

Notes to the Financial Statements

for the year ended June 30, 2008

1. LEGAL STATUS AND OPERATIONS

Attock Refinery Limited (the Company) was incorporated in Pakistan on November 8, 1978 as a private limited company and was converted into a public limited company on June 26, 1979. The registered office of the company is situated at Morgah, Rawalpindi. Its shares are quoted on the Karachi, Lahore and Islamabad Stock Exchanges in Pakistan. It is principally engaged in the refining of crude oil.

The Company is a subsidiary of The Attock Oil Company Limited, UK and its ultimate parent is Bay View International Group S.A.

2. STATEMENT OF COMPLIANCE

These are separate financial statements of the Company. These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of 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.

3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Company has adopted IAS 1 (Amendment) - 'Presentation of Financial Statements - Capital Disclosures'. Adoption of this amendment only impacts the format and extent of disclosures as presented in note 36.6 to the financial statements.

The following standards and interpretations which have not been applied in these financial statements were issued by the International Accountancy Standards Board (IASB) but not yet effective:

		Effective for periods beginning on or after
IFRS 7	Financial Instruments: Disclosure	April 28,2008
IFRS 8	Operating Segments	April 28,2008
IAS 1	Presentation of Financial Statements (Revised 2008)	January 1,2009
IAS 23	Borrowing costs (Revised 2008)	January 1,2009
IAS 27	Consolidated and separate financial statements (Revised 2008)	January 1,2009
IAS 29	Financial Reporting in Hyperinflationary Economies	April 28,2008
IAS 32	Financial Instruments: Presentation (Revised 2008)	January 1,2009
IFRIC 7	Applying the Restatement Approach under IAS 29	April 28,2008
IFRIC 12	Service Concession Arrangement	January 1,2008
IFRIC 13	Customer Loyalty Programmes	July 1,2008
IFRIC 14	IAS 19 - The Limit on a defined benefit asset, minimum funding requirements and their interaction	January 1,2008
IFRIC 15	Agreements for the construction of Real Estate	January 1,2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	October 1,2008

The management anticipates that adoption of these standards and interpretations in future periods will have no material impact on the Company's financial statements except for additional disclosures when IFRS 7, IAS 1 and IFRIC 14 come into effect.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of measurement

These financial statements have been prepared under the historical cost convention modified by revaluation of freehold land referred to in note 4.4 and certain other modifications as required by approved accounting standards referred to in the accounting policies given below.

4.2 Dividend Appropriation

Dividend is recognised as a liability in the financial statements in the period in which it is declared.

4.3 Taxation

Provision for current taxation is based on taxable income at the current rates of taxation or half percent of turnover, whichever is higher.

Deferred income tax is accounted for using the balance sheet liability method in respect of all temporary differences arising between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on the tax rates that have been enacted. Deferred tax is charged or credited to income except in the case of items credited or charged to equity in which case it is included in equity.

4.4 Property, plant and equipment

a) Cost

Operating fixed assets except freehold land are stated at cost less accumulated depreciation. Freehold land is stated at revalued amount. Capital work-in-progress and stores held for capital expenditure are stated at cost. Cost in relation to certain plant and machinery items include borrowing cost related to the financing of major projects during construction phase.

b) Depreciation

Operating assets depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives at the rates specified in note 12.

c) Repairs and maintenance

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

d) Gains and losses on deletion

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

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4.5 Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortisation or depreciation and are tested annually for impairment. Assets that are subject to depreciation / amortisation are reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Reversals of the impairment losses are restricted to the original cost of the asset. An impairment loss or reversal of impairment loss is recognised in the profit and loss account.

4.6 Investments in associated and subsidiary companies

These investments are initially valued at cost. At subsequent reporting dates, the Company reviews the carrying amount of the investment to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Such impairment losses or reversal of impairment losses are recognised in the profit and loss account. The profits and losses of subsidiary and associated companies are carried in the financial statements of the subsidiary and associated company and are not dealt with for the purpose of the financial statements of the Company except to the extent of dividend declared by the subsidiary and associated companies.

4.7 Stores, spares and loose tools

These are valued at moving average cost less allowance for obsolete items. Items in transit are stated at invoice value plus other charges paid thereon.

4.8 Stock-in-trade

Stock-in-trade is valued at the lower of cost and net realisable value. Crude oil in transit is valued at cost comprising invoice value. Cost in relation to crude oil is determined on the basis of annual average cost of purchases during the year on the principles of import parity and in relation to semi-finished and finished products it represents the cost of crude oil and refining charges consisting of direct expenses and appropriate production overheads. Direct expenses are arrived at on the basis of average cost for the year per barrel of throughput. Production overheads, including depreciation, are allocated to throughput proportionately on the basis of nameplate capacity.

Net realisable value in relation to finished product represents selling prices in the ordinary course of business less costs necessarily to be incurred for its sale, as applicable, and in relation to crude oil represents replacement cost at the balance sheet date.

4.9 Foreign currency translation

Transactions in foreign currencies are converted into rupees at the rates of exchange ruling on the date of the transaction. All monetary assets and liabilities denominated in foreign currencies at the year end are translated at exchange rates prevailing at the balance sheet date. Exchange differences are dealt with through the profit and loss account.

4.10 Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognised as follows:

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for the year ended June 30, 2008

- i) Revenue from sales is recognised on delivery of products ex-refinery to the customers with the exception that Naphtha export sales are recognised on the basis of products shipped to customers.
- ii) The Company is operating under the import parity pricing formula, as modified from time to time, whereby it is charged the cost of crude on 'import parity' basis and is allowed product prices equivalent to the 'import parity' price, calculated under prescribed parameters.

