

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 1 LEGAL STATUS AND OPERATIONS

Oil and Gas Development Company Limited (OGDCL), "the Parent Company", was incorporated on 23 October 1997 under the Companies Ordinance, 1984. The registered office of the Parent Company is located at OGDCL House, Plot No. 3, F-6/G-6, Blue Area, Islamabad, Pakistan. The Parent Company is deemed to own all the properties, rights, assets, obligations and liabilities of Oil and Gas Development Corporation (OGDC) as on that date. The Parent Company is engaged in the exploration and development of oil and gas resources, including production and sale of oil and gas and related activities. The Parent Company is listed on all the three stock exchanges of Pakistan and its Global Depository Shares (1GDS = 10 Ordinary shares of the Parent Company) are listed on the London Stock Exchange.

Government of Pakistan (GoP) owns 85.02% (2007: 85.02%) of the Ordinary shares of the Parent Company as of 30 June 2008.

The Parent Company has a wholly owned subsidiary namely Pirkoh Gas Company (Private) Limited ("the Subsidiary Company"). The Subsidiary Company was incorporated in 1982 as a private limited company under the repealed Companies Act, 1913. It is engaged in the exploration and development of natural gas resources, including production and sale of natural gas and related activities.

The Board of Directors of the Subsidiary Company in consultation with the Privatization Commission of Pakistan has approved the merger of the Subsidiary Company with its Parent Company and therefore, the Subsidiary Company is not a going concern. The assets and liabilities of the Subsidiary Company have not been stated at its realizable and expected settlement values as these would be merged in Parent Company's books at book values as both the entities are under common control.

## 2 BASIS OF PREPARATION

### 2.1 STATEMENT OF COMPLIANCE

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

### 2.2 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Parent Company and the Subsidiary Company together constituting "the Group" statements. Subsidiaries are those enterprises in which the Parent Company directly or indirectly controls, beneficially owns or holds more than 50 percent of the voting securities or otherwise has power to elect and appoint more than 50 percent of its directors. The financial statements of the Subsidiary Company are included in the consolidated financial statements from the date the control commences until the date the control ceases. The financial statements of Subsidiary Company have been consolidated on a line by line basis. All material inter company balances, transactions and resulting unrealized profits/(losses) have been eliminated.

### 2.3 BASIS OF MEASUREMENT

These financial statements have been prepared under historical cost basis except that obligations under certain employee benefits and provision for decommissioning cost have been measured at present value, investments at fair value through profit or loss and investments available for sale have been measured at fair market value and investments held to maturity have been recognized at amortized cost.

### 2.4 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Pak Rupee which is the Group's functional currency. All financial information presented has been rounded off to the nearest thousand of rupees, unless otherwise stated.

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## 2.5 SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by the management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

### 2.5.1 Property, plant and equipment

The Group reviews the useful lives of property, plant and equipment on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

### 2.5.2 Estimation of oil and natural gas reserves

Oil and gas reserves are an important element in impairment testing for development and production assets of the Group. Estimates of oil and natural gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Proved reserves are estimated with reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs. All proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

Changes to the estimates of proved reserves, particularly proved developed reserves, also affect the amount of depreciation, depletion and amortization recorded in the financial statements for fixed assets related to hydrocarbon production activities.

### 2.5.3 Provision for decommissioning cost

Provision is recognized for the future decommissioning and restoration of oil and gas wells, production facilities and pipelines at the end of their economic lives. The timing of recognition requires the application of judgment to existing facts and circumstances, which can be subject to change. Estimates of the amount of provision recognized are based on current legal and constructive requirements, technology and price levels. Provision is based on the best estimates, however, the actual outflows can differ from estimated cash outflows due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amount of provision is reviewed and adjusted to take account of such changes.

### 2.5.4 Employee benefits

Defined benefits plans are provided for permanent employees of the Group. The plans are structured as separate legal entities managed by trustees except post retirement medical benefits and accumulating compensated absences plan for which deferred liability is recognized in the Group's financial statements. These calculations require assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration and pension benefit levels, medical benefit rate, the expected long term return on plan assets and the discount rate used to convert future cash flows to current values. The assumptions used vary for the different plans as they are determined by independent actuaries annually.

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The amount of the expected return on plan assets is calculated using the expected rate of return for the year and the market related value at the beginning of the year. Pension cost primarily represents the increase in actuarial present value of the obligation for benefits earned on employee service during the year and the interest on the obligation in respect of employee's service in previous years, net of the expected return on plan assets. Calculations are sensitive to changes in the underlying assumptions.

## 2.5.5 Taxation

The Group takes into account the current income tax laws and decisions taken by appellate authorities. Instances where the Group's view differs from the view taken by the income tax department at the assessment stage and where the Group considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 EMPLOYEE BENEFITS

Salaries, wages and benefits are accrued in the period in which the associated services are rendered by employees of the Group. The accounting policy for pension, post retirement medical benefits and accumulating compensated absences is described below:

#### 3.1.1 Pension, post retirement medical benefits and accumulating compensated absences

The Group operates an approved funded pension scheme under an independent trust for its permanent employees as a defined benefit plan.

The Group also provides post retirement medical benefits to its permanent employees and their families as a defined benefit plan.

The Group also has a policy whereby all its permanent employees are eligible to encash accumulated leave balance at the time of retirement or during the service.

The Group makes contributions to the above defined benefit plans on the basis of actuarial valuations, carried out annually by independent actuaries. The latest actuarial valuations were carried as of 30 June 2008. The calculations of actuaries are based on the projected unit credit method, net of the assets guaranteeing the plan, if any, with the obligation increasing from year to year, in a manner that it is proportional to the length of service of the employees.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets, if any, is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. Fair value of the benefit plans is based on market price information and, contributions to defined contribution plans are recognized in the profit and loss account in the period in which they become payable, while actuarial gains/losses in excess of corridor limit (10% of the higher of fair value of plan assets and present value of obligation) are recognized over the average expected remaining working lives of the employees.

### 3.2 TAXATION

Taxation for the year comprises current and deferred tax. Taxation is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity, if any, in which case the tax amounts are recognized in equity.

#### 3.2.1 Current

Provision for current taxation is based on taxable income at applicable tax rates adjusted for payments to the GoP on account of royalty.

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## 3.2.2 Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are recognized for all major taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and tax credits can be utilized.

## 3.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any except freehold land and capital work in progress which are stated at cost less impairment loss, if any. Cost in relation to property, plant and equipment comprises acquisition and other directly attributable costs and decommissioning cost as referred in the note 3.4.4 to the financial statements.

Depreciation is provided on straight line method at rates specified in note 12 to the financial statements so as to write off the cost of property, plant and equipment over their estimated useful lives. Depreciation on additions to property, plant and equipment is charged from the month in which property, plant and equipment is acquired or capitalized while no depreciation is charged for the month in which property, plant and equipment is disposed off.

Subsequent costs are included in the assets carrying amount when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Carrying amount of the replaced part is derecognized. All other repair and maintenance is charged to income during the year. Gains and losses on disposal of property, plant and equipment are included in the profit and loss account currently.

Capital work in progress is stated at cost less accumulated impairment losses, if any, and are transferred to the respective item of property, plant and equipment when available for intended use.

Impairment tests for property, plant and equipment are performed when there is an indication of impairment. At each year end, an assessment is made to determine whether there are any indications of impairment. If any, indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value of the asset less cost to sell and the asset's value in use.

If the carrying amount of the asset exceeds its recoverable amount, the property, plant and equipment is impaired and an impairment loss is charged to the profit and loss account so as to reduce the carrying amount of the property, plant and equipment to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the property, plant and equipment in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Group's continued use and does take into account future development.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups, referred to as cash generating units. Cash generating units are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Where conditions giving rise to impairment subsequently reverse, the carrying amount of the property, plant and equipment is increased to its revised recoverable amount but limited to the extent of initial cost of the property, plant and equipment.

## 3.4 OIL AND GAS ASSETS

The Group applies the "successful efforts" method of accounting for Exploration and Evaluation (E&E) costs.

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## 3.4.1 Pre license costs

Costs incurred prior to having obtained the legal rights to explore an area are charged directly to the profit and loss account as they are incurred.

## 3.4.2 Exploration and evaluation assets

Under the successful efforts method of accounting, all property acquisitions, exploratory/evaluation drilling costs are initially capitalized as intangible E&E assets in well, field or specific exploration cost centers as appropriate, pending determination.

Costs directly associated with an exploratory well are capitalized as an intangible asset until the drilling of the well is completed and results have been evaluated. Major costs include employee benefits, material, chemical, fuel, well services and rig costs. All other exploration costs including cost of technical studies, seismic acquisition and data processing, geological and geophysical activities are charged currently against income as exploration and prospecting expenditure.

Tangible assets used in E&E activities other than stores held, include the Group's vehicles, drilling rigs, seismic equipment and other property, plant and equipment used by the Group's exploration function and are classified as property, plant and equipment. However, to the extent that such a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overheads, including the depreciation of property, plant and equipment utilized in E&E activities, together with the cost of other materials consumed during the exploration and evaluation phases.

Intangible E&E assets relating to each exploration license/field are carried forward, until the existence or otherwise of commercial reserves have been determined subject to certain limitations including review for indications of impairment. If commercial reserves have been discovered, the carrying value after any impairment loss of the relevant E&E assets is then reclassified as development and production assets and if commercial reserves have not been found, the capitalized costs are written off as dry and abandoned wells.

E&E assets are not amortized prior to the conclusion of appraisal activities.

## 3.4.3 Development and production assets - intangible

Development and production assets are accumulated generally on a field by field basis and represent the cost of developing the discovered commercial reserves and bringing them into production, together with the capitalized E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in accounting policy 3.4.2 above. The cost of development and production assets also includes the cost of acquisitions of such assets, directly attributable overheads, and the cost of recognizing provisions for future site restoration and decommissioning.

