1: Ratios for measuring the Long Term Debt Paying Ability







Analysis:

The working capital is the indication of the short term solvency of a firm. From the bar chart it can easily be figured out that the firms' working capital is almost doubled which shows that the oil marketing companies are well equipped to face any sort of solvency.

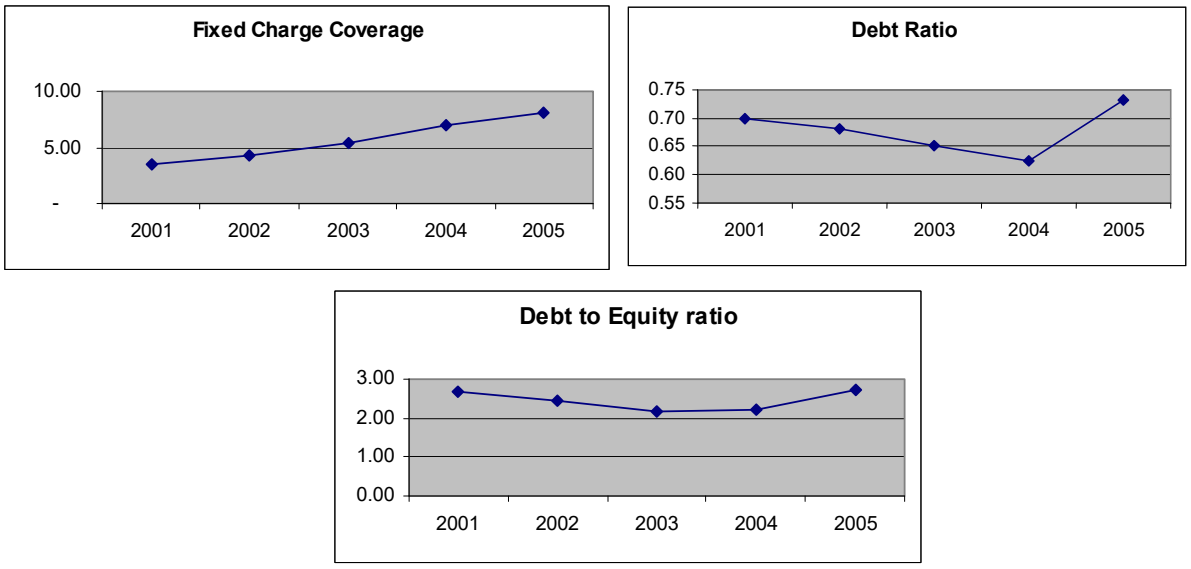
The current ratio has also increased from 1.16 to 1.21 showing that the oil marketing companies' short term debt paying

ability is increasing with time and they have more current assets to meet their current liability which gives the indication of the growth of the sector.

Table 4.33: Ratios for measuring the Long Term Debt Paying Ability

	2001	***2002***	***2003***	***2004***	***2005***
Fixed Charge Coverage:(Times)	3.53	4.30	5.35	7.02	8.02
Debt Ratio:(Times)	0.70	0.68	0.65	0.63	0.73
Debt to Equity ratio:(Times)	2.67	2.45	2.18	2.21	2.74

Figure 4.2: Ratios for measuring the Long Term Debt Paying Ability



Analysis:

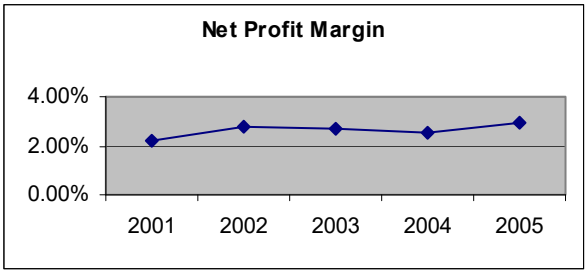
The fixed charge ratio is a very good measure in judging a firm's long term debt paying ability. As we can see that this ratio has grown extensively over the years and the oil marketing companies that are studied have been able to increase their ability to cover the fixed expenses.

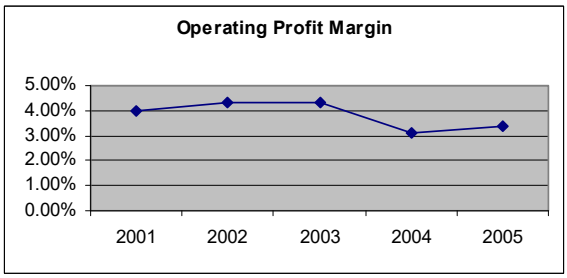
The debt ratio and debt to equity ratio indicates how well the creditors are protected in case of insolvency. Both these ratios have been showing a positive trend and this clearly shows that the oil marketing companies are providing surety to the creditors.

