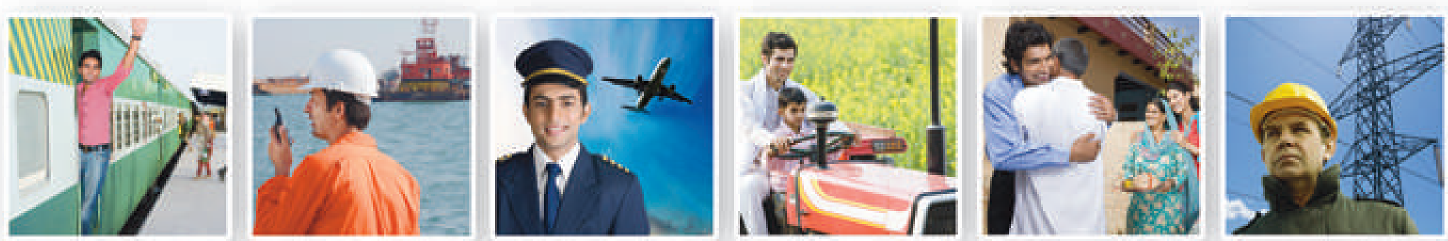
Annual Report 2010

Energizing the Nation



Annual Report 2010

Pakistan State Oil

Pakistan State Oil | Energizing the Nation

Report to Shareholders

The Board of Management of PSO is pleased to present the thirty-fourth annual report and the audited financial statements of the company for the year ended June 30, 2010. This Report presents the financial, operating and corporate responsibility performance of the company, and highlights the key business challenges faced by us during the year.

Despite several challenges, your Company continued its journey of success with earning after tax of Rs. 9.05 billion and has emerged with a more progressive and dynamic outlook.

GLOBAL & DOMESTIC OVERVIEW

The outgoing year witnessed the making of a global recovery. Leading indicators, and upgraded projections from the IMF, have so far pointed to a sharp rebound in the world economy. The latest projections from the IMF are for world output to increase by 4.2 percent in 2010, against an estimated contraction of 0.6 percent in 2009. However, as noted in the World Economic Outlook for April, the recovery is "uneven" in terms of regions and countries, and is "fragile".

A sharp spike in global commodity prices, mainly relating to food and energy, has exerted strong upward pressure on the domestic price level. Given this backdrop of global price developments, it should be of little surprise that the sharp resurgence of inflation is not restricted to Pakistan and is both a global as well as a regional phenomenon, though with varying orders of magnitude. In FY10 inflation in Pakistan was registered at 12.5%.

Despite severe challenges, the economy showed resilience in the outgoing year. Growth in Gross Domestic Product (GDP) for 2009-10, on an inflation-adjusted basis, has been recorded at a provisional 4.1%. This compares with GDP growth of 1.2% in the previous year. However, the recovery is still fragile and the stabilization needs to be consolidated so that the gains over the past two difficult years are not lost.

PETROLEUM INDUSTRY OVERVIEW

During FY10, oil prices remained relatively stable maintaining an average of $ 73.44/ bbl as compared to a sharp fluctuation in international prices in FY09 which helped maintain the POL prices in the country. In the period under review, POL consumption in the country was recorded to be 20.8 million tons, as compared to 19.2 million tons last year. The primary reason for this 8% growth has been the increased consumption of Mogas and Fuel Oil.

Consumption of Black Oil grew to 9.3 million tons - an increase of 14% over the preceding year. Black Oil demand picked up owing to supply constraints for natural gas. Reduced hydro-electric potential also contributed to rise in Fuel Oil consumption. This trend in Fuel Oil consumption is expected to continue in subsequent years.

White Oil reported a slight increase from 10.0 million tones to 10.2 million tones. During FY10 consumption of HSD decreased by 3%. During the period under review, demand for motor gasoline increased by over 27% over the preceding year mainly due to 50% increase in cars sales and 44% increase in motor cycles' sales, gas shortage in winters, one day holiday of CNG per week and extraordinary increase in use of generators due to frequent power outages.

Demand of Jet A-1 (local) registered an increase of around 9% due to increase in domestic carriers and technical landings.

During FY10, local refineries produced 7.9 million tons while the deficit requirement of around 11.3 million tons was imported.

The major chunk of demand was in FO and HSD for which 6.7 million and 3.75 million tons were imported respectively by PSO. A significant reduction in the refining capacity of different refineries was witnessed mainly due to the mounting circular debt and lower refining margins.

PSO PERFORMANCE

During FY10, PSO sold 14.2 million tons of POL products as compared to 13.2 million tons during the preceding year.

Black Oil

In Black Oil, PSO enhanced its market share appreciably from 85.8% in FY09 to 88.3%. PSO registered a ever highest sales volumes of 8.2 million MTs for Furnace Oil (FO). The surge was mainly due to increase in demand in power generation sector. PSO despite the mounting circular debt responsibly met the demands of the power sector of the country. In the period under review, the company remained committed to keep the homeland lit up .

White Oil

In White Oil, PSO reduced its market share from 59.4% in FY09 to 55.4% in FY10. Decrease in PSO's market participation in White Oil by 4% was mainly due to the overall economic downturn and circular debt.

Mogas

PSO lost 2.1% share in Mogas as compared to previous year bringing its market share in this product to around 45.9%. PSO's Mogas volumes increased by 22% whereas the industry volumes grew by 27%. This increase in volumes was reported due to increase usage of generators and more vehicles on the road.

PSO registered a ever highest sales volume of 0.89 million MTs for Mogas as compared to previous year's 0.73 million MTs.

HSD

HSD sales by PSO during the year also witnessed a downward trend along with the industry's depreciating trend. The industry showed a negative growth of 3% whereas PSO showed a negative volume growth of 10%. The reason behind this negative growth was the slow down of economic activity. As a result, the company's market participation decreased to around 56.8% from 61.1% during the preceding year.

Comparison with FY09 figures shows that during FY10, the company achieved a sales volume of 4.2 million MTs against previous year's figures of 4.7 million MTs.

JP-1(local)

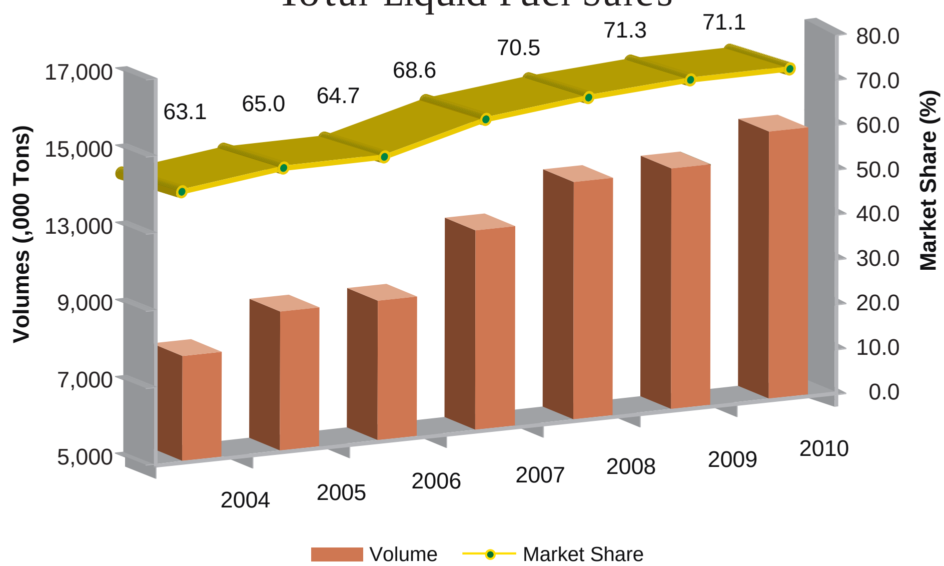
In FY10, PSO continued to provide fuel at 9 airports across the country and registered an increase of 7% in its sales volume as compared to the preceding year. The Company maintained its leadership with a market share of 65.8%.

Your Company ended FY10 with an overall market share of 71.1% in liquid fuels as compared to 71.3% during FY09.

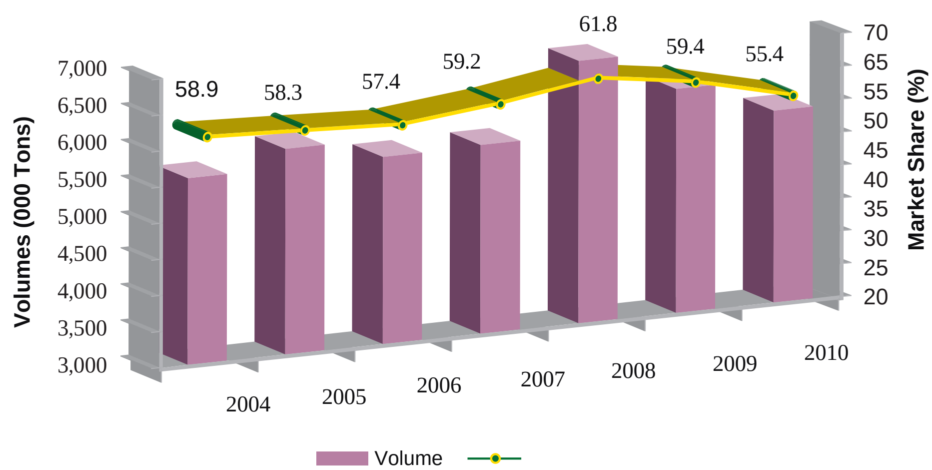
Product	Volume in '000 Tons		Market Share %	
	Jul - Jun 2010	Jul - Jun 2009	Jul - Jun 2010	Jul-Jun 2009
White Oil				
H S D	4,219	4,675	56.8	61.1
Motor Gasoline	892	734	45.9	48.0
JP-1 (Local)	445	414	65.8	66.4
S K O	99	101	60.5	56.5
White Oil	5,655	5,924	55.4	59.4
Black Oil				
FO	8,210	6,976	88.8	86.4
LDO	16	29	21.0	32.6
Black Oil	8,226	7,005	88.3	85.8
Total (White & Black Oil)	13,881	12,929	71.1	71.3
JP-1 (Export)	289	171	45.8	40.9

Source: OCAC

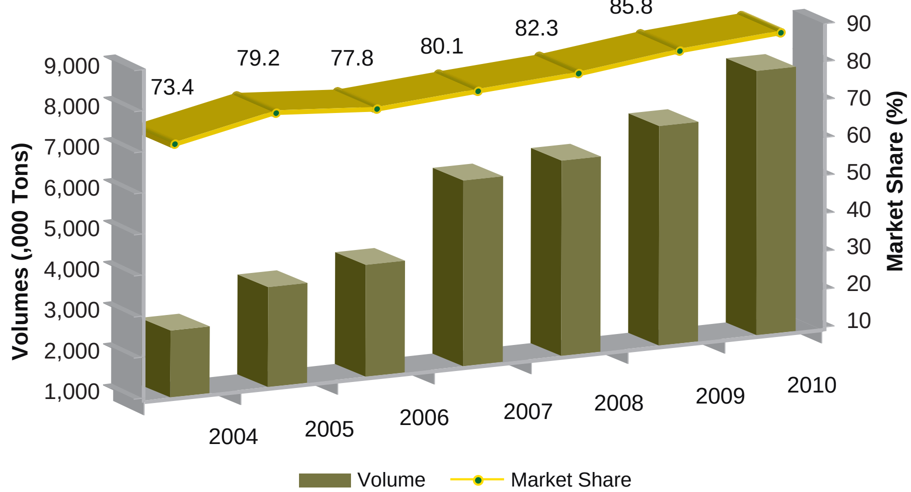
Total Liquid Fuel Sales



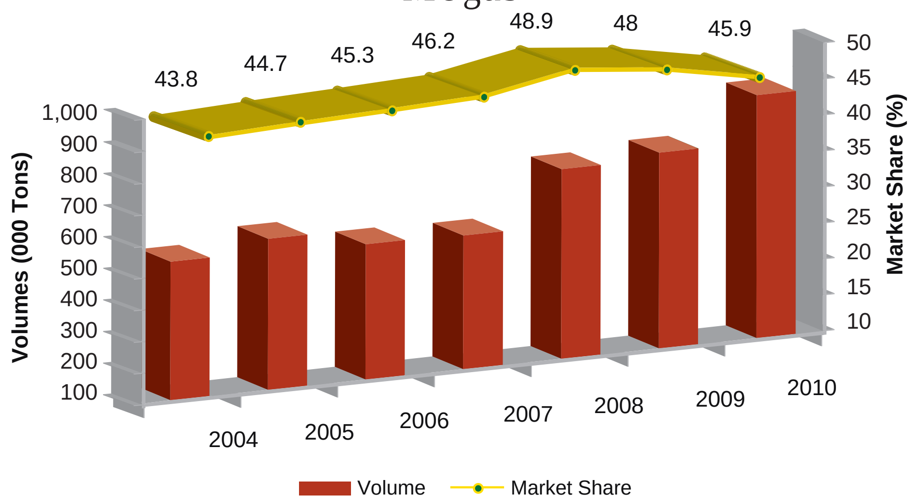
White Oil



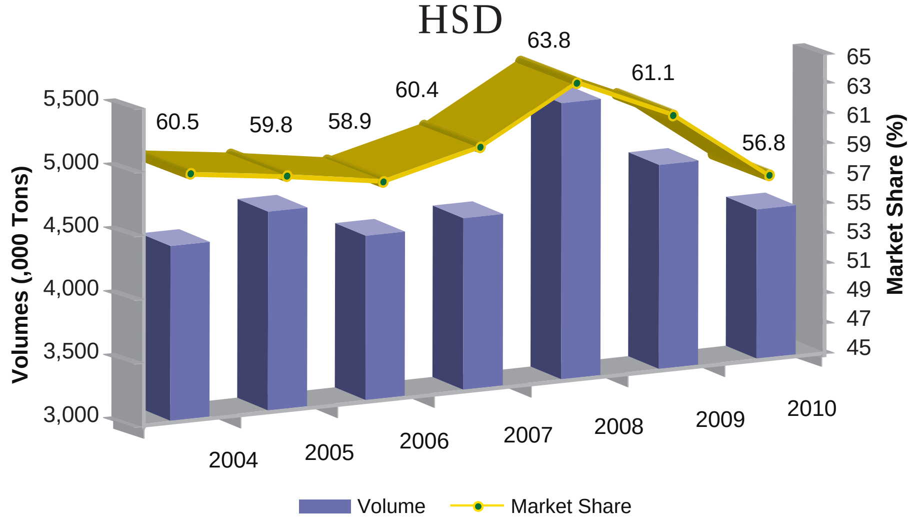
Black Oil



Mogas



HSD



Key Achievements

Supply

PSO has over 90% share in import of deficit products in the country. In FY10, more than 11 million tons of products (228 cargoes) were arranged through imports in order to meet the dynamic market demand. PSO imported more than 6.7 million tons of FO, 3.75 million tones of Diesel, 0.44 million tons of Mogas and 0.37 million tons of Jet fuel during the year to cater the surge in demand. Furthermore, 2.96 million tons were arranged from the local refineries in FY10.

Logistics

The company successfully managed to maintain an uninterrupted and timely flow of POL supplies to all retail and industrial customers despite enormous logistical challenges and constraints. In the period under review, your Company moved 9.96 million tones of POL products. New all-time high records of supplies were made, with highest-ever volume of FO 1.03 million tones moved in a month i.e. May. The demand-supply balance was maintained through well-coordinated and integrated efforts of all components of the supply chain and with support of PSO's cartage contractors and Pakistan Railways.

To enhance efficiency of oil transportation, 6 training sessions were arranged during FY10 which benefited 600 drivers and improved their professional skills.

Being fully aware of its stakeholders valuable contributions towards efficient supply chain, PSO also provides life insurance cover of Rs. 300,000 to all PSO drivers and cleaners of tank lorries. In FY10 only one accident was reported.

Operations

During FY10, your Company focused on making operational activities more economical, efficient and customer-oriented. The company faced stiff challenges in terms of highest ever POL demand and successfully managed its customers needs, specifically the huge Fuel Oil demand of the power sector. With relentless efforts by the workforce at operating locations, un-interrupted supplies were made round-the-clock to meet the customers' fuel needs to save the country from the black-outs.

In the reported period, your Company efficiently managed inventory efficiently and benefited the bottom-line by proficient handling of products at various depots/locations. Furthermore, your Company enhanced the loading facilities at Shikarpur Terminal and Keamari Terminal 'B'. In FY10, your Company increased the Fuel Oil throughput by 20% as compared to last year to meet emergent demand in Energy Sector.

In FY10, smooth operations were managed to ensure un-interrupted supplies despite the vulnerable security situation in the northern region. During the recent military excercises of "Azm-e-Nau" conducted by the Pakistan Army, full support and cooperation was extended by your Company in terms of smooth and uninterrupted fuel supply.

During the period under review non-IFEM Locations including Daulatpur, Sahiwal, Faqirabad and Kotlajam were made available for operational activities at a very short notice.

In FY10, Zulfiqarabad Oil Terminal acquired IMS certification. Furthermore, surveillance audits of ISO 9001:2000 were carried out at Keamari Terminal-A, B, ZOT, Shikarpur, Sihala, Mehmoodkot, Machike, Tarujabba, Chakpirana, Lalpir, Vehari, Faisalabad & Quetta.

During the year ended June 30, 2010, your Company reported the following operational milestones:

- Highest filling of LSFO through Tank Lorries and Tank Wagons i.e 8529.91 MTs on 01st May 2010 from Keamari Terminal 'B'.
- Highest HSFO dispatches from Zulfiqarabad Oil Terminal Complex through Pipeline, Tank Lorries and Tank Wagons i.e. 563,480 MTs in the month of April 2010.
- 13618 K.Ltrs of HSD were filled in a day i.e on 20th April, 2010 at Mehmoodkot terminal.
- Highest filling of PMG i.e 1028 K.Ltrs. was reported in a single day on 01st March, 2010 at Vehari
- Highest filling of PMG in a day at Faisalabd depot i.e. 1027 KL on 01st Jan, 2010.
- Highest ever volume i.e. 354,069 M.Ts of LSFO/HSFO/HSD were handled in a month of July 2009 at Lalpir depot.

Retail Business

Your company achieved an impressive sales volume of 0.89 million MTs of Mogas and 4.2 million MTs of HSD in FY10.

The Company successfully tested and launched E-10 Gasoline at more than 70 outlets in Sindh and Punjab provinces during FY10. E-10 is a blend of ethanol and gasoline, which consists of 10 percent ethanol dissolved in normal gasoline. This initiative is in line with the government's strategy to promote alternate energy resources. This fuel will not only help the country in reducing its import bill in coming years but is also providing motorists with an economical fuel option.

Ethanol, a byproduct of molasses through distillation, would not only be comparatively cheaper but will also enhance performance of the engine through lead removal.

Consumer Business

In FY10, your company outperformed its previous year's sales record in furnace oil registering a growth of 18% as compared to last year translating into sales of 8,221,409 MTs sales of Furnace Oil. Similarly sales targets of HSD and SKO were surpassed by 23% and 6% respectively.

Fuel Supply Agreements were signed with M/s PEPCO/GENCO (III) (for a period of 15 years) and with M/s KESC (for a period of 10 years). The agreement with GENCO (III) will secure FO volumes of 2 to 2.3 million MTs (70-73%) of total PEPCO/GENCO fuel oil requirement. In addition, the Company continued its dominating streak in winning tender business of major Govt. Entities including two Army tenders for Al Meezan with combined volumes of 7,743 MTs MOGAS, 31,357 MTs HSD and 9,201 MTs SKO. Fuel Supply Agreement was also signed with M/s Techno Power (150) MW (Rental Power Project) for period of 3 years.

In the period under review, your Company entered into Sales Purchase Agreement with M/s Chevron Pakistan Limited and M/s Bakari Oil Trading Company for the supply of POL products for a period of two years. FWO and NLC contracts for supply of black oil were extended uptil 2011.

Lubricant & Agency Trade

During the period under review, Lubricants market share has increased to 26.6% as compared to 23.3% in the last fiscal year. Your company's lubricants maintained the market leader position in the sugar industry segment with 60% share. Different trade incentive schemes were launched during the year that offered free product and discounts to channel members.Your company won the lubes tender for Pakistan Railways and Pakistan Army for supplying 3680 Kls and 462 Kls respectively.Your company also appointed distributors in Hi-Street to enhance lubricants sales.

Furthermore, lubricant sales were made of 6170 Kls to tender customers including Pakistan Army, Pakistan Railways, OGDC, NLC, FWO, Pakistan Steel Mill and DG Agriculture.

Cards

During FY10, your Company largely witnessed the consolidation, financial viability and streamlining of the overall Cards Business, focusing mainly on the potential, credit-worthy customers, generating a significant growth of 18% in terms of sales turnover as compared to the previous year. Despite the financial turmoil confronting the nation's economy, the revenue from Cards business recorded a phenomenal growth of over 134% in the current fiscal year. While in financial terms, the business reduced the overall credit exposure by 19%. Now that the Cards Business has stabilized since its inception eight years ago, a number of strategic alliances coupled with further enrichment of technology-driven initiatives, would mark the year ahead.

Gaseous Fuels

Your Company maintained its leadership position in the CNG industry too in the period under review. It has a market share of 22% in current fiscal year 2010. PSO has shown growth of 13% in FY10 against industry growth of 11% as compared to FY09.

In order to ensure "Zero incident" at PSO CNG stations, your Company arranged series of CNG Technical Training Seminars in Multan, Lahore, Karachi and Islamabad in FY10 for the Divisional Engineers and the business partners (PSO CNG operators). The core focus of these technical training sessions is the Safe operations and maintenance of CNG stations.

Moreover, in order to encourage safe use of CNG in Pakistan, your Company carried out "CNG Customer Awareness Campaign" as a step to make this industry safe for general public.

In order to attract consumers towards PSO CNG stations; CNG Customer Care Days were celebrated at PSO CNG stations in FY10.

On the LPG front, in FY10 all four PSO LPG Plants and LPG Head Office were certified on QMS ISO 9001: 2008. This certificate of ISO 9001:2008 Quality Management Systems for LPG Business is in line with the industry requirement for compliance to national and international standards. Customers will benefit from this certification by receiving products and services that are in conformance to the international standards.

Aviation & Marine

In FY10, despite the acute shortage of Jet Fuel throughout the country, your Company managed to retain its market share of 66% by delivering 442,340 MTs of Jet A-1 which is 7% more as compared to last year's volume. Your Company successfully completed the pre and post Hajj operations and registered upliftment of 15,326 MTs of Jet fuel by fueling 531 flights.

In exports business, your Company exported 292,035 MTs of JP-8, 70% more as compared to last year's volume.

Non Fuel Retail (NFR)

Tight retail fuel margins make the contribution from non-fuel products and services crucial to retail site profitability due to stiff competition in the fuel business; PSO NFR has taken long term steps to facilitate the customers by providing convenience and services at our Retail outlets which distinguishes them from the competitors.

Your Company and Wall Street Exchange Company (WSE) have entered into an agreement whereby WSE will be establishing payment booths at selected PSO retail outlets located throughout Pakistan. Through this venture, both PSO & Wall Street will facilitate disbursement of Home Remittances to a large population through PSO retail outlets.

In FY-10, your Company has established an exclusive merchandising alliance with Pepsi Cola International for PSO Shop Stops. This is in congruence with the Company's strategy to garner royalties from prominent brands being displayed in PSO Shop Stops. Under this arrangement, PSO and Pepsi will launch promotions for the end consumers as well as trade schemes for PSO Shop Stop franchises.

New Business Development

In pursuance of directives of the President of Pakistan for the popularization of biofuel crops in the farming community, your Company submitted a detailed report to the relevant Government agencies in the review period.

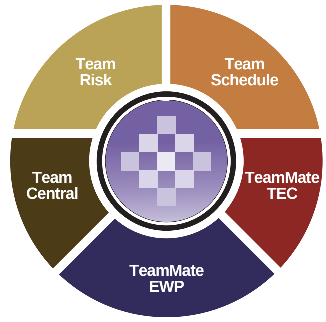
The Company signed MOU with NUST and Ghulam Ishaq Khan university for research work on biodiesel impact on diesel engines' performance.

MOU with KPT was signed and Terms of Reference were finalized during the period under review for conducting feasibility study to connect Keamari Port with Port Qasim through a pipeline.

In FY10, your Company completed study for optimization of current infrastructure at Port Qasim. This would enable enhancement of imported petroleum products handling capacities of FOTCO Jetty and PSO pipeline infrastructure.

In addition to the above, your Company made significant advancement in looking into the possibility of using used vegetable oil in blending of Bio Diesel.

Internal Audit



In FY10, Internal Audit Department at PSO took an initiative and embarked upon the project of implementing an award-winning Audit Management System – CCH TeamMate already being used by more then 1800 organizations worldwide. CCH TeamMate streamlines and integrates every facet of the internal audit process system. From risk assessment to scheduling to report generation and more. It also facilitates the key stakeholders/auditees to provide updates on the audit observation through web integration. By providing an integrating, paperless strategy for managing audits, TeamMate will eliminate the barriers associated with paper-filled binders and disconnected electronic files, driving efficiencies into all facets of the internal audit workflow.

Procurement & Services (P&S)

PSO has a comprehensive Procurement Policy that provides guidelines to ensure competitive bidding through a very transparent procedure without compromising on quality of required goods and given timeline.

In quest of professional excellence, P&S Department is striving for continual improvement in the procurement processes to cope with the present challenging environment where strategic procurement is as important as strategic selling.

In quest of strengthening the vendor base, during FY10, your Company completed pre-qualification of vendors for 30 categories. Furthermore to improve the purchasing process, negotiation teams were formulated which played an integral role in achieving win-win situation for the buyer and the vendors.

Through negotiations, your Company has not only realized cost effectiveness but also acquired benefits in buying terms as well which include warranties, spare parts and other terms. In FY10 your Company continuously checked the authenticity of prices or various materials and services given in purchase requisitions by the vendors through regular market visits.

Total Quality Management (TQM)

In its pursuit to bring significant operating efficiencies and achieve the highest level of customer satisfaction, the company has been focusing on TQM. In the period under review, your Company established Mobile Quality Testing Units (MQTUs) for Quetta division for effective monitoring of product quality and quantity at Retail Outlets. In FY10, MQTUs were equipped with ASTM Color & RON Analyzers at 05 locations resulting in improvement of the testing capabilities. Furthermore; a new method was developed in the period under review to detect the alcoholic contents in Motor Gasoline at Retail Outlets and Storage Points.

In FY10, your Company's TQM department developed several new lubricant blends. Moreover, Bio-Diesel Formulation and Furnace Oil blending was carried out. The new formulation for LDO blend was also developed in FY10.

Human Resource Management

PSO is fully aware of the fact that its significant growth and success is an outcome of the contributions and commitment of the company's greatest asset which is its human resource. The attraction, preservation and development of high caliber people are a source of competitive advantage for the business and your company is fully focused on this important aspect.

In FY10 your Company revised car loan and house rent advance policy to facilitate its employees. Furthermore a day care center was established to create work-life balance for employees.This initiative played a significant role in contributing to the retention of female employees.

Training & Development

Being fully aware of the importance of training, PSO has been making a sizeable investment in ensuring that employees' skills are developed to bring them at par with the organization's professional requirements and enhance their personal capabilities.The management is focusing on capacity building of the human asset of your Company.Through various in-house and external courses and seminars, PSO is providing its employees opportunities for continuous development and learning.

A proper Training Need Analysis was conducted in FY10. During the period under review 113 in-house customized training sessions were conducted and employees were nominated to attend 85 public sessions as part of the training schedule of the Company which benefitted 2,691 employees, nationwide. These trainings focused on marketing and sales, teamwork, general management, leadership , communication , quality management, supply chain management, quality and quantity control of cargo & tank systems, customized training for sales, operations and logistics staff.

