# REPORT TO SHAREHOLDERS

On February 12, 2015, a notification was received from the Ministry of Petroleum & Natural Resources (MPNR), whereby PSO was informed by the MPNR that the Federal Government in exercise of the powers under Section 7 of the Marketing of Petroleum Products (Federal Control) Act, 1974 "the Act" has dissolved/de-notified the BOM with immediate effect. The above referred notification also stated that the Managing Director, PSO shall exercise and perform all the powers and functions of the Board under section 6(4) of the Act till a new BOM is appointed by the Government of Pakistan.

Pursuant to the notification from MPNR, Mr. Sheikh Imran-Ul-Haque has taken over the charge of Managing Director & CEO at Pakistan State Oil Company Limited (PSOCL) on September 1, 2015. In exercise of the powers under section 6(4) of the Act, the Managing Director & CEO of PSO, Mr. Sheikh Imran-Ul-Haque reviewed and approved the performance of the Company for FY2015, the report of which is presented thereon:

In the Financial Year (FY) under review, PSO continued to dominate the market with its share in the Black Oil and White Oil segments standing at 66.6% and 49.8% respectively, thereby contributing to an overall market share of 56.8 %. The Company's sale volume of Motor Gasoline grew by 18.5% in FY 2015 over the same period last year due to upsurge in demand of Mogas on account of fall in Mogas prices and shortage of CNG. Additionally, HSD sales also witnessed an increase of 0.9% over SPLY despite the stiff competition faced in the industry.

During the year, the Company's profitability has been adversely affected by the sharp decline of 46% in the OPEC basket price of crude oil, USD 109 per barrel in July 2014 to USD 59 per barrel in June 2015. This significant decline in crude oil prices together with drop in black oil volumes by 12% resulted in a 21% reduction in the sales turnover to Rs. 1,114 billion as compared to Rs. 1,410 billion in FY2014. Similarly, after tax profitability has also declined to Rs. 6.9 billion as compared to Rs. 21.8 billion in FY2014 due to inventory losses on account of sharp fall in crude prices, increase in finance cost due to prevailing circular debt crisis and less receipt of interest from power sector.

A final cash dividend of Rs. 4 per share (equivalent to 40%) was declared in addition to the earlier interim cash dividends of Rs. 6 per share (equivalent to 60%). The total cash dividend for the year stands at Rs. 10 per share.

## GLOBAL & DOMESTIC ECONOMIC OVERVIEW

Global activity remained modest with much of the positive stimulus coming from advanced economies and a slowdown in emerging market and developing economies. Global growth was witnessed at 3.3% in 2015 whereas; in emerging market and developing economies it declined from 4.6% in 2014 to 4.2% in 2015. In emerging market economies, the continued growth slowdown reflects several factors, including lower commodity prices and tighter external financial conditions, structural bottlenecks, rebalancing in China, and economic distress related to geopolitical factors. As per world economic outlook, Oil price rebounded more than expected at the closing of FY 2015, hence reflecting higher demand and expectations that oil production growth in the United States will slow faster than previously forecast. With the rebound in oil prices, fuel end-user prices have started rising. Monthly headline inflation has thus started to bottom out in many advanced economies. In many emerging market economies, notably those with weak domestic demand, headline inflation has declined. A rebound in activity in a number of distressed economies is expected to result in a pickup in growth in 2016. Growth in emerging market and developing economies is expected to pick up to 4.7%, largely on account of the projected improvement in economic conditions in a number of distressed economies, including Russia and some economies in Middle East and North Africa.

During FY 2015 economic environment in Pakistan was confronted with number of challenges such as war against extremism, energy shortages, floods in September which impacted agriculture and infrastructure sectors and also damaged some major agricultural crops like sugar, rice and cotton along with other losses. Decline in inflation, improvement in tax collection, growth in per capita income, reduction in fiscal deficit, improvement in foreign reserves and strengthening of rupee contributed in better performance of Pakistan's economy as compared to previous year.

Pakistan's GDP reached about 4.24% in FY 2015 from 4.03% in FY 2014. However, inflation decreased to 4.8% in FY 2015 as compared to 8.7% in FY 2014 Fiscal deficit is estimated to be around 5% of GDP as compared to 5.5% last year. Trade deficit has been around $ 13.9 billion. Import value of petroleum products decreased by 16.2% in FY 2015.

## PETROLEUM INDUSTRY OVERVIEW

The consumption of POL products grew by around 4.7% in FY 2015 over Same Period Last Year (SPLY) which was mainly due to an increase of 11.2% in White Oil. However, a decline of around 3% was observed in Black Oil consumption.

In FY 2015, MOGAS sales grew by around 22.5% over SPLY, which was significantly due to increase in number of motor vehicles, CNG loadshedding, decline in CNG converted vehicles and discontinuation of CNG-fitted vehicles. This also impacted the consumption of CNG in the industry which also declined due to non-issuance of new CNG licenses by Oil & Gas Regulatory Authority (OGRA). Decline in price of MOGAS by 33% during the period August 2014 till March 2015 (Rs.105.48/L in August to Rs.70.29/L in March) significantly contributed to the growth in MOGAS.

The growth in HSD demand by 7.5% in FY 2015 over SPLY was contributed primarily due to increase in agricultural activity and decline in price of HSD by 20% in FY 2015. An increase of 48% was observed in sales of trucks & buses and 34% in sales of tractors over SPLY also positively contributed to the increased demand.

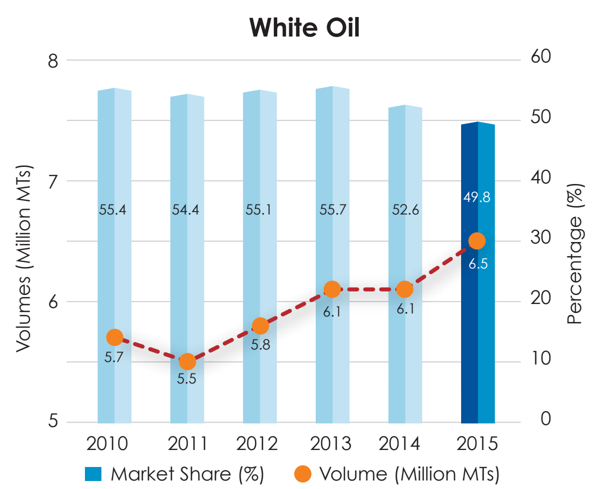
JP-1 (Local) experienced a decline of 10.9% in FY 2015 which was mainly due to the disruption in flight operations (international carriers) subsequent to the terrorist attacks at Karachi and Peshawar airports.

Industry consumption of FO declined by around 3% in FY 2015 over SPLY mainly due to the overall decline in the electricity generation in the country. Moreover, with allocation of natural gas to power sector increasing from 233,475 mm cft in FY14 (Jul-Mar) to 248,050 mm cft in FY15 (Jul-Mar) also caused a decline in sales of FO.

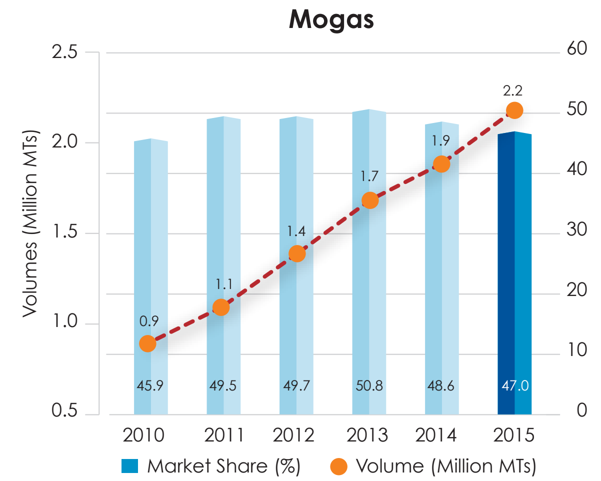
During FY 2015 local refineries produced 9.8 million MTs, while the deficit requirement of 12.5 million tons was imported. The major import was in FO (6.2 million MTs), HSD (3.2 million MTs) and MOGAS (3.1 million MTs).


# PSO SALES PERFORMANCE

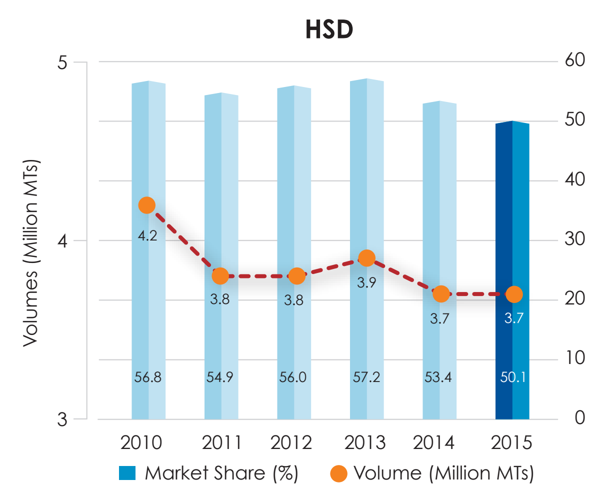
To compete effectively in the market, PSO has strived for innovative measures and taken a proficient approach to achieve market excellence and made all possible efforts in line with its strategy to excel in delivering value to a customers. Through its team's dedication and despite product availability related challenges, the company managed to achieve a market share of 56.8% in FY 2015.



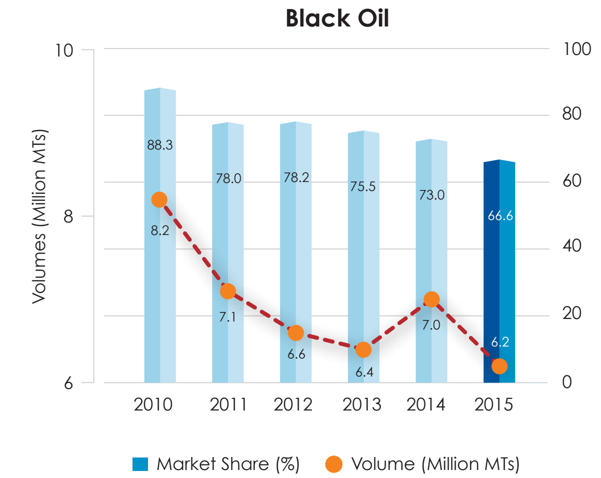

In White Oil (MOGAS, HSD, SKO, Jet Fuel), despite intense competition from new players, PSO achieved a market share of 49.8%, while in Black Oil its market share stood at 66.6% in FY 2015.