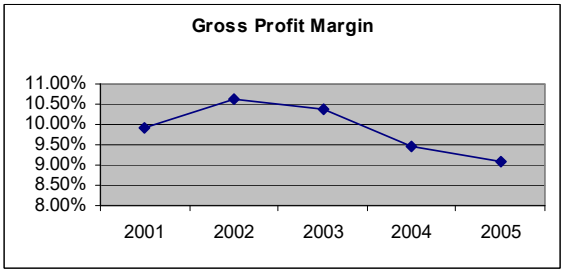
Table 4.34: Ratios for measuring the profitability of the sector

	2001	*2002*	*2003*	*2004*	*2005*
Net Profit Margin: (In percentage)	2.21%	2.81%	2.66%	2.54%	2.97%
Gross Profit Margin:(In percentage)	9.90%	10.63%	10.36%	9.45%	9.09%
Operating Profit Margin:(In percentage)	3.99%	4.32%	4.35%	3.09%	3.35%
Assets Turnover:(in Times)	2.29	2.23	2.68	2.39	2.55
Return on Assets (ROA): (In percentage)	5.07%	6.25%	7.12%	6.06%	7.58%
Return on Investment (ROI) :(In percentage)	5.28%	6.52%	7.48%	6.67%	7.58%
Return on Total Equity (ROTE): (In percentage)	19.36%	22.48%	23.78%	21.38%	28.34%

Figure 4.3: Ratios for measuring the profitability of the sector







Analysis:

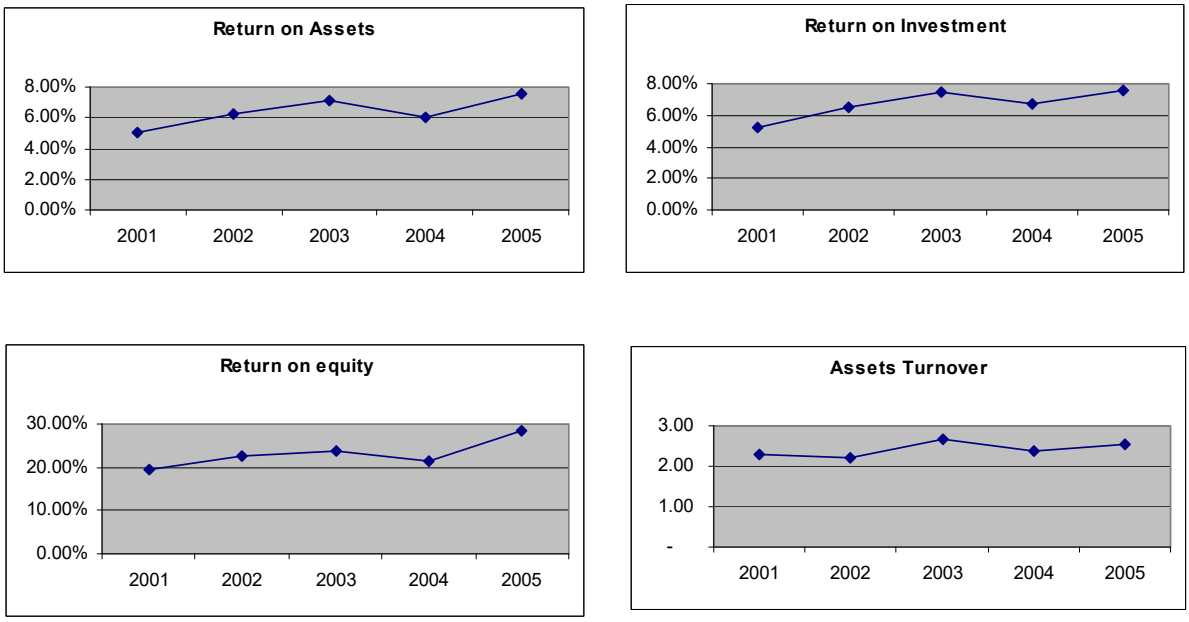
The gross profit margin which had been showing a positive trend, in the last couple of years has declined significantly. This is because of the higher prices the government is

charging especially in the gas sector. This has led to a low gross profit margin for the gas marketing companies and this has affected the sector.