Expenditure carried within each field is amortized from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the year to the estimated quantities of commercial reserves at the end of the year plus the production during the year, on a field by field basis. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

## 3.4.4 Decommissioning cost

The activities of the Group normally give rise to obligations for site restoration. Restoration activities may include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation, and site restoration.

The Group makes provision in full for the decommissioning cost on the declaration of commercial discovery of the reserves, to fulfill the obligation of site restoration and rehabilitation. The amount recognized is the estimated cost of decommissioning, discounted to its net present value and is reassessed every three years. The latest estimates were made as at 30 June 2006 in Parent Company and as at 30 June 2008 in the Subsidiary Company. The expected outflow of economic resources to settle this obligation is up to next 25 years. Decommissioning cost, as appropriate, relating to producing/shut-in fields and production facilities is capitalized to the cost of development and production assets and property, plant and equipment as the case may be. The recognized amount of decommissioning cost is subsequently amortized/depreciated as part of the capital cost of the development and production assets and property, plant and equipment.

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While the provision is based on the best estimate of future costs and the economic lives of the facilities and property, plant and equipment there is uncertainty regarding both the amount and timing of incurring these costs. Any change in the present value of the estimated expenditure is dealt with prospectively and reflected as an adjustment to the provision and a corresponding adjustment to property, plant and equipment and development and production assets. The unwinding of the discount on the provision for decommissioning cost is recognized as finance cost.

During the year, the Subsidiary Company revised its estimates of outflows of resources to settle decommissioning liability based on future projected cost adjusted to present value. This has been treated as change in accounting estimates, applied prospectively, in accordance with IFRIC-1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities".

Following line items would not have been effected had there been no change in estimates:

	<b>(Rs in million)</b>
Provision for decommissioning cost would have been higher by	252.952
Provision for impairment loss would have been higher by	143.799
Amortization charge would have been higher by	30.585
Unappropriated profit would have been lower by	223.472

### 3.4.5 Impairment of oil and gas assets

E&E assets are assessed for impairment when facts and circumstances indicate that carrying amount may exceed the recoverable amount of E&E assets. Such indicators include, the point at which a determination is made that as to whether or not commercial reserves exist, the period for which the Group has right to explore has expired or will expire in the near future and is not expected to be renewed, substantive expenditure on further exploration and evaluation activities is not planned or budgeted and any other event that may give rise to indication that E&E assets are impaired.

Impairment test of development and production assets is also performed whenever events and circumstances arising during the development and production phase indicate that carrying amount of the development and production assets may exceed its recoverable amount. Such circumstances depend on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, the production profile of the hydrocarbons, the cost of the development of the infrastructure necessary to recover the hydrocarbons, the production costs, the contractual duration of the production field and the net selling price of the hydrocarbons produced.

The carrying value is compared against expected recoverable amount of the oil and gas assets, generally by reference to the present value of the future net cash flows expected to be derived from such assets. The cash generating unit applied for impairment test purpose is generally field by field basis, except that a number of fields may be grouped as a single cash generating unit where the cash flows of each field are inter dependent.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the profit and loss account, net of any depreciation that would have been charged since the impairment.

## 3.5 INVESTMENTS

All purchases and sale of investments are recognized using settlement date accounting. Settlement date is the date on which investments are delivered to or by the Group. All investments are derecognized when the right to receive economic benefits from the investments has expired or has been transferred and the Group has transferred substantially all the risks and rewards of ownership.

### 3.5.1 Investments in associated company

Investments in associates, where significant influence can be established, are accounted for under the equity method. Equity method is applied from the date when significant influence is established.

Associates are those entities in which the Parent Company has significant influence and which is neither a subsidiary nor a joint venture of the Parent Company.

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## 3.5.2 Investments held to maturity

Investments with fixed or determinable payments and fixed maturity and where the Group has positive intent and ability to hold to maturity are classified as held to maturity. These are initially recognized at cost inclusive of transaction costs and are subsequently carried at amortized cost using the effective interest rate method.

## 3.5.3 Investments available for sale

All investments classified as available for sale are initially recognized at cost being fair value of consideration given. At subsequent dates these investments are measured at fair value. Unrealized gains or losses from changes in fair values are recognized in equity. Realized gains and losses are taken to profit and loss account.

## 3.5.4 Investments at fair value through profit or loss

All investments classified as investments at fair value through profit or loss are initially measured at cost being fair value of consideration given. At subsequent dates these investments are measured at fair value with any resulting gain or loss recognized directly in the profit and loss account. The fair value of such investments is determined on the basis of prevailing market prices.

## 3.6 STORES, SPARE PARTS AND LOOSE TOOLS

Stores, spare parts and loose tools are valued at the lower of cost and net realizable value less allowance for slow moving and obsolete items. Cost is determined on the weighted average basis and comprises costs of purchases and other costs incurred in bringing the inventories to their present location and condition. Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make a sale.

Materials in transit are stated at cost comprising invoice value and other charges paid thereon.

The Group reviews the carrying amount of stores and spare parts on a regular basis and provision is made for obsolescence.

## 3.7 STOCK IN TRADE

Stock in trade is valued at the lower of production cost and net realizable value. Net realizable value signifies the estimated selling price in the ordinary course of business less net estimated cost of production and selling expenses.

## 3.8 INTANGIBLES

An intangible asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Group and that the cost of such asset can also be measured reliably. Intangible assets having definite useful life are stated at cost less accumulated amortization and are amortized based on the pattern in which the assets' economic benefits are consumed. Intangible assets which have indefinite useful life are not amortized and tested for impairment, if any.

## 3.9 REVENUE RECOGNITION

Revenue from sales is recognized when significant risks and rewards of ownership are transferred to the buyer. Revenue from extended well testing is recognized as income on delivery of goods to customers. Effect of adjustments, if any, arising from revision in sale prices is reflected as and when the prices are finalized with the customers and/or approved by the GoP.

Revenue from services is recognized on rendering of services to customers.

The Group recognizes interest if any, on delayed payments from customers on receipt basis.

Income on bank deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

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Income on investments is recognized on time proportion basis taking into account the effective yield of such securities.

Dividend income on equity investments is recognized when the right to receive the payment is established.

## 3.10 BORROWING COSTS

Mark up, interest and other charges on borrowings are charged to income in the period in which they are incurred.

## 3.11 JOINT VENTURE OPERATIONS

The Group has certain contractual arrangements with other participants to engage in joint activities where all significant matters of operating and financial policies are determined by the participants such that the operation itself has no significant independence to pursue its own commercial strategy. These contractual arrangements do not create a joint venture entity due to the fact that financial and operational policies of such joint venture are those of participants. The financial statements of the Group include its share of assets, liabilities and expenses in such joint venture operations which is pro rata to Group's interest in the joint venture operations.

The Group's share of assets, liabilities and expenses in joint venture operations are accounted for on the basis of latest available audited financial statements of the joint venture operations and where applicable, the cost statements received from the operator of the joint venture, for the intervening period up to the balance sheet date.

## 3.12 FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rates of exchange ruling on the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated into Pak rupee at the rate of exchange ruling on the balance sheet date and exchange differences, if any, are charged to income for the year.

## 3.13 PROVISIONS

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

## 3.14 FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. These are derecognized when the Group ceases to be a party to the contractual provisions of the instrument.

Financial assets mainly comprise investments, loans, advances, deposits, trade debts, other receivables and cash and bank balances. Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities are creditors, accrued and other payables.

All financial assets and liabilities are initially measured at fair value. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be.

## 3.15 OFFSETTING

Financial assets and liabilities and tax assets and liabilities are set off in the balance sheet, only when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

## 3.16 TRADE DEBTS

Trade debts and other receivables are stated at original invoice amount as reduced by appropriate provision for impairment. Bad debts are written off when identified while debts considered doubtful of recovery are fully provided for. Provision for doubtful debts is charged to profit and loss account currently.

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## 3.17 TRADE AND OTHER PAYABLES

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

## 3.18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of cash flow statement comprise cash in hand and at bank and includes short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalents are carried in the balance sheet at cost, except for foreign currency deposits which are carried at fair value.

## 3.19 DIVIDEND

Dividend is recognized as a liability in the period in which it is declared.

## 3.20 SELF INSURANCE SCHEME

The Group is following a policy to set aside specific reserve for self insurance of rigs, wells, plants, pipelines, vehicles, workmen compensation, losses of petroleum products in transit and is keeping such reserve invested in specified investments.

## 3.21 IMPAIRMENT

The carrying amount of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, recoverable amount is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of any information about the fair value of a cash generating unit, the recoverable amount is deemed to be the value in use. Impairment losses are recognized as expense in the profit and loss account.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the profit and loss account. Reversal of impairment loss is restricted to the original cost of asset.

## 4 SHARE CAPITAL

### Issued, subscribed and paid up capital

2008 Number	2007		2008 (Rupees '000)	2007
1,075,232,100	1,075,232,100	Ordinary shares of Rs 10 each issued for consideration other than cash (note 4.1)	10,752,321	10,752,321
3,225,696,300	3,225,696,300	Ordinary shares of Rs 10 each issued as fully paid bonus shares	32,256,963	32,256,963
<u>4,300,928,400</u>	<u>4,300,928,400</u>		<u>43,009,284</u>	<u>43,009,284</u>

4.1 In consideration for all the properties, rights, assets, obligations and liabilities of OGDC vested in the Parent Company, 1,075,232,100 Ordinary fully paid shares of Rs 10 each were issued to GoP on 23 October 1997. Currently, the GoP holds 85.02% paid up capital of the Parent Company.

### Authorized share capital

This represents 5,000,000,000 (2007: 5,000,000,000) Ordinary shares of Rs 10 each.