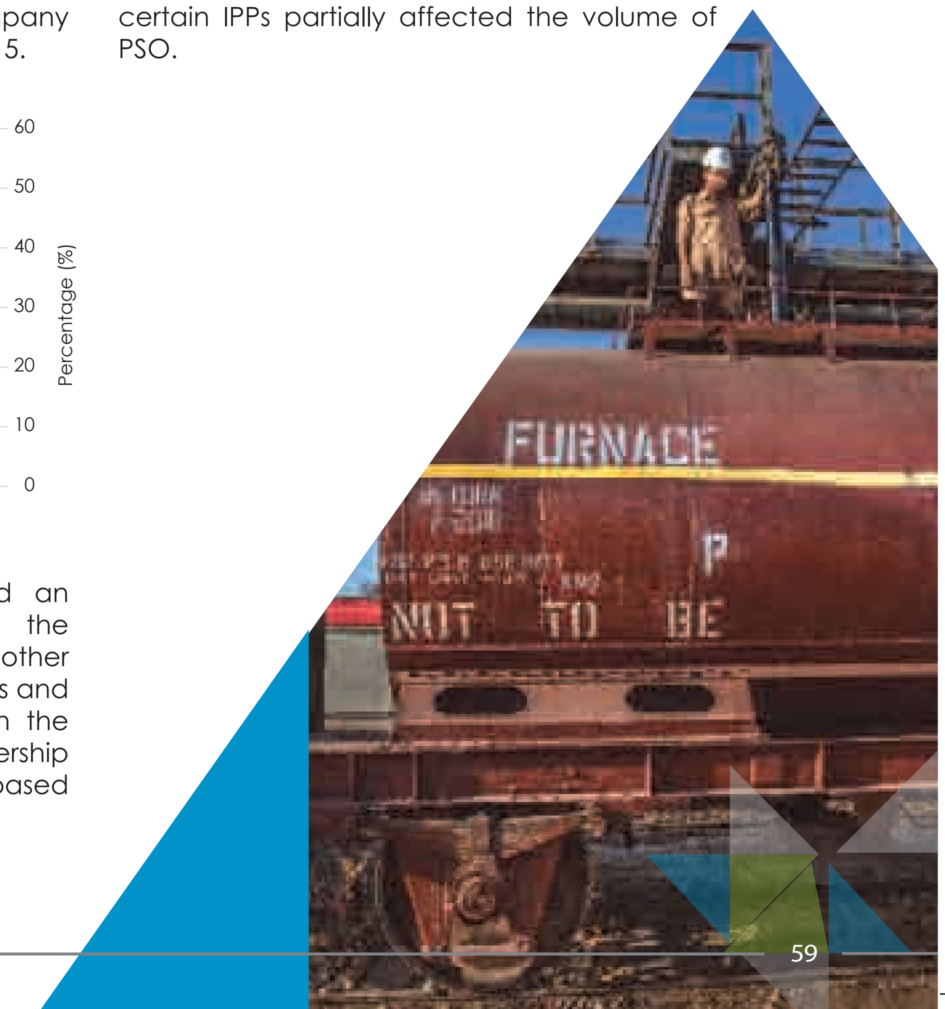

Mogas business has become competitive during FY 2015 when several market players; including those with refining back-up emerged in the market. The company increased its sales volume in Mogas by 18.5% in FY 2015 over SPLY. There was an upsurge in demand of Mogas early this year primarily due to fall in Mogas prices and shortage of CNG as fuel for vehicles. However, PSO took the lead and managed its stocks, hence preventing the dry out situation in the country. The company achieved a market share of 47% in FY 2015.




In FY 2015, HSD sales also witnessed an increase of 0.9% over SPLY despite the competition faced in the industry with other OMCs carrying heavy marketing activities and the availability of smuggled product in the country. PSO maintained its market leadership with a market share of 50.1% in FY2015 based on its selling approach of focusing on the company's profitability and limiting incentives and discounts.




Circular debt continued to impact the Company's liquidity situation and is significantly affecting PSO's ability to make product purchases during the year. In FY 2015 the sales volume of FO of PSO was 6.2 million MTs. However PSO retained its leadership in the product segment with a market share of 66.8%. The credit facility and the sales incentives given in the market, the closure and non upliftment despite fuel supply agreements of certain IPPs partially affected the volume of PSO.




# SUPPLY

## Product Sourcing

During FY15, PSO sourced a total of 12.627 Million Metric Tones (MMT) of refined oil products through local refineries and imports. The bulk of this sourcing was in the shape of imports with a total volume of 9.8 MMT being imported through 169 cargoes versus 10.08 MMT through 183 vessels last year. This total import comprised of 2.77 MMT of HSD, 6.19 MMT of Furnace Oil (HSFO: 5.23 MMT & LSFO: 0.96 MMT), 1.79 MMT of Motor Gasoline and 0.01 MMT of JP1. Term Contract was renewed for supply of Hi-Speed Diesel with Kuwait Petroleum Company in order to ensure stability of the supply chain.

The refinery upliftment by PSO remained almost the same i.e. 2.83 MMT compared to 2.88 MMT last year and was limited due to financial constraints.

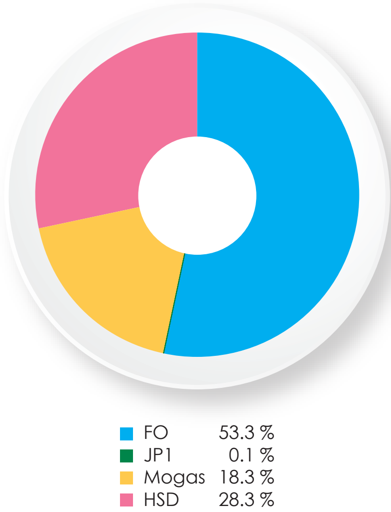
## Hospitality

A Condensate Crude Handling Agreement was inked between Pakistan State Oil, United Energy Pakistan and OMV which resulted in ancillary revenue for the Company.

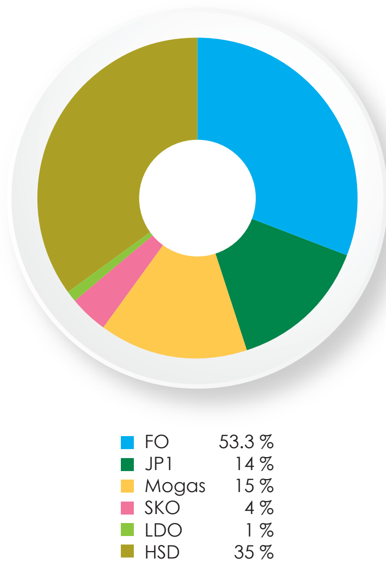
## ISO Certification Surveillance Audit

Furthermore, a successful ISO 9001:2000 surveillance audit of the Supply Department was also conducted by Velosi Pakistan.

**Import: 9.8 MMT**




**Refinery Upliftment: 2.8 MMT**



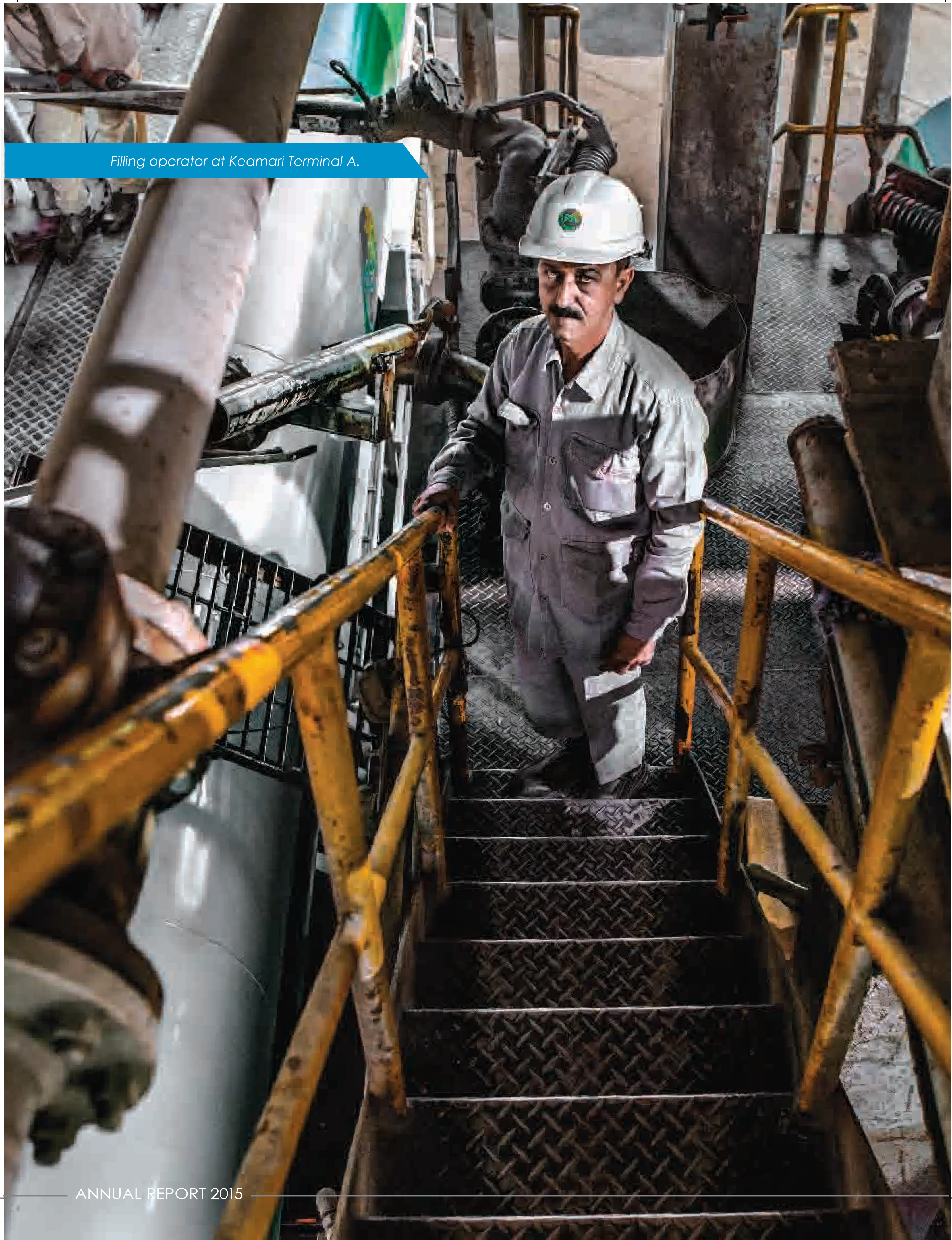
# LOGISTICS

Mindful of the growing energy needs of the nation, PSO is committed for meeting the transportation requirement of all its customers in a timely and responsible manner.

