REPORT TO SHAREHOLDERS

The Board of Management (BoM) of Pakistan State Oil Company Limited (PSOCL) has reviewed the performance of the Company for the Financial Year ended June 30, 2014 (FY 2014) and is pleased to present its report thereon.

In the period under review, PSO recorded all time high sales revenue, profit after tax and earnings per share. Sales revenue stood at Rs 1.4 trillion compared to Rs 1.3 trillion during the Same Period Last Year (SPLY), registering a growth of 9%. After tax earnings rose by 73% to Rs 21.8 billion as compared to Rs 12.6 billion during SPLY. Earnings per share increased to Rs 80.31 from Rs 46.52 during SPLY.

PSO maintained its market leadership position during the year under review with 73% share in Black Oil market and 53% in White Oil market, while registering a growth of 5% in sales of liquid fuels over last year. The Company realized substantial cost efficiencies, whereby the administration, distribution and marketing expenses increased merely by 3% as compared to 14% average increase in expenses over the last three years and against an inflation of 8.5% during FY 2014.

Recovery of interest from power sector consumers and interest on Pakistan Investment Bonds also contributed towards increase in the bottom line, which was nevertheless, mitigated by increase in finance cost by 26% due to power sector receivables viz-a-viz circular debt and net exchange loss of Rs. 1 billion due to devaluation of PKR. The BoM expressed concern over increasing receivables from the power sector and advised the management to pursue the recovery thereof through continued follow-up with the customers and the concerned government offices.

Based on this performance, the PSO BoM announced a final cash dividend of Rs. 4 per share in addition to the earlier interim cash dividend of Rs. 4 per share (equivalent to 80%) and issuance of bonus stock at the rate of 10%. Combined with the earlier interim cash dividend the total cash dividend for the year stands at Rs. 8 per share.

The Board unanimously resolved to place on record its commendation for the management of PSO, particularly Mr. Amjad Parvez Janjua MD-PSO, for achieving outstanding yearly's results for the Company, which are all time high in the history of PSO. The Board also resolved to appreciate the PSO team on maintaining continuity of supply of petroleum products across the country, especially, during Eid, Ramazan and periods of civil disturbance. The Board also extended gratitude to the Government of Pakistan, particularly ministries of Petroleum and Natural Resources, and Finance for the support and contribution they extended to PSO which enabled the Company to achieve its business and performance objectives.

The management expressed gratitude for the valuable guidance and support provided by the BoM and assured the Board of the continued commitment and contributions of PSO team towards development and growth of the Company.

GLOBAL & DOMESTIC ECONOMIC OVERVIEW

The global economic activities have broadly strengthened and are expected to improve further in FY 2015, with much of the impetus coming from advanced economies as per IMF's World Economic Outlook April 2014. Global growth (GDP) is projected to close at about 3.6% in 2014 as against 3% in 2013. For year 2015, GDP growth is projected to be around 3.9%. In emerging markets and developing economies, the growth is projected to pick up gradually from 4.7 % in 2013 to around 5% in 2014 and 5.25% in 2015. It will be supported by stronger external demand from advanced economies, but tighter financial conditions will dampen domestic demand growth.

Global Inflation pressure is generally expected to stay subdued. Activity remains substantially below potential output in advanced economies, whereas it is often close to or somewhat below potential in emerging market and developing economies where inflation is expected to decline from about 6% currently to about 5.25% by 2015. In low-income developing economies, softer commodity prices and careful monetary policy tightening have helped lower inflation from about 9.8% in 2012 to 7.8% in 2013. Based on current policies, inflation is expected to decline further to about 6.5%.

IMF World Economic Outlook 2014 projects strong oil demand and sustained high prices are expected in 2014. The report projects the price of oil to be $104.17 a barrel in 2014 and $97.92 a barrel in 2015.

Prices have been held up by mounting OPEC supply pressures - notably due to; a) disruptions in Libya, Nigeria, Syria, and Yemen; b) sanctions against Iran; c) positive U.S. economic news; d) Libyan production remains at low levels; with the prospects to return to higher production in the near future highly uncertain; e) Rising tensions around Russia and Ukraine have also increased the perceived risk of a potential future oil market disruption.

Pakistan's Economy has shown growth in the outgoing fiscal year which is the highest achievement since FY 2009 as per Economic Survey of Pakistan FY 2014. Stability in inflation, improvement in tax collection, reduction in fiscal deficit, rise in foreign reserves and strengthening of Rupee contributed in acceleration in the performance of Pakistan's Economy as compared to previous year.

As per the Economic Survey of Pakistan FY 2014, GDP growth rate in Pakistan for FY 2014 is projected 4.1% as compared to 3.7% in FY 2013, whereas, inflation increased to 8.7% in FY 2014 as compared to 7.7% in FY 2013. Fiscal deficit is estimated to be around 6.3% of GDP as compared to 8.2% in the previous year. Trade deficit has been around $13.2 billion. Import value of petroleum products decreased by 3.9% while import volumes increased by about 5.9% showing some decline in the prices.

Pak Rupee recorded an appreciation of 1.1% in Jul-Mar FY 2014, compared to 3.8 percent depreciation in the same period last year. As a result, the exchange rate by end of June, 2014 is recorded at Rs.98.77 against Rs.99.66 per US $ at end-June, 2013.

PETROLEUM INDUSTRY OVERVIEW

Consumption of petroleum products in Pakistan grew by around 8.7% from 19.5 million MTs during FY 2013 to 21 million MTs during FY 2014 as a result of an increase in consumption of White Oil products by 5.5% and that of Black Oil products by 12.9%. During the year, CNG consumption recorded a decline of around 12% over the last year due to CNG load shedding. In White Oil, Mogas consumption grew by around 15.2%, whereas HSD consumption recorded an increase of 1%. SKO consumption registered an increase of 5.8% and JP-1(domestic sale) increased by 2.7%, primarily due to increased upliftment by domestic carriers.

LDO recorded an increase of around 38.2% over FY 2013. FO consumption increased by 12.8% mainly due to higher demand for electricity generation by private power producers and public sector generation units. Various efforts towards resolution of circular debt issue were made however, this issue remounted in the latter part of the financial year.

The intensity of competition in oil market increased with aggressive participation of the new Oil Marketing Companies (OMCs) mainly backed by refineries. A significant development in the industry during the year was sale of Chevron shares in Chevron Pakistan Limited to Total Parco Pakistan Limited.

The overall downstream oil market in Pakistan remained competitive during FY 2014 with a thrust on discount offers by the OMCs, mainly in Mogas and HSD. PSO maintained its leadership in all major products despite intensive competition.

