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## ANNUAL REPORT 2015

# PROGRESSING PROSP **ERITY**





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all times.

# PROGRESSING TOWARDS PROSPERITY

Cognizant of our responsibility to fulfill the energy demands of the nation in a timely and responsible manner, PSO and its workforce continuously strive to ensure availability of fuel products across the country at

As the country's leading oil marketing company, PSO is playing a defining role in the economy of Pakistan. From the waters of Karachi to the mountains of Karakorum, PSO is proud to be the catalyst for a progressive Pakistan.

This year, PSO pays tribute to its true asset, its people who work day and night to keep the wheels of the nation turning towards progress and prosperity.

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## Foreword by Sheikh Imran ul Haque Managing Director & CEO



PSO is an iconic institution of Pakistan, the number of people we touch every day is extraordinary. With the talented people in the organization, a well-established storage and supply infrastructure and a wide-spread retail network, PSO has supported and ensured that the wheels of our nation's economy continue to move.

During FY 2015, we continued to dominate the market with our share of 66.6% in the Black Oil and 49.8% in the White Oil resulting in an overall market share of 56.8%. This is extraordinary given the challenges of the circular debt and the inherent continued expectation of PSO to be the facilitator that has to ensure readily and timely availability of fuel to the power, aviation, marine and transport sectors. This combined with

Our targets are ambitious, and the business conditions for us are extremely challenging but undoubtedly PSO has the ability, confidence, courage and the platform to deliver results and higher returns to it's shareholders in coming years. limited manoeuvrability to compete in the market armed with tools available to any business today, restricts and hampers the nation's largest energy company to sustain its market leadership and strive to improve its market share.

While focus on our core business of energy is to be intensified by fostering a culture of entrepreneurship and accountability, our next urgent objective will be to build on diversification initiatives in the cards, non-fuel retail and gaseous fuels to further deliver value to our shareholders.

Our targets are ambitious, and the business conditions for us are extremely challenging but undoubtedly PSO has the ability, confidence, courage and the platform to deliver results and higher returns to it's shareholders in coming years.

I joined the organisation on September 01, 2015 and with reinstatement of key committees and forums, the management team is determined to make concentrated efforts in ensuring that processes at PSO are implemented in spirit and decisions taken on merit.

In conclusion, I would like to thank our customers and stakeholders for their continuing support and loyalty and to the management and entire PSO team that has operated PSO in the past year and managed the challenges that it was confronted with through active support of MPNR and GOP. With that continued facilitation, the PSO team will deliver on its strategy and plans as we move forward.

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

## **OUR VISION**

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

## **OUR MISSION**

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

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



## OUR VALUES

#### EXCELLENCE

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

#### COHESIVENESS

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

Continually smiling - a filling operator performs his duties at Keamari Terminal.

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#### RESPECT

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

#### INTEGRITY

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

#### INNOVATION

We are committed to continuous improvement, both in New Product and Processes as well as those existing already. We encourage Creative Ideas from all stakeholders.

#### CORPORATE RESPONSIBILITY

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



## **COMPANY PROFILE**

Pakistan State Oil (PSO) is one of the important strategic assets of Pakistan. The largest Oil Marketing Company of Pakistan, PSO serves around 3 million customers every day across the entire economic value chain with over 3500 retail outlets and controls 74% of the country's oil storage capacity. It is involved in import, storage, distribution and marketing of a range petroleum products including gasoline, diesel, fuel oil, jet fuel, LNG, LPG, CNG and petrochemicals.

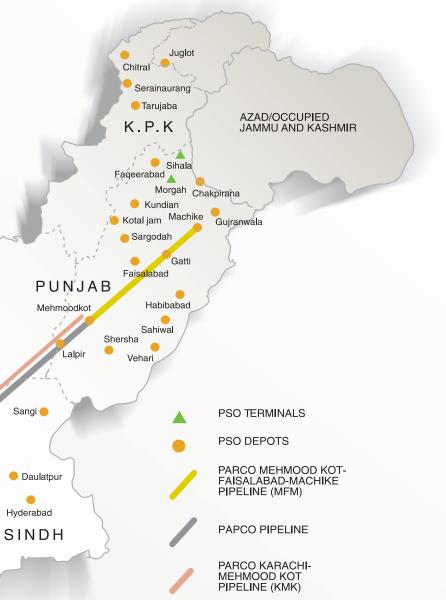
- Oil market leader in Pakistan
- Overall share 56.8%
- Black Oil 66.6%
- White Oil 49.8%
- Over 1 million tons of oil storage capacity (74% of total OMC storage)
- Largest Fuel Oil Supplier to the Energy Sector across Pakistan including IPPs and Gencos
- Retail network of 3,565 outlets
- 1,786 New Vision Retail Outlets (NVROs)
- 155 convenience stores Shop Stops
- 253 CNG facilities in more than 34 cities
- 24 Mobile Quality Testing Units
- Refueling facilities at 9 airports & 2 sea ports

## OIL INFRASTRUCTURE OF PSO

# Pasni Khuzdar Pasni Kemari

Port Qasim

🛑 Quetta





## **ACQUISITION OF PRODUCTS**

Traditionally there has been a fuel supply deficit in the country and in order to meet this shortfall, OMCs import both black and white oil products as per need. Out of the total national fuel import, PSO imports the lion's share of the POL products in order to meet the national fuel demand.

These imports arrive in Pakistan at the FOTCO and Keamari where oil vessels are berthed and the product is offloaded and moved to storage facilities at ZOT and Keamari via pipelines. During FY15, PSO sourced a total of 12.627 Million Metric Tones (MMT) of refined oil products with 9.8 MMT being imported while 2.83 MMT was uplifted from refineries.