Effective July 1, 2007, the Government made certain modifications in the prescribed parameters effectively reducing the price of Kerosene oil, Light Diesel Oil (LDO) and JP-8 in 2007 and 2008. The Government has further modified the refineries pricing formula in August, 2008 whereby the 10% duty included in pricing of HSD has been cut to 7.5% and the motor gasoline pricing has been unilaterally revised by linking its price to Arab Gulf 95 RON prices and calculating the price of 87 RON motor gasoline on a unitary method basis. This revision will adversely affect the pricing of HSD and motor gasoline which are Company's two major products.

Earlier in July, 2002, the Government had modified the pricing formula that was applicable to the Company restricting the distribution of net profits after tax (if any) from refinery operations to 50% of paid-up capital as at July 1, 2002 and diverting the surplus profits, if any, to a special reserve to offset any future loss or make investment for expansion or upgradation of Refinery. Further the Government had abolished the minimum rate of return of 10% which continues to be contested by the Company as it represented to the Government that the already existing agreement for guaranteed return could be modified only with the mutual consent of both the parties.

- iii) Dividend income is recognised when the right to receive dividend is established.
- iv) Other income is recognised on accrual basis.

4.11 Borrowing cost

Borrowing cost related to the financing of major projects during construction phase is capitalised. All other borrowing costs are expensed as incurred.

4.12 Employee retirement benefits

The main features of the retirement benefit schemes operated by the Company for its employees are as follows:

i) Defined benefits plans

The Company operates a pension plan for its management staff and a gratuity plan for its non-management staff. Pension plan is invested through an approved trust fund while the gratuity plan is book reserve plan. Contributions are made in accordance with actuarial recommendations. Actuarial valuations are conducted through an independent actuary, annually using projected unit credit method. The obligation at the balance sheet date is measured at the present value of the estimated future cash outflows.

Unrealised net gains and losses are amortised over the expected remaining service of current members.

ii) Defined contribution plans

The company operates an approved contributory provident fund for all employees. Equal monthly contribution is made both by the Company and the employee to the fund at the rate of 10% of basic salary.

4.13 Employees compensated absences

The Company also provides for compensated absences for all employees in accordance with the rules of the Company.

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4.14 Financial Instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and de-recognised when the Company loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item as shown below:

a) Investment in associated and subsidiary companies

The measurement methods adopted for investment in associated and subsidiary companies are disclosed in note 4.6.

b) Trade and other payables

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

c) Provisions

Provisions are recognised when a Company has a legal or constructive obligation as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

d) Trade debts and other receivables

Trade debts and other receivables are recognised and carried at original invoice amount / cost less an allowance for any uncollectible amounts.

e) Cash and cash equivalents

Cash in hand and at banks are carried at fair value. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand, balances in banks and highly liquid short term investments.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectation of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in application of accounting policies are as follows:

- i) Estimate of recoverable amount of investment in National Refinery Limited - note 14.1
- ii) Revaluation surplus on freehold land - note 12.1
- iii) Provision for taxation
- iv) Provision for retirement benefits - note 29

Notes to the Financial Statements

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	2008 Rs '000	2007 Rs '000
6. SHARE CAPITAL		
Authorised		
100,000,000 (2007: 100,000,000) ordinary shares of Rs 10 each	1,000,000	1,000,000
Issued, subscribed and paid up		
Shares issued for cash		
8,000,000 ordinary shares of Rs 10 each	80,000	80,000
Shares issued as fully paid bonus shares		
63,077,500 (2007: 48,862,000) ordinary shares of Rs 10 each	630,775	488,620
71,077,500 (2007: 56,862,000) ordinary shares of Rs 10 each	<u>710,775</u>	<u>568,620</u>
The Attock Oil Company Limited held 40,032,687 (2007: 31,274,150) ordinary shares and Attock Petroleum Limited held 1,000,000 (2007: nil) ordinary shares at the year end.		

	2008 Rs '000	2007 Rs '000
7. RESERVES AND SURPLUS		
Capital reserve		
Liabilities taken over from The Attock Oil Company Limited no longer required	4,800	4,800
Capital gain on sale of building	654	654
Insurance and other claims realised relating to pre-incorporation period	494	494
	<u>5,948</u>	<u>5,948</u>
Special reserve for expansion / modernisation - note 7.1		
Additional revenue under processing fee formula related to 1990-91 and 1991-92	32,929	32,929
Surplus profits under the import parity pricing formula	4,375,003	2,513,233
	<u>4,407,932</u>	<u>2,546,162</u>
Revenue reserve		
General reserve	55	55
Surplus - unappropriated profit	4,574,281	657,880
	<u>4,574,336</u>	<u>657,935</u>
	<u>8,988,216</u>	<u>3,210,045</u>

7.1 Represents amounts retained as per stipulations of the Government under the pricing formula and is available only for offsetting any future loss or making investment in expansion or upgradation of the refinery. Transfer to / from special reserve is recognised at each quarter end and is reviewed for adjustment based on profit / loss on an annual basis. The company has incurred capital expenditure of Rs 3,770 million on upgradation and expansion projects from July 1, 1997 to June 30, 2008 (July 1, 1997 to June 30, 2007: Rs 3,496 million).

8. SURPLUS ON REVALUATION OF FREEHOLD LAND

This represents surplus over book value resulting from revaluation of freehold land as referred to in note 12.1 and is not available for distribution to shareholders.

