

# Notes to the Financial Statement (Un-Audited)

for the half year ended December 31, 2007

Amount in thousand Rupees unless otherwise stated

1. Pakistan State Oil Company Limited is a public company incorporated in Pakistan under the Companies Act, 1913 (now Companies Ordinance, 1984) and is listed on Karachi, Lahore and Islamabad stock exchanges. The address of its registered office is PSO House, Khayaban-e-Iqbal, Clifton, Karachi. The principal activities of the Company are procurement, storage and marketing of petroleum and related products. It also blends and markets various kinds of lubricating oils.
2. These condensed interim financial statements are unaudited and are being submitted to the shareholders in accordance with section 245 of the Companies Ordinance, 1984 and International Accounting Standard 34 - 'Interim Financial Reporting'. The figures for the half year ended December 31, 2007 have, however, been subjected to limited scope review by the auditors as required by the Code of Corporate Governance.
3. The accounting policies adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the audited annual published financial statements of the Company for the year ended June 30, 2007.

## 4. PROPERTY, PLANT AND EQUIPMENT

- 4.1 Major capitalization in the operating assets during the period/ year were as follows:

	December 31, 2007	June 30, 2007
Buildings on leasehold land	49,656	124,288
Tanks and pipelines	41,097	48,683
Service and filling stations	161,281	727,257
Vehicles and other rolling stock	8,319	30,432
Furniture, fittings and office equipment	10,753	4,447
Plant and machinery	236,539	218,988
Gas cylinders / regulators	8,346	-
Office equipment	11,225	49,342
	<u>527,216</u>	<u>1,203,437</u>

- 4.2 During the period, assets costing Rs. 20,943 thousand having net book value of Rs. 8,964 thousand were disposed off for Rs. 28,144 thousand.
- 4.3 The Company's assets at certain retail outlets were damaged/ destroyed during the incident of December 27, 2007. Pending final determination of total loss and insurance claim thereagainst, no provision for impairment has been recognized in these financial statements as the management of the Company is confident that the net loss, if any, would not be material.

## 5. INTANGIBLES

Additions made during the period amounted to Rs. 8,255 thousand (June 30, 2007: Rs. 13,301 thousand).

## 6. OTHER RECEIVABLES

Included in other receivables is an aggregate amount of Rs. 24,431,840 thousand (June 30, 2007: Rs. 13,828,331 thousand) due from Government of Pakistan (GoP) on account of the following:

### 6.1 Import price differential aggregating to Rs. 1,465,406 thousand (June 30, 2007: Rs.1,465,406 thousand).

In 2002 under an arrangement with the Ministry of Petroleum and Natural Resources (MoP & NR), Government of Pakistan (GoP), the Company carried out an independent verification and reconciliation of price differential claims due from the GoP and outstanding since 1991. Based on the exercise, the Company recognised the resulting net difference in its financial statements. Through its letter No. 3(386)/2002 dated August 7, 2002 the GoP confirmed that the report on independent verification will provide reasonable level of comfort to the authenticity and accuracy of outstanding import price differential claims and accordingly, against balance claimed, commenced repayment through a pricing mechanism for which a notification was issued. Such repayments amounted to Rs. 2,805,000 thousand upto December 31, 2003.

Since then no further amounts have been received and the notification for the pricing mechanism also expired on December 31, 2004.

However, through its letter No. F.1(21)-CF.III/2005-386 dated March 3, 2007 the GoP-Finance Division intimated that it has been decided that these price Differential Claims will be paid after confirmation of the reconciled claim by the MoP & NR and requested MoP & NR to confirm the agreed amount payable at the earliest. The Company is actively pursuing the matter with the MoP & NR and Ministry of Finance (MoF), GoP and Ministry of Finance GoP, for the recovery of the balance amount of Rs. 1,465,406 thousand and considers that the balance will be recovered in due course. Pending recovery, confirmation of the MoP & NR and agreement of the amount due from GoP, the Company, as a matter of prudence carries a provision of Rs. 501,730 thousand (June 30, 2007: Rs. 501,730 thousand) against the balance due as at December 31, 2007.

### 6.2 Price differential claims aggregating Rs. 19,559,077 thousand

The claims, as summarized below, have arisen on the instructions of MoP & NR, GoP for keeping the consumer prices of certain POL products stable.