In view of increased petrol demand across the Country, PSO arranged movement of 1.60 Million Metric Tons of petrol through tank lorries from Karachi to various upcountry locations with the highest movement volume recorded in May 2015 where 0.18 Million MTs of PMG was transported resulting in maintaining of optimum inventory level at all depots/installations. Similarly, keeping in view the need of continual fuel oil supply to the power sector, your Company ensured round-the-clock fuel product availability to its power sector customers.

The Company continued its policy of upgrading its tank lorries fleet in line with latest standards. Furthermore in order to revive POL transportation through rail network, PSO provided business volumes to Pakistan Railways at all rail head destinations which includes the resumption of Rail transportation at Jamshoro and supplies to Lalpir depot, Ex- ARL Morgah with POL transportation through railways experiencing 68 % growth in comparison with FY14.


PSO staff member standing infront of the filling gantry at Keamari Terminal



*Filling operator at Keamari Terminal A.*

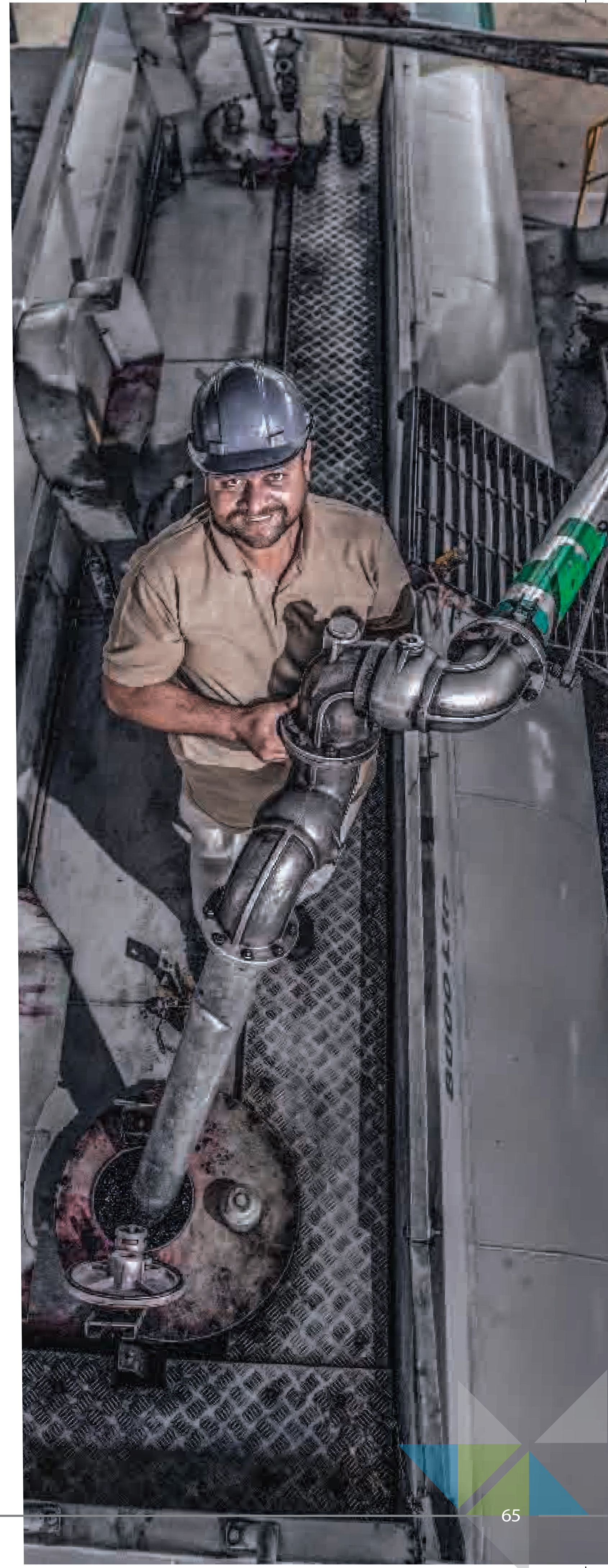
# OPERATIONS

During the period under review, PSO continued its efforts to further streamline its operational activities to make them ever more efficient and economical.

In order to meet increasing demand of petroleum products, PSO constructed a new state of the art 19 point filling gantry with improved safety mechanism at Mehmoodkot installation in an efficient and effective manner. In addition Mogas storage capacity at Habibabad and Sanghi depots was further enhanced to cater to increasing PMG demand in the country, while filling and decantation facilities at key locations including Machike, Tarujabba, Chakpirana and Sihala were improved to better meet customer demand. With a view towards enhancing operational efficiency, the decantation gantry at Keamari Terminal B (Karachi) has been converted into a filling gantry resulting in cost savings as compared to construction of a new gantry at the location. The gantry has also been equipped with a new fall arrester system and swing ladders to enhance safety in filling operations.

Further to it's new additions, PSO also improved its current infrastructure by successfully rehabilitating a 20 inch Tanker Discharge line at Keamari Terminal without any incident or hindrance to frequent tanker receipt operation. An Internal Floating Cover (IFC) was installed on tanks at Machike installation to minimize the evaporation of product while the Filling Gantry at this location has been extended to add two (2) PMG filling points to cater to the increasing market demand.

Ever mindful of its HSE commitment to its internal and external stakeholders, PSO has installed Reverse Osmosis (RO) water filter plants at Shikarpur and Kotlajam to provide clean drinking water to PSO employees, contractors and partners.



# INFRASTRUCTURE CONSTRUCTION DEPARTMENT

During the period under review, the 1st Phase of Hyderabad depot under development for the storage and handling of lubricants was completed. Furthermore, subsequent to OGRA inspection, all requirements for construction of new Faisalabad depot were completed in June 2015 and approval was sought from OGRA to commission the depot.

In FY15, storage and base oil tanks at multiple locations including Kemari Terminal A and LMPA were rehabilitated.

# AVIATION, MARINE & EXPORTS DEPARTEMENT

During the period under review, A,M&E Department recorded sales volume of 475,355 MT through safe & incident free operations. Additionally, PSO's share in the jet fuel market increased by 2.1% from 62.5 to 64.6% during the year.

The Company successfully completed its HAJJ fuelling operation by refueling 336 Hajj Flights registering sales volumes of 8,905 MTs. PSO won the tenders to supply fuel to the Army and the Pakistan Air Force (PAF) at different airports including KHI & ISB which was previously with the competition. As a result, fuel supplies to Defense Forces (Army/Navy/PAF) increased by 17% as compared to same period last year.

In FY15, PSO successfully renewed contracts with ten (10) international airlines including Emirates, Air China, Thai Airways, Turkish Airlines etc. The business of Mihinlanka at Lahore Airport was also acquired during the same time period. The Company will be the sole supplier of HSD to the sea-going fleet of the Karachi Port Trust (KPT) during FY16.

# CONSUMER BUSINESS

During FY15, PSO continued to lead the Furnace Oil market with approximately 67% of the total market share while HSD sales increased by 25% to 563,000 MTs compared to the same period last year.

The Company won the Army Fuel and Lubricant tender business for approximately 72 million Liters and successfully bid for Railway Lube Tenders of 2.9 Mn Liters. PSO also won the tender of Agricultural Engineering of approximately 6.1 million Liters for FY 2015.

# GASEOUS FUELS

## CNG

In the period under review, PSO maintained its leadership position among OMCs in the CNG industry by holding 23% of the total market in FY-15. During the year, eight (8) private CNG stations were successfully converted into PSO retail outlets enabling the Company to widen its existing network of CNG stations. As of June 30, 2015, the total PSO CNG stations network has increased to 253 stations throughout the country, the highest amongst OMCs in Pakistan.

## LPG

The PSO LPG Bottling Business under the name "PakGas" and PSO Autogas Stations with the brand name "Smart Gas" has been making continual efforts to build its revenue streams in the face of considerable market challenges. During the year, PSO successfully commissioned its second LPG Autogas Station at retail outlet Keeria Petroleum Service, Sakrand, Sindh which is now operational and running since November 27, 2014.

In FY15, PSO enhanced its LPG storage capacity by 100 MTs at its Lahore Plant and increased its overall LPG storage capacity to 880 MTs across Pakistan. Furthermore, all PSO LPG Plants have ensured commendable HSE performance in FY-15.

## LNG

In order to meet the gas deficit of the country, Liquefied Natural Gas (LNG) which is a clean source of energy is being imported to meet the energy needs of the nation. The Government of Pakistan (GoP) has designated PSO to purchase LNG.

For this purpose, PSO is currently engaged in negotiations with Qatargas the state of Qatar's designated entity, on the terms of a long term LNG Sale and Purchase Agreement (SPA). In parallel, in order to commence LNG supply; PSO sourced a commissioning cargo from Qatargas and subsequently, four more LNG cargoes of approximately 12.8 MMBTU were procured in FY15 using the Floating Storage and Regasification Unit (FSRU) as a carrier.


# RETAIL BUSINESS

Continually striving to fulfill the fuel needs of its consumers in an efficient and effective manner, PSO achieved an overall volumetric growth in POL sales against the same period last year. During the period under review, PSO maintained its leadership position in both the gasoline and diesel markets with 47% and 50.1% market share respectively. Despite intense industry competition, PSO sold approximately 2.235 Million MTs of Mogas during the year which represented a growth of 18.6% against last year while recording sales of 3.718 Million MTs in High Speed Diesel which represented a growth of 0.9% against FY14.

As part of its efforts to automate and streamline the sales order process, the Company has deployed an Online Ordering Management System (OOMS) at 780 outlets nationwide with the objective of providing convenience to dealers and phase out the conventional manual ordering system.

With respect to its commitment to provide products in the right quality and quantity to its customers, PSO effectively utilized its Mobile Quality Testing Unit (MQTU) network to carry out random checks at its retail outlets.


## NON-FUEL RETAIL

Focused on developing additional revenue streams to help further build its profitability, the Company has continued its efforts to expand its Non-Fuel Retail footprint in order to further build this business segment. During the year, company expanded its network of Automated Teller Machines (ATMs) installed in collaboration with various Banks and the total number of ATMs nationwide is now ninety-three (93).

## CARDS

During FY15, the Cards Business continued to effectively cater to the fast-changing fuel-cards industry despite varying trends and marketing dynamics. The business witnessed both stability in terms of volume and enhancement in terms of profitability during this period. During FY15, the Cards Business facilitated sales of 393,673 Kl of fuel.

# RETAIL CONSTRUCTION

During FY2015, PSO successfully built and commissioned seventy-one (71) Retail Outlets in line with its New Vision Retail Outlet program to further enhance sales network and reinforce PSO's market dominance. This number exceeded the set target of sixty (60) new outlets in the year by approximately 18%.