Notes to the Financial Statements

for the year ended June 30, 2008

9. SHORT TERM FINANCE

During the year, the Company has negotiated running finance facilities with various banks and accepted facility offer letters to the extent of Rs 3.5 billion, which were unutilised at the year end. As and when required, these facilities shall be secured by joint hypothecation by way of 1st registered charges over the Company's current assets.

	2008 Rs '000	2007 Rs '000
10. TRADE AND OTHER PAYABLES		
Creditors – note 10.1	24,371,362	18,020,915
Due to The Attock Oil Company Limited – Holding Company	256,739	275,108
Due to associated companies		
Pakistan Oilfields Limited	1,685,628	1,384,104
Attock Petroleum Limited	–	1,430
Attock Information Technology Services (Private) Limited	17,429	5,543
Accrued liabilities and provisions – note 10.1	1,714,975	737,635
Due to the Government under pricing formula	7,138,356	4,707,073
Advance payments from customers	2,677	5,533
Sales tax payable	1,037,929	7,199
Workers' Welfare Fund	196,966	131,989
Workers' Profit Participation Fund – note 10.2	181,441	65,840
Deposits from customers adjustable against freight and Government levies payable on their behalf	376	1,271
Payable to statutory authorities in respect of petroleum development levy and excise duty	13,099	–
Excess crude oil freight recovered through inland freight equalisation margin	21,479	–
Security deposits	48,890	48,940
Unclaimed dividends	1,576	940
	36,688,922	25,393,520

10.1 These balances include amounts retained from payments to crude suppliers for purchase of local crude as per the directives of the Ministry of Petroleum and Natural Resources (the Ministry). Further, as per directive of the Ministry such withheld amounts are being retained in designated 90 days interest bearing accounts. The amounts retained alongwith accumulated profits amounted to Rs 6,630.371 million (2007: Rs 10,173.029 million).

	2008 Rs '000	2007 Rs '000
10.2 Workers' Profit Participation Fund		
Balance at the beginning of the year	65,840	36,869
Add: Interest on funds utilised in the Company's business	3,889	528
	69,729	37,397
Less: Amount paid to the Fund	65,959	37,261
	3,770	136
Add: Amount allocated for the year - notes 28 and 33	177,671	65,704
	181,441	65,840

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	2008 Rs '000	2007 Rs '000
11. CONTINGENCIES AND COMMITMENTS		
Contingencies:		
i) Performance and commitment guarantees arranged by the Company on behalf of Attock Gen Limited (AGL), an associated company, as main sponsors	–	214,255
ii) Guarantees issued by banks on behalf of the Company	300	300
iii) Claims for land compensation contested by the Company	1,300	1,300
iv) Price adjustment related to crude oil purchases as referred to in note 24.1, the amount of which can not be presently quantified	–	–
Commitments outstanding:		
i) Capital expenditure	43,959	55,424
ii) Letters of credit other than for capital expenditure	172,722	125,775

12. OPERATING ASSETS

	Freehold land (note 12.1)	Buildings on freehold land	Plant & machinery	Computer equipment	Furniture, fixtures and equipment	Vehicles	Total
	Rs '000						
COST							
As at July 1, 2006	1,927,250	70,356	3,795,901	51,877	60,607	62,635	5,968,626
Additions during the year	–	14,375	113,947	3,687	1,546	7,975	141,530
Disposals during the year	–	–	–	–	(188)	(290)	(478)
As at June 30, 2007	1,927,250	84,731	3,909,848	55,564	61,965	70,320	6,109,678
Additions during the year	–	16,918	98,971	2,356	6,056	4,486	128,787
Disposals during the year	–	–	(23,722)	(10,244)	(10,075)	(852)	(44,893)
As at June 30, 2008	1,927,250	101,649	3,985,097	47,676	57,946	73,954	6,193,572
DEPRECIATION							
As at July 1, 2006	–	28,639	2,878,157	39,806	33,117	43,198	3,022,917
Charge for the year	–	3,908	330,939	8,999	4,784	8,239	356,869
On disposals	–	–	–	–	(80)	(290)	(370)
As at June 30, 2007	–	32,547	3,209,096	48,805	37,821	51,147	3,379,416
Charge for the year	–	5,573	368,114	2,983	5,789	9,047	391,506
On disposals	–	–	(17,578)	(10,215)	(8,225)	(852)	(36,870)
As at June 30, 2008	–	38,120	3,559,632	41,573	35,385	59,342	3,734,052
WRITTEN DOWN VALUE							
As at June 30, 2007	1,927,250	52,184	700,752	6,759	24,144	19,173	2,730,262
As at June 30, 2008	1,927,250	63,529	425,465	6,103	22,561	14,612	2,459,520
Annual rate of depreciation (%)	–	5	10	20	10	20	

12.1 Value of freehold land includes revaluation surplus of Rs 1,923.339 million arising from revaluation of freehold land in January 2001 carried out by an independent valuer. Valuation was made on the basis of market value. The original cost of the land as at June 30, 2008 is Rs 3.911 million.

