REAPING BETTER TOMORROWS

PSO champions the agriculture sector by catering to its fuel requirements across the country's fertile expanses, empowering farmers nationwide to reap harvests.

Report to Shareholders

The Board of Management of PSO is pleased to present the thirty-fifth annual report as well as the audited financial statements of the company for the year ended June 30, 2011. This Report presents the financial, operating and corporate responsibility performance of the company, and highlights key business achievements and challenges faced during the year.

During FY11 your Company posted record after tax earnings of Rs. 14.78 billion as compared to earnings after tax of Rs.9.05 billion during the previous financial year. In this period PSO maintained its position as the market leader with an overall market share of 65.6% and recorded its net sales revenue at Rs. 975 billion in comparison to Rs. 877 billion in the previous year. Your Company's earnings per share also registered a significant improvement to Rs. 86.17 per share from Rs. 52.76 per share last year thereby, resulting in even more value for the stakeholders.

GLOBAL & DOMESTIC OVERVIEW

The global economy had undergone a severe recession in the past year, and recovery is now being witnessed at varying speeds in different economies. As per World Economic Outlook April 2011 the recovery is gaining strength, but unemployment remains high in advanced economies, and new macroeconomic risks are building in emerging market economies. The challenge for many emerging and some developing economies is to ensure that present boom-like conditions do not develop into overheating over the coming year.

The latest projections from the IMF report are that the World GDP growth on YoY basis is projected to be 4.5% in FY2012 (4.4% in FY2011). As per the report it is expected that growth in emerging and developing economies will accelerate based on fiscal stimulus and resumption of trade particularly in Asia. During FY2011 a rapid surge in food, oil and commodity prices along with a slowdown in the global economy during the year resulted in a higher inflation rate. Inflation pressures in many emerging and developing economies is broadening amidst accommodative macroeconomic policies and increasingly binding capacity constraints.

In the backdrop of this global situation Pakistan showed a real GDP growth of 2.4% (as per the "Economic

Survey of Pakistan 2010-2011") mainly due to the growth in the services sector. The impact of the massive floods, cost around $10 billion, brought damage to the cash crops and infrastructure and posed a further challenge to the economic growth in the country. Moreover, it also affected the public finances by depressing budget revenues and resulted in additional spending to meet the humanitarian and reconstruction needs.

Inflation rose to 15.5% (as per "Economic Survey of Pakistan 2010-2011") in FY2011 compared to 11.7% in the previous year. This was mainly due to rising commodity prices, weakening of the rupee due to stoppage of foreign exchange liquidity support for oil imports by the SBP, modest recovery in the domestic economy due to an increase in aggregate demand and upward adjustments of power and fuel tariffs.

Pakistan needs to build strong reforms to face various challenges including that of energy, investment and security.

PETROLEUM INDUSTRY OVERVIEW

The price of oil in the global market has seen considerable growth as the OPEC reference basket for oil has increased to around $110/bbl as compared to $73.44/bbl last year. According to "IMF April Outlook 2011", the increased scarcity in the global oil market arises from continued tension between rapid growth in oil demand in emerging market economies and the downshift in oil supply trend growth. If the tension intensifies, whether from stronger demand, traditional supply disruptions, or setbacks to capacity growth, market clearing could force further price spikes, as in 2007/08.

During FY11 local refineries produced approximately 7.6 million tons of POL products in comparison to 7.9 million tons last year, as refining capacity at different local refineries continually decreased due to the mounting circular debt and lower refining margins. This resulted in the industry importing around 12.4 million tons of products, mainly Furnace Oil (FO) and High Speed Diesel (HSD). PSO's share in these imports was 11.2 million tons with the 6.7 million and 3.4 million tons of FO and HSD respectively, being imported by the Company.

POL consumption was recorded at approximately 20.5 million tons in FY11 compared to 20.8 million tons last year due to negative growth in FO and HSD consumption based on rising circular debt and an overall economic slowdown.

Consumption of Black Oil in FY11 dropped to 9.1 million tons in comparison to 9.3 million tons last year, while White Oil consumption also decreased slightly from 10.2 million tons in FY10 to 10.1 million tons in FY11. The decline in consumption was caused mainly due to the floods of 2010 which disrupted FO supply to various power plants while at the same time production in local refineries decreased in response to rising circular debt.

In the period under review, demand of Motor Gasoline (Mogas) rose by 18% while HSD consumption decreased by 7%. The increase in motor gasoline demand was mainly due to an increase in motor vehicles sales, CNG sales holidays, increased usage of generators due to frequent power outages and a significant price gap between motor gasoline and HSD. Jet A-1 (local) also registered a demand increase of around 5% during the year due to an increase in demand by the defence sector and domestic carriers.

PSO PERFORMANCE

During FY11, PSO recorded a sale of 12.9 million tons of POL products as compared to 14.2 million tons during the preceding year.

BLACK OIL

PSO’s share in the Black Oil sector declined from 88.3% in FY10 to 78.2% in FY11 due to the countrywide floods of 2010 which played havoc with sales and supply of various petroleum products across the country. Purchase of products from local refineries was also affected as mounting circular debt constrained PSO from making product purchases.

WHITE OIL

PSO also registered a slight decrease in the White Oil sector as market shares declined to 54.3% in FY11 in comparison to 55.4% in FY10. This decrease was also attributed to the continuing overall economic downturn and rising receivables of the energy sector.

MOGAS

PSO successfully captured an additional 3.4% of the Mogas market share in FY11 thereby increasing the Company's overall market share to 49.3% in comparison to 45.9% in the previous year.

PSO's Mogas volumes grew by 27% in FY11, in comparison to the industry's growth of 18%, due to greater number of vehicles on the roads, increased generator usage and an increase in gas load-shedding over the year.

HSD

HSD sales continued to display a downward trend in line with the industry's depreciating trend. The industry registered a negative growth of 7% whereas PSO recorded a negative growth of 10%.

This decline was caused by a continued slowdown in economic activity as well as higher prices and the halting of HSD supplies to rural areas due to the floods of 2010. As a result, the company's market share decreased to around 54.9% from 56.8% during the preceding year.

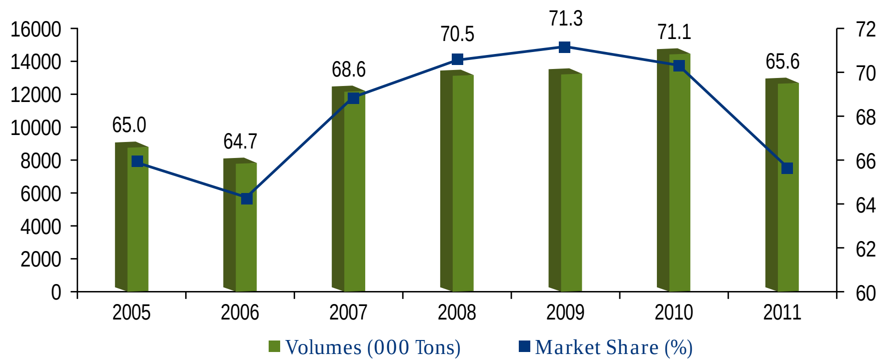
JP-1(local)

During FY11, PSO maintained its market leadership with 64.2% of the total market while sales volume registered a 2% growth during the year due to increase in demand by Defence and PIA.

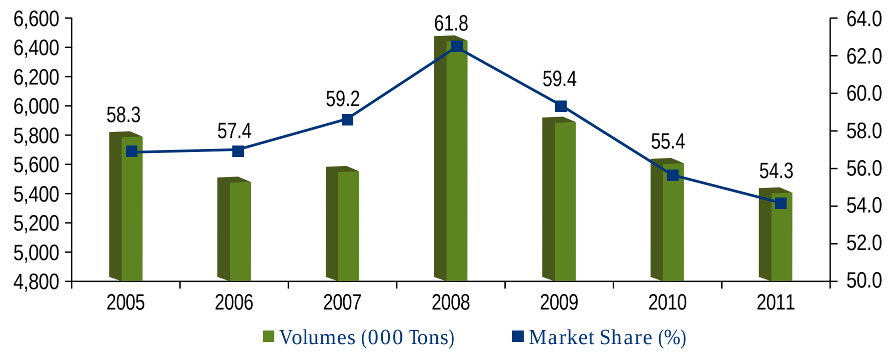
Product	Volume in '000 Tons		Market Share %	
	Jul - Jun 2011	Jul - Jun 2010	Jul - Jun 2011	Jul-Jun 2010
White Oil				
H S D	3,805	4,219	54.9	56.8
Motor Gasoline	1,132	892	49.3	45.9
JP-1 (Local)	454	445	64.2	65.8
S K O	90	99	55.7	60.5
White Oil	5,482	5,655	54.3	55.4
Black Oil				
FO	7,113	8,210	78.5	88.8
LDO	10	16	21.4	21.0
Black Oil	7,124	8,226	78.2	88.3
Total (White & Black Oil)	12,606	13,881	65.6	71.1
JP-1 (Export)	237	289	37.5	45.8

Source: OCAC

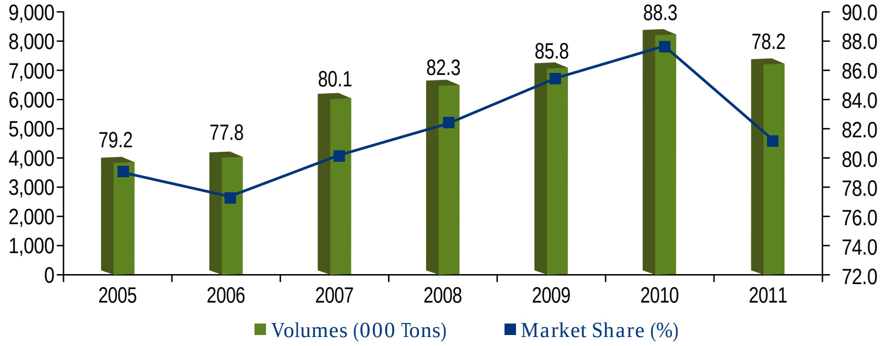
Total Liquid Fuels



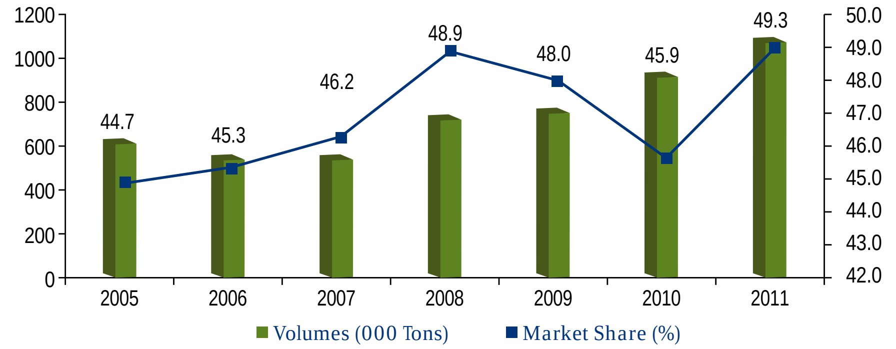
White Oil



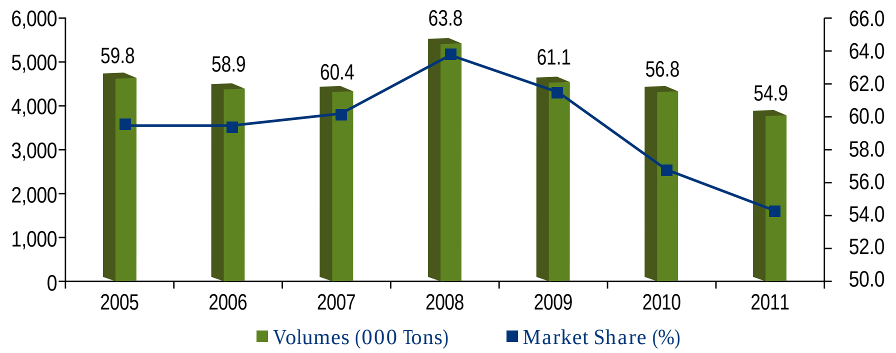
Black Oil



MOGAS



HSD

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BRIDGING DISTANCES

PSO strives to connect people by providing fuel to the railway sector which transports thousands of people and large amounts of goods and mail nationwide on a daily basis.

Key Achievments:

SUPPLY

During FY11, PSO imported over 11.2 million metric tons worth of POL products to meet the energy needs of the country. These imports represented over 90% of the total imports in the past fiscal year and included 6.7 million metric tons of FO, 0.65 million metric tons of Mogas, 3.7 million metric tons of HSD and 0.45 million tons of Jet fuel. During the same time period a further 1.75 million metric tons of products was purchased from local refineries.

LOGISTICS

Being mindful of the increasing energy needs of the country, PSO managed to maintain uninterrupted POL supplies to all its customers including the power, retail, industrial, aviation, marine and export sector customers. In view of the current prevailing energy crisis, your Company aligned all its resources to ensure maximum supplies to the power sector customers thus averting a dry out situation at any power plant. The demand/supply equilibrium maintained during the period could only have been made possible through well-coordinated and integrated efforts on the part of the supply chain team with extended support from our carriage contractors.

Logistically FY11 has been a very demanding year. The 1st quarter of FY11 was marked by devastating floods which caused havoc all across Pakistan. Despite facing severe constraints like the shutdown of Parco Refinery, severe damage to company infrastructure and extensive damage to the road & rail network during these floods, your Company formulated and implemented a comprehensive plan to ensure uninterrupted supplies from available alternative sources which have resulted in timely availability of product all across Pakistan. These efforts were duly acknowledged at all forums including Government of Pakistan.

Understanding our national obligation, we stood along with the flood victims during their hour of need. The upcountry logistics staffs played a pivotal role during the flood relief campaigns and worked beyond the call of duty in ensuring timely dispatches of relief goods to the deserving flood victims.

In line with our new vision for upgrading tank lorries with ADR standards and state-of-the-art pilferage proof mechanism, a record 437 tank lorries have been upgraded in FY11 bringing the total tally of New Vision tank lorries to 2,202.

In view of the growing reliance on road movement to deliver products to the customers, road safety remained a key area of focus. The HSE department along with Logistics formulated a comprehensive program named "Road Transport Management System" which aimed to improve safety standards for tank lorries and their crews. In the first phase briefing sessions on safe driving practices were conducted at Machike, Mehmood Kot, Sihala and Tarujaba and were attended by more than 1,000 tank lorries owners, drivers/cleaners and cartage contractors.

OPERATIONS

In the period under review your Company continued to focus on continual system improvements whose major components include operational performance and maintenance of infrastructure facilities. Through these improvements your Company was able to meet the surging demand of the power sector as well as providing Motor Gasoline (MG) throughout the country in the wake of the MG crisis.

With the implementation of IFEM throughout the country in FY11 your Company has identified and commenced operations from 15 key point installations and depots to receive, store and dispatch POL products to the industrial, retail and power sectors

In the year ended June 30th, FY11 your Company achieved the following operational milestones:

- The maximum throughput of 5500 KL of Motor Gasoline (PMG) Product in a single day was achieved during the month of June 2011 from Keamari Terminal A.
- Keamari Terminal A also dispatched nearly 190% more PMG in the period under review in comparison to the same period last year in order to cater to up-country requirements.
- During FY11, Keamari Terminal B recorded the highest dispatches of PMG at 6000 MT and Low Sulphur Furnace Oil (LSFO) at 10,000 MT in a single day.
- A record 16,000 MTs of High Sulphur Furnace Oil (HSFO) was filled on 26th June, 2011 at Zulfiqarabad Oil Terminal to fulfill the requirements of the power sector.
- An 18" diameter LSFO tanker discharge pipeline was re-commissioned at Keamari Terminal C after a period of 10 years for the enhancement of FO supplies.

- Three (03) new FO loading pumps were commissioned at Zulfiqarabad Oil Terminal, due to which average FO loading capacity has been increased from 10,000 to 12,000 MTs.
- Successfully converted Tank T-310 from PMG to Jet A-1 in order to accommodate large Jet A-1 ocean tankers at Keamari Terminal B.
- The Light Diesel Oil (LDO) blending project at Keamari Terminal C was successfully implemented, allowing your Company to become self reliant in the blending, storing and supplying of LDO to customers.
- The Fire Fighting System at Keamari Terminal C and the tank lorry calibration system at Zulfiqarabad Oil Terminal were converted from saline to sweet water in order to significantly reduce maintenance and minimize deterioration.
- A 20" diameter Tanker Discharge Line at Keamari Terminal A was replaced during ongoing operations without any disruption in product receipts.
- Enhancement of TL decantation facility at Lalpir Depot to double the decantation capacity in order to fulfill the needs of the power sector on a round the clock basis.
- Two MAERP meetings were held with all relevant stakeholders at Keamari Terminal A during FY11, in order to discuss the safety measures to be implemented in the Oil Installation area in the current law and order climate.
- ISO certified locations were recertified to revised ISO 9001:2008 during the year.
- Rehabilitation and restoration of Lalpir depot and Mehmoodkot installation after flood in July 2010.

In addition to these achievements your Company successfully faced unprecedented challenges caused by floods in the Northern Area. During this period the main Karakoram Highway leading to the areas of Gilgit-Baltistan was completely closed for about two months. However, your Company continued the supply of POL products to these areas through drums using the Balakot route. Approximately 16,000 liters of Oil was moved through this route using trucks and jeeps. POL products were also shipped to Gilgit via tank lorries using the Shindoor-Ghizr route from the Chitral Depot.

INFRASTRUCTURE CONSTRUCTION

During the first quarter of FY11, flood waters damaged a great deal of Company infrastructure across the country. Lalpir depot and JIMCO-Mahmoodkot Terminal remained submerged in 8 to 10 feet of water for around two weeks.

Besides the damage to civil infrastructure, all the electrical equipment at the locations had been damaged and required urgent repair/rehabilitation.

PSO teams worked day and night in order to repair these locations through the drainage of water, restoration of electricity and repair of civil infrastructure. The target time for the restoration of these locations was 45 days however; these installations were restored to full operative capacity within just 35 days and supplies to power plants and retail/industrial consumers were recommenced from these locations ahead of schedule.

During the period under review the department also installed a Tank Wagon Decanting Gantry with an approximate length of 1100 meters at Lalpir Depot in order to cater LSFO/HSFO Tank Wagon receipts and dispatches to AES Lalpir & KAPCO through dedicated pipelines. Currently the facility is handling more than 5000 MT/Day through Tank Wagons/Tank Lorries.

The New Multan Aviation Facility was also developed during the year. In a period of just 210 days the Company completed the entire process of designing, estimation, tendering and execution of all work which included the construction of three (03) 180 KL tanks, pipeline network, test rig, sheds, civil works and complete electrical components installation.

RETAIL BUSINESS

During FY11 your Company achieved yet another milestone in the retail sector by capturing 49.3% of the market share of MG, the highest in the last 20 years. In the period under review your Company also recorded the highest sales volume of MG ever in a fiscal year.

Despite facing various constraints including floods, refinery shut downs and restricted availability of MG on the part of our competition, PSO supplied fuel to all locations of the country by utilizing the strength of its extensive network and best inventory management practices.