PSO BUSINESS PERFORMANCE

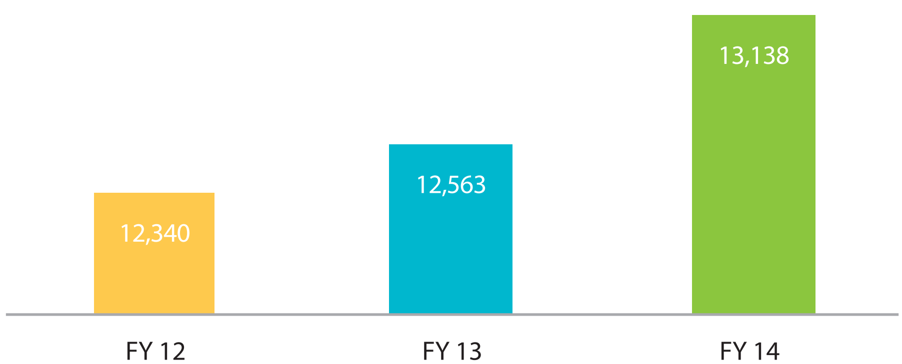
PSO crossed 1.4 trillion mark in sales revenue and retained leadership in oil market of Pakistan with 73% share in Black Oil and 53% share in White Oil. The most consumed petroleum products in Pakistan, by volume, are Furnace Oil (FO) in Black Oil, and HSD and Mogas in White Oil categories. The biggest demand of FO has been in power sector whereas that of HSD and Mogas has been in agriculture and transport sectors respectively.

Based on detailed due diligence, PSO devised and implemented a strategy to pursue profitable growth in petroleum products. Accordingly, the Company merged the critical aspects of both the internal financial review and external market reconnaissance to strike an effective balance between volumetric sales and profitability, whereby offers of sales incentives viz-a-viz discounts were limited and focused on robustness of business cases. This smart selling approach to achieve the objectives of market leadership and sales volume enhancement, with due consideration to bottom-line and liquidity position, enabled the Company to increase its gross profit by 2.7 billion, i.e. 8% increase over the previous year.

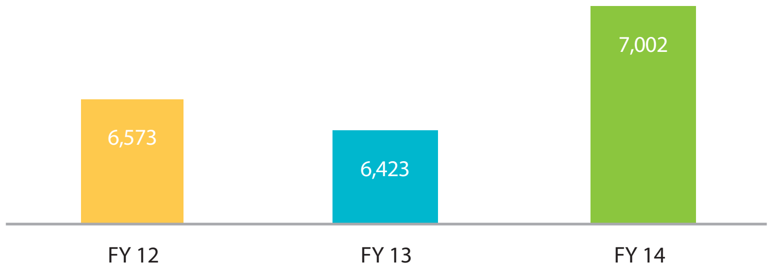
The supply of FO, the major Black Oil product, was restrained in face of extraordinary demand and the liquidity issues posed by the circular debt situation, while increasing sales volume by 9% in this product line. In HSD, the major White Oil product, the Company rationalized the discounts/incentives and limited their offering to the cases where business value could be established. The overall sales volume during FY 2014 has been 13.14 MMTs against 12.56 MMTs during FY 2013.

TOTAL LIQUID FUELS

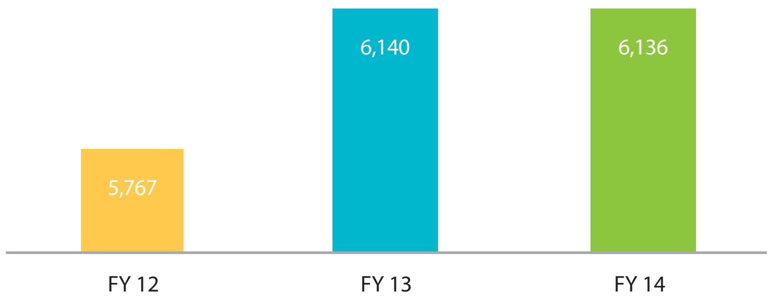
Volume in '000 Tonnes



BLACK OIL
Volume in '000 Tonnes

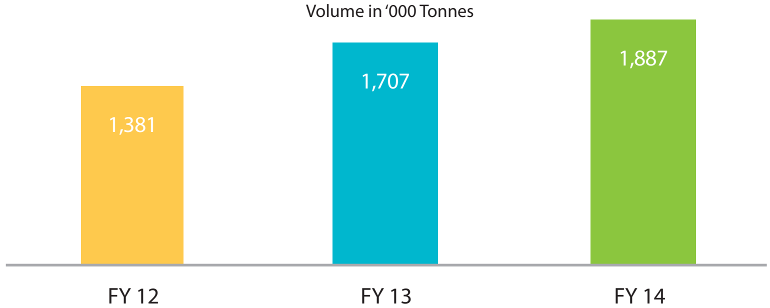


WHITE OIL
Volume in '000 Tonnes



HSD
Volume in '000 Tonnes

MOGAS
Volume in '000 Tonnes



SUPPLY

During FY 2014, PSO sourced 12.95 Million Metric Tons (MMTs) of POL products to meet the energy requirements of the country. Out of this total, 2.90 MMTs was procured from local refineries while the remaining bulk volume of 10.05 MMTs was arranged through imports comprising of 2.57 MMTs HSD, 6.01 MMTs Furnace Oil (HSFO: 4.99 MMTs, LSFO: 1.02 MMTs), 1.44 MMTs Motor Gasoline and 0.02 MMTs JP-1.

The total PSO import volume accounted for more than 87% of nationwide refined product imports of 11.5 MMTs. Furthermore, hospitality to refineries and OMCs was provided and storage facility was extended to new prospective entities resulting in sizeable earnings during the fiscal period.

LOGISTICS

Committed to meeting the energy needs of the nation in a timely and responsible manner, PSO maintained uninterrupted POL supplies to all its customers including defense, power, retail, industrial, aviation and marine customers throughout the year.

In view of the increasing shutdown of Compressed Natural Gas (CNG) supply and the subsequent increase in demand for Premier Motor Gasoline (PMG) across the country, PSO in FY14, arranged movement of 1.60 MMTs of PMG through tank lorries to various locations nationwide with the highest movement recorded in November 2013 where 0.15 MMTs of PMG was transported resulting in maintaining of optimum level of inventory at all depots / installations. Similarly, keeping in view the criticality of continual fuel supply to the power sector, PSO ensured round-the-clock fuel product availability to power sector customers.