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(Rupees in '000)

Balance at the beginning of the period	8,955,568
Add: Claims pertaining to current period	28,558,509
	37,514,077
Less: Recovered - directly through GoP	5,955,000
- through syndicate finance (note 6.2.1)	12,000,000
	17,955,000
Balance at the end of the period	<u>19,559,077</u>

6.2.1 GoP, for the purposes of reimbursing the outstanding price differential claims, directed the Company to obtain a term finance amounting to Rs. 12 billion at the risk and liability of the GoP. Accordingly, the Company entered into a Term Finance Agreement (the Agreement) dated November 27, 2007 with a consortium of banks (the Syndicate). The finance is due at the end of the three year term in one bullet form whereas mark-up is due semiannually, repriced at every quarter and benchmarked to 3 months Karachi Interbank Offered Rate (KIBOR). GoP is fully responsible and liable as a Principal Obligor to repay the finance, mark-up and all other obligations arising under the Agreement to the Syndicate, through the Company, under an irrevocable and unconditional guarantee dated November 28, 2007 given in favour of the Syndicate. Therefore, the Company is contingently liable under aforementioned agreement after all the legal remedies have been exhausted by the Syndicate.

6.3 WAPDA receivables on account of Price Differential between the products Low Sulphur Furnace Oil and

High Sulphur Furnace Oil aggregating Rs. 3,407,357 thousand (June 30, 2007: Rs. 3,407,357 thousand).

In 1996, through a decision taken at a meeting of the Privatisation Commission, and Finance Division, GoP the Company was advised to supply LSFO to Kot Addu Power Project at the HSFO price and WAPDA was advised to absorb the price differential between the two products. In accordance with the decision of ECC dated November 4, 2003, the Company was allowed to recover this amount through a pricing mechanism after recovery of the amount outstanding against its claims for Import Price Differential aggregating to Rs.1,465,406 thousand, referred in note 6.1, the notification for which expired on December 31, 2004. Although no recovery has been made on this account, the Company continues to follow up the matter with MoP & NR. In 2005, the Company submitted an independent report on the verification of the above claim to MoP & NR, upon their request. In 2006, a joint reconciliation exercise was carried out with WAPDA as per the decision taken in a meeting held on May 19, 2006 under the Chairmanship of Additional Finance Secretary (GoP) and the final reconciliation statements were submitted to MoF and WAPDA. Last year, on February 3, 2007 the Company and WAPDA agreed upon the final receivable balance of Rs. 3,407,357 thousand. Further, the GOP - Finance Division through its letter No. F.1(21)-CF.111/2005-385 dated March 3, 2007 intimated that the amount of Rs. 3,407,357 thousand will be paid to the Company during

for the half year ended December 31, 2007

financial year 2007-2008 and necessary provision in this respect will be made by GoP in the budget for financial year 2007-2008, however, no amount has been received thereagainst as at December 31, 2007. In view of the above, the Company considers that the above amount will be recovered in full in due course of time.

## 7. NET ASSETS IN BANGLADESH

The Company has no control over these assets and has maintained in its record the position as it was in 1971. Full provision for impairment has been made against these net assets.

## 8. CONTINGENCIES AND COMMITMENTS

### 8.1 Contingencies

The Company has contingent liabilities in respect of legal claims in the ordinary course of business.

8.1.1 Claims against the Company not acknowledged as debts amount to Rs. 529,214 thousand (June 30, 2007: Rs. 383,153 thousand), including claims by refineries for delayed payment charges.

8.1.2 In the assessment years 1996-97 and 1997-98, the taxation authorities applied presumptive tax on the Company to the value of petroleum products imported by the Company on behalf of the Government of

Pakistan (GOP) by treating the Company as the importer of such products. The Income Tax Appellate Tribunal (ITAT) cancelled the order of the assessing officer, and as a consequence of the order of the ITAT, an amount of Rs. 958,152 thousand became refundable to the Company, which was adjusted against the tax liability of the subsequent years. The department had filed an appeal with the High Court of Sindh against the aforesaid decision of the ITAT, which was adjudicated against the Company. The Company filed petition for leave to appeal with the Supreme Court of Pakistan against the aforementioned decision, which was granted by the Supreme Court of Pakistan through its order dated March 7, 2007 and which also suspended the operation of the impugned judgment of the High Court of Sindh.

The management of the Company maintains that the Company was merely acting as a handling agent on behalf of Government of Pakistan (GoP), who was in fact the importer of the products. Hence, the ultimate liability, if any, is recoverable from GoP, for which the management is in communication with the MoP & NR.

Based on the merits of the case above, the management believes that the ultimate decision will be in its favour and therefore, no provision has been made for the liability in the financial statements.