In the period under review your Company also looked to improve HSE standards at PSO retail outlets. For this a conference with the theme of HSE Culture was organized at PSO House in June, 2011 and was attended by dealers from the Karachi Division. Dealer conferences were also arranged at Karachi, Jhelum and Islamabad to address any issue faced by our dealers and to integrate our business partners into our plans for the future.

CONSUMER BUSINESS

In FY11 the Consumer Business Department continued to outpace its previous year's sales records by registering a sales growth of 26% in Mogas, 51% in LDO and 10% in Lubricants.

Despite major challenges including floods and the non-availability of the railways your Company utilized the road network to move sizeable amounts of POL products throughout the country. This product movement includes the supply of nearly 590,000 MTs per month to the power sector. Your Company also managed to achieve a sales volume of 444,985 MTs of HSD and 7,110,873 MTs of Furnace Oil during the fiscal year.

PSO also signed a Fuel Supply Agreement with M/s Admore in FY11. This agreement has led Admore which held a network of 450 retail outlets, to shift 252 of these outlets to PSO. Through extensive negotiations your Company also initiated supplies to Karpak Power, a rental power project and sister concern of Karkay the Turkish Power Company.

The Consumer Business Department also achieved another milestone in internal efficiency and effectiveness when it achieved ISO 9001:2008 certification during the year.

LUBRICANT & AGENCY TRADE

The Lubricants and Agency Sales Department (LS&AT) has defined its vision to become the No.1 lubricants brand in Pakistan. During FY11, the company executed the first phase of its Lubricant revival plan with the revamp of its high-street sales infrastructure, re-launched the Diesel Engine Oil range DEO with redesigned packaging, labels and improved safety features as well as the launch of new product brands/SKUs including:

- Diesel Lube HD 50: To cater to the vast lower tier diesel engine lubricant consumers the company launched Diesel Lube HD 50, which was a major success in both the urban and rural markets.
- Generator Oil: Keeping in view the growing trend of generator usage countrywide the company established a benchmark in the lubes market by launching the first ever Generator Oil in Pakistan.
- CNG Plus 1 liter packs: There has been a major growth in CNG Rickshaws across the country and in order to fulfill their need for frequent oil changes, CNG Plus Oil was launched in 1 liter packs and is being promoted through private CNG stations.

The LS&AT Department has also launched an aggressive marketing and sales campaign through Lubricant field sales events titled "Lube Sales Mela" at various Retail Outlets across Pakistan which have had a significant positive impact on lube sales growth. This was in addition to the launch of DEO 3000 in an agriculture sector focused campaign titled "Bachat Bahar". This was the most successful agri-based promotion in the history of PSO with 370% growth in product sales during the 1st month and 160% growth during the 2nd month. In the period under review the Company also launched a promotion offering customers Free CNG on purchase of CNG Plus Oil. This campaign also proved highly successful with sales of over 60,000 liters recorded in Karachi alone.

The Company also successfully completed the Merchandising Activity and Availability Drive in the High Street segment and covered over 15,000 shops during the course of this campaign. A number of different trade incentive schemes were also offered over the year for both channel members as well as end consumers. During the year a conference titled CNG Lubricant Conference was also organized to further the spread of information and awareness about CNG specific lubricants in the market.

The Company also successfully bid for and won the lubes tender for both the Pakistan Railways for 3.2 million liters and the Pakistan Army for 1.3 million liters in the past fiscal year. The Lubricants sales team also recorded a sale of 4.6 million liters of lubricants in the month of June 2011, a figure that broke the record for highest monthly sales of the past three years.

CARDS DIVISION

In the period under review, the Cards Division continued its focus on consolidation and enrichment of the Cards Portfolio and targeted untapped, potential and profitable segments. The Cards Division also implemented stronger and more robust operational controls including customer data verification via the "NADRA VeriSys" application. The credit exposure of the Company was further rationalized during the year and exponential revenue growth was recorded owing to the provision of superior customer services and customizable product-offering to the customers. Your Company was also able to reinforce customer confidence and trust by being the only OMC in Pakistan able to ensure uninterrupted fuel supply in times of severe crisis, a fact that earned appreciation from customers across the board.

GASEOUS FUELS

Your Company has maintained its leadership position in the CNG sector with 22% of the total market share despite a continued ban on issuance of licenses to CNG stations and ongoing gas load shedding. PSO's sales volumes grew by 2% in the past year and provided additional revenue for the Company.

At PSO safety is considered an investment. In continuation with our vision to promote safety procedures and practices, the Company is organizing a series of CNG workshops for its technical staff and CNG Operators on an annual basis at its Division Offices in Islamabad, Lahore, Multan and PSO House. These sessions focus on the safe installation, operation and maintenance of CNG stations.

The Company's direct engagement with customers at retail outlets is another step in highlighting safe product usage and public education. Therefore, PSO has arranged CNG Customers Safety Awareness Campaigns at its CNG stations in all major cities. These workshops and campaigns have been well received and your Company's initiative to organize such events has been appreciated by our CNG Business partners, CNG Customers and the CNG industry at large.

PSO stations are well equipped with Gas leakage Detection systems which automatically shut off the gas supply on detection of leakages in the system. Furthermore, Quantity Measurement Units visit each CNG station in Karachi to monitor the quantity and quality of product being delivered to the customers.

AVIATION AND MARINE

In the period under review, PSO Aviation Marine and Exports Department made strong headway in the aviation sector by successfully negotiating and concluding agreements with new clients including Eritrean Airlines, Cargolux, NAS Air, Lufthansa, Fly Dubai and Avient Limited. Existing customer contracts with clients such as Cathay Pacific, Thai Airways, Jade Cargo, Etihad, AACO (Saudia, Oman, Gulf & Kuwait Airlines), Sri Lankan Airline, Turkish Airlines and DHL were successfully renegotiated with improved margins.

During the past year 447,284 MTs of Jet A-1 was sold against an objective of 441,538 MT.

During FY11 PSO's Marine Department increased product sales to 92,700 MTs against 87,144 MTs sold in the same period last year. The Marine Department also successfully bid for the supply tender floated by the Karachi Port Trust (KPT). Through this tender PSO is now the sole supplier for HSD to all KPT sea craft based in Karachi.

In the period under review PSO exported 6,006 product consignments of Jet fuel. The FOB export contract with M/s Nordic Camp Supply for supply of JP-8 was executed on 24th June, 2011.

NON-FUEL RETAIL

Keeping in view tight retail fuel margins and following international trends, your Company's focus on Non-Fuel Retail is increasing day-by-day. FY11 proved to be a good year for NFR as remarkable growth in terms of both revenue and activities were recorded during the year.

In the period under review the NFR department negotiated key agreements with major firms including an agreement with Allied Bank Limited for installation of ATMs at PSO retail outlets, an agreement with Subway for the introduction of Subway outlets at PSO stations and an agreement with Redbull for the display and merchandising of Redbull energy drinks at PSO Shop Stops across the nation.

SOARING TO PINNACLES

Carrying the aviation sector to new heights, Pakistan State Oil has state-of-the-art refueling facilities incorporating the highest safety standards at 9 major airports across the country.

NEW BUSINESS DEVELOPMENT

Your Company has been instrumental in the development of bio-diesel as an alternative source of energy and has promoted this initiative at various forums. In coordination with PARC your company has completed a number of research reports on Jathropha Cultivation for farmers and research universities in order to create Jathropha awareness. As a result of this propagation by PSO, Jathropha cultivation is being carried out on more than 3,000 acres of land, most of which is marginal/barren and waste land.

The company is also pursuing the Government of Balochistan to form a Joint Venture for allocation of 5,000 acres of land in order to develop a model farm for Jathropa and we are hopeful that this project will materialize by the end of this year. This project would be the first step towards Jathropha Mass Cultivation in Pakistan.

In recognition to its efforts, PSO has been invited as a guest speaker at different forums like the Federation of Pakistan Chambers of Commerce & Industry (F.P.C.C.I.), the 5th International Conference on Alternate Energy & Power and Faisalabad Agriculture University's Golden Jubilee celebrations to discuss Energy demand in Pakistan & propagate Jathropha cultivation.

In FY11 your Company also partnered with the Karachi Port Trust (KPT) to carry out a technical & commercial feasibility study for the development of a pipeline connecting the ports of Karachi Port Trust (KPT) and Port Qasim (PQ). This corridor will allow for the avoidance of vessels congestion at PQ, utilization of spare capacity at KPT and reduction in ship demurrage caused by delays in cargo handling. Surveys have been conducted to develop the route of the proposed facility. Basic designing works for project have been completed and PSO/KPT have initiated discussions to develop the project further in-coordination with the Government of Pakistan (GoP).

INTERNAL AUDIT DEPARTMENT

In its pursuit to automate the Internal Audit process system, Internal Audit Department (IAD) formally launched the CCH Team Mate, an Audit Management System, that has increased the efficiency of the entire audit process, including: risk assessment, scheduling, planning, execution, review and report generation. IAD's landmark achievement of FY11 included the creation of a Whistle Blowing Unit in PSO which was announced through MD office circular. Through this Whistle Blowing Policy, employees and outside parties are encouraged to report any wrong doing/improper conduct, and improve the governance and service quality of PSO.

IAD also improved the control environment through coverage of all departments, storage locations, depots and company owned & company operated retail outlets. The department is also acting as an advisor/facilitator to other departments for streamlining systems, effective implementation of Company's policies and procedures and for promoting revenue generating and cost saving ideas.

PROCUREMENT AND SERVICES

Procurement & Services (P&S) Department is dedicated to professional excellence and transparency in procurement processes. P&S Department, in quest of continual improvement, has taken many initiatives in the recent years for increased efficiency and effectiveness in procurement processes.

Keeping this legacy alive, P&S Department has implemented re-engineered procurement processes whereby different teams are handling various procurement activities. Each team is supervised by a Team Leader and administered by a Manager. This realignment of company practices with modern business practices shall inculcate a culture of teamwork and procurement efficiency.

Focus on customers is the key objective of P&S Department. "Procurement Helpdesk" has been introduced by P&S Department to facilitate both internal (user and support departments) as well as external (suppliers/contractors) stakeholders of P&S. This platform is being used by all concerned for seeking information and resolution of all operational issues pertaining to procurement policies and procedures.

Moreover, P&S Department has taken many other initiatives which include vendor management, market surveys, visits to other purchasing organizations for benchmarking industry's best practices, and revision of purchase policy in line with PPRA Rules.

QUALITY ASSURANCE

Successful businesses inevitably place great emphasis on managing quality control at PSO carefully planned steps are taken to ensure that the products and services offered consistently meet customer needs.

For facilitation and customer satisfaction the Quality Assurance (QA) Department operates Mobile Quality Testing Units (MQTUs) for on spot testing of POL products. Today there are 23 MQTUs at 13 PSO divisions providing testing services to industrial customers and retail outlets at their door-step. During FY11, two (02) new locations at Vehari Depot and Sargodha were added to enhance the area coverage for better performance and cost cutting purposes, whereas two (02) MQTU vans were replaced by new units and deputed at Islamabad and Lahore. During the period under review the QA department conducted visits of approximately 27,000 Retail Outlets, 140 Installations, 96 Depot and 82 CNG stations to monitor Quality and Quantity parameters at these locations.

The QA department has played an important role in the implementation of ISO 9001:2008 standards at PSO. We now have 16 Quality Management System (QMS) certified departments working as per ISO 9001:2008 requirements and delivering services with a vision of continual improvement along with customer satisfaction. Through the implementation of these standards PSO has been able to:

- Improve output consistency through implementation of well defined and documented procedure which allow for defect identification and correction at lower costs.

- Increase customer satisfaction and retention
- Improve employee awareness
- Promote international trade

The QA department also achieved another milestone through the installation of a device - Alcor's JFTOT 230 Mark III at Central Laboratory Keamari in Karachi which has allowed PSO to become the first OMC in Pakistan that is able to check Jet Fuel product specifications.

HUMAN RESOURCE MANAGEMENT

Here at PSO, HR plays a strategic role rather than an administrative one, a role that recognizes the link between talented/engaged individuals and organizational success. Over the past year renewed recruitment efforts have led to an ever-improving corporate image, which in turn has allowed the company to attract and retain a capable and qualified workforce.

Your Company has worked hard to balance the relation element between the organization and the employees. To foster work-life balance, PSO encourages recreational activities at all levels through the formation and functioning of the "PSO Club". PSO is also an equal opportunity employer with professional female employees constituting over 9% of the total workforce.

In FY11 the Company introduced a comprehensive 3-month orientation program for new entrants. Salaries for management employees were aligned with the market. In the period under review both the House Loan and Grievance Policy have been realigned as per best market practices.

TRAINING AND ORGANIZATIONAL DEVELOPMENT

Your Company is well aware that employee training is one of the most important investments that can be made for long-term benefits. As competition intensifies, employee competence development becomes increasingly important through the enhancement of employee skills.

The Training and Organization Development Department (T&OD) has been instrumental in ensuring that employees' skills are developed to bring them at par with the organization's professional requirements. The T&OD Department conducts regular training sessions and workshops designed to keep employees abreast of the latest management philosophies and the skills required for the present competitive environment.

By strengthening the Employee Development Programs the department provided 2800 traning inputs through 112 customized training sessions through internal and external trainers alongside approximately 207 training inputs through 94 sessions through external training institutes to our work force. These sessions have been designed to focus on work ethics and customer satisfaction while the emphasis in employee development programs has remained on Motivation, Leadership, Presentation Skills, Team Work, Time Management, Emotional Intelligence, Corporate Governance, Ethics etc. The department is also providing training to non-management staff at depots and terminals to increase their level of safety and occupational health awareness keeping in view best safety practices which help to reduce or eliminate accidents at the workplace.

T&OD has also been facilitating Universities by providing learning based professional internship programs during both the summer and winter vacations. These programs mentored students by giving them live projects for professional business experience. Last year a record 600 interns were inducted, and another 350 students from different universities were assisted in project assignments.

HEALTH, SAFETY AND ENVIRONMENT

At PSO, Health, Safety and Environment (HSE) is of prime concern and our priority is to implement HSE standards in all businesses. For this purpose, the HSE department has implemented a number of training sessions and programs in conjunction with significant occasions in order to impart knowledge and raise the awareness of employees in relation to HSE.

Some of these programs included:

- Inspire and Transform (Behavioral Based Safety Program)
- Contractor Safety Management System
- Journey Risk Management System
- Road Transport Management System (RTMS)
- HSE Orientation/Training Program for new inductees.

During FY11 - HSE Department organized different events focused on the development of sustainable HSE culture within the organization which are as under:

- World Environment Day
- World Health and Safety Day
- HSE Days at key facilities
- Earth Hour

The human element involved in HSE has never been far from the mind at PSO and the HSE Champion's program initiated last year has been revived in FY11 in order to further foster the culture of safety in the workplace.

ENERGY CONSERVATION:
PSO is well aware of the need to implement energy conservation measures in its offices and installations across the country. Some key initiatives implemented by PSO in this regard include:

- Switching off non-essential overhead lighting in day-lit areas and lighting in unoccupied rooms (e.g. equipment and storage areas).
- Switching off monitors, printers and other excess electrical equipment after work hours and during breaks.
- Checking and cleaning of Air-Conditioner filters and chillers on a regular basis.

ENVIRONMENTAL PROTECTION MEASURES:
Your Company is also working to improve the public environment and provide a better future for the citizens of Pakistan. Some measures that the Company has undertaken in this regard include:

- A Waste Management procedure has been developed that includes the proper handling, accumulation, storage, manifesting, transportation, and disposal/recycling

of the waste generated. The procedure is designed to assist in a company wide effort to provide protection for the environment and to comply with PSO's corporate requirements.
- Laboratory waste is being disposed off through incineration in association with an independent contractor.
- Air emission is being monitored at different facilities and control measure have been taken.
- Environmental laws and regulations applying on PSO have been communicated to the concerned departments and individuals.
- Environmental Assessment was carried out for PSO's Keamari Terminals. Gaps were identified and recommendations were made after detail survey and analysis by environmentalists.
-

Flood & Cyclone protection measures were communicated at all levels.

OCCUPATIONAL HEALTH AND SAFETY:

At PSO ensuring the health and safety of employees, contractors, customers and public is of critical importance. In order to ensure the safety of all our stakeholders, Your Company has carried out number of activities at all levels in this context.

Health awareness sessions were also conducted on the following topics:

- Ergonomics
- Smoking
- Female health
- Diabetes, Hepatitis and Stress Management

The following activities were also carried out over the year:

- Staff and Workers - Medical Screening and tests at PSO House and Facilities on Hepatitis; Diabetes; Cholesterol etc.
- HSE Coordinator's workshop on Chemical Handling and Forklift Safety in Karachi, Lahore and Islamabad.
- Dealers HSE Workshop was conducted.
- HSE Awareness session at CNG workshop.
- PSO House Floorwise training on Home Safety.

CORPORATE SOCIAL RESPONSIBILITY

During FY11, your Company remained the leading public sector contributor to social upliftment throughout Pakistan. In the period under review, the main focus of your Company's CSR efforts remained on three major sectors namely education, health and community development. With this objective in mind the Company has intensified its drive towards social betterment by pledging donations to stakeholders across various platforms.

During FY11, floods caused by unusually heavy rains caused massive devastation across large parts of the country. In this time of hardship the Company led from the front in flood relief operations across affected areas through the distribution of relief goods including ration bags and blankets. Furthermore, your Company established tent cities for displaced families in the affected areas.

In the education sector, your Company provided financial assistance to The Citizen Foundation (for construction of a school in Tando Mohammad Khan), Musab School System Lahore, Kaghan Memorial Trust Islamabad, Indus Valley School of Arts & Architecture and gave scholarships for deserving students of IBA Karachi and SZABIST Hyderabad etc.

In the health sector, your Company donated to SIUT, Dowites78, Ojha Institute-Dow University, MALC (Tripple Merger), Sundas Foundation Lahore, Liaquat Universtiy Eye Hospital Hyderabad, NICH, Patient Welfare Association-Mayo Hospital Lahore, Gulab Devi Chest Hospital Lahore and Patient Aid Foundation-JPMC etc.

Other major recipients of your Company's donations included the Child Aid Association, SOS Villages of Sindh, Helpline Trust, Family Education Services Foundation, Aga Khan Health Services, PREWA, Balochistan Blind Relief Association, CHAEF, FLAME and Fatimid Foundation Multan etc.

COMMUNITY INVESTMENT AND WELFARE SCHEMES

Over the past year your Company has invested considerable amounts in the health, education and community development sectors of the society. The aim of this exercise being to help further develop public welfare programs through various support mechanisms:

During FY11 PSO extended a helping hand to a number of organizations including the following:

Sindh Institute of Urology and Transplantation

Sindh Institute of Urology and Transplantation (SIUT) provides treatment for the greatest number of kidney related ailments in Pakistan and provides free treatment to hundreds and thousands of patients each year. PSO has extended its support to this noble cause by sponsoring the dialysis expenses of needy patients.

Child Aid Association

PSO has extended help to the Child Aid Association (CAA) located in National Institute of Child Health (NICH), Karachi through the provision of funds. These funds will be utilized for the treatment of children suffering from Cancer and who are from a less privileged socio-economic background.