Furthermore, the Company continued its policy of upgrading tank lorries in line with Association For Transportation of Dangerous Goods by Road (ADR) and Oil & Gas Regulatory Authority (OGRA) standards. During the year, 296 tank lorries were upgraded and brought the total of the upgraded tank lorries to 3,345 vehicles which represents 43% of the total available fleet. During FY 2014, the Company worked to revive the process for transporting petroleum products through the rail network with and increased tank wagon utilization by 200% in comparison to the previous year.

In view of heavy reliance on road movement to deliver products, a comprehensive program named as "Road Transport Management" was developed to improve safety standards for tank lorries and their crew. Sessions on safe driving practices were conducted which were attended by more than 200 tank lorries owners, drivers / cleaners and cartage contractors. Officials from the Motorway Police also participated in these conferences.

OPERATIONS

During FY 2014, PSO continued its efforts to streamline its operational activities to make them ever more economical, efficient and customer-oriented.

As part of these efforts six (06) petroleum product storage and handling depots have been reopened nationwide in order to help meet increasing market demand. Additional land has also been acquired at Lalpir depot to enhance handling and storage capacity for smooth supplies to power sector customers. Furthermore, Motor Gasoline handling facilities have been enhanced at Keamari Terminal B, Kotlajam, Tarujabba, Chakpirana and Shikarpur installations to meet the increased demand. Filling of High Speed Diesel (HSD) at JIMCO has been resumed to meet the demand of Pakistan Railway while a crude oil decantation facility has been set up at Zulfiqarabad Oil Terminal.

With an objective of improving operational efficiency, PSO has carried out rehabilitation of tanks and tanker discharge pipelines at various installations to ensure uninterrupted and accident free tanker discharge operations. The Company has also endeavored to improve safety and security of operational locations by installation of security systems.

RETAIL BUSINESS

In the period under review, MOGAS sales volume of PSO registered an increase of 10.5% as compared to the preceding year. The Company maintained its market leadership in Mogas with a market share of 49%. Despite intensifying competition in oil market among existing players and new entrants, PSO retained its market leadership position while successfully devising and implementing a strategy of optimizing the sales of major petroleum products to strike an effective balance between growth and profitability.

As part of its efforts to automate and streamline the sales order process in order to enhance efficiency and efficacy in various processes, the Company has implemented Online Ordering Management System (OOMS) at various retail outlets. This system has been successfully implemented at 400 retail stations nationwide and is being introduced at remaining outlets. The Company inaugurated thirty-eight (38) new state of the art retail outlets at strategic locations in order to further enhance its sales network

nationwide. Furthermore, six (06) retail outlets were upgraded as per the New Vision Retail Outlet (NVRO) Program.

As part of its customer engagement activities for enhancing the Company's image and ensuring sustainable business growth, forecourt Customer Services sessions were successfully conducted at selected retail outlets. A number of sales promotion campaigns were also carried out to boost sales including a generator oil campaign which included a lucky draw competition as well as complimentary giveaways for customers who visited retail outlets on Customer Care Days.

As part of its commitment towards ensuring employee safety, PSO carried out refresher courses for Safety Wardens at retail sites. A series of sales management workshops were also organized with the aim of strengthening the effectiveness and performance of trade staff by keeping them fully abreast with best industry techniques and methods.

AVIATION, MARINE & EXPORTS DEPARTMENT

During the period under review, AM&E business line recorded sales volume of 521,174 MTs which was 6% higher in comparison to the same period last year (SPLY).

PSO also entered into a 5 years exclusive agreement with M/s Air Indus for provision of Jet Fuel at all the nationwide airports where PSO exists. During FY 2014, a quantity of 13,562 MTs was sold to them. The business of Turkish Airlines was also recaptured at Karachi airport while standing agreements with sixteen (16) customer airlines were renewed during the period including Saudi Arabian, Air Arabia, Thai international and Fly Dubai.

PSO also successfully fuelled 480 Hajj Flights for a total volume of 12,791 MTs. PSO won the into-plane fuel supply tender of the Army at all airports including those which were previously with the competitors. As a result, sales volume to Pakistan Army will increase by approximately 155%.

The Company also executed a five (05) year agreement with Pakistan Navy for supply of High Speed Diesel (HSD). PSO will be the sole supplier of HSD to the entire sea-going fleet of the Karachi Port Trust (KPT) during FY 2015.

CONSUMER BUSINESS

During the period under review, PSO fulfilled its commitment of ensuring consistent fuel supply to the Power Sector despite several financial and operational challenges.

PSO continued to lead the Furnace Oil market with around 73% market share. The Company worked with key business partners including Pakistan Railways and Frontier Works Organization (FWO) to resolve payment bottlenecks and successfully recovered longstanding payments from various customers including significant amount of financial charges from the Power Sector and GLMP claim from K-Electric.

The Company also signed a Fuel Supply Agreement with Nandipur Power Project. In addition to this, the Company won significant tenders including 100,000 MTs of fuel to the Army as well as a tender for supply of 2.7 Million liters of lubricants to Pakistan Railway.

GASEOUS FUELS

CNG

In the period under review, PSO maintained its leadership position amongst OMCs in the CNG industry. This entailed holding 22.5% of the total market share in CNG, despite a continued ban on issuance of CNG Station Licenses and increased gas load shedding.

With an eye towards ensuring provision of proper quantity and quality products to its customers, PSO carried out one hundred and two (102) inspection visits at various CNG stations in FY 2014. Additionally, the Company has ensured maintenance of safety standards at its CNG stations through regular HSE inspections. During FY 2014, three hundred (300) inspections were conducted on eighty-six (86) CNG stations in thirty-eight (38) cities.

LPG

During FY 2014, the PSO LPG Pak Gas (Bottling Business) and Smart Gas (Autogas business) made continual efforts to make best use of available LPG product with prudent pricing and maintaining efficient inventory management to maintain its market presence in the face of considerable industry challenges. However, based on actual availability of LPG, PSO market share was at 2.3%.

PSO also lodged applications for the establishment of sixty three (63) LPG Autogas Refueling Stations to OGRA while PSO has been issued forty (40) LPG Autogas Provisional Licenses for the construction and establishment of LPG Autogas Stations.

This would augment PSO's existing Retail Outlets with LPG product across Pakistan. All LPG operational activities are HSE compliant to ensure employees safety wherein HSE Day & Awareness sessions were held at all LPG Plants nationwide.

CARDS

Committed towards providing added convenience and greater facilities to its customers, PSO launched its fuel-based credit cards during the year to cater the needs of the market. Accordingly, the Company aim to enhance profitability by obtaining long–term loyalty of existing customers as well as acquiring new potential customers through continued emphasis on more secure and efficient, technology-driven offerings.