The Company has been facilitating Universities by providing learning based professional internship programs during summer and winter vacations by giving them projects for professional experience. During FY10, 400 students joined PSO as interns.

Health Safety & Environment

Your Company has always considered safety as investment. At PSO, safety is considered as a prime concern and given due priority. We believe that all accidents/ incidents are preventable and our first aim is excellence in HSE standards in all PSO businesses.

Reportable injuries and incidents analysis reflect the performance of an organization with respect to work place safety during the reported period. The under mentioned results indicate your Company's performance in safety:

- The Company achieved 1,179,316 Safe Operational Man-hours during FY10 without any Lost Work Day (LWD) injury.
- The Incident Rate remains at 1.01 Man-hours during this period.

Furthermore, HSE Champion program in FY-10 was launched to create a culture of safety at work place.

Corporate Social Responsibility

During FY10, the company extended help to society in three major areas i.e. education, health care and community building.

Being a conscientious corporate citizen, the company came to the aid of our compatriots hit by the deluge in Hunza by providing free life saving medicines to the Attaabad Landslide victims.

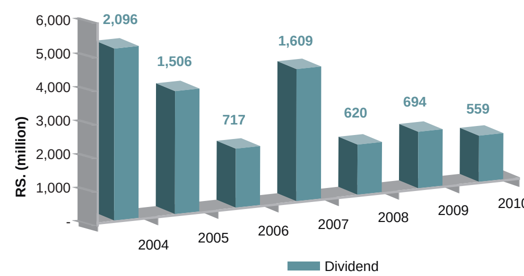
During FY10 the company financially supported several NGOs to enable education to reach to the under privileged, nationwide. With the help of TCF, PSO built schools in earthquake affected areas i.e Nokot, Gulibagh Batang and Vehari. PSO also supported Aziz Jahan Begum trust in the construction of a residential complex for visually impaired children.

In FY10 the company supported many health care institutions through donations, prominent among which are Negahban Welfare Trust (Civil Hospital, Karachi), Kohi Goth Hospital, Indus Hospital, Shikarpur Hospital for Women & Children and Marie Adelaide Leprosy Center in Gawadar.

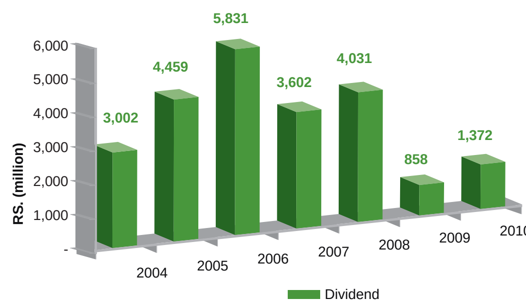
FINANCIAL PERFORMANCE

For the year ended June 30, 2010, the Company achieved an impressive performance with turnover touching the Rs. 877 billion mark compared to Rs. 719 billion in FY09, an increase of 22% mainly due to heavy reliance of the power sector on PSO for the supply of Furnace Oil. During FY10, profit before tax was recorded at Rs. 17.96 billion versus a loss of Rs. 11.35 billion last year and profit after tax at Rs. 9.05 billion against a loss Rs. 6.69 billion registered in previous financial year. The earning per share was Rs. 52.76 versus loss per share of Rs. 39.05 last year.

Capital Expenditure



Dividend Payout



Dividends and Other Appropriations

Based on these results, the board announced a dividend of Rs. 5 per share. Combined with the earlier interim dividends aggregating Rs. 3 per share, the total dividend for the year stood at Rs. 8 per share translating into a total payout of Rs. 1.37 billion to the shareholders.

Contribution to National Exchequer

During FY10, PSO contributed Rs.175 billion to the government exchequer in the form of corporate taxes, excise duty, sales tax, import duty and petroleum development levy (PDL).

Circular Debt

Despite being profitable, the Company continued to face liquidity problems due to ever-increasing receivables throughout FY2010. As of June 30, 2010, various major power generation companies including WAPDA, KAPCO, HUBCO and KESC and the PIA (Pakistan International Airlines) owe your Company an aggregate amount of Rs. 111 billion. On account of PDC, GoP owes Rs. 11.86 billion. This has created such an acute financial crunch that we have to struggle to meet our import payments. Consequently, the Company owed Rs. 81 billion to local refineries and hence had to rely on short-term borrowings for its needs.

Financial Charges

The heavy bank barrowings resulted in high financial costs borne by the Company in terms of interest payments, which dented your Companyís profit margins. The Company ended up incurring Rs 9.88 billion as financial charges during FY10 as compared to Rs. 6.2 billion as financial charges in FY09.

Pak Rupee Devaluation

In addition to heavy financial charges borne by your Company, Pakistan Rupee devaluation of 4.9% against the US$ also adversely affected the profitability of the Company as more than 90% of oil product imports in the country are carried out by PSO.

Strategy to Overcome Liquidity Problems

The management of PSO has formulated various strategies to overcome the liquidity problems. These include rigorous monitoring of the net working capital position of the Company to ensure that current asset - current liability maturities are adequately matched with temporary mismatches being covered through short-term borrowings. In addition, all out recovery efforts were made throughout FY10 to ensure availability of products in the country. As a result of these measures, the Company received Rs. 377 billion from the power sector and Rs 5.5 billion on account of PDC from GoP.

Other Matters

We would like to draw your attention to the following notes in the financial statements which contain the information and explanations to matters highlighted by External Auditors in their Audit Report:

- Note 12.2 - Over due balance of Rs 22,676 million from power generation companies.
- Note 15.1 - Import price differential aggregating to Rs 1,465 million receivable from GoP.
- Note 15.2 - Import price differential on motor gasoline aggregating to Rs 3,049 million receivable from GoP.
- Note 15.5 - Price differential between the products Low Sulphur Furnace Oil (LSFO) and High Sulphur Furnace Oil (HSFO) aggregating Rs 3,407 million receivable from GoP.
- Note 25.1.2 - Appeal filed in Supreme Court of Pakistan against the order of the High Court of Sindh with respect to tax liability of Rs 958 million in respect of Assessment years 1996-97 and 1997-98.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

PSO Board of Management is fully cognizant of its responsibility as recognized by the Code of Corporate Governance issued by the Securities & Exchange Commission of Pakistan (SECP). The following are the comments on acknowledgement of PSO's commitment towards high standards of Corporate Governance and continuous improvement:

- The financial statements, prepared by the management of the company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements except for the changes as described in note 2.5 of the financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure, if any, has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the company's ability to continue as a going concern.

- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data of last six years in summarized form is annexed.
- The following is the value of investment of provident and pension funds based on their respective unaudited accounts as on 30 June 2010:

	Rs Million
PSOCL Management Employees' Pension Fund	1,571
PSOCL Workers' Staff Pension Fund	966
State Oil Co Ltd Staff Provident Fund	1,100
State Oil Co Ltd Employees' Provident Fund	750
PSOCL Employees' Gratuity Fund	793

- During the year, 8 meetings of the Board of Management were held and the attendance by each member is given on Page 122.
- The pattern of shareholding is annexed.

ASSOCIATED COMPANIES

Asia Petroleum Limited (APL)

APL was incorporated in Pakistan as an unlisted public limited company on July 17, 1994. The Company has been principally established to transport Residual Fuel Oil (RFO) to the Hub Power Company Limited (HUBCO) at Hub, Balochistan. For this purpose, the Company laid an underground oil pipeline starting from Pakistan State Oil Company Limited (PSO) Zulfiqarabad terminal at Pipri to HUBCO at Hub. PSO holds a 49% equity stake in APL.

Pak Grease Manufacturing Company (Private) Limited (PGMCL)

PGMCL was incorporated in Pakistan on March 10, 1965 as a private company. The principal activity of the Company is to manufacture and sell petroleum grease products. PSO holds a 22% equity stake in PGMCL.

OUTLOOK AND CHALLENGES

Since its inception, Pakistan has always been an energy deficit country. Your Company has been meeting energy challenges for Pakistan despite the limited domestic refining capacity resulting in import of crude and refined products. It is expected that future energy demand in the country will continue to grow owing to expected natural gas constraints specifically for power generation sector.

Your Company is geared to continue to ensure product availability to all sectors of the economy. Your Company will continue to import the deficit products in a cost effective and timely manner. Additionally, your Company plans to acquire a refinery as part of its backward integration strategy to develop a confirmed supply source and reduce reliance on imports.

The Circular debt crisis held your Company back in FY10 and it had to shelve its plans for its brand repositioning, capacity-building, enhancement of the storage network and the improvement of its customer care services. Moreover, other investment and expansion projects have been withheld due to mounting circular debt. In the current fiscal year, PSO shall focus on improving service at its retail outlets and promoting the environment-friendly ethanol based gasoline i.e. E-10. By the end of 2010, your Company plans to have E-10 available at 100 outlets across the country.

Your Company shall continue to embark upon various initiatives aiming at sustainable earnings by focusing on Non Fuel Retail business and establishing LPG auto gas filling facilities.

Furthermore, the Company plans to augment its storage infrastructure to meet the future oil demand. We have already chalked out a development / up gradation plan for key storages in line with future Furnace Oil demand for IPPs.

Your Company is also working on a scoping study to connect Keamari with Port Qasim through a white oil pipeline. It is expected that efficiency and flexibility shall be increased manifold if these two ports are connected to each other through an integrated pipeline system.

IFEM deregulation awaits implementation, and if so implemented would certainly change the market dynamics. Your Company is expected to benefit from this deregulation with the largest distribution network in the country. This would result in empowering your Company to set market prices and increase its market share in the southern Region/ Sindh. However, Punjab would continue to remain a competitive region.

Your Company is fully aware of its struggling lubricant performance and is about to relaunch an improved range of the Carient and Deo Lubricants range. In the current fiscal year, the Company intends to focus strongly on its lubricants brand equity with aggressive marketing efforts supported by print and electronic media and other below the line activities to enhance the brand experience.

Your Company will also continue to maintain its focus on its cards business so as to lock-in corporate and fleet customers. PSO believes that the future growth lies in innovation, highest level of customer service and diversification into new business areas.

Being fully aware of the global trend in development of alternative and renewable energy resources, the Company has already initiated research and development work on bio-diesel and tests are in advance stages to blend it with conventional diesel.

The management of your Company shall remain committed to bring transparency to the organisation which remains a big challenge for the state-run institutions.

Your Company shall continue to invest on human capital, capacity building, training programs, skill development, succession planning as well as health, safety and environment.

We would like to take advantage of this opportunity to thank our business partners and those who continue to steer the Company forward with their support and conviction. We owe a special gratitude to the Government of Pakistan, especially the Ministry of Petroleum & Natural Resources and the Ministry of Finance, for their unwavering support throughout the fiscal year. As we continue our journey towards achieving bigger and better milestones, we look forward to another year of accomplishment and to creating more value for you, our shareholders, whilst working to meet and exceed the country's growing demand for energy.

Irfan K. Qureshi
Managing Director

Nazim F. Haji
Chairman

August 6, 2010

Notice of Annual General Meeting

Notice is hereby given that the Thirty Fourth Annual General Meeting of the Company will be held at Pearl Continental Hotel, "Marquee Hall", Club Road, Karachi on Wednesday, September 29, 2010 at 10.00 a.m. to transact the following business:

Ordinary Business

1. To confirm the minutes of the Thirty Third Annual General Meeting held on September 29, 2009
2. To receive and adopt the audited accounts for the year ended June 30, 2010 together with the Report to the Shareholders and Auditors' Report thereon
3. To lay information before the members of the Company of the appointment of M/s M.Yousuf Adil Saleem & Co. and KPMG Taseer Hadi & Co., Chartered Accountants, as auditors of the Company, for the year ending June 30, 2011
4. To approve final cash dividend for the financial year ended June 30, 2010, at the rate of Rs. 5/- per share, equivalent to 50%.This is in addition to already paid interim dividend at Rs. 3/- per share i.e 30%

   AND
5. To transact any other Ordinary Business of the company with the permission of the Chairman.

By Order of the Board
Mir Shahzad K.Talpur
Company Secretary
Karachi: August 23, 2010

Notes:

a. A member entitled to attend and vote at this meeting may appoint any other member as his/her proxy to attend and vote.

b. The Share Transfer books of the company will remain closed from 22nd September 2010 to 29th September 2010 (both days inclusive). Transfers received in order at the office of Company's Share Registrar, M/s THK Associates (Pvt.) Limited, State Life Building-3, Dr. Ziauddin Ahmed Road, Karachi up to the close of business on 21st September 2010 , will be considered in time for transfers.

c. The instrument appointing a proxy and the power of attorney or other authority under which it is signed or a notarially attested copy of power of attorney must be deposited at the registered office of the company at least 48 hours before the time of the meeting.

d. Members are requested to notify changes immediately, if any, in their registered addresses to our Share Registrar, M/s THK Associates (Pvt.) Limited.

e. CDC Account Holders will further have to follow the under mentioned guidelines as laid down in Circular 1 dated January, 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

A. For attending the meeting:

i) Individuals, the account holder or sub-account holder shall authenticate his/her identity by showing his/her original Computerized National Identity Card (CNIC) or original passport alongwith Participants ID number and their account number at the time of attending the meeting.

ii) In case of corporate entity, the Board of Directors resolution/power of attorney with specimen signature of nominee shall be produced (unless it has provided earlier) at the time of the meeting.

B. For appointing proxies:

i) In case of individuals, the account holder or sub-account holder shall submit the proxy form as per the above requirement.

ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC number shall be mentioned on the form.

iii) Attested copies of CNIC or the passport of the beneficial owners and of the proxy shall be furnished with the proxy form.

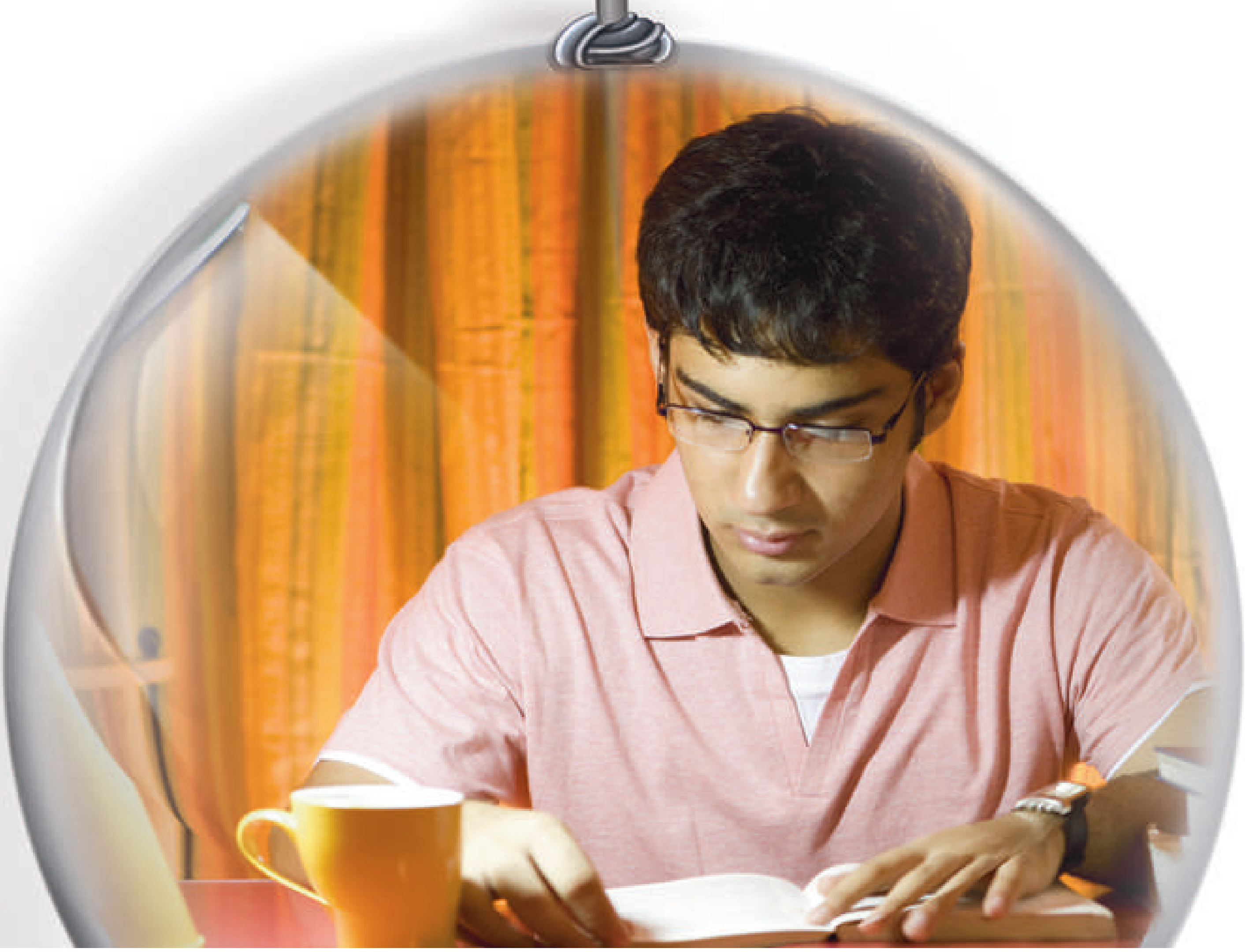
iv) The Proxy shall produce his/her original CNIC or original passport at the time of the meeting.

v) In case of a corporate entity, the Board of Directors resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the company.

Brightening
the Future!

Being the sole furnace oil supplier to the power sector of Pakistan, PSO is dedicated to keep the country lit up.

Energizing the Nation

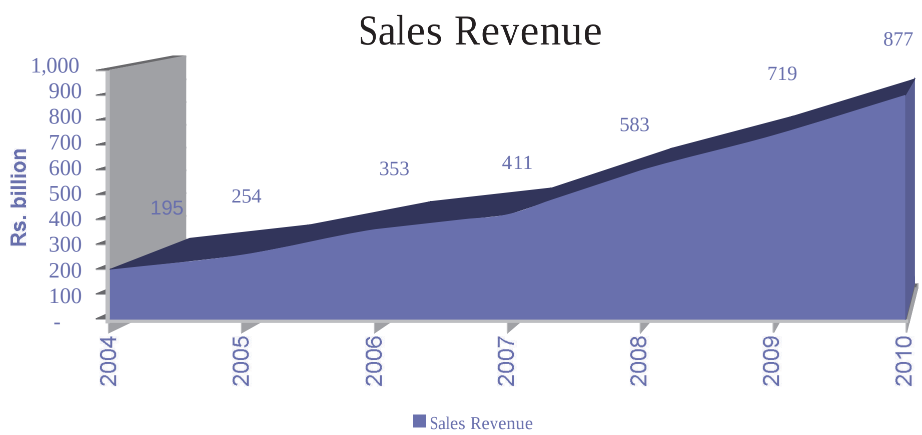


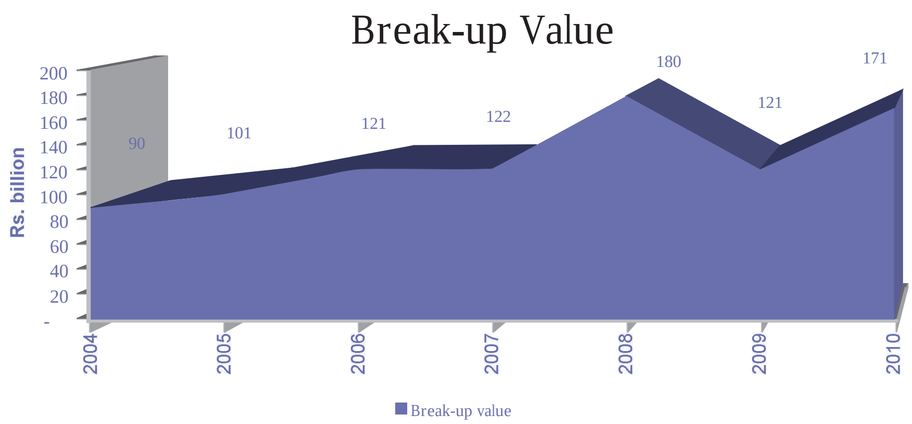
PSO at a Glance

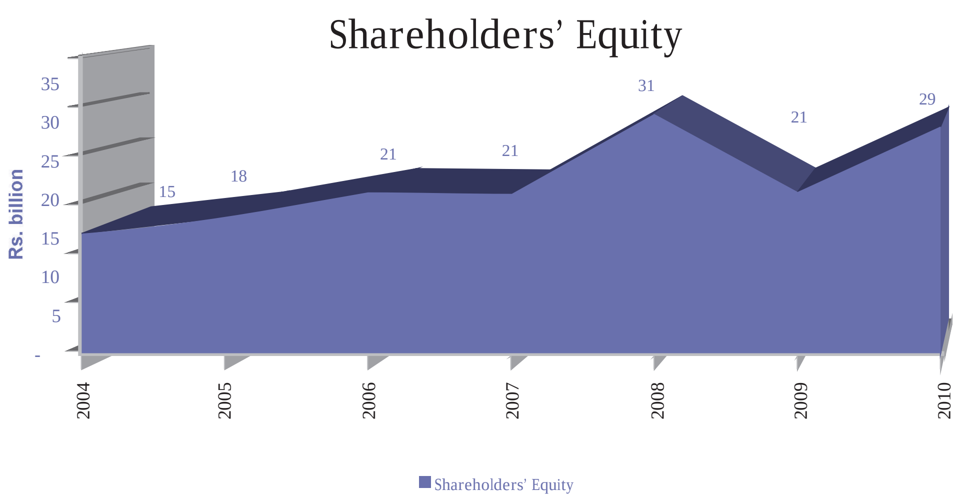
Rupees in Million (unless noted)

		2010	2009	2008	2007	2006	2005	2004
Sales Volume (Million Tons)		14.2	13.2	13.0	11.8	9.8	9.7	8.6
Profit & Loss Account								
Sales Revenue		877,173	719,282	583,214	411,058	352,515	253,777	195,130
Net Revenue		742,758	612,696	495,279	349,706	298,250	212,504	161,538
Gross Profit		29,166	3,010	30,024	12,259	17,207	13,746	9,191
Operating Profit / (Loss)		27,329	(5,577)	22,451	7,950	11,264	9,340	6,452
Marketing & Administrative Expenses		5,181	5,113	4,425	3,748	3,428	3,219	2,654
Profit / (Loss) before Tax		17,963	(11,357)	21,377	7,122	11,418	9,191	6,263
Profit / (Loss) after Tax		9,050	(6,699)	14,054	4,690	7,525	5,656	4,212
Earning / (Loss) before Interest, taxes, depreciation & Amortization (EBITDA)		29,028	(3,983)	23,912	9,420	13,385	10,546	7,243
Capex		559	694	620	1,609	751	1,506	2,096
Balance Sheet								
Share Capital		1,715	1,715	1,715	1,715	1,715	1,715	1,715
Reserves		27,621	19,156	29,250	19,224	19,098	15,830	13,731
Shareholders' Equity		29,336	20,871	30,965	20,939	20,813	17,545	15,446
Property Plant & Equipment		6,411	7,056	7,567	8,138	7,674	8,256	7,738
Net current assets		23,298	8,666	22,143	11,128	10,978	7,970	6,309
Long Term Liabilities		2,836	2,528	2,409	2,412	2,299	1,999	1,636
Profitabiltiy Ratios								
Gross Profit ratio	%	3.3	0.42	5.1	3.00	4.9	5.4	4.7
Net Profit / ratio	%	1.0	(0.93)	2.4	1.1	2.1	2.2	2.2
EBITDA margin	%	3.31	(0.55)	4.1	2.3	3.8	4.2	3.7
Return on Shareholders' Equity	%	30.8	(32.10)	45.4	22.4	36.2	32.2	27.3
Return on total assets	%	4.5	(4.37)	11.1	6.30	10.7	10.8	9.9
Return on capital employed	%	31.1	15.47	68.1	35.4	54.1	48.9	40.8
Asset utilisation								
Inventory turnover ratio	(x)	14.37	11.83	10.1	11.7	11.5	11.2	13.1
Debtor turnover ratio	(x)	8.9	12.57	24.6	32.5	38.1	39.9	40.1
Creditor turnover ratio	(x)	6.1	6.32	9.6	10.8	12.5	13.5	12.2
Total asset turnover ratio	(x)	4.93	5.13	5.8	5.7	5.8	5.37	5.2
Fixed asset turnover ratio	(x)	130.3	98.38	74.3	52.0	44.3	31.7	27.5
Investment								
Earning per share	Rs.	52.76	(39.05)	81.9	27.3	43.9	33.0	24.6
Market value per share (Year End)	Rs.	260.20	213.65	417.2	391.5	309.0	386.0	256.8
Highest Price	Rs.	342.95	428.79	539.7	418.3	452.3	490.1	316.6
Lowest Price	Rs.	218.33	96.00	317.5	280.5	264.7	239.0	232.8
Break-up value	Rs.	171	121.34	180.0	121.7	121.0	102.0	90.0
Price earning ratio (P/E)	(x)	4.9	(5.47)	5.1	14.3	7.0	11.6	10.4
Dividend per share	Rs.	8.0	5.0	23.5	21.0	34.0	26.0	17.5
Dividend payout	%	15.16	-	28.7	76.8	77.5	78.8	71.3
Dividend yield	%	3.07	2.34	5.6	5.4	11.0	6.7	6.8
Dividend cover ratio	(x)	6.58	-	3.5	1.3	1.3	1.3	1.4
Leverage								
Interest Cover ratio	(x)	2.8	-	16.4	6.9	12.7	25.2	34.1
Current Ratio	(x)	1.14	1.07	1.2	1.2	1.2	1.2	1.3
Quick Ratio	(x)	0.79	0.75	0.6	0.6	0.6	0.6	0.7
Contribution								
Employees as remuneration		3,200	2,872	2,438	2,006	1,857	1,870	1,474
Government as taxes		174,795	161,388	85,208	68,096	58,822	38,823	50,942
Shareholders as dividends		1,372	858	4,031	3,602	5,831	4,459	3,002
Retained within the business		7,678	-	10,000	1,100	1,900	1,230	1,210
Financial charges to providers of finance		9,882	6,232	1,368	1,158	884	371	189