Marie Adelaide Leprosy Center (KPK & Balochistan)

PSO has a long association with Marie Adelaide Leprosy Center (MALC) with regular contributions being made to this not for profit organization. This year PSO provided financial assistance for the Triple Merger Program (TMP) that is being implemented by MALC in the province of Balochistan and in Kohistan, assisting the National Tuberculosis Program (NTP) along with continued support to the Leprosy elimination program.

Family Education Services Foundation (Sindh)

Family Education Services Foundation is an educational, volunteer organization established since 1984. This foundation has established schools and vocational training centers for deaf students and provides free transportation to students, from poor families. PSO has facilitated the organization in acquiring a Shehzore Van for transportation of deaf students from Tando Mohammad Khan to Hyderabad for schooling purposes. In past PSO has also adopted 10 students and borne the cost of their education, as well as providing free fuel to the organization.

RURAL DEVELOPMENT PROGRAMMES

PSO has been working hard to initiate and sustain rural development programs for the enhancement of health and education especially that of the rural population. Some of these initiatives include:

Aga Khan Health Services

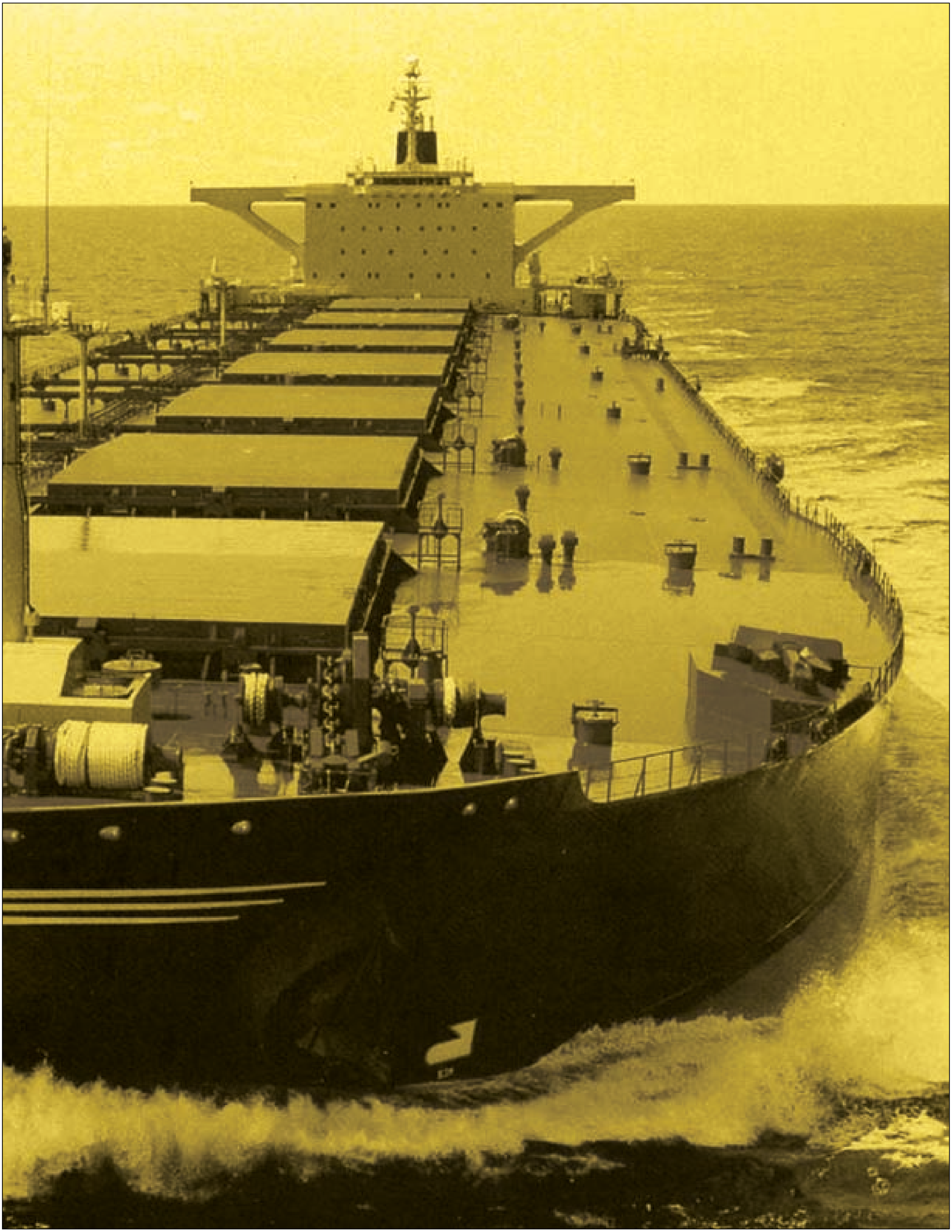
Your Company has partnered with the Aga Khan Health Services, Pakistan for the provision of basic healthcare services for children from lower income backgrounds in rural parts of the country. This project is dedicated to improving living conditions and opportunities for the poor, without regard to their faith, origin or gender.

SOS Children's Villages Pakistan

SOS has been successfully running a children's village in Malir since 1987. The existing facilities include a youth home, a Higher Secondary School which has been providing quality education to under privileged children and a Medical Centre in the village premises which aside from the children, staff and school children also provides basic healthcare facilities to women and children of the area. Your Company has donated generously to SOS in order to help in the establishment of children's library.

Kaghan Memorial Trust

Your Company sponsored 12 needy children this year stationed at the Kaghan Memorial Trust. The school began its classes in 2008, and now has an enrollment of 280 children for the Academic Year started in March 2011.



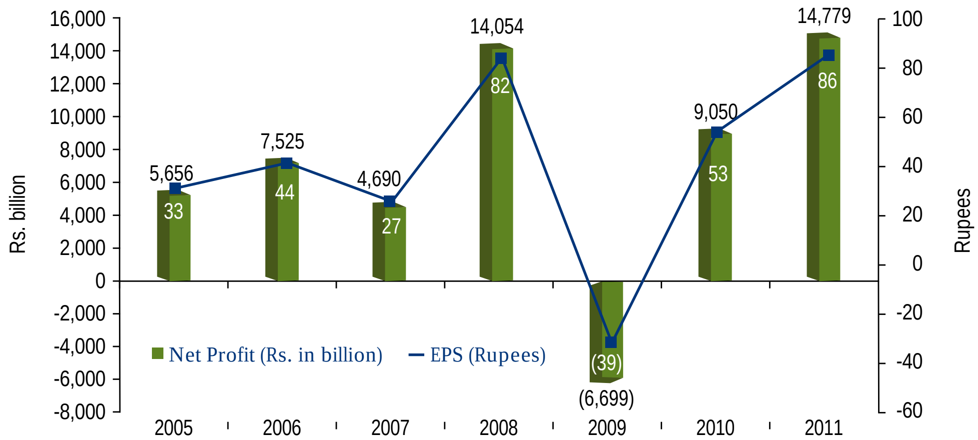
BRIGHTENING HORIZONS

PSO brightens the nation's horizons on a global level by carrying national aspirations on merchant ships and naval vessels on the high seas with environment-friendly fuel supplies from PSO.

Financial Performance

For the year ended June 30, 2011, the Company achieved an impressive performance with turnover touching Rs. 975 billion mark compared to Rs. 877 billion in FY10 representing a growth of 11%. Your Company was able to post highest ever after tax earnings of Rs. 14.78 billion as compared to Rs. 9.05 billion in the previous financial year. The earning per share of Rs. 86.17 was also at record level as compared to Rs. 52.76 last year, representing 63% increase.

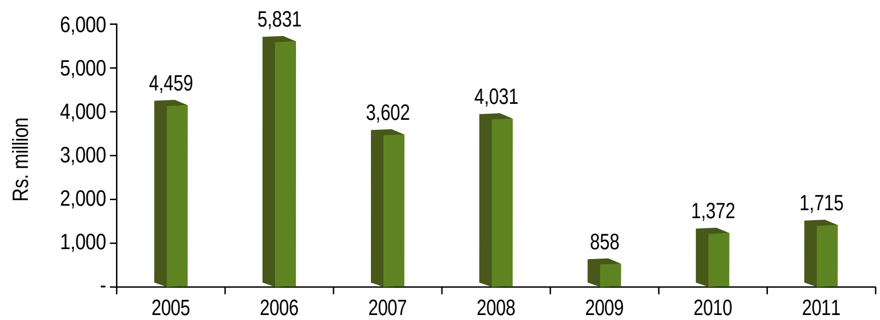
Trend of Profitability



DIVIDENDS AND OTHER APPROPRIATIONS

Based on these results, the board announced a final dividend of Rs. 2 per share. Combined with the earlier interim dividends aggregating Rs. 8 per share, the total dividend for the year stood at Rs.10 per share translating into a total payout of Rs. 1.715 billion to the shareholders.

Dividend Payout



CONTRIBUTION TO NATIONAL EXCHEQUER

During FY11, your Company contributed Rs.197 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, your Company continued to face severe liquidity problems due to ever-increasing receivables on account of prevailing circular debt crisis. As of June 30, 2011, major power generation companies including WAPDA, KAPCO, HUBCO and KESC owe your Company an aggregate amount of Rs.115 billion. Further, GoP owes your Company Rs.14.5 billion on account of Price Differential Claim (PDC). This has created such an acute financial crunch that we had to struggle to meet our import and tax related payments. Consequently, the Company owed Rs. 55 billion to local refineries and Rs. 94 billion to international suppliers and hence the Company had to resort to short-term borrowings to meet its working capital requirements.

FINANCIAL CHARGES

The heavy bank borrowings resulted in high financial costs to the Company in terms of interest payments, which continues to depress your Company's profitability. The Company incurred Rs. 11.9 billion as financial charges during FY11 as compared to Rs. 9.8 billion in the previous financial year.

PAK RUPEE DEVALUATION

In addition to heavy financial charges borne by your Company, Pakistan Rupee devaluation of 0.5% against the US$ resulting in an exchange loss of Rs. 684 million also 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

Your management continues to make stringent efforts to overcome liquidity problems and has formulated various strategies to overcome it. 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, constant pursuit for recovery of receivables from power sector as well as Government of Pakistan (GoP) was made throughout FY11 to ensure availability of products in the country. As a result of these measures, the Company received Rs. 179 billion from the power sector against supplies of Rs. 295 billion in FY11 and Rs. 3.3 billion on account of delayed payment charges out of Rs. 26 billion recoverable from the power sector. Further, your Company received Rs.1.8 billion on account of price

Differential Claim (PDC) from GoP in FY11 and Rs. 5 billion subsequent to year end.

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 15.1 - Import price differential on motor gasoline aggregating to Rs. 6,120 million receivable from GoP.
- Note 15.2 - Price differential on local High Speed Diesel aggregating to Rs. 1,117 million receivable from GoP.
- Note 15.3 - Price differential on account of supply of furnace oil to KESC at Natural Gas prices amounting to Rs. 3,909 million.
- Note 15.4 - 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 25.1.1 - Non accrual of markup on delayed payments for reasons given in aforementioned note.
- Note 25.1.2 - Tax implication of Rs. 958 million on the Company for the 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, statement of comprehensive income 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 and accounting estimates are based on reasonable and prudent judgement.
- 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 seven years in summarized form is annexed.
- The following is the value of investment of provident and pension funds based on their respective un-audited accounts as on June 30, 2011:

	Rs Million
PSOCL Management Employees' Pension Fund	1,875
PSOCL Workers' Staff Pension Fund	1,527
State Oil Co. Ltd., Staff Provident Fund	1,396
State Oil Co. Ltd., Employees' Provident Fund	879
PSOCL Employees' Gratuity Fund	1,115

- During the year, 5 meetings of the Board of Management were held and the attendance by each member is given on Page 149.
- 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's (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. However, Your Company has been continuously meeting the nation's energy challenges despite limited domestic refining capacity through the import of refined products.

Your Company is geared to continue ensuring uninterrupted product availability to all sectors of the economy across the nation through the import of deficit products in a cost effective and timely manner. The Company plans to augment its storage infrastructure to meet the future oil demand. We have already chalked out a development/ upgradation plan for key storage units 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 in operations shall be increased manifold if these two ports are connected to each other through an integrated pipeline system.

Your Company has also launched the first phase of its Lubricant revival plan with the relaunch of Diesel Engine Oil range. Keeping in view the growing generator usage your Company established another benchmark in the lubes market by launching Generator Oil for the first time in the Pakistani market. The sale of CNG Plus Oil for CNG rickshaws has also been initiated through private CNG stations as a pilot project in Karachi. Additionally a Merchandising and Availability Drive of over 15,000 shops was also completed.

PSO's focus on the improvement of customer service at all points remains strong with the introduction of the new customer help line named Ta'aluq Careline. Your Company also continues to provide environment-friendly ethanol based gasoline i.e. E-10 across Sindh and is planning for the launch of the same across the other provinces of the country.

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 have tested vehicles in association with various automobile companies.

Your Company also plans to launch a chip-based fuel card for corporate and fleet customers in the upcoming year that will provide increased security and flexibility options for our customers. PSO believes that the future growth lies in innovation, highest level of customer service and diversification into new business areas.

The Circular debt crisis continued to play a major role in holding back your Company in FY11 and resulted in a delay in plans for brand repositioning, capacity-building and enhancement of the storage network. Moreover, other investment and expansion projects had to be withheld due to the mounting circular debt.

The management of your Company remains committed to maintain transparency in the organization. Your Company also continues 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 special gratitude to the Government of Pakistan, and especially the Ministry of Petroleum & Natural Resources as well as the Ministry of Finance, for their unwavering support throughout the fiscal year. As we continue our journey of success, we at PSO look forward to achieving even greater heights in the coming year and aim to create even more value for you, our shareholders, whilst working to meet and exceed the country's growing demand for energy.

Jehangir Ali Shah	Sohail Wajahat H. Siddiqui
Managing Director	Chairman

August 9th, 2011

WHEELING ON TO EXTRA MILES

Having the largest and the most reliable distribution network of the country, consumers trust PSO to fuel their journeys no matter the distance or destination.

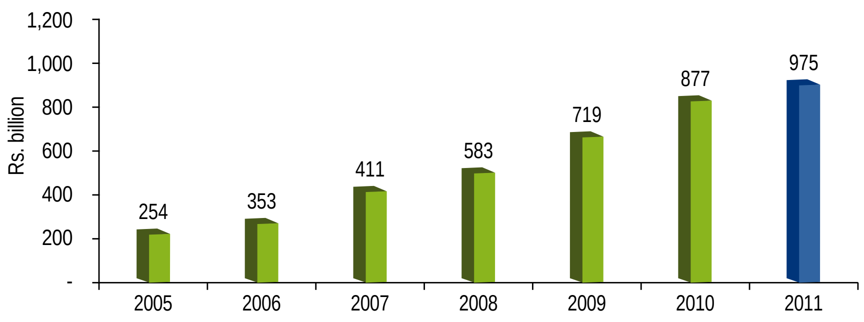
PSO at a Glance

Rupees in Million (unless noted)

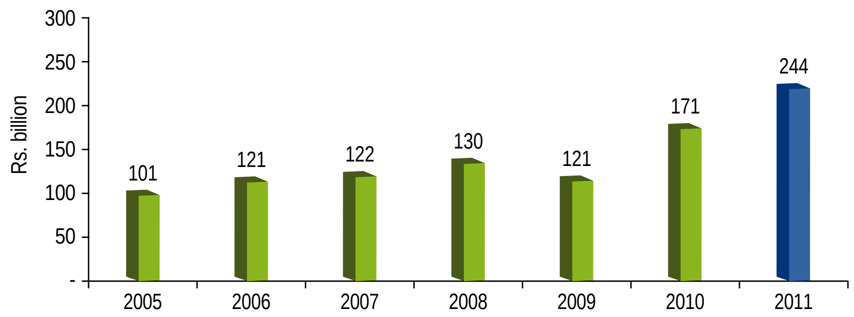
		2011	2010	2009	2008	2007	2006	2005
Sales Volume (Million Tons)		12.9	14.2	13.2	13.0	11.8	9.8	9.7
Profit & Loss Account								
Sales Revenue		974,917	877,173	719,282	583,214	411,058	352,515	253,777
Net Revenue		820,530	742,758	612,696	495,279	349,706	298,250	212,504
Gross Profit		34,280	29,166	3,010	30,024	12,259	17,207	13,746
Operating Profit / (Loss)		25,217	21,233	(5,577)	22,451	7,950	11,264	9,340
Marketing & Administrative Expenses		6,690	5,181	5,113	4,425	3,748	3,428	3,219
Profit / (Loss) before Tax		17,974	17,963	(11,357)	21,377	7,122	11,418	9,191
Profit / (Loss) after Tax		14,779	9,050	(6,699)	14,054	4,690	7,525	5,656
Earning / (Loss) before Interest, taxes, depreciation & Amortization (EBITDA)		31,017	29,028	(3,983)	23,912	9,420	13,385	10,546
Capex		859	559	694	620	1,609	751	1,506
Balance Sheet								
Share Capital		1,715	1,715	1,715	1,715	1,715	1,715	1,715
Reserves		40,188	27,621	19,156	29,250	19,224	19,098	15,830
Shareholders' Equity		41,903	29,336	20,871	30,965	20,939	20,813	17,545
Property Plant & Equipment		6,114	6,411	7,056	7,567	8,138	7,674	8,256
Net current assets		35,302	23,298	8,666	22,143	11,128	10,978	7,970
Long Term Liabilities		3,257	2,836	2,528	2,409	2,412	2,299	1,999
Profitabiltiy Ratios								
Gross Profit ratio	%	3.5	3.3	0.4	5.1	3.00	4.88	5.42
Net Profit ratio	%	1.5	1.0	(0.9)	2.4	1.14	2.13	2.23
EBITDA margin	%	3.18	3.31	(0.55)	4.10	2.29	3.81	4.21
Return on Shareholders' Equity	%	35.3	30.8	(32.1)	45.4	22.4	36.2	32.2
Return on total assets	%	5.6	4.5	(4.4)	11.1	6.30	10.72	10.80
Return on capital employed	%	66.2	86.6	(21.9)	68.1	35.4	54.1	48.9
Asset utilisation								
Inventory turnover ratio	x	12.7	14.4	11.8	10.1	11.7	11.5	11.2
Debtor turnover ratio	x	8.0	8.9	12.6	24.6	32.5	38.1	39.9
Creditor turnover ratio	x	5.7	6.1	6.3	9.6	10.8	12.5	13.5
Total asset turnover ratio	x	4.19	4.93	5.13	5.78	5.70	5.76	5.37
Fixed asset turnover ratio	x	155.7	130.3	98.4	74.3	52.0	44.3	31.7
Investment								
Earning per share	Rs.	86.17	52.76	(39.05)	81.9	27.3	43.9	33.0
Market value per share (Year End)	Rs.	264.58	260.20	213.65	417.2	391.5	309.0	386.0
Highest Price	Rs.	313.80	342.95	428.79	539.7	418.3	452.3	490.1
Lowest Price	Rs.	236.68	218.33	96.00	317.5	280.5	264.6	239.0
Break-up value	Rs.	244	171	121	180	121.7	121.0	102.0
Price earning ratio (P/E)	x	3.1	4.9	(5.5)	5.1	14.3	7.0	11.6
Dividend per share	Rs.	10.0	8.0	5.0	23.5	21.0	34.0	26.0
Dividend payout	%	11.60	15.16	-	28.68	76.8	77.5	78.8
Dividend yield	%	3.78	3.07	2.34	5.63	5.36	11.00	6.74
Dividend cover ratio	x	8.59	6.58	-	3.48	1.30	1.29	1.26
Leverage								
Interest Cover ratio	x	2.5	2.8	-	16.4	6.86	12.74	25.21
Current Ratio		1.16	1.14	1.07	1.24	1.22	1.24	1.24
Quick Ratio	x	0.72	0.79	0.75	0.57	0.64	0.63	0.62
Summary of Cash Flow Statement								
Net cash (outflow)/inflow from operating activities		(8,419)	4,958	(4,829)	4,116	3,716	1,703	5,308
Net cash (outflow)/inflow from investing activities		(397)	88	(3)	(173)	(708)	(174)	(1,220)
Net cash (outflow)/inflow from financing activities		(2,306)	(1,944)	512	(9,716)	(1,590)	4,036	(3,087)
Cash & cash equivalents at end of the year		(19,531)	(8,409)	(11,510)	(7,191)	(1,418)	2,836	(192)