During FY 2014, PSO Cards business crossed Rs 1.5 billion mark in terms of collateral through additional security deposits and continuing bank guarantees. During this period, further value-addition was offered to the customers in the form of e-mail and SMS-based services for updating customers regarding fuel transactions carried out on their fuel cards. Customer focus, technology and innovation being the hallmark of PSO's success story, the transition of fuel cards from the mag-stripe format to the chip-based smart card, reaffirmed PSO's leadership position in the cards market by offering a far more secure and dependable solution. In line with this, approximately 120,000 cards being availed by over 6,000 corporate customers have been converted to the chip-based smart card format.

Furthermore, steps were taken to consolidate the fuel cards business by renewing strategic agreements with various telecom companies including Mobilink and Telenor.

LUBRICANT AND AGENCY TRADE

During FY 2014, PSO recorded sales of 33,944 MTs with the High Street segment witnessing a positive growth of 4% over the same period last year. The High Street segment successfully covered over 21,000 shops across Pakistan. Other initiatives undertaken included the launch of consumer promotion campaigns including the 'Carient Free Fuel Campaign' and the 'Buy and Win Generators with Generator Oil" competition to generate brand trial and awareness amongst the consumers. The 'Independent Workshops' Project was also executed with PSO branded private service stations and workshops in the High Street market. Your Company has successfully converted one hundred fifty (150) workstations into PSO branded shops which served as effective tools in inducing trial, attracting prospective customers, brand building and raising product awareness levels.

NON-FUEL RETAIL

During FY 2014, Non-Fuel Retail business continued to expand on its business footprint. This was accomplished through continuation of various strategic initiatives undertaken over the previous year as well as introduction of new propositions to give this business segment a more composite and futuristic direction. These activities include nationwide deployment of fifty (50) ATMs at PSO retail outlets with placement of another thirty (30) in process. Business alliances with partners in the beverage, tobacco and banking sectors were successfully renewed while due diligence was carried out on business possibilities in the E-Banking, Agri and Advertising segments for the purposes of leveraging presence of PSOs diverse retail network.

CUSTOMER SERVICES

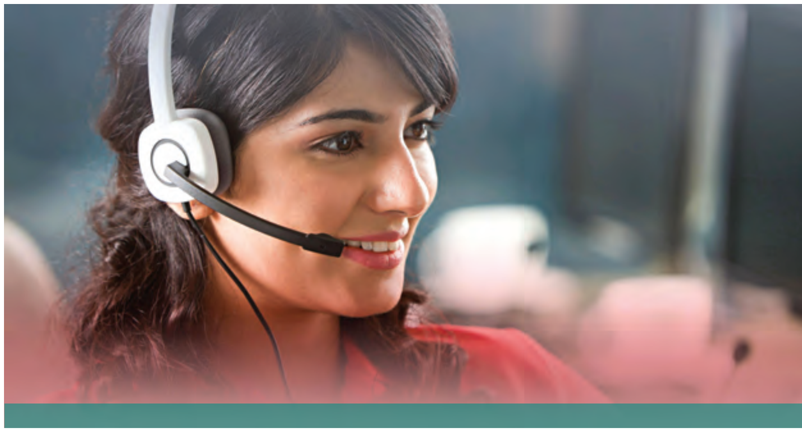
Striving for ever more customer satisfaction, PSO's Customer Services Department provides after sales, complaint and query services to existing and new customers. The Department is a full- fledged inbound outbound call centre that ensures all calls are answered before the pre-defined threshold time.

During FY 2014, a total of 854,565 Customers were served 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.

INFRASTRUCTURE CONSTRUCTION DEPARTMENT

During FY 2014, PSO carried out the ground breaking ceremony for the new Hyderabad depot at Tando Alam to further strengthen its infrastructure network. The Company has also formally completed all construction activities at the new Faisalabad depot and final testing and commissioning activities are being planned to commence operational activities from the location. The Company has also constructed a new standardized gantry for filling and decantation of tank lorries at Quetta depot, which is also under commissioning stage.

Rehabilitation of existing infrastructure was also undertaken at the railway wagon tracks at Lalpir depot and reconnected to the main railway network. Additionally storage tanks at Sihala depot, Zulfiqarabad Oil Terminal and Lubricant Manufacturing Terminal were also refurbished. PSO Infrastructure Department maintained its certification of being ISO 9001:2008 compliant during the year.



RETAIL CONSTRUCTION

During FY2014, PSO successfully built and commissioned forty-four (44) new retail outlets in line with its New Vision Retail Outlet program. This number exceeded the set target of thirty (30) new outlets in the year by approximately 47%. Additionally in order to facilitate sales of petroleum products to motorbikes, three hundred and fifty (350) biker lanes were developed at existing outlets during the year.

INTERNAL AUDIT DEPARTMENT

During the period under review, PSO undertook efforts to bring about a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes. As part of these efforts, PSO has undertaken a continual review of all departments and locations as per the risk-based audit plan, provision of fax-server solution for Whistle-Blowing Unit for lodging and handling of concerns and preparation of quarterly/annual accounts analysis for review by the Board Audit Committee. In addition to this, the Company's multi-faceted audit management software"Team Mate" was also upgraded to version 10.4 to help increase coverage of all audit activities.

PROCUREMENT & SERVICES

During FY13-14, PSO carried out an in-depth study of procurement workflows across different industries and companies to identify bottlenecks and benchmark internal processes / systems with best corporate practices. A road map has been developed for rolling out the Annual Procurement Plan to allow effective management of company wide purchasing activities.

PSO's efforts for transparent and cost effective procurement has been appreciated at various forums including the "Institute of Tender Management" which has appreciated PSO's tender activities as one of the best in the industry.

INFORMATION COMMUNICATION & TECHNOLOGY

Committed to introduction and implementation of new technologies for continuous process improvement, PSO is moving ever forward on the technological front. Some of the major initiatives undertaken in this regard during the year include:

Dispatch Management System

The Company has developed a centralized web-based mail dispatch management system to effectively and efficiently manage the inflows and outflows of local and international hard copy dispatches across the country. By consolidating data on volume, weight and rates into one database, PSO has been able to implement effective cost control measures.

Online Order Management System

PSO has implemented a self-developed Online Order Management System to automate and streamline retail customer order processing. Dealers can now place orders on an online portal, make payments and view the status of their orders on a real time basis. The auto-payment feature of this system synchronizes PSO's payment collection system with the national banking network to help the Company minimize its operational cost and establish an automated control environment for its sales and distribution network.