# LUBRICANT AND AGENCY TRADE

During FY15, PSO recorded total Lubricant sales of approximately 25,000 MTs despite facing several market challenges. The company was tactfully able to make a transition from low tier to high tier products by 8% in FY 15 which in turn has improved the profitability position of the company. The company won tenders of Pakistan Army and Pakistan Railways, the impact of which will be witnessed in the forthcoming year.

The company strategized its overall sales volumes by balancing its product offerings to improve contribution margins. This was accomplished by adopting a dedicated approach towards sales channels by focusing on Heavy-duty Diesel Engine Oil (HDEO) category, which helped in increasing the sales share of this category by 7% over last year.

# PROCUREMENT AND SERVICES

During FY 2015, the Procurement and Services Department has continued transform its processes and ensure fairness, transparency and value for money in procurement related activities.

## Revised Procurement Policy

The department has re-drafted the procurement policy manual. The revised edition contains procurement policies and procedures which are compliant with PPRA regulations and focus on the Company's stated goals of fairness, transparency and value for money in all procurement matters. This new manual also incorporates new and improved process cycle strategies such as:

- Approval process in one application
- Induction of e-procurement
- Enhance budget spending and minimize carryovers

## Procurement Cycle

The Company has devised a Procurement Cycle in order to streamline procurement practices and undertake continual improvement measures such as:

- Forecast an accurate annual procurement plan
- Ensure competitive supply resource management
- Develop collaborative relationships with internal customers and vendors

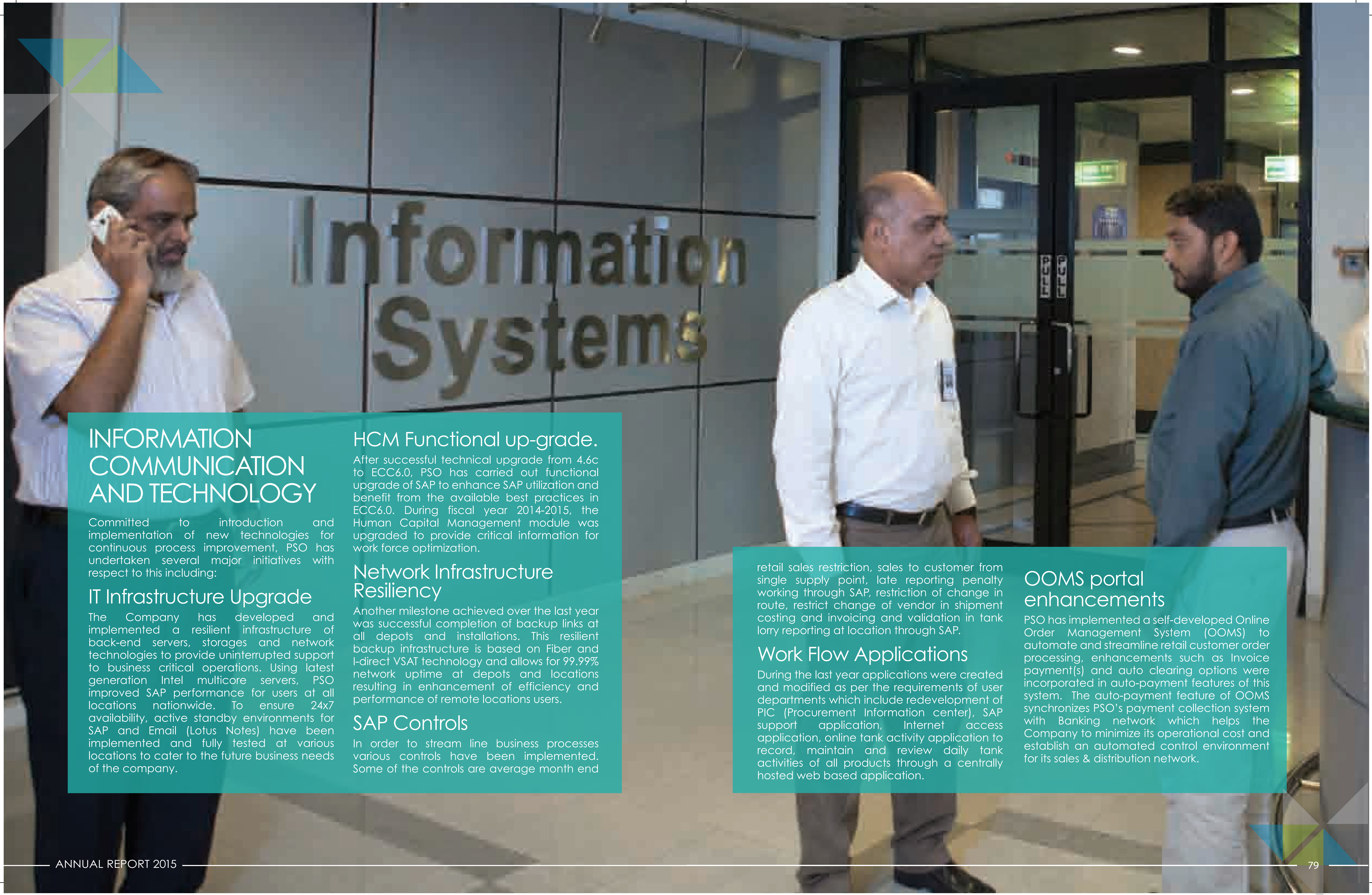
PSO has always endeavored to ensure management oversight of the procurement process and maintain bid fairness. This has brought about significant change as contracts running under sole source agreements are now being acquired through open competitive bidding process. During FY15, efforts were made to reduce cost difference between purchase requisitions and award contracts in order to achieve comparatively better spending in contract awards.

Inside view of the Procurement One Window Solution counter.


# INTERNAL AUDIT DEPARTMENT

During the period under review, the department worked to provide assurances regarding the organization's processes and systems to the Board Audit Committee and Management through regular audits of Operational locations and Departmental activities as per the audit plan.

A systematic approach was also undertaken for improvement of controls by focusing on implementation and enhancement of SAP controlled environment. In the period under review, there was an increase in the advisory and consultancy role for the audit team in order to achieve key business objectives.




# INFORMATION COMMUNICATION AND TECHNOLOGY

Committed to introduction and implementation of new technologies for continuous process improvement, PSO has undertaken several major initiatives with respect to this including:

## IT Infrastructure Upgrade

The Company has developed and implemented a resilient infrastructure of back-end servers, storages and network technologies to provide uninterrupted support to business critical operations. Using latest generation Intel multicore servers, PSO improved SAP performance for users at all locations nationwide. To ensure 24x7 availability, active standby environments for SAP and Email (Lotus Notes) have been implemented and fully tested at various locations to cater to the future business needs of the company.

## HCM Functional up-grade.

After successful technical upgrade from 4.6c to ECC6.0, PSO has carried out functional upgrade of SAP to enhance SAP utilization and benefit from the available best practices in ECC6.0. During fiscal year 2014-2015, the Human Capital Management module was upgraded to provide critical information for work force optimization.

## Network Infrastructure Resiliency

Another milestone achieved over the last year was successful completion of backup links at all depots and installations. This resilient backup infrastructure is based on Fiber and I-direct VSAT technology and allows for 99.99% network uptime at depots and locations resulting in enhancement of efficiency and performance of remote locations users.

## SAP Controls

In order to stream line business processes various controls have been implemented. Some of the controls are average month end retail sales restriction, sales to customer from single supply point, late reporting penalty working through SAP, restriction of change in route, restrict change of vendor in shipment costing and invoicing and validation in tank lorry reporting at location through SAP.

## Work Flow Applications

During the last year applications were created and modified as per the requirements of user departments which include redevelopment of PIC (Procurement Information center), SAP support application, Internet access application, online tank activity application to record, maintain and review daily tank activities of all products through a centrally hosted web based application.

## OOMS portal enhancements

PSO has implemented a self-developed Online Order Management System (OOMS) to automate and streamline retail customer order processing, enhancements such as Invoice payment(s) and auto clearing options were incorporated in auto-payment features of this system. The auto-payment feature of OOMS synchronizes PSO's payment collection system with Banking network which helps the Company to minimize its operational cost and establish an automated control environment for its sales & distribution network.

*A chemist tests fuel samples for quality assurance*

# CORPORATE SUSTAINABILITY

Highlights on the entity's performance in relation to the aspects of corporate sustainability are as follows:

## QUALITY ASSURANCE

PSO is committed to provide products in the right Quality & Quantity to its customers. During FY15, our Mobile Quality Testing Units (MQTUs) carried out quality inspection visits to multiple PSO locations. This included 24,483 visits to retail outlets, 318 visits to installations and depots, 105 visits to CNG stations, 114 joint visits with OGRA and 66 outlets against Taálluq complaints across the Pakistan.

With the objective of developing Lube blends providing superior POL blends to valued customers, PSO laboratories are carrying out extensive research and development. During the year, 582 pilot lab blends were prepared for various POL products. At the same time 43,772 samples of POL products were tested at laboratories across Pakistan.

Steps have also been taken to enhance operational transparency including installation of Gas Chromatograph System at Central Laboratory and induction of testing facility for POL testing against wax contents.

During FY15, ISO 9001: 2008 Quality Management System Certification was earned by fifteen (15) PSO departments while ninety-eight (98) facilities and locations across Pakistan have also been ISO certified. Re-Certification of ISO 9001:2008 of Quality Assurance Department (23 MQTUs and 1 CNG testing vehicles and 05 Labs) was also carried out during this time.

## HEALTH, SAFETY & ENVIRONMENTAL PROTECTION

As a responsible company, PSO strives continually to make Health, Safety and Environment a core priority in its daily operations. As part of these efforts, PSO adheres to the highest HSE standards and policies including compliance with relevant laws and regulations. Alongside this the Company regularly initiates self-efforts to further improve HSE compliance and management across the board through audits/ inspections and trainings.

### HSE Trainings and Seminars

During FY15, PSO made efforts to boost contractor and business partner safety measures by integrating its Contractor Safety Management System (CSMS) with the Procurement Information Center (PIC) to strengthen management oversight of contractor safety. Customized work shops were arranged in North, Central and South Region for Cartage contractors, Retail Dealers, Contractors/ Vendors, HSE Coordinators , HSE Wardens & Inhouse Drivers.

For PSO employees, HSE My Responsibility Workshops were held for South and North zones' staff at Machike, ZOT and Tarujabba respectively. Defensive Driving Training Sessions were also conducted for Female Van drivers, MQTU Drivers, Aviation Drivers and Pool car Drivers in Karachi, Lahore, Multan and Islamabad.