PSO at a Glance

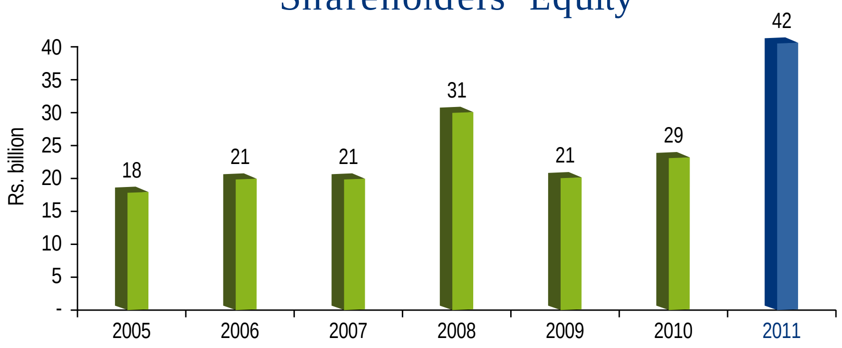
Sales Revenue



Break-up Value

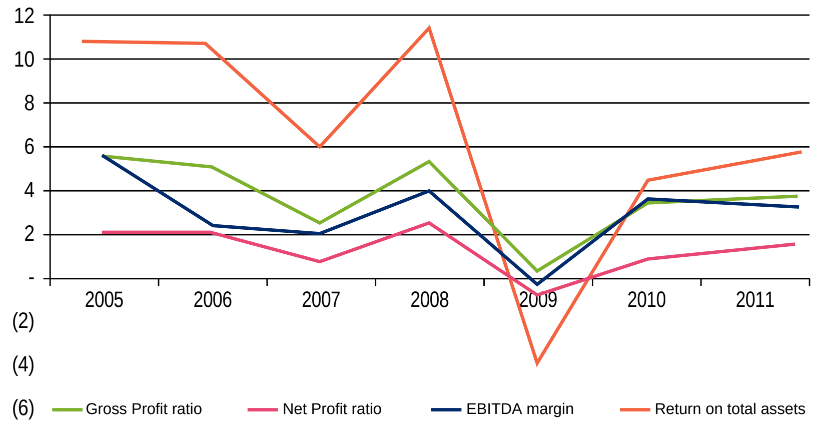


Shareholders' Equity

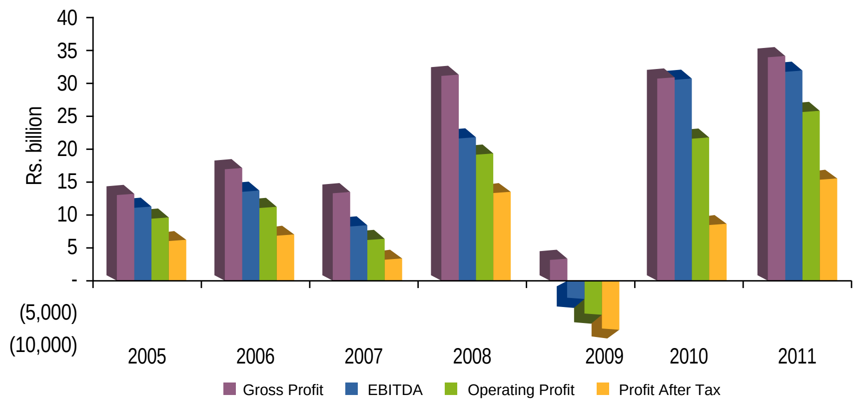


PSO at a Glance

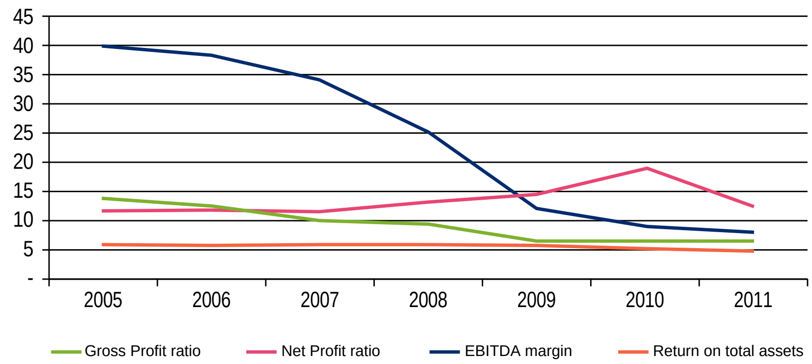
Profitability Ratios



Profitability Analysis



Asset Utilisation



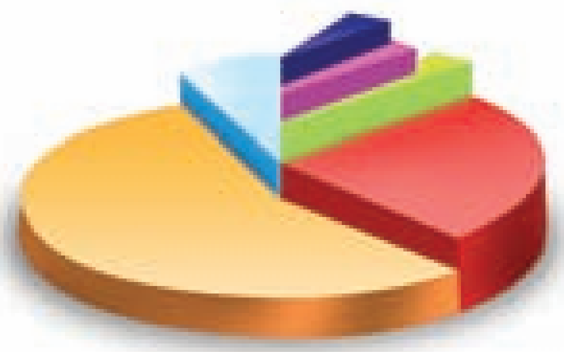
Composition of Balance Sheet

Assets

FY 2011

Trade debts	48%
Stock-in-trade	36%
Other receivables	9%
Other Current Assets	3%
Property, plant & equipment	2%
Long term investments	1%
Cash and bank balances	1%

FY 2010



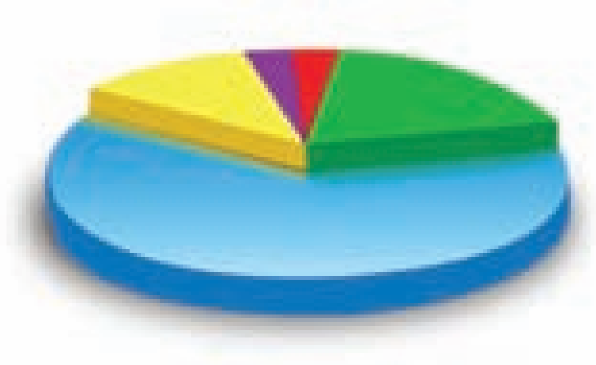
Trade debts	59%
Stock-in-trade	29%
Other receivables	7%
Property, plant & equipment	3%
Long term investments	1%
Cash and bank balances	1%

Figures have been rounded off to nearest percentage.

Composition of Balance Sheet

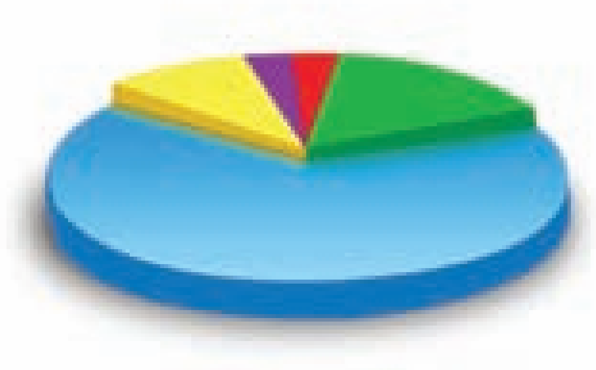
Equity And Liabilities

FY2011



Trade Paybles & Other Short Term Liabilities	73%
Reserves	15%
Short Term Borrowings	10%
Share Capital	1%
Total Long Term Liabilities	1%

FY2010



Trade Paybles & Other Short Term Liabilities	78%
Reserves	14%
Short Term Borrowings	6%
Share Capital	1%
Total Long Term Liabilities	1%

Figures have been rounded off to nearest percentage.

Statement of Value Additions

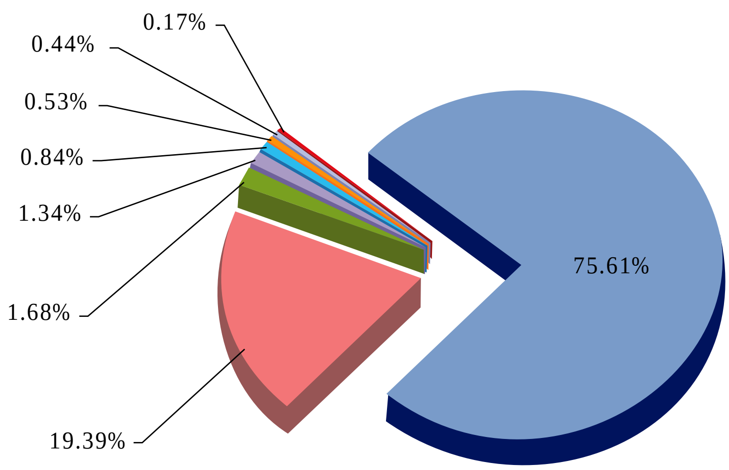
For the year ended June 30, 2011

	2011		2010	
	Rupees in '000	%	Rupees in '000	%
Wealth Generated				
Sales	974,917,064	99.72	877,173,254	99.76
Other operating income	1,815,951	0.19	1,479,054	0.17
Other income	929,611	0.09	670,787	0.07
	977,662,626	100.00	879,323,095	100.00
Distribution of Wealth				
Cost of sales (excluding duties)	739,186,673	75.61	660,577,925	75.12
Government taxes (includes income tax, sales tax, other duties, WPPF & WWF)	189,559,818	19.39	181,822,232	20.68
Inland freight equalization margin	16,417,542	1.68	15,851,726	1.80
Retained for future growth	13,064,124	1.34	7,677,444	0.87
Net finance costs	8,172,311	0.84	3,941,048	0.45
Distribution, marketing, administrative & other expenses	5,203,271	0.53	4,856,564	0.55
Employees' remuneration	4,286,370	0.44	3,200,171	0.36
Dividend to shareholders	1,715,190	0.164	1,372,152	0.167
Contribution to society	57,327	0.006	23,833	0.003
	977,662,626	100.00	879,323,095	100.00

Contribution & Value Additions

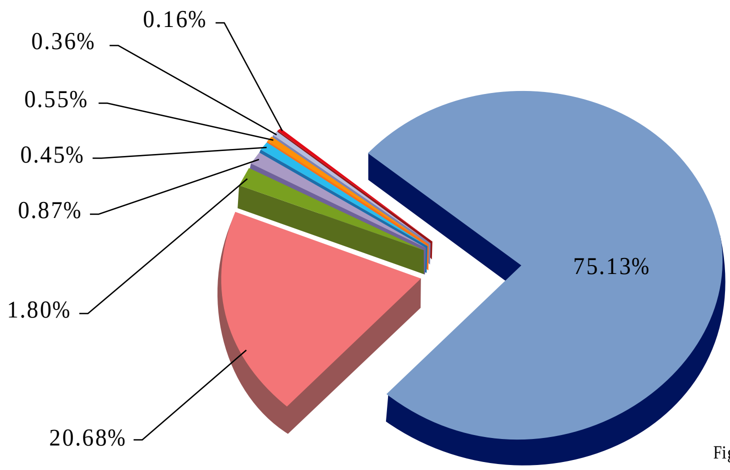
FY 2011

- Cost of sales (excluding duties)
- Government taxes
- Inland freight equalization margin
- Retained for future growth
- Net finance costs
- Distribution, marketing, administrative & other expenses
- Employees' remuneration
- Dividend to shareholders



FY 2010

- Cost of sales (excluding duties)
- Government taxes
- Inland freight equalization margin
- Retained for future growth
- Net finance costs
- Distribution, marketing, administrative & other expenses
- Employees' remuneration
- Dividend to shareholders



Figures have been rounded off to nearest percentage.

Financial Analysis

Balance Sheet

	2011	2010	2009	2008	2007	2006	2005
VERTICAL ANALYSIS							
Property, plant and equipment	2.33%	3.17%	4.60%	5.95%	10.89%	10.94%	15.78%
Long term investments	0.88%	1.00%	1.40%	2.13%	4.00%	4.67%	4.43%
Long term loans, advances and receivables	0.12%	0.16%	0.26%	0.38%	0.84%	0.99%	1.47%
Long term deposits and prepayments	0.06%	0.06%	0.05%	0.06%	0.09%	0.11%	0.20%
Deferred tax	0.36%	0.00%	3.28%	0.32%	0.54%	0.58%	0.24%
Total Non-Current Assets	3.75%	4.39%	9.60%	8.84%	16.36%	17.29%	22.13%
Current Assets							
Stores, spares and loose tools	0.04%	0.06%	0.07%	0.09%	0.17%	0.18%	0.25%
Stock-in-trade	36.31%	28.97%	26.53%	49.06%	39.55%	40.14%	39.35%
Trade debts	47.48%	58.10%	52.48%	26.67%	18.20%	16.70%	12.98%
Loans and advances	0.16%	0.20%	0.27%	0.31%	0.49%	0.39%	0.41%
Deposits and short term prepayments	0.39%	0.18%	0.36%	0.32%	2.12%	1.84%	1.39%
Other receivables	8.57%	7.20%	8.35%	12.34%	21.08%	20.75%	19.80%
Taxation - net	2.40%	0.02%	0.46%	0.00%	0.00%	0.00%	0.00%
Cash and bank balances	0.88%	0.88%	1.88%	2.37%	2.04%	2.71%	3.67%
Total Current Assets	96.25%	95.61%	90.40%	91.16%	83.64%	82.71%	77.87%
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	0.65%	0.85%	1.12%	1.35%	2.29%	2.44%	3.28%
Reserves	15.30%	13.66%	12.49%	23.01%	25.72%	27.22%	30.26%
Total Shareholders Equity	15.95%	14.51%	13.60%	24.36%	28.02%	29.66%	33.54%
Long term deposits	0.39%	0.47%	0.56%	0.66%	1.03%	1.06%	1.29%
Retirement and other service benefits	0.85%	0.93%	1.09%	1.24%	2.20%	2.22%	2.53%
Total Long term Liabilities	1.24%	1.40%	1.65%	1.90%	3.23%	3.28%	3.82%
Trade and other payables	73.04%	77.15%	71.78%	63.78%	55.44%	52.47%	49.30%
Provisions	0.26%	0.34%	0.45%	0.57%	0.92%	1.11%	1.44%
Accrued interest / mark-up	0.16%	0.16%	0.36%	0.17%	0.18%	0.17%	0.12%
Short term borrowings	9.34%	6.44%	12.16%	8.65%	12.13%	10.90%	9.20%
Taxes payable	0.00%	0.00%	0.00%	0.57%	0.09%	2.42%	2.57%
Total Current Liabilities	82.81%	84.09%	84.75%	73.74%	68.76%	67.06%	62.64%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

HORIZONTAL ANALYSIS	2011	2010	2009	2008	2007	2006	2005
Property, plant and equipment	74%	78%	85%	92%	99%	93%	100%
Total Non-Current Assets	85%	77%	127%	97%	106%	105%	100%
Stock-in-trade	463%	285%	198%	303%	144%	137%	100%
Trade debts	1837%	1730%	1186%	499%	200%	173%	100%
Other receivables	217%	141%	124%	151%	152%	141%	100%
Cash and bank balances	120%	93%	150%	157%	79%	99%	100%
Total Current Assets	621%	475%	340%	284%	153%	142%	100%
Total Assets	502%	387%	293%	243%	143%	134%	100%
Share Capital	100%	100%	100%	100%	100%	100%	100%
Reserves	254%	174%	121%	185%	121%	121%	100%
Total Shareholders Equity	239%	167%	119%	176%	119%	119%	100%
Total Long term Liabilities	163%	142%	126%	121%	121%	115%	100%
Trade and other payables	744%	605%	427%	314%	161%	143%	100%

Financial Analysis

Profit and Loss Account

VERTICAL ANALYSIS

	2011	2010	2009	2008	2007	2006	2005
Sales	100%	100%	100%	100%	100%	100%	100%
Sales Tax	14.15%	13.52%	13.54%	12.7%	12.8%	12.6%	12.9%
IFEM/Levies	1.68%	1.81%	1.28%	2.35%	2.17%	2.76%	3.39%
Net sales	84.16%	84.67%	85.18%	84.92%	85.07%	84.61%	83.74%
Cost of products sold	80.65%	81.35%	84.76%	79.77%	82.09%	79.73%	78.32%
Gross Profit	3.52%	3.33%	0.42%	5.15%	2.98%	4.88%	5.42%
Operating Costs							
Transportation	0.08%	0.07%	0.07%	0.06%	0.09%	0.10%	0.12%
Administrative & Marketing Expenses	0.69%	0.59%	0.71%	0.76%	0.91%	0.97%	1.27%
Depreciation	0.12%	0.13%	0.17%	0.20%	0.28%	0.31%	0.39%
Other operating expenses	0.23%	0.28%	0.56%	0.57%	0.18%	0.70%	0.42%
Total Operating Costs	1.12%	1.07%	1.50%	1.59%	1.46%	2.08%	2.20%
	2.40%	2.25%	-1.09%	3.56%	1.52%	2.80%	3.21%
Other / Other Operating income	0.61%	0.86%	0.31%	0.29%	1.93%	0.40%	0.55%
Profit / (Loss) from Operations	3.01%	3.12%	-0.78%	3.85%	1.93%	3.20%	3.68%
Finance cost	1.22%	1.13%	0.87%	0.23%	0.28%	0.25%	0.15%
Share of Profit of Associates	0.05%	0.06%	0.06%	0.05%	0.08%	0.29%	0.09%
Profit / (Loss) before taxation	1.84%	2.05%	-1.58%	3.67%	1.73%	3.24%	3.62%
Taxation	0.33%	1.02%	0.65%	1.26%	0.59%	1.10%	1.39%
Net Profit / (Loss)	1.52%	1.03%	-0.93%	2.41%	1.14%	2.13%	2.23%

HORIZONTAL ANALYSIS

	2011	2010	2009	2008	2007	2006	2005
Sales	384%	346%	283%	230%	162%	139%	100%
Sales Tax	422%	363%	298%	227%	160%	136%	100%
IFEM/Levies	191%	184%	107%	159%	104%	113%	100%
	374%	326%	258%	213%	149%	131%	100%
Net sales	386%	350%	288%	233%	165%	140%	100%
Cost of products sold	396%	359%	307%	234%	170%	141%	100%
Gross Profit	249%	212%	22%	218%	89%	125%	100%
Operating Costs							
Transportation	259%	202%	164%	108%	118%	117%	100%
Administrative & Marketing expenses	208%	161%	159%	137%	116%	107%	100%
Depreciation	116%	120%	121%	119%	116%	110%	100%
Other operating expenses	208%	225%	371%	312%	70%	229%	100%
Total Operating Costs	195%	168%	193%	166%	108%	131%	100%
	287%	242%	-96%	254%	77%	121%	100%
Other / Other Operating Income	502%	639%	188%	144%	144%	118%	100%
Profit / (Loss) from operations	314%	293%	-60%	240%	85%	121%	100%
Finance cost	3211%	2666%	1681%	369%	312%	239%	100%
	195%	195%	-132%	235%	76%	116%	100%
Share of Profit of Associates	233%	233%	204%	133%	149%	468%	100%
Profit / (Loss) before taxation	196%	195%	-124%	233%	77%	124%	100%
Taxation	90%	252%	-132%	207%	69%	110%	100%
Net Profit / (Loss)	261%	160%	-118%	248%	83%	133%	100%

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. 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, except for one director who has been awarded dispension pertaining to clause III of the Code by the Securities and Exchange Commission of Pakistan.