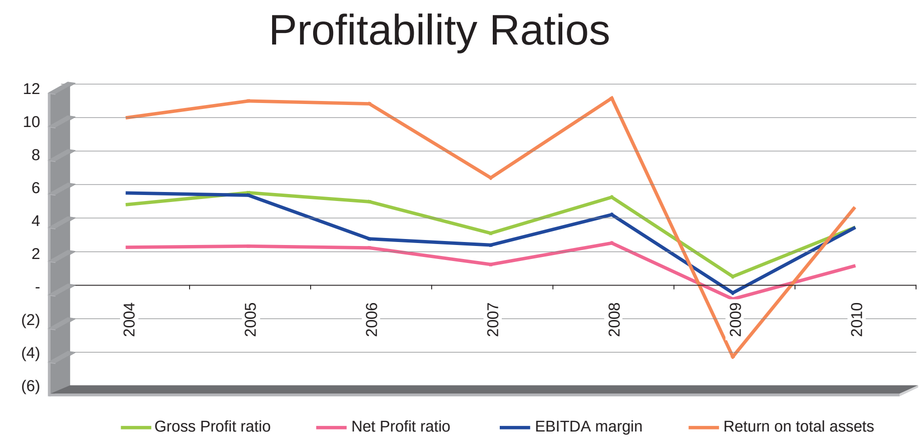
PSO at a Glance

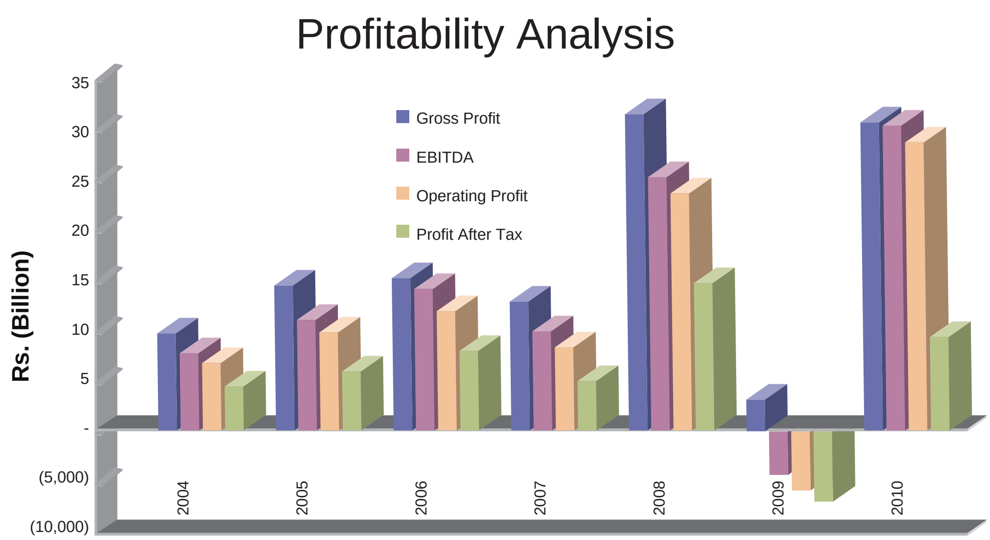


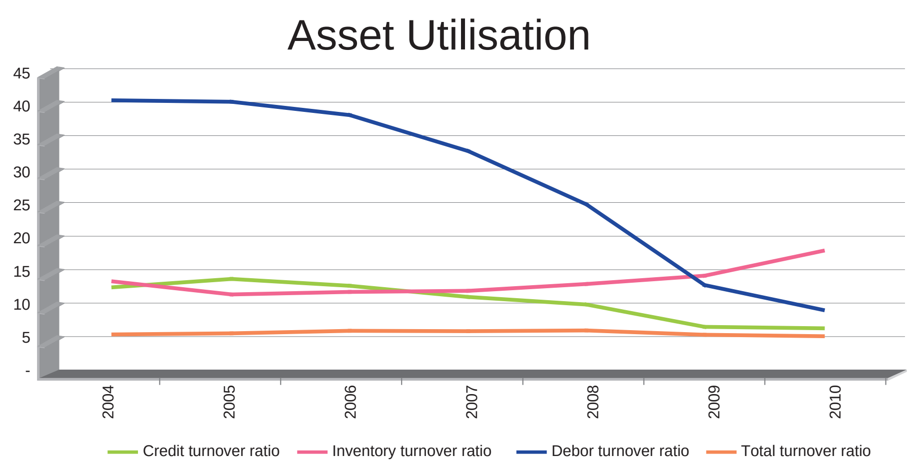




PSO at a Glance



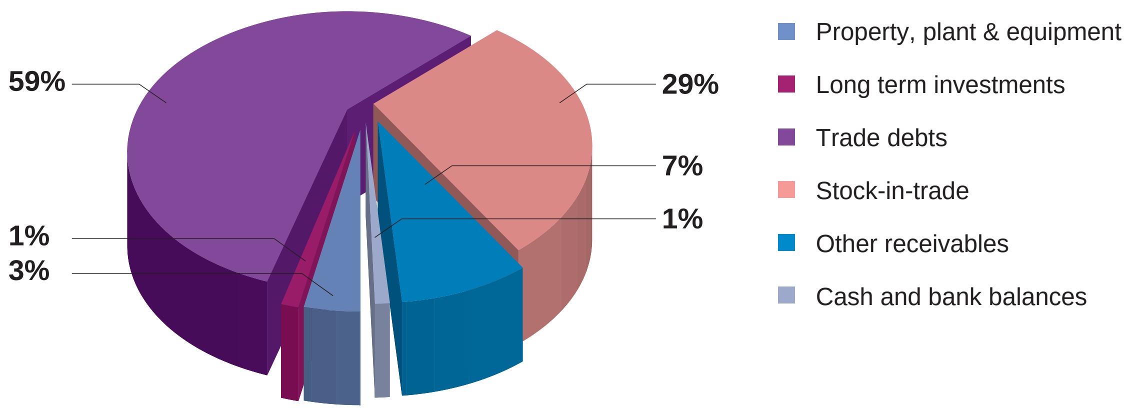




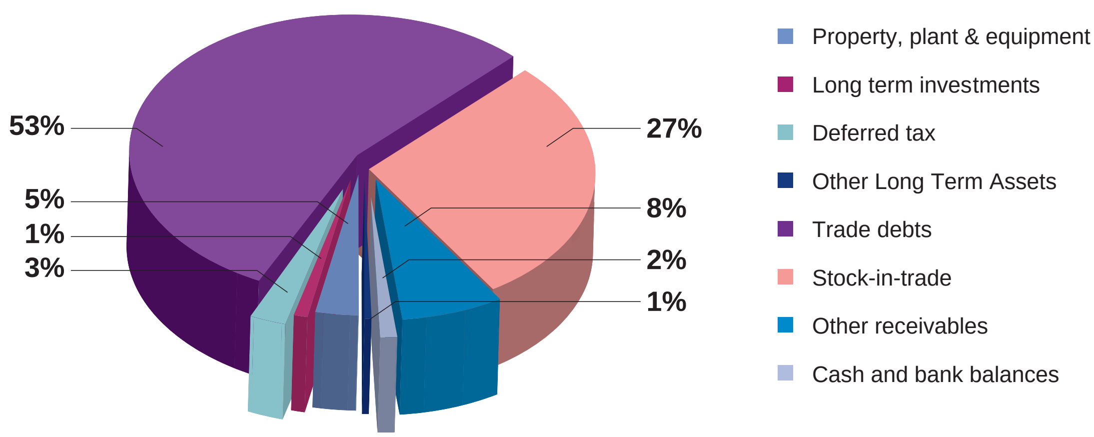
Composition of Balance Sheet

Assets

FY 2010



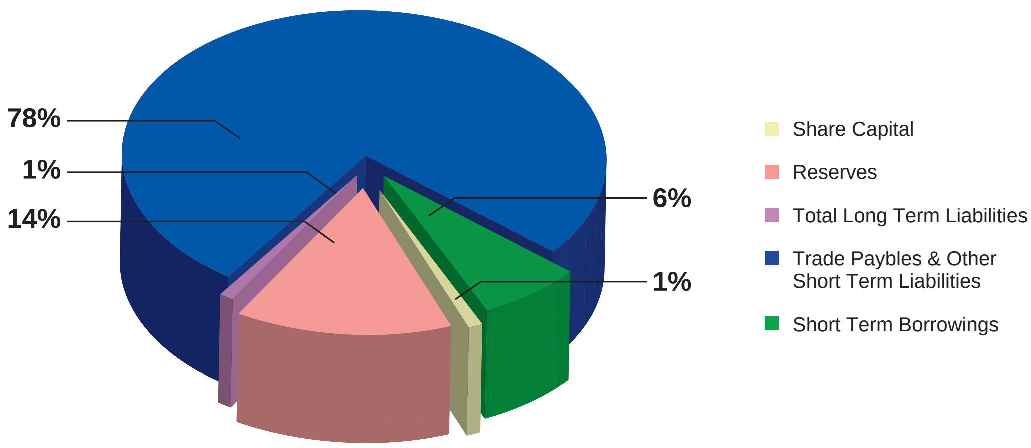
FY 2009



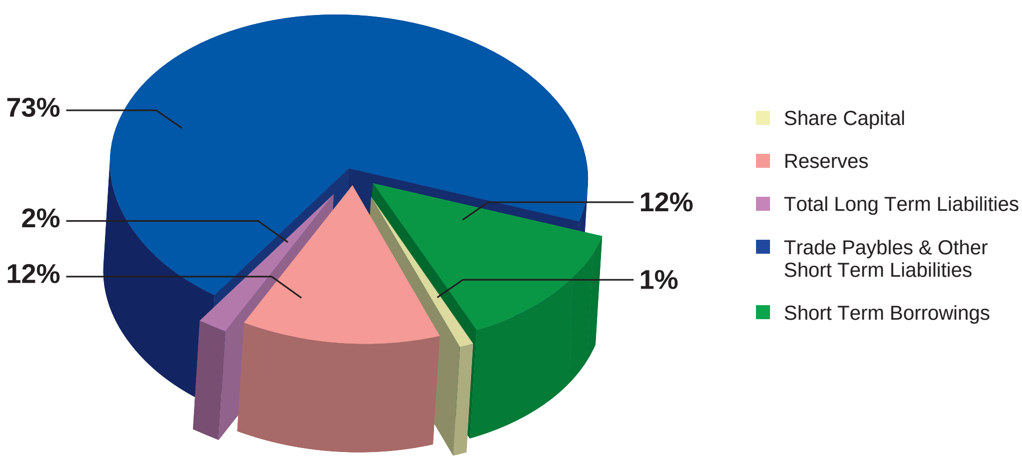
Composition of Balance Sheet

Equity And Liabilities

FY2010

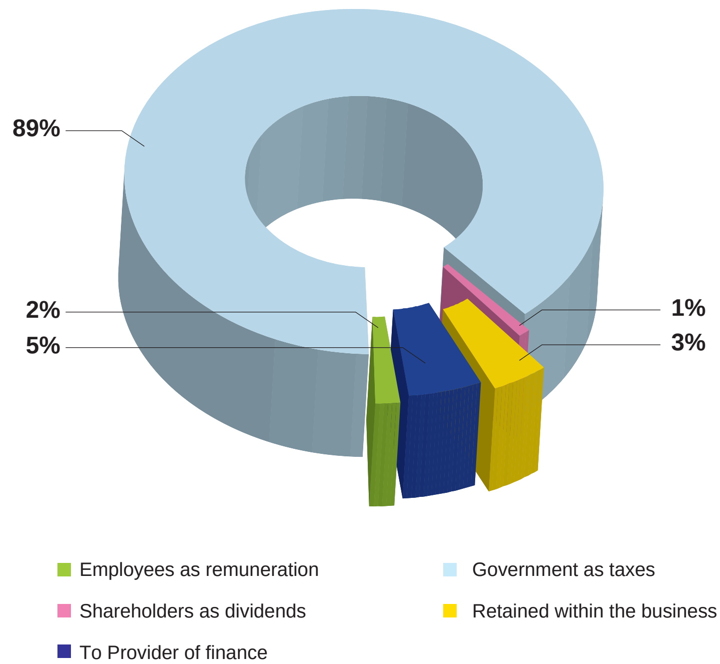


FY2009



Contribution & Value Additions

FY 2010



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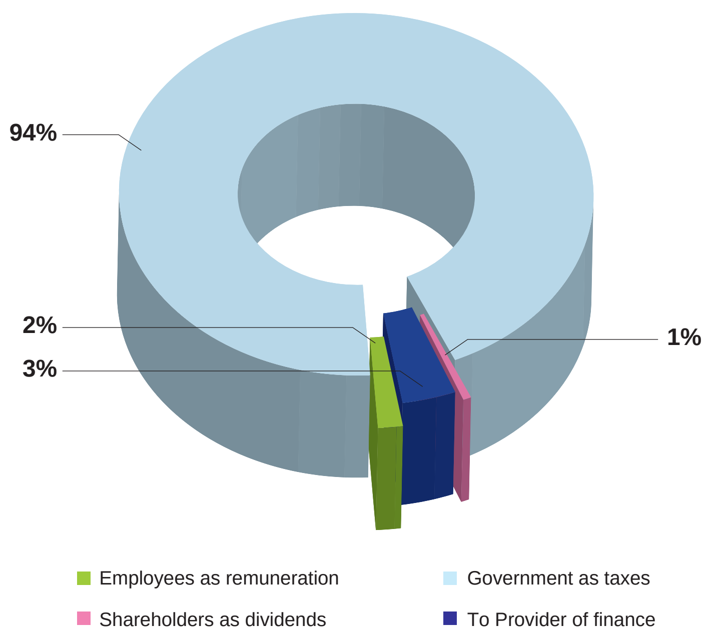

Financial Analysis

Balance Sheet

VERTICAL ANALYSIS	2010	2009	2008	2007	2006	2005	2004
Property, plant and equipment	3.17%	4.60%	5.95%	10.89%	10.94%	15.78%	18.25%
Long term investments	1.00%	1.40%	2.13%	4.00%	4.67%	4.43%	4.40%
Long term loans, advances and receivables	0.16%	0.26%	0.38%	0.84%	0.99%	1.47%	2.15%
Long term deposits and prepayments	0.06%	0.05%	0.06%	0.09%	0.11%	0.20%	0.17%
Deferred tax	0.00%	3.28%	0.32%	0.54%	0.58%	0.24%	0.44%
Total Non-Current Assets	4.39%	9.60%	8.84%	16.36%	17.29%	22.13%	25.40%
Current Assets							
Stores, spares and loose tools	0.06%	0.07%	0.09%	0.17%	0.18%	0.25%	0.45%
Stock-in-trade	28.97%	26.53%	49.06%	39.55%	40.14%	39.35%	35.30%
Trade debts	58.10%	52.48%	26.67%	18.20%	16.70%	12.98%	14.01%
Loans and advances	0.20%	0.27%	0.31%	0.49%	0.39%	0.41%	0.33%
Deposits and short term prepayments	0.18%	0.36%	0.32%	2.12%	1.84%	1.39%	2.34%
Other receivables	7.20%	8.35%	12.34%	21.08%	20.75%	19.80%	17.16%
Taxation - net	0.02%	0.46%	0.00%	0.00%	0.00%	0.00%	1.20%
Short Term Investments	0.00%	0.00%	0.00%	0.00%	0.00%	0.02%	0.07%
Cash and bank balances	0.88%	1.88%	2.37%	2.04%	2.71%	3.67%	3.73%
Total Current Assets	95.61%	90.40%	91.16%	83.64%	82.71%	77.87%	74.60%
Net Assets in Bangladesh	-	-	-	-	-	-	-
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
EQUITY AND LIABILITIES							
Share Capital	0.85%	1.12%	1.35%	2.29%	2.44%	3.28%	4.04%
Reserves	13.66%	12.49%	23.01%	25.72%	27.22%	30.26%	32.38%
Total Shareholders Equity	14.51%	13.60%	24.36%	28.02%	29.66%	33.54%	36.42%
Long term deposits	0.47%	0.56%	0.66%	1.03%	1.06%	1.29%	1.45%
Retirement and other service benefits	0.93%	1.09%	1.24%	2.20%	2.22%	2.53%	2.41%
Total Long term Liabilities	1.40%	1.65%	1.90%	3.23%	3.28%	3.82%	3.86%
Trade and other payables	77.15%	71.78%	63.78%	55.44%	52.47%	49.30%	47.99%
Provisions	0.34%	0.45%	0.57%	0.92%	1.11%	1.44%	0.00%
Accrued interest / mark-up	0.16%	0.36%	0.17%	0.18%	0.17%	0.12%	0.07%
Short term borrowings	6.44%	12.16%	8.65%	12.13%	10.90%	9.20%	11.66%
Taxes payable	0.00%	0.00%	0.57%	0.09%	2.42%	2.57%	0.00%
Total Current Liabilities	84.09%	84.75%	73.74%	68.76%	67.06%	62.64%	59.72%
	100%	100%	100%	100%	100%	100%	100%

HORIZONTAL ANALYSIS	2010	2009	2008	2007	2006	2005	2004
Property, plant and equipment	83%	91%	98%	105%	99%	107%	100%
Total Non-Current Assets	82%	137%	104%	113%	113%	107%	100%
Stock-in-trade	391%	272%	417%	197%	188%	137%	100%
Trade debts	1978%	1355%	571%	229%	197%	114%	100%
Other receivables	200%	176%	215%	216%	200%	142%	100%
Cash and bank balances	112%	182%	191%	96%	120%	121%	100%
Total Current Assets	611%	438%	366%	198%	183%	129%	100%
Total Assets	477%	362%	300%	176%	165%	123%	100%
Share Capital	100%	100%	100%	100%	100%	100%	100%
Reserves	201%	140%	213%	140%	139%	115%	100%
Total Shareholders Equity	190%	135%	200%	136%	135%	114%	100%
Total Long term Liabilities	173%	154%	147%	147%	140%	122%	100%
Trade and other payables	767%	541%	398%	204%	181%	127%	100%
Total Current Liabilities	672%	513%	370%	203%	186%	129%	100%
Total Equity & Liabilities	477%	362%	300%	176%	165%	123%	100%

Financial Analysis

Profit and Loss Account

VERTICAL ANALYSIS

	2010	2009	2008	2007	2006	2005	2004
Sales	100%	100%	100%	100%	100%	100%	100%
Sales Tax	13.52%	13.54%	12.73%	12.75%	12.63%	12.87%	12.98%
IFEM/Levies	1.81%	1.28%	2.35%	2.17%	2.76%	3.39%	4.23%
Net sales	84.67%	85.18%	84.92%	85.07%	84.61%	83.74%	82.78%
Cost of products sold	81.35%	84.76%	79.77%	82.09%	79.73%	78.32%	78.07%
Gross Profit	3.33%	0.42%	5.15%	2.98%	4.88%	5.42%	4.71%
Operating Costs							
Transportation	0.07%	0.07%	0.06%	0.09%	0.10%	0.12%	0.13%
Administrative & Marketing Expenses	0.59%	0.71%	0.76%	0.91%	0.97%	1.27%	1.36%
Depreciation	0.13%	0.17%	0.20%	0.28%	0.31%	0.39%	0.41%
Other operating expenses	0.28%	0.56%	0.57%	0.18%	0.70%	0.42%	0.26%
Total Operating Costs	1.07%	1.50%	1.59%	1.46%	2.08%	2.20%	2.16%
	-2.25%	1.09%	-3.56%	-1.52%	-2.80%	-3.21%	-2.55%
Other / Other Operating income	0.86%	0.31%	0.29%	1.93%	0.40%	0.55%	0.76%
Profit / (Loss) from Operations	3.12%	-0.78%	3.85%	1.93%	3.20%	3.68%	3.31%
Finance cost	1.13%	0.87%	0.23%	0.28%	0.25%	0.15%	0.10%
Share of Profit of Associates	0.06%	0.06%	0.05%	0.08%	0.29%	0.09%	0.00%
Profit / (Loss) before taxation	2.05%	-1.58%	3.67%	1.73%	3.24%	3.62%	3.21%
Taxation	-1.02%	0.65%	1.26%	0.59%	1.10%	1.39%	1.05%
Net Profit / (Loss)	1.03%	-0.93%	2.41%	1.14%	2.13%	2.23%	2.16%

Financial Analysis

Profit and Loss Account

HORIZONTAL ANALYSIS

	2010	2009	2008	2007	2006	2005	2004
Sales	450%	369%	299%	211%	181%	130%	100%
Sales Tax	468%	384%	293%	207%	176%	129%	100%
IFEM/Levies	192%	111%	166%	108%	118%	104%	100%
	400%	317%	262%	183%	162%	123%	100%
Net sales	460%	379%	307%	216%	185%	132%	100%
Cost of products sold	468%	400%	305%	221%	184%	130%	100%
Gross Profit	317%	33%	327%	133%	187%	150%	100%
Operating Costs							
Transportation	241%	196%	129%	141%	140%	120%	100%
Administrative & Marketing expenses	195%	193%	167%	141%	129%	121%	100%
Depreciation	149%	151%	147%	144%	137%	124%	100%
Other operating expenses	468%	774%	650%	146%	477%	209%	100%
Total Operating Costs	223%	256%	220%	142%	174%	132%	100%
	398%	-157%	418%	126%	199%	164%	100%
Other / Other Operating Income	510%	150%	115%	115%	94%	80%	100%
Profit / (Loss) from operations	424%	-86%	348%	123%	175%	145%	100%
Finance cost	5227%	3296%	723%	613%	468%	196%	100%
	279%	-189%	337%	108%	166%	143%	100%
Share of Profit of Associates	233%	204%	133%	149%	468%	100%	0%
Profit / (Loss) before taxation	287%	-181%	341%	114%	182%	147%	100%
Taxation	435%	-227%	357%	119%	190%	172%	100%
Net Profit / (Loss)	215%	-159%	334%	111%	179%	134%	100%

Summary of Cash Flow Statement

	2010	2009	2008	2007	2006	2005	2004
Net cash inflow / (outflow) from operating activities	4,957,702	(4,828,554)	4,116,415	3,715,768	1,702,598	5,307,821	1,571,278
Net cash inflow / (outflow) from investing activities	87,504	(2,889)	(172,926)	(707,953)	(173,687)	(1,219,568)	(1,667,293)
Net cash (outflow) inflow from financing activities	(1,944,209)	511,790	(9,716,130)	(1,589,821)	4,035,619	(3,087,422)	(725,302)
Cash & cash equivalents at end of the year	(8,409,328)	(11,510,325)	(7,190,672)	(1,418,031)	2,836,025	(191,669)	(1,192,500)

Statement of Compliance

with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. Under section 5 of the Marketing of Petroleum Products (Federal Control) Act, 1974 (the Act), the Federal Government took over the management of the Company and the Act have effect notwithstanding anything contained in the Companies Act, 1913 (now Companies Ordinance, 1984) or any other law for the time being in force. A nine member Board of Management (BOM) including a Managing Director (MD) is appointed by the Federal Government to run the operations of the Company. Under Section 6 of the Act, the administration and management of the Company is vested in MD of the Company and the MD shall exercise and perform all the powers and functions of the Board of Directors of the Company. Furthermore, provisions relating to the Board's affairs are governed through Board of Management Regulations, 1974 approved by the Federal Government. The 'Code of Corporate Governance' (the Code) promulgated by the Securities and Exchange Commission of Pakistan (SECP) has laid down certain criterion for the election, functioning and responsibilities of the Board of Directors. However, the said criterion of the Code are not considered applicable to the extent of overriding provisions of the Marketing of Petroleum Products (Federal Control) Act, 1974, and Board of Management Regulations, 1974.

2. The members of BOM have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

3. All the members of the BOM are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. Two casual vacancies occurred in the BOM on December 31, 2009 and January 08, 2010 respectively, which were filled on March 06, 2010 by the Federal Government. The ex-chairman of the Company tendered his resignation which was announced in the following BOM meeting held on October 23, 2009.

5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by employees of the Company.

6. The BOM has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies, approved or amended, has been maintained.

7. All the powers of the BOM have been duly exercised and decisions on material transactions have been taken by the BOM except for appointment and determination of remuneration and terms and conditions of employment of the MD which is the function of the Federal Government under section 6(1) & (3) of the Marketing of Petroleum Products (Federal Control) Act, 1974. Therefore, the requirement of the Code that Board should approve the appointment and remuneration of the MD has not been considered applicable to the extent of overriding provisions of the Marketing of Petroleum Products (Federal Control) Act, 1974.

8. Out of the total meetings of BOM, two meetings were presided over by the ex-chairman and the remaining six meetings were chaired by the BOM member mutually selected by the members present at the meeting. The BOM met at least once in every quarter. Written notices of the BOM meetings, along with agenda were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and were placed for approval of BOM in subsequent meetings.

Statement of Compliance

with the Code of Corporate Governance

9. The BOM arranged an orientation course for its directors during the year to apprise them of their duties and responsibilities.

10. The BOM has approved the appointment of Company Secretary during the year. There was no change in the positions of Head of Internal Audit and Chief Financial Officer (CFO) during the year.

11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by MD and CFO before approval of the BOM.

13. The directors, MD and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The BOM has formed an audit committee. It comprises of 3 members, all of whom are non-executive directors.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The BOM has set-up an effective internal audit function.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. The related party transactions have been reviewed and approved by the BOM and placed before the Audit Committee of the Company in accordance with the listing regulations of the stock exchanges.

21. We confirm that all other material principles contained in the Code have been complied with.

Irfan K. Qureshi
Managing Director

Karachi: August 6, 2010

Review Report to the Members

on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Management of Pakistan State Oil Company Limited to comply with the Listing Regulations of Karachi, Islamabad and Lahore Stock Exchanges, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Management of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Listing Regulations of the Stock Exchanges where the Company is listed, require the Company to place before the Board of Management for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Management and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance, except that certain clauses of Code of Corporate Governance are considered inapplicable due to overriding provisions of Marketing of Petroleum Products (Federal Control) Act, 1974 applicable to the Company, as more fully explained in the Statement of Compliance with the Code of Corporate Governance.

KPMG Taseer Hadi & Co.
Chartered Accountants
Mohammad Mahmood Hussain

M. Yousuf Adil Saleem & Co.
Chartered Accountants
Mushtaq Ali Hirani

Karachi: August 6, 2010

Auditors' Report to the Members

For the year ended June 30, 2010

We have audited the annexed balance sheet of Pakistan State Oil Company Limited ("the Company") as at 30 June 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit. We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

b) in our opinion:

   i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the changes as described in note 2.5 with which we concur;

   ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2010 and of the profit, total comprehensive income, cash flows and changes in equity for the year then ended; and

d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Without qualifying our opinion, we draw attention to:

- Note 12.2 to the financial statements. The Company considers the overdue balance of Rs. 22,676 million from certain power generation companies as good debts for the reasons given in the aforementioned note. Accordingly, no provision for impairment has been made there against in the financial statements. The ultimate outcome of the matter cannot presently be determined;

- Notes 15.1, 15.2 and 15.5 to the financial statements. The Company considers the aggregate amount of Rs. 7,419 million due from the Government of Pakistan as good debts for the reasons given in the aforementioned notes. The ultimate outcome of the matters cannot presently be determined; and

- Note 25.1.2 to the financial statements. The High Court of Sindh decided the pending appeals of the Income Tax Department for assessment years 1996 – 97 and 1997 – 98 against the Company, resulting in a tax liability of Rs. 958 million on the Company. The Company filed a petition for leave to appeal with the Supreme Court of Pakistan against the aforementioned decision, which was granted by the Supreme Court of Pakistan and suspended the operation of the impugned judgment of the High Court of Sindh. The ultimate outcome of the matter cannot presently be determined and no provision for the liability has been made in the financial statements.

The financial statements of the Company for the year ended 30 June 2009 were audited by A.F. Ferguson & Co., Chartered Accountants and KPMG Taseer Hadi & Co., Chartered Accountants who had also modified their report by emphasis of matter paragraphs on those financial statements, vide their reports dated 12 August 2009 in respect of matters disclosed in notes 12.2, 15.1, 15.2, 15.5 and 25.1.2 to the annexed financial statements.

KPMG Taseer Hadi & Co.	M.Yousuf Adil Saleem & Co.
Chartered Accountants	Chartered Accountants
Mohammad Mahmood Hussain	Mushtaq Ali Hirani

Karachi: August 6, 2010

Balance Sheet

As at June 30, 2010

	Note	2010	2009
		(Rupees in '000)	
ASSETS			
Non-current assets			
Property, plant and equipment	4	6,375,233	6,987,025
Intangibles	5	36,250	68,872
Long term investments	6	2,019,270	2,153,514
Long term loans, advances and receivables	7	317,889	405,780
Long term deposits and prepayments	8	125,951	83,655
Deferred tax	9	-	5,033,273
		8,874,593	14,732,119
Current assets			
Stores, spare parts and loose tools	10	113,863	112,143
Stock-in-trade	11	58,598,668	40,698,209
Trade debts	12	117,501,074	80,509,830
Loans and advances	13	409,987	418,015
Deposits and short term prepayments	14	367,378	551,803
Other receivables	15	14,557,542	12,806,779
Taxation - net		46,580	709,627
Cash and bank balances	16	1,778,056	2,883,118
		193,373,148	138,689,524
Net assets in Bangladesh	17	-	-
Total assets		202,247,741	153,421,643
EQUITY AND LIABILITIES			
Equity			
Share capital	18	1,715,190	1,715,190
Reserves	19	27,620,868	19,155,595
		29,336,058	20,870,785
Non-current liabilities			
Long term deposits	20	948,476	854,718
Retirement and other service benefits	21	1,887,751	1,673,020
		2,836,227	2,527,738
Current liabilities			
Trade and other payables	22	156,035,716	110,123,702
Provisions	23	688,512	688,512
Accrued interest / mark-up		330,213	556,380
Short term borrowings	24	13,021,015	18,654,526
		170,075,456	130,023,120
Total equity and liabilities		202,247,741	153,421,643
Contingencies and commitments	25		

The annexed notes 1 to 44 form an integral part of these financial statements.