### Energy Conservation

Studies were carried out during the month of May, 2015 in which energy conservation opportunities were identified at PSO House and Keamari Terminal A, in an effort to categorize the sources of energy losses, and energy efficiency rating at PSO and its facilities.

### World Day for Safety and Health at Work

The Company celebrated World H&S day at PSO Facilities & Offices by vowing to adhere HSE policies and procedures and promote a culture of prevention. As part of this, HSE Trainings on "Building a Culture of Safety and Prevention" were also conducted.

### Industrial HSE Forum

With a view towards communicating with HSE professionals from across various industries, PSO conducted an HSE Forum meeting at PSO House wherein representatives from various industries (Oil and Gas Exploration & Production, Refinery and Marketing, FMCGs, Pharmaceutical, etc.) met in order to share best practices and initiatives with respect to Occupational Health, Safety and Environment in Pakistan.

### HSE Manual in the Light of International Standards & Guidelines

HSE Manual was revised keeping in view the International best practices and standards. In this aspect, a thorough gap-analysis was conducted to review all Health, Safety and Environment perspectives and new procedures were added to the manual.

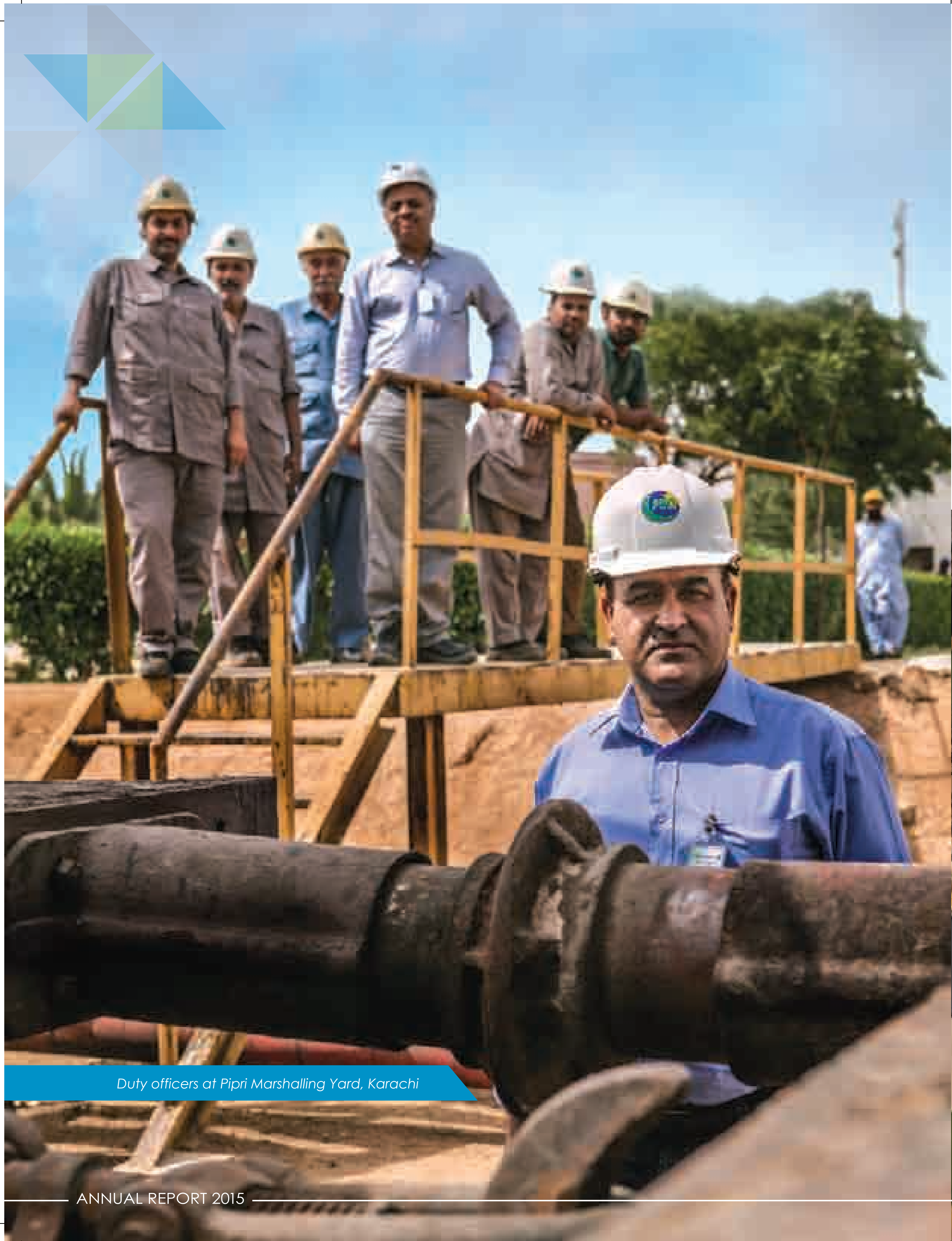

Customer care representative at the PSO Ta'aluq call center


# CUSTOMER SERVICES

Striving for ever more customer satisfaction, PSO Customer Services provides after sales, complaint and query services to existing and new customers including all Departments. The Department is a full-fledged inbound outbound call centre that ensures that all calls are answered before the pre-defined threshold time.

During the period under review, a total of 594,465 Customers were served at Service Level of 99%, via outbound/inbound calls, e-mails, faxes and Automated Lubricant Secure Code Application through SMS Service. Ta'aluq Customer Services is a major source of earning brand equity for the company and goes beyond all means to satisfy customers. PSO station attendants also go the extra mile to facilitate customers at the forecourts.

PSO station attendant cleaning a windshield



Duty officers at Pipri Marshalling Yard, Karachi

# HUMAN RESOURCES DEVELOPMENT

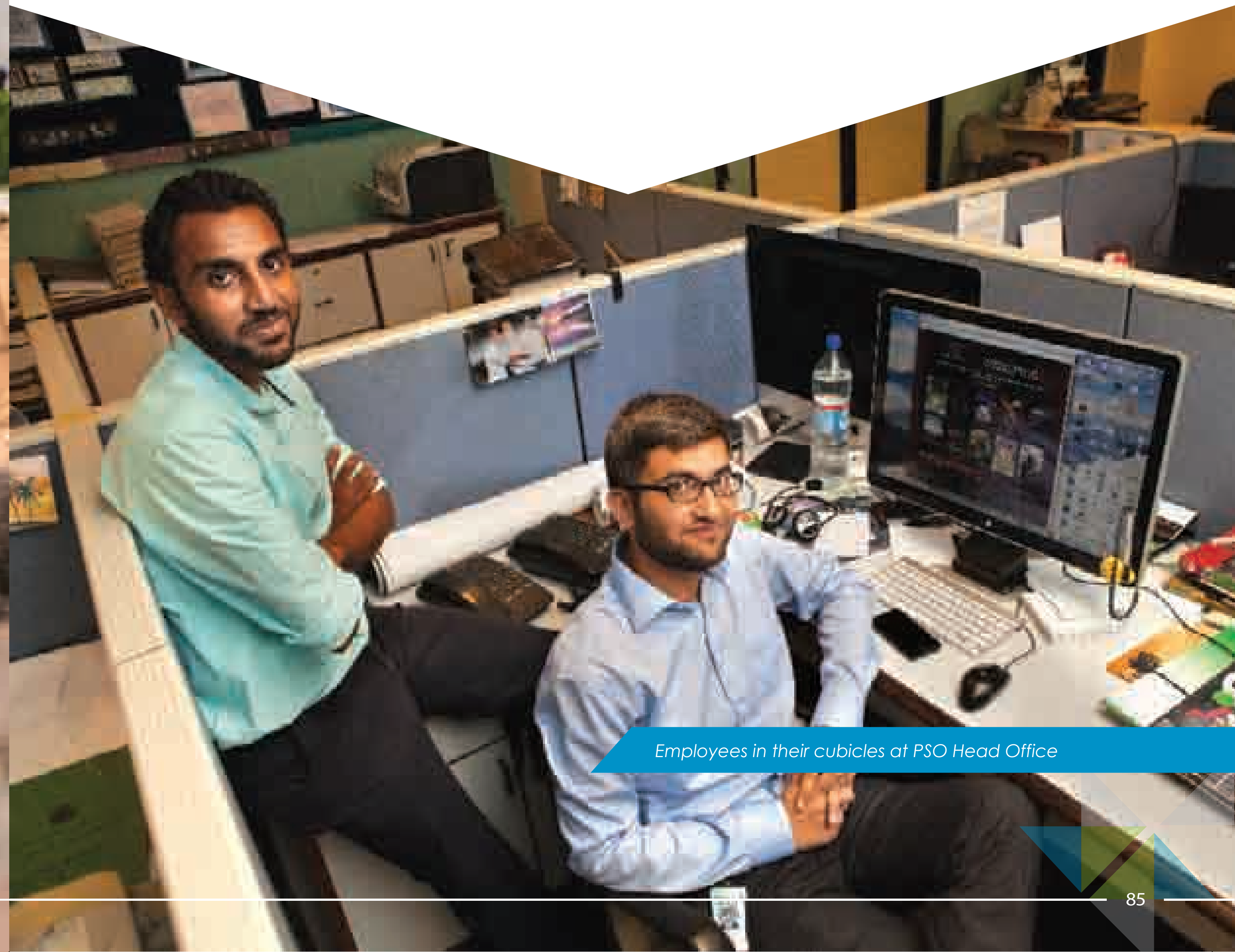
During the year, PSO continued its efforts to align its HR polices and strategies with the best corporate practices. As part of these efforts, a comprehensive exercise for the revision of HR Manual – Benchmarking with market/ international best practices was conducted this year.

The Company also finalized negotiations with the Collective Bargaining Agent (CBA) and ensured an amicable settlement of Union Agreement Jan-2014 to Dec-2016. Compliance with regulatory frameworks was also ensured in HR practices including acquisition of services through pre-qualification exercises and competitive bidding processes.

The Company is committed to providing equal opportunity to all employees without any discrimination on the basis of religion, race, gender, age, disability etc.

## Succession Planning

At PSO, Succession Planning continues to be a key priority for the HR department to ensure staff development and to maintain leadership continuity. With a strong belief in developing a proactive approach, the Company recruits employees, develops their knowledge, skills, abilities and prepares them for advancement or promotion into even more challenging roles. Succession planning ensures that employees are constantly developed to fill each needed role and builds a pool of strong contenders for future leadership positions to ensure PSO's continued growth and prosperity.



Employees in their cubicles at PSO Head Office

*Employee trainings session underway at PSO House, Karachi.*

# TRAINING AND DEVELOPMENT

Organizations are routinely valued not just on their physical but on their intellectual capital. Training is one of the chief methods of maintaining and improving intellectual capital, so the quality of an organization's training affects its value.

