

PAKISTAN STATE OIL COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Un-Audited)
FOR THE QUARTER ENDED SEPTEMBER 30, 2007
(Amount in thousand rupees unless otherwise specified)

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 principal activity of the Company is procurement, storage and marketing of petroleum and related products. It also blends and markets various kinds of lubricating oils.
2. These financial statements are un-audited 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’.
3. The accounting policies adopted in the preparation of these quarterly financial statements are the same as those applied in the preparation of the audited published financial statements of the Company for the year ended June 30, 2007.

4. PROPERTY PLANT AND EQUIPMENT

Following were the major capitalization in the operating assets during the period/year:

	September 30, 2007	June 30, 2007
Buildings on leasehold land	4,877	124,288
Tanks and pipelines	21,624	48,683
Plant and Machinery	170,963	218,988
Service and filling stations	111,855	727,257

5. OTHER RECEIVABLES

Included in other receivable is an aggregate amount of Rs. 16,529,758 thousand (June 30, 2007: Rs. 13,828,331 thousand) due from Government of Pakistan on account of the following:

- 5.1 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), 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 September 30, 2007.

- 5.2 Price differential claims (PDC) aggregating to Rs. 11,656,992 thousand (June 30, 2007: Rs. 8,955,568 thousand) due from GoP. These claims have arisen on the instructions of MoP & NR for keeping the consumer prices of certain POL products stable. The Company together with other Oil Marketing Companies is actively pursuing the matter with the concerned ministries for the early settlement of above claim. The Company considers that the balance amount will be reimbursed by the GoP in due course of time.
- 5.3 The balance of Rs. 3,407,357 thousand (June 30, 2007: Rs. 3,407,357 thousand) represents an amount due and outstanding for a considerable period from Water and Power Development Authority (WAPDA) on account of price differential between the products Low Sulphur Furnace Oil (LSFO) and High Sulphur Furnace Oil (HSFO). 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 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. Last year, 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. On February 3, 2007, the Company and WAPDA have 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.III/2005-385 dated March 3, 2007 has intimated that it has been decided that balance amount of Rs. 3,407,357 thousand will be paid to the Company during current financial year.

In view of the above, the Company considers that the above amount will be recovered in full in due course of time.

6. CONTINGENCIES AND COMMITMENTS

- 6.1 Claims against the Company not acknowledged as debts Rs. 393,409 thousand (June 30, 2007: Rs. 383,153 thousand) including claims by refineries for delayed payments.

- 6.2 The company is subject to tax demands against which it has filed appeals. No significant changes have occurred since the annual financial statements for the year ended June 30, 2007.
- 6.3 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.
- 6.4 The Company has been extended a loan facility through Ministry of Finance (MoF) and MoP & NR for import of POL products. The foreign exchange allocation for these products is guaranteed by the SBP and GoP. Repayment of principal amount, financing cost and foreign exchange risk are the responsibility of MoF, GoP.

The status of loan facility at September 30, 2007 was as follows:

Lender	Amount Of facility	Amount Outstanding including mark-up	Markup rate per anum %	Repayment
	(US\$ in million)			
National Bank of Pakistan – Bahrain	100.0	101.386	Libor+.8	October 14, 2008

- 6.5 Commitments in respect of contracts for capital expenditure amount to Rs. 601,966 thousand (June 30, 2007: Rs. 268,297 thousand).
- 6.6 Letters of credit and bank guarantees outstanding amount to Rs. 2,474,795 thousand (June 30, 2007: Rs. 2,696,917 thousand).

7. TRANSACTIONS WITH RELATED PARTIES

7.1 Transactions with related parties during the period, are as follows:

Relationship with the Company	Nature of transactions	Jul-Sep	Jul-Sep
		2007	2006
		(Rs. In '000)	
Associates			
- Pak Grease Manufacturing Company (Pvt) Limited	Purchases	24,843	26,433
	Dividend Received	2,059	-
- Asia Petroleum Limited	Income (facility charges)	34,422	72,988
	Rental Income	1,160	1,121
	Dividend received	-	115,146
Retirement benefits funds			
- Pension Funds	Contribution	21,422	20,259
-Gratuity Fund	Benefits paid on behalf of fund	25,858	6,966
- Provident Funds	Contribution	9,566	8,496
Other related parties			
- Pakistan Refinery Limited	Purchases	7,847,713	4,104,371

7.2 There are no transactions with key management personnel other than under the terms of employment.

8. CORRESPONDING FIGURES

In order to comply with the requirements of International Accounting Standard 34 'Interim Financial Reporting', balance sheet has been compared with the balances of annual financial statements, whereas profit and loss account and cash flow statement have been compared with the balances of comparable period of immediately preceding financial year.

9. DATE OF AUTHORISATION

The financial statements were authorized for issue by the Board of Management (Oil) of the Company on October 29, 2007.

10. PROPOSED DIVIDEND AND MOVEMENT BETWEEN RESERVES

The Board of Management in its meeting held on October 29, 2007 approved an interim dividend of Rs. 5/- per share for the year ending June 30, 2008, amounting to Rs. 857,595 thousand. These financial statements do not reflect the dividend payable.

Jalees Ahmed Siddiqi
Managing Director & CEO

Pervaiz Kausar
Chairman