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 April 26, 2011 and May 13, 2011 respectively, which were filled on the same day through the notification of the Federal Government.

5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by employees and directors 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, three meetings were presided over by the chairman and the remaining two meeting was 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 directors of the Board of the Company are individuals with vast diversified experience of the financial and corporate affairs. They are also directors in other listed companies and are well conversant with the local laws and practices.

10. The BOM has approved the appointment of Company Secretary and Head of Internal Audit including their remuneration and terms and conditions of employment during the year. There was no change in the position of 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.

Jehangir Ali Shah
Managing Director

Karachi: August 9, 2011

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 9, 2011

Auditors' Report to the Members

For the year ended June 30, 2011

We have audited the annexed balance sheet of Pakistan State Oil Company Limited ("the Company") as at 30 June 2011 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;

    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 2011 and of the profit, total comprehensive income, cash flows and changes in equity for the year then ended; and

d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

We draw attention to:

- Notes 15.1 to 15.4 to the financial statements. The Company considers the aggregate amount of Rs. 14,553 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;

- Note 25.1.1 to the financial statements. The Company has not accrued mark-up on delayed payments for reasons given in the aforementioned note. The ultimate outcome of the matter cannot presently be determined; and

- Note 25.1.2 to the financial statements regarding tax implication of Rs. 958 million on the Company for the assessment years 1996-97 and 1997-98. The ultimate outcome of the matter cannot presently be determined.

Our opinion is not qualified in respect of above-mentioned matters.

KPMG Taseer Hadi & Co.
Chartered Accountants
Mohammad Mahmood Hussain

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

Karachi: August 9, 2011

Balance Sheet
As at June 30, 2011

	Note	2011	2010
ASSETS		(Rupees in '000)	
Non-current assets			
Property, plant and equipment	4	6,084,731	6,375,233
Intangibles	5	28,822	36,250
Long term investments	6	2,314,168	2,019,270
Long term loans, advances and receivables	7	324,554	317,889
Long term deposits and prepayments	8	148,748	125,951
Deferred tax	9	957,487	-
		9,858,510	8,874,593
Current assets			
Stores, spare parts and loose tools	10	115,339	113,863
Stock-in-trade	11	95,378,393	58,598,668
Trade debts	12	124,721,832	117,501,074
Loans and advances	13	430,716	409,987
Deposits and short term prepayments	14	1,027,381	367,378
Other receivables	15	22,520,278	14,557,542
Taxation - net		6,311,951	46,580
Cash and bank balances	16	2,309,006	1,778,056
		252,814,896	193,373,148
Net assets in Bangladesh	17	-	-
Total assets		262,673,406	202,247,741
EQUITY AND LIABILITIES			
Equity			
Share capital	18	1,715,190	1,715,190
Capital reserves		493,189	475,829
Revenue reserves	19	39,694,606	27,145,039
		41,902,985	29,336,058
Non-current liabilities			
Long term deposits	20	1,023,531	948,476
Retirement and other service benefits	21	2,233,717	1,887,751
		3,257,248	2,836,227
Current liabilities			
Trade and other payables	22	191,851,017	156,035,716
Provisions	23	688,512	688,512
Accrued interest / mark-up		432,133	330,213
Short term borrowings	24	24,541,511	13,021,015
		217,513,173	170,075,456
Total equity and liabilities		262,673,406	202,247,741
Contingencies and commitments	25		

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

Jehangir Ali Shah
Managing Director

Sohail Wajahat H. Siddiqui
Chairman

Profit and Loss Account

For the year ended June 30, 2011

	Note	2011	2010
		(Rupees in '000)	
Sales - net of trade discounts and allowances amounting to Rs. 751,288 thousand (2010: Rs. 1,059,363 thousand)		974,917,064	877,173,254
Less:			
- Sales tax		(137,969,158)	(118,563,577)
- Inland freight equalization margin		(16,417,542)	(15,851,726)
		(154,386,700)	(134,415,303)
Net sales		820,530,364	742,757,951
Cost of products sold	26	(786,250,059)	(713,591,707)
Gross profit		34,280,305	29,166,244
Other operating income	27	1,815,951	1,479,054
Operating costs			
Transportation costs	28	(810,423)	(631,849)
Distribution and marketing expenses	29	(5,175,233)	(4,055,238)
Administrative expenses	30	(1,514,532)	(1,125,891)
Depreciation	4.1	(1,120,999)	(1,137,637)
Amortisation	5	(18,210)	(44,752)
Other operating expenses	31	(2,239,725)	(2,416,518)
		(10,879,122)	(9,411,885)
Profit from operations		25,217,134	21,233,413
Other income	32	4,143,710	6,095,348
Finance costs	33	(11,903,162)	(9,882,010)
		17,457,682	17,446,751
Share of profit of associates		516,752	516,401
Profit before taxation		17,974,434	17,963,152
Taxation	34	(3,195,120)	(8,913,556)
Profit for the year		14,779,314	9,049,596
		(Rupees)	
Earnings per share - basic and diluted	35	86.17	52.76

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

Jehangir Ali Shah
Managing Director

Sohail Wajahat H. Siddiqui
Chairman

Statement of Comprehensive Income

For the year ended June 30, 2011

	2011	2010
	(Rupees in '000)	
Profit for the year	14,779,314	9,049,596
Other comprehensive income		
Unrealised gain / (loss) due to change in fair value of other long-term investments	11,844	(70,751)
Unrealised gain due to change in fair values of investment in associates	5,516	985
	17,360	(69,766)
Total comprehensive income for the year	14,796,674	8,979,830

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

Jehangir Ali Shah
Managing Director

Sohail Wajahat H. Siddiqui
Chairman

Statement of Changes in Equity

For the year ended June 30, 2011

	Share capital	Capital reserve: Surplus on vesting of net assets	Capital reserve: Unrealised gain on revaluation of long term investment available for sale	Capital reserve: Company's share of unrealised (loss) on associates' investments	Revenue reserves: General reserve	Revenue reserves: (Accumulated loss) / unappropriated profit	Total
	(Rupees in '000)						
Balance at July 01, 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 loss due to change in fair value of long-term quoted 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 at June 30, 2010	1,715,190	3,373	479,907	(7,451)	25,282,373	1,862,666	29,336,058
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	14,779,314	14,779,314
Unrealised gain due to change in fair value of long-term quoted investment	-	-	11,844	-	-	-	11,844
Unrealised gain due to change in fair value of associates' investments	-	-	-	5,516	-	-	5,516
	-	-	11,844	5,516	-	14,779,314	14,796,674
Transactions with owners							
Distribution							
Final dividend for the year ended June 30, 2010 @ Rs. 5 per share	-	-	-	-	-	(857,595)	(857,595)
1st interim dividend for the year ended June 30, 2011 @ Rs. 5 per share	-	-	-	-	-	(857,595)	(857,595)
2nd interim dividend for the year ended June 30, 2011 @ Rs. 3 per share	-	-	-	-	-	(514,557)	(514,557)
	-	-	-	-	-	(2,229,747)	(2,229,747)
Balance at June 30, 2011	1,715,190	3,373	491,751	(1,935)	25,282,373	14,412,233	41,902,985

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

Jehangir Ali Shah
Managing Director

Sohail Wajahat H. Siddiqui
Chairman

Cash Flow Statement
For the year ended June 30, 2011

	Note	2011	2010
		(Rupees in '000)	
CASH GENERATED FROM OPERATING ACTIVITIES			
Cash generated from operations	36	5,617,109	10,978,588
(Increase) / decrease in long-term loans, advances and receivables		(6,665)	87,891
Increase in long-term deposits and prepayments		(22,797)	(42,296)
Increase in long-term deposits		75,055	93,758
Taxes paid		(10,417,978)	(3,217,236)
Finance costs paid		(3,182,997)	(2,464,238)
Retirement benefits paid		(478,081)	(478,765)
Net cash (used in) / generated from operating activities		(8,416,354)	4,957,702
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(851,555)	(546,802)
Purchases of intangible assets		(10,782)	(12,130)
Proceeds from disposal of operating assets		56,764	5,567
Dividend received		405,810	640,869
Net cash (used in) / generated from investing activities		(399,763)	87,504
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of short-term finances		(132,165)	(1,427,452)
Dividend paid		(2,173,429)	(516,757)
Net cash used in financing activities		(2,305,594)	(1,944,209)
Net (decrease) / increase in cash and cash equivalents		(11,121,711)	3,100,997
Cash and cash equivalents at beginning of the year		(8,409,328)	(11,510,325)
Cash and cash equivalents at end of the year	37	(19,531,039)	(8,409,328)

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

Jehangir Ali Shah
Managing Director

Sohail Wajahat H. Siddiqui
Chairman

1. LEGAL STATUS AND NATURE OF BUSINESS

1.1 Pakistan State Oil Company Limited ("the Company") is a public company incorporated in Pakistan in 1976 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 - Oil 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, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amount of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and

Notes to the Financial Statements

For the year ended June 30, 2011

(Amounts in Rs.'000)

liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates underlying the assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Areas where judgements and estimates made by the management 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 intangibles (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 Standards, amendments and interpretations which became effective during the year

Following are the standards that became effective for periods beginning on or after January 1, 2010:

- Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions became effective from July 1, 2010 which requires 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.

  On August 14, 2009, the Government of Pakistan (GoP) launched Benazir Employees' Stock Option Scheme ('the Scheme') for employees of certain State Owned Enterprises (SOEs) and non-State Owned Enterprises where GoP holds significant investments (non-SOEs). The scheme is applicable to permanent and contractual employees who were in the employment of these entities on the date of launch of the Scheme, subject to completion of five years vesting period by all contractual employees and by permanent employees in certain instances.

  The Scheme provides for a cash payment to employees on retirement or termination based on the price of shares of respective entities. To administer this scheme, GoP shall transfer 12% of its investment in such SOEs and non-SOEs to a Trust Fund to be created for the purpose by each of such entities. The eligible employees would be allocated units by each Trust Fund in proportion to their respective length of service, and on retirement or termination such employees would be entitled to receive such amounts from Trust Funds in exchange for the surrendered units as would be determined based on market price for listed entities or breakup value for non-listed entities. The shares relating to the surrendered units would be transferred back to GoP.

  The scheme also provides that 50% of dividend related to shares transferred to the respective Trust Fund would be distributed amongst the unit holder employees. The balance 50%

dividend would be transferred by the respective Trust Fund to the Central Revolving Fund managed by the Privatization Commission of Pakistan for payment to employees against surrendered units. The deficit, if any, in Trust Funds to meet the re-purchase commitment would be met by GoP.

The Scheme, developed in compliance with the stated GoP policy of empowerment of employees of State Owned Enterprises need to be accounted for by the covered entities, including the Company, under the provisions of amended International Financial Reporting Standard 2 – Share-based Payment (IFRS 2). However, keeping in view the difficulties that may be faced by the entities covered under the Scheme, the Securities & Exchange Commission of Pakistan on receiving representations from some of entities covered under the Scheme and after having consulted the Institute of Chartered Accountants of Pakistan has granted exemption to such entities from the application of IFRS 2 to the Scheme.

Had the exemption not been granted the staff costs of the Company for the year would have been higher by Rs. 249,213, profit after taxation would have been lower by Rs. 249,213, retained earning would have been lower by Rs. 553,033, earning per share would have been lower by Rs. 1.45 per share and reserves would have been higher by Rs. 553,033.

- Amendments to certain existing standards and new interpretations on approved accounting standards effective during the period either were not relevant to the Company's operations or did not have any significant impact on the accounting policies of the Company.

2.6 Standards, interpretations and amendments not yet effective

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning from the dates specified below:

- IAS 24 Related Party Disclosures (revised 2009) – (effective for annual periods beginning on or after 1 January 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment may result in certain changes in disclosures.

- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Company's financial statements.

- Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2011). These amendments add an explicit statement that qualitative disclosure should be made in the contact of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks

Notes to the Financial Statements
For the year ended June 30, 2011

(Amounts in Rs.'000)

arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendment may result in certain changes in disclosures.

- Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2011). These amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendment may result in certain changes in disclosures.

- Improvements to IFRSs 2010 – IFRIC 13 Customer Loyalty Programmes. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. This amendment is not likely to have material impact on Company's financial statements.

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.

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.

Notes to the Financial Statements

For the year ended June 30, 2011

(Amounts in Rs.'000)

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.

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 equity investments are based on current market prices. Subsequent to initial measurement equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated 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 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 comprises 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.

Notes to the Financial Statements

For the year ended June 30, 2011

(Amounts in Rs.'000)

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 debt 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 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, 2011 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, 2011 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.

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, 2011 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.

Notes to the Financial Statements

For the year ended June 30, 2011

(Amounts in Rs.'000)

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.

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.

(Amounts in Rs.'000)

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.

- 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 Earnings 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	2011	2010
Operating assets	4.1	5,659,941	5,730,383
Capital work in progress	4.3	424,790	644,850
		6,084,731	6,375,233

Notes to the Financial Statements For the year ended June 30, 2011

4.1 Operating assets

(Amounts in Rs. '000)

	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, 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
Year ended June 30, 2011														
Opening 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
Additions	-	-	16,250	39,322	-	79,057	483,737	263,224	11,062	154,939	24,403	348	-	1,072,342
Disposals														
Cost	-	-	(40)	(11,400)	-	(9,908)	(40,360)	(19,525)	(2,306)	(6,721)	(1,738)	(141)	(86)	(92,225)
Depreciation	-	-	40	7,821	-	9,584	26,149	18,725	1,309	5,629	1,681	141	86	71,165
	-	-	-	(3,579)	-	(324)	(14,211)	(800)	(997)	(1,092)	(57)	-	-	(21,060)
Transfers	(40,584)	36,250	4,180	(1,430)	-	(3,981)	106	8,815	(3,463)	(36)	143	-	-	-
Adjustment	(725)	-	-	-	-	-	-	-	-	-	-	-	-	(725)
Depreciation Charge	-	(1,908)	(25,316)	(49,780)	-	(104,455)	(627,741)	(199,479)	(15,769)	(48,361)	(44,795)	(1,313)	(2,082)	(1,120,999)
Closing net book value	174,173	103,335	159,797	588,261	-	376,731	2,788,870	1,099,159	26,850	232,476	94,120	2,943	13,226	5,659,941
As at June 30, 2011														
Cost	174,173	128,417	597,747	1,030,404	741	3,316,707	8,004,678	2,980,482	256,391	880,834	532,380	53,267	129,934	18,086,155
Accumulated Depreciation	-	(25,082)	(437,950)	(442,143)	(741)	(2,939,976)	(5,215,808)	(1,881,323)	(229,541)	(648,358)	(438,260)	(50,324)	(116,708)	(12,426,214)
Net book value	174,173	103,335	159,797	588,261	-	376,731	2,788,870	1,099,159	26,850	232,476	94,120	2,943	13,226	5,659,941
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	

(Amounts in Rs.'000)

4.1.1 Service and filling stations include cost of Rs. 7,540,899 (2010: Rs. 7,097,858) 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 1,858 (2010: 1,795) out of the total 3,689 (2010: 3,626) 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
Building on leasehold land	7,278	4,448	2,830	122	Tender	M/s. Umair Brothers Gulshan-e-Shujaat Colony Ismailabad, Multan
	2,209	1,545	664	258	Tender	M/s. Muhammad Ateeq A-234D, Shershah Godown Haroonabad, Karachi.
Tanks and pipelines	2,072	1,766	306	569	Tender	M/s. National Technical Services Chapal Plaza, Hasrat Mohani Road, Karachi
Plant and machinery	2,588	2,394	194	115	Tender	M/s. Prime Services M-82, Mezzanine Floor, Glass Towers, Clifton, Karachi
	522	321	201	2	Tender	M/s. Badar Brothers House No. B-724, Railway Diesel Colony, Dhoke Mangtal, Rawalpindi
	267	160	107	17	Tender	M/s. Muhammad Ateeq A-234D, Shershah Godown Haroonabad, Karachi
	128	16	112	47	Tender	M/s. Umair Brothers Gulshan-e-Shujaat Colony Ismailabad, Multan
Vehicles	1,026	120	906	879	Company Policy	Syed Ibad Ali Shah Ex-employee 531-S, Street 22, DHA, Lahore Cantt.
	690	518	172	207	Company Policy	Mr. Zulfiqar Jafri Employee F-121, Block-F, Allama Rashid Turabi Road, North Nazimabad, Karachi
Furniture and fixtures	66	9	57	-	Tender	M/s. Zanmbell Traders B/1, 393/B, Railway Road, Muzaffargarh

Notes to the Financial Statements
For the year ended June 30, 2011

(Amounts in Rs.'000)

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of buyers
Service and filling stations	20,266	8,398	11,868	14,190	Insurance Claim	National Insurance Company Ltd. NICL Building, Abbasi Shaheed Road, Karachi
	1,199	917	282	405	Tender	M/s. Malhi Filling Station Ahmedwala Sargodha, Sial Road, Distt. Sargodha
	747	478	269	405	Tender	M/s. Rizvi Filling Station Kandiaro Kandiro, Nausheroferoz, Nawabshah
	530	305	225	270	Tender	M/s. Quick Filling Station KM1, Mandi Bahauddin Road, Mandi Bahauddin, Gujrat
	299	219	80	135	Tender	M/s. Sheikhupura Filling Station KM3/4, SKP/FSD Road, Mouza Jewanpura, Sheikhupura
	419	213	206	270	Tender	M/s. Haider Filling Station Mardan Swabi Road, Mansabadab, Mardan
	259	190	69	135	Tender	M/s. Ittefaq Filling Station KM9/10, Jehamgira Tordherswa, Mardan
	188	75	113	135	Tender	M/s. Jalbani Filling Station at Naushero, Ferozpur
	186	135	51	135	Tender	M/s. Ali Filling Station Mirpur-Bhimber Road, at Jabbi
Items having book value of less than Rupees fifty thousand each	51,286	48,938	2,348	38,468		
Year ended June 30, 2011	92,225	71,165	21,060	56,764		
Year ended June 30, 2010	20,804	18,227	2,577	5,567		