Irfan K. Qureshi
Managing Director

Nazim F. Haji
Chairman

Profit and Loss Account

For the year ended June 30, 2010

	Note	2010	2009
		(Rupees in '000)	
Sales - net of trade discounts and allowances amounting to Rs. 1,059,363 thousand (2009: Rs. 130,068 thousand)		877,173,254	719,282,176
Less:			
- Sales tax		(118,563,577)	(97,386,723)
- Inland freight equalization margin		(15,851,726)	(9,199,864)
		(134,415,303)	(106,586,587)
Net sales		742,757,951	612,695,589
Cost of products sold	26	(713,591,707)	(609,685,478)
Gross profit		29,166,244	3,010,111
Other operating income	27	1,479,054	1,451,666
Operating costs			
Transportation costs	28	(631,849)	(513,673)
Distribution and marketing expenses	29	(4,055,238)	(3,960,953)
Administrative expenses	30	(1,125,891)	(1,151,793)
Depreciation	4.1	(1,137,637)	(1,141,698)
Amortisation	5	(44,752)	(52,615)
Other operating expenses	31	(2,416,518)	(3,994,389)
		(9,411,885)	(10,815,121)
Profit / (loss) from operations		21,233,413	(6,353,344)
Other income	32	6,095,348	776,686
Finance costs	33	(9,882,010)	(6,232,056)
		17,446,751	(11,808,714)
Share of profit of associates		516,401	451,850
Profit / (loss) before taxation		17,963,152	(11,356,864)
Taxation	34	(8,913,556)	4,658,329
Profit / (loss) for the year		9,049,596	(6,698,535)
		(Rupees)	
Earnings / (loss) per share - basic and diluted	35	52.76	(39.05)

The annexed notes 1 to 44 form an integral part of these financial statements.

Irfan K. Qureshi
Managing Director

Nazim F. Haji
Chairman

Statement of Comprehensive Income

For the year ended June 30, 2010

	2010	2009
	(Rupees in '000)	
Profit / (loss) for the year	9,049,596	(6,698,535)
Other comprehensive income		
Unrealised loss due to change in fair value of other long-term investments	(70,751)	(387,965)
Unrealised gain / (loss) due to change in fair values of associates' investments	985	(6,188)
	(69,766)	(394,153)
Total comprehensive income for the year	8,979,830	(7,092,688)

The annexed notes 1 to 44 form an integral part of these financial statements.

Irfan K. Qureshi
Managing Director

Nazim F. Haji
Chairman

Statement of Changes in Equity

For the year ended June 30, 2010

	Share capital	Capital reserve	Unrealised gain / (loss) on revaluation of long term investment available for sale	Company's share of unrealised gain / (loss) on associates' investments	General reserve	Unappropriated profit/ (accumulated loss)	Total
	(Rupees in '000)						
Balance as at June 30, 2008	1,715,190	3,373	938,623	(2,248)	16,139,968	12,170,148	30,965,054
Total comprehensive income for the year							
Loss for the year	-	-	-	-	-	(6,698,535)	(6,698,535)
Unrealised loss due to change in fair value of long-term investment	-	-	(387,965)	-	-	-	(387,965)
Unrealised loss due to change in fair value of associates' investments	-	-	-	(6,188)	-	-	(6,188)
	-	-	(387,965)	(6,188)	-	(6,698,535)	(7,092,688)
Transactions with owners							
Distribution							
Final dividend for the year ended June 30, 2008 @ Rs. 12.5 per share	-	-	-	-	-	(2,143,986)	(2,143,986)
1st interim dividend for the year ended June 30, 2009 @ Rs. 5 per share	-	-	-	-	(857,595)	-	(857,595)
	-	-	-	-	(857,595)	(2,143,986)	(3,001,581)
Others							
Transfer to general reserve	-	-	-	-	10,000,000	(10,000,000)	-
Balance as at June 30, 2009	1,715,190	3,373	550,658	(8,436)	25,282,373	(6,672,373)	20,870,785
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	9,049,596	9,049,596
Unrealised gain due to change in fair value of long-term investment	-	-	(70,751)	-	-	-	(70,751)
Unrealised gain due to change in fair value of associates' investments	-	-	-	985	-	-	985
	-	-	(70,751)	985	-	9,049,596	8,979,830
Transactions with owners							
Distribution							
1st interim dividend for the year ended June 30, 2010 @ Rs. 3 per share	-	-	-	-	-	(514,557)	(514,557)
Balance as at June 30, 2010	1,715,190	3,373	479,907	(7,451)	25,282,373	1,862,666	29,336,058

The annexed notes 1 to 44 form an integral part of these financial statements.

Irfan K. Qureshi
Managing Director

Nazim F. Haji
Chairman

Cash Flow Statement

For the year ended June 30, 2010

	Note	2010	2009
		(Rupees in '000)	
CASH GENERATED FROM OPERATING ACTIVITIES			
Cash generated from operations	36	10,978,588	(162,072)
Decrease in long-term loans, advances and receivables		87,891	71,965
Increase in long-term deposits and prepayments		(42,296)	(4,557)
Increase in long-term deposits		93,758	20,120
Taxes paid		(3,217,236)	(1,403,937)
Finance costs paid		(2,464,238)	(2,825,871)
Payment against provisions		-	(37,604)
Retirement benefits paid		(478,765)	(486,598)
Net cash generated from / (used in) operating activities		4,957,702	(4,828,554)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(546,802)	(678,172)
Purchases of intangible assets		(12,130)	(15,985)
Proceeds from disposal of operating assets		5,567	20,167
Dividend received		640,869	671,101
Net cash generated from / (used in) investing activities		87,504	(2,889)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayment of) / proceeds from short-term finances		(1,427,452)	3,472,487
Dividend paid		(516,757)	(2,960,697)
Net cash (used in) / generated from financing activities		(1,944,209)	511,790
Net increase / (decrease) in cash and cash equivalents		3,100,997	(4,319,653)
Cash and cash equivalents at beginning of the year		(11,510,325)	(7,190,672)
Cash and cash equivalents at end of the year	37	(8,409,328)	(11,510,325)

The annexed notes 1 to 44 form an integral part of these financial statements.

Irfan K. Qureshi
Managing Director

Nazim F. Haji
Chairman

Notes to the Financial Statements

For the year ended June 30, 2010

(Amounts in Rs.'000)

1. LEGAL STATUS AND NATURE OF BUSINESS

1.1 Pakistan State Oil Company Limited ("the Company") is a public company incorporated in Pakistan under the repealed Companies Act, 1913 (now Companies Ordinance, 1984) and listed on the Karachi, Lahore and Islamabad stock exchanges. The registered office of the Company is located at PSO House, Khayaban-e-Iqbal, Clifton, Karachi. The principal activities of the Company are procurement, storage and marketing of petroleum and related products. It also blends and markets various kinds of lubricating oils.

1.2 The Board of Management nominated by the Federal Government under section 7 of the Marketing of Petroleum Products (Federal Control) Act, 1974 ("the Act") manages the affairs of the Company. The provisions of the Act shall have effect notwithstanding anything contained in the Companies Act, 1913 (now Companies Ordinance, 1984) or any other law for the time being in force or any agreement, contract, Memorandum or Articles of Association of the Company.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the 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 (IASB) 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 have been followed.

2.2 Basis of measurement

These financial statements have been prepared on the basis of 'historical cost' convention, except for certain 'Available for sale' investments which have been recognised at fair value and recognition of certain staff retirement benefits at present value.

2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees which is also the Company's functional currency.

2.4 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires management to make estimates, assumptions and use judgements that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised prospectively commencing from the period of revision. Areas where judgements and estimates made by the management that may have a significant risk of material adjustments to the financial statements in the subsequent year are as follows:

- Residual values and useful lives of property, plant and equipment (note 3.1).

- Useful lives of intangible assets (note 3.2).

- Provision for impairment of trade debts and other receivables (note 3.7).

- Provision for impairment of non-financial assets (note 3.9).

- Provision for retirement and other service benefits (note 3.11).

- Taxation (note 3.15).

2.5 Changes in accounting policies and disclosures as a result of adoption of new and amended accounting standards

Starting July 1, 2009, the Company has changed its accounting policies in the following areas:

- IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009). The revised standard prohibits the presentation of items of income and expenses (i.e. non owner changes in equity) in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated balance sheet as at the beginning of comparative period in addition to the current requirement to present balance sheet at the end of current period and comparative period. The Company has preferred to present two statements; a profit and loss account (income statement) and statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation / disclosure of the financials statement, there is no impact on earnings per share.

- IFRS 8 'Operating segments' also became effective from January 1, 2009 which requires an entity to determine and present operating segments based on the information that is provided internally to the Company's Chief Operating Decision Maker (CODM) that is, the Company's function which allocates resources to and assesses performance of its operating segments. Currently, the management has determined that the Company has a single reportable segment and therefore the adoption of the said IFRS has only resulted in some entity wide disclosures as given in note 38 to these financial statements.

- IAS 23 (Amendment), 'Borrowing costs' became effective from January 1, 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The Company's accounting policy is in compliance with the IAS 23 (Amendment) and therefore, there will be no effect on the financial statements.

(Amounts in Rs.'000)

2.6 Other accounting developments

- The Company has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

  The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

  Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

  The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

  These amendments to the IFRS 7 have only resulted in increase in certain disclosures as given in note 39. Apart from above certain other standards, amendments to published standards and interpretations of accounting standards became effective during the year, however, they did not effect the Company's financial statements.

2.7 Standards, interpretations and amendments not yet effective

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning on or after January 1, 2010.

- Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2010). The IASB amended IFRS 2 to require an entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements.

  Until the above amendment, there was no specific guidance on the attribution of cash-settled share based payments to the entity receiving goods or services where the entity had no obligation to

(Amounts in Rs.'000)

settle the transaction. Therefore there was diversity in practice for cash-settled share based payment transactions. The amended IFRS would be applicable to the Company's financial statements from the financial year starting from July 1, 2010.

On August 14, 2009, the Government of Pakistan has launched a scheme called Benazir Employees' Stock Option Scheme ('BESOS') for the employees of state owned entities including Pakistan State Oil Company Limited. Under the scheme a Trust has been formed and 12% of the shares held by the Ministry of Petroleum & Natural Resources have been transferred to the Trust. The eligible employees have been allotted units of the trust, based on the length of the service till August 14, 2009. On cessation of the employment each employee will be required to surrender the units for cash payment from the fund equivalent to market value of the shares. Under the scheme eligible employees will not be entitled to get the benefit unless they have served five more years from the date of enforcement of BESOS except for certain exceptional reasons for early separation from the company as mentioned in the Trust deed. The eligible employees will be entitled to 50% of the dividend and the remaining 50% dividend will be transferred to Central Revolving Fund of the Privatization Commission who would settle the surrendered units of the Trust on behalf of GoP.

Since the matter affected a large number of State Owned Enterprises (SOEs), the Company along with certain other SOEs has requested the Institute of Chartered Accountants of Pakistan (ICAP) to clarify the accounting and reporting implications for BESOS. The Company's management has not yet quantified the impact of this scheme on the financial statements. However, in view of vesting conditions under the scheme, the charge for the current year is estimated not to be material.

- Amendments to IAS 32: Classification of Rights Issues (effective for period beginning on or after February 1, 2010). Under the amendment to IAS 32 rights, options and warrants–otherwise meeting the definition of equity instruments in IAS 32.11 – issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency are classified as equity instruments, provided the offer is made pro-rata to all existing owners of the same class of the entity's own non-derivative equity instruments.

- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 1, 2010). IFRIC 19 clarifies the accounting when an entity extinguish the liability by issuing its own equity instruments to the creditor.

- International Accounting Standard (IAS) 24 (revised): Related Party Disclosures (effective for annual period beginning on or after January 1, 2011). The amendments to IAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government-related entities) and clarify the definition of a related party.

- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2011). IFRIC 14 IAS 19 –The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction has been amended to remedy an unintended consequence of IFRIC 14 where entities are in some circumstances not permitted to recognise prepayments of minimum funding contributions, as an asset.

- The International Accounting Standards Board made certain amendments to existing standards as part of its second and third annual improvements project. The effective dates for these amendments vary by standards.

(Amounts in Rs.'000)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Property, plant and equipment

These are 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 losses, if any.

Cost in relation to certain fixed assets, including capital work-in-progress, signifies historical cost and financial charges on borrowings for financing the projects until such projects are completed or become operational.

Depreciation is charged to profit and loss account using straight-line method so as to write off the historical cost of the assets over their estimated useful lives at the rates given in note 4.1. Depreciation on additions is charged from the month in which the asset is available for use and on disposals up to the preceding month of disposal. Assets residual values, useful lives and depreciation rates are reviewed, and adjusted, if appropriate at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

Maintenance and normal repairs are charged to profit and loss account. The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

3.2 Intangible assets - computer softwares

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and that the cost of such asset can also be measured reliably.

Generally, costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. However, costs that are directly associated with identifiable software and have probable economic benefits exceeding one year, are recognised as an intangible asset. Direct costs include the purchase cost of software and related overhead cost. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any, thereon.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognised as a capital improvement and added to the original cost of the software.

Intangible asset is amortised from the month when such asset is available for use on straight-line basis over its useful economic life.

(Amounts in Rs.'000)

3.3 Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets. There were no financial assets held for trading at the balance sheet date.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise trade debts, loans, advances, deposits, other receivable and cash and bank balances in the balance sheet.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within twelve months from the balance sheet date.

d) Held to maturity

Financial assets with fixed or determinable payments and fixed maturity, where management has intention and ability to hold till maturity are classified as held to maturity.

All financial assets are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of investments are recognised on trade-date - the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method.

(Amounts in Rs.'000)

Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income. Investments in associates are accounted for using the equity method as explained in note 3.4.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the profit and loss account as a reclassification adjustment. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Company's right to receive payments is established.

The fair values of quoted investments are based on current prices. If the market for a financial asset is not active (and for unlisted securities), the Company measures the investments at cost less impairment in value, if any.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit and loss account as a reclassification adjustment. Impairment losses recognised in the profit and loss account on equity instruments classified as available-for-sale are not reversed through the profit and loss account. Impairment testing of trade and other receivables is described in note 3.7.

Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in the profit and loss account.

3.4 Investment in associates

Associates are all entities over which the Company has significant influence but not control, generally represented by a shareholding of 20% to 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Company's share of its associates' post acquisition profits or losses is recognised in profit and loss account and its share in post acquisition of other comprehensive income is recognised in Company's other comprehensive income. Cumulative post acquisition movements are adjusted against the carrying value of the investments. When the Company's share of losses in associate equals or exceeds its

(Amounts in Rs.'000)

interest in the associate including any other long term unsecured receivable, the Company does not recognise future losses, unless it has incurred obligations or made payments on behalf of the associate.

Gain on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates.

3.5 Stores, spare parts and loose tools

These are valued at lower of moving average cost and net realisable value. Cost comprises invoice value and other direct costs but excludes borrowing costs. Obsolete and used items are recorded at nil value. Provision is made for slow moving items where necessary and is recognised in the profit and loss account.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make a sale.

3.6 Stock-in-trade

Stock in trade is valued at the lower of average cost or cost on first-in-first-out (FIFO) basis, and net realisable value. The cost formula is dependent on the nature of the stock categories but the same formula is applied to all items of a similar nature. Cost comprise invoice value, charges like excise, custom duties and other similar levies and other direct costs.

Obsolete items are recorded at nil value. Provision is made for slow moving stocks where necessary and recognised in profit and loss account. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make a sale.

3.7 Trade debts and other receivables

Trade debts and other receivables are stated initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment, if any. A provision for impairment of trade debts and other receivable is established where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Trade debts and receivable are written off when considered irrecoverable.

Exchange gains or losses arising in respect of trade and other receivables in foreign currency are added to their respective carrying amounts.

3.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, with banks on current and deposit accounts and running finance under mark-up arrangements. Running finance under mark-up arrangements is shown in current liabilities on the balance sheet.

3.9 Impairment of non-financial assets

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine

(Amounts in Rs.'000)

whether there is any indication of impairment loss. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Impairment losses are charged to profit and loss account.

3.10 Share capital

Ordinary shares are classified as equity and are recorded at their face value.

3.11 Retirement and other service benefits

3.11.1 Pension funds

The Company operates approved funded defined benefit pension schemes separately for both management and non-management employees. The schemes provide pension based on the employees' last drawn salary. Pensions are payable for life and thereafter to surviving spouses and/or dependent children. Provisions are made to cover the obligations under the scheme on the basis of actuarial valuation and are charged to profit and loss account. The most recent valuations were carried out as of June 30, 2010 using the "Projected Unit Credit Method".

The amount recognised in the balance sheet represents the present value of defined benefit obligations as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs and as reduced by the fair value of the plan assets.

Cumulative net unrecognised actuarial gains and losses at the end of previous year which exceed 10% of the greater of the present value of the Company's pension obligations and the fair value of plan assets at that date are amortised over the expected average remaining working lives of the employees.

3.11.2 Gratuity fund

The Company also operates an approved funded defined benefit gratuity scheme for all its permanent employees. The Scheme provides for a graduated scale of benefits dependent on the length of service of the employee on terminal date, subject to the completion of minimum qualifying period of service. Gratuity is based on employees' last drawn salary.

Provisions are made to cover the obligations under the scheme on the basis of actuarial valuation and are charged to profit and loss account. The most recent valuation was carried out as of June 30, 2010 using the "Projected Unit Credit Method".

The amount recognised in the balance sheet represents the present value of defined benefit obligations as adjusted for unrecognised actuarial gains and losses and as reduced by the fair value of plan assets.

Cumulative net unrecognised actuarial gains and losses at the end of previous year which exceed 10% of the greater of the present value of the Company's gratuity obligations and the fair value of plan assets at that date are amortised over the expected average remaining working lives of the employees.

(Amounts in Rs.'000)

3.11.3 Medical

The Company also provides post retirement medical benefits to its permanent employees except for those management employees who joined the Company after July 1, 2001. Under the unfunded scheme all such employees and their spouses are entitled to the benefits.

Provisions are made to cover the obligations under the scheme on the basis of actuarial valuation and are charged to profit and loss account. The most recent valuation was carried out as of June 30, 2010 using the "Projected Unit Credit Method".

The amount recognised in the balance sheet represents the present value of defined benefit obligations as adjusted for unrecognised actuarial gains and losses. Cumulative net unrecognised actuarial gains and losses at the end of previous year which exceed 10% of the present value of the Company's obligations at that date are amortised over the expected average remaining working lives of the employees.

3.11.4 Provident fund

The Company also operates an approved funded contributory provident fund for its management and non-management employees. Equal monthly contributions are made both by the Company and the employee at the rate of 8.33% per annum of the basic salary. In addition, employees have the option to contribute at the rate of 16.66% per annum, however, the Company's contribution remains 8.33%.

3.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer the settlement of the liability for at least twelve months after the balance sheet date. Exchange gains and losses arising in respect of borrowings in foreign currency are added in the carrying amount of the borrowing.

3.13 Trade and other payables

These are stated initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Exchange gains and losses arising in respect of liabilities in foreign currency are added to the carrying amount of the respective liability.

3.14 Provisions

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

(Amounts in Rs.'000)

3.15 Taxation

3.15.1 Current

Provision for current taxation is based on the taxable income for the year determined in accordance with the prevailing law for taxation on income. The charge for current tax is calculated using prevailing tax rates. The charge for current tax also includes adjustments for prior years or otherwise considered necessary for such years.

3.15.2 Deferred

Deferred tax is accounted for using the balance sheet liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are generally recognised for all taxable temporary differences including on investments in associates and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised. Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit and loss account except to the extent it relates to items recognised directly in equity / other comprehensive income in which case it is also recognised in equity / other comprehensive income.

3.16 Foreign currency transactions and translation

The financial statements are presented in Pakistan Rupees which is the Company's functional and presentation currency. Transactions in foreign currencies are accounted for in Pakistan Rupees at daily average rates. Monetary assets and liabilities in foreign currencies are translated into Pakistan Rupees at the rates of exchange prevailing at the balance sheet date. Exchange gains and losses from the settlement of foreign currency transactions and translation of monetary assets and liabilities at the balance sheet date rates are included in profit and loss account.

3.17 Offsetting of financial assets and liabilities

A financial asset and a financial liability are offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.18 Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, and is recognised on the following basis:

- Sales are recorded when the significant risks and rewards of ownership of the goods have passed to the customers which coincide with the dispatch of goods to the customers.

(Amounts in Rs.'000)

- Dividend income on equity investment is recognised when the Company's right to receive the dividend is established.

- Handling, storage and other services income and return on deposits is recognized on accrual basis.

3.19 Borrowing costs

Borrowing costs are recognised as an expense in the period in which these are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset in which case such costs are capitalised as part of the cost of that asset. Borrowing costs eligible for capitalisation are determined using effective interest method.

3.20 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognised in the financial statements in the period in which these are approved.

3.21 Earning per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

4. PROPERTY, PLANT AND EQUIPMENT

	Note	2010	2009
Operating assets	4.1	5,730,383	6,288,524
Capital work in progress	4.3	644,850	698,501
		6,375,233	6,987,025

(Amounts in Rs.'000)

4.1 Operating assets

	Land		Building											
	Freehold	Leasehold	On freehold land	On leasehold land	Leasehold improvements	Tanks and pipelines	Service and filling stations (note 4.1.1)	Plant and machinery	Furniture and fittings	Vehicles and other rolling stock	Office equipments	Railway sidings	Gas cylinders / regulators	Total
As at July 01, 2008														
Cost	209,882	92,167	571,567	954,723	1,071	3,147,230	6,920,494	2,518,711	253,973	648,125	460,480	53,232	124,259	15,955,914
Accumulated Depreciation	-	(19,340)	(362,947)	(329,806)	(1,071)	(2,632,245)	(3,323,962)	(1,390,475)	(197,694)	(563,279)	(335,577)	(45,990)	(111,619)	(9,314,005)
Net book value	209,882	72,827	208,620	624,917	-	514,985	3,596,532	1,128,236	56,279	84,846	124,903	7,242	12,640	6,641,909
Year ended June 30, 2009														
Opening net book value	209,882	72,827	208,620	624,917	-	514,985	3,596,532	1,128,236	56,279	84,846	124,903	7,242	12,640	6,641,909
Additions	-	-	7,763	47,387	-	60,401	380,516	149,205	6,947	97,304	42,159	-	-	791,682
Disposals														
Cost	-	-	-	-	-	-	(5,932)	(5,074)	(2,639)	(34,305)	(6,748)	-	(41)	(54,739)
Depreciation	-	-	-	-	-	-	4,402	5,058	2,632	32,590	6,680	-	8	51,370
	-	-	-	-	-	-	(1,530)	(16)	(7)	(1,715)	(68)	-	(33)	(3,369)
Depreciation Charge	-	(1,917)	(27,162)	(47,280)	-	(114,878)	(649,906)	(188,490)	(15,788)	(42,091)	(51,016)	(1,667)	(1,503)	(1,141,698)
Closing net book value	209,882	70,910	189,221	625,024	-	460,508	3,325,612	1,088,935	47,431	138,344	115,978	5,575	11,104	6,288,524
As at July 01, 2009														
Cost	209,882	92,167	579,330	1,002,110	1,071	3,207,631	7,295,078	2,662,842	258,281	711,124	495,891	53,232	124,218	16,692,857
Accumulated Depreciation	-	(21,257)	(390,109)	(377,086)	(1,071)	(2,747,123)	(3,969,466)	(1,573,907)	(210,850)	(572,780)	(379,913)	(47,657)	(113,114)	(10,404,333)
Net book value	209,882	70,910	189,221	625,024	-	460,508	3,325,612	1,088,935	47,431	138,344	115,978	5,575	11,104	6,288,524
Year ended June 30, 2010														
Opening net book value	209,882	70,910	189,221	625,024	-	460,508	3,325,612	1,088,935	47,431	138,344	115,978	5,575	11,104	6,288,524
Additions	5,600	-	1,926	39,089	-	62,097	267,683	133,478	5,522	30,353	48,903	-	5,802	600,453
Disposals														
Cost	-	-	-	-	-	(88)	(1,537)	(4,598)	(407)	(7,431)	(6,743)	-	-	(20,804)
Depreciation	-	-	-	-	-	88	1,229	4,346	397	5,428	6,739	-	-	18,227
	-	-	-	-	-	-	(308)	(252)	(10)	(2,003)	(4)	-	-	(2,577)
Write offs														
Cost	-	-	(3,899)	(37,287)	(330)	(18,101)	(29)	(63,754)	(12,298)	(1,394)	(28,479)	(172)	-	(165,743)
Depreciation	-	-	3,230	25,825	330	16,073	9	62,286	11,218	1,394	26,826	172	-	147,363
	-	-	(669)	(11,462)	-	(2,028)	(20)	(1,468)	(1,080)	-	(1,653)	-	-	(18,380)
Depreciation Charge	-	(1,917)	(25,795)	(48,923)	-	(114,143)	(645,988)	(193,294)	(15,846)	(39,668)	(48,798)	(1,667)	(1,598)	(1,137,637)
Closing net book value	215,482	68,993	164,683	603,728	-	406,434	2,946,979	1,027,399	36,017	127,026	114,426	3,908	15,308	5,730,383
As at June 30, 2010														
Cost	215,482	92,167	577,357	1,003,912	741	3,251,539	7,561,195	2,727,968	251,098	732,652	509,572	53,060	130,020	17,106,763
Accumulated Depreciation	-	(23,174)	(412,674)	(400,184)	(741)	(2,845,105)	(4,614,216)	(1,700,569)	(215,081)	(605,626)	(395,146)	(49,152)	(114,712)	(11,376,380)
Net book value	215,482	68,993	164,683	603,728	-	406,434	2,946,979	1,027,399	36,017	127,026	114,426	3,908	15,308	5,730,383
Annual rate of depreciation (%)	-	1-5	5-10	5-10	20	10-15	10-33	10-25	10-15	15-20	10-33	10	10	

4.1.1 Service and filling stations include cost of Rs. 7,097,858 (2009: Rs. 6,790,857) incurred by the Company on underground storage tanks, dispensing units and other equipment, and construction and related work. It also includes cost incurred on modernisation and development under the "New Vision Scheme" on approximately 1,795 (2009: 1698) out of the total 3,626 (2009: 3,383) retail filling station of dealers. In view of large number of dealers, the management considers it impracticable to disclose particulars of assets not in the possession of the Company as required under the Fourth Schedule to the Companies Ordinance, 1984.