Server Virtualization

PSO has implemented server virtualization technology to run multiple applications through a single server resulting in better utilization of hardware resources and power cost savings.

Storage Up-gradation

The Company has implemented usage of Solid State Drives (SSD) for improving SAP ERP performance. SSD allows for faster transaction and reporting performance of SAP system by increasing system throughput and reducing response time.

Asset Management Solution

PSO has implemented an asset management solution based on Microsoft Configuration Manager to maintain a full inventory of hardware, software being used by the Company as well as monitor software license compliance.

Network Infrastructure Upgrade (Stage 2)

Another landmark accomplished over the past year was successful completion of Stage-2 of the Network Infrastructure up-gradation plan. All Divisional offices along with 20 depots/ installations are now connected through Fiber cables resulting in enhanced network resiliency. The PSO Disaster Recovery sites are also now connected through fiber-optic cables to the Head office resulting in faster replication among core servers and backup servers.

QUALITY ASSURANCE

Committed to providing quality products in right quantities to its customers; PSO is striving to continuously improve quality control measures across the board. During FY 2014, Mobile Quality Testing Units (MQTUs) carried out quality inspection visits to multiple PSO locations. This included twenty eight thousand nine hundred and seventy three (28,973) visits to retail outlets, two hundred and ninety (290) visits to installations and depots and one hundred and two (102) visits to CNG stations across Pakistan.

With the objective of developing Lube blends providing superior quality lubricants to valued customers, PSO laboratories are carrying out extensive research and development. During this year, three hundred and fifty one (351) pilot lab blends were prepared for various products including lubricants/ LDO & Bio Diesel. PSO has also expanded its testing capability for gasoline and lubricants through the induction of new machinery at its laboratories.

Steps have also been taken to enhance operational transparency including introduction of continued implementation and improvement of the Laboratory Information Management System (LIMS). This system allows all laboratory related information to be consolidated into a single portal accessible to Company officials as well as business partners. In order to effectively manage the new equipment, training sessions were also conducted for the relevant employees.

PSO Laboratories participated in the International Laboratory Correlation Program conducted by Castrol, which validates testing skills and equipment performance of the participants through various certifications and standards.

During FY 2014, ISO 9001: 2008 Quality Management System Certification was earned by sixteen (16) PSO departments while ninety-eight (98) facilities and locations across Pakistan have also been ISO certified.

HEALTH, SAFETY AND ENVIRONMENT

As a responsible company, PSO has pledged to adhere to the highest standards of HSE Policy, Standards & Procedures including compliance with relevant local laws & regulations. The Company is striving to make Health, Safety and Environment a top priority in its daily operations, since good HSE performance is critical to the success of our business.

During the period under review, efforts were undertaken to educate Company employees and allied service providers with respect to proper HSE practices by conducting various training sessions. This included behavior based workshops for on HSE Management System and customized workshops for inculcation of HSE culture.

PSO continued to sustain ongoing safety programs and customized trainings including the contractor safety management system for contractors involved in key PSO projects such as the road transport management system for our tank lorries' cartage contractors.

The Company has put in place measures to reduce/ mitigate damage to critical equipment at facilities which can affect the safety and production capabilities. This has been done by introduction of a newly developed preventive maintenance procedure: Safety Critical Equipment (SCE) which defines maintenance techniques in-line with API 754 International Code. Furthermore, an awareness session was organized on American Petroleum Institute (API) Codes 653, 570 and 510 to strengthen understanding of these standards in order to bring PSO facilities at par with API requirements. This along with SCE plan will greatly improve the performance of our Process Safety Management (PSM). Support was further extended to our business partners with a PSO team conducting an operational and HSE assessment of GENCO III with respect to People, Plant/ Equipment and Processes. PSO's commitment to safety was further rewarded when the Company won the 'Fire & Safety Award 2013' awarded by Fire Protection Association of Pakistan (FPAP) and supported by National Forum for Environment & Health (NFEH).

Environmental Protection

During FY 2014, PSO continued its efforts to preserve the national environment by adopting a sustainable approach to all business operations. Striving to inculcate a green operating culture, the Company is working on multiple areas for environmental protection. These programs include monitoring environmental parameters (i.e. SO SOx, NOx, air quality monitoring, noise mapping, effluent run-off etc.) and control measures, carrying out environmental impact assessments as well as initial environment examinations on new project commencement, environmental audits to ensure environmental compliance and environmental risk management through the HSE control system. Committed towards environmental sustainability, PSO has setup a proper waste management system to ensure that the hazardous waste is disposed off properly and converted into non-hazardous disposable waste.

Energy Conservation

PSO has taken steps to conserve precious energy resources by carrying out on-going energy audits at key facilities to ensure optimum energy utilization. During the audit, energy & HSE aspects at the locations are identified and action plan for rectification of issues has been developed accordingly. The audit will help to achieve the desired energy conservation plans and targets at the facilities resulting in improved production efficiency as well as minimization of costs.

CORPORATE RESPONSIBILITY

Committed to serving its fellow citizens in their times of need, PSO has extended support to the affectees of natural calamities. The Company has stepped forward to extend a helping hand by providing tents, mosquito nets and ration bags for the earthquake victims of district Awaram, Balochistan. PSO also arranged ration bags for the Thar drought affectees.

National Cause Donation

In the period under review, PSO played its role as the national company extended support to various charitable organizations operating across the nation.

Education

With the objective of promoting education and its subsequent benefits, PSO has extended significant support to various organizations working in this field. This included financial assistance to educational institutions in urban areas (SZABIST, Hyderabad) as well as organizations working in rural areas (Kaghan Memorial Trust). The importance of education for special children was also reflected in PSO's donor list with significant donations dedicated to NGOs like Pakistan Disabled Foundation, Markaz-e-Umeed, Pakistan Rehabilitation Education Welfare Association etc.

During FY 2014, the Company expended approximately Rs. 99.9 Million from its total CSR budget of Rs. 100 Million in pursuit of these efforts.

Health Sector

In view of the need to provide basic health care facilities to the people of Pakistan, PSO has provided monetary assistance to various organizations including Sindh Institute of Urology & Transplantation (SIUT), Mayo Hospital (Lahore), Child Aid Association, Civil Hospital (Karachi), Fatimid Foundation (Multan), LRBT (Quetta), Diabetic Centre (KPK), Patients Aid Foundation etc.