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	Note	2008 (Rupees '000)	2007
<b>5 CAPITAL RESERVE</b>			
Bonus shares reserve	5.1	836,000	836,000
Specific reserve	5.2	2,667,064	2,438,228
		<u>3,503,064</u>	<u>3,274,228</u>

**5.1** This represents bonus shares issued by the Subsidiary Company.

**5.2** The Group has set aside a specific capital reserve for self insurance of rigs, wells, plants, pipelines, workmen compensation, vehicle repair and losses for petroleum products in transit. Refer note 15.2 for investments against this reserve. Accordingly, the reserve is not available for distribution.

	2008 (Rupees '000)	2007
<b>6 DEFERRED TAXATION</b>		
The balance of deferred tax is in respect of following temporary differences:		
Accelerated depreciation on property, plant and equipment	3,489,838	2,484,606
Expenditure of exploration and evaluation, development and production assets	12,235,583	10,118,747
Provision for decommissioning cost	(1,878,957)	-
Long term receivables	(27,191)	-
Provision for doubtful debts	(1,414,219)	(1,269,402)
Provision for slow moving and obsolete stores	(273,122)	(255,032)
	<u>12,131,932</u>	<u>11,078,919</u>

Deferred tax liability has been calculated at the current effective tax rate of 31.01% (2007: 28.96%) after taking into account depletion allowance and set offs, where available, in respect of royalty payments to the GoP.

	Note	2008 (Rupees '000)	2007
<b>7 DEFERRED EMPLOYEE BENEFITS</b>			
Post retirement medical benefits	7.1	841,975	807,382
Accumulating compensated absences	7.2	686,469	615,750
		<u>1,528,444</u>	<u>1,423,132</u>

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	2008	2007
	(Rupees '000)	
<b>7.1 Post retirement medical benefits</b>		
The amount recognized in the balance sheet is as follows:		
Present value of defined benefit obligation	1,901,688	608,371
Unrecognized actuarial (loss)/gain	(1,059,713)	199,011
Net liability at end of the year	<u>841,975</u>	<u>807,382</u>
Movement in the present value of defined benefit obligation is as follows:		
Present value of defined benefit obligation at beginning of the year	608,371	538,894
Current service cost	65,124	24,173
Interest cost	60,837	53,889
Benefits paid	(71,629)	(21,553)
Actuarial loss	1,238,985	12,968
Present value of defined benefit obligation at end of the year	<u>1,901,688</u>	<u>608,371</u>
Expense recognized in profit and loss account:		
Current service cost	65,124	24,173
Interest cost	60,837	53,889
Net actuarial gain recognized	(19,739)	(22,584)
	<u>106,222</u>	<u>55,478</u>
The expense is recognized in the following line items in profit and loss account:		
Operating expenses	52,437	28,825
General and administration expenses	16,731	3,953
Technical services	37,054	22,700
	<u>106,222</u>	<u>55,478</u>
Significant actuarial assumptions used were as follows:		
Discount rate per annum	12%	10%
Medical inflation rate per annum	7%	6%
Inflation rate per annum	3%	2%
Mortality rate	61~66 years	61~66 years
A one percent change in the medical cost trend rate would have the following effect:		
	2008	
	(Rupees '000)	
	1% increase	1% decrease
Present value of medical obligation	2,208,532	1,652,934
Current service cost and interest cost	308,208	223,693
	2008	2007
	(Rupees '000)	
<b>7.2 Accumulating compensated absences</b>		
Present value of defined benefit obligation	615,750	646,788
Charge for the year	70,719	(31,038)
Net liability at end of the year	<u>686,469</u>	<u>615,750</u>

The rates of discount and salary increase were assumed at 12% (2007: 10%) each per annum.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>8 PROVISION FOR DECOMMISSIONING COST</b>			
Balance at beginning of the year		6,049,620	5,036,478
Provision made during the year		392,210	486,352
		<b>6,441,830</b>	<b>5,522,830</b>
Reversal of decommissioning cost of development and production assets due to revision in estimates		(174,384)	-
Unwinding of discount on provision for decommissioning cost		527,695	526,790
Balance at end of the year		<b>6,795,141</b>	<b>6,049,620</b>
The above provision for decommissioning cost is analyzed as follows:			
Wells		5,069,185	4,875,720
Production facilities		671,471	647,110
Unwinding of discount on provision for decommissioning cost:			
Wells		916,925	462,144
Production facilities		137,560	64,646
		<b>1,054,485</b>	<b>526,790</b>
		<b>6,795,141</b>	<b>6,049,620</b>
Significant assumptions used were as follows:			
Discount rate per annum		10.2%	10.2%
Inflation rate per annum		7.63%	7.63%
<b>9 TRADE AND OTHER PAYABLES</b>			
Creditors		345,588	290,116
Accrued liabilities		5,451,929	3,419,242
Royalty		6,664,330	2,456,542
Excise duty		105,357	105,700
General sales tax		584,886	1,371,030
Payable to joint venture partners		1,369,547	1,028,288
Retention money		278,088	212,766
Trade deposits		99,262	94,581
Workers' profit participation fund	21.1	174,827	-
Unpaid dividend		1,450,691	2,102,291
Unclaimed dividend		102,788	65,790
Employees' pension trust	9.1	-	-
Advances from customers		174,341	35,756
Other payables		413,921	76,967
		<b>17,215,555</b>	<b>11,259,069</b>

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	2008	2007
	(Rupees '000)	
<b>9.1 Employees' pension trust</b>		
The amount recognized in the balance sheet is as follows:		
Present value of defined benefit obligation	11,262,067	9,320,649
Fair value of plan assets	<u>(10,024,651)</u>	<u>(9,179,845)</u>
Deficit of the fund	1,237,416	140,804
Unrecognized actuarial gain	<u>(1,237,416)</u>	<u>(140,804)</u>
Net liability at end of the year	<u>-</u>	<u>-</u>
The movement in the present value of defined benefit obligation is as follows:		
Present value of defined benefit obligation at beginning of the year	9,320,649	7,622,259
Current service cost	505,591	377,563
Interest cost	932,065	762,226
Benefits paid	<u>(348,184)</u>	<u>(231,530)</u>
Actuarial loss	851,946	790,131
Present value of defined benefit obligation at end of the year	<u>11,262,067</u>	<u>9,320,649</u>
The movement in the fair value of plan assets is as follows:		
Fair value of plan assets at beginning of the year	9,179,845	8,340,395
Expected return on plan assets	917,985	834,040
Contributions	519,671	305,749
Benefits paid	<u>(348,184)</u>	<u>(231,530)</u>
Actuarial loss	<u>(244,666)</u>	<u>(68,809)</u>
Fair value of plan assets at end of the year	<u>10,024,651</u>	<u>9,179,845</u>
Expense recognized in profit and loss account:		
Current service cost	505,591	377,563
Interest cost	932,065	762,226
Expected return on plan assets	<u>(917,985)</u>	<u>(834,040)</u>
	519,671	305,749
Plan assets comprise:		
Bonds	9,088,876	8,567,514
Equity	906,236	607,943
Cash and bank balances	<u>29,539</u>	<u>4,388</u>
	<u>10,024,651</u>	<u>9,179,845</u>
The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The management's assessment of the expected returns is based exclusively on historical returns, without adjustments.		
	2008	2007
	(Rupees '000)	
The expense is recognized in the following line items in profit and loss account:		
Operating expenses	229,614	134,149
General and administration expenses	101,119	62,146
Technical services	<u>188,938</u>	<u>109,454</u>
	519,671	305,749
Actual return on plan assets	<u>673,319</u>	<u>765,000</u>

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

Comparison of present value of defined benefit obligation, fair value of plan assets and surplus or deficit of pension fund for five years is as follows:

	2008	2007	2006	2005	2004
	(Rupees '000)				
Present value of defined benefit obligation	11,262,067	9,320,649	7,622,259	7,543,651	6,325,301
Fair value of plan assets	(10,024,651)	(9,179,845)	(8,340,395)	(7,543,484)	(7,423,308)
Deficit/(surplus)	<u>1,237,416</u>	<u>140,804</u>	<u>(718,136)</u>	<u>167</u>	<u>(1,098,007)</u>
Experience adjustments on obligation	(851,946)	(790,131)	704,756	(595,374)	(1,193,227)
Experience adjustments on plan assets	(244,666)	(68,809)	(35,493)	(455,275)	2,973,112

Significant actuarial assumptions used were as follows:

	2008	2007
Discount rate per annum	12%	10%
Rate of increase in future compensation levels per annum	12%	10%
Expected rate of return on plan assets per annum	12%	10%
Indexation rate per annum	5%	3%

The Group expects to make a contribution of Rs 740.557 million to the employees' pension trust during the next financial year.