PSO is well aware of the importance of training and therefore working towards connecting its employees to opportunities in order to develop skills and abilities, so that organization is well prepared to respond to changing circumstances.

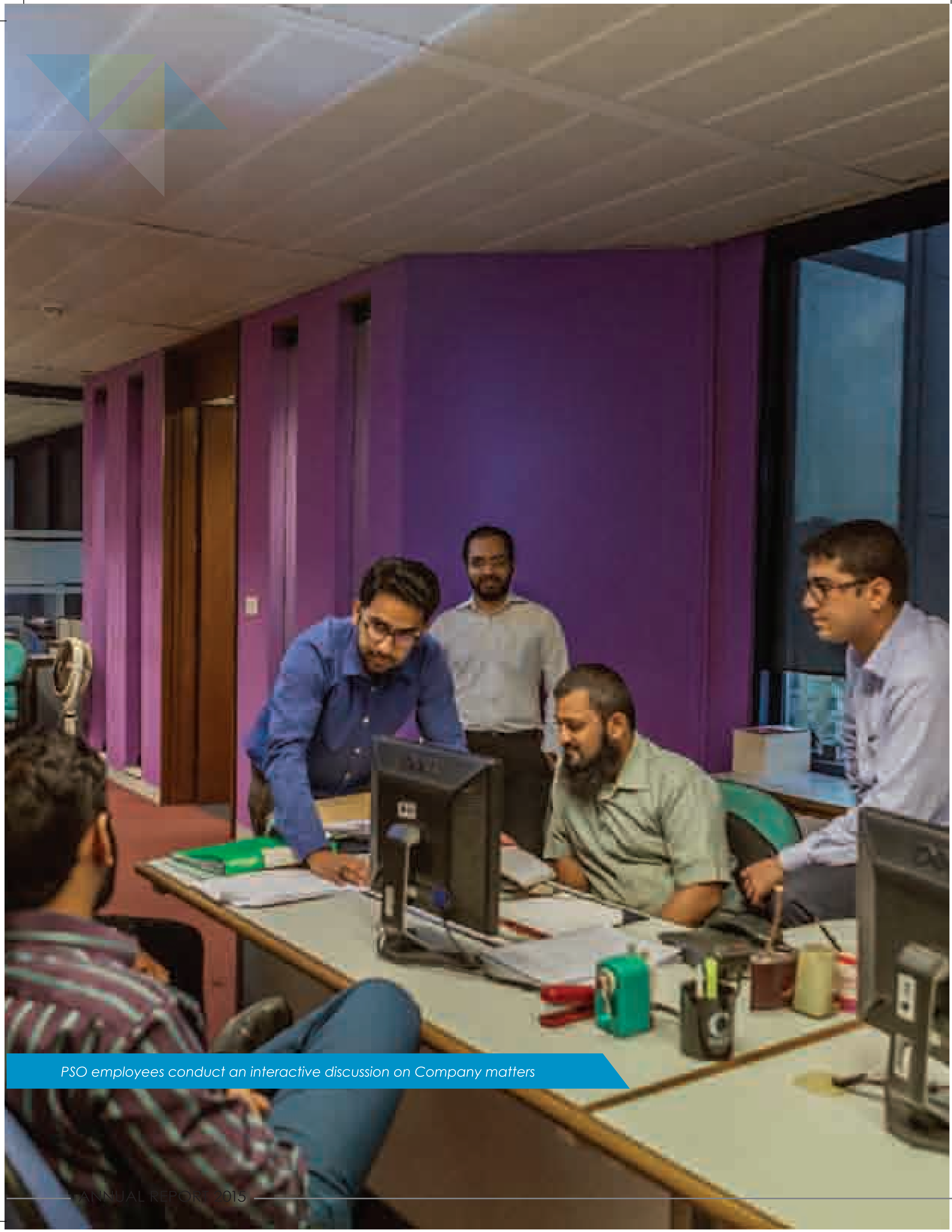
During the current year, PSO worked to identify training needs of work force and addressed them through training by employing industry renowned trainers. In line with these efforts, the Company organized 243 training programs / workshops catering to a total of 3040 training inputs during the fiscal year. These included 68 training sessions imparted at up country locations including Islamabad, Lahore, and Multan. 10 training sessions on Basic Petroleum and Lubricant Knowledge and 45 specialized HSE and 22 Technical Training Sessions were also organized by T&OD team. Apart from training programs, international certification programs for employee's respective field of work were also conducted. Furthermore PSO has also developed Internal Training Resource pool of 30 Trainers this year.

## POL Training Program for Armed Forces

Each year over 400 Armed Force personnel are trained through various courses such as Advance POL Course, Petroleum Management Course, Mobile Lab POL Course, and Various Study & Orientation Visits. This includes key military delegations from Command & Staff College Quetta, Army Supply Corps (ASC) School Nowshera, Army School of Logistics Kuldana Muree, PAF and Navy.

## PSO Internship Program

PSO offers Pakistan's biggest and most comprehensive internship program which accommodates approximately 500 students from universities across Pakistan during a year for a period of 4-6 weeks. Our internship program provides a platform for development of Pakistan's future leadership by providing students exposure to a professional work environment and assists in identifying PSO's future work force. Company invests in learning of interns and converts them into lifelong brand ambassadors for PSO. During the FY15, around 450 students from different universities benefited from PSO's internship program.

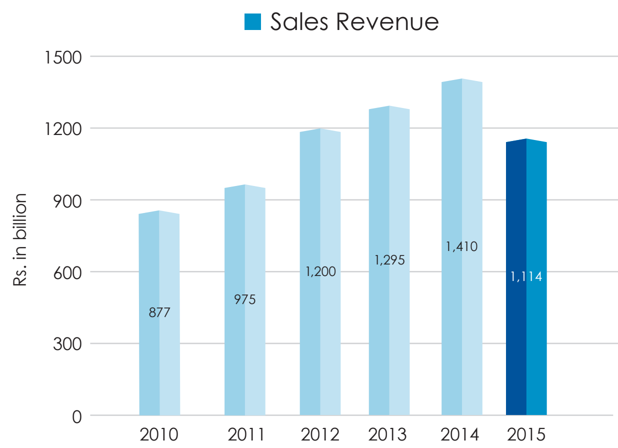

PSO employees conduct an interactive discussion on Company matters

# FINANCIAL PERFORMANCE

## Comparison of Entity's Financial Performance from Last Year

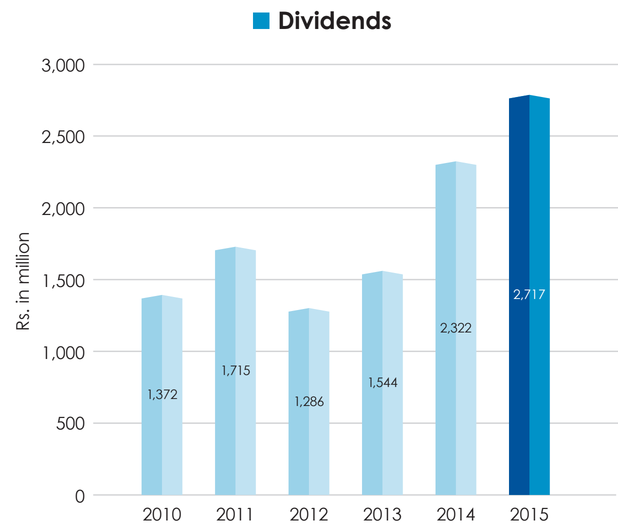
During FY 2015, the Company reported sales turnover of Rs. 1.1 trillion as compared to Rs 1.4 trillion during FY 2014, registering a decline of 21%. After tax earnings stood at Rs. 6.9 bn witnessing a decline of 68% as compared to Rs. 21.8 billion during FY 2014. Earnings per share decreased to Rs 25.53 from Rs. 80.31 during FY 2014.

The main factors for this decline in bottom line are huge inventory losses of Rs. 7.9 billion incurred during FY2015 (FY2014 : Inventory Gain of Rs. 4.1 billion) due to sharp decline in International Crude oil prices by 46% and lesser receipt of late payment surcharge from power sector entities. Considering the future market dynamics prevailing in the oil industry and diversification into LNG business line, your Company is expected to sustain its profitable position.




## Dividends and other Appropriations

The Managing Director, exercising the powers of the Board under section 6(4) of the Act, announced a final cash dividend of Rs 4 per share in addition to the earlier interim cash dividend of Rs. 6 per share. The total dividends for the year stood at Rs. 10 per share as compared to Rs. 9 per share (including bonus) in FY 2014, translating into a total payout of Rs. 2.7 billion vs Rs. 2.3 billion in FY 2014 to the shareholders.




# CONTRIBUTIONS TO NATIONAL EXCHEQUER

During financial year 2015, your company has made contributions to the national exchequer amounting to Rs. 274 billion.

# CORPORATE SOCIAL RESPONSIBILITY

Living up to its role as a responsible corporate citizen, PSO stands by its fellow citizens in all times of need. Under its CSR umbrella, PSO has supported sustainable social development activities nationwide by partnering with reputable charitable organizations working across Pakistan in the fields of healthcare, education and community building. In addition to this, PSO has extended assistance to those of its fellow citizens who have been affected by natural calamities and those who have displaced from their native areas due to socio-economic upheavals/ disruptions.

## National Cause Donation

As a leading national company, PSO extended support worth approximately Rs. 168 Million from its total CSR budget to various causes and organizations nationwide.

## Statement of Charity Account

A brief summary of activities carried out by the company in the following charity account is mentioned below:

## Health & Safety

In its efforts to improve health care coverage across Pakistan, PSO has provided assistance for the purchase of medical equipment as well as for treatment of needy patients to various hospitals and medical organizations. This included support for purchase of dialysis machines to Sindh Institute of Urology & Transplantation (SIUT), purchase of echography machines to National Institute of Child Health, eye testing and treatment equipment to LRBT and Al-Shifa Trust as well as monetary donations to other institutions including Cancer Hospital, Kiran Hospital, Hayatabad Medical Complex, Mayo Hospital (Lahore), Child Aid Association, Civil Hospital, Fatimid Foundation etc.

## Education

With the objective of promoting literacy at all levels, PSO has extended significant support to various organizations working in this field in the form of donations and endowment funds. This included financial assistance to educational institutions in urban areas such as IBA as well organizations working in rural areas such as The Citizens Foundation, Kaghan Memorial Trust etc. The importance of education for special children was also reflected in PSO's donor list with signi-ficant donations dedicated to NGOs like Pakistan Disabled Foundation, Al-Umeed Rehabilitation Center, Care for Special Persons Foundation etc.