Community Development

The Company has supported various NGOs such as SOS Children Village, Panah Welfare Homes and Make A Wish Foundation Pakistan (MAWFP) for the social upliftment and betterment of the society. PSO encouraged organizations such as Karachi Center for Dispute Resolution (Karachi) which work towards women empowerment and women rights. The Company has also supported healthy and constructive engagement activities such as sports in various parts of the country by providing financial assistance to KPK Lawn Tennis Association (Peshawar), Colony Sports Football Club (Malir Karachi) and the Sir Ali Asghar Football Academy (SAAFA), Karachi.

HUMAN RESOURCE DEVELOPMENT

PSO continuously strive to align its HR polices and strategies with the best corporate practices. Accordingly, several initiatives were taken during this year including organizational structure review, job identification/ description exercise and function wise "competency mapping".

During the year, employee motivation was enhanced by aligning remuneration and reward packages in par with comparable corporate entities. Pensions for retired employees were raised in view of inflationary changes

and cost of living. PSO adopted a zero tolerance policy for unethical individual/business practices by adhering to laid down Company policy/relevant laws. Compliance with regulatory frameworks was also ensured in HR practices including acquisition of services through pre-qualification exercises and competitive bidding processes.

Committed to employing experienced and qualified human resources to meet the challenges ahead and to achieve its management objectives, PSO offers a conducive work environment and employs a dedicated management team and workforce which can achieve higher levels of productivity.

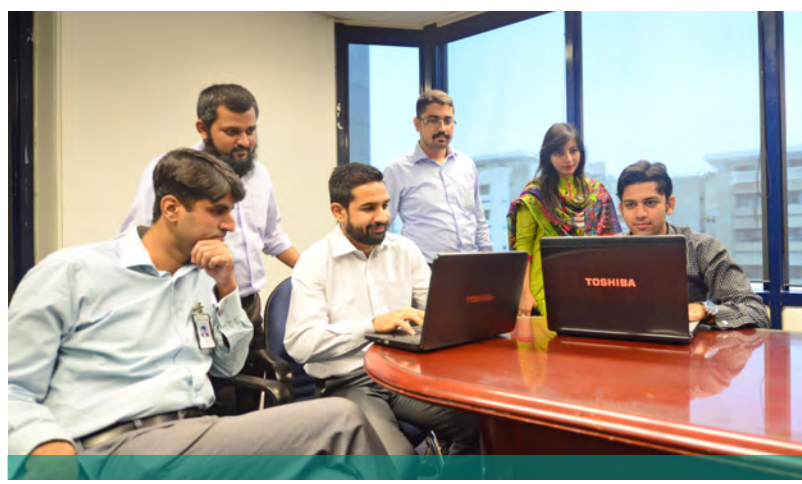
The Company is committed to providing equal opportunity to all employees without any discrimination on the basis of religion, race, gender, age etc.

Succession Planning

At PSO, Succession Planning continues to be a key priority for the Human Resources (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.



TRAINING AND DEVELOPMENT

Training and development of staff is high on PSO's corporate agenda. Accordingly, the Company places importance on imparting technical knowledge and soft skills to its employees and strives to enable them to meet higher standards of performance.

During the period under review, PSO worked to identify challenges faced by the work force, asses their development needs and meet them through designing and implementation of appropriate training programs. In line with these efforts, the Company organized one hundred and fifteen (115) training programs / workshops catering to nine hundred and eighty five (985) employees during the year. These included sessions focused on developing corporate governance and inspirational leadership as well as technical courses on supply chain management, ISO requirements, SAP trainings and customer/business partner trainings. Apart from conducting customized in-house training programs, two hundred and forty seven (247) employees were provided ninety three (93) ex-house public programs and international certification programs for their respective field of work. In addition, PSO signed a Memorandum of Understanding (MoU) with Lahore University of Management Sciences (LUMS) and has collaborated with NED University of Engineering and Technology for various certification programs.

POL Training Program for Armed Forces

Being an important and responsible public sector company, PSO provides training and learning opportunities on POL product management to the Armed Forces of Pakistan. This year the officers from Army School of Logistics, Kuldana Murree and Command and Staff College, Quetta visited PSO for gaining knowledge of POL Supply Chain Management.

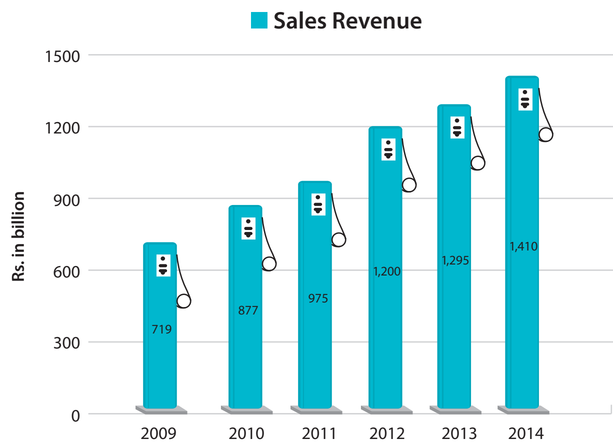
PSO Internship Program

As the largest Oil Marketing Company (OMC) in Pakistan, PSO offers one of the largest internship programs across Pakistan. Our internship program is a concrete source of valuable practical experience in corporate environment for students from various prestigious educational institutions. During FY 2014 around four hundred (400) students from different universities benefited from our internship programs. An internship program for the students of universities across Balochistan was also launched.

FINANCIAL PERFORMANCE

Comparison of Entity's Financial Performance from Last Year

During the financial year 2014 (FY 2014), the Company recorded an all time high sales revenue, profit after tax and earnings per share. Sales revenue stood at Rs. 1.4 trillion compared to Rs. 1.3 trillion during FY 2013, registering a growth of 9%. After tax earnings rose by 73% to Rs. 21.8 billion as compared to Rs. 12.6 billion during FY 2013. Earnings per share increased to Rs. 80.31 from Rs. 46.52 during FY 2013.



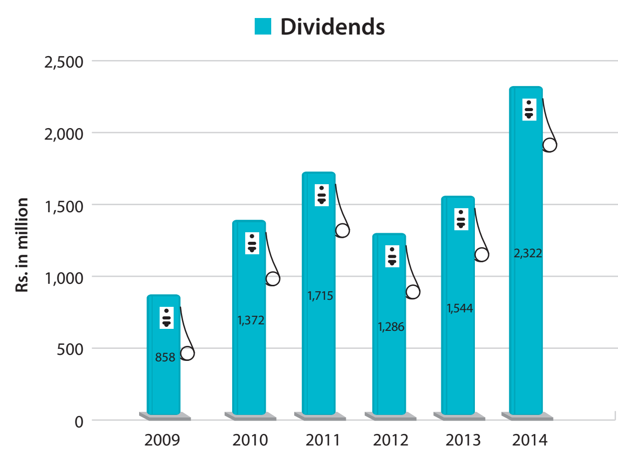
The Company realized substantial cost efficiencies, whereby the administration, distribution and marketing expenses increased merely by 3% as compared to 14% average increase in expenses over the last three years and against an inflation of 8.5% during FY 2014.