4.2 The details of operating assets disposed off during the year are as follows:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of buyers
Vehicles	1,005	335	670	737	Company policy	Amjad Pervaiz Janjua Employee Plot D16, Block B, Naval Housing Scheme Zamzama Link Road Clifton Karachi
	690	495	195	207	Company Policy	Sajjad A.K. Shanani Ex-employee Nawani Tehsil Dist. Bhakkar
	651	532	119	130	Company Policy	Abu Khursheed M. Arif Ex-employee 16 Sunny Side Villa, Bleak House Road, Civil Lines, Karachi Cantt.
	727	213	514	562	Company Policy	Dr. Nazir Abbas Zaidi Employee A-183 Block 1. Gulshan-e-Iqbal, Karachi
	727	223	504	562	Company Policy	Irfanuddin Qidwai Ex-employee A-195 Block L, North Nazimabad, Karachi
Plant and machinery	4,092	3,857	235	43	Tender	M/s. Abdul Hameed & Co. (At Karachi Airport) Shop # 1 Erum Mansion, Ramswami Tower, BF Caberal Road, Karachi
Service and filling stations	466	320	146	116	Tender	M/s. Sultan P/S Badah Larkana Road, Larkana
	452	312	140	116	Tender	M/s. Qazi P/S Indus H/W KM-413/414 AT Nasirabad Sukkur
Items having book value of less than Rupees fifty thousand each	11,994	11,940	54	3,094		
Year ended 30 June 2010	20,804	18,227	2,577	5,567		
Year ended 30 June 2009	54,739	51,370	3,369	20,167		

4.3 Capital work in progress

	Note	2010	2009
Service and filling stations		173,390	205,883
Tanks and pipelines		217,083	154,784
Plant and machinery		31,099	81,418
Furniture, fittings and equipment		5,313	658
Advances to suppliers and contractors for tanks, pipelines and storage development projects		18,806	9,914
Capital stores		199,159	245,844
		644,850	698,501

5. INTANGIBLES - computer softwares

	Note	2010	2009
Net carrying value			
Balance at beginning of the year		68,872	105,502
Additions at cost		12,130	15,985
Amortisation charge for the year	5.2	(44,752)	(52,615)
Balance at end of the year		36,250	68,872
Gross carrying value			
Cost		269,584	257,454
Accumulated amortisation		(233,334)	(188,582)
Net book value		36,250	68,872

5.1 Computer softwares include ERP System - SAP, anti-virus softwares and other office related softwares.

5.2 The cost is being amortised over a period of 3 to 5 years.

6. LONG-TERM INVESTMENTS

	2010	2009
Available-for-sale, in related parties		
In a quoted company - at fair value		
- Pakistan Refinery Limited Equity held 18% (2009: 18%)	495,005	565,756
In an unquoted company - at cost		
- Pak-Arab Pipeline Company Limited Equity held 12% (2009: 12%)	864,000	864,000
	1,359,005	1,429,756
Investments in associates - in unquoted companies - note 6.1		
- Asia Petroleum Limited (APL), Equity held 49% (2009: 49%)	606,465	677,647
- Pak Grease Manufacturing Company (Private) Limited (PGMCL), Equity held 22% (2009: 22%)	53,800	46,111
	660,265	723,758
	2,019,270	2,153,514

Notes to the Financial Statements

For the year ended June 30, 2010

(Amounts in Rs.'000)

6.1 Investment in associates

Number of shares 2010	Number of shares 2009	Face value per share (Rupees)	Name of the company	2010	2009
46,058,600	46,058,600	10	Asia Petroleum Limited	606,465	677,647
686,192	686,192	10	Pak Grease Manufacturing Company (Private) Limited	53,800	46,111
				660,265	723,758

6.1.1 Movement of investments in associates

	2010	2009
Balance at beginning of the year	723,758	883,376
Share of profits		
- current year	516,259	451,584
- adjustment for last year profits based on audited financial statements	142	266
	516,401	451,850
Unrealised gain / (loss) on associates' investments	985	(6,188)
Dividends received	(580,879)	(605,280)
Balance at end of the year	660,265	723,758

6.1.2 The summarised financial information of the associates over which the Company exercises significant influence, based on the financial statements for the year ended June 30, 2010, is as follows:

	2010 APL	2010 PGMCL	2009 APL	2009 PGMCL
Total assets	1,984,035	267,264	2,184,563	236,235
Total liabilities	746,353	22,720	801,581	26,112
Revenues	1,833,421	190,806	1,747,780	195,936
Profit after tax	1,029,664	53,286	897,708	53,819

(Amounts in Rs.'000)

7. LONG-TERM LOANS, ADVANCES AND RECEIVABLES

	Note	2010	2009
Loans - considered good			
Executives	7.1, 7.2 & 7.4	24,519	42,811
Employees	7.2	177,885	113,144
		202,404	155,955
Current portion shown under current assets	13	(59,858)	(50,670)
		142,546	105,285
Advances - considered good			
Employees	7.3	470	470
Receivables			
Due from Karachi Electric Supply Corporation (KESC) - considered good	7.5	228,594	326,563
Current portion shown under current assets	15	(163,281)	(130,625)
		65,313	195,938
Others			
- considered good		109,560	104,087
- considered doubtful		8,143	8,143
		117,703	112,230
Provision for impairment	7.6	(8,143)	(8,143)
		109,560	104,087
		317,889	405,780

7.1 Reconciliation of carrying amount of loans to executives:

	2010	2009
Balance at beginning of the year	42,811	31,877
Add: Disbursements / transfers	3,071	29,159
Less: Repayments / amortisation	(21,363)	(18,225)
Balance at end of the year	24,519	42,811

7.2 These represent interest free loans to executives and employees for purchase of motor cars, motor cycles, house building, marriage, umrah and others, in accordance with the Company's policy. Loans for purchase of motor cars and motor cycles are secured against the respective assets. House building loans and certain category of management loans are secured against outstanding balance of provident fund and gratuity, whereas all other loans are unsecured. These loans are recoverable in monthly installments over a period of two to six years.

7.3 These represent interest free advances against housing assistance given to employees once in service life for purchase and construction of residential property in accordance with the Company's policy. These advances are secured against respective asset and are recoverable in four to five years and are adjusted against the monthly house rent allowance of the respective employee.

7.4 The maximum aggregate amount outstanding at the end of any month during the year in respect of loans to executives was Rs. 36,102 (2009: Rs. 45,776).

7.5 In a meeting of Economic Co-ordination Committee (ECC) on November 11, 2001 chaired by the Finance Minister, Government of Pakistan (GoP), the Company was advised to treat the outstanding trade debt from KESC as a long term receivable, recoverable over a period of 10 years, including two years grace period. Accordingly, an agreement was signed between the Company and KESC under which the amount due is to be paid by KESC in quarterly installments over a period of 10 years, including a two years grace period, free of interest, which commenced on February 2004. In case of delayed payment, KESC is liable to pay a mark-up at State Bank of Pakistan's (SBP) discount rate plus 2% per annum on the installment due. In the event any two installments, whether consecutive or not remain over due, KESC is liable to pay an additional sum as liquidated damages.

(Amounts in Rs.'000)

7.6 As at June 30, 2010, balances aggregating to Rs. 8,143 (2009: Rs. 8,143) were impaired and provided for. The ageing of these balances is as under:

	Note	2010	2009
More than 6 months		8,143	8,143

8. LONG-TERM DEPOSITS AND PREPAYMENTS - Considered good

	Note	2010	2009
Long-term deposits		56,443	53,189
Prepaid rentals		99,296	50,507
Less: Current portion shown under current assets	14	(29,788)	(20,041)
		69,508	30,466
		125,951	83,655

9. DEFERRED TAX

	2010	2009
Debit balance arising in respect of:		
Provision for:		
- retirement benefits	-	314,299
- doubtful trade debts	-	836,088
- doubtful receivables	-	271,746
- impairment of stores and spare parts	-	8,535
- excise, taxes and other duties	-	25,492
- impairment of stocks-in-trade	-	7,510
Unutilised tax losses	-	4,376,390
Minimum tax	-	-
Others	-	65,157
	-	5,905,217
Credit balance arising in respect of accelerated tax depreciation, amortisation and investments in associates	-	(871,944)
	-	5,033,273

9.1 Section 113 of the Income Tax Ordinance, 2001 has been amended through Finance Act, 2010 whereby the minimum tax rate has been increased from 0.5 percent to 1 percent of the annual turnover with effect from July 1, 2010. In view of this amendment, the Company does not expect to realize the temporary differences in future, accordingly deferred tax asset amounting to Rs. 2,869,333 has not been recognized in these financial statements.The management along with other oil marketing companies is pursuing the matter with the taxation authorities for withdrawal of minimum tax on oil marketing companies.

10. STORES, SPARE PARTS AND LOOSE TOOLS

	Note	2010	2009
Stores		129,953	128,336
Spare parts and loose tools		8,295	8,192
		138,248	136,528
Less: Provision for impairment	10.1	(24,385)	(24,385)
		113,863	112,143

10.1 The movement in provision during the year is as follows:

	Note	2010	2009
Balance at beginning of the year		24,385	22,000
Add: Charged during the year and recognised in other operating expenses	31	-	2,385
Balance at end of the year		24,385	24,385

(Amounts in Rs.'000)

11. STOCK-IN-TRADE

	Note	2010	2009
Petroleum and other products (gross)	11.1 & 11.2	32,259,921	29,253,203
Less: Stock held on behalf of third parties	11.3	(1,227,998)	(644,732)
		31,031,923	28,608,471
Less: Provision for slow moving products - lubricants		(21,456)	(21,456)
		31,010,467	28,587,015
In pipeline system of Pak-Arab Pipeline Company Limited and Pak-Arab Refinery Limited		20,986,177	10,227,321
		51,996,644	38,814,336
Add: Charges incurred thereon		6,602,024	1,883,873
		58,598,668	40,698,209

11.1 Includes stock-in-transit amounting to Rs. 17,532,327 (2009: Rs. 13,396,164) and stocks held by:

	2010	2009
Pakistan Refinery Limited - related party	107,529	107,529
Shell Pakistan Limited	131,855	97,871
Byco Petroleum Pakistan Limited (Formerly Bosicor Pakistan Limited)	56,985	5,236
	296,369	210,636

11.2 Includes stock valued at net realisable value amounting to Rs. 317,262 (2009: Rs. 252,036).

11.3 Represents stocks held in trust on behalf of third parties, net of storage, handling and other charges amounting to Rs. 23,730 (2009: Rs. 23,730) recoverable thereagainst.

12. TRADE DEBTS

	Note	2010	2009
Considered good			
- Due from Government agencies and autonomous bodies			
- Secured	12.1	35,267,722	16,050,990
- Unsecured		4,012,420	7,460,813
		39,280,142	23,511,803
- Due from other customers			
- Secured	12.1 & 12.2	8,135,195	6,008,823
- Unsecured	12.2	70,085,737	50,989,204
		78,220,932	56,998,027
		117,501,074	80,509,830
Considered doubtful		2,630,792	2,388,823
Trade debt - gross		120,131,866	82,898,653
Provision for impairment	12.4 & 12.5	(2,630,792)	(2,388,823)
Trade debt - net		117,501,074	80,509,830

(Amounts in Rs.'000)

12.1 These debts are secured by way of letters of credit and bank guarantees.

12.2 The receivable from Hub Power Company Limited (HUBCO) and Kot Addu Power Company Limited (KAPCO) as at June 30, 2010 aggregated to Rs. 71,635,025 (2009: Rs. 50,799,628), which includes overdue amounts of Rs. 22,675,792 (2009: Rs. 17,963,673). The Company does not consider the overdue balance receivable of Rs. 22,675,792 as doubtful, as this has been largely accumulated due to existing circular debt situation. The Company, based on measures being undertaken by the Government of Pakistan (GoP) in this regard is confident of realizing the entire aforementioned receivables in due course. Accordingly, the Company while estimating the provision for impairment on the basis of overdue analysis has not considered the aforementioned receivable balance of HUBCO and KAPCO, which would have increased the provision as at June 30, 2010 by Rs. 2,267,579 (2009: Rs.876,599).

12.3 The Company considers only those receivable as past due which are over 3 months old from due date. As at June 30, 2010, trade debts aggregating to Rs. 23,532,621 (2009: Rs. 10,306,331) were past due but not impaired. These relate to various customers including Independent Power Projects (IPPs) and Government agencies and autonomous bodies for which there is no or some recent history of default. These trade debts are outstanding for 3 to 6 months.

12.4 As at June 30, 2010, trade debts aggregating Rs. 3,434,772 (2009: Rs. 4,487,071) were deemed to have been impaired, of which Rs. 2,630,792 (2009: Rs. 2,388,823) were considered doubtful and provided for. The individually impaired debts relate to various customers including Government agencies and autonomous bodies which are facing difficult economic situations. The ageing of these trade debts is as follows:

	Note	2010	2009
3 to 6 months		7,322	76,048
More than 6 months		3,427,450	4,411,023
		3,434,772	4,487,071

12.5 The movement in provision during the year is as follows:

	Note	2010	2009
Balance at beginning of the year		2,388,823	1,911,478
Charged during the year and recognised in other operating expenses	31	241,969	477,345
Balance at end of the year		2,630,792	2,388,823

12.6 Amounts due from related parties, included in trade debts, are as follows:

	2010	2009
Oil & Gas Development Corporation Limited	197,700	400,668
Pakistan International Airlines Corporation	867,138	2,679,252
National Logistic Cell	351,696	269,284
Pakistan Steel Mills Corporation Limited	78,892	62,081
Water and Power Development Authority	37,322,403	19,946,952
Pakistan Railways	381,274	570,898
Heavy Industries Taxila	29,343	27,515
Director General Industrial Procurement and Services	153,048	98,495
Sui Southern Gas Company Limited	994	-
Kot Addu Power Company Limited	23,085,360	15,556,628
Pakistan National Shipping Corporation	66,116	92,986
Karachi Port Trust	3,347	15,131
Civil Aviation Authority	896	181
Frontier Works Organisation	4,903	13,408
	62,543,110	39,733,479

(Amounts in Rs.'000)

13. LOANS AND ADVANCES - unsecured, considered good

	Note	2010	2009
Loans to executives and employees			
- Current portion of long-term loans including Rs. 12,805 (2009: Rs. 14,505) to executives	7	59,858	50,670
- Short-term loans		8,757	3,147
		68,615	53,817
Advances to suppliers	13.1	95,539	116,987
Advances for Company owned filling stations		245,833	247,211
		409,987	418,015

13.1 Includes Rs. Nil (2009: Rs. 3,155) to Pakistan Refinery Limited, a related party, against purchase of LPG.

14. DEPOSITS AND SHORT TERM PREPAYMENTS

	Note	2010	2009
Deposits			
Duty and development surcharge		261,672	480,578
Prepayments			
Rentals and others		75,918	51,184
Current portion of long-term prepaid rentals	8	29,788	20,041
		105,706	71,225
		367,378	551,803

(Amounts in Rs.'000)

15. OTHER RECEIVABLES - unsecured

	Note	2010	2009
Due from Government of Pakistan (GoP) on account of:			
- Price differential claims			
- on imports (net of related liabilities)	15.1	1,465,406	1,465,406
- on imports (net of related liabilities) of motor gasoline	15.2	3,048,802	1,043,967
- on certain POL products	15.3	1,117,202	4,825,241
- on ethanol E-10 fuel		8,927	-
- on account of supply of furnace oil to KESC at Natural Gas prices	15.4	2,818,527	-
- Water and Power Development Authority (WAPDA) receivables	15.5	3,407,357	3,407,357
- Freight equalisation (net of recoveries)		46,521	46,521
		11,912,742	10,788,492
- Excise, Petroleum Development Levy (PDL) and custom duty		268,018	267,718
- Sales tax refundable		1,032,342	729,946
		13,213,102	11,786,156
Less: Provision for impairment	15.8		
- Price differential claims on imports	15.8 & 15.1	(501,730)	(501,730)
- Others		(83,112)	(83,112)
		(584,842)	(584,842)
		12,628,260	11,201,314
Current portion of long-term receivable from KESC	7	163,281	130,625
Handling and hospitality charges		176,500	115,286
Product claims - Insurance and other - considered doubtful		99,745	99,745
Less: Provision for impairment		(99,745)	(99,745)
		-	-
Receivables from oil marketing companies		732,087	445,167
Others			
- considered good	15.6	857,414	914,387
- considered doubtful		91,829	91,829
		949,243	1,006,216
Less: Provision for impairment	15.8	(91,829)	(91,829)
		857,414	914,387
		14,557,542	12,806,779

(Amounts in Rs.'000)

15.1 Import price differential aggregating to Rs. 1,465,406 (2009: Rs. 1,465,406).

In 2002, under an arrangement with the Ministry of Petroleum and Natural Resources (MoP & NR), GoP, the Company carried out an independent verification and reconciliation of price differential claims amounting to Rs. 4,270,406 due from the GoP and outstanding since 1991. Based on the exercise, the Company recognised the resulting net difference in its financial statements. Through its letter No. 3(386)/2002 dated August 7, 2002 the GoP confirmed that the report on independent verification will provide reasonable level of comfort to the authenticity and accuracy of outstanding import price differential claims and accordingly, against balance claimed, commenced repayment through a pricing mechanism for which a notification was issued. Such repayments amounted to Rs. 2,805,000 were up to December 31, 2003. Since then no further amounts have been received and the notification for the pricing mechanism also expired on December 31, 2004.

However, through its letter No. F.1(21)-CF.III/2005-386 dated March 3, 2007 the GoP - Finance Division intimated that it has been decided that these price differential claims will be paid after confirmation of the reconciled claim by the MoP & NR and requested MoP & NR to confirm the agreed amount payable at the earliest. A comprehensive reconciliation exercise was carried out with the MoP & NR, based on which a net amount of Rs. 963,676 was determined as receivable. Accordingly a provision Rs. 501,730 (2009: Rs. 501,730) is carried in the financial statements against the balance. During the current year, MoP & NR vide its letter No. PL-7(4)/2009 dated March 26, 2010, requested GoP – Finance division to make allocation amounting to Rs. 963,676 in respect of the above mentioned claim in the budget for Fiscal year 2010-2011for payment to the Company. The Company is actively pursuing the matter for the recovery with the MoP & NR and Ministry of Finance (MoF), GoP and considers that the balance amount will be recovered in due course.

15.2 Import price differential on motor gasoline aggregating to Rs. 3,048,802 (2009: Rs. 1,043,967).

These represent price differential claims on account of import of motor gasoline by the Company, being the difference between their landed costs and the ex-refinery prices announced by Oil and Gas Regulatory Authority (OGRA). In 2007, the Company as well as other oil marketing companies were asked in the meeting chaired by Director General Oil to import motor gasoline to meet the increasing local demand. Accordingly, oil marketing companies approached the MoP & NR - GoP with a proposal for pricing mechanism whereby end consumer price of motor gasoline was proposed to be fixed at weighted average of ex-refinery (import parity) price and landed cost of imported product. Although no response was received from the MoP & NR - GoP, the Company along with another oil marketing Company continued to import motor gasoline on behalf of the industry being confident that price differential on motor gasoline, will be settled as per previous practice i.e. based on the differential between ex-refinery and import cost at the time of filing of cargo with Customs, as imports were being made on MoP & NR - GoP's instruction.

The Oil Companies Advisory Committee (OCAC) approached the MoP & NR through its letter Imports/495 dated May 11, 2009 requesting an expeditious settlement of these claims. Further, the Company along with other affected oil marketing companies have also approached MoP & NR through letter dated July 23, 2009 requesting for an early settlement of these claims. Upon instruction by GoP through letter PL-3 (458)/2009-Pt dated October 02, 2009, the Company carried out an independent audit of such PDC claims for the period from October 1, 2007 to December 31, 2009 and submitted reports to Director General - Oil. A meeting of sub committee of the ECC was held on May 14, 2010 in which the MoF agreed to process the PDC claims of motor gasoline subject to provision of the details from MoP & NR of the motor gasoline supply and demand in the period of claim. Further, during the year MoP & NR vide its letter No. PL-7(4)/2009 dated March 26, 2010, requested GoP – Finance division to make allocation amounting to Rs. 3,500,000 in respect of abovementioned claim in the budget for Fiscal year 2010-2011 for payment to the Company. Pending related notification by MoP & NR and settlement thereof by MoF, the Company along with other oil marketing companies and OCAC continues to follow up this matter with Ministry of finance and is confident to recover this amount in full.

(Amounts in Rs.'000)

15.3 Price Differential Claims (PDC) relating to certain POL products aggregating Rs. 1,117,202 (2009: Rs. 4,825,241).

This represents the balance of price differential claims (PDC) due from GoP, net of recovery of Rs. 3,710,510 during the year (2009: 39,108,000). These claims have arisen on the instructions of MoP & NR for keeping the consumer prices of certain POL products stable. The balance outstanding at year end is withheld by the GoP subject to finalisation of the report on independent verification of these claims. The Company together with other oil marketing companies is actively pursuing the matter with the GoP for the recovery of the balance amount and is confident to recover the amount in full.

15.4 Price differential claim on account of supply of furnace oil to KESC at Natural Gas prices.

During the year, the Company received a directive from MoP & NR through letter NG(1)-7(58)09-LS(Vol 1) dated November 26, 2009 in which the Company was directed to supply furnace oil to Karachi Electric Supply Company (KESC) at the prices equivalent to natural gas prices plus applicable duties and taxes under the Natural Gas Load Management Progamme (NGLMP) for Winter 2009-2010. As per this arrangement the differential cost between the natural gas and furnace oil would be borne by GoP and reimbursed directly to the Company by Ministry of Finance. The Company was again directed by GoP in May 2010 to supply furnace oil to KESC at natural gas prices. Accordingly furnace oil was provided to KESC due to which price differential claim of Rs.4,618,527 arised out of which Rs. 1,800,000 were received from MoF in June 2010. The Company is actively pursuing this matter with GoP and is confident to recover the balance amount in full in due course.

15.5 Price differential between the products Low Sulphur Furnace Oil (LSFO) and High Sulphur Furnace Oil (HSFO) aggregating Rs. 3,407,357 (2009: Rs. 3,407,357).

In 1996, through a decision taken at a meeting of the Privatisation Commission, and Finance Division, GoP the Company was advised to supply LSFO to Kot Addu Power Project at the HSFO price and WAPDA was advised to absorb the price differential between the two products. In accordance with the decision of ECC dated November 4, 2003, the Company was allowed to recover this amount through a pricing mechanism after recovery of the amount outstanding against its claims for import price differential aggregating to Rs. 1,465,406, referred in note 15.1, the notification for which expired on December 31, 2004. Although no recovery has been made on this account, the Company continues to follow up the matter with MoP & NR. In 2005, the Company submitted an independent report on the verification of the above claim to MoP & NR, upon their request. In 2006, a joint reconciliation exercise was carried out with WAPDA as per the decision taken in a meeting held on May 19, 2006 under the Chairmanship of Additional Finance Secretary (GoP) and the final reconciliation statements were submitted to MoF and WAPDA. Subsequently, on February 3, 2007 the Company and WAPDA agreed upon the final receivable balance of Rs. 3,407,357. Further, the GOP – Finance Division through its letter No. F.1(21)-CF.III/2005-385 dated March 3, 2007 intimated that the amount of Rs. 3,407,357 will be paid to the Company during financial year 2007-2008 and necessary provision in this respect will be made by GoP in the budget for financial year 2007-2008. The Company through its letter dated May 20, 2008 requested the GoP to arrange the payment of the agreed amount before the end of the budget year 2007-2008, to which GoP did not respond. The Company again requested GoP through letters dated September 29, 2008 and April 22, 2009 for an early settlement. During the year, MoF through letter No. F.5.CF.I/1997-98-607 dated August 4, 2009 acknowledged and agreed to pay this amount to the Company. Further, during the current year MoP & NR vide its letter No. Pl-7(4)/2009 dated March 26, 2010, requested GoP – Finance division to make an allocation amounting to Rs. 3,470,000 in respect of above mentioned claim of the Company in the budget for Fiscal year 2010-2011 for payment to the Company. The Company considers that the above amount will be recovered in full in due course of time.

15.6 Includes Rs. 13,251 (2009: Rs. 8,901) from Asia Petroleum Limited, a related party, on account of facilities charges.

(Amounts in Rs.'000)

15.7 As at June 30, 2010 receivables aggregating Rs. 10,747,879 (2009: Rs. 9,647,471) were past due but not impaired. The ageing of these receivables is as follows:

	Note	2010	2009
Up to 3 months		2,849,705	752,234
3 to 6 months		1,044,343	281,403
More than 6 months		6,853,831	8,613,834
		10,747,879	9,647,471

15.8 As at June 30, 2010 receivables aggregating to Rs. 1,703,501 (2009: Rs. 1,703,501) were deemed to be impaired, being outstanding for more than six months, and hence provision was made there against amounting to Rs. 776,416 (2009: Rs. 776,416).

The movement in provision for impairment is as follows:

	Note	2010	2009
Balance at beginning of the year		776,416	794,350
Add: Charged during the year and recognised in other operating expenses		-	-
Less: Reversal during the year and recognised in other income	32	-	(17,934)
Balance at end of the year		776,416	776,416

16. CASH AND BANK BALANCES

	Note	2010	2009
Cash in hand		7,778	7,577
Cash at bank on:			
- current accounts	16.1	1,627,650	2,518,097
- deposit accounts	16.2	142,628	357,444
		1,770,278	2,875,541
		1,778,056	2,883,118

16.1 Includes Rs. 783,632 (2009: Rs. 761,083) kept in a separate bank account in respect of security deposits received from the customers.

16.2 Balances with other banks carry mark-up ranging from Re. 0.03 to Re. 0.32 (2009: Re. 0.14 to Re. 0.27) per Rs. 1,000 per day.

17. NET ASSETS IN BANGLADESH

	Note	2010	2009
Property, plant and equipment - at cost		46,968	46,968
Less: Accumulated depreciation		(16,056)	(16,056)
		30,912	30,912
Capital work in progress		809	809
Debtors		869	869
Long-term loans relating to assets in Bangladesh		(4,001)	(4,001)
		28,589	28,589
Less: Provision for impairment		(28,589)	(28,589)
		-	-

The Company has no control over these assets and has maintained in its record the position as it was in 1971.

Notes to the Financial Statements

For the year ended June 30, 2010

(Amounts in Rs.'000)

18. SHARE CAPITAL

2010	2009		Note	2010	2009
(Number of shares)					
		Authorised capital			
200,000,000	200,000,000	Ordinary shares of Rs. 10 each		2,000,000	2,000,000
		Issued, subscribed and paid-up capital			
3,000,000	3,000,000	Ordinary shares of Rs. 10 each issued for cash		30,000	30,000
7,694,469	7,694,469	Ordinary shares of Rs. 10 each issued against shares of the amalgamated companies		76,945	76,945
160,824,432	160,824,432	Ordinary shares of Rs. 10 each issued as bonus shares		1,608,245	1,608,245
171,518,901	171,518,901			1,715,190	1,715,190

19. RESERVES

	Note	2010	2009
Capital reserve	19.1	3,373	3,373
Unrealised gain on revaluation of long-term investments available for sale		479,907	550,658
Company's share of unrealised loss on investments of associates		(7,451)	(8,436)
Revenue reserve			
- General		25,282,373	25,282,373
- Unappropriated profit/ (accumulated loss)		1,862,666	(6,672,373)
		27,145,039	18,610,000
		27,620,868	19,155,595

19.1 This represents surplus arising on vesting of net assets of Esso Oil Marketing business in Pakistan under the Esso Undertakings (Vesting) Act, 1976.

20. LONG-TERM DEPOSITS

	Note	2010	2009
Dealers		436,579	404,460
Equipment	20.1	171,705	170,763
Cartage contractors	20.2	340,192	279,495
		948,476	854,718

20.1 These represent interest-free deposits from customers against LPG equipment. The deposits are refundable on return of equipment.

20.2 These represent deposits from contractors against the cartage contracts for transportation of petroleum products. The deposits are refundable on cancellation of these contracts. Interest is payable on the deposits at saving bank account rate of National Bank of Pakistan after deducting 2% service charge, effective July 1, 2002.