## Community Development

With an eye towards social upliftment and betterment of the society, PSO encouraged organizations such as the All Pakistan Women's Association and the Heritage Foundation which are working to empower people in under privileged areas across Pakistan. The Company also supported various other NGOs such as SOS Children Village, Roshni Homes and Make A Wish Foundation Pakistan (MAWFP). The Company has also supported environmental conservation activities in various parts of the country by supporting organizations like The World Wildlife Fund (WWF) and the Pakistan village Development Program (PVDP).

## Employee Care

As a responsible company PSO provides its employees with various value added services including a Day Care center where working parents can leave their children during work hours as well as a Fortified Medical Center where employees can be treated for numerous ailments.

## Circular Debt Position & Way Forward

Contrary to the last financial year, wherein receivable balances were on lower side due to significant injections made by GoP to clear inter-corporate circular debt on June 28, 2013, this year your company witnessed increase in receivable balances against power sector entities, thereby putting additional pressure on the Company's liquidity / cash flow position. This was mainly due to intermittent / piece meal payments by the power sector entities.

Due to mounting power sector receivables in the first half of the financial year, PSO was not able to meet its local and international payment commitments. Taking stock of the deteriorating situation, GoP injected Rs 40 billion in January 2015 against outstanding dues of Power sector entities, thereby easing PSO's liquidity situation and created financial space for POL product sourcing. Subsequently from February 2015 onwards, a payment arrangement has been put in place by Ministry of Water & Power, wherein regular payments are being made to PSO against furnace oil supplies to prevent further accumulation of circular debt.

v

The management is in constant liaison with the Power sector entities and concerned ministries, to expedite the recovery of its outstanding dues. It is expected that the overall situation will improve as GoP is fully cognizant of the current situation and is pursuing multi pronged strategy to resolve the same on a permanent basis.

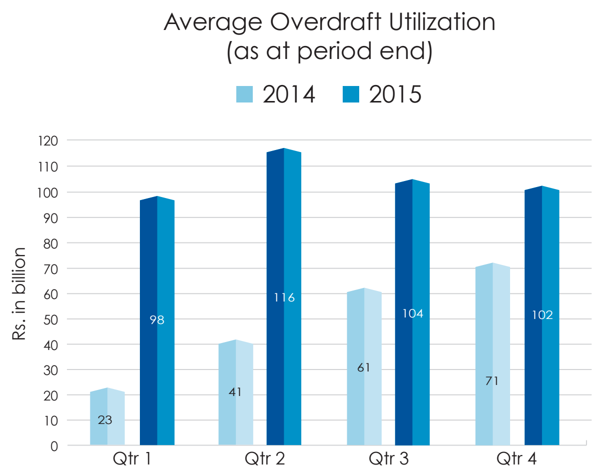
## Analysis of Liquidity, Financing Arrangement and Strategy to Overcome Liquidity Problems

For reasons mentioned in the earlier section, PSO faced continuous pressure on its liquidity position during the first half of the year and accordingly local and international payment commitments to suppliers were not timely settled. These liquidity challenges were managed through heavy reliance on short-term borrowings and temporary enhancement in L/C lines.

However, during the second half of the year, the declining international prices coupled with a major fund injection by GoP and regular payments from the power sector entities against fuel supplies, helped in easing pressure on the Company's working capital requirements. Furthermore, regular cut in interest rates in the monetary policy has contributed positively to the bottom line of the company.

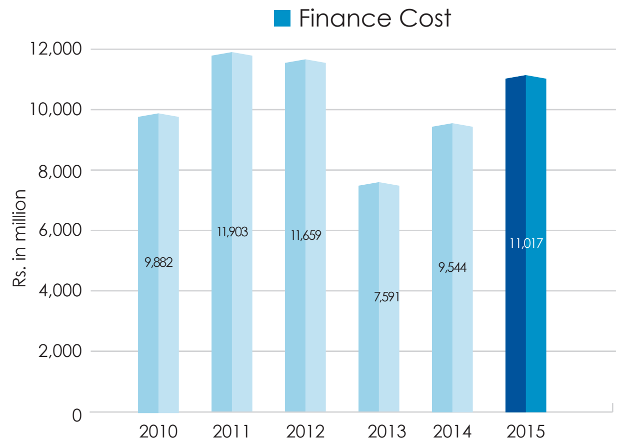
Your Company continues to make stringent efforts to overcome liquidity problems and has formulated various strategies to overcome it. These include rigorous monitoring of the net working capital position of the Company to ensure that cash inflows vis-à-vis outflows are adequately matched and shortfalls, if any are being managed through short term borrowings. In addition, constant and rigorous pursuit for recovery of receivables from power sector entities as well as GoP has been maintained.

The management is confident that despite the ongoing challenges, your company would meet the energy requirements of the country through efficient financial management and close liaison with the concerned Ministries for timely realization of its dues.




## Finance Cost

Overall the financial charges increased by only 16% despite increase in average borrowings by 43% due to reliance on a mix of local and foreign currency borrowings and efficient funds management and close monitoring of the money market.




## Capital Structure

Your Company's objective is to maintain an optimal capital structure whereby the cost of capital is reduced in order to provide adequate returns to its shareholders. Your Company's shareholders' equity has increased from Rs. 78.6 billion in FY2014 to Rs. 82.3 billion in FY2015. This increase is mainly due to net profits retained in the business after appropriations.

Your Company finances its operations through equity, short term overdraft facilities / loans, foreign currency borrowings and efficient management of working capital. Consistent with other Companies in the industry, your Company monitors its capital structure on the basis of gearing ratio to ensure appropriate mix between debt and equity.

The gearing ratio for the current year is 54.79% as compared to 47.70% last year due to increase in year end bank borrowings from Rs. 92 billion to Rs. 102 billion as of June 30 2015, required to manage the working capital requirements on account of huge receivables outstanding from the power sector.

## Key Sources of Estimating Uncertainty

The key sources of estimation uncertainty, which may have a significant effect on the amounts recognized in the financial statements are discussed below:

a) Valuation of Available for Sale Investment
Your Company's available for sale investment includes government securities, fair value of which is determined by reference to the quotation obtained from the PKRV rate sheet on the Reuter page. Any change in the fair value of this available for sale investment is recognized in other comprehensive income.

b) Valuation of stock in trade
Your Company's stock in trade is valued at lower of average cost or cost on first-in-first-out basis and net realizable value.

c) Provision for impairment of trade debts
Your Company recognizes provision for impairment on its trade debts when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables

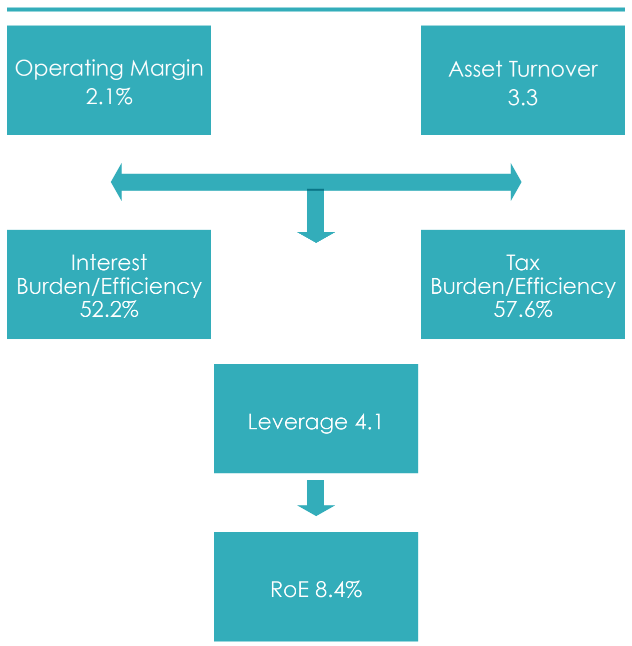
d) Provision for retirement and other service benefits
Your Company operates pension fund, gratuity fund and medical benefit schemes for its employees. The amounts recognized in respect of the above schemes represent the present value of defined benefit obligations adjusted for unrecognized actuarial gains and losses as reduced by the fair value of plan assets.

e) Deferred taxation
Your Company has recognized deferred taxation of Rs. 8.0 billion as at June 30, 2015 on the assumption that sufficient taxable profits will exist in future periods to utilize this deferred tax asset.

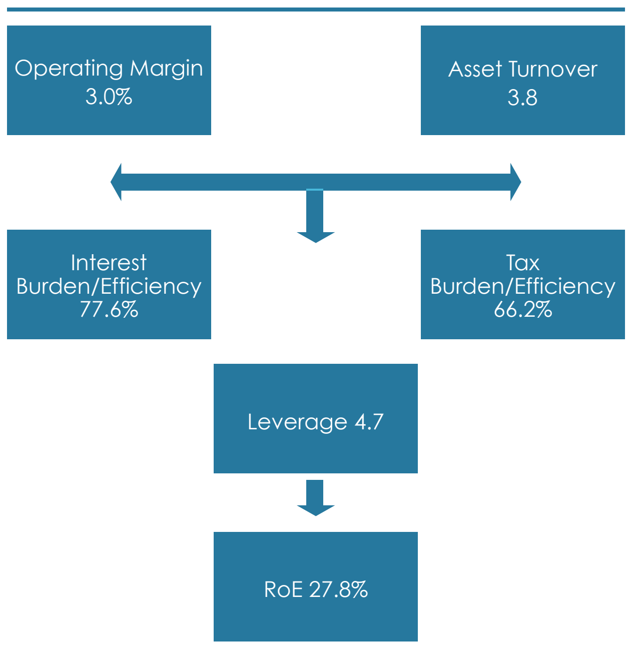
# DUO-PONT ANALYSIS

| | 2015 | 2014 | REASONS FOR VARIATION |
|---|---|---|---|
| TAX BURDEN / EFFICIENCY (NET INCOME / PBT) | 57.6% | 66.2% | Decreased mainly due to imposition of one time super tax @3% and deferred tax asset booked at 30% instead of 33% on certain liabilities. |
| INTERST BURDEN /EFFICIENCY (PBT/EBIT) | 52.2% | 77.6% | Decreased mainly due to decline in PBT on account of inventory losses, less receipt of interest income and rise in finance cost. |
| OPERATING INCOME MARGIN (EBIT/SALES) | 2.1% | 3.0% | Decreased due to decline in PBT for reasons mentioned above. |
| ASSET TURNOVER (SALES /ASSETS) | 3.3 | 3.8 | Declined mainly due to decrease in sales by 21% which was off set by decrease in total assets by 8%. |
| LEVERAGE RATIO (ASSETS /EQUITY) | 4.1 | 4.7 | Decreased mainly due to decline in stock in trade balances on account of dip in oil prices thereby easing pressure on the liquidity of the Company. |
| **Return on Equity (ROE)** | **8.4%** | **27.8%** | **Decreased mainly due to decrease in net profit after tax by 68%** |

2015




2014




## Share Price Sensitivity Analysis

Your Company's profitability and performance is exposed to various internal and external factors which can significantly alter the bottom line of the Company and ultimately the share price. Most of these factors are however external, which are beyond the control of the Company's management. The Company's share price may respond (but not limited) to the following events and changes in business environment:

**a) Sales Volume**

Your Company's sales volume are primarily dependent on GDP growth rate and overall economic conditions prevailing in the country. Increase in business activity and prevailing power crisis situation will lead to increase in volumes of white and black oil products respectively. Further, diversification into LNG business is expected to contribute to the overall profitability of the Company, which will ultimately be reflected in the share price of the Company

**b) International Oil Prices**

The trend of International Oil Prices impacts the financial performance of your Company and consequently the share price. Increasing trend of oil prices may improve your Company's bottom line through inventory gains and vice versa.