Recovery of interest from power sector consumers and interest on Pakistan Investment Bonds also contributed towards an increase in the bottom line, which was nevertheless, mitigated by an increase in finance cost by 26% due to power sector receivables.

Considering the future market dynamics prevailing in the oil industry, your Company is expected to sustain its profitable position in years to come.

Dividends and other Appropriations

Based on this performance, the Board of Management announced a final cash dividend of Rs. 4 per share in addition to the earlier interim cash dividend of Rs. 4 per share and interim bonus stock at the rate of 10%. The total dividends for the year stood at Rs. 9 per share (including bonus) as compared to Rs. 7 per share (including bonus) in FY 2013, translating into a total payout of Rs. 2.3 billion vs Rs. 1.5 billion in FY 2013 to the shareholders.



Circular Debt Position & Way Forward

PSO started the year on a positive note as circular debt was substantially settled by the GoP through injection of Rs. 480 billion in the power sector on June 28, 2013. This eased the Company's liquidity position to a large extent. However, owing to intermittent / piecemeal payments by the power sector entities, circular debt re-surfaced at an accelerated pace during FY 2014 and PSO's receivables from the power sector entities, reached a high level of Rs. 146 bn at the end of the year under review.

The increase in receivables from the power sector put additional pressure on PSO's financial resources and resulted in increased reliance on short term bank borrowings. The pressure on PSO's liquidity situation further aggravated due to timely payments made to local refineries in order to ensure maximum availability of products. The issue of circular debt cannot be resolved unless payments from the power sector entities are received by PSO in a timely and continuous manner, and the outstanding receivables are cleared.

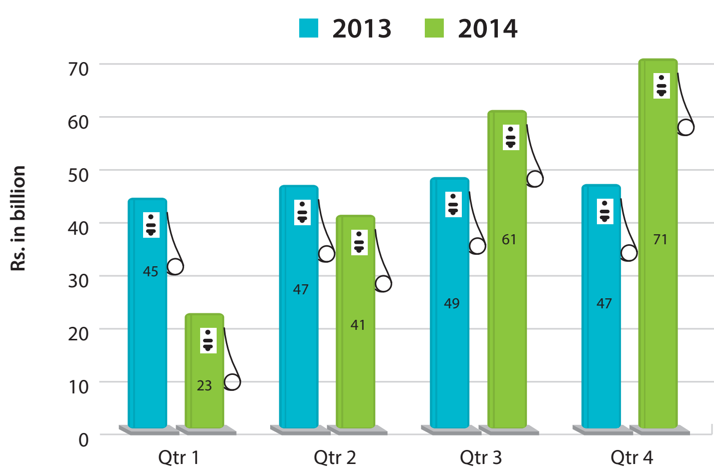
The management is in constant liaison with the power sector customers and concerned ministries, to expedite the recovery of outstanding dues from the power sector. It is expected that based on follow-ups by PSO and support of the GoP, the issue of circular debt will be mitigated/resolved.

Analysis of Liquidity, Cash Flows, Financing Arrangement and Way Forward

During the first half of FY 2014, the partial settlement of circular debt eased pressure on the PSO's liquidity position, however, during the latter half, continuous short payments by the power sector entities again put additional pressure on the liquidity position. This ultimately resulted in increase in local and foreign currency borrowings of your Company to bridge the liquidity gap and avert default on the International LCs.

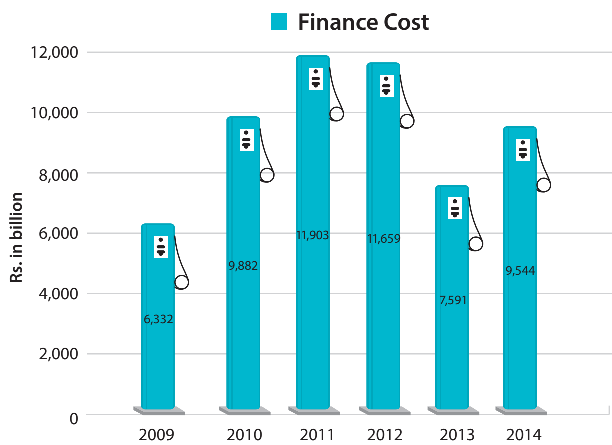
The management has been able to deal with the challenges posed by the circular debt situation by maintaining continuous supply of fuel to the power sector through efficient supply chain and financial management while vigorously pursuing the recovery of dues viz-a-viz settlement of the receivables.

Average Overdraft Utilization (as at period end)



Finance Cost

Overall the financial charges increased by only 26% despite increase in average borrowings by 51% 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. 60.6 billion in FY 2013 to Rs. 78.6 billion in FY 2014 registering an increase of 30%. This increase is mainly due to profits earned and retained in the business due to prevailing circular debt crisis.

Your Company finances its operations through equity, shorterm overdraft facilities, 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 47.70% as compared to 16.57% last year due to increase in year end bank borrowings from Rs. 17 billion to Rs. 92 billion as of June 30 2014.

Key Sources of Estimating Uncertainty

The key sources of estimating 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. 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.

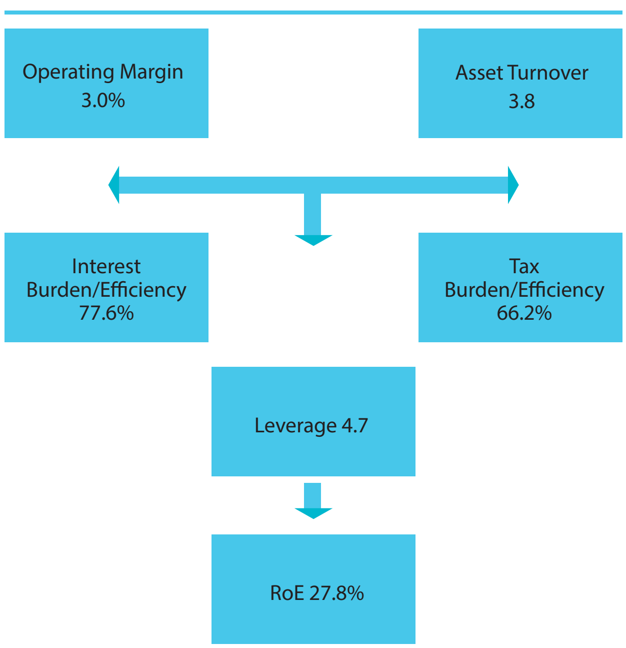
d) Provision for retirement and other service benefits
Your Company operates pension funds, gratuity funds and medical benefit schemes for its employees. The amounts recognized in respect of the above schemes represent the present value of defined benefit obligations as reduced by the fair value of plan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

e) Deferred taxation
Your Company has recognized deferred taxation of Rs. 6.5 billion as at June 30, 2014 on the assumption that sufficient taxable profits will exist in future periods to utilize this deferred tax asset.