(Amounts in Rs.'000)

21. RETIREMENT AND OTHER SERVICE BENEFITS

	Note	2010	2009
Gratuity	21.1	579,093	605,815
Pension	21.1	305,565	169,208
Medical benefits	21.1	853,918	741,483
Compensated absences		149,175	156,514
		1,887,751	1,673,020

21.1 The details of employee retirement and other service benefit obligations are as follows:

21.1.1 Reconciliation of obligations as at year end

	Gratuity fund		Pension funds		Medical benefits	
	2010	2009	2010	2009	2010	2009
Present value of defined benefit obligations	1,876,748	1,733,699	3,792,807	3,357,693	1,049,374	946,408
Fair value of plan assets	(786,686)	(584,996)	(2,543,128)	(2,374,013)	-	-
	1,090,062	1,148,703	1,249,679	983,680	1,049,374	946,408
Unrecognised actuarial loss	(510,969)	(542,888)	(912,589)	(776,862)	(195,456)	(204,925)
Unrecognised past service cost	-	-	(31,525)	(37,610)	-	-
Net liability at end of the year	579,093	605,815	305,565	169,208	853,918	741,483

21.1.2 Movement in liability

	Gratuity fund 2010	Gratuity fund 2009	Pension funds 2010	Pension funds 2009	Medical benefits 2010	Medical benefits 2009
Net liability at beginning of the year	605,815	672,838	169,208	127,214	741,483	657,475
Charge for the year	273,278	232,977	272,070	166,742	148,148	119,947
Contributions during the year	(300,000)	(300,000)	(135,713)	(124,748)	-	-
Benefits paid during the year	-	-	-	-	(35,713)	(35,939)
Net liability at end of the year	579,093	605,815	305,565	169,208	853,918	741,483

21.1.3 Movement in defined benefit obligations

	Gratuity fund 2010	Gratuity fund 2009	Pension funds 2010	Pension funds 2009	Medical benefits 2010	Medical benefits 2009
Present value of defined benefit obligations at beginning of the year	1,733,699	1,327,265	3,357,693	2,823,151	946,408	782,049
Service cost	102,349	97,925	115,276	95,553	26,660	22,961
Interest cost	214,441	161,098	418,940	337,876	114,136	93,674
Benefits paid during the year	(146,779)	(51,501)	(147,335)	(121,248)	(35,713)	(35,939)
Actuarial (gain) / loss	(26,962)	198,912	48,233	222,361	(2,117)	83,663
Present value of defined benefit obligation at end of the year	1,876,748	1,733,699	3,792,807	3,357,693	1,049,374	946,408

21.1.4 Movement in fair value of plan assets

	Gratuity fund 2010	Gratuity fund 2009	Pension funds 2010	Pension funds 2009	Medical benefits 2010	Medical benefits 2009
Fair value of plan assets at beginning of the year	584,996	323,600	2,374,013	2,317,725	-	-
Expected return on plan assets	68,147	39,253	297,638	289,419	-	-
Contributions made by the Company	300,000	300,000	135,713	124,748	-	-
Benefits paid during the year	(146,779)	(51,501)	(147,335)	(121,248)	-	-
Actuarial gain / (loss)	(19,678)	(26,356)	(116,901)	(236,631)	-	-
Fair value of plan assets at end of the year	786,686	584,996	2,543,128	2,374,013	-	-

Notes to the Financial Statements

For the year ended June 30, 2010

(Amounts in Rs.'000)

21.1.5 The principal assumptions used in the actuarial valuations carried out as of June 30, 2010, using the 'Projected Unit Credit' method, are as follows:

	Gratuity fund		Pension funds		Medical benefits		Compensated absences	
	2010	2009	2010	2009	2010	2009	2010	2009
Discount rate	12.75%	12.50%	12.75%	12.50%	12.75%	12.50%	12.75%	12.50%
Expected per annum rate of return on plan assets	12.75%	12.50%	12.75%	12.50%	-	-	-	-
Expected per annum rate of increase in future salaries	12.25%	12.00%	12.25%	12.00%	-	-	12.25%	12.00%
Future per annum rate of increase in medical costs	-	-	-	-	9.25%	9.00%	-	-
Indexation of pension	-	-	6.25%	6.00%	-	-	-	-
Expected mortality rate	PMA/PFA 80 mortality table	PMA/PFA 80 mortality table	PMA/PFA 80 mortality table	PMA/PFA 80 mortality table	PMA/PFA 80 mortality table	PMA/PFA 80 mortality table	PMA/PFA 80 mortality table	PMA/PFA 80 mortality table
Expected withdrawal rate	Age dependent	Age dependent	Age dependent	Age dependent	Age dependent	Age dependent	Age dependent	Age dependent

21.1.6 Actual return on plan assets

68,845	13,206	287,929	63,617

21.1.7 Plan assets comprises of the following:

	2010		2009	
	Amount	%age	Amount	%age
Equity	274,925	8%	40,611	1%
Debts	2,662,632	80%	1,604,146	54%
Others	392,257	12%	1,314,252	45%
	3,329,814		2,959,009	

21.1.8 Plan assets include the Company's ordinary shares with a fair value of Rs. 73,657 (2009: Rs. 40,611).

21.1.9 The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected return on equity investments reflect long-term real rates of return experienced in the market.

21.1.10 Expected contributions to post employment benefit plans for the year ending June 30, 2011 are Rs. 632,423 (2010: Rs. 441,784).

(Amounts in Rs.'000)

21.1.11 Comparison for five years:

	2010	2009	2008	2007	2006
Present value of defined benefit obligation	(6,718,929)	(6,037,800)	(4,932,465)	(4,550,375)	(3,812,320)
Fair value of plan assets	3,329,814	2,959,009	2,641,325	2,014,033	1,688,375
Deficit	(3,389,115)	(3,078,791)	(2,291,140)	(2,536,342)	(2,123,945)
Experience adjustments:					
Loss / (gain) on plan liabilities	19,148	198,912	(50,488)	232,294	289,839
(Loss) / gain on plan assets	(9,011)	(262,987)	55,873	43,964	71,785

22. TRADE AND OTHER PAYABLES

	Note	2010	2009
Creditors for:			
Purchase of oil			
- local	22.1	81,450,943	63,981,349
- foreign		42,035,529	32,626,897
		123,486,472	96,608,246
Others		682,387	402,071
		124,168,859	97,010,317
Accrued liabilities	22.1&22.2	16,227,244	7,114,995
Inland Freight Equalisation Margin Mechanism (IFEM)		1,279,527	1,163,092
Due to oil marketing companies and refineries		911,299	586,537
Advances			
- from customers		6,088,074	1,621,955
- against equipment		19,125	18,146
		6,107,199	1,640,101
Taxes and other government dues			
- Excise, taxes and other duties		4,908,870	1,491,561
- Octroi		31,452	31,452
- Income tax deducted at source		81,741	44,107
		5,022,063	1,567,120
Workers' Profits Participation Fund	22.3	964,721	-
Workers' Welfare Fund		366,596	-
Short term deposits - interest free	22.4	300,212	351,482
Unclaimed dividends		642,157	644,357
Others		45,839	45,701
		156,035,716	110,123,702

22.1 Includes Rs. 13,189,694 (2009: Rs. 10,432,338) payable to Pakistan Refinery Limited, a related party.

(Amounts in Rs.'000)

22.2 Includes following amounts due to related parties in respect of pipeline charges:

	Note	2010	2009
Pak-Arab Pipeline Company Limited		155,100	230,401
Asia Petroleum Limited		123,584	89,018
		278,684	319,419

22.3 Workers' Profits Participation Fund

	Note	2010	2009
Balance at beginning of the year		-	1,132,598
Add: Allocation for the year	31	964,721	-
		964,721	1,132,598
Less: Payments during the year		-	(1,132,598)
Balance at end of the year		964,721	-

22.4 These security deposits are non interest bearing and are repayable on termination of contract.

23. PROVISIONS

	2010	2009
Balance at beginning of the year	688,512	726,116
Less: Payments there against	-	(37,604)
Balance at end of the year	688,512	688,512

These represent provisions for certain legal claims against the Company raised by the regulatory authorities. The outcome of these legal claims will not give rise to any significant loss beyond those provided for.

24. SHORT-TERM BORROWINGS - secured

	Note	2010	2009
Short-term finances	24.1 & 24.2	2,833,631	4,261,083
Finances under mark-up arrangements	24.1 & 24.3	10,187,384	14,393,443
		13,021,015	18,654,526

24.1 The total outstanding balance is against the facilities aggregating Rs. 33,443,600 (2009:Rs. 29,021,100) available from various banks. These facilities will expire on various dates by March 19, 2013 and are secured by way of floating charge on Company's all present and future assets, except land and building, and hypothecation of Company's moveable assets, stocks and receivables.

24.2 The rate of mark up for these facilities ranges from Re. 0.03 to Re. 0.37 (2009: Re. 0.03 to Re. 0.40) per Rs. 1,000 per day.

24.3 The rate of mark up for these facilities ranges from Re. 0.36 to Re. 0.41 (2009: Re. 0.41 to Re. 0.45) per Rs. 1,000 per day, net of prompt payment rebates. These facilities are renewable subject to payment of repurchase price on specified dates.

25. CONTINGENCIES AND COMMITMENTS

25.1 Contingencies

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

(Amounts in Rs.'000)

25.1.1 Claims against the Company not acknowledged as debts amount to Rs. 5,672,877 (2009: Rs. 5,303,257), including claims by refineries for delayed payment charges.

25.1.2 In the assessment years 1996-97 and 1997-98, the taxation authorities applied presumptive tax on the Company to the value of petroleum products imported by the Company on behalf of GoP by treating the Company as the importer of such products. The Income Tax Appellate Tribunal (ITAT) cancelled the order of the assessing officer, and as a consequence of the order of the ITAT, an amount of Rs. 958,152 became refundable to the Company, which was adjusted against the tax liability of the subsequent years. The department had filed an appeal with the High Court of Sindh against the aforesaid decision of the ITAT, which was adjudicated against the Company. The Company filed petition for leave to appeal with the Supreme Court of Pakistan against the aforementioned decision, which was granted by the Supreme Court of Pakistan through its order dated March 7, 2007 also suspending the operation of the impugned judgment of the High Court of Sindh.

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

Based on the merits of the above case, the Company's management believes that the ultimate decision will be in its favour and therefore, no provision has been made in this respect in these financial statements.

25.1.3 In the year 2005, a demand was raised by the Collector of Customs, Sales Tax and Central Excise (Adjudication) in respect of sales tax, central excise duty and petroleum development levy aggregating Rs. 165,781 inclusive of additional sales tax and central excise duty on exports of POL products to Afghanistan during the period August 2002 to November 2003. The demand was raised on the grounds that the export consignments were not verified by the Pakistan Embassy / Consulate in Afghanistan as required under Export Policy and Procedures 2000. It is the Company's contention that this requirement was in suspension as in the aforesaid period the Pakistan Embassy / Consulate was not fully functional. This condition of suspension was removed only on July 22, 2004 through Export Policy Order 2004 when the Pakistan Embassy / Consulate became fully functional in Afghanistan. Besides the issue of verification, it is also the Company's contention that export of POL products to Afghanistan can be verified from the relevant documents and therefore, the demand is unwarranted.

The Company has filed an appeal against the above order before the Appellate Tribunal and also referred the matter for resolution in the Alternate Dispute Resolution Committee (ADRC) under section 47-A of the Sales Tax Act, 1990. Through its recommendation dated December 26, 2006, the ADRC has rejected the application filed by the Company. Subsequently, through its order dated June 16, 2007 the CBR accepted the recommendations of the ADRC. The Company is now contesting the matter before the Appellate Tribunal. Based on legal advisors opinion, the Company is confident that the ultimate outcome of the matter would be in its favour and therefore no provision has been made in this respect in these financial statements.

(Amounts in Rs.'000)

25.1.4 The Company received demands for tax years 2004 to 2008, from the taxation authorities aggregating to Rs. 823,227 in respect of tax not withheld on incentives paid to dealers operating retail outlets. As per the taxation authorities, such payments were in the nature of prizes on sales promotion to dealers and hence subject to withholding of tax @ 20% under section 156 of the Income Tax Ordinance (ITO), 2001. The Company based on the advice of its tax consultant, has paid an amount of Rs. 321,993 there against under the 'Tax Arrears Settlement Incentive Scheme (TASIS) 2008', while treating the same as recoverable from dealers, on the contention that incentives to dealers attract tax @ 10% under section 156 A of the ITO, 2001. Therefore, the Company has filed an appeal against the demands under section 156 of the ITO, 2001, with the Commissioner of Income Tax (CIT) (Appeals) and also a petition in the High Court of Sindh for the stay thereof. The High Court of Sindh in its order, dated January 13, 2009 granted the stay to the Company with directions to deposit Rs. 200,000 in addition to payment of Rs. 321,993 earlier made by the Company, with the taxation authorities against such demands. Further, the High Court of Sindh directed CIT (Appeals) to hear the appeal on January 20, 2009 and pass an order within 20 days of hearing of the appeal. The CIT (Appeals) passed an order on February 13, 2009 against the Company. The Income Tax Appellate Tribunal (ITAT) on the appeal filed against CIT (Appeals) order, set aside and remanded the case to taxation officer for fresh consideration which has been subsequently adjudicated against the Company by the taxation officer vide order dated February 15, 2010. The Company has now filed an appeal before the Commissioner of Inland Revenue (Appeals) against the aforesaid decision of the taxation officer on March 25, 2010. The appeal is pending before the Commissioner of Inland Revenue (Appeals). The Company based on the merits of the case and on advice of its tax consultant is confident that the matter will ultimately be decided in its favour and therefore no provision has been made for the differential amount.

Further, the Company intends to recover the entire aforementioned tax of Rs. 321,993 from the dealers, included in other receivables (note 15), out of which Rs. 38,000 have been already recovered from such dealers till June 30, 2010. Accordingly no provision has been made against remaining receivable of Rs. 483,993 in these financial statements.

25.1.5 The Government of Sindh through Sindh Finance Act, 1994 provided for imposition of an infrastructure fee for development and maintenance of infrastructure on the goods entering or leaving the Province through air or sea at prescribed rates. The levy was challenged by the Company along with other companies in the High Court of Sindh through civil suits which were dismissed by the single judge of the High Court of Sindh through its decision in October 2003. On appeal filed there against, the High Court of Sindh has held through an order passed in September 2008 that the levy as imposed through Sindh Finance Act, 1994 and amended time to time was not valid till December 28, 2006, however, thereafter on account of an amendment in the Sindh Finance (Amendment) Ordinance, 2006, it had become valid and is payable by the Appellants. The Company, along with other companies, filed an appeal in the Supreme Court of Pakistan against the aforementioned order of the High Court of Sindh. The Supreme Court passed an interim order on January 22, 2009 and further hearing stand adjourned. Based on the views of its legal advisors, the management believes that the matter will ultimately be decided in the Company's favour. Further, the amount of possible obligation, if any, cannot be determined with sufficient reliability.

(Amounts in Rs.'000)

25.1.6 During the current year, the Deputy Commissioner Inland Revenue (DCIR), Federal Board of Revenue (FBR) through his Order D.C No. 02/141 dated May 31, 2010 passed under section 122 of the Income Tax ordinance, 2001 amended the deemed assessed version of income tax return of the Company for tax year 2006 and made certain additions and disallowances , consequently a tax demand of Rs. 383,946 was created vide the abovementioned order. The Company has filed an appeal on June 21, 2010 against the said order before Commissioner Inland Revenue (Appeals). Further an application for rectification amounting to Rs. 94,068 has been filed with DCIR in respect of certain rectification issues. Based on the views of its tax advisors, the management believes that the matter will ultimately be decided in the Company's favour. Accordingly, no provision has been made in these financial statements.

25.1.7 During the current year, the Additional Commissioner Inland Revenue (ACIR) FBR through his Order D.C No. 06/068 dated June 30, 2010 passed under section 122(5A) of the Income Tax Ordinance, 2001 amended the deemed assessed version of income tax return of the Company for tax year 2004 and made certain additions and disallowances, consequently a tax demand of Rs. 219,086 was created vide the abovementioned order. The Company is in the process of filling an appeal and rectification application in respect of certain matters against the said order. Based on the views of its tax advisors, the management believes that the matter will ultimately be decided in the Company's favour. Accordingly, no provision has been made in these financial statements.

25.1.8 During the current year a sales tax order-in-original No. 01/2001 dated March 30, 2010 was issued by DCIR - FBR in respect of sales tax audit of Company for tax year 2006-2007. Under the said order, a demand of Rs. 883,864 was raised on account of certain transactions. A demand of the Rs. 512,172 in respect of default surcharge has also been raised. The Company filed an appeal against the said order before Commissioner Inland Revenue (Appeals) decision of which is pending. The Company based on its tax advisors opinion is confident that the decision of the appeal will be in its favour and accordingly, no provision has been made in these financial statements.

25.2 Commitments

25.2.1 Commitments in respect of capital expenditure contracted for but not as yet incurred is as follows:

	2010	2009
Property, plant and equipment	510,430	384,741
Intangibles	51,974	49,887
	562,404	434,628

25.2.2 Letters of credit and bank guarantees outstanding as at June 30, 2010 amount to Rs. 7,367,317 (2009: Rs. 3,731,075).

Notes to the Financial Statements

For the year ended June 30, 2010

(Amounts in Rs.'000)

26. COST OF PRODUCTS SOLD

	2010	2009
Opening stock		
Cost	38,835,792	61,298,786
Charges thereon	1,883,873	1,082,737
	40,719,665	62,381,523
Add: Purchases during the year		
Cost	678,478,384	526,558,634
Charges thereon	53,013,782	61,464,986
	731,492,166	588,023,620
Cost of products available	772,211,831	650,405,143
Less: Closing stock		
Cost	(52,018,100)	(38,835,792)
Charges thereon	(6,602,024)	(1,883,873)
	(58,620,124)	(40,719,665)
	713,591,707	609,685,478

27. OTHER OPERATING INCOME

	2010	2009
Commission and handling services	381,577	384,751
Income from CNG operations	380,829	385,863
Income from retail outlets - net	26,129	26,948
Handling, storage and other recoveries	636,449	609,952
Income from non fuel retail business	54,070	44,152
	1,479,054	1,451,666

28. TRANSPORTATION COSTS

	2010	2009
Cost incurred during the year	9,547,028	9,482,779
Realised against IFEM	(15,851,726)	(9,199,864)
Less: Refinery share	3,841,696	835,398
Receivable from other	(12,010,030)	(8,364,466)
Oil marketing companies / adjustments	3,094,851	(604,640)
	(8,915,179)	(8,969,106)
	631,849	513,673

(Amounts in Rs.'000)

29. DISTRIBUTION AND MARKETING EXPENSES

	Note	2010	2009
Salaries, wages and benefits	30.1	2,414,167	2,070,788
Security and other services		71,290	49,317
Rent, rates and taxes		274,935	381,626
Repairs and maintenance		545,238	596,548
Insurance		87,375	127,893
Travelling and office transport		107,989	105,234
Printing and stationery		22,824	19,364
Communication		23,638	21,785
Utilities		159,754	123,989
Storage and technical services		90,053	79,335
Sales promotion and advertisement		167,465	310,861
Cards related costs		84,722	70,352
Others		5,788	3,861
		4,055,238	3,960,953

30. ADMINISTRATIVE EXPENSES

	Note	2010	2009
Salaries, wages and benefits	30.1	786,004	801,145
Security and other services		13,803	14,442
Rent, rates and taxes		5,793	4,952
Repairs and maintenance		58,673	58,988
Insurance		65,843	67,479
Travelling and office transport		27,557	32,689
Printing and stationery		10,542	14,609
Communication		22,019	22,187
Utilities		39,447	27,858
Storage and technical services		32,412	15,614
Legal and professional		25,800	20,986
Auditors' remuneration	30.4	7,659	10,094
Contribution towards expenses of Board of Management - Oil		4,520	4,030
Donations	30.5	23,833	49,826
Fee and subscription		1,986	6,894
		1,125,891	1,151,793

Notes to the Financial Statements

For the year ended June 30, 2010

(Amounts in Rs.'000)

30.1 Salaries, wages and benefits include the following in respect of employee retirement and other service benefits:

	2010				2009
	Gratuity fund	Pension funds	Medical benefits	Total	
Service cost	102,349	115,276	26,660	244,285	216,439
Interest cost	214,441	418,940	114,136	747,517	592,648
Expected return on plan assets	(68,147)	(297,638)	-	(365,785)	(328,672)
Recognition of actuarial gains	24,635	29,407	7,352	61,394	33,166
Recognition of past service cost	-	6,085	-	6,085	6,085
	273,278	272,070	148,148	693,496	519,666

In addition, salaries, wages and benefits also include Rs. 53,593 (2009: Rs. 51,736) and Rs. 27,903 (2009: Rs. 65,804) in respect of Company's contribution towards provident funds and staff compensated absences.

30.2 The effects of a 1% movement in the assumed medical cost trend rate are as follows:

	2010		2009	
	Increase	Decrease	Increase	Decrease
Effect on the aggregate of current service cost and interest cost	25,873	20,249	29,233	18,921
Effect on the defined benefit obligation for medical benefits	176,971	139,302	181,140	119,228

30.3 Remuneration of Managing Director and Executives

30.3.1 The aggregate amount for the year in respect of remuneration and benefits to the Managing Director and Executives are as follows:

	2010		2009	
	Managing Director	Executives	Managing Director	Executives
Managerial remuneration including performance bonus	12,750	463,867	11,510	364,861
Retirement benefits	1,279	23,177	215	18,167
Housing and utilities	4,920	159,342	3,152	122,465
Leave fare	546	36,339	1,102	27,516
	19,495	682,725	15,979	533,009
Number, including those who worked part of the year	1	325	3	265

(Amounts in Rs.'000)

30.3.2 The amount charged in respect of fee to eight non-executive directors aggregated to Rs. 1,565 (2009: Rs. 975).

30.3.3 In addition, the Managing Director and certain Executives are provided with free use of Company maintained cars. Further, the Managing Director and Executives are also entitled to avail medical facilities and other benefits as per the Company policy. The Company, based on actuarial valuations, has also charged amounts in respect of retirement benefits for above mentioned employees which are included in note 30.1.

30.4 Auditors' remuneration

	2010			2009		
	KPMG Taseer Hadi & Co.	M. Yousuf Adil Saleem & Co.	Total	KPMG Taseer Hadi & Co.	A. F. Ferguson & Co.	Total
Fee for the:						
- audit of annual financial statements	2,420	2,420	4,840	2,420	2,420	4,840
- review of half yearly financial statements	880	880	1,760	880	880	1,760
Tax services	-	-	-	-	1,170	1,170
Certification of claims, audit of retirement funds and other advisory services	170	100	270	165	777	942
Out of pocket expenses	395	394	789	424	958	1,382
	3,865	3,794	7,659	3,889	6,205	10,094

30.5 The Managing Director and his spouse do not have any interest in any donees to which donations were made.

31. OTHER OPERATING EXPENSES

	Note	2010	2009
Workers' Profits Participation Fund	22.3	964,721	-
Workers' Welfare Fund		366,596	-
Exchange loss - net		791,083	3,508,030
Property, plant and equipment written-off		18,380	-
Capital stores written-off		-	6,629
Provision against			
- doubtful trade debts	12.5	241,969	477,345
- doubtful other receivable		33,769	-
- stores and spares	10.1	-	2,385
		2,416,518	3,994,389

(Amounts in Rs.'000)

32. OTHER INCOME

	Note	2010	2009
Gain on disposal of operating assets		2,990	16,798
Dividends	32.1	59,990	65,821
Interest and markup on bank deposits		50,409	126,862
Mark-up and delayed payment charges	32.2	5,890,553	445,065
Liabilities written back		-	31,026
Reversal of provision for impairment	15.8	-	17,934
Penalties and other recoveries		70,473	57,637
Scrap sales		4,191	7,530
Others		16,742	8,013
		6,095,348	776,686

32.1 Represents dividends from the following related parties:

	2010	2009
Pak-Arab Pipeline Company Limited	59,990	56,821
Pakistan Refinery Limited	-	9,000
	59,990	65,821

32.2 This represents mark-up on account of delayed payments by the customers recognised on realisation.

33. FINANCE COSTS

	2010	2009
Mark-up on short-term borrowings	1,899,519	2,953,427
Other mark-up and bank charges	7,982,491	3,278,629
	9,882,010	6,232,056

34. TAXATION

	2010	2009
Current		
- for the year	3,905,704	201,536
- for prior years	(25,421)	(233,929)
Deferred - for the year	5,033,273	(4,625,936)
	8,913,556	(4,658,329)

34.1 Relationship between accounting profit / (loss) and tax expense

The relationship between tax expense and accounting profit has not been presented in these financial statements as the total income falls under minimum / presumptive tax regime of the Income Tax Ordinance, 2001.

(Amounts in Rs.'000)

35. EARNINGS / (LOSS) PER SHARE

	Note	2010	2009
There is no dilutive effect on the basic earnings per share of the Company, which is based on:			
Profit / (loss) for the year		9,049,596	(6,698,535)
		(Number of shares)	
Weighted average number of ordinary shares in issue during the year		171,518,901	171,518,901
		(Rupees)	
Earnings / (loss) per share - basic and diluted		52.76	(39.05)

36. CASH GENERATED FROM OPERATIONS

	Note	2010	2009
Profit / (loss) before taxation		17,963,152	(11,356,864)
Adjustments for non-cash charges and other items:			
Depreciation		1,137,637	1,141,698
Amortisation		44,752	52,615
Provision against:			
- doubtful trade debts		241,969	477,345
- stores and spare parts		-	2,385
Property, plant and equipment written-off		18,380	-
Capital stores written-off		-	6,629
Liabilities written back		-	(31,026)
Reversal of provision for impairment		-	(17,934)
Retirement and other services benefits accrued		693,496	585,470
Profit on disposal of operating assets		(2,990)	(16,798)
Share of profit of associates		(516,401)	(451,850)
Dividend income		(59,990)	(65,821)
Finance costs		9,882,010	6,232,056
		11,438,863	7,914,769
Working capital changes	36.1	(18,423,427)	3,280,023
		10,978,588	(162,072)

(Amounts in Rs.'000)

36.1 Working capital changes

	2010	2009
(Increase) / decrease in current assets		
- Stores, spare parts and loose tools	(1,720)	1,286
- Stock-in-trade	(17,900,459)	21,661,858
- Trade debts	(37,233,213)	(47,082,447)
- Loans and advances	8,028	(21,795)
- Deposits and short term prepayments	184,425	(150,370)
- Other receivables	(1,750,763)	2,892,945
Increase / (decrease) in current liabilities		
- Trade and other payables	38,270,275	25,978,546
	(18,423,427)	3,280,023

37. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following items included in the balance sheet:

	Note	2010	2009
- Cash and bank balances	16	1,778,056	2,883,118
- Finances under mark-up arrangements	24	(10,187,384)	(14,393,443)
		(8,409,328)	(11,510,325)

38. OPERATING SEGMENTS

The financial statements have been prepared on the basis of a single reportable segment.

Sales from fuel products and others represents 99.62% (2009: 99.26%) of total revenue of the Company respectively.

97.42% (2009: 98.38%) out of total sales of the Company relates to customers in Pakistan.

All non-current assets of the Company as at June 30, 2010 are located in Pakistan.

The Company sells its products to dealers, government agencies and autonomous bodies, independent power projects and other corporate customers. Sales to three major customers of the Company is around Rs. 304,828,443 during the year ended June 30, 2010 (2009: Rs. 220,633,561).

(Amounts in Rs.'000)

39. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets as per balance sheet	2010	2009
Available for sale		
- Long-term investments	1,359,005	1,429,756
Loans and receivables		
- Long-term loans, advances and receivables	317,889	405,780
- Long-term deposits	56,443	53,189
- Trade debts	117,501,074	80,509,830
- Loans and advances	68,615	53,817
- Other receivables	13,293,773	11,845,706
- Cash and bank balances	1,778,056	2,883,118
	133,015,850	95,751,440
Financial liabilities as per balance sheet		
Financial liabilities measured at amortised cost		
- Long-term deposits	948,476	854,718
- Trade and other payables	142,295,472	105,753,389
- Accrued interest / mark-up	330,213	556,380
- Short term borrowings	13,021,015	18,654,526
	156,595,176	125,819,013

39.1 Fair values of financial assets and liabilities

(a) Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction.