8.1.3 In the year 2005, a demand was raised by the Collector of Customs, Sales Tax and Central Excise (Adjudication)

in respect of Sales Tax, Central Excise Duty and Petroleum Development Levy aggregating Rs. 165,781 thousand inclusive of additional sales tax and central excise duty on exports of POL products to Afghanistan during the period August 2002 to November 2003. The demand was raised on the grounds that the export consignments were not verified by the Pakistan Embassy / Consulate in Afghanistan as required under Export Policy and Procedures 2000. It is the Company's contention that this requirement was in suspension as in the aforesaid period the Pakistan Embassy / Consulate was not fully functional. This condition of suspension was removed only in July 22, 2004 through Export Policy Order 2004 when the Pakistan Embassy / Consulate became fully functional in Afghanistan. Besides the issue of verification, it is also the Company's contention that export of POL products to Afghanistan can be verified from the relevant documents and therefore, the demand is unwarranted.

The Company has filed an appeal against the above order before the Appellate Tribunal and also referred the matter for resolution in the Alternate Dispute Resolution Committee (ADRC) under section 47-A of the Sales Tax Act, 1990. Through its recommendation dated December 26, 2006, the ADRC has rejected the application filed by the Company. Subsequently, through its order dated June 16, 2007 the CBR has accepted the recommendation of the ADRC. The Company will now contest the matter before the Appellate Tribunal. Based on the merits of the case,

the Company is confident that the ultimate outcome of the matter would be in its favour and therefore no provision has been made in this respect in these financial statements.

8.1.4 The Company may be exposed to provincial cess in respect of certain imports. The same cess has been levied on other companies in the industry, who have challenged the levy at appellate forums. The existence of the possible obligation on the Company and the amount involved cannot be determined with sufficient reliability. However, the management of the Company is confident that it will not be liable to the levy.

8.1.5 The Company has been extended a loan facility through MoF and MoP & NR for import of POL products, on behalf of GoP. Repayment of principal amount, financing cost and foreign exchange risk are the responsibility of MoF - GoP. The loan facility, provided by the National Bank of Pakistan, Bahrain; amounted to US Dollars 100,000 thousand, repayable over three year period expiring on October 14, 2008, at a mark-up rate of LIBOR plus 0.8% per annum. As at December 31, 2007, the outstanding loan including mark-up amounted to US Dollars 101,360 thousand.

## 8.2 Commitments

8.2.1 Commitments in respect of capital expenditure contracted for but not as yet incurred pertaining to Property, plant & equipment and Intangibles as at

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for the half year ended December 31, 2007

December 31, 2007 amounted to Rs. 332,148 thousand (June 30, 2007: Rs. 254,965 thousand) and Rs. 18,388 thousand (Rs. 13,332 thousand).

8.2.2 Letters of credit and bank guarantees outstanding as at December 31, 2007 amounted to Rs. 3,194,733 thousand (June 30, 2007: Rs. 2,696,917 thousand).

## 9. TRANSACTIONS WITH RELATED PARTIES

9.1 Details of transactions with related parties during the period, are as follows:

Name of the related party and relationship with the Company	Nature of transactions	Jul-Dec 2007 (Rupees in '000)	Jul-Dec 2006
<b>Associates</b>			
- Pak Grease Manufacturing Company Pvt. Ltd.	Purchases	50,033	47,738
	Dividend Received	2,059	3,259
- Asia Petroleum Limited	Income (facility charges)	63,102	106,182
	Rental Income	2,282	2,243
	Dividend received	184,234	575,732
	Pipeline charges	590,251	637,460
<b>Retirement benefits funds</b>			
- Pension Funds	Contribution	52,484	38,274
- Gratuity Fund	Benefits paid on behalf of fund	44,005	24,203
- Provident Funds	Contribution	19,858	18,222
<b>Other related parties</b>			
- Pakistan Refinery Limited	Purchases	15,016,660	9,274,077
- Pak Arab Pipeline Company Ltd.	Pipeline charges	2,793,650	1,388,212
<b>Key Management personnel</b>			
	Remuneration	55,709	47,747
	Contribution to retirement benefits	2,112	1,780
	Other benefits	17,236	19,772

## 10. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Management in its meeting held on February 15, 2008 has approved an interim cash dividend of Rs. 6/- per share for the year ending June 30, 2008, amounting to Rs. 1,029,113 thousand. These condensed interim financial statements do not reflect this dividend payable.

## 11. DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on February 15, 2008 by the Board of Management-Oil of the Company.

## 12. CORRESPONDING FIGURES

Corresponding figures in the balance sheet and statement of changes in equity comprise of balances as per the annual audited financial statements for the year ended June 30, 2007, whereas corresponding figures in the profit and loss account and cash flow statement comprise of balances of comparable period as per the condensed interim financial statements for the half year ended December 31, 2006 which were subjected to limited scope review by the auditors as required by the Code of Corporate Governance.

Mohammad Abdul Aleem  
Managing Director & CEO

Sardar M. Yasin Malik  
Chairman