**c) Circular Debt**

Your Company's share price is highly sensitive to any development on the circular debt issue prevailing in the Country. The Government's action with respect to circular debt resolution has previously led to share price increase and on the contrary, circular debt pile up has negatively impacted the share price.

**d) Bank Borrowings & Finance Cost**

Increase in bank borrowings will lead to higher finance cost and ultimately reduce the bottom line and have a negative impact on the share price of the Company. Further, any reduction in discount rate in the monetary policy will ultimately reduce company's borrowing cost and will have a positive impact on the bottom line and shareprice.

**e) Rupee devaluation**

Your company imports a major portion of the total petroleum products imported in the Country, which greatly exposes the Company to exchange losses on account of Rupee devaluation. Increase in rupee devaluation has a negative effect on your Company's white oil business performance and consequently its share price.

**f) Diversification**

Any concrete development on diversification into new projects by your Company may lead to a positive impact on its share price.

## Segmental Review of Business Performance

PSO's financial statements have been prepared on a single reportable segment. The total sales revenue is broadly divided into following three categories:

| Description | FY15 | FY14 |
|---|---|---|
| White Oil & Lubricants | 63.85% | 59.47% |
| Black Oil | 34.40% | 40.30% |
| **Sub Total** | **98.25%** | **99.77%** |
| Liquefied Natural Gas | 1.53% | - |
| Other Products | 0.22% | 0.23% |
| **Total** | **100.00%** | **100.00%** |

# Other Matters

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

- Note 12.2 – Non provisioning of past due receivable from Power Generation Company aggregating to Rs. 19,278 million.
- Note 15.1 – Receivable from GoP on account of import price differential on motor gasoline aggregating to Rs 1,351 million.
- Note 15.2 – Receivable from GoP on account of price differential on local High Speed Diesel aggregating to Rs 603 million.
- Note 15.3 – Receivable from GoP on account of price differential on account of supply of furnace oil to KEL at Natural Gas prices aggregating to Rs. 3,909 million.
- Note 15.4 – Receivable from GoP on account of price differential between the products Low Sulphur Furnace Oil (LSFO) and High Sulphur Furnace Oil (HSFO) aggregating to Rs 3,407 million.
- Note 24.1.1 – Non accrual of markup on delayed payments for reasons given in the aforementioned note.
- Note 24.1.2 – Tax implication of Rs. 958 million on the Company for the assessment years 1996-97 and 1997- 98.
- Notes 1.2 and 45 - In the absence of the Board of Management - Oil these financial statements have been approved by the Managing Director of the Company, exercising the powers of the Board.

# Auditors

The Managing Director, exercising the powers of the Board under section 6(4) of the Act has appointed M/s. A. F. Fergusons & Co. Chartered Accountants and M/s Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants as joint auditors of the Company for the year ending June 30, 2016.

# 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.

**Pakistan Refinery Limited (PRL)**
PRL was incorporated in Pakistan as a public limited company in May 1960 and is quoted on the Karachi and Lahore Stock Exchanges. The Refinery is situated on the coastal belt of Karachi, Pakistan and is designed to process various imported and local crude oil to meet the strategic and domestic fuel requirements of the country. PSO holds a 22.5% equity stake in PRL.

# Corporate and Financial Reporting Framework

PSO's Board is fully cognizant of its responsibility as recognized by the Code of Corporate Governance, detailed in listing regulation and Public Sector Companies (Corporate Governance) Rules, 2013 issued by the Securities & Exchange Commission of Pakistan (SECP).

Pakistan State Oil Company Limited (PSO) has been formed under the provisions of Marketing of Petroleum Products (Federal Control) Act, 1974 ("the 1974 Act"). On February 12, 2015, a notification was received from the Ministry of Petroleum & Natural Resources (MPNR), whereby PSO was informed by the MPNR that the Federal Government in exercise of the powers under Section 7 of the Marketing of Petroleum Products (Federal Control) Act, 1974 "the Act" has dissolved/de-notified the BOM with immediate effect. The above-referred notification also stated that the Managing Director, PSO shall exercise and perform all the powers and functions of the Board under Section 6(4) of the Act till a new BOM is appointed by the Government of Pakistan.

The following are the comments on acknowledgement of PSO's commitment towards high standards of Corporate Governance and continuous improvement:

- Compliance has been made with the relevant principles of Corporate Governance, and the rules that have not been complied with, have been identified along with the period in which such non- compliance is made and reasons for such non-compliance.
- 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 judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and departure, if any, has been adequately disclosed.
- The system of internal controls is sound in design and has been effectively implemented and monitored.
- The non-executive BoM members (before dissolution of BoM) do not have fixed remuneration and are being paid a fixed fee for each meeting attended. The said fees are decided upon by the entire BoM collectively.
- 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 and Public Sector Code of Corporate Governance.
- Key operating and financial data of last six years in a summarized form is annexed.
- The following is the value of investments of provident and pension funds based on their respective un-audited accounts as on June 30, 2015:

| | Rs. in million |
|---|---|
| PSOCL Management Employees' Pension Fund | 6,120 |
| PSOCL Workers' Staff Pension Fund | 2,489 |
| State Oil Co Ltd Staff Provident Fund | 2,515 |
| State Oil Co Ltd Employees' Provident Fund | 1,290 |
| PSOCL Employees' Gratuity Fund | 4,391 |

- During the year, five meetings of the Board of Management were held and the attendance by each member is given on Page196.
- The pattern of shareholding is annexed.

# COMPANY'S PERFORMANCE AGAINST FORWARD LOOKING DISCLOSURES MADE LAST YEAR

The company's major achievements during the current financial year have been covered in detail in the 'Key Achievements' section. However, specifically the company's performance against the objectives mentioned in the financial statements of previous financial year is as follows:

- Achieved a market share of 56.8% in total liquid fuels, with 66.8% share in Black Oil market & 49.8% share in White Oil market. Hence PSO retained leadership position in oil market and established PSO as a brand of choice for customers.

- Maximized return to shareholders by improving the dividend payout ratio despite decline in profits of the Company by 68% mainly because of huge inventory losses.

- In pursuit of making continuous improvements in business processes through technological advancements, the Company successfully upgraded to the latest release version of ERP system, network structure, ICT infrastructure with latest generation servers and storage.

- During the year, construction, rehabilitation and up gradation of retail outlets, provision of SMS & Email alert services to the fuel cards customers and expansion in non-fuel retail activities, show continuous persuasion of enhancement in customer services through improvement, innovation and technological advancement. The objectives of market development, market penetration, and strategic partnership initiatives were ensured through increase in number of retail outlets and expansion of ATM network.

- Reinforced quality assurance through its MQTU network and internal and external campaigns, carrying out a large number of quality and quantity tests at various locations.

- Ensured strict HSE compliance in all operations through Safety & Environmental audits, customized trainings to all internal and external stakeholders and implementation of comprehensive Standard Operating Procedures (SOPs) in all the safety critical activities and processes.

In addition to above, PSO actively participated in relief and rehabilitation activities for IDPs during the year, contributing to the Prime Minister's Relief Fund for IDPs. The Company also dispatched and distributed relief items to meet the nutritional and shelter needs of the flood victims. Facilitated Pakistan Railways for its revival by providing maximum transportation volumes at Rail head destinations. PSO also pledged its support for the social welfare, contributing significantly to several social welfare organizations, hospitals and education.

# FORWARD LOOKING STATEMENT

PSO's management is fully cognizant of the uncertainties involved in the mainstream business segments of the Company which are directly linked to the country's economic activity, international oil price trends, rupee devaluation, competitive challenges, changes in local regulatory regimes which could all significantly affect the entity's revenues, operations and ultimately its bottom line.

Accordingly, the management of PSO expects to undertake renewal of strategic direction for PSO to enable the company to establish itself as a brand of choice for customers; retain market leadership in all key products; undertake diversification into alternate fuels like Liquefied Natural Gas (LNG) and integration into refining business through acquisition of additional stake in Pakistan Refinery Limited; maximize shareholders wealth by sustainable growth in earnings; support the government's energy sector reform initiatives and fulfill corporate social responsibilities.

PSO's product portfolio is to be analyzed and adjusted to achieve an efficient product mix. A comprehensive and renewed upgrading program for retail station forecourts as well as a strategy to reinforce the company's brand image and credibility will be developed and implemented. Specific initiatives will be launched with respect to various aspects including those related to total quality management system and aggressive advertising and sales promotions.

PSO's operational infrastructure is expected to be strengthened and enhanced based on best industry practices to ensure efficient, reliable, safe and environment-friendly operations across the country.

Safety has priority over business profitability. Efforts shall be made to raise safety standards, reinforce our commitment to the environment and the health of our employees to a level at par with the best in the industry.

The functions within the company are to be re-oriented and redefined in line with best industry practices. Diversity will be encouraged and an entrepreneurship culture will be inculcated. Skills enhancement and management development programs will also be implemented comprising of internal and external trainings as per organizational needs. A reward and recognition program is also to be established/improved.

Ethical operations with zero tolerance is the motto of the company. Urgent steps are being taken to ensure that our systems and procedures reflect transparency.

In a nut shell, PSO's management will implement corporate reforms over coming years and institutionalize its processes to overcome the challenges being faced by the Company due to changes in business dynamics and the uncertainties involved in the oil business. The outcomes henceforth will be continuously evaluated especially with regard to innovation, market share and financial results, and requisite steps will be undertaken based on such evaluations.

**Sheikh Imran ul Haque**
Managing Director & CEO

September 1, 2015

# FINANCIALS