The carrying values of all financial assets and liabilities relfected in the financial statements approximate their fair values except for investment in Pak Arab Pipeline Company Limited held at cost.

(b) Fair value estimation

The Company has adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This amendment requires fair value measurement disclosures using following three level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments.

- Level1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). The Company has no items to report in this level.
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company has only one investment carried at fair value amounting to Rs. 495,005 (2009: Rs. 565,756) which is valued under level 1 valuation method. There have been no movements in or out of the level1category during the year. The Company does not have any investment in level 2 or level 3 category.

(Amounts in Rs.'000)

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

40.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on having cost effective funding as well as to manage financial risk to minimize earnings volatility and provide maximum return to shareholders.

Risk management is carried out by the Company's finance and treasury department under policies approved by the Board of Management - Oil.

(a) Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates, foreign exchange rate or the equity prices due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Company is exposed to currency risk, interest rate risk and other price risk (equity price risk).

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company imports petroleum products (including chemicals) and is exposed to currency risk, primarily with respect to foreign creditors for purchase of oil denominated in US Dollars amounting to US$ 491,644 (2009: US$ 399,986) equivalent to Rs. 42,035,529 (2009: Rs. 32,626,897). The average rates applied during the year is Rs. 84.22 /US$ (2009: Rs. 80.33 / US$) and the spot rate as at June 30, 2010 was Rs.85.50 / US$ (2009: Rs. 81.57/US$).

The Company manages its currency risk by close monitoring of currency markets. As per central bank regulations, the Company cannot hedge its currency risk exposure.

At June 30, 2010, if the Pakistan Rupee had weakened/strengthened by 5% against the US Dollar with all other variables held constant, post-tax profit for the year would have been lower/higher by Rs. 1,366,155 (2009: Rs. 1,060,374), mainly as a result of foreign exchange losses/gains on translation of US Dollar-denominated trade payables.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company has no significant fixed interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from short-term loans and running finance facilities. These are benchmarked to variable rates which expose the Company to cash flow interest rate risk.

(Amounts in Rs.'000)

The Company analyses its interest rate exposure on a regular basis by monitoring existing facilities against prevailing market interest rates and taking into account various other financing options available.

At June 30, 2010, if interest rates on Company's borrowings had been 1% higher / lower with all other variables held constant, post tax profit for the year would have been lower / higher by Rs. 84,637 (2009: loss for the year would have been higher / lower by Rs. 121,254) mainly as a result of higher/lower interest exposure on variable rate borrowings.

(iii) Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not materially exposed to equity securities price risk as the majority of its investments are in non-listed securities.

At June 30, 2010, equity prices of the listed equity investments of the Company would had been 10% higher / lower with all other variables held constant, other comprehensive income for the year would have been higher / lower by Rs.49,500 (2009: Rs. 56,575).

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

Credit risk arises from deposits with banks and financial institutions, trade debts, loans, advances, deposits and other receivables. The credit risk on liquid fund is limited because the counter parties are banks with reasonably high credit rating. The maximum exposure to credit risk before any credit enhancement is equal to the carrying amount of financial assets as disclosed in note 39. Out of the total financial assets of Rs. 134,443,091 (2009: Rs. 97,181,196), the financial assets exposed to credit risk amount to Rs. 133,076,308 (2009: Rs. 95,743,863).

Significant concentration of credit risks on amounts due from Government agencies and autonomous bodies amounting to Rs. 43,737,401 (2009: Rs. 25,821,112). Credit risk on private sector other than retail sales is covered to the maximum possible extent through legally binding contracts. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific customers and continuing assessment of credit worthiness of customers. Sales to dealers are settled in cash or using short term financial instruments. However, some of the Company's trade debts are secured by way of letters of credit and bank guarantees.

(Amounts in Rs.'000)

The Company monitors the credit quality of its financial assets with reference to historical performance of such assets and available external credit ratings. The carrying values of financial assets which are neither past due nor impaired are as under:

	2010	2009
Long term loans, advances and receivables	317,889	405,780
Long term deposits	56,443	53,189
Trade debts	97,143,154	68,105,251
Loans and advances	68,615	53,817
Other receivables	1,581,763	1,234,559
Bank balances	1,770,278	2,875,541
	100,938,142	72,728,137

The credit quality of receivables can be assessed with reference to their historical performance with no or some defaults in recent history, however, no losses. The credit quality of Company's bank balances can be assessed with reference to external credit ratings as follows:

Bank	Rating agency	Rating	
		Short term	Long term
National Bank of Pakistan	JCR-VIS	A1+	AAA
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA
United Bank Limited	JCR-VIS	A1+	AA+
Habib Bank Limited	JCR-VIS	A1+	AA+
MCB Bank Limited	PACRA	A1+	AA+
Allied Bank Limited	PACRA	A1+	AA
The Royal Bank of Scotland Limited	PACRA	A1+	AA
Askari Bank Limited	PACRA	A1+	AA
Bank Alfalah Limited	PACRA	A1+	AA
Bank AL Habib Limited	PACRA	A1+	AA+
Faysal Bank Limited	JCR-VIS	A1+	AA
Habib Metropolitan Bank Limited	PACRA	A1+	AA+
Meezan Bank Limited	JCR-VIS	A1	AA-
HSBC Bank Middle East Limited	Moody's	P1	Aa3
Deutsche Bank AG	S&P	A1	A+
Citibank N.A	S&P	A1	A+
JS Bank Limited	PACRA	A1	A
Bank Islami Pakistan Limited	PACRA	A1	A
Samba Bank Limited	JCR-VIS	A1	A
NIB Bank Limited	PACRA	A1+	AA-

(c) Liquidity risk

Liquidity risk represents the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to dynamic nature of the businesses the Company maintains flexibility in funding by maintaining committed credit lines available.

(Amounts in Rs.'000)

The Company's liquidity management involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios and maintaining debt financing plans.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	2010			
	Carrying amount	Contractual cash flow	Maturity up to one year	Maturity after one year
Financial liabilities				
Long-term deposits	948,476	(948,476)	-	(948,476)
Trade and other payables	142,295,610	(142,295,610)	(142,295,610)	-
Accrued interest / mark-up	330,213	(330,213)	(330,213)	-
Short term borrowings	2,833,631	(2,853,283)	(2,833,631)	-
Finances under mark-up arrangements	10,187,384	(10,187,384)	(10,187,384)	-
	156,595,314	(156,614,966)	(155,646,838)	(948,476)

	2009			
	Carrying amount	Contractual cash flow	Maturity up to one year	Maturity after one year
Financial liabilities				
Long-term deposits	854,718	(854,718)	-	(854,718)
Trade and other payables	105,753,389	(105,753,389)	(105,753,389)	-
Accrued interest / mark-up	556,380	(556,380)	(556,380)	-
Short term borrowings	4,261,083	(4,303,689)	(4,261,083)	-
Finances under mark-up arrangements	14,393,443	(14,393,443)	(14,393,443)	-
	125,819,013	(125,861,619)	(124,964,295)	(854,718)

40.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide adequate returns for shareholders and benefit for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company is not subject to any externally imposed capital requirements.

The Company manages its capital structure and makes adjustment to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares.

During the year, the Company's strategy was to maintain leveraged gearing. The gearing ratios as at June 30, 2010 and 2009 were as follows:

	2010	2009
Total Borrowings	13,021,015	18,654,526
Less: Cash and bank balances	(1,778,056)	(2,883,118)
Net debt	11,242,959	15,771,408
Total equity	29,336,058	20,870,785
Total capital	40,579,017	36,642,193
Gearing ratio	27.71%	43.00%

Notes to the Financial Statements

For the year ended June 30, 2010

(Amounts in Rs.'000)

The Company finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimise risk.

Consistent with other companies in the industry, the Company monitors the capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balances. Total capital is calculated as equity as shown in balance sheet and plus net debt.

41. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

Name of related party and relationship with the Company	Nature of transactions	2010	2009
Associates			
- Pak Grease Manufacturing Company	Purchases	106,744	155,217
(Private) Limited	Dividend received	5,146	6,519
- Asia Petroleum Limited	Income (facility charges)	183,342	185,356
	Rental income	5,261	4,685
	Dividend received	575,732	598,761
	Pipeline charges	1,810,010	1,823,858
	Other services	2,520	-
Retirement benefit funds			
- Pension Funds	Contributions	135,713	124,748
- Gratuity Fund	Benefits paid on behalf of the fund	146,779	51,501
	Contributions	300,000	300,000
- Provident Funds	Contributions	53,593	51,736
Other related parties			
- Pakistan Refinery Limited	Purchases	29,067,651	29,092,945
	Dividend received	-	9,000
- Pak Arab Pipeline Company Limited	Pipeline charges	4,301,969	4,285,128
	Dividend received	59,990	56,821
Profit oriented state - controlled entities - various	Purchases	77,615,774	87,066,177
	Sales	244,004,784	175,215,057
	Transportation charges	163,415	216,114
	Utility charges	112,882	89,936
	Rental charges	133,227	22,181
	Insurance premium paid	637,387	862,669
Key management personnel	Remuneration including performance bonus	25,466	20,657
	Retirement benefits	1,932	572
	Housing and utilities	9,228	5,511
	Leave fare	1,054	1,996

(Amounts in Rs.'000)

41.1 The related party status of outstanding receivables and payable as at June 30, 2010 are included in respective notes to the financial statements.

42. NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Management in its meeting held on August 6, 2010 proposed a final dividend of Rs. 5 (2009: Nil) per share for the year ended June 30, 2010, amounting to Rs. 857,595 (2009: Nil) for approval of the members at the Annual General Meeting to be held on September 29, 2010. These financial statements do not reflect these appropriations and the proposed dividend payable.

43. GENERAL

The figures have been rounded off to nearest thousand Rupees unless otherwise stated.

44. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 6, 2010 by the Board of Management - Oil of the Company.

Irfan K. Qureshi
Managing Director

Nazim F. Haji
Chairman

Attendance at Board Meetings

For the year ended June 30, 2010

Names	Total No. of Board meetings *	Number of Meetings attended
Mr. Sardar Muhammad Yasin Malik	2	2
Mr. Muhammad Ejaz Chaudhary	2	2
Mr. Iskander Mohammed Khan	2	0
Mr. Muhammed Yousaf Qamar Hussain Siddiqui	2	2
Mr. Istaqbal Mehdi	2	0
Mr. Arshad Said	2	2
Mr. Haji Amin Pardesi	2	0
Mr. Sabar Hussain	6	6
Mr. Irfan K. Qureshi	8	8
Mr. Malik Naseem Hussain Lawbar	6	6
Mr. Hammayun Jogezai	6	6
Mr. Mahmood Akhtar	6	5
Mr. Pervaiz A. Khan	6	1
Mr. Osman Saifullah Khan	6	3
Mr. Nazim F. Haji	4	4
Dr. Abid Q. Suleri	4	3

* Held during the period the concerned Director was on the Board

** PSO is governed by Marketing of Petroleum Products (Federal Control) Act, 1974, whereby the Federal Government has constituted a Board of Management whose members are nominated by the Government.

Shareholders' Categories

as at June 30, 2010

	NO. OF SHARES HOLDERS	No. OF SHARES	%
INDIVIDUALS	12,595	19,587,152	11.42
INSURANCE COMPANIES	18	14,439,852	8.42
PUBLIC SECTOR COMPANIES	19	41,791,173	24.37
FINANCIAL INSTITUTIONS AND BANKS	43	6,565,503	3.83
MODARABA COMPANIES & MUTUAL FUNDS	64	33,928,368	19.78
FEDERAL GOVERNMENT	1	38,505,565	22.45
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN	1	2	0.00
FOREIGN INVESTORS	173	6,175,305	3.60
OTHERS	246	10,525,981	6.14
TOTAL	13,160	171,518,901	100.00

Shareholders' Categories

as at June 30, 2010

	NO. OF SHARES HOLDERS	NO. OF SHARES	%
Associated Companies, Undertakings and related Parties			
Government of Pakistan	1	38,505,565	22.45
GOP's Indirect Holding:- PSOCL Employee Empowerment Trust	1	5,250,759	3.06
NIT ICP			
National Investment Trust	2	94,367	0.06
NBP, Trustee Department	2	26,317,527	15.34
Investment Corporation of Pakistan	1	848,691	0.49
CEO, Directors and their Spouse and Minor Childern			
Irfhan Khalil Qureshi	1	1	0.00
Public Sector Companies & Corporations			
Banks, DFIs NBFIs, Insurance Companies,			
Modarbas, Mutual Funds and other Orgnizations	312	70,388,859	41.04
Individuals	12594	19,587,151	11.42
Others	246	10,525,981	6.14
TOTAL	13,160	171,518,901	100.00

Pattern of Shareholdings

as at June 30, 2010

No. of Shareholders	Having Shares From	Having Shares To	Shares Held	Percentage
4899	1	100	150094	0.0875
3093	101	500	863062	0.5032
1653	501	1000	1284464	0.7489
2450	1001	5000	5533878	3.2264
494	5001	10000	3506730	2.0445
179	10001	15000	2249531	1.3115
111	15001	20000	1973871	1.1508
50	20001	25000	1128419	0.6579
25	25001	30000	692226	0.4036
16	30001	35000	517528	0.3017
14	35001	40000	532330	0.3104
12	40001	45000	506777	0.2955
13	45001	50000	632589	0.3688
11	50001	55000	579992	0.3382
12	55001	60000	702033	0.4093
9	60001	65000	567372	0.3308
11	65001	70000	750611	0.4376
8	70001	75000	584714	0.3409
3	75001	80000	239330	0.1395
2	80001	85000	161868	0.0944
6	85001	90000	525527	0.3064
1	90001	95000	94400	0.0550
6	95001	100000	593930	0.3463
2	100001	105000	203610	0.1187
2	105001	110000	216357	0.1261
3	120001	125000	365550	0.2131
3	125001	130000	381700	0.2225
4	130001	135000	532894	0.3107
3	135001	140000	412900	0.2407
1	145001	150000	150000	0.0875
1	150001	155000	150401	0.0877
2	155001	160000	317725	0.1852
2	160001	165000	325985	0.1901

Pattern of Shareholdings

as at June 30, 2010

No. of Shareholders	Having Shares From	To	Shares Held	Percentage
2	165001	170000	339500	0.1979
1	170001	175000	173378	0.1011
3	175001	180000	532176	0.3103
1	180001	185000	180863	0.1054
2	190001	195000	383600	0.2236
4	195001	200000	797816	0.4651
1	205001	210000	205578	0.1199
2	215001	220000	435080	0.2537
2	225001	230000	457591	0.2668
1	235001	240000	236438	0.1378
1	240001	245000	243100	0.1417
1	245001	250000	249800	0.1456
1	285001	290000	285500	0.1665
1	300001	305000	303579	0.1770
1	305001	310000	310000	0.1807
1	315001	320000	319262	0.1861
1	320001	325000	323925	0.1889
1	335001	340000	339577	0.1980
1	375001	380000	378700	0.2208
1	395001	400000	395350	0.2305
1	405001	410000	407494	0.2376
1	410001	415000	413608	0.2411
1	435001	440000	435900	0.2541
1	445001	450000	448236	0.2613
1	450001	455000	454200	0.2648
1	490001	495000	491049	0.2863
1	575001	580000	577043	0.3364
1	620001	625000	622660	0.3630
1	650001	655000	651823	0.3800
1	685001	690000	686000	0.4000
1	700001	705000	703799	0.4103
1	750001	755000	750349	0.4375
1	760001	765000	762246	0.4444

Pattern of Shareholdings

as at June 30, 2010

No. of Shareholders	Having Shares From	Having Shares To	Shares Held	Percentage
1	765001	770000	768292	0.4479
1	845001	850000	848691	0.4948
1	880001	885000	883000	0.5148
1	915001	920000	919367	0.5360
1	1085001	1090000	1089900	0.6354
1	1675001	1680000	1678946	0.9789
1	2115001	2120000	2120000	1.2360
1	2370001	2375000	2371181	1.3825
1	3210001	3215000	3213479	1.8735
1	3735001	3740000	3738731	2.1798
1	5250001	5255000	5250759	3.0613
1	9130001	9135000	9132448	5.3245
1	9995001	10000000	9997584	5.8289
1	10975001	10980000	10975800	6.3992
1	12285001	12290000	12287592	7.1640
1	26010001	26015000	26013948	15.1668
1	38505001	38510000	38505565	22.4498
13160		Company Total	171518901	100.0000

Pakistan State Oil Company Limited

Thirty- Fourth Annual General Meeting 2010

FORM OF PROXY ______________________________

I/We ______________________________

of ______________________________

A member of PAKISTAN STATE OIL COMPANY LIMITED and holder of ______________

Ordinary Shares as per Registered Folio No. /CDC Participant's ID and Account No. ______________

____

Sub Account No. ______________________________

hereby appoint ______________________________

of ______________________________

or failing him ______________________________

of ______________________________

who is also a member of PAKISTAN STATE OIL COMPANY LIMITED vide Registered Folio

No. /CDC ______________________________

Participant's ID and Account No. ______________________________

As my/our proxy to vote for me/us and on my/our behalf at the Thirty-Fourth Annual General Meeting of the Company to be held on Wednesday, September 29, 2010 and at any adjournment thereof.

Signed by me/us this ______________ day of __________ 2010.

Signed by the said ______________

Important:

This form of Proxy duly completed must be deposited at the Company's Registered Office, PSO House, Khayaban-e-Iqbal, Clifton, Karachi not later than 48 hours before the time of holding the meeting.

A proxy should also be a Shareholder of the Company.

____

for Office use

Five Rupees

Revenue Stamps

Designed & Produced by: Manhattan Leo Burnett

Pakistan State Oil

Pakistan State Oil Co. Ltd.
PSO House, Khayaban-e-Iqbal,
Clifton, Karachi-75600, Pakistan.
UAN: (92-21) 111-111-PSO (776)
Fax: (92-21) 9920-3721
Website: www.psopk.com

Energizing the Nation

PSO – Energizing the Nation

In order to progress, every country requires a proper source of energy, to strengthen and energize all the sectors responsible for development. Pakistan State Oil, the largest energy company of Pakistan, is fuelling all the major sectors including automotive, aviation, railways, power projects, industries and agriculture sector, thus steering the national economy towards progress and stability.

With extensive reach from Karachi to Khyber, PSO is effectively fulfilling the responsibility of driving the nation towards growth and development.

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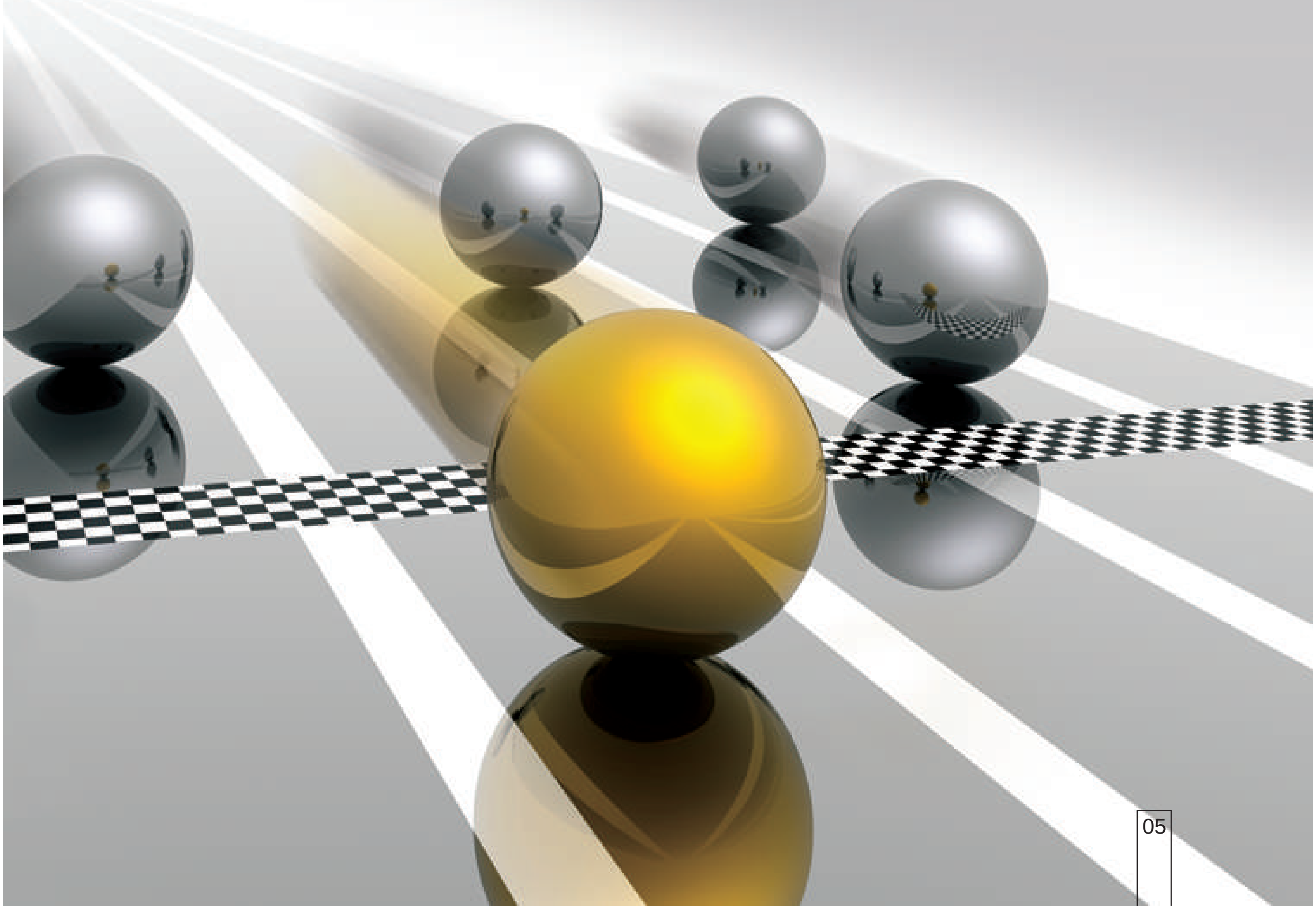
Vision

To excel in delivering value to customers as an innovative and dynamic energy company that gets to the future first.

Mission

We are committed to leadership in the energy market through a competitive advantage in providing the highest quality petroleum products and services to our customers based on:

- A professionally trained, high-quality, motivated workforce that works as a team in an environment which recognizes and rewards performance, innovation and creativity and provides for personal growth and development.
- The lowest-cost operations and assured access to long-term and cost-effective supply sources.
- Sustained growth in earnings in real terms.
- Highly ethical, safe, environment-friendly and socially responsible business practices.




PSO
Excellence
Cohesiveness
Respect
Integrity
Innovation
Responsibility

Core Values

Excellence

We believe that excellence in our core activities emerges from a passion for satisfying our customers' needs in terms of total quality management. Our foremost goal is to retain our corporate leadership.

Cohesiveness

We endeavour to achieve higher collective and individual goals through teamwork. This is inculcated in the organization through effective communication.

Respect

We are an Equal Opportunity Employer, attracting and recruiting the finest people from around the country. We value contribution of individuals and teams. Individual contributions are recognized through our reward and recognition programme.

Integrity

We uphold our values and Business Ethics principles in every action and decision. Professional and personal honesty, dedication and commitment are the landmarks of our success. Open and transparent business practices are based on ethical values and respect for employees, communities and the environment.

Innovation

We are committed to continuous improvement, both in new products and processes as well as those existing already. We encourage creative ideas from all stakeholders.

Corporate Responsibility

We promote Health, Safety and Environment culture both internally and externally. We emphasize on Community Development and aspire to make society a better place to live in.

Code of Conduct

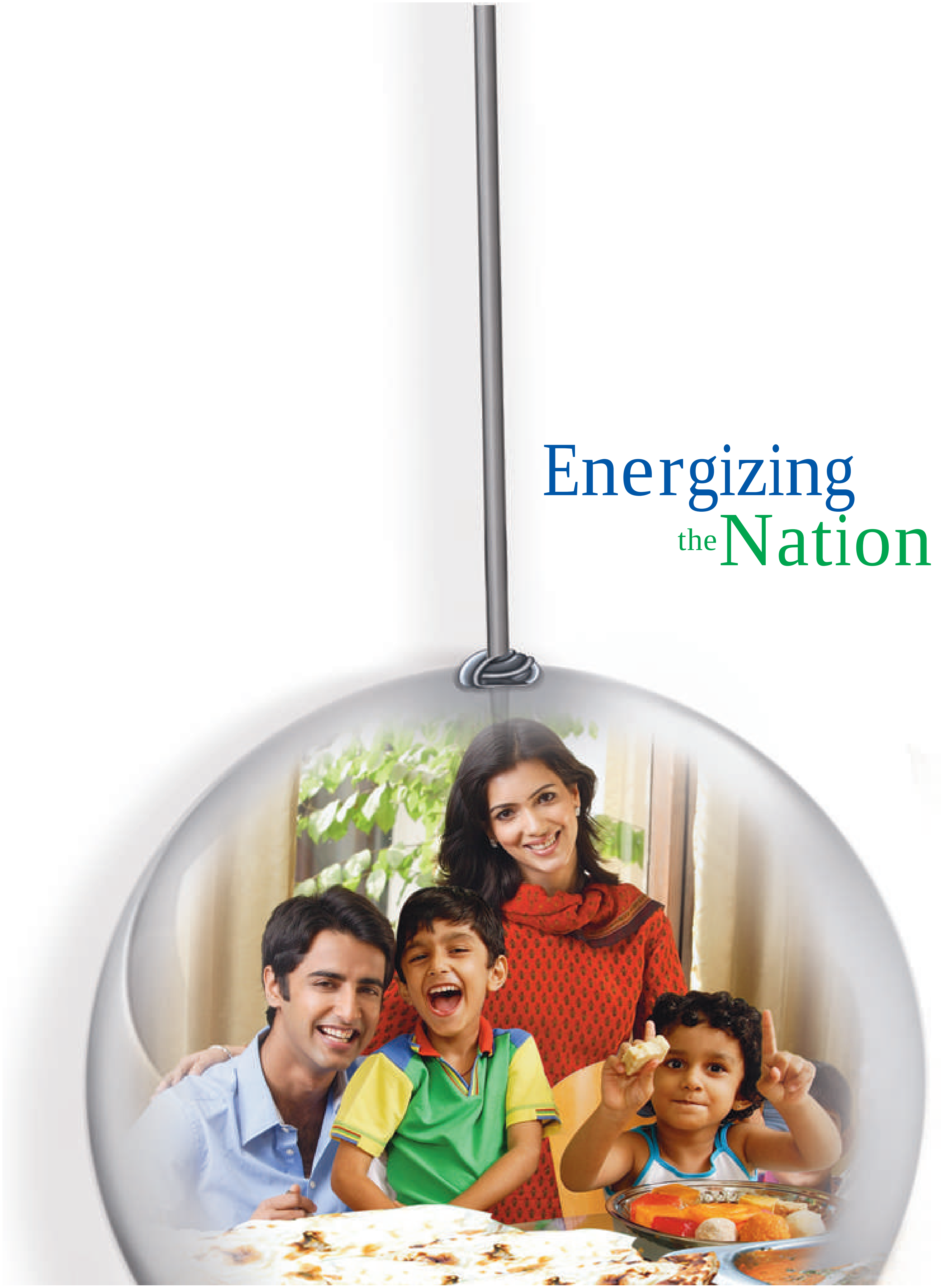
In line with management's effort to maintain the decorum and ensure an environment that is cohesive to the development and success of our people, a Code of Conduct has been put in place where the following activities can result in disciplinary action:

1. Unsatisfactory and negligent job performance.
2. Excessive and unauthorized absence from duty.
3. Unsatisfactory safety performance.
4. Reporting on duty under the influence of drug or intoxicants.
5. Absence from duty without notice or permission from the supervisor unless the cause of absence prevents giving notice.
6. Using influence for promotion, transfer or posting.
7. Conduct that violates common decency and morality.
8. Engaging in a fight or in activity that could provoke fighting on site property.
9. Insubordination or deliberate refusal to comply with reasonable requests or instructions.
10. Use or possession of weapons, ammunition, explosives, intoxicants, illicit drugs or narcotics on site.
11. Acts of "horse play"on site property.
12. Gambling on site property or bringing illegal gambling paraphernalia on to the site.
13. Theft or unauthorized removal of site property or property belonging to site employee, contractor and vendor.
14. Intentional damage to site, employee, contractor or vendor property.
15. Dishonest act or fortification of records, including the giving of false information when required.
16. Bringing combustible material on site or having any type of match sticks, cigarette lighter or flame-producing device in restricted areas.
17. Smoking except in designated areas.
18. Using or divulging without permission, any confidential information gained through employment at the site.
19. Physical, mental or sexual harassment of fellow employee including threat to do bodily harm.
20. Crime involving fraud, indecency, breach of dignity or public morals and other serious offences.
21. Any other commission or omission that, in the opinion of the company, requires/justifies dismissal/termination of employment.