	2008	2007
	(Rupees '000)	
<b>10 PROVISION FOR TAXATION</b>		
(Advance tax)/tax payable at beginning of the year	(5,700,810)	3,824,189
Income tax paid during the year	(22,992,422)	(24,141,004)
Provision for taxation - current	21,039,758	14,616,005
Provision for taxation - prior years	11,876,522	-
Tax payable/(advance tax) at end of the year	<u>4,223,048</u>	<u>(5,700,810)</u>

## 11 CONTINGENCIES AND COMMITMENTS

- 11.1** Claims against the Parent Company not acknowledged as debts amounted to Rs 229.420 million at year end (2007: Rs 232.491 million).
- 11.2** At present Qadirpur Gas Price is being notified by Oil and Gas Regulatory Authority (OGRA) on the basis of a provisional discount table for High Sulphur Fuel Oil (HSFO) price upto the maximum limit of USD 200 per metric ton notified by Ministry of Petroleum and Natural Resources. In terms of article 4.1(b) of Qadirpur Gas Pricing Agreement, the Parent Company has taken up the matter with GoP for notification of step discounts to be used in the calculation of gas price at HSFO prices exceeding USD 200 per metric ton. To date no agreement has been reached on said step discounts between the Parent Company and GoP. After settlement of discount issue which can not be quantified at this stage, gas prices will be adjusted with effect from July 2005. Since the gas prices during the year 2005-06 were notified on the basis of existing table, therefore, there may be some adjustment pertaining to that year whenever the discount levels are finalized.
- 11.3** Commitments outstanding against the Parent Company at year end amounted to Rs 18,909.109 million (2007: Rs 12,256.639 million). These include amounts aggregating to Rs 967.227 million (2007: Rs 2,672.684 million) representing the Parent Company's share in the minimum work commitments related to operated/non-operated concessions.
- 11.4** Letters of credit issued by various banks on behalf of the Parent Company in ordinary course of the business, outstanding at the year end amounted to Rs 6,504.968 million (2007: Rs 4,318.176 million).
- 11.5** Certain banks have issued guarantees on behalf of the Parent Company in ordinary course of business aggregating Rs 444.844 million (2007: Rs 104.844 million), refer note 23.1 to the financial statements.
- 11.6** For contingencies relating to tax matters, refer note 31.2 to the financial statements.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 12 PROPERTY, PLANT AND EQUIPMENT

Description	(Rupees '000)															
	Freehold land	Leasehold land	Buildings, offices and roads on freehold land	Buildings, offices and roads on leasehold land	Plant and machinery	Rigs	Pipelines	Office and domestic equipment	Office and technical data computers	Furniture and fixtures	Aircraft	Vehicles	Decommissioning cost	Capital work in progress (Note 12.3)	Stores held for capital expenditure	Total
<b>Cost</b>																
Balance as at 01 July 2006	147,966	373,698	1,823,634	787,806	33,321,743	873,519	7,974,509	448,287	484,359	53,079	19,855	2,378,230	470,504	1,090,845	677,441	50,925,475
Additions	7,125	2,821	114,713	31,004	1,797,008	152,361	434,448	44,590	83,976	5,691	-	706,502	176,606	752,871	389,578	4,699,294
Disposals / transfers	-	-	-	-	(26,026)	(5,195)	-	(4,002)	(13,264)	-	-	(71,579)	-	(37,233)	(62,235)	(219,534)
Balance as at 30 June 2007	155,091	376,519	1,938,347	818,810	35,092,725	1,020,685	8,408,957	488,875	555,071	58,770	19,855	3,013,153	647,110	1,806,483	1,004,784	55,405,235
Balance as at 01 July 2007	155,091	376,519	1,938,347	818,810	35,092,725	1,020,685	8,408,957	488,875	555,071	58,770	19,855	3,013,153	647,110	1,806,483	1,004,784	55,405,235
Additions	2,039	90,775	283,157	62,897	2,798,050	162,515	435,820	48,717	31,827	10,130	-	254,150	24,361	749,222	592,746	5,546,406
Disposals / transfers	-	-	(11,990)	(63,372)	(264,151)	(68,521)	(11,137)	(22,353)	(145,763)	(22,280)	-	(143,826)	-	(190,036)	(301,639)	(1,245,068)
Balance as at 30 June 2008	157,130	467,294	2,209,514	818,335	37,626,624	1,114,679	8,833,640	515,239	441,135	46,620	19,855	3,123,477	671,471	2,365,669	1,295,891	59,706,573
<b>Depreciation</b>																
Balance as at 01 July 2006	-	126,023	456,883	350,848	22,701,059	595,589	3,120,020	318,153	416,557	22,335	17,969	1,906,346	120,133	-	-	30,151,815
Charge for the year	-	10,157	94,078	94,760	1,979,692	49,404	739,592	30,027	42,724	6,909	-	182,040	88,842	-	139,954	3,458,179
On disposals / transfers	-	-	-	-	(25,752)	(5,153)	-	(3,853)	(13,140)	-	-	(69,665)	-	-	-	(117,563)
Balance as at 30 June 2007	-	136,180	550,961	445,608	24,654,999	639,840	3,859,612	344,327	446,141	29,244	17,969	2,018,721	208,975	-	139,954	33,492,431
Balance as at 01 July 2007	-	136,180	550,961	445,608	24,654,999	639,840	3,859,612	344,327	446,141	29,244	17,969	2,018,721	208,975	-	139,954	33,492,431
Charge for the year	-	10,976	99,722	72,975	1,942,943	67,682	762,692	35,242	54,039	5,657	-	291,487	85,997	-	134,088	3,563,500
On disposals / transfers	-	-	(4,498)	(40,155)	(215,778)	(68,321)	(11,131)	(21,278)	(145,067)	(9,615)	-	(141,010)	-	-	(24,058)	(680,911)
Balance as at 30 June 2008	-	147,156	646,185	478,428	26,382,164	639,201	4,611,173	358,291	355,113	25,286	17,969	2,169,198	294,972	-	249,984	36,375,020
<b>Impairment loss</b>																
Balance as at 01 July 2007	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	101,922
Charge for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2008	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	101,922
Carrying amount - 2007	155,091	240,339	1,387,386	373,202	10,437,726	380,845	4,540,345	144,548	108,930	29,526	1,986	994,432	438,135	1,806,483	864,830	21,810,882
Carrying amount - 2008	157,130	320,138	1,565,329	339,907	11,244,460	475,478	4,222,467	155,948	86,022	21,334	1,986	954,279	376,499	2,365,669	1,045,907	23,229,631
Rates of depreciation (%)	-	1-3.3	2.5-8	2.5-8	4-20	10	10	15	30	15	10	20	1-10	-	25	-

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

**12.1** Cost and accumulated depreciation as at 30 June 2008 include Rs 15,223.150 million (2007: Rs 12,743.355 million) and Rs 8,274.394 million (2007 : Rs 7,190.478 million) respectively being the Parent Company's share in property, plant and equipment relating to joint ventures operated by others.

	Note	2008 (Rupees '000)	2007
<b>12.2 The depreciation charge has been allocated to:</b>			
Operating expenses	25	3,012,128	3,103,436
General and administration expenses	28	117,754	98,676
Technical services		433,618	256,067
		<u>3,563,500</u>	<u>3,458,179</u>
<b>12.3 Capital work in progress</b>			
Production facilities and other civil works in progress:			
Wholly owned		1,019,518	679,863
Joint ventures		1,274,218	1,073,058
		<u>2,293,736</u>	<u>1,752,921</u>
Construction cost of field offices and various bases/offices owned by the Parent Company		71,933	53,562
		<u>2,365,669</u>	<u>1,806,483</u>

**12.4 Details of property, plant and equipment sold:**

	Cost	Book value	Sale proceeds
	(Rupees)		
Vehicles sold to following retiring employees as per Group's policy:			
Mr. Najam Kamal Hyder	939,000	8,710	312,028
Mr. Khalid Mahmood	969,000	706,447	706,447
Mr. Abdul Waheed	969,000	670,777	670,777
Mr. Pervaiz Malik	969,000	712,030	712,030
Mr. Khizer Mahmood	943,000	493,937	493,937
Mr. Mehboob A. Malik	943,000	394,629	394,629
Mr. Naeem Tahir	939,000	250,522	250,522
Mr. Abdul Saboor Khan	939,000	26,699	26,699
Mr. Sartaj Ahmed	548,730	1,000	1,000
Mr. Yaqoob Sheikh	548,730	1,000	1,000
Mr. Syed Musa	548,780	5,202	5,202
Mr. Jamal ud Din	548,780	1,000	1,000
Mr. Aziz ur Rehman	555,000	312,151	312,151
Mr. Abdul Hussain	555,000	244,063	244,063
Mr. Muhammad Saeed	969,000	737,741	737,741
Mr. M. Abdul Waheed	548,780	23,512	23,512
Mr. Safdar Abbas	548,780	123,763	123,763
Mr. Yousuf Marwat	548,730	1,000	1,000
Mr. Asghar A. Khan	548,730	27,712	27,712
Mr. Muhammad Bashir	548,780	16,908	16,908
Mr. Hamid Rasheed	548,780	23,812	23,812
	15,176,600	4,782,615	5,085,933
Aggregate of other items of property, plant and equipment with individual book value not exceeding Rs 50,000, sold through public auction.	109,540,797	610,002	41,702,855
	<u>124,717,397</u>	<u>5,392,617</u>	<u>46,788,788</u>
	2007	120,066,579	2,503,822
		<u>120,066,579</u>	<u>35,462,245</u>

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 13 DEVELOPMENT AND PRODUCTION ASSETS - Intangible

Description	(Rupees '000)							
	Producing fields		Shut-in fields		Wells in progress (Note 13.1)	Sub-total	Decommissioning cost	Total
	Wholly owned	Joint ventures	Wholly owned	Joint ventures				
<b>Cost</b>								
Balance as at 01 July 2006	17,100,043	17,407,003	913,183	3,096,818	1,224,183	39,741,230	4,565,974	44,307,204
Additions	4,544,434	2,834,346	766,302	1,403,482	5,879,043	15,427,607	309,746	15,737,353
Transfers	-	-	-	-	(5,003,553)	(5,003,553)	-	(5,003,553)
Balance as at 30 June 2007	21,644,477	20,241,349	1,679,485	4,500,300	2,099,673	50,165,284	4,875,720	55,041,004
Balance as at 01 July 2007	21,644,477	20,241,349	1,679,485	4,500,300	2,099,673	50,165,284	4,875,720	55,041,004
Additions	5,262,159	2,579,280	982,961	798,874	9,505,098	19,128,372	193,465	19,321,837
Transfers	-	-	-	-	(6,544,938)	(6,544,938)	-	(6,544,938)
Balance as at 30 June 2008	26,906,636	22,820,629	2,662,446	5,299,174	5,059,833	62,748,718	5,069,185	67,817,903
<b>Amortization</b>								
Balance as at 01 July 2006	11,045,543	7,268,894	368,081	141,085	-	18,823,603	2,831,765	21,655,368
Charge for the year	1,779,065	1,745,631	4,360	148	-	3,529,204	271,784	3,800,988
Balance as at 30 June 2007	12,824,608	9,014,525	372,441	141,233	-	22,352,807	3,103,549	25,456,356
Balance as at 01 July 2007	12,824,608	9,014,525	372,441	141,233	-	22,352,807	3,103,549	25,456,356
Charge for the year	2,517,668	2,151,644	298	59	-	4,669,669	291,476	4,961,145
Balance as at 30 June 2008	15,342,276	11,166,169	372,739	141,292	-	27,022,476	3,395,025	30,417,501
<b>Impairment loss</b>								
Balance as at 01 July 2007	162,213	-	-	-	-	162,213	110,865	273,078
Charge for the year	275,078	-	-	-	-	275,078	44,205	319,283
Balance as at 30 June 2008	437,291	-	-	-	-	437,291	155,070	592,361
Carrying amount - 2007	8,657,656	11,226,824	1,307,044	4,359,067	2,099,673	27,650,264	1,661,306	29,311,570
<b>Carrying amount - 2008</b>	<b>11,127,069</b>	<b>11,654,460</b>	<b>2,289,707</b>	<b>5,157,882</b>	<b>5,059,833</b>	<b>35,288,951</b>	<b>1,519,090</b>	<b>36,808,041</b>