4.3 Capital work in progress

	2011	2010
Service and filling stations	67,438	173,390
Tanks and pipelines	203,031	217,083
Plant and machinery	17,707	31,099
Furniture, fittings and equipment	3,243	5,313
Advances to suppliers and contractors for tanks, pipelines and storage development projects	32,154	18,806
Capital stores	101,217	199,159
	424,790	644,850

(Amounts in Rs.'000)

5. INTANGIBLES - computer softwares

	Note	2011	2010
Net carrying value			
Balance at beginning of the year		36,250	68,872
Additions at cost		10,782	12,130
Amortisation charge for the year	5.2	(18,210)	(44,752)
Balance at end of the year		28,822	36,250
Gross carrying value			
Cost		280,367	269,584
Accumulated amortisation		(251,545)	(233,334)
Net book value		28,822	36,250

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

	2011	2010
Available-for-sale, in related parties		
In a quoted company - at fair value		
- Pakistan Refinery Limited		
Equity held 18% (2010: 18%)	506,848	495,005
In an unquoted company - at cost		
- Pak-Arab Pipeline Company Limited		
Equity held 12% (2010: 12%)	864,000	864,000
	1,370,848	1,359,005
Investments in associates - in unquoted companies - note 6.1		
- Asia Petroleum Limited (APL), Equity held 49% (2010: 49%)	886,001	606,465
- Pak Grease Manufacturing Company (Private) Limited (PGMCL), Equity held 22% (2010: 22%)	57,319	53,800
	943,320	660,265
	2,314,168	2,019,270

6.1 Investment in associates

Number of shares 2011	Number of shares 2010	Face value per share (Rupees)	Name of the company		
46,058,600	46,058,600	10	Asia Petroleum Limited	886,001	606,465
686,192	686,192	10	Pak Grease Manufacturing Company (Private) Limited	57,319	53,800
				943,320	660,265

Notes to the Financial Statements

For the year ended June 30, 2011

(Amounts in Rs.'000)

6.1.1 Movement of investments in associates

	2011	2010
Balance at beginning of the year	660,265	723,758
Share of profits		
- current year	516,759	516,259
- adjustment for last year profits based on audited financial statements	(7)	142
	516,752	516,401
Unrealised gain on associates' investments	5,516	985
Dividends received	(239,213)	(580,879)
Balance at end of the year	943,320	660,265

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, 2011, is as follows:

	2011		2010	
	APL	PGMCL	APL	PGMCL
Total assets	2,466,426	291,211	1,984,035	269,138
Total liabilities	658,262	30,672	746,353	24,624
Revenues	1,865,489	175,427	1,833,421	190,806
Profit after tax	1,040,468	31,501	1,029,664	51,881

7. LONG-TERM LOANS, ADVANCES AND RECEIVABLES

	Note	2011	2010
Loans - considered good			
Executives	7.1, 7.2 & 7.4	51,664	24,519
Employees	7.2	200,012	177,885
		251,676	202,404
Current portion shown under current assets	13	(70,325)	(59,858)
		181,351	142,546
Advances - considered good			
Employees	7.3	15,928	470
Receivables			
Due from Karachi Electric Supply Corporation (KESC) - considered good	7.5	97,969	228,594
Current portion shown under current assets	15	(97,969)	(163,281)
		-	65,313
Others			
- considered good		127,275	109,560
- considered doubtful		8,143	8,143
		135,418	117,703
Provision for impairment		(8,143)	(8,143)
		127,275	109,560
		324,554	317,889

(Amounts in Rs.'000)

7.1 Reconciliation of carrying amount of loans to executives:

	2011	2010
Balance at beginning of the year	24,519	42,811
Add: Disbursements	56,882	3,071
Less: Repayments	(29,737)	(21,363)
Balance at end of the year	51,664	24,519

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. 39,978 (2010: Rs. 36,102).

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.

8. LONG-TERM DEPOSITS AND PREPAYMENTS

- Considered good	Note	2011	2010
Long-term deposits		57,184	56,443
Prepaid rentals		134,970	99,296
Less: Current portion shown under current assets	14	(43,406)	(29,788)
		91,564	69,508
		148,748	125,951

9. DEFERRED TAX

	2011	2010
Debit balance arising in respect of:		
Provision for:		
- retirement benefits	422,897	-
- doubtful trade debts	973,110	-
- doubtful receivables	92,800	-
- impairment of stores and spare parts	8,535	-
- excise, taxes and other duties	25,491	-
- impairment of stocks-in-trade	7,510	-
Unutilized minimum tax paid	37,049	-
Others	160,359	-
	1,727,751	-
Credit balance arising in respect of accelerated tax depreciation, amortisation and investments in associates	(770,264)	-
	957,487	-

Notes to the Financial Statements

For the year ended June 30, 2011

(Amounts in Rs.'000)

During the year ended June 30, 2010, Section 113 of Income tax Ordinance, 2001 was amended through Finance Act, 2010 whereby the minimum tax rate was increased from 0.5 percent to 1 percent of the turnover with effect from July 1, 2010. Net deferred tax asset amounting to Rs. 2,869,333 as at June 30, 2010 was derecognised by the Company as management did not expect to realise the temporary difference in future due to above mentioned amendment. However, during the current year, the Federal Board of Revenue vide S.R.O 1086(1)/2010 dated November 30, 2010 has reduced minimum tax rate to 0.5 percent in respect of oil marketing companies having turnover above Rs. 1,000,000. In view of this amendment management expects that adequate future taxable profits will be available to the Company to realise deferred tax asset and accordingly net deferred tax asset amounting to Rs. 957,487 (2010: Rs. Nil) has been accounted for in these financial statements.

10. STORES, SPARE PARTS AND LOOSE TOOLS

	Note	2011	2010
Stores		131,341	129,953
Spare parts and loose tools		8,383	8,295
		139,724	138,248
Less: Provision for impairment		(24,385)	(24,385)
		115,339	113,863

11. STOCK-IN-TRADE

	Note	2011	2010
Petroleum and other products (gross)	11.1 & 11.2	61,042,064	32,259,921
Less: Stock held on behalf of third parties	11.3	(2,120,928)	(1,227,998)
		58,921,136	31,031,923
Less: Provision for slow moving products - lubricants		(21,456)	(21,456)
		58,899,680	31,010,467
In pipeline system of Pak-Arab Pipeline Company Limited and Pak-Arab Refinery Limited		33,627,717	20,986,177
		92,527,397	51,996,644
Add: Charges incurred thereon		2,850,996	6,602,024
		95,378,393	58,598,668

11.1 Includes stock-in-transit amounting to Rs. 32,742,819 (2010: Rs. 17,532,327) and stocks held by:

	2011	2010
Pakistan Refinery Limited - related party	107,529	107,529
Shell Pakistan Limited	475,539	131,855
Byco Petroleum Pakistan Limited	222,233	56,985
	805,301	296,369

11.2 Includes stock valued at net realisable value amounting to Rs. 1,573,775 (2010: Rs. 317,262).

11.3 Represents stocks held in trust on behalf of third parties, net of storage, handling and other charges amounting to Rs. 23,730 (2010: Rs. 23,730) recoverable thereagainst.

(Amounts in Rs.'000)

12. TRADE DEBTS

	Note	2011	2010
Considered good			
- Due from Government agencies and autonomous bodies			
- Secured	12.1	18,423,973	35,267,722
- Unsecured		7,824,461	4,012,420
		26,248,434	39,280,142
- Due from other customers			
- Secured	12.1 & 12.2	8,014,856	8,135,195
- Unsecured	12.2	90,458,542	70,085,737
		98,473,398	78,220,932
		124,721,832	117,501,074
Considered doubtful	12.2	2,780,313	2,630,792
Trade debt - gross		127,502,145	120,131,866
Provision for impairment	12.4 & 12.5	(2,780,313)	(2,630,792)
Trade debt - net		124,721,832	117,501,074

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, 2011 aggregated to Rs. 85,537,262 (2010: Rs. 71,635,025) which includes overdue amounts of Rs. 12,379,191 (2010: Rs. 22,675,792) which were received subsequent to the year end. The Company while estimating the provision for impairment on the basis of overdue analysis did not consider the overdue receivable balance of HUBCO and KAPCO.

12.3 The Company considers only those receivable as past due which are over 3 months old from due date. As at June 30, 2011, trade debts aggregating to Rs. 17,117,555 (2010: Rs. 23,532,621) were past due but not impaired, out of which Rs. 12,379,191 were received subsequent to the year end. Accordingly, the amount of overdue aggregated to Rs. 4,738,364. These relate to various customers including Government agencies and autonomous bodies for which there is no or some recent history of default.

12.4 As at June 30, 2011, trade debts aggregating Rs. 3,545,374 (2010: Rs. 3,434,772) were deemed to have been impaired, of which Rs. 2,780,313 (2010: Rs. 2,630,792) 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	2011	2010
3 to 6 months		144,342	7,322
More than 6 months		3,401,032	3,427,450
		3,545,374	3,434,772

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

	Note	2011	2010
Balance at beginning of the year		2,630,792	2,388,823
Charged during the year and recognised in other operating expenses	31	223,838	241,969
Write-off against provisions		(74,317)	-
Balance at end of the year		2,780,313	2,630,792

Notes to the Financial Statements

For the year ended June 30, 2011

(Amounts in Rs.'000)

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

	Note	2011	2010
Kot Addu Power Company Limited		29,707,843	23,085,360
Water and Power Development Authority		22,379,188	37,322,403
Pakistan International Airlines Corporation		2,132,953	867,138
Pakistan Railways		849,035	381,274
National Logistic Cell		370,194	351,696
Oil & Gas Development Corporation Limited		355,269	197,700
Pakistan National Shipping Corporation		89,736	66,116
Pakistan Steel Mills Corporation Limited		63,528	78,892
Heavy Industries Taxila		27,275	29,343
Director General Industrial Procurement and Services		12,039	153,048
Frontier Works organisation		7,301	4,903
Sui Southern Gas Company Limited		2,800	994
Karachi Port Trust		-	3,347
Civil Aviation Authority		-	896
		55,997,161	62,543,110

13. LOANS AND ADVANCES - unsecured, considered good

	Note	2011	2010
Loans to executives and employees			
- Current portion of long-term loans including Rs. 31,432 (2010: Rs. 12,805) to executives	7	70,325	59,858
- Short-term loans		4,265	8,757
		74,590	68,615
Advances to suppliers	13.1	120,784	95,539
Advances for Company-owned filling stations		235,342	245,833
		430,716	409,987

13.1 Includes Rs. 6,001 (2010: Nil) to Pakistan Refinery Limited, a related party, against purchase of Liquefied Petroleum Gas (LPG).

14. DEPOSITS AND SHORT TERM PREPAYMENTS

	Note	2011	2010
Deposits			
Duty and development surcharge		918,246	261,672
Prepayments			
Rentals and others		65,729	75,918
Current portion of long-term prepaid rentals	8	43,406	29,788
		109,135	105,706
		1,027,381	367,378

(Amounts in Rs.'000)

15. OTHER RECEIVABLES - unsecured

	Note	2011	2010
Due from Government of Pakistan (GoP) on account of:			
- Price differential claims			
- on imports (net of related liabilities)		-	1,465,406
- on imports (net of related liabilities) of motor gasoline	15.1	6,119,828	3,048,802
- on certain POL products	15.2	1,117,202	1,117,202
- on ethanol E-10 fuel		6,203	8,927
- on account of supply of furnace oil to KESC at Natural Gas prices	15.3	3,908,581	2,818,527
- Water and Power Development Authority (WAPDA) receivables	15.4	3,407,357	3,407,357
- Freight equalisation (net of recoveries)		46,521	46,521
		14,605,692	11,912,742
- Excise, Petroleum Development Levy (PDL) and custom duty		268,018	268,018
- Sales tax refundable		2,833,623	1,032,342
		17,707,333	13,213,102
Less: Provision for impairment	15.6		
- Price differential claims on imports		-	(501,730)
- Others		(83,112)	(83,112)
		(83,112)	(584,842)
		17,624,221	12,628,260
Current portion of long-term receivable from KESC	7	97,969	163,281
Handling and hospitality charges		625,370	176,500
Product claims - Insurance and other - considered doubtful		90,201	99,745
Less: Provision for impairment	15.6	(90,201)	(99,745)
		-	-
Receivables from oil marketing companies		3,385,630	732,087
Others			
- considered good	15.5	787,088	857,414
- considered doubtful		91,829	91,829
		878,917	949,243
Less: Provision for impairment	15.6	(91,829)	(91,829)
		787,088	857,414
		22,520,278	14,557,542

15.1 Import price differential on motor gasoline aggregating to Rs. 6,119,828 (2010: Rs. 3,048,802).

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.

Notes to the Financial Statements

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(Amounts in Rs.'000)

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 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 price differential claims for the period from October 01, 2007 to December 31, 2010 and submitted reports to Director General - Oil. A meeting of sub committee of the Economic Cordination Committee (ECC) was held on May 14, 2010 in which the MoF agreed to process the price differential 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. 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 2010-11 for payment to the Company. The Company vide letter Ref. AH/3010/Conf. dated July 26, 2010 requested a written acknowledgement of balance amount of Rs. 3,048,802 as of June 30, 2010 from MoP & NR. The concerned ministry vide its letter Ref. PL-NP(4)/2010 - F&P dated July 28, 2010 has confirmed that the claims referred in the Company's letter are under process. An amount of Rs. 1,800,291 was received from MoP & NR in this respect uptil February 2011. Ministry of Petroleum and Natural Resources (MoP & NR) vide its letter No. P-7(4)/2010-11 dated April 25, 2011, requested Ministry of Finance (MoF) to make allocation amounting to Rs. 8,900 million in respect of price differential claims on MOGAS payable to Oil Marketing Companies in budget estimates for financial year 2011-12. Further, the Company vide its letter No. YS/Ministry dated May 25, 2011 also requested the MoF to include this claim in the budget for the financial year 2011-12. Subsequent to year end the Company vide its letter No. YS/Ministry dated July 01, 2011 appraised MoP & NR that budgetary provision in respect of abovementioned claim has not been made in the budget for the year 2011-12 and requested MoP & NR to follow up the matter with MoF for payment of abovementioned claim. MoP & NR vide its letter Ref No. BA-1(4)/2010-11/PDC dated July 5, 2011 has requested MoF to release the payment against this claim on urgent basis. The Company along with other oil marketing companies and OCAC continues to follow up this matter with concerned Ministry and is confident to recover the balance amount in full in due course of time.

15.2 Price Differential Claims (PDC) relating to certain POL products aggregating Rs. 1,117,202 (2010: Rs. 1,117,202).

This represents the balance of price differential claims (PDC) due from GoP. 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 vide its letter Ref. AH/3010/Conf. dated July 26, 2010 requested a written acknowledgement of the aforementioned balance from MoP & NR. The concerned Ministry vide its letter Ref. PL-NP(4)/2010 - F&P dated July 28, 2010 has confirmed that the claims referred in the Company's letter are under process. Ministry of Petroleum and Natural Resources (MoP & NR) vide its letter No. P-7(4)/2010-11 dated April 7, 2011, requested Ministry of Finance (MoF) to make allocation amounting to Rs. 3,741,000 in respect of outstanding price differential claims/ subsidy on petroleum products due to capping of prices from May 2004 to October 2008 in budget estimates for financial year 2011-12 for payment to Oil Marketing Companies. The Company vide its letter no. YS/ Ministry dated May 25, 2011 also requested the MoF to include this claim in the budget for the financial year 2011-12. Subsequent to year end the Company vide its letter No. YS/Ministry dated July 01, 2011 appraised MoP & NR that budgetary provision in respect of abovementioned claim has not been made in the budget for the financial year 2011-12 and requested MoP & NR to follow up the matter with MoF for payment of abovementioned claim. 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.

15.3 Price differential claim on account of supply of furnace oil to KESC at Natural Gas prices amounting to Rs. 3,908,581 (2010: Rs. 2,818,527)

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 Corporation (KESC) at the prices equivalent to natural gas prices plus applicable duties and taxes under the Natural Gas Load Management Program (NGLMP) for Winter 2009-10. 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. 5,708,581 arised out of which Rs. 1,800,000 were received from MoF in June 2010. The Company vide letter Ref. AH/3010/Conf. dated July 26, 2010 requested a written acknowledgement of balance amount of Rs. 2,818,527 as of June 30, 2010 from Ministry of Water & Power.

The MoP & NR vide its letter No. DOM-3(17)/2010 dated July 28, 2010 has confirmed that the claims referred in the Company's letter are under process. The MoP & NR through its letter No. DOM-3(17)/2010 dated November 01, 2010 instructed the Company to carry out external third party audit of these claims. Accordingly, audit of such price differential claims for the period from December 18, 2009 to March 12, 2010 and for the period from May 01, 2010 to July 31, 2010 were carried out in December 2010 and reports were submitted to MoP & NR during the year. The Company vide its letter No. 100-01 (3) dated April 5, 2011 again requested the Ministry of Water & Power and MoP & NR for settlement of aforementioned amounts before June 30, 2011 or the inclusion of the same in the budget for the fiscal year 2011-12. The Ministry of Water and Power vide its letter No. Pl-6(38)/2010 dated May 07, 2011 and MoP & NR vide its letter reference No. P-7(4)/2010-11 dated April 25, 2011 requested MoF to allocate the above mentioned claims of Rs. 3,300,000 and Rs. 609,000 respectively in budget for fiscal year 2011-12. The Company vide its letter No. YS/ Ministry dated May 25, 2011 also requested the MoF to include claims of Rs. 3,300,000 and Rs. 609,000 in the budget estimates for the financial year 2011-12. Subsequent to the year end, the Company vide its letter No. YS/Ministry dated July 01, 2011 appraised MoP & NR that budgetary provision in respect of claims of Rs. 609,000 has not been made in the budget for the year 2011-12 and requested MoP & NR to follow up the matter with the MoF for payment of above mentioned claim. The Company is actively pursuing this matter with GoP and is confident to recover the balance amount in full in due course of time.

15.4 Price differential between the products Low Sulphur Furnace Oil (LSFO) and High Sulphur Furnace Oil (HSFO) aggregating Rs. 3,407,357 (2010: 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, 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

Notes to the Financial Statements

(Amounts in Rs.'000)

For the year ended June 30, 2011

year 2007-08. 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 2007-08, 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. 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 MoP & NR vide its letter No. Pl-7(4)/2009 dated March 26, 2010, requested GoP – Finance division to make an allocation in respect of above mentioned claim of the Company in the budget for Fiscal year 2010-11 for payment to the Company.