Harvesting Happiness!

To keep the country's economy growing, PSO caters to the fuel requirements of agriculture, the most important economic sector of Pakistan.

Energizing the Nation



Company Profile

Pakistan State Oil, the largest energy company in the country, is currently engaged in the marketing and distribution of various POL products including Motor Gasoline (Mogas), High Speed Diesel (HSD), Furnace Oil (FO), Jet Fuel (JP1), Kerosene, LPG, CNG, Petrochemicals and Lubricants. In addition to this, we also import different products according to their demand pattern and possess the biggest storage facilities representing 80% of the country's total storage capacity. Brief overview of each business facet of PSO is presented below:

Marketing & Distribution

The company has the largest distribution network comprising 3,626 outlets out of which 3,481 serve retail customers, 53 outlets cater to the agriculture sector and 145 outlets serve our bulk customers. Out of a total number of 3,626 outlets, 1,795 have been upgraded as per the New Vision Retail Programme with the most modern facilities.

Moreover, there are 34 company-owned and company-operated (Co-Co) sites to serve our retail customers. The idea of setting up Co-Co sites was to make these stations flagships under maximum supervision and intense scrutiny to maintain the highest level of efficiency, service and customer care.

In addition to retail customers, more than 2,000 industrial units and business houses, power plants and airlines are being catered by PSO's different departments.

Acquisition of Products

Traditionally, due to the high demand of two products, i.e., High Speed Diesel (HSD) and Furnace Oil (FO), there has been a supply deficit in the country.

Automotive sectors are the main consumers of HSD and Mogas whereas power plants including IPPs use Furnace Oil for electricity generation. To meet the supply deficit, PSO imports HSD and FO along with some additional volumes of Mogas as and when required. The OMCs import around 11.3 million metric tons of the white and black oil products of which PSO has the lion's share of imports accounting for more than 90 percent.

Other than importing products, various local refineries in Pakistan cater to our product needs.

Storage

PSO possesses huge infrastructure facilities from Karachi to Gilgit. This entails 9 installations and 22 depots with a storage capacity exceeding 1million metric tons, representing over 80% of the total storage capacity owned by all oil marketing companies.

Product Movement

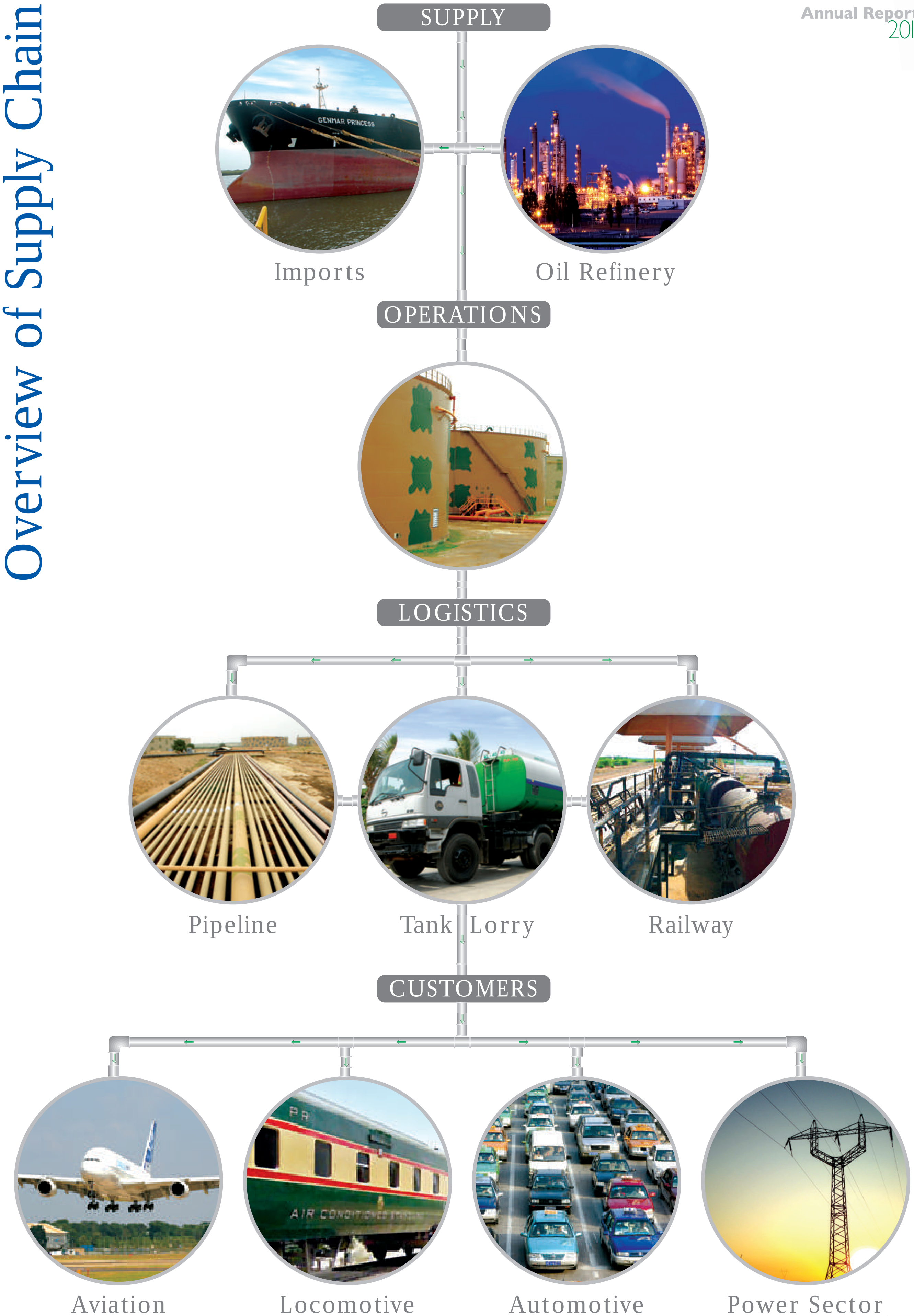
The modes used for the product movement of POL products by PSO include tank lorries, tank wagons and pipeline. We have a fleet of around 7,500 tank lorries. Around 1,663 tank lorries, equipped with tracking and pilfer proof systems, have been upgraded as per international standards, which are engaged in delivering quality fuels across the country.

With the inception of the White Oil Pipeline Project (WOPP) from Karachi to Mehmood Kot via Shikarpur & the MFM (Mehmood Kot / Faisalabad / Machikey) pipeline, the pattern of supplies from Karachi has drastically changed as the entire white oil movement from Karachi has been switched over from tank lorries to pipeline. PSO has an equity partnership in this project with a 12% shareholding.

Lubes Manufacturing & Sales

PSO has a state-of-the-art Lubricants Manufacturing Terminal (LMT) at the Korangi Industrial Area in Karachi, that cater to all kinds of lubricant customers including automotive, hi-street and industrial consumers by meeting the national demand through products of international standards.

Overview of Supply Chain



Corporate Events 2010

01. MD, PSO, Mr. Irfan Qureshi, receives prestigious brand icon award 2010 from PM Syed Yousuf Raza Gilani.
02. PSO and Karachi Port Trust (KPT) signed an MoU to jointly undertake a study to connect Keamari with Port Qasim through a White Oil Pipeline.
03. MD, PSO, Mr. Irfan Qureshi, addressing the 33rd AGM of the company.
04. Cultural Day was celebrated in the Company's Day Care Centre, established for the well-being of employees.
05. Federal Minister for Petroleum & Natural Resources, Syed Naveed Qamar, inaugurated the launch of E-10 gasoline in Karachi.
06. MD, PSO, hoisted the national flag on Independence Day at Keamari Terminal C, Karachi.
07. PSO and KESC signed a Fuel Supply Agreement. PSO will now supply up to 33,000 MTs of furnace oil to KESC every month under new commercial terms.
08. PSO signed the Fuel Supply Agreement for supply of 240,000 MT of furnace oil annually with Techno Power, the 1st Rental Power Project (150 MW)
09. Federal Minister for Petroleum & Natural Resources distributed the BESOS certificates among PSO employees, thereby transferring 12% of GoP shareholdings to them under the government policy.

10. PSO signed Hospitality agreement with M/s Pakistan House International.
11. PSO signed agreement with banking sector.
12. PSO signed an agreement with Pepsi Cola International for supply of beverages at PSO Shop Stop nationwide.
13. PSO Retail Business Conference 2010.
14. PSO Sales Conference 2010.
15. PSO signed Furnace Oil Sales Purchase Agreement.
16. Indoor games were organized at PSO Club. Employees from different departments participated in table tennis, badminton, carom, snooker and other indoor games.
17. Iftar dinner with journalists at PC Karachi where commerce and business journalists discussed different issues of the oil industry.
18. MD, PSO, presented a cheque to Chairman, Young Baloch Football Club, in an effort to engage the youth of Lyari in the sport.

Moving
Life!

PSO fuels the railways and helps reduce distances within the country contributing to the convenience of the people.

Energizing the Nation

Profiles of Board of Management

Chairman

Mr. Nazim F. Haji

Mr. Nazim F. Haji graduated from the University of Sheffield (U.K.) in the field of Mechanical Engineering in 1969. He joined his family business in Karachi in 1970.

He was elected as Chairman, S.I.T.E. Association of Industry in 1988. Thereafter, along with a group of like-minded businessmen and professionals, he established the Citizens-Police Liaison Committee (CPLC) under the patronage of the then Governor Sindh, Justice (R) Fakhruddin G. Ebrahim in 1989 and headed it as its Chief up to 1996.

He was awarded Sitara-e-Shujaat (S. St.) in 1993.

He has served on the board of KDA (defunct), Export Processing Zones Authority (E.P.Z.A.) and E.O.B.I.

Presently, he is a member of the Governing Board of Infaq Foundation, Workers Employers Bilateral Council of Pakistan (WEBCOP), CPLC Advisory Board, Oversight Committee for Prisons (Sindh), Sindh Board of Investment, and Sindh Public Procurement Regulatory Authority (SPPRA).

He was appointed as Member BoM, PSO, on March 6, 2010 and was made the Chairman, BOM on August.

Managing Director

Mr. Irfan K. Qureshi

An experienced and versatile professional with over 30 years of proven successful track record in sales, marketing, logistics, customer services, public and government relations, policy formulation, and development of systems and processes for increased productivity and better management of business models.

Mr. Qureshi is currently working as Managing Director, Pakistan State Oil (PSO). Before joining PSO, his last assignment was with Chevron Corporation as General Manager for Policy, Government & Public Affairs for Pakistan, Egypt and Mauritius. During his tenure in Chevron he also served as a Member of Board of Area Operating Committees of Pakistan and Egypt.

Mr. Qureshi started his career with Chevron Corporation in 1977 and then went on to work for Exxon Fertilizer in Pakistan. He further moved to Paktel, then a subsidiary of Cable and Wireless PLC. His last assignment prior to leaving Cable & Wireless was Director Marketing and External Affairs. He rejoined Chevron Corporation in 2001.

He is also on the Governing Board of Petroleum Institute of Pakistan, Pak Grease Manufacturing, Pakistan Refinery, Asia Petroleum Limited, Pak-Arab Pipeline Company. Furthermore, he is a member, Oil Companies Advisory Committee (OCAC). He is also member of World Economic Forum and Focus Area Core Team of the World Business Council for Sustainable Development (WBCSD).

Mr. Qureshi holds a bachelor's degree in Commerce and MBA from Institute of Business Administration (IBA). During his academic days he was actively involved in various social and cultural activities. He is an active member of various cultural forums and participates actively in charity efforts.

Profiles of Board of Management

Mr. Mahmood Akhtar

Mr. Akhtar is the Joint Secretary (EF&P), Ministry of Finance. He has 29 years experience in various administrative and managerial capacities in the public sector.

He has completed advance course in Macro Economics from the Bradford University, UK. He holds a Master's degree in Business Administration from University of Punjab. He has served as Managing Director, Long Term Credit Fund and is presently representing Finance Division on the boards of Pak Arab Refinery Company Limited (PARCO) and Industrial Development Bank Limited (IDBP) as a Director.

He was appointed as Member BoM, PSO, on March 01, 2006

Mr. Malik Naseem Hussain Lawbar

Malik Naseem Hussain has 30 years of experience as practicing lawyer. He has been an activist working in social sector. He was elected twice as Head of Municipal Corporation Multan and District Assembly, District Multan. He is an executive member of several NGOs and organizations which are working in collaboration with World Bank, Asian Development Bank, UNDP, US AID and JICA.

Currently, he is an executive member of Umeed Tarakiyati Tanzeem, an NGO working in collaboration with Asian Development Bank, focusing on health sector and solid wastes; Baan Beli Tanzeem, which is working in collaboration with UNDP for availability of clean, fresh drinking water in urban as well as rural and remote areas; and Tahafuz Asar-e Kadima, which is working in collaboration with World Bank.

Mr. Malik represented Pakistan on several International Forums like All World Mayors Conference held in Paris and International Local Bodies System Workshop held in New York.

He was appointed as Member BoM, PSO, on December 3, 2009.

Mr. Hammayun Jogezai

Mr. Hammayun Jogezai has 40 years of rich experience as a civil servant. He was awarded Quaid-e-Azam Police Medal in 1987 and 2003. He held a number of sensitive and important positions during his tenure. He served as City Capital Police Officer (CCPO), Quetta, before his superannuation of service in September 2009. He was posted twice as Director General Levies Force and DIG Police, Quetta Range.

He has done several Management and Command Courses like Senior Command Course from England and Management courses from NIPA.

He was appointed as Member BoM, PSO, on December 3, 2009

Mr. Osman Saifullah Khan

Mr. Osman Saifullah Khan has an MBA degree from the Graduate School of Business, Stanford University, and a Master of Engineering (Engineering, Economics and Management) from Christ Church, University of Oxford, where he studied as a Britannia Chevening Scholar.

Mr. Khan has 15 years of varied experience in strategic and operational roles. He is currently the CEO of Kohat Textile Mills Ltd. and Saif Textile Mills Ltd. He is the founder and Managing Director of the Mediterranean Textile Co. Egypt, one of Egypt's largest private sector yarn exporters. Mr. Khan is a two time Chairman of the NWFP zone of All Pakistan Textile Mills Association, Pakistan's premier trade organization. He has also served on the Central Managing Committee of APTMA on two occasions.

Mr. Khan currently serves as a Director on the Board of Saif Holding, Saif Energy, Saif Telecom, and Saif Wind Power.

He was appointed as member BoM, PSO, on December 3, 2009

Profiles of Board of Management

Mr. Sabar Hussain

Mr. Sabar Hussain holds M.Sc. degree in Engineering from Gubkin Institute of Oil and Gas, Moscow, USSR. He has served in the Ministry of Petroleum and Natural Resources, Government of Pakistan, for more than 28 years in various positions including upstream and downstream Petroleum Sectors as well as New and Renewable Energy Resources. He has attended various courses including Petroleum - Economics and Management from USA – Canada and Petroleum Refineries - Economics from Indonesia. He has also attended a number of national/international meetings and short-term courses on Petroleum Management, Skill Development and Leadership in the Oil and Gas Sector, etc. He has been on the Board of Directors of PARCO, PAPCO, Pirkoh Gas Company Limited, Pakistan Refinery Limited, and Total-PARCO. Currently, he is also on the Board of Total-PARCO, Pakistan Refinery Limited, and Pakistan State Oil Company Limited. He was actively involved in Planning and Implementation of various downstream Oil Sector projects.

He was appointed as Member BoM, PSO, on December 3, 2009.

Mr. Pervaiz A. Khan

Mr. Pervaiz A. Khan has 27 years diversified experience in private and public sectors mainly focusing on corporate/investment banking and energy industries. Currently, he is employed as the CEO, Uch Power (Pvt.) Ltd. (and Uch II (Pvt.) Power Ltd.), the largest private sector power generation company under the 1994 Power Policy. He holds MBA and MIA degrees from Columbia University, New York.

He was appointed as Member BoM, PSO, on December 3, 2009.

Dr. Abid Qaiyum Suleri

Dr. Abid Qaiyum Suleri is an economic policy analyst and development researcher. He brings in social sector development, international trade, and climate change perspective to PSO Board of Management.

He is the Executive Director of leading Pakistani Think-tank Sustainable Development Policy Institute. Before joining SDPI, he was Head of Programme of Oxfam GB, Pakistan Programme. He is serving on several policy formulating forums in Pakistan as well as in South Asia. He is member of Planning Commission's Task Forces on "Social Sector Development", and "Climate Change". He was also a member of working groups on poverty alleviation, economic growth and competitiveness, rural development and climate change established by National Planning Commission to formulate next five-year plan. He is member of Federal Forestry Board. He heads the regional advisory board of National Centre for Competence in Research North South, a network of southern and northern policy research institutes and universities. He is also the vice chairman of executive board of South Asia Watch on Trade, Economics, and Environment. He is member Board of Studies of Sustainable Development Study Centre, GC University Lahore.

Dr. Suleri has contributed intensive research on Pakistan's engagement in World Trade Organization (WTO). He was part of official delegation to WTO Ministerial Conference, Hong Kong. He also represented civil society organizations in WTO Ministerial Conferences of Doha and Cancun. He researched on 6F's crisis facing Pakistan (food, fuel, fiscal, frontiers, functional democracy, and fragility of climate). His latest research, "State of food (in)security in Pakistan 2009" carried out in collaboration with the World Food Programme and Swiss Agency for Development and Cooperation not only ranks 131 districts of Pakistan on the basis of their food insecurity, but also reveals the linkages between food insecurity and militancy in Pakistan. He is currently working on "electricity governance in Pakistan", "Policy and institutional framework for renewable energy in Pakistan", and "Impact of IMF standby loan agreement on macro-economic policies of Pakistan".

Dr. Suleri is a prolific writer and contributes to major national and international papers on issues of sustainable development. He also heads the regional steering committee of "Imagine a New South Asia", a broad-based network of civil society organizations and individuals working for a New South Asia. Dr. Suleri earned his Ph.D. from University of Greenwich, UK.

He was appointed as Member BoM, PSO, on March 6, 2010.

Gearing Up Tomorrow!

PSO fuels the aviation sector of the country, thus keeping the nation connected to the world.

Energizing the Nation

Company Information

COMPANY SECRETARY
Mir Shahzad Talpur

AUDITORS
KPMG Taseer Hadi & Co.
M.Yousuf Adil Saleem & Co.

SOLICITORS
Orr Dignam & Co.

BANKERS
Allied Bank Limited
Askari Bank Limited
Bank Al-Falah Limited
Bank Al-Habib Limited
Bank Islami Pakistan Limited
Citibank N.A
Deutsche Bank AG
Faysal Bank Limited
Habib Metropolitan Bank Limited
Habib Bank Limited
JS Bank Limited
Meezan Bank Limited
MCB Bank Limited
National Bank of Pakistan
NIB Bank Limited
Samba Bank Limited
Standard Chartered Bank (Pakistan) Limited
The HSBC Bank Middle East Limited
The Royal Bank of Scotland Limited
United Bank Limited

REGISTERED OFFICE
Pakistan State Oil Co. Ltd.
PSO House
Khayaban-e-Iqbal, Clifton,
Karachi 75600, Pakistan
UAN: (92-21) 111-111-PSO (776)
Fax: (92-21) 9920-3721
Toll free: 0800-03000
Website: www.psopk.com

REGISTRAR OFFICE
THK Associates (Pvt.) Ltd.
Ground Floor, State Life Building No.3.
Dr. Ziauddin Ahmed Road, Karachi
Phone: 021-35689021
Fax: 021-35655595

Board Audit Committee

Chairman	Members	Secretary
Dr. Abid Q. Suleri	Mr. Osman Saifullah Khan Mr. Mahmood Akhtar	Mr. Ather Ali

TERMS OF REFERENCE OF THE BOARD AUDIT COMMITTEE

The Board Audit Committee of PSO have adopted the terms of reference as described in the Code of Corporate Governance.

The Board Audit Committee shall, among other things, be responsible for recommending to the Board of Management the appointment of external auditors by the company's shareholders and shall consider any questions of resignation or removal of external auditors, audit fees and provision by external auditors of any service to the company in addition to audit of its financial statements.

In the absence of strong grounds to proceed otherwise, the Board of Management shall act in accordance with the recommendations of the Audit Committee in all these matters.

In additon, as per the provisions of the Petroleum Products (Federal Control) Act, 1974 the terms of reference of the Audit Committee shall also include the following:

i. Determination of appropriate measures to safeguard the company's assets;

ii. Review of preliminary announcements of results prior to publication;

iii. Review of quarterly, half-yearly and annual financial statements of the company, prior to their approval by the Board of Management, focusing on:

- Major judgemental areas;
- Significant adjustments resulting from the audit;
- The going-concern assumption;
- Any changes in accounting policies and practices;
- Compliance with applicable accounting standards; and
- Compliance with listing regulations and other statutory and regulatory requirements.

iv. Facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary);

v. Review of management letter issued by external auditors and management's response thereto;

vi. Ensuring coordination between the internal and external auditors of the company;

vii. Review of the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Company;

viii. Consideration of major findings of internal investigations and management's response thereto;

ix. Ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective;

x. Review of the company's statement on internal control systems prior to endorsement by the Board of Management;

xi. Instituting special projects, value for money studies or other investigations on any matter specified by the Board of Management, in consultation with the Chief Executive and to consider remittance of any matter to the external auditors or to any other external body;

xii. Determination of compliance with relevant statutory requirements;

xiii. Monitoring compliance with the best practices of corporate governance and identification of significant violations thereof; and

xiv. Consideration of any other issue or matter as may be assigned by the Board of Management.

Board Finance and Operation Committee

Chairman	Members	Secretary
Mr. Pervaiz A. Khan	Mr. Mahmood Akhtar Mr. Sabar Hussain Mr. Osman Saifullah Khan	Mr. Yacoob Suttar

TERMS OF REFERENCE OF THE BOARD FINANCE AND OPERATION COMMITTEE

The Board Finance and Operation Committee primarily reviews the financial and operating plans of the company and all matters relating to them. The Finance and Operation Committee's scope of work entails carrying out the following activities and duties and recommending their findings to the Board of Management (BoM) for approval:

1. Review the prevailing as well as the proposed annual business plan covering the following:

   - Performance Results
   - Annual Revenue Budget
   - Annual Capital Budget
   - Capital Expenditure vs. Capital Budget

2. Analyze gross and operating margins vis-à-vis major operating expenses including administrative and marketing expenses, financial charges, transportation, etc. and approve them after deliberations and mutual consensus.

3. Consider the general economic conditions of the country, competitive realities and scenarios and suggest appropriate measures and remedies to improve the company's performance.

4. Suggest ways to generate cash either through the issuance of shares, bonds or any other financial instruments.

5. Consider investments and disinvestments of funds outside the normal conduct of the business.

6. Any other issue assigned by the Board of Management

Board Human Resources Committee

Chairman	Members	Secretary
Mr. Malik Naseem Hussain Lawbar	Mr. Nazim F. Haji Mr. Sabar Hussain Mr. Irfan K. Qureshi Mr. Hammayun Jogezai	Mr. Babar H. Chaudhry

TERMS OF REFERENCE OF THE BOARD HUMAN RESOURCES COMMITTEE

Responsibilities:

The committee will be responsible for making recommendations to the Board for maintaining:

- A sound plan of organization for the company.
- An effective employees' development programme.
- Sound compensation and benefits plans, policies and practices designed to attract and retain the calibre of personnel needed to manage the business effectively.

Functions:

1. Review organization structure periodically to:
   a. Evaluate and recommend for approval of changes in the organization, functions and relationships affecting management positions equivalent in importance to those on the management position schedule.
   b. Establish plans and procedures that provide an effective basis for management control over company manpower.
   c. Determine appropriate limits of authority and approval procedures for personnel matters requiring decisions at different levels of management.

2. Review the employees' development system to ensure that it:
   a. Foresees the company's senior management requirements.
   b. Provides for early identification and development of key personnel.
   c. Brings forward specific succession plans for senior management positions.
   d. Training and development plans.

3. Compensation and Benefits:
   a. Review data of competitive compensation practices and review and evaluate policies and programmes through which the company compensates its employees.
   b. Approve salary ranges, salaries and other compensation for the CEO and Senior Management/Executive Directors reporting to the CEO.

Management Committee

Chairman	Member	Secretary
Mr. Irfan K. Qureshi	Mr. Yacoob Suttar	Ms. Shaista S. Sumar

The Management Committee, or Man-Com, a business strategy committee, meets on a weekly basis primarily to steer and review all key projects from conceptualization to implementation. Man-Com also reviews budgetary proposals and weeds out non-essential ones. Upon its approval, a final business plan is prepared and sent for Board approval. It also reviews major business issues and takes decisions accordingly.

Core Leadership Team

Chairman	Members		
Mr. Irfan K. Qureshi	Mr. Yacoob Suttar	Mr. Arif Nasib	Mr. Shahid Hussain
	Mr. Vaqar A. Khan	Col. Fazle Abbas	Mr. Ather Ali
	Mr. Zahid ul Hasan	Mr. Nadeem A. Memon	Ms. Shaista S. Sumar
Secretary	Mr. Tariq A. Khan	Mr. Jawaid H. Zuberi	Mr. Nehal Askari
Mir Shahzad Talpur	Mr. Tariq Razvi	Mr. Zulfiqar A. Jaffri	
	Mr. Aziz Hemani	Mr. Aijazuddin	
	Mr. Jehangir A. Shah	Mr. Nazir A. Zaidi	
	Mr. Shehzad Manzoor	Mr. Kahlid Mehmood	
	Mr. Babar H. Chaudhry	Mr. Qazi Azizuddin	

The Core Leadership Team or CLT comprises the Executive Directors and General Managers of the company. It is chaired by the Managing Director. In this meeting various company initiatives and progress on different assignments are discussed.

Executive Committee

Chairman	Members	Secretary
Mr. Irfan K. Qureshi	ED, GMs, DGMs and Departmental Heads	Ms. Shaista S. Sumar

The Executive Committee or Ex-Com is another high-level committee that meets once in a month to review day-to-day company affairs. The Ex-Com members share their problems as well as key accomplishments with other committee members. The Ex-Com is chaired by the Managing Director.

Employee Leadership Team

Chairman	Member	Secretary
Mr. Irfan K. Qureshi	Mr. Yacoob Suttar	Mr. Babar H. Chaudhry

The employee leadership team, or ELT, meets on a regular basis and reviews all matters pertaining to human resources including recruitment, transfers, disciplinary actions, promotions and employee benefits. The committee also reviews succession plans and organizational developments.

Steering Hopes!

PSO is supporting the country's economic activities by providing fuel to the sea ports.

Energizing
the Nation