### 13.1 Wells in progress

	2008	2007
	(Rupees '000)	
Wholly owned	2,546,595	673,135
Joint ventures	2,513,238	1,426,538
	<b>5,059,833</b>	<b>2,099,673</b>

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>14 EXPLORATION AND EVALUATION ASSETS</b>			
Balance at beginning of the year		1,875,370	2,551,149
Additions		8,135,406	8,069,762
		10,010,776	10,620,911
Cost of dry and abandoned wells	27	(4,109,145)	(4,200,530)
Cost of wells transferred to development and production assets		(3,078,336)	(4,545,011)
		(7,187,481)	(8,745,541)
		2,823,295	1,875,370
Stores held for exploration and evaluation activities	14.1	4,849,149	4,490,336
Balance at end of the year		7,672,444	6,365,706

## 14.1 Stores held for exploration and evaluation activities

Balance at beginning of the year	4,490,336	1,796,993
Additions	1,958,077	3,856,654
Issuances	(1,599,264)	(1,163,311)
Balance at end of the year	4,849,149	4,490,336

14.2 The following disclosures detail the liabilities, current assets and expenditure incurred on exploration for and evaluation of mineral resources:

	Note	2008 (Rupees '000)	2007
Liabilities related to exploration and evaluation activities		489,757	526,695
Current assets related to exploration and evaluation activities		243,696	401,308
Exploration and prospecting expenditure	27	6,612,836	7,406,280

## 15 LONG TERM INVESTMENTS

Investments in related party	15.1	176,578	155,829
Investments held to maturity	15.2	2,683,554	2,454,438
		2,860,132	2,610,267

### 15.1 Investments in related party

#### Associated Company - quoted

Mari Gas Company Limited	155,829	135,023
Percentage holding 20% (2007: 20%)		
7,350,000 (2007: 7,350,000) fully paid Ordinary shares of Rs 10 each		
Market value Rs 1,981 million (2007: Rs 1,286 million)		
Share of profit for the year	44,680	44,326
Dividend received	(23,931)	(23,520)
	20,749	20,806
	176,578	155,829

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>15.2 Investments held to maturity</b>			
Defence Saving Certificates (DSCs)	15.2.1	<b>174,918</b>	389,097
Term Deposit Receipts (TDRs)	15.2.2	<b>2,508,636</b>	2,065,341
		<b><u>2,683,554</u></b>	<u>2,454,438</u>

**15.2.1** Face value of investments in DSCs is Rs 34.847 million (2007: Rs 84.908 million). These carry effective interest rates ranging between 16% to 18% (2007: 16% to 18%) per annum. These have maturity of ten years and are due to mature in periods ranging between 2009 to 2010.

**15.2.2** Face value of investments in TDRs is Rs 2,465 million (2007: Rs 2,015 million). These have maturity period upto six months and carry effective interest rates of 10.25% to 10.70% (2007: 10.80% to 11.60%) per annum.

**15.2.3** Investments amounting to Rs 2,678.315 million (2007: Rs 2,255.354 million) are due to mature within next 12 months, however these have not been classified as current assets based on the management's intention to reinvest them in the like investments to the extent of capital reserve.

**15.2.4** The above investments are identified against capital reserve as explained in note 5 to the financial statements.

	Note	2008 (Rupees '000)	2007
<b>16 LONG TERM LOANS AND RECEIVABLES</b>			
Long term loans - secured	16.1	<b>1,324,059</b>	1,117,755
Long term receivables - unsecured	16.2	<b>482,561</b>	567,834
		<b><u>1,806,620</u></b>	<u>1,685,589</u>
<b>16.1 Long term loans - secured</b>			
Considered good:			
Executives		<b>309,647</b>	71,034
Other employees		<b>1,239,745</b>	1,237,189
		<b><u>1,549,392</u></b>	<u>1,308,223</u>
Current portion shown under loans and advances	19	<b>(225,333)</b>	(190,468)
		<b><u>1,324,059</u></b>	<u>1,117,755</u>

**16.1.1 Reconciliation of carrying amount of loans to executives and other employees:**

	Balance as at 01 July 2007	Disbursements during the year	Adjustments during the year	Repayments during the year	Balance as at 30 June 2008
		(Rupees '000)			
Due from:					
Executives	71,034	109,551	180,726	(51,664)	<b>309,647</b>
Other employees	1,237,189	344,293	(180,726)	(161,011)	<b>1,239,745</b>
	<u>1,308,223</u>	<u>453,844</u>	<u>-</u>	<u>(212,675)</u>	<u><b>1,549,392</b></u>

**16.1.2** The loans are granted to the employees of the Group in accordance with the Group's service rules. House building and conveyance loans are for maximum period of 15 and 5 years respectively. These loans are secured against the underlying assets. Included in these are loans of Rs 1,246.567 million (2007: Rs 1,043.686 million) which carry no interest. The balance amount carries an effective interest rate of 10.21% (2007: 10.65%) per annum.

The maximum amount due from executives at the end of any month during the year was Rs 309.647 million (2007: Rs 85.970 million).

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>16.2 Long term receivables - unsecured</b>			
Considered good		<b>747,000</b>	1,487,089
Reversal of impairment		<b>(77,689)</b>	(70,905)
		<b>669,311</b>	1,416,184
Current portion shown under other receivables	21	<b>(186,750)</b>	(848,350)
		<b>482,561</b>	567,834

The total receivables comprise Rs 747.00 million (2007: 887.06 million) receivable by the Subsidiary Company from Karachi Electric Supply Company Limited (KESC), as a result of inter corporate debt adjustment approved by the Government of Pakistan in February, 1999, pursuant to the Economic Coordination Committee of Cabinet (ECC) decision in February, 1999.

The amount from KESC is receivable in 32 equal quarterly installments of Rs 46,687,500 commencing from February, 2004.

These receivables carry no interest and are repayable in 5 years with one year grace period. In accordance with International Accounting Standard (IAS) 39 an impairment loss has been recognized on the amount receivable from KESC, which is the difference between the carrying amount and present value of expected future cash flows, discounted at 7.5 % which is the imputed rate for interest calculation.

	2008 (Rupees '000)	2007
<b>17 STORES, SPARE PARTS AND LOOSE TOOLS</b>		
Stores, spare parts and loose tools	<b>14,345,907</b>	12,382,873
Stores and spare parts in transit	<b>3,140,218</b>	2,093,208
	<b>17,486,125</b>	14,476,081
Provision for slow moving and obsolete stores	<b>(871,030)</b>	(871,030)
	<b>16,615,095</b>	13,605,051
<b>18 TRADE DEBTS</b>		
Unsecured, considered good	<b>40,706,744</b>	28,018,145
Unsecured, considered doubtful	<b>4,325,082</b>	4,391,070
	<b>45,031,826</b>	32,409,215
Provision for doubtful debts	<b>(4,325,082)</b>	(4,391,070)
Trade debts written off	<b>(1,445)</b>	-
	<b>40,705,299</b>	28,018,145

**18.1** Trade debts include an amount of Rs 4,436 million (2007: Rs 4,354 million) withheld by Uch Power (Private) Limited (UPL) against claims for damages related to minimum supply of gas. The GoP had constituted a committee to resolve this matter and on the advice of the committee, a settlement proposal has been finalized. Management has principally agreed to the proposal.

**18.2** Trade debts also include an amount of Rs 3,649 million (2007: Rs 5,379 million) which has been withheld by the refineries under the previous directive of Ministry of Petroleum and Natural Resources and represents revenue on Crude Oil in excess of USD 50 per barrel. On 04 December 2007, Ministry of Petroleum and Natural Resources issued another directive whereby discount on Crude Oil and Condensate in excess of USD 50 per barrel was settled. According to the said directive, in case the net prices exceed the present ceiling limits mentioned in the respective agreements, the excess will be equally shared between the Government and Exploration and Production (E&P) Companies both for Crude Oil and Condensate. The effect of this has been incorporated in these financial statements. Further, the matter has been taken up with oil refineries for release of withheld amounts.