During the year ended June 30, 2011, the Company vide its letter No. 100-01 (3) dated April 5, 2011 requested the Ministry of Water and Power for its intervention for settlement of aforementioned amount before June 30, 2011 or the inclusion of the same in the budget for the fiscal year 2011-12. The Ministry of Water & Power vide its letter No. Pl-6 (38)/2009 dated April 25, 2011 and the Company vide its letter No. YS/Ministry dated May 25, 2011 also requested MoF to allocate Rs. 3,407,000 in the budget for financial year 2011-12 in respect of above mentioned claim. The Ministry of Water & Power vide its letter No. PL-6 (38)/2010 dated June 29, 2011 mentioned its understanding that the budgetary provision in respect of above claim has not been made in the budget for year 2011-12 and requested MoF to release the above mentioned claim through special budgetary grant to clear the long outstanding claims of the Company during financial year 2011-12. The Company considers that the above amount will be recovered in full in due course of time.

15.5 Includes Rs. 15,880 (2010: Rs. 13,251) from Asia Petroleum Limited, a related party, on account of facilities charges.

15.6 As at June 30, 2011 receivables aggregating to Rs. 265,141 (2010: 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. 265,141 (2010: Rs. 776,416).

The movement in provision for impairment is as follows:

	2011	2010
Balance at beginning of the year	776,416	776,416
Less: written off during the year	(511,275)	-
Balance at end of the year	265,141	776,416

15.7 As at June 30, 2011 receivables aggregating Rs. 15,969,198 (2010: Rs. 10,747,879) were past due but not impaired. The ageing of these receivables is as follows:

Up to 3 months	783,486	2,849,705
3 to 6 months	736,133	1,044,343
More than 6 months	14,449,579	6,853,831
	15,969,198	10,747,879

(Amounts in Rs.'000)

16. CASH AND BANK BALANCES

	Note	2011	2010
Cash in hand		7,477	7,778
Cash at bank on:			
- current accounts	16.1	1,988,138	1,627,650
- deposit accounts	16.2	313,391	142,628
		2,301,529	1,770,278
		2,309,006	1,778,056

16.1 Includes Rs. 895,705 (2010: Rs. 783,632) 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 5% to 13.15% (2010: 1.095% to 11.68%) per annum.

17. NET ASSETS IN BANGLADESH

	2011	2010
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.

18. SHARE CAPITAL

2011	2010		2011	2010
(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

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19. RESERVES

	Note	2011	2010
Capital reserve			
- Surplus of vesting of net assets	19.1	3,373	3,373
- Unrealised gain on revaluation of long-term quoted investments available for sale		491,751	479,907
- Company's share of unrealised loss on investments of associates		(1,935)	(7,451)
		493,189	475,829
Revenue reserve			
- General		25,282,373	25,282,373
- Unappropriated profit		14,412,233	1,862,666
		39,694,606	27,145,039
		40,187,795	27,620,868

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	2011	2010
Dealers		471,808	436,579
Equipment	20.1	177,536	171,705
Cartage contractors	20.2	374,187	340,192
		1,023,531	948,476

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 01, 2002.

21. RETIREMENT AND OTHER SERVICE BENEFITS

	Note	2011	2010
Gratuity	21.1	558,802	579,093
Pension	21.1	466,637	305,565
Medical benefits	21.1	982,963	853,918
Compensated absences		225,315	149,175
		2,233,717	1,887,751

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	
	2011	2010	2011	2010	2011	2010
Present value of defined benefit obligations	2,423,323	1,876,748	4,796,002	3,792,807	1,177,215	1,049,374
Fair value of plan assets	(1,110,606)	(786,686)	(3,013,975)	(2,543,128)	-	-
	1,312,717	1,090,062	1,782,027	1,249,679	1,177,215	1,049,374
Unrecognised actuarial loss	(753,915)	(510,969)	(1,289,950)	(912,589)	(194,252)	(195,456)
Unrecognised past service cost	-	-	(25,440)	(31,525)	-	-
Net liability at end of the year	558,802	579,093	466,637	305,565	982,963	853,918

(Amounts in Rs.'000)

21.1.2 Movement in liability

	Gratuity fund		Pension funds		Medical benefits	
	2011	2010	2011	2010	2011	2010
Net liability at beginning of the year	579,093	605,815	305,565	169,208	853,918	741,483
Charge for the year	289,933	273,278	342,490	272,070	164,313	148,148
Contributions during the year	(310,224)	(300,000)	(181,418)	(135,713)	-	-
Benefits paid during the year	-	-	-	-	(35,268)	(35,713)
Net liability at end of the year	558,802	579,093	466,637	305,565	982,963	853,918

21.1.3 Movement in defined benefit obligations

	Gratuity fund 2011	Gratuity fund 2010	Pension funds 2011	Pension funds 2010	Medical benefits 2011	Medical benefits 2010
Present value of defined benefit obligations at beginning of the year	1,876,748	1,733,699	3,792,807	3,357,693	1,049,374	946,408
Service cost	122,345	102,349	137,066	115,276	27,731	26,660
Interest cost	239,699	214,441	482,648	418,940	129,619	114,136
Benefits paid during the year	(120,186)	(146,779)	(167,386)	(147,335)	(35,268)	(35,713)
Actuarial loss / (gain)	304,717	(26,962)	550,867	48,233	5,759	(2,117)
Present value of defined benefit obligation at end of the year	2,423,323	1,876,748	4,796,002	3,792,807	1,177,215	1,049,374

21.1.4 Movement in fair value of plan assets

	Gratuity fund 2011	Gratuity fund 2010	Pension funds 2011	Pension funds 2010	Medical benefits 2011	Medical benefits 2010
Fair value of plan assets at beginning of the year	786,686	584,996	2,543,128	2,374,013	-	-
Expected return on plan assets	96,980	68,147	324,332	297,638	-	-
Contributions made by the Company	310,224	300,000	181,418	135,713	-	-
Benefits paid during the year	(120,186)	(146,779)	(167,386)	(147,335)	-	-
Actuarial gain / (loss)	36,902	(19,678)	132,483	(116,901)	-	-
Fair value of plan assets at end of the year	1,110,606	786,686	3,013,975	2,543,128	-	-

21.1.5 The principal assumptions used in the actuarial valuations carried out as of June 30, 2011, using the 'Projected Unit Credit' method, are as follows:

	Gratuity fund		Pension funds		Medical benefits		Compensated absences	
	2011	2010	2011	2010	2011	2010	2011	2010
Discount rate	14.50%	12.75%	14.50%	12.75%	14.50%	12.75%	14.50%	12.75%
Expected per annum rate of return on plan assets	14.50%	12.75%	14.50%	12.75%	-	-	-	-
Expected per annum rate of increase in future salaries	14.00%	12.25%	14.00%	12.25%	-	-	14.00%	12.25%
Future per annum rate of increase in medical costs	-	-	-	-	11.00%	9.25%	-	-
Indexation of pension	-	-	8.00%	6.25%	-	-	-	-
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

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	Gratuity fund		Pension funds	
	2011	2010	2011	2010
21.1.6 Actual return on plan assets	114,038	68,845	438,906	287,929

21.1.7 Plan assets comprises of the following:

	2011		2010	
	Amount	%age	Amount	%age
Equity	321,129	8%	274,925	8%
Debts	3,424,537	83%	2,662,632	80%
Others	378,915	9%	392,257	12%
	4,124,581		3,329,814	

21.1.8 Plan assets include the Company's ordinary shares with a fair value of Rs. 74,879 (2010: Rs. 73,657).

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 contribution to post employment benefit plans for the year ending June 30, 2012 are Rs. 897,567 (2011: Rs. 632,423).

21.1.11 Comparison for five years:

	2011	2010	2009	2008	2007
Present value of defined benefit obligation	(8,396,540)	(6,718,929)	(6,037,800)	(4,932,465)	(4,550,375)
Fair value of plan assets	4,124,581	3,329,814	2,959,009	2,641,325	2,014,033
Deficit	(4,271,959)	(3,389,115)	(3,078,791)	(2,291,140)	(2,536,342)
Experience adjustments:					
Increase / (decrease) plan liabilities	861,343	19,148	198,912	(50,488)	232,294
Gain / (loss) on plan assets	131,632	(9,011)	(262,987)	55,873	43,964

(Amounts in Rs.'000)

22. TRADE AND OTHER PAYABLES

	Note	2011	2010
Creditors for:			
Purchase of oil			
- local	22.1	54,909,613	81,450,943
- foreign		94,174,044	42,035,529
		149,083,657	123,486,472
Others		1,039,108	682,387
		150,122,765	124,168,859
Accrued liabilities	22.1 & 22.2	27,532,775	16,227,244
Inland Freight Equalisation Margin Mechanism (IFEM)		1,223,932	1,279,527
Due to oil marketing companies and refineries		2,498,829	911,299
Advances			
- from customers		6,495,600	6,088,074
- against equipment		21,271	19,125
		6,516,871	6,107,199
Taxes and other government dues			
- Excise, taxes and other duties		1,434,806	4,908,870
- Octroi		31,452	31,452
- Income tax deducted at source		36,339	81,741
		1,502,597	5,022,063
Workers' Profits Participation Fund	22.3	965,329	964,721
Workers' Welfare Fund		374,158	366,596
Short term deposits - interest free	22.4	369,363	300,212
Unclaimed dividends		698,475	642,157
Others		45,923	45,839
		191,851,017	156,035,716

22.1 Includes Rs. 6,745,213 (2010: Rs. 13,189,694) payable to Pakistan Refinery Limited, a related party.

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

	Note	2011	2010
Pak-Arab Pipeline Company Limited		157,523	155,100
Asia Petroleum Limited		158,812	123,584
		316,335	278,684

22.3 Workers' Profits Participation Fund

	Note	2011	2010
Balance at beginning of the year		964,721	-
Add: Allocation for the year	31	965,329	964,721
		1,930,050	964,721
Less: Payments during the year		(964,721)	-
Balance at end of the year		965,329	964,721

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

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23. PROVISIONS

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	2011	2010
Short-term finances	24.1 & 24.2	2,701,466	2,833,631
Finances under mark-up arrangements	24.1 & 24.3	21,840,045	10,187,384
		24,541,511	13,021,015

24.1 The total outstanding balance is against the facilities aggregating Rs. 37,910,964 (2010: Rs. 33,443,600) available from various banks. These facilities will expire on various dates by March 31, 2014 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. 0.40 (2010: Re. 0.03 to Re. 0.37) per Rs. 1,000 per day.

24.3 The rate of mark up for these facilities ranges from Re. 0.38 to Re. 0.43 (2010: Re. 0.36 to Re. 0.41) 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.

25.1.1 Claims against the Company not acknowledged as debts amount to Rs. 8,988,976 (2010: Rs. 5,672,877), including claims by refineries for delayed payment charges on the understanding that this amount will be payable only when the Company will realise interest from other entities under circular debt.

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 the 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 no provision is required in the 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 is now contesting the matter before the Appellate Tribunal. Based on legal advisor's 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.

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 156A 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.

The CIT (Appeals) passed an order on February 13, 2009 against the Company. The Income Tax Appellate Tribunal Inland Revenue (ATIR) 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 filed an appeal before the Commissioner of Inland Revenue (Appeals) against the said decision of the taxation officer on March 25, 2010 the decision of which is pending. The Company based on the merits of the case and on advice of its tax consultants is confident that the matter will ultimately be decided in its favour and therefore no provision has been made for the said amount.

Further, the Company intends to recover the aforementioned tax of Rs. 321,993 from the dealers, included in other receivables, out of which Rs. 104,520 (2010: Rs. 38,000) have been already recovered from such dealers till June 30, 2011. Accordingly, no provision has been made against remaining receivable of Rs. 217,473 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 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

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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 the 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 High Court of Sindh. The Supreme Court granted stay by passing an interim order on January 22, 2009. During the year, the order passed by the High Court of Sindh was set aside by the Supreme Court vide its order dated May 20, 2011. Consequently, a new petition has been filed in the High Court of Sindh. Through the interim order passed on May 31, 2011 the High Court has ordered that for every consignment cleared after December 28, 2006 50% of the value of infrastructure fee should be paid in cash and a bank guarantee for the remaining amount should be submitted until the final order is passed. Subsequent to the year end, on the directions of the Directorate of Excise and Taxation (Taxes-III), the management has deposited Rs. 35,072 in cash and provided bank guarantee amounting to Rs. 35,072 with the Excise and Taxation Department. Based on the views of its legal advisors, the management believes that the matter will ultimately be decided in the Company's favour. Total amount of possible obligation, if any, cannot be determined with sufficient reliability. Accordingly, no provision has been made against infrastructure fee in these financial statements.

25.1.6 The taxation officer passed assessment orders in respect of tax years 2004 to 2008 and made certain disallowances and additions amounting to Rs. 1,733,038. These orders were later rectified and amended to Rs. 1,389,051. The Company filed appeals against these orders before Commissioner Inland Revenue (Appeals) which are pending for hearing except for tax year 2004, where CIR (Appeals) passed order against the Company. The Company has filed appeal before Appellate Tribunal Inland Revenue (ATIR) against order of CIR (Appeals) for tax year 2004 which is pending decision. Based on the views of the tax advisors, the management believes that the matters will ultimately be decided in the favour of the Company. Accordingly, no provision has been made for the said matters in these financial statements.

25.1.7 A sales tax order-in-original No. 01/2011 dated March 30, 2010 was issued by Deputy Commissioner Inland Revenue (DCIR), Federal Board of Revenue (FBR) in respect of sales tax audit of the Company for tax year 2004-2007. Under the said order, a demand of Rs. 883,864 was raised on account of certain transactions. A demand of 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). During the year the CIR (Appeals) passed an order on October 27, 2010 against the Company. The Company has filed an appeal against the order before the Appellate Tribunal Inland Revenue (ATIR) on November 27, 2010. 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 The Deputy Commissioner Inland Revenue (DCIR), Federal Board of Revenue (FBR) through his Orders passed under the Income Tax Ordinance (ITO), 2001 classified the payments in respect of trade discounts and advertisement expenses during tax years 2009 and 2010 as prizes subject to withholding of tax @ 20% under section 156 of the ITO, 2001. Consequently total tax demand of Rs. 339,312 was created vide the abovementioned order which was subsequently rectified and amended to Rs. 318,837. The Company has the contention that trade discounts attract tax @ 10% under section 156A of the ITO, 2001 and advertisement expenses attract taxes under section 153 of the ITO, 2001.Therefore, the Company has filed appeals on June 13, 2011 against the said orders before the Commissioner Inland Revenue (Appeals). Based on the views of its tax advisors, the management believes that the matter will ultimately be decided in the Company's favor. Accordingly, no provision has been made in these financial statements.

25.1.9 An Order was passed by Assistant Commissioner (IR) Enforcement & Collection Division-I, Unit-3, Large Tax Payer Unit, Karachi against the Company on January 22, 2011 in which a demand was raised in respect of input sales tax claimed amounting to Rs. 650,446 along with default surcharge (to be calculated at the time of final payment) and penalty at the rate of 5% of sales tax involved on the grounds that the Company failed to make payments to the supplier in respect of these purchases through banking channels within 180 days of the issuance of sales tax invoice as required under section 73(2) of the Sales Act, 1990. The Company has filed an appeal before Commissioner Inland Revenue (Appeals) against the above mentioned order on February 22, 2011 the decision of which is pending. Based on the views of its legal 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.

(Amounts in Rs.'000)

25.1.10 During the year ended June 30, 2011, the Deputy District Officer, Property Division-B, Government of Sindh issued a show cause notice dated February 25, 2011 under the Sindh Immovable Properties Tax Act, 1958 against the Company for payment of property tax amounting to Rs. 35,578 in respect of Kemari terminal land rented by the Company from Karachi Port Trust (KPT). The Company has filed a suit in High Court of Sindh against KPT for recovery of property taxes paid on behalf of KPT during earlier periods amounting to Rs. 75,000 and restraining the relevant authorities from levying and collecting of property tax from the Company. The decision of the suit is pending and based on the views of its legal 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.

25.1.11 During the year ended 30 June 2002 Schedule I to Stamp Duty Act, 1899 was substituted with a revised Schedule vide Stamp (Sindh Amendment) Ordinance, 2002 and stamp duty was levied at the rate of 0.2% of amount of contracts including purchase orders for supply or to undertake cartage of stores and materials. Management in consultation with its legal advisors is in process of evaluating the applicability of abovementioned provisions of Stamp Duty Act, 1899 on the Company. The Company has not yet been able to quantify the liability, if any in this respect. Further, MoP & NR approached Chief Minister Sindh vide its letter reference D.o.No.PL-3(413)/ 2009 dated 4 April 2009 on behalf of the Oil Marketing Companies (OMC's) and refineries and has requested Chief Minister Sindh to direct Board of Revenue, Sindh to withdraw the levy of Stamp Duty on purchases of petroleum products as the pricing of petroleum products is a Federal subject.

25.2 Commitments

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

	2011	2010
Property, plant and equipment	864,576	510,430
Intangibles	19,113	51,974
	883,689	562,404

25.2.2 Letters of credit and bank guarantees outstanding as at June 30, 2011 amount to Rs. 15,424,753 (2010: Rs. 7,367,317).

Notes to the Financial Statements

(Amounts in Rs.'000)

For the year ended June 30, 2011

26. COST OF PRODUCTS SOLD

	Note	2011	2010
Opening stock			
Cost		52,018,100	38,835,792
Charges thereon		6,602,024	1,883,873
		58,620,124	40,719,665
Add: Purchases during the year			
Cost		775,966,398	678,478,384
Charges thereon		47,063,386	53,013,782
		823,029,784	731,492,166
Cost of products available		881,649,908	772,211,831
Less: Closing stock			
Cost		(92,548,853)	(52,018,100)
Charges thereon		(2,850,996)	(6,602,024)
		(95,399,849)	(58,620,124)
		786,250,059	713,591,707

27. OTHER OPERATING INCOME

	2011	2010
Commission, handling and other services	647,996	381,577
Income from CNG operations	391,906	380,829
Income from retail outlets - net	31,512	26,129
Handling, storage and other recoveries	688,175	636,449
Income from non fuel retail business	56,362	54,070
	1,815,951	1,479,054

28. TRANSPORTATION COSTS

	2011	2010
Cost incurred during the year	11,038,240	9,547,028
Realised against inland freight equalization margin	(16,417,542)	(15,851,726)
Less: Refinery share	3,517,039	3,841,696
	(12,900,503)	(12,010,030)
Payable to other Oil marketing companies / adjustments	2,672,686	3,094,851
	(10,227,817)	(8,915,179)
	810,423	631,849

29. DISTRIBUTION AND MARKETING EXPENSES

	Note	2011	2010
Salaries, wages and benefits	30.1	3,166,023	2,414,167
Security and other services		82,310	71,290
Rent, rates and taxes		321,786	274,935
Repairs and maintenance		574,470	545,238
Insurance		112,616	87,375
Travelling and office transport		144,702	107,989
Printing and stationery		21,350	22,824
Communication		25,477	23,638
Utilities		167,601	159,754
Storage and technical services		122,923	90,053
Sales promotion and advertisement		358,507	167,465
Cards related costs		72,152	84,722
Others		5,316	5,788
		5,175,233	4,055,238

(Amounts in Rs.'000)

30. ADMINISTRATIVE EXPENSES

	Note	2011	2010
Salaries, wages and benefits	30.1	1,120,347	786,004
Security and other services		14,405	13,803
Rent, rates and taxes		5,043	5,793
Repairs and maintenance		63,476	58,673
Insurance		64,068	65,843
Travelling and office transport		37,871	27,557
Printing and stationery		11,415	10,542
Communication		21,804	22,019
Utilities		34,970	39,447
Storage and technical services		19,190	32,412
Legal and professional		48,027	25,800
Auditors' remuneration	30.4	7,993	7,659
Contribution towards expenses of Board of Management - Oil		4,800	4,520
Donations	30.5	57,327	23,833
Fee and subscription		3,796	1,986
		1,514,532	1,125,891

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

	2011				2010
	Gratuity fund	Pension funds	Medical benefits	Total	
Service cost	122,345	137,066	27,731	287,142	244,285
Interest cost	239,699	482,648	129,619	851,966	747,517
Expected return on plan assets	(96,980)	(324,332)	-	(421,312)	(365,785)
Recognition of actuarial loss	24,869	41,023	6,963	72,855	61,394
Recognition of past service cost	-	6,085	-	6,085	6,085
	289,933	342,490	164,313	796,736	693,496

In addition, salaries, wages and benefits also include Rs. 68,815 (2010: Rs. 53,593) and Rs. 103,210 (2010: Rs. 27,903) 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:

	2011		2010	
	Increase	Decrease	Increase	Decrease
Effect on the aggregate of current service cost and interest cost	32,254	31,118	25,873	20,249
Effect on the defined benefit obligation for medical benefits	215,693	142,084	176,971	139,302

Notes to the Financial Statements

For the year ended June 30, 2011

(Amounts in Rs.'000)

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:

	2011		2010	
	Managing Director	Executives	Managing Director	Executives
Managerial remuneration including performance bonus	17,380	739,896	12,750	463,867
Retirement benefits	1,450	170,605	1,279	104,926
Housing and utilities	9,096	290,368	4,920	159,342
Leave fare	3,066	52,496	546	36,339
	30,992	1,253,365	19,495	764,474
Number, including those who worked part of the year	2	491	1	325

30.3.2 The amount charged in respect of fee to eight non-executive directors (2010: eight) aggregated to Rs. 1,681 (2010: Rs. 1,565).