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	2008 Rs '000	2007 Rs '000
12.2 The depreciation charge for the year has been allocated as follows:		
Cost of sales	378,170	341,975
Administration expenses	12,405	13,361
Distribution cost	298	900
Desalter operating cost	633	633
	391,506	356,869
13. CAPITAL WORK-IN-PROGRESS		
Civil works	2,191	2,487
Plant and machinery	411,820	186,977
Pipeline project	28,420	28,219
	442,431	217,683

14. LONG TERM INVESTMENTS – AT COST

	2008		2007	
	% age holding	Rs '000	% age holding	Rs '000
Associated companies				
Quoted				
National Refinery Limited (NRL) – note 14.1 19,991,640 (2007: 16,659,700) fully paid ordinary shares including 3,331,940 (2007 : Nil) bonus shares of Rs 10 each Market value as at June 30, 2008: Rs 5,947 million (June 30, 2007 : Rs 5,681 million)	25	8,046,635	25	8,046,635
Attock Petroleum Limited (APL) – note 14.2 10,417,680 (2007 : 8,681,400) fully paid ordinary shares of Rs 10 each Market value as at June 30, 2008 : Rs 4,503 million (June 30, 2007 : Rs 4,352 million)	21.70	4,438,944	21.70	668,204
Unquoted				
Attock Gen Limited (AGL) – note 14.3 6,435,000 (2007 : 5,400,000) fully paid ordinary shares of Rs 100 each	30	643,500	30	540,000
Attock Information Technology Services (Private) Limited 450,000 (2007 : 450,000) fully paid ordinary shares of Rs 10 each	10	4,500	10	4,500
		13,133,579		9,259,339
Subsidiary company				
Unquoted				
Attock Hospital (Private) Limited 200,000 (2007: 200,000) fully paid ordinary shares of Rs 10 each	100	2,000	100	2,000
		13,135,579		9,261,339

All associated and subsidiary companies are incorporated in Pakistan.

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14.1 Based on a valuation analysis carried out by an external investment advisor engaged by the Company, the recoverable amount of investment in NRL exceeds its carrying amount. The recoverable amount has been estimated based on a value in use calculation. These calculations have been made on discounted cash flow based valuation methodology which assumes gross profit margin of 5.4% (2007: 6.4%), terminal growth rate of 4% (2007: 5%) and capital asset pricing model based discount rate of 18.64% (2007: 14.30%).

	Number of shares	Cost Rs '000
14.2 Investment in APL		
As at July 1, 2007 (including 3,500,000 bonus shares)	8,681,400	668,204
Bonus shares received during the year	1,736,280	–
Disposal of shares during the year	(10,417,680)	(668,204)
Purchase of shares during the year	10,417,680	4,438,944
As at June 30, 2008	<u>10,417,680</u>	<u>4,438,944</u>
14.3 Investment in AGL		
As at July 1, 2007	5,400,000	540,000
Right shares acquired during the year	1,035,000	103,500
As at June 30, 2008	<u>6,435,000</u>	<u>643,500</u>

	2008 Rs '000	2007 Rs '000
15. LONG TERM LOANS AND DEPOSITS		
Loans to employees – considered good – note 15.1	25,879	21,079
Less: Amounts due within next twelve months shown under current assets – note 20	(14,095)	(10,990)
	<u>11,784</u>	<u>10,089</u>
Security deposits	948	865
	<u>12,732</u>	<u>10,954</u>

15.1 Loans to employees are for miscellaneous purposes which are recoverable in 24, 36, and 60 equal monthly installments depending on case to case basis and are secured by a charge on the asset purchased and / or amount due to the employee against provident fund or a third party guarantee. These are interest free loans. These include an amount of Rs 4.366 million (2007: Rs 3.552 million) receivable from Executives of the Company and does not include any amount receivable from Directors or Chief Executive. The maximum amount due from executives of the Company at the end of any month during the year was Rs 4.720 million (2007: Rs 3.805 million).

	2008 Rs '000	2007 Rs '000
15.2 Reconciliation of carrying amount of loans to executives:		
Opening balance as at July 1	3,552	2,233
Add: Disbursements during the year	7,164	3,922
	<u>10,716</u>	<u>6,155</u>
Less: Repayments during the year	6,350	2,603
Closing balance as at June 30	<u>4,366</u>	<u>3,552</u>

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	2008 Rs '000	2007 Rs '000
16. DEFERRED TAXATION		
Debit balances arising on		
Provisions for obsolete stores, doubtful debts and gratuity	54,737	48,980
Difference between accounting and tax depreciation	164,565	124,673
Finance lease arrangements	–	(15,897)
	219,302	157,756
17. STORES, SPARES AND LOOSE TOOLS		
Stores (including items in transit Rs 99.03 million; 2007: Rs 119.67 million)	351,123	446,579
Spares	228,053	219,661
Loose tools	624	596
	579,800	666,836
Less: Provision for slow moving items – note 17.1	37,300	36,000
	542,500	630,836
17.1. Provision for slow moving items		
Opening balance	36,000	34,500
Add: Provision for the year	1,300	1,500
	37,300	36,000
18. STOCK-IN-TRADE		
Crude oil – in stock	902,525	1,488,648
Crude oil – in transit	375,967	176,064
	1,278,492	1,664,712
Semi-finished products	436,792	311,633
Finished products – note 18.1	3,129,569	1,876,301
	4,844,853	3,852,646

18.1 Finished products include stocks carried at net realisable value of Rs 2 million (2007: Rs 236 million). Adjustments amounting to Rs 1 million (2007: Rs 43.8 million) have been made to closing inventory to write down stocks of finished products to their net realizable value.

19. TRADE DEBTS

All debtors are unsecured and considered good. These include amount receivable from associated companies Attock Petroleum Limited Rs 2,327 million (2007: Rs 1,011 million) and Pakistan Oilfields Limited Rs 11 million (2007: Rs nil).