**18.3** Also included in trade debts is an amount of Rs 3,954 million (2007: Rs 3,288 million) withheld by refineries on the direction of Directorate General of Petroleum Concessions (DGPC) pending finalization of crude oil sale agreements. Management considers this amount to be fully recoverable.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>19 LOANS AND ADVANCES</b>			
Advances considered good:			
Suppliers and contractors		1,173,703	686,002
Joint venture partners		918,616	637,527
Others		21,385	26,692
		<u>2,113,704</u>	<u>1,350,221</u>
Current portion of long term loans - secured	16.1	225,333	190,468
		<u>2,339,037</u>	<u>1,540,689</u>
Advances considered doubtful		253,758	263,622
Provision for doubtful advances		2,592,795	1,804,311
		<u>(253,758)</u>	<u>(263,622)</u>
		<u>2,339,037</u>	<u>1,540,689</u>
<b>20 DEPOSITS AND SHORT TERM PREPAYMENTS</b>			
Security deposits		9,345	8,888
Short term prepayments		669,820	284,242
		<u>679,165</u>	<u>293,130</u>
<b>21 OTHER RECEIVABLES</b>			
Development surcharge		80,357	76,307
Current portion of long term receivables - unsecured	16.2	186,750	848,350
Claims receivable		16,420	19,209
Workers' profit participation fund	21.1	-	302,467
Others		355,394	88,922
		<u>638,921</u>	<u>1,335,255</u>
<b>21.1 Workers' profit participation fund</b>			
Receivable at beginning of the year		302,467	32,033
Paid to the fund during the year		4,200,000	3,515,034
		<u>4,502,467</u>	<u>3,547,067</u>
Received during the year		(289,883)	(30,983)
Charge for the year		(4,387,411)	(3,213,617)
(Payable)/receivable at end of the year	9	<u>(174,827)</u>	<u>302,467</u>
<b>22 OTHER FINANCIAL ASSETS</b>			
Investments:			
At fair value through profit or loss - NIT units		237,684	279,909
Available for sale	22.1	9,969,832	18,874,050
		<u>10,207,516</u>	<u>19,153,959</u>
<b>22.1</b>	These represent investments in TDRs maturing in the short term and carry interest rate of 5.00% to 10.70% (2007: 5.20% to 12.15%) per annum. Included in these investments are foreign currency TDRs amounting to USD 73 million (2007: USD 65 million).		

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>23 CASH AND BANK BALANCES</b>			
Cash at bank:			
Deposit accounts	23.1	7,567,517	4,677,795
Current accounts		721,586	156,000
		<b>8,289,103</b>	4,833,795
Cash in hand		17,445	28,206
Cash in transit		-	1,685
		<b>8,306,548</b>	4,863,686

**23.1** These deposit accounts carry interest rate of 1.30% to 9.50% (2007: 1.50% to 9.50%) per annum and include foreign currency deposits amounting to USD 27.097 million (2007: USD 14.710 million). Deposits amounting to Rs 444.844 million (2007: Rs 104.844 million) with banks were under lien to secure bank guarantees issued on behalf of the Parent Company.

	Note	2008 (Rupees '000)	2007
<b>24 SALES - net</b>			
<b>Gross sales</b>			
Crude oil		70,629,371	50,502,930
Gas		59,523,653	57,738,726
Gasoline		4,740	-
Kerosene oil		335,063	528,684
High speed diesel oil		246,587	439,509
Solvent oil		21,866	44,810
Naphtha		2,696,374	3,119,878
Liquefied petroleum gas		5,288,697	4,569,446
Sulphur		820,131	126,821
Other operating revenue	24.1	59,813	63,581
		<b>139,626,295</b>	117,134,385
<b>Government levies</b>			
Excise duty		(1,510,975)	(1,446,060)
Development surcharge		(60,626)	(51,138)
General sales tax		(12,146,390)	(14,904,176)
		<b>(13,717,991)</b>	(16,401,374)
		<b>125,908,304</b>	100,733,011
<b>24.1 Other operating revenue</b>			
Gas processing		26,553	29,925
Mud engineering services		33,260	33,656
		<b>59,813</b>	63,581

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>25 OPERATING EXPENSES</b>			
Salaries, wages and benefits	25.1	3,584,014	2,705,165
Traveling and transportation		363,729	315,714
Repairs and maintenance		907,583	870,245
Stores and supplies consumed		867,068	796,981
Rent, fee and taxes		397,599	304,900
Insurance		239,902	238,642
Communication		34,148	31,515
Utilities		44,200	26,163
Land and crops compensation		199,967	180,655
Contract services		710,267	816,942
Joint venture expenses		1,757,827	1,844,426
Desalting, decanting and naphtha storage charges		185,133	189,539
Charges related to minimum supply of gas - liquidated damages		85,866	1,054,049
Adjustment of discount on trade debts		252,953	1,478,302
Welfare of locals at fields		258,989	140,165
Workover charges		743,675	475,259
Depreciation	12.2	3,012,128	3,103,436
Amortization of development and production assets	13	4,961,145	3,800,988
Transfer from general and administration expenses	28	1,062,139	820,737
Miscellaneous		3,007	1,748
		<u>19,671,339</u>	<u>19,195,571</u>
Stock of crude oil and other products:			
Balance at beginning of the year		93,788	65,608
Balance at end of the year		(151,782)	(93,788)
		<u>19,613,345</u>	<u>19,167,391</u>

25.1 These include amount in respect of employee benefits of Rs 282.051 million (2007: Rs 162.974 million).

	Note	2008 (Rupees '000)	2007
<b>26 OTHER INCOME</b>			
<b>Income from financial assets</b>			
Interest income on:			
Investments and bank deposits		2,653,859	3,636,515
Long term receivables		54,789	134,517
Delayed payments from customers		70,851	24,263
		<u>2,779,499</u>	<u>3,795,295</u>
Dividend income from NIT units		28,150	26,333
Unrealized (loss)/gain on investments at fair value through profit or loss		(42,225)	60,386
Exchange gain/(loss)		735,021	(64,984)
		<u>3,500,445</u>	<u>3,817,030</u>
<b>Income from non financial assets</b>			
Gain on disposal of property, plant and equipment		114,615	32,959
Gain on disposal of inventory		11,753	52,647
Benevolent fund		(41,108)	-
Others		279,831	83,493
		<u>365,091</u>	<u>169,099</u>
		<u>3,865,536</u>	<u>3,986,129</u>

## 27 EXPLORATION AND PROSPECTING EXPENDITURE

Cost of dry and abandoned wells	14	4,109,145	4,200,530
Prospecting expenditure		2,503,691	3,205,750
		<u>6,612,836</u>	<u>7,406,280</u>

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

	Note	2008 (Rupees '000)	2007
<b>28 GENERAL AND ADMINISTRATION EXPENSES</b>			
Salaries, wages and benefits	28.1	1,478,060	1,133,382
Traveling and transportation		176,871	155,050
Repairs and maintenance		62,006	35,054
Stores and supplies consumed		69,203	119,236
Rent, fee and taxes		41,038	54,097
Communication		47,425	41,928
Utilities		38,564	41,201
Training and scholarships		11,396	20,911
Legal services		7,961	18,641
Contract services		74,116	74,906
Auditors' remuneration	28.2	9,654	9,459
Advertising		33,248	26,220
Joint venture expenses		444,859	394,117
Insurance		726	748
Donations	28.3	56,900	347,011
Aircraft expenses		4,382	6,352
Unallocated expenses of rigs		142,844	75,604
Depreciation	12.2	117,754	98,676
Trade debts written off		1,445	-
Fixed assets reconciliation adjustment		59,094	-
Miscellaneous		5,021	8,319
		<u>2,882,567</u>	<u>2,660,912</u>
Allocation of expenses to:			
Operations	25	(1,062,139)	(820,737)
Technical services		(571,788)	(550,528)
		<u>(1,633,927)</u>	<u>(1,371,265)</u>
		<u>1,248,640</u>	<u>1,289,647</u>

**28.1** These include amount in respect of employee benefits of Rs 117.850 million (2007: Rs 66.099 million).

## **28.2 Auditors' remuneration**

### **M/s KPMG Taseer Hadi & Co., Chartered Accountants**

	2008 (Rupees '000)	2007
Annual audit fee	1,100	1,100
Subsidiary annual audit fee	110	110
Half yearly review	300	300
Out of pocket expenses	189	189
Audit of consolidated financial statements	250	230
Concession audit fee	2,530	1,700
Quarterly review of consolidated financial statements	-	1,125
Verification of CDC record	50	50
Local retail offering of shares	-	325
Consultancy services	240	-
	<u>4,769</u>	<u>5,129</u>

### **M/s M. Yousuf Adil Saleem & Co., Chartered Accountants**

	2008	2007
Annual audit fee	1,100	1,100
Half yearly review	300	300
Out of pocket expenses	175	175
Audit of consolidated financial statements	250	230
Verification of CDC record	50	-
Concession audit fee	2,530	1,770
Certification of fee payable to OGRA	180	180
Dividend certification	300	250
Local retail offering of shares	-	325
	<u>4,885</u>	<u>4,330</u>
	<u>9,654</u>	<u>9,459</u>

**28.3** Donations do not include any amount paid to any person or organization in which a director or his spouse had any interest.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 29 PROVISION FOR IMPAIRMENT LOSS

As per policy of the Group, property, plant and equipment and development and production assets were tested for impairment at 30 June 2008 resulting in an impairment loss of Rs 319 million (2007: Rs 375 million) of its Subsidiary Company which has been charged to profit and loss account. The breakup of amount charged to various categories of assets is as follows:

Note	2008 (Rupees '000)	2007
Property, plant and equipment	-	91,918
Development and production assets	275,078	162,213
Decommissioning cost:		
Property, plant and equipment	-	10,004
Development and production assets	44,205	110,865
	44,205	120,869
	<u>319,283</u>	<u>375,000</u>

## 30 FINANCE COST

Unwinding of discount on provision for decommissioning cost	527,695	526,790
Bank charges	9,104	5,880
	<u>536,799</u>	<u>532,670</u>

## 31 TAXATION

Provision for taxation:		
Current	21,039,758	14,616,005
Prior years'	11,876,522	-
Deferred	1,053,013	883,718
	31.1 <u>33,969,293</u>	<u>15,499,723</u>

### 31.1 Reconciliation of tax charge for the year

Accounting profit	78,307,404	60,754,509
Tax rate	55.73%	52.68%
Tax on accounting profit at applicable rate	43,643,484	32,008,340
Tax effect of amounts that are inadmissible for tax purposes	15,503,322	9,591,618
Tax effect of amounts that are admissible for tax purposes	(13,471,789)	(9,286,561)
Tax effect of royalty allowed for tax purposes	(17,320,187)	(10,936,423)
Tax effect of depletion allowance for tax purposes	(10,015,623)	(8,018,868)
Tax effect of depletion allowance/decommissioning cost for prior years	11,876,522	-
Dividend chargeable to tax at reduced rate	1,767,790	14,197
Income chargeable to tax at corporate rates	932,761	1,262,974
Tax effect of business loss adjusted against royalty	-	(19,272)
Tax effect of timing differences	1,053,013	883,718
	<u>33,969,293</u>	<u>15,499,723</u>

### 31.2 Contingencies relating to tax

#### Parent Company

Various appeals in respect of assessment years 1992-93 to 2002-03, tax years 2003 to 2007 are pending at different appellate forums in the light of the order of the Commissioner of Income Tax (Appeals) [CIT(A)] and decision of the adjudicator appointed by both the Parent Company as well as the Federal Board of Revenue (FBR) mainly on the issues of decommissioning cost and depletion allowance.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## Subsidiary Company

### Assessment year 1995-96

The Subsidiary Company is in appeal before Lahore High Court, Rawalpindi Bench against an order of Income Tax Appellate Tribunal (ITAT) relating to assessment year 1995-96. By virtue of the said appellate order, the Subsidiary Company's taxability has been confirmed at the rate applicable to a private limited company resulting in a net tax exposure of Rs 178.20 million. The legal counsel of the Subsidiary Company is of the view that keeping in view assessed history of the Subsidiary Company the case is likely to be decided in Subsidiary Company's favour.