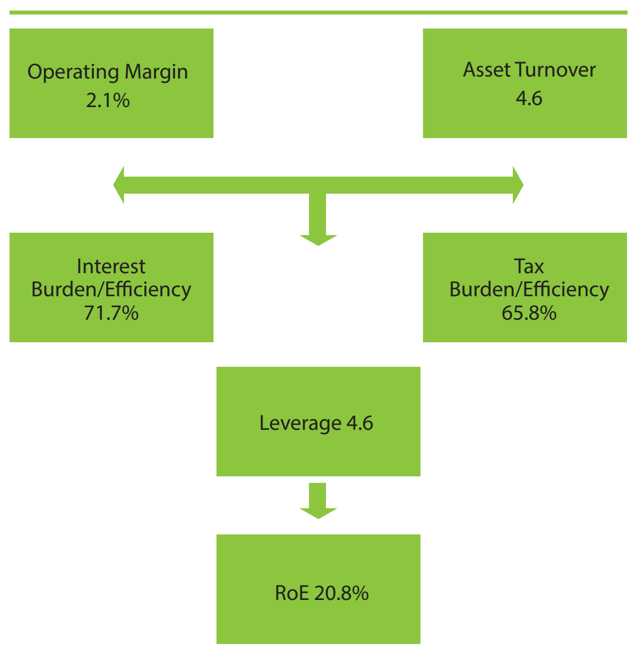
DUO-PONT ANALYSIS

	2014	2013	COMMENTS
Tax Burden/Efficiency (Net Income/PBT)	66.2%	65.8%	Improved mainly due to reduction in corporate tax rates by 1%.
Interest Burden/Efficiency (PBT/EBIT)	77.6%	71.7%	Improved mainly due to increase in income from main operations and receipt of late payment interest despite rise in finance cost.
Operating Income Margin (EBIT/Sales)	3.0%	2.1%	Improved mainly due to increase in income from main operations and receipt of late payment interest.
Asset Turnover (Sales/Assets)	3.8	4.6	Declined mainly due to increase in total assets on account of increase in power sector receivables.
Leverage Ratio (Assets/Equity)	4.7	4.6	Increased mainly due to increase in total assets on account of increase in power sector receivables.
Return on Equity (ROE)	**27.8%**	**20.8%**	Improved mainly due to increase in net profit after tax.

2014



2013



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 its 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) Sale Volumes

Your Company's sale volumes are primarily dependent on the 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, which will ultimately be reflected on the bottom line and 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 financial performance and vice versa.

c) White Oil Margins Revision by GoP

Government's action with respect to revision of white oil margins becomes an important driver of your Company's share price. Any consideration or decision for upward margin revision may have a positive impact on its share price.

d) 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.

e) 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, on account of increased borrowings, PSO's share price will remain sensitive to any increase or decrease in discount rates announced in the monetary policy statement by the GoP.

f) Rupee Devaluation

Your company imports approximately 87% of the total petroleum products imported in the Country, which greatly exposes the Company to currency risk 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.

g) Diversification

Any concrete development on diversification into new projects such as LNG business 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 the basis of a single reportable segment. The total Sales Revenue is broadly divided into following two categories:

Description	FY14	FY13
White Oil & Lubricants	59.49%	60.65%
Black Oil	39.35%	38.29%
Sales Revenue from Petroleum Products	**98.84%**	**98.94%**
Sales Revenue from Other Products	1.16%	1.06%
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 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 – Price differential receivable from GoP on account of supply of furnace oil to KEL (formerly KESC) 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 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.

Auditors

The Board Audit Committee and Board of Management have endorsed the appointment of M/s. M. Yousuf Adil Saleem & Co. and M/s. A. F. Fergusons & Co. Chartered Accountants as joint auditors of the Company for the year ending June 30, 2015.

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 PSO's 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)

During the current year, PRL has become an associated undertaking of PSO for reasons referred in note 6.2 of the financial statements. PSO currently holds 18% equity stake in the shareholding of the Company and has exercised its right to purchase additional 4.5% holding in the Company during the year.

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. The Refinery has a capacity of processing 47,000 barrels per day of crude oil into a variety of distilled petroleum products such as Furnace Oil, High Speed Diesel, Kerosene oil, Jet fuel and Motor gasoline etc.

Corporate and Financial Reporting Framework

PSO's Board of Management 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). 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 relevent 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 except for the change as stated in note 3.1 to the 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 do not have fixed remuneration per se 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 investment of pension, provident and gratuity funds based on their respective un-audited accounts as on June 30, 2014:

	Rs. in million
PSOCL Management Employees' Pension Fund	4,062
PSOCL Workers' Staff Pension Fund	2,009
State Oil Co Ltd Staff Provident Fund	2,231
State Oil Co Ltd Employees' Provident Fund	1,214
PSOCL Employees' Gratuity Fund	2,788

- During the year, nine meetings of the Board of Management were held and the attendance by each member is given on Page 156.
- The pattern of shareholding is annexed.

WAY FORWARD / STRATEGIC OBJECTIVES

- Retain leadership position in oil market and establish PSO as a brand of choice for customers.
- Maximize return to shareholders and fulfill responsibilities as a responsible corporate citizen towards a wider group of stakeholders including the society and community at large.
- Pursue profitable growth and rationalize product portfolio with a focus on high margin products.
- Optimize product procurement from local and international sources and pursue ensured access to long-term and cost-effective supply sources.
- Ensure safety of people, equipment and environment.
- Pursue operational efficiency, cost-effectiveness and quality assurance.
- Ensure legal and regulatory compliance in all spheres of operations and new business development.
- Pursue continuous improvement, innovation and technological advancement.
- Enhance corporate capabilities and motivation through skill enhancement, management development and reward programs.

Amjad Parvez Janjua
Managing Director & CEO

Mujahid Eshai
Chariman-BoM

September 03, 2014