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	2008 Rs '000	2007 Rs '000
20. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Loans and advances – considered good		
Current portion of long-term loans to employees – note 15	14,095	10,990
Advances to suppliers	61,874	19,301
Advances to employees	2,236	1,729
	78,205	32,020
Deposits, prepayments and current account balances with statutory authorities		
Trade deposits	286	286
Short term prepayments	14,680	17,238
Current account balances with statutory authorities in respect of petroleum development levy and excise duty	–	287
	14,966	17,811
Other receivables		
Due from subsidiary company		
Attock Hospital (Private) Limited	1,279	1,966
Due from associated companies		
National Refinery Limited	2,610	4,677
Attock Petroleum Limited	9,308	–
Attock Leisure and Management Associates (Pvt) Limited	115	–
Attock Gen Limited	5,394	2,415
National Cleaner Production Centre Foundation	2,992	2,465
Attock Cement Pakistan Limited	–	155
Due from Staff Pension Fund	15,404	4,097
Income accrued on bank deposits	108,888	78,867
Crude oil freight recoverable through inland freight equalisation margin	–	39,221
Other receivables	5,534	7,561
	151,524	141,424
	244,695	191,255

Loans to employees include Rs 2.852 million (2007: Rs 2.265 million) due from executives of the Company and does not include any amount receivable from Directors or the Chief Executive.

	2008 Rs '000	2007 Rs '000
21. CASH AND BANK BALANCES		
Cash in hand	910	292
With banks:		
Current accounts	2,703	2,790
Deposit accounts	6,317,269	6,081,864
Savings accounts (including US \$ 366,766; 2007: US \$ 379,624)	12,623,750	2,795,168
	18,944,632	8,880,114

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- 21.1** Balances with banks include Rs 4,817.269 million (2007: 5,381.864 million) in respect of deposits placed in a 90-day interest-bearing account consequent to directives of the Ministry of Petroleum & Natural Resources on account of amounts withheld alongwith related interest earned thereon, as referred to in note 10.1.
- 21.2** Bank deposits of Rs. 0.300 million (2007: 0.300 million) were under lien with bank against a bank guarantee issued on behalf of the Company.
- 21.3** Balances with banks include Rs 48.890 million (2007: Rs 48.940 million) in respect of security deposits received.
- 21.4** Balances with banks earned weighted average interest / mark-up @ 9.61% (2007: @ 9.73%) per annum.

	2008 Rs '000	2007 Rs '000
22. SALES		
Gross sales (excluding Naphtha export sales)	93,428,851	66,083,779
Naphtha export sales	12,509,719	8,232,840
Less: Cost of Naphtha purchased from third parties and related handling charges recovered	1,684,095	1,175,285
	10,825,624	7,057,555
Less: Duties, taxes and levies - note 22.1	12,343,772	13,986,554
	91,910,703	59,154,780
22.1 Duties, taxes and levies		
Sales tax	10,418,456	8,166,096
Development surcharge	1,903,321	5,356,523
Custom duties and other levies	21,995	463,935
	12,343,772	13,986,554

23. REIMBURSEMENT DUE FROM THE GOVERNMENT UNDER IMPORT PARITY PRICING FORMULA

This represents amount due from the Government of Pakistan on account of shortfall in ex-refinery prices of certain petroleum products under the import parity pricing formula.

Notes to the Financial Statements

for the year ended June 30, 2008

	2008 Rs '000	2007 Rs '000
24. COST OF SALES		
Opening stock of semi-finished products	311,633	278,876
Crude oil consumed - note 24.1	88,115,513	56,314,521
Transportation and handling charges	1,174,592	1,016,615
Salaries, wages and other benefits - note 24.2	296,102	250,262
Printing and stationery	1,922	1,822
Chemicals consumed	354,582	347,235
Fuel and power	449,483	279,486
Rent, rates and taxes	6,047	6,525
Telephone and telex charges	2,283	1,602
Professional charges for technical services	3,506	2,455
Insurance	52,935	46,544
Repairs and maintenance (including stores and spares consumed Rs 64.345 million; 2007: Rs 65.330 million)	162,555 *	118,433
Staff transport and traveling	10,449	9,815
Cost of receptacles	15,912	8,619
Research and development	749	109
Depreciation	378,170	341,975
	91,336,433	59,024,894
Closing stock of semi-finished products	(436,792)	(311,633)
	90,899,641	58,713,261
Opening stock of finished products	1,876,301	1,760,728
Closing stock of finished products	(3,129,569)	(1,876,301)
	(1,253,268)	(115,573)
	89,646,373	58,597,688

* includes consumables wrongly classified as fixed assets written off during the year having book value of Rs 7,269 thousand.

	2008 Rs '000	2007 Rs '000
24.1 Crude oil consumed		
Stock at the beginning of the year	1,664,712	1,484,204
Purchases - note 38.3(i)	87,729,294	56,495,029
	89,394,006	57,979,233
Stock at the end of the year	(1,278,493)	(1,664,712)
	88,115,513	56,314,521

Certain crude purchases have been recorded based on provisional prices notified by the Government and may require adjustment in subsequent periods. Cost of purchases include Rs 706.120 million (2007: Nil) related to purchases in prior years.

24.2 Salaries, wages and other benefits under cost of sales, administration expenses, distribution cost and income from crude desalter operations include the Company's contribution to the Provident Fund amounting to Rs 13.245 million (2007: Rs 11.552 million).