### Assessment year 2001-02

The tax authorities in framing re-assessment for assessment year 2001-02 have again calculated the depletion allowance on the basis of net receipts instead of gross receipts as claimed by the Subsidiary Company resulting in net tax exposure of Rs 66.212 million. An appeal before the Honourable ITAT has been filed against the order of CIT(A) for which the hearing proceedings have been completed and the decision is awaited.

### Assessment year 2002-03

While framing assessment for the year 2002-03 the tax authorities disallowed decommissioning cost, provision for slow moving and obsolete items and recalculated depletion allowance on the basis of net receipts instead of gross receipts as claimed by the Subsidiary Company. The net tax effect of said adjustment is Rs 315.178 million, which has been adjusted against determined refunds of the Subsidiary Company. The Subsidiary Company as well as department filed appeal before Honourable ITAT against the order of CIT(A) for which the hearing proceedings have been completed and the decision is awaited.

### Assessment year 1998-99, 2001-02 and 2002-03

In response to the application filed by the Subsidiary Company to FBR for resolution of the issue of decommissioning cost and depletion allowance through Alternate Dispute Resolution Committee (ADRC) for the assessment year 1998-99, 2001-02 & 2002-03, an order on ADRC recommendation has been issued by the FBR thereby deciding not to intervene. The issues involved will be settled at appellate forums accordingly.

Pending the outcome of these appeals and ADRC order, no provision has been made in these accounts for the demand, since there is a reasonably fair chance that the appeal will be decided in favour of the Subsidiary Company.

### Tax years 2003 to 2007

For the tax years 2003 to 2006, the Additional Commissioner amended the deemed assessments u/s 120 thereby creating a demand of Rs 178.38 million after adjusting the refund of Rs 7.588 million for tax year 2005. While the amount was paid by the Subsidiary Company, appeals before CIT(A) were filed against the impugned orders. The CIT(A) while disposing off the appeals has rejected the Subsidiary Company's claim on the issue of depletion allowance while directed that decommissioning cost issue may be re-examined by the department and may be allowed on a fair and reliable estimate. The Subsidiary Company has decided to file appeal before ITAT against CIT(A) orders.

Further for tax year 2006, an order u/s 221 was issued by Taxation Officer rectifying the amount of determined refunds brought forward from the past years and raised a demand of Rs 161.579 million which has been paid by the Subsidiary Company. The Subsidiary Company has filed an appeal before CIT(A). CIT(A) while disposing off the appeal has directed that the issues may be re-examined by the department.

For tax year 2007, the Taxation Officer while initiating proceedings under section 221(2), rectified the assessment by re-trenching the claim of refund of Rs 481.904 million relating to tax year 2006 thereby creating a tax demand of Rs 146.424 million which has been paid by the Subsidiary Company. The Subsidiary Company has decided not to file appeal against the said order since an appeal against the order issued for tax year 2006 has already been filed. In case that appeal is decided in favour of the Subsidiary Company, a rectification application would be filed for order passed for tax year 2007.

The aggregate amount of above comes to Rs 1,509.556 million, out of which the Subsidiary Company has provided for Rs 326.323 million.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 32 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### 32.1 Financial assets and liabilities

(Rupees '000)

Effective interest rates	Interest / markup bearing							Non interest / mark up bearing			Total 2008	
	Maturity up to one year	Maturity after one year and upto two years	Maturity after two years and upto three years	Maturity after three years and upto four years	Maturity after four years and upto five years	Maturity after five years	Sub-total	Maturity upto one year	Maturity after one year	Sub-total		
<b>Financial assets</b>												
Long term investments	10.25% -18.00 %	2,678,315	5,239	-	-	-	-	2,683,554	-	-	-	2,683,554
Long term loans and receivables	10.21%	45,247	40,860	34,774	31,263	27,852	122,829	302,825	180,087	1,066,480	1,246,567	1,549,392
Trade debts		-	-	-	-	-	-	-	40,705,299	-	40,705,299	40,705,299
Loans and advances		-	-	-	-	-	-	-	940,001	-	940,001	940,001
Security deposits		-	-	-	-	-	-	-	9,345	-	9,345	9,345
Other receivables		-	-	-	-	-	-	-	558,564	-	558,564	558,564
Interest accrued		-	-	-	-	-	-	-	180,295	-	180,295	180,295
Other financial assets	5.00 %-10.70 %	9,969,832	-	-	-	-	-	9,969,832	237,684	-	237,684	10,207,516
Cash and bank balances	1.30 %-9.50 %	7,567,517	-	-	-	-	-	7,567,517	739,031	-	739,031	8,306,548
		<u>20,260,911</u>	<u>46,099</u>	<u>34,774</u>	<u>31,263</u>	<u>27,852</u>	<u>122,829</u>	<u>20,523,728</u>	<u>43,550,306</u>	<u>1,066,480</u>	<u>44,616,786</u>	<u>65,140,514</u>
<b>Financial liabilities</b>												
Trade and other payables		-	-	-	-	-	-	-	9,272,720	-	9,272,720	9,272,720
		-	-	-	-	-	-	-	9,272,720	-	9,272,720	9,272,720
<b>On balance sheet gap</b>		<u>20,260,911</u>	<u>46,099</u>	<u>34,774</u>	<u>31,263</u>	<u>27,852</u>	<u>122,829</u>	<u>20,523,728</u>	<u>34,277,586</u>	<u>1,066,480</u>	<u>35,344,066</u>	<u>55,867,794</u>
<b>Unrecognized</b>												
Commitments (other than LCs)		-	-	-	-	-	-	-	18,909,109	-	18,909,109	18,909,109
Claims not acknowledged as debts		-	-	-	-	-	-	-	229,420	-	229,420	229,420
Letters of credit		-	-	-	-	-	-	-	6,504,968	-	6,504,968	6,504,968
Guarantees		-	-	-	-	-	-	-	444,844	-	444,844	444,844
		-	-	-	-	-	-	-	26,088,341	-	26,088,341	26,088,341
<b>Off balance sheet gap</b>		<u>20,260,911</u>	<u>46,099</u>	<u>34,774</u>	<u>31,263</u>	<u>27,852</u>	<u>122,829</u>	<u>20,523,728</u>	<u>8,189,245</u>	<u>1,066,480</u>	<u>9,255,725</u>	<u>29,779,453</u>

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

32.2 Financial assets and liabilities

(Rupees '000)

	Effective interest rates	Interest / markup bearing						Non interest / mark up bearing			Total 2007	
		Maturity up to one year	Maturity after one year and upto two years	Maturity after two years and upto three years	Maturity after three years and upto four years	Maturity after four years and upto five years	Maturity after five years	Sub-total	Maturity upto one year	Maturity after one year		Sub-total
<b>Financial assets</b>												
Long term investments	10.8%-18%	2,255,354	199,084	-	-	-	-	2,454,438	-	-	-	2,454,438
Long term loans and receivables	10.65%	39,007	35,895	33,375	26,860	22,822	106,578	264,537	999,811	1,460,059	2,459,870	2,724,407
Trade debts		-	-	-	-	-	-	-	28,018,145	-	28,018,145	28,018,145
Loans and advances		-	-	-	-	-	-	-	666,251	-	666,251	666,251
Security deposits		-	-	-	-	-	-	-	8,888	-	8,888	8,888
Other receivables		-	-	-	-	-	-	-	725,548	-	725,548	725,548
Interest accrued		-	-	-	-	-	-	-	318,444	-	318,444	318,444
Other financial assets	5.20%-12.15%	18,874,050	-	-	-	-	-	18,874,050	279,909	-	279,909	19,153,959
Cash and bank balances	1.50%-9.5%	4,677,795	-	-	-	-	-	4,677,795	185,891	-	185,891	4,863,686
		<u>25,846,206</u>	<u>234,979</u>	<u>33,375</u>	<u>26,860</u>	<u>22,822</u>	<u>106,578</u>	<u>26,270,820</u>	<u>31,202,887</u>	<u>1,460,059</u>	<u>32,662,946</u>	<u>58,933,766</u>
<b>Financial liabilities</b>												
Trade and other payables		-	-	-	-	-	-	-	7,349,019	-	7,349,019	7,349,019
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,349,019</u>	<u>-</u>	<u>7,349,019</u>	<u>7,349,019</u>
<b>On balance sheet gap</b>		<u>25,846,206</u>	<u>234,979</u>	<u>33,375</u>	<u>26,860</u>	<u>22,822</u>	<u>106,578</u>	<u>26,270,820</u>	<u>23,853,868</u>	<u>1,460,059</u>	<u>25,313,927</u>	<u>51,584,747</u>
<b>Unrecognized</b>												
Commitments (other than LCs)		-	-	-	-	-	-	-	12,256,639	-	12,256,639	12,256,639
Claims not acknowledged as debts		-	-	-	-	-	-	-	232,491	-	232,491	232,491
Letters of credit		-	-	-	-	-	-	-	4,318,176	-	4,318,176	4,318,176
Guarantees		-	-	-	-	-	-	-	104,844	-	104,844	104,844
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,912,150</u>	<u>-</u>	<u>16,912,150</u>	<u>16,912,150</u>
<b>Off balance sheet gap</b>		<u>25,846,206</u>	<u>234,979</u>	<u>33,375</u>	<u>26,860</u>	<u>22,822</u>	<u>106,578</u>	<u>26,270,820</u>	<u>6,941,718</u>	<u>1,460,059</u>	<u>8,401,777</u>	<u>34,672,597</u>