The operating profit margin because of the very low gross profit margin has also declined over the years but still it is not that bad. The reason for this is that the companies have been able to cover some of the losses incurred in the cost of sales by reducing their operating expenses.

The net profit margin still shows that the oil marketing companies are growing as well as profits are concerned due to their ability to reduce their fixed charges by performing soundly and also by increasing their sources of other income. All this has led to the net profit margin for the sector to increase over the years.

Figure 4.4: Ratios for measuring the profitability of the sector



Analysis:

The total asset turnover ratio for the sector shows that the companies are gaining ability to generate sales through the use of their assets meaning that their utilization of assets to make sales is increasing with the passage of time.

The return on assets also shows that the companies are utilizing their assets efficiently to produce profits which indicate that the companies are growing extensively.

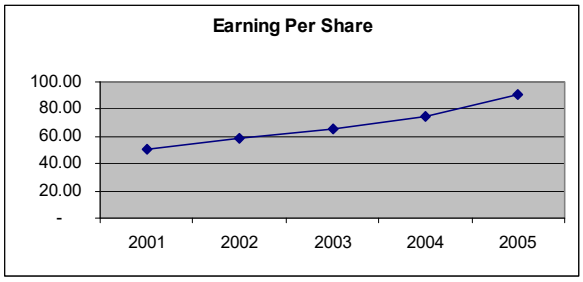
The return on investment has risen from 5.28% to nearly 8% showing that the income generated on the invested capital is increasing with the passage of time and the investors are getting increased returns and rewards to long term fund providers and also attract new funds.

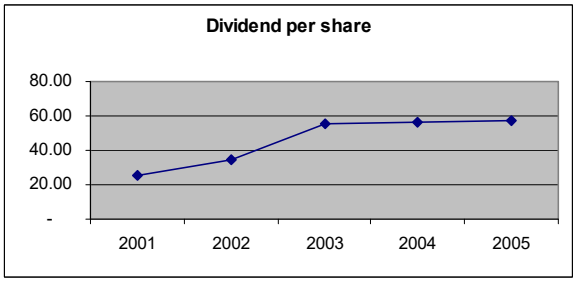
The return on total equity measures the return on both common and preferred shareholders. The increase in this ratio over the time indicates that the oil marketing companies are giving increased returns to their stockholders.

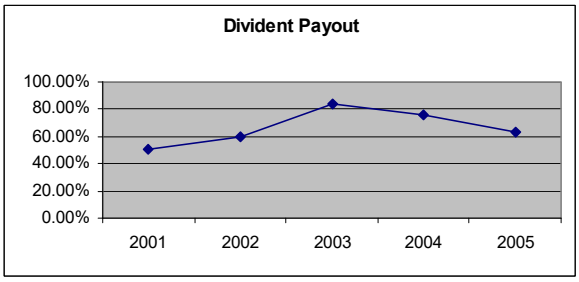
Table 4.35: Ratios of the measurement of the market value of the sector

	2001	*2002*	*2003*	*2004*	*2005*
Earning Per Share (EPS) (in Rupees / Share)	50.48	58.54	65.48	74.36	90.24
Dividend Per Common Share	25.70	34.75	55.00	56.75	57.50
Dividend Payout:	50.91%	59.36%	84.00%	76.32%	63.72%

Figure 4.5: Ratios of the measurement of the market value of the sector





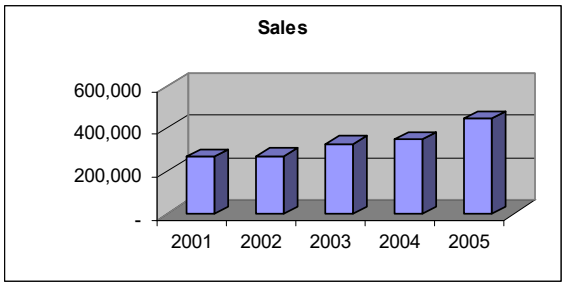


Analysis:

The earning per share of the oil marketing companies ahs been constantly going up, showing that the companies' are increasing the amount of income earned over each share of common stock.

The dividend per common share is also increasing giving an indication that the stockholders are getting higher dividends with each passing financial year.

Figure 4.6: Graphs to specify the growth of the oil & gas marketing companies





Analysis:

The sales of the oil marketing companies have almost doubled showing that the demand is increasing continuously which has also resulted in higher net profits with each passing financial year. However a couple of important points have to be notified that the sales of the gas marketing companies are increasing while that of the oil marketing companies is decreasing and there is a reversal in the profits after taxation in which the profits of oil marketing companies has increased while that of the gas marketing companies has been diminishing.