Notes to the Financial Statements

for the year ended June 30, 2008

	2008 Rs '000	2007 Rs '000
25. ADMINISTRATION EXPENSES		
Salaries, wages and other benefits - note 24.2	108,425	97,666
Staff transport, traveling and entertainment	12,768	12,065
Telephone and telex charges	1,521	1,485
Electricity, gas and water	5,570	4,430
Printing and stationery	3,937	3,028
Auditor's remuneration - note 25.1	1,074	986
Legal and professional charges	4,145	5,874
Repairs and maintenance	33,605	21,490
Subscription	5,214	5,272
Publicity	3,061	4,044
Scholarship scheme	1,909	2,055
Rent, rates and taxes	1,766	1,273
Insurance	790	867
Donations*	324	415
Training expenses	2,582	745
Other expenses	240	52
Depreciation	12,405	13,361
	199,336	175,108
* No director or his spouse had any interest in the donee institutions.		
25.1 Auditor's remuneration		
Statutory audit	440	350
Review of half yearly accounts, audit of consolidated accounts, staff funds and special certifications	520	553
Out of pocket expenses	114	83
	1,074	986
26. DISTRIBUTION COST		
Salaries, wages and other benefits - note 24.2	13,426	11,722
Staff transport, traveling and entertainment	652	568
Telephone and telex charges	221	210
Electricity, gas, fuel and water	1,857	1,476
Printing and stationery	137	81
Repairs and maintenance including packing and other stores consumed	2,066	1,295
Rent, rates and taxes	339	317
Legal and professional charges	144	144
Cost of samples	-	3
Depreciation	298	900
	19,140	16,716

Notes to the Financial Statements

for the year ended June 30, 2008

	2008 Rs '000	2007 Rs '000
27. FINANCE COST		
Interest / mark-up on		
Long term loans	–	233,361
Workers' Profit Participation Fund - note 10.2	3,888	528
Bank and other charges	241	389
Exchange loss	1,240,244	12,267
	1,244,373	246,545
28. OTHER CHARGES		
Employees' retirement benefits		
Staff gratuity benefits	20,764	15,321
Staff pension benefits	597	8,572
Less: Contribution to subsidiary company	(995)	(955)
	(398)	7,617
Contribution to employees old age benefits scheme	2,580	2,202
	22,946	25,140
Fixed assets shortages / damages written off	648	–
Provision for slow moving stores	1,300	1,500
Stores written off	–	13
Workers' Profit Participation Fund	154,934	51,819
Workers' Welfare Fund	55,883	23,679
	235,711	102,151

Notes to the Financial Statements

for the year ended June 30, 2008

29. EMPLOYEES' DEFINED BENEFIT PLANS

The latest actuarial valuation of the employees' defined benefit plans was conducted at June 30, 2008 using the projected unit credit method. Details of the defined benefit plans are:

	Defined benefit Pension plan		Defined benefit Gratuity plan	
	2008	2007	2008	2007
	Rs '000		Rs '000	
a) The amounts recognised in the profit and loss account:				
Current service cost	13,773	12,263	3,818	3,099
Interest on obligation	31,449	27,772	12,890	10,076
Expected return on plan assets	(39,591)	(30,235)	–	–
Contribution from an associated company	(144)	(127)	–	–
Net actuarial losses / (gains) recognised during the year	(4,890)	(1,101)	4,056	2,146
	597	8,572	20,764	15,321
b) The amounts recognised in the balance sheet:				
Fair value of plan assets	385,053	359,485	–	–
Present value of defined benefit obligations	(321,136)	(291,335)	(152,656)	(121,894)
	63,917	68,150	(152,656)	(121,894)
Unrecognised actuarial gains / (losses)	(48,513)	(64,053)	55,767	36,094
Net liability	15,404	4,097	(96,889)	(85,800)
c) Movement in the present value of defined benefit obligation:				
Present value of defined benefit obligation as at July 1	291,335	263,054	121,894	96,058
Current service cost	13,773	12,263	3,818	3,099
Interest cost	31,449	27,772	12,890	10,076
Benefits paid	(11,158)	(11,146)	(9,675)	(5,321)
Actuarial (gains) / losses	(4,263)	(608)	23,729	17,982
Present value of defined benefit obligation as at June 30	321,136	291,335	152,656	121,894
d) Changes in the fair value of plan assets:				
Fair value of plan assets as at July 1	359,485	280,495	–	–
Expected return	39,591	30,235	–	–
Benefits paid	(11,158)	(11,146)	–	–
Contributions by employer	11,904	10,971	–	–
Contributions by associated company	144	127	–	–
Actuarial gains / (losses)	(14,913)	48,803	–	–
Fair value of plan assets as at June 30	385,053	359,485	–	–
Actual return on plan assets	24,677	79,038	–	–

Expected contributions to the defined benefit pension plans for the year ending June 30, 2008 are Rs 12.6 million.

Notes to the Financial Statements

for the year ended June 30, 2008

	Defined benefit Pension plan		Defined benefit Gratuity plan	
	2008	2007	2008	2007
	Rs '000		Rs '000	
e) The major categories of plan assets:				
Investment in equities	119,841	109,498	-	-
Investment in mixed funds	103,448	136,837	-	-
Cash	161,764	113,150	-	-
	<u>385,053</u>	<u>359,485</u>	-	-
f) Significant actuarial assumptions at the balance sheet date:				
Discount rate	13.25%	11.00%	-	-
Expected return on plan assets	13.25%	11.00%	-	-
Future salary increases	11.09%	8.89%	-	-
Future pension increases	7.86%	5.71%	-	-

	2008	2007	2006	2005	2004
	Rs '000				
g) Comparison for five years:					
Defined Benefit Pension Plan					
Present value of defined benefit obligation	(321,136)	(291,335)	(263,054)	(215,382)	(190,998)
Fair value of plan assets	385,053	359,485	280,495	225,121	196,918
Surplus / (deficit)	<u>63,917</u>	<u>68,150</u>	<u>17,441</u>	<u>9,739</u>	<u>5,920</u>
Actuarial (gains) / losses on plan liabilities	(4,262)	(609)	23,265	9,382	1,303
Actuarial (gains) / losses on plan assets	14,914	(48,803)	29,017	13,388	9,384
Defined Benefit Gratuity Plan					
Present value of defined benefit obligation	(152,656)	(121,894)	(96,058)	(88,578)	(80,832)
Fair value of plan assets	-	-	-	-	-
Deficit	<u>(152,656)</u>	<u>(121,894)</u>	<u>(96,058)</u>	<u>(88,578)</u>	<u>(80,832)</u>
Actuarial (gains) / losses on plan liabilities	23,729	17,982	(1,087)	3,611	16,991
Actuarial (gains) / losses on plan assets	-	-	-	-	-