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 32.3 Risk management

### a Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted. The Group's credit risk is primarily attributable to its trade debts and balances with banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Group has no significant concentration of credit risk as the exposure is spread over a number of counter parties. Out of the total financial assets of Rs 65,140.514 million (2007: Rs 58,933.766 million), financial assets which are subject to credit risk amount to Rs 62,158.573 million (2007: Rs 57,208.240 million). To manage exposure to credit risk, the Group applies credit limits to its customers. Trade debts are essentially due from oil refining companies, oil and gas marketing companies and power generation companies and the Group does not expect these companies to fail to meet their obligations.

### b Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables due to transaction with foreign buyer and supplier. At the year end financial assets and liabilities include Rs 6,834.777 million (2007: Rs 4,848.664 million) and Rs 212.014 million (2007: Rs 147.260 million) respectively which are exposed to currency risk.

### c Interest rate risk

The interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities that mature in a given period. The Group adopts a policy of ensuring minimize its interest rate risk by investing in fixed rate investments like DSCs and TDRs.

### d Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to dynamic nature of the business. The Group follows an effective cash management and planning policy to ensure availability of funds and to take measures for new requirements.

### e Capital risk management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

The Group manages its capital structure which comprises capital and reserves by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, appropriation of amounts to capital reserves or/and issue new shares.

## 32.4 Fair value of financial assets and liabilities

The carrying value of financial assets and liabilities approximate their fair values except for held to maturity investments which are stated at amortized cost.

	Note	2008 (Rupees '000)	2007
<b>33 CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	23	8,306,548	4,863,686
Short term highly liquid investments	22.1	9,969,832	18,874,050
		<u>18,276,380</u>	<u>23,737,736</u>
<b>34 NUMBER OF EMPLOYEES</b>			
Total number of employees at end of the year was as follows:		<b>2008</b>	<b>2007</b>
		<b>Number</b>	
Regular		10,539	10,961
Contractual		422	374
		<u>10,961</u>	<u>11,335</u>

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 35 RELATED PARTIES TRANSACTIONS

Related parties comprise associated company, profit oriented state controlled entities, major shareholders, directors, companies with common directorship, key management personnel and employees pension trust. Transactions of the Group with related parties and balance outstanding at the year end are as follows:

	Note	2008	2007
		(Rupees '000)	
<b>Associated company</b>			
Dividend income received		23,931	23,520
<b>Related parties by virtue of common directorship and GoP holdings</b>			
<b>National Refinery Limited</b>			
Sale of crude oil		12,114,785	9,999,060
Sale of naphtha		2,692,063	3,119,878
Naphtha handling and storage charges		79,094	124,458
Receivable as at 30 June		4,900,153	4,712,900
<b>Pakistan Refinery Limited</b>			
Sale of crude oil		6,601,372	4,405,576
Receivable as at 30 June		2,883,206	2,098,667
<b>Government Holdings (Private) Limited</b>			
Payable as at 30 June		33,852	31,714
<b>Pak Arab Refinery Company Limited</b>			
Sale of crude oil		4,550,009	3,457,091
Receivable as at 30 June		1,291,614	1,203,717
<b>Sui Northern Gas Pipelines Limited</b>			
Sale of natural gas		33,259,820	32,548,992
Purchase of high BTU value gas		2,339,544	2,142,015
Receivable as at 30 June		4,781,929	5,066,022
<b>Sui Southern Gas Company Limited</b>			
Sale of natural gas		18,600,281	17,684,633
Pipeline rental charges		12,235	40,212
Receivable as at 30 June		7,364,325	6,105,115
<b>Pakistan State Oil Company Limited</b>			
Sale of refined petroleum products		382,398	643,676
Sale of liquefied petroleum gas		15,372	22,604
Purchase of petroleum, oil and lubricants		2,014,085	1,640,366
Receivable as at 30 June		8,651	87,117
<b>National Insurance Company Limited</b>			
Insurance premium paid		569,732	559,838
<b>National Logistic Corporation</b>			
Crude transportation charges paid		1,142,134	833,686
<b>Heavy Mechanical Complex</b>			
Purchase of stores and spares		13,568	72,561
<b>Water and Power Development Authority</b>			
Sale of natural gas		141,453	101,273
Receipts against long term loan		673,463	673,463
Receivable as at 30 June		31,322	31,652
<b>Enar Petrotech Services Limited</b>			
Consultancy services		39,332	31,098
Sale of crude oil		1,634,809	1,371,050
Receivable as at 30 June		173,592	128,564
<b>Pak Datacom Company Limited</b>			
V-Sat charges		2,056	1,265
<b>Government of Pakistan</b>			
Dividend paid		35,552,215	34,661,776
<b>Other related parties</b>			
Contribution to staff benefit funds		519,671	305,749
Remuneration including benefits and perquisites of chief executive	35.1	11,429	10,412
Remuneration including benefits and perquisites of executives	35.1	1,473,265	643,721

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

Transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuations modes as admissible, except in rare circumstances for some of the transactions with the wholly owned subsidiary, where, subject to the approval of the Board of Directors, it is in the interest of the Group to do so. Sale of Crude Oil to related parties is at a price determined in accordance with the agreed pricing formula as approved by GoP under respective agreement. Sale of Natural Gas to related parties is at price notified by the GoP whereas, sale of Liquefied Petroleum Gas and Refined Petroleum Products is made at prices notified by Oil Companies Advisory Committee/Oil and Gas Regulatory Authority (OGRA).

## 35.1 REMUNERATION TO CHIEF EXECUTIVE AND EXECUTIVES

The aggregate amount charged in these financial statements for the remuneration of the chief executive and executives was as follows:

	2008		2007	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees '000)			
Managerial remuneration	7,080	559,668	6,915	232,002
Housing and utilities	1,200	396,897	1,437	149,765
Other allowances and benefits	3,090	397,540	2,027	244,959
Medical benefits	59	46,305	33	3,846
Contribution to pension fund	-	75,359	-	23,479
Leave encashment recovery	-	(2,504)	-	(10,330)
	<u>11,429</u>	<u>1,473,265</u>	<u>10,412</u>	<u>643,721</u>
Number of persons including those who worked part of the year	1	751	1	338

Executive means any employee whose basic salary exceeds Rs 500,000 (2007: Rs 500,000) per year.

The above were provided with medical facilities and are eligible for employee benefits for which contributions are made based on actuarial valuations. The chief executive and certain executives were provided with free use of cars.

The aggregate amount charged in these financial statements in respect of fee to 10 directors (2007: 9) was Rs 365,000 (2007: Rs 515,000).

## 36 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The Control of Parent Company's plant at Uch field, due to purchase of total output by UPL an Independent Power Producer (IPP), appears to fall in the definition of leases in accordance with the requirements of IFRIC-4 "Determining whether an Arrangement contains a Lease". However, the management has not applied IFRIC-4 to its Uch plant as the impact of this is not considered to be material.

### 36.1 Initial application of a standard or an interpretation

Amendment to IAS 1 - "Presentation of Financial Statements - Capital Disclosures", introduces new disclosures about the level of an entity's capital and how it manages capital. Adoption of this amendment has only resulted in additional disclosures given in note 32.3 to the financial statements.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 36.2 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, interpretations and amendments in approved accounting standards are effective for accounting periods beginning from the dates specified below. These standards are either not relevant to the Group's operations or are not expected to have significant impact on the Group's financial statements other than increase in disclosures in certain cases:

Revised IAS 1 - Presentation of Financial Statements (effective for annual periods beginning on or after 01 January 2009).

Revised IAS 23 - Borrowing Costs (effective from 01 January 2009).

IAS 29 - Financial Reporting in Hyperinflationary Economies (applicable for period beginning from 01 July 2008).

IAS 32 (amendment) - Financial Instruments: Presentation and consequential amendment to IAS 1 - Presentation of Financial Statements (effective for annual period beginning on or after 01 January 2009).

IFRS 2 (amendment) - Share-based Payments (effective for annual periods beginning on or after 01 January 2009).

IFRS 3 (amendment) - Business Combinations and consequential amendments to IAS 27 - Consolidated and Separate Financial Statements, IAS 28 - Investment in associates and IAS 31 - Interest in Joint Ventures. (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 01 July 2009).

IFRS 7 - Financial Instruments: Disclosures (applicable for periods beginnings from 01 July 2008).

IFRS 8 - Operating Segments (effective from 01 January 2009).

IFRIC 12 - Service Concession Arrangements (effective for annual periods beginning on or after 01 January 2008).

IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after 01 July 2008).

IFRIC 14 - IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after 01 January 2008).

IFRIC 15 - Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 01 January 2009).

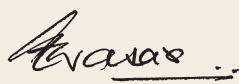
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation (annual periods beginning on or after 01 October 2008).

## 37 NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors of the Parent Company proposed final dividend at the rate of Rs 3.50 per share in its meeting held on 20 August 2008.

## 38 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 20 August 2008 by the Board of Directors of the Parent Company.



Chairman



Chief Executive