CHAPTER 5

CONCLUSION AND RECOMMENDATION

Conclusion

Both the horizontal and vertical analysis of the marketing sector show that there has been tremendous improvement in this sector. The improvement is reflected in the annual reports of the companies, as well as in their production data. There are now more than 15 companies operating in the sector with 7 of them listen on the KSE.

All the financial indicators of these companies have improved. Profitability, liquidity and financial leverage in 2005 were better than in 2001.

Profitability as shown by net profit margin has increased and Liquidity as shown by the betterment of the current ratio has also improved as can be seen from the current ratio and other liquidity ratios.

The results from the research show that there has been a significant increase in taxes and royalty that contributed appreciably to the government’s revenue, specifically PSO and SNGPL are right at the top of the list which is contributing the major chunk relative to the other three that were under the researcher’s observation.

As the liquidity of the industry was far better than before, the financial charges were reduced to bare minimum.

The analysis of the oil & gas sector shows that the demand is increasing meaning that the consumption has increased significantly. From this we can also conclude that the middle class is getting stronger financially and their propensity to consume is increasing and this means that their living standard has improved. With the help of all this we can also conclude that the oil & gas sector is giving increased profits to the government and the economy of Pakistan is being helped considerably by this increase in consumption.

Another important conclusion drawn from the research is that the oil demand is decreasing compared to the gas which means that there is a structural shift taking places. The reason for this is that the oil is more costly and the gas is cheaper to utilize and this has resulted in the negative trend of the oil consumption and the positive trend of the gas usage.

One other factor that has disrupted the performance of the gas marketing companies are the differences between the tribal chiefs of Baluchistan and the Government of Pakistan which has resulted in heavy losses for these firms and which has reduced their profits considerably.

The researcher can conclude that the Oil and Gas holds a great importance towards the national income through direct and indirect taxes that influences the country’s ability to prosper and grow.

Although the situation is much better than in 1999 there still remains a lot of room for improvement.

Recommendations

From the conclusion derived the researcher can give the following recommendations:

- As the gas is much cheaper than oil therefore there is a switch taking place from oil to gas consumption. The government should take notice of this and regulate the gas prices so that the cost factor is minimized.

- The government is charging more royalty charges from the oil marketing companies (currently 12.5 percent). It should reduce them so that the cost of sales if these companies decreases and they attain higher profits.

- Government should make efforts to solve the differences with the tribal chiefs in Baluchistan so that there are no more losses incurred by the gas marketing companies.

- In this research the inflation factor has not been considered and the prices are not adjusted for the rise in inflation level which can be very important and this could be misleading in the assessment of these companies. The future researcher should take this into account for more accurate results.

GLOSSARY

Upstream:

Produces petroleum, also referred to as upstream sector; namely, exploration and development companies, seismic, and drilling contractors, service rig operators, engineering firms, etc.

Downstream:

Refines and markets petroleum including pipeline systems, refineries, gas distribution, and petrochemical companies.

Refinery:

A complex of facilities where crude oil is separated into light or heavy fractions which are then converted into useable products.

Exploration:

‘Exploration” or ‘Exploration Operation” means the search for Petroleum in the Area previously not known to have existed, using geological, geophysical and other methods and drilling of Exploration Well(s) is more particularly defined in Rules.

Bcf:

Billion cubic feet.

Tonnes of oil equivalent (TOE):

A term frequently used to measure oil and gas on a comparative basis.

MMCFT:

Million standard cubic feet.

Liquefied Petroleum Gas (LPG):

Propane, butane, or propane-butane mixtures derived from crude oil refining or natural gas fractionation. For convenience of transportation, these gases are liquefied through pressurization.

Petroleum:

A natural mixture of hydrocarbons in gaseous, liquid, or solid form.

Balance sheet:

A Financial Statement whose left hand side shows the firm’s assets, while the right hand side shows the liabilities and equity, or the claim against these assets. These assets are listed in order of their ‘liquidity,” or the length of time it typically takes to convert them into cash. The claims are listed in order in which they must be paid.

Income Statement:

A summary of the revenues and expenses and gains and losses that result in net income or net loss for a period.

Deferred taxation:

A balance sheet account; classified as an asset or liability depending on the nature of the timing differences. The differences are the result of any situation that recognizes revenue or expenses in a different time period for tax purposes that for the financial statement.

Financial Statements:

Generally considered to be the balance sheet, income statement, and statement of cash flows.

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