Notes to the Financial Statements

for the year ended June 30, 2008

	2008 Rs '000	2007 Rs '000
30. OTHER INCOME		
Income from financial assets		
Income on bank deposits	483,492	569,024
Exchange gain	16,852	270
	500,344	569,294
Income from non – financial assets		
Income from crude decanting	15,262	11,205
Income from crude desalter operations – note 30.1	9,715	9,265
Insurance agency commission	4,140	4,719
Rental income	6,983	3,057
Sale of scrap	12,930	10,613
Profit on disposal of fixed assets	2,637	846
Calibration charges	2,892	3,742
Handling and service charges	16,586	15,901
Registration charges from carriage contractors	200	–
Penalties from carriage contractors	4,816	3,888
Old liabilities written back	–	694
Miscellaneous	1,346	1,942
	77,507	65,872
	577,851	635,166
30.1 Income from crude desalter operations		
Income	51,997	43,928
Less: Operating costs		
Salaries, wages and other benefits – note 24.2	1,080	1,882
Chemical consumed	8,098	7,058
Fuel and power	22,889	16,828
Repairs and maintenance	9,582	8,262
Depreciation	633	633
	42,282	34,663
	9,715	9,265
31. PROVISION FOR TAXATION		
Current – for the year	1,054,100	476,500
– for prior years	(112,900)	–
	941,200	476,500
Deferred – for the year	(61,547)	(19,950)
	879,653	456,550

Notes to the Financial Statements

for the year ended June 30, 2008

	2008 %	2007 %
31.1 Reconciliation between the average effective tax rate and the applicable tax rate.		
Applicable tax rate	35.00	35.00
Tax effect of:		
Income chargeable to tax at special rate and other differences	(0.62)	12.51
Prior years	(3.91)	–
Average effective tax rate charged to profit and loss account	30.47	47.51

	2008 Rs '000	2007 Rs '000
32. GAIN ON SALE OF SHARES OF AN ASSOCIATED COMPANY		
Proceeds from sale of shares of Attock Petroleum Limited (net of expenses incurred on disposal)	4,430,979	–
Cost of investment disposed off	(668,204)	–
	3,762,775	–
33. DIVIDEND INCOME		
Dividend income from associated companies		
National Refinery Limited	333,194	208,247
Attock Petroleum Limited	121,540	69,451
	454,734	277,698
Less: Related charges		
Workers' Profit Participation Fund	22,737	13,885
Workers' Welfare Fund	9,095	5,276
Taxation @ 10% (2007: 5%)	45,473	13,885
	77,305	33,046
	377,429	244,652

Notes to the Financial Statements

for the year ended June 30, 2008

34. RELATED PARTY TRANSACTIONS

Attock Oil Company Limited holds 56.32% (2007: 55.00%) shares of the Company at the year end. Therefore, all subsidiaries and associated undertakings of Attock Oil Company Limited are related parties of the Company. The related parties also comprise of directors, major shareholders, key management personnel, entities over which the directors are able to exercise significant influence on financial and operating policy decisions and employees' funds. Amount due from and due to these undertakings are shown under receivables and payables. The remuneration of Chief Executive, directors and executives is disclosed in note 35 to the financial statements.

	2008 Rs '000	2007 Rs '000
Associated companies		
Sale of goods	24,713,370	12,941,980
Sale of services	92,585	76,773
	24,805,955	13,018,753
Purchase of goods	10,154,897	7,591,742
Purchase of services	409,827	311,331
	10,564,724	7,903,073
Holding company		
Sale of services	424	285
Purchase of goods	1,106,675	1,298,843
Purchase of services	3,833	3,988
	1,110,508	1,302,831
Subsidiary company		
Sale of goods	441	614
Sale of services	22,519	18,834
	22,960	19,448
Purchase of services	23,471	19,653
	23,471	19,653
Contribution to employees' pension and provident funds	25,149	22,523

Notes to the Financial Statements

for the year ended June 30, 2008

35. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the accounts for remuneration, including benefits and perquisites, were as follows:

	Chief Executive		Directors		Executives	
	2008	2007	2008	2007	2008	2007
	Rs '000					
Managerial remuneration / honorarium	3,525	3,910 *	1,219	1,219	24,555	22,188
Company's contribution to provident and pension funds	731	789	–	–	5,503	4,739
Housing and utilities	2,208	1,037	–	–	17,585	11,262
Leave passage	420	330	–	–	2,963	2,101
	<u>6,884</u>	<u>6,066</u>	<u>1,219</u>	<u>1,219</u>	<u>50,606</u>	<u>40,290</u>
No of person(s)	1	1	3	3	22	20

Housing and utilities of executives include cash allowance for fuel and maintenance in respect of limited use of Company's cars provided to 12 executives for the period January 1, 2008 to June 30, 2008.

* This includes payments to Chief Executive of Rs 789 thousand representing arrears of salary for the period February 2005 to June 30, 2006.