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

	2011			2010		
	KPMG Taseer Hadi & Co.	M. Yousuf Adil Saleem & Co.	Total	KPMG Taseer Hadi & Co.	M. Yousuf Adil Saleem & Co.	Total
Fee for the:						
- audit of annual financial statements	2,500	2,500	5,000	2,420	2,420	4,840
- review of half yearly financial statements	1,000	1,000	2,000	880	880	1,760
Certifications	145	180	325	170	100	270
Out of pocket expenses	324	344	668	395	394	789
	3,969	4,024	7,993	3,865	3,794	7,659

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	2011	2010
Workers' Profits Participation Fund	22.3	965,329	964,721
Workers' Welfare Fund		366,825	366,596
Exchange loss - net		683,733	791,083
Property, plant and equipment written-off		-	18,380
Provision against			
- doubtful trade debts	12.5	223,838	241,969
- doubtful other receivable		-	33,769
		2,239,725	2,416,518

(Amounts in Rs.'000)

32. OTHER INCOME

	Note	2011	2010
Gain on disposal of operating assets		35,704	2,990
Dividend	32.1	166,597	59,990
Interest and mark-up on bank deposits		49,392	50,409
Mark-up and delayed payment charges	32.2	3,681,459	5,890,553
Penalties and other recoveries		144,055	70,473
Scrap sales		24,539	4,191
Others		41,964	16,742
		4,143,710	6,095,348

32.1 Represents dividends from Pak-Arab Pipeline Company Limited, a related party.

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

33. FINANCE COST

Mark-up on short-term borrowings	2,867,733	1,899,519
Other mark-up and bank charges	9,035,429	7,982,491
	11,903,162	9,882,010

34. TAXATION

Current		
- for the year	4,414,335	3,905,704
- for prior years	(261,728)	(25,421)
Deferred - for the year	(957,487)	5,033,273
	3,195,120	8,913,556

34.1 Relationship between accounting profit and tax expense

Accounting profit before taxation	17,974,434	17,963,152
Tax at the applicable tax rate of 35% (2010: 35%)	6,291,052	6,287,103
Tax effect of:		
- Lower rate applicable to certain income including share of associates	(549,137)	(500,872)
- Flood surcharge levied	239,460	-
- Adjustments relating to prior years	(261,728)	(25,421)
- Deferred tax asset	(908,116)	-
- Minimum tax	(1,641,688)	-
- Net deferred tax asset not recognised	-	2,869,334
- Others	25,277	283,412
	3,195,120	8,913,556

34.2 The Company has made advance payment of Rs. 5,000,000 during the year which has been refunded subsequent to year end.

Notes to the Financial Statements

For the year ended June 30, 2011

(Amounts in Rs.'000)

35.	EARNINGS PER SHARE	Note	2011	2010
	There is no dilutive effect on the basic earnings per share of the Company, which is based on:			
	Profit for the year		14,779,314	9,049,596
			(Number of shares)	
	Weighted average number of ordinary shares in issue during the year		171,518,901	171,518,901
			(Rupees)	
	Earnings per share - basic and diluted		86.17	52.76

36. CASH GENERATED FROM OPERATIONS

	Note	2011	2010
Profit before taxation		17,974,434	17,963,152
Adjustments for:			
Depreciation		1,120,999	1,137,637
Amortisation		18,210	44,752
Provision against doubtful trade debts		223,838	241,969
Property, plant and equipment written-off		-	18,380
Other receivables written-off		679	-
Retirement and other services benefits accrued		824,047	693,496
Gain on disposal of operating assets		(35,704)	(2,990)
Share of profit of associates		(516,752)	(516,401)
Dividend income		(166,597)	(59,990)
Finance costs		11,903,162	9,882,010
		13,371,882	11,438,863
Working capital changes	36.1	(25,729,207)	(18,423,427)
		5,617,109	10,978,588

36.1 Working capital changes

	2011	2010
(Increase) / decrease in current assets		
- Stores, spare parts and loose tools	(1,476)	(1,720)
- Stock-in-trade	(36,779,725)	(17,900,459)
- Trade debts	(7,444,596)	(37,233,213)
- Loans and advances	(20,729)	8,028
- Deposits and short term prepayments	(660,003)	184,425
- Other receivables	(7,963,416)	(1,750,763)
Increase in current liabilities		
- Trade and other payables	27,140,738	38,270,275
	(25,729,207)	(18,423,427)

(Amounts in Rs.'000)

37. CASH AND CASH EQUIVALENTS

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

	Note	2011	2010
- Cash and bank balances	16	2,309,006	1,778,056
- Finances under mark-up arrangements	24	(21,840,045)	(10,187,384)
		(19,531,039)	(8,409,328)

38. OPERATING SEGMENTS

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

Sales from fuel products and others represents 99.82% (2010: 99.62%) of total revenue of the Company respectively.

97.07% (2010: 97.42%) out of total sales of the Company relates to customers in Pakistan.

All non-current assets of the Company as at June 30, 2011 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. 291,266,766 during the year ended June 30, 2011 (2010: Rs. 304,828,443).

39. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets as per balance sheet	2011	2010
Available for sale		
- Long-term investments	1,370,848	1,359,005
Loans and receivables		
- Long-term loans, advances and receivables	324,554	317,889
- Long-term deposits	57,184	56,443
- Trade debts	124,721,832	117,501,074
- Loans and advances	74,590	68,615
- Other receivables	19,455,228	13,293,773
- Cash and bank balances	2,309,006	1,778,056
	146,942,394	133,015,850
	148,313,242	134,374,855
Financial liabilities as per balance sheet		
Financial liabilities measured at amortised cost		
- Long-term deposits	1,023,531	948,476
- Trade and other payables	181,268,130	142,295,610
- Accrued interest / mark-up	432,133	330,213
- Short term borrowings	24,541,511	13,021,015
	207,265,305	156,595,314

Notes to the Financial Statements

For the year ended June 30, 2011

(Amounts in Rs.'000)

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 reflected 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.

- Level 1: 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. 506,848 (2010: Rs. 495,005) which is valued under level 1 valuation method. There have been no movements in or out of the level 1 category during the year. The Company does not have any investment in level 2 or level 3 category.

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).

(Amounts in Rs.'000)

(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$ 1,095,489 (2010: US$ 491,644) equivalent to Rs. 94,174,044 (2010: Rs. 42,035,529). The average rates applied during the year is Rs. 85.56 / US $ (2010: Rs. 84.22 /US $) and the spot rate as at June 30, 2011 was Rs.85.97 / US$ (2010: Rs.85.50/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, 2011, 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. 3,060,656 (2010: Rs. 1,366,155), 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.

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, 2011, if interest rates on Company's borrowings had been 1% higher/lower with all othe variables held constant, post tax profit for the year would have been lower/higher by Rs. 159,520 (2010: Rs. 84,637) 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.

Notes to the Financial Statements

(Amounts in Rs.'000)

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At June 30, 2011, if equity prices of the listed equity investments of the Company would have been 10% higher/lower with all other variables held constant, other comprehensive income for the year would have been higher/lower by Rs.50,685 (2010: Rs.49,500).

(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. 148,313,242 (2010: Rs. 134,374,855), the financial assets exposed to credit risk amount to Rs. 146,317,628 (2010: Rs. 133,076,308).

Significant concentration of credit risks on amounts due from Government agencies and autonomous bodies amounted to Rs. 28,298,309 (2010: Rs. 43,737,401). 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.

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:

	2011	2010
Long term loans, advances and receivables	324,554	317,889
Long term deposits	57,184	56,443
Trade debts	106,839,216	97,143,154
Loans and advances	74,590	68,615
Other receivables	4,896,057	1,581,763
Bank balances	2,301,529	1,770,278
	114,493,130	100,938,142

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:

(Amounts in Rs.'000)

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

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

	2011		
	Carrying amount / contractual cash flow	Maturity up to one year	Maturity after one year
Financial liabilities			
Long-term deposits	1,023,531	-	1,023,531
Trade and other payables	181,268,130	181,268,130	-
Accrued interest / mark-up	432,133	432,133	-
Short term borrowings	2,701,466	2,701,466	-
Finances under mark-up arrangements	21,840,045	21,840,045	-
	207,265,309	206,241,774	1,023,531

Notes to the Financial Statements

For the year ended June 30, 2011

(Amounts in Rs.'000)

	2010		
	Carrying amount / contractual cash flow	Maturity up to one year	Maturity after one year
Financial liabilities			
Long-term deposits	948,476	-	948,476
Trade and other payables	142,295,610	142,295,610	-
Accrued interest / mark-up	330,213	330,213	-
Short term borrowings	2,853,283	2,853,283	-
Finances under mark-up arrangements	10,187,384	10,187,384	-
	156,614,966	155,666,490	948,476

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, 2011 and 2010 were as follows:

	2011	2010
Total Borrowings	24,541,511	13,021,015
Less: Cash and bank balances	(2,309,006)	(1,778,056)
Net debt	22,232,505	11,242,959
Total equity	41,902,985	29,336,058
Total capital	64,135,490	40,579,017
Gearing ratio	34.66%	27.71%

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.

(Amounts in Rs.'000)

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	2011	2010
Associates			
- Pak Grease Manufacturing Company	Purchases	112,002	106,744
(Private) Limited	Dividend received	8,921	5,146
- Asia Petroleum Limited	Income (facility charges)	188,829	183,342
	Rental income	5,973	5,261
	Dividend received	230,292	575,732
	Pipeline charges	1,888,288	1,810,010
	Other Services	3,332	2,520
Retirement benefit funds			
- Pension Funds	Contributions	181,418	135,713
- Gratuity Fund	Contributions	310,224	300,000
- Provident Funds	Contributions	68,815	53,593
Other related parties			
- Pakistan Refinery Limited	Purchases	16,134,566	29,067,651
- Pak Arab Pipeline Company Limited	Pipeline charges	3,493,038	4,301,969
	Dividend received	166,597	59,990
- Government of Pakistan	Dividend paid	500,572	115,517
- Benazir Employees' Stock Option Scheme	Dividend paid	34,130	7,876
Profit oriented state - controlled entities - various	Purchases	62,385,309	77,615,774
	Sales	215,303,179	244,004,784
	Transportation charges	449,920	163,415
	Utility charges	89,977	112,882
	Rental charges	53,331	133,227
	Insurance premium paid	750,493	637,387
	Dividend paid	354,388	81,782
Key management personnel	Remuneration including performance bonus	34,067	25,466
	Retirement benefits	2,226	1,932
	Housing and utilities	17,016	9,228
	Leave fare	4,380	1,054

Notes to the Financial Statements

(Amounts in Rs.'000)

For the year ended June 30, 2011

41.1 The related party status of outstanding receivables and payables as at June 30, 2011 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 9, 2011 proposed a final dividend of Rs. 2 (2010: Rs. 5) per share for the year ended June 30, 2011, amounting to Rs. 343,038 (2010: Rs. 857,595) for approval of the members at the Annual General Meeting to be held on September 29, 2011. 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 9, 2011 by the Board of Management - Oil of the Company.

Jehangir Ali Shah Managing Director	Sohail Wajahat H. Siddiqui Chairman

Attendance at Board Meetings

For the year ended June 30, 2011

Total Number of Meetings held:5

Names	Total No. of Board meetings *	Number of Meetings attended
MR. NAZIM F. HAJI (EX-CHAIRMAN)	5	4
MR. SABAR HUSSAIN	5	5
MR. JEHANGIR ALI SHAH	2	2
MR. SHABBIR AHMED	1	1
MR. HAMMAYUN JOGEZAI	5	4
MR. MALIK NASEEM HUSSAIN LAWBAR	5	5
MR. MAHMOOD AKHTAR	4	4
MR. OSMAN SAIFULLAH KHAN	5	2
DR. ABID QAIYUM SULERI	5	4
MR. WAZIR ALI KHOJA	3	2
MR. PERVAIZ A. KHAN	3	0
MR. IRFAN K. QURESHI	3	3

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

Shareholders' Categories
as at June 30, 2011

	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	26,735,077	15.59
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	345	72,839,319	42.47
Individuals	12,060	18,839,813	10.98
Others	209	8,405,309	4.90
TOTAL	12,622	171,518,901	100.00

* Share was subsequently transferred in the name of Jehangir Ali Shah.

Shareholders' Categories
as at June 30, 2011

	NO. OF SHARES HOLDERS	No. OF SHARES	%
INDIVIDUALS	12,061	18,839,813	10.98
INSURANCE COMPANIES	15	12,839,365	7.49
PUBLIC SECTOR COMPANIES	17	41,293,568	24.08
FINANCIAL INSTITUTIONS AND BANKS	45	8,354,116	4.87
MODARABA COMPANIES & MUTUAL FUNDS	71	32,685,090	19.06
FEDERAL GOVERNMENT	1	38,505,565	22.45
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN	1	2	0.00
FOREIGN INVESTORS	202	10,596,073	6.18
OTHERS	209	8,405,309	4.90
TOTAL	12,622	171,518,901	100.00

Pattern of Shareholdings
as at June 30, 2011

No. of Shareholders	Having Shares From	To	Shares Held	Percentage
4788	1	100	139125	0.0811
2883	101	500	796055	0.4641
1578	501	1000	1220750	0.7117
26	1001	5000	5281112	3.079
481	5001	10000	408684	1.9874
170	10001	15000	2126926	1.2401
103	15001	20000	1839241	1.0723
48	20001	25000	1079751	0.6295
25	25001	30000	700107	0.4082
23	30001	35000	752772	0.4389
15	35001	40000	567084	0.3306
9	40001	45000	375097	0.2187
7	45001	50000	338398	0.1973
11	50001	55000	576544	0.3361
8	55001	60000	469685	0.2738
9	60001	65000	562325	0.3278
8	65001	70000	545511	0.318
3	70001	7500	217328	0.1267
2	75001	80000	153130	0.0893
4	80001	85000	333419	0.1944
6	85001	90000	526487	0.307
3	90001	95000	282982	0.165
7	95001	100000	698706	0.4074
4	100001	105000	413651	0.2412
3	105001	110000	327800	0.1911
2	110001	115000	227600	0.1327
1	115001	120000	118000	0.0688
2	120001	125000	249525	0.1455
2	125001	130000	257846	0.1503
2	130001	135000	262055	0.1528
4	135001	140000	553274	0.3226
1	140001	145000	141500	0.0825

Pattern of Shareholdings
as at June 30, 2011

No. of Shareholders	Having Shares From	To	Shares Held	Percentage
1	145001	150000	150000	0.0875
1	150001	155000	154079	0.0898
4	160001	165000	655827	0.0898
2	170001	175000	345246	0.2013
1	175001	180000	180000	0.1049
2	180001	185000	367043	0.214
1	190001	195000	191697	0.1118
3	195001	200000	597816	0.3485
1	200001	205000	204800	0.1194
2	205001	210000	414193	0.2415
3	215001	220000	646592	0.377
1	220001	225000	225000	0.1312
4	225001	230000	913489	0.5326
2	230001	235000	466427	0.2719
3	235001	240000	707658	0.4126
1	245001	250000	250000	0.1458
1	255001	260000	258500	0.1507
1	285001	290000	286415	0.167
2	295001	300000	600000	0.3498
1	310001	315000	312000	0.1819
1	335001	340000	340000	0.1982
1	350001	355000	351943	0.2052
1	355001	360000	359649	0.2097
1	365001	370000	370000	0.2157
1	380001	3850000	383314	0.2235
1	455001	460000	456651	0.2662
1	470001	475000	473043	0.2758
1	595001	600000	595821	0.3474
1	635001	640000	635072	0.3703
1	645001	650000	647925	0.3778
1	685001	690000	688383	0.4013
1	700001	705000	704945	0.411

Pattern of Shareholdings

as at June 30, 2011

No. of Shareholders	Having Shares From	Having Shares To	Shares Held	Percentage
1	710001	715000	710344	0.4141
1	720001	725000	721129	0.4204
1	845001	850000	848691	0.4948
1	855001	860000	855027	0.4985
1	860001	8650000	864400	0.504
1	895001	900000	900000	0.5247
2	905001	910000	1815703	1.0586
1	995001	1000000	996298	0.5809
1	1085001	1090000	1089900	0.6354
1	1170001	1175000	1172885	0.6838
1	1200001	1205000	1203298	0.7016
1	1285001	1290000	1289946	0.7521
1	1630001	1635000	1632531	0.9518
1	1875001	1880000	1879319	1.0957
1	3735001	3740000	3738731	2.1798
1	5250001	5255000	5250759	3.0613
1	9995001	10000000	9997584	5.8289
1	10255001	102600000	10258329	5.9809
1	10705001	10710000	10706516	6.2422
1	10975001	1098000	10975800	6.3992
1	26010000	26015000	26013948	15.1668
1	38505001	38510000	38505565	22.4498
12622		Company Total	171518901	100.0000

Pakistan State Oil Company Limited

Thirty- Fifth Annual General Meeting 2011

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-Fifth Annual General Meeting of the Company to be held on Thursday, September 29, 2011 and at any adjournment thereof.

Signed by me/us this ____________ day of ________ 2011.

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