35.1 In addition, the Chief Executive and 22 (2007: 18) executives were provided with limited use of the Company's cars. The Chief Executive and all executives were provided with medical facilities and 5 (2007: 7) executives were provided with unfurnished accommodation in Company owned bungalows. Limited residential telephone facility was also provided to the Chief Executive and 12 (2007: 11) executives.

Fee paid to directors during the year was Rs nil (2007: Rs nil).

36. FINANCIAL INSTRUMENTS

36.1 Financial assets and liabilities

	2008			2007		
	Interest / mark-up bearing	Non-interest / mark-up bearing	Total	Interest / mark-up bearing	Non-interest / mark-up bearing	Total
	Rs '000					
Financial assets:						
Maturity upto one year						
Trade debts	–	9,207,238	9,207,238	–	6,234,918	6,234,918
Loans, advances, deposits and other receivables	–	168,141	168,141	–	154,428	154,428
Cash and bank balances						
Foreign currency – US \$	24,940	702	25,642	22,815	202	23,017
Local currency	18,916,079	2,911	18,918,990	8,854,217	2,880	8,857,097
Maturity after one year						
Long term investments	–	13,135,579	13,135,579	–	9,261,339	9,261,339
Long term loans and deposits	–	12,732	12,732	–	10,954	10,954
	<u>18,941,019</u>	<u>22,527,303</u>	<u>41,468,322</u>	<u>8,877,032</u>	<u>15,664,721</u>	<u>24,541,753</u>
Financial liabilities:						
Maturity upto one year						
Trade and other payables	6,630,615	30,055,630	36,686,245	9,471,565	15,916,422	25,387,987
Maturity after one year						
Staff gratuity	96,889	–	96,889	85,800	–	85,800
	<u>6,727,504</u>	<u>30,055,630</u>	<u>36,783,134</u>	<u>9,557,365</u>	<u>15,916,422</u>	<u>25,473,787</u>
Off balance sheet items:						
Commitments (other than letters of credit)	–	43,959	43,959	–	55,424	55,424
Letters of credit	–	172,722	172,722	–	125,775	125,775
Bank guarantees	–	300	300	–	214,555	214,555
	<u>–</u>	<u>216,981</u>	<u>216,981</u>	<u>–</u>	<u>395,754</u>	<u>395,754</u>

The carrying value of financial assets and liabilities approximates their fair value except for long term investments, which are stated at cost.

Notes to the Financial Statements

for the year ended June 30, 2008

36.2 Credit risk

The Company's credit risk is primarily attributable to its trade debts and placements with banks. The sales are essentially to six oil marketing companies and reputable foreign customers. The Company's placements are with banks having satisfactory credit rating. Due to the high credit worthiness of corresponding parties the credit risk is considered minimal.

36.3 Currency risk

Foreign exchange risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions denominated in foreign currencies. Financial assets include Rs 840.260 million (2007: Rs 726.019 million) and financial liabilities include Rs 18,469.791 million (2007: Rs 10,714.731 million) which were subject to foreign exchange risk.

36.4 Interest / Mark-up risk

Financial assets include Rs 18,941 million (2007: Rs 8,877 million) and financial liabilities include Rs 6,727 million (2007: Rs 9,557 million) which were subject to interest rate risk.

36.5 Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

36.6 Capital risk management

The Company is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital and the level of dividend to ordinary shareholders. There was no change to the Company's approach to the capital management during the year and the company is not subject to externally imposed capital requirement.

	2008 Rs '000	2007 Rs '000
37. EARNINGS PER SHARE		
Profit after taxation from refinery operations	2,007,570	504,333
Profit after taxation from non-refinery operations	4,140,204	244,652
	6,147,774	748,985
Number of fully paid weighted average ordinary shares ('000)	71,078	71,078
Earnings per share - Basic (Rs)		
Refinery operations	28.24	7.10
Non-refinery operations	58.25	3.44
	86.49	10.54

Basic earnings per share for the year 2007 reported in the previous year was Rs 13.17. This has been restated on account of 14,215,500 bonus shares issued without consideration during the year ended June 30, 2008.

There is no dilutive effect on the basic earnings per share of the Company.

Notes to the Financial Statements

for the year ended June 30, 2008

38. GENERAL

38.1 Capacity and production

Against the designed annual refining capacity of 14,320 million (2007: 14,240 million) US barrels the actual throughput during the year was 14,901 million (2007: 14,075 million) US barrels.

38.2 Number of employees

Total number of employees at the end of the year was 720 (2007: 731).

38.3 Non adjusting events after the balance sheet date

- i) Subsequent to the year end, further exchange loss of Rs 622 million has been realised on payments against crude purchases relating to year ended June 30, 2008.
- ii) Subsequent to the year end, the Government has changed the pricing formula of certain products including reduction in deemed duty adversely impacting future selling prices of the products.
- iii) The Board of Directors in its meeting held on October 8, 2008 has approved the transfer of Rs. 3,762.775 million (2007: Rs nil) to Investment Reserve representing gain on sale of shares of an associated company. The Board of Directors, in its meeting held on October 8, 2008 has also proposed for the approval of members at the next Annual General Meeting (i) a 80% (2007: 40%) cash dividend of Rs 8 (2007: Rs 4) per share and (ii) an issue of bonus share in the proportion of one (2007: one) share for every five (2007: four) shares held i.e. 20% (2007: 25%) out of unappropriated profits. These financial statements do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending June 30, 2009 as follows:

Transfer from unappropriated profit to:	Rs '000
Proposed dividend	568,620
Reserve for issue of bonus shares	142,155

38.4 Date of authorisation

These financial statements have been authorised for issue by the Board of Directors of the Company on October 08, 2008.

SD/-

Chief Executive

SD/-

Director