Deficit fuel products are imported via sea vessels which berth at FOTCO or Keamari.

# STORAGE

With a storage network comprising of 9 installations and 23 depots, PSO's storage infrastructure spreads from Karachi to Gilgit. Capable of holding over a One (01) Million Metric Tons, PSO's storage system is the largest amongst all OMCs in Pakistan and represents approximately 74% of the total national oil storage capacity. Here the products which are imported or uplifted from local refineries are stored and then loaded for movement to various customers across the country.

Products are stored at Keamari and Zulfiqarabad terminals before transshipment to end customers.

A dip check is carried out to ascertain the quantity of fuel present in a tank lorry prior to dispatch.

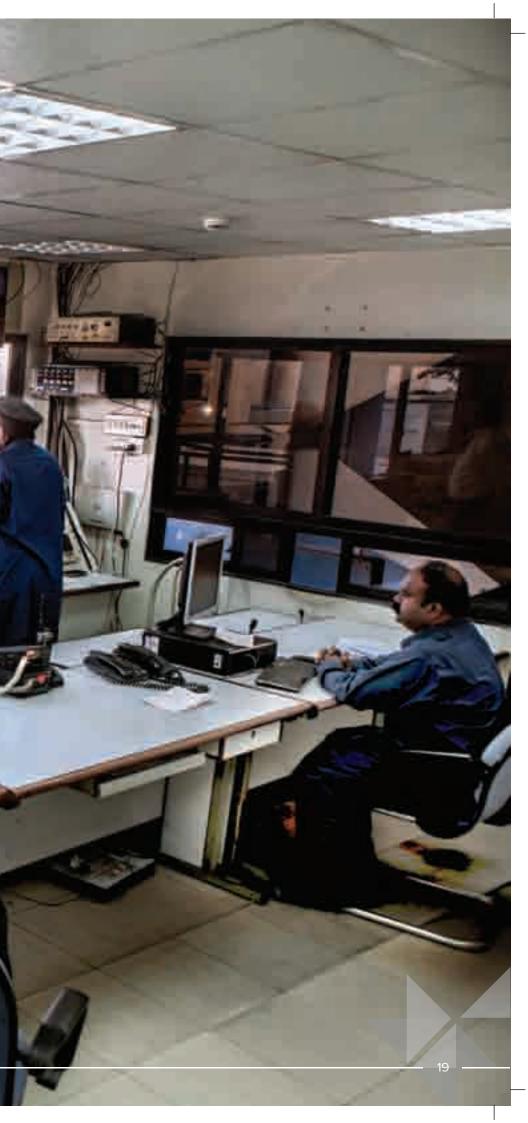


## PRODUCT MOVEMENT

Transportation of fuel from PSO's installations and depots to end consumers is carried out through a number of different modes of transport. PSO uses three mechanisms for the movement of POL products namely, tank lorries (road), tank wagons (railways) and pipelines.

- REFEREN

Filling and movement of tank lorries is monitored from the control room at Keamari Terminal to ensure efficiency



Currently PSO employs a fleet of over 8,000 tank lorries out of which over 2,000 tank lorries are New Vision tank lorries which are complying with the latest ADR standards and are equipped with pilferage proof tracker systems. In addition to this, the supply for white oil from Karachi has switched from tank lorries to pipelines with the commencement of operations of the White Oil Pipeline Project (WOPP) from Karachi to Mehmood Kot via Shikarpur and the MFM (Mehmood Kot/Faisalabad/Machikey) pipeline.

8000 Ltrs

A PSO oil lorry prepares to move out with fuel for delivery across Pakistan.

8000 Ltrs

Pakistan State Oil

8000 Ltrs



## MARKETING AND DISTRIBUTION

PSO has the largest retail network of any Oil Marketing Company (OMC) in the country. The Company currently has over 3,500 retail outlets out of which 1,786 outlets have been upgraded under the New Vision Retail program with the most modern and

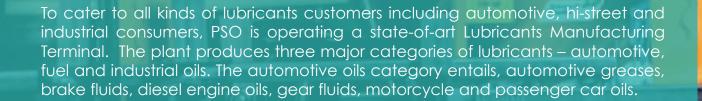
up-to-date facilities. Moreover, the Company operates a number of flagship sites called company operated and company operated (Co-CO) stations to provide the highest levels of efficiency, service and customer care.

PSO has introduced an array of fuel cards for the convenience of its customers and reward them for their

loyalty and patronage. These cards include corporate, fleet and individual fuel cards and have been well received by both the corporate world and the general public.

Going beyond fuel for its retail customers, PSO has introduced a number of Non-Fuel Retail Initiatives including 'ATMs', quick service restaurant, PSO's convenience stores

called the 'Shop Stop' and various in-store alliances to establish PSO as a company that goes beyond expectations. These initiatives offer flexibility and convenience to the customers at PSO's forecourt and are the reason millions of Customers continue to perceive PSO as the brand of preference.



Line worker overseeing lubricant filling at the Lubricant Manufacturing Terminal

DEO



TEL

THE

PSO has been in the LPG business since 1981 and the past 25 years have seen the company evolve into an important player in the LPG market. The Company has established four LPG Storage and Bottling Plants, one each in Karachi, Lahore, Dhurnal and Akora Khattak to efficiently supply fuel to the general public under the brand name "PakGas". At these plants, LPG is filled into gas cylinders for distribution in the market and transported via bowsers to bulk consumers as well.

Driver of a PSO LPG Bowser ready to move gaseous fuels across Pakistan

(Canal)







PSO's broad product portfolio and nationwide network provides the company a large and diverse customer base

2% PARCO White Oil Pipeline Project

> % Pakistan Refinery Limited

## **PSO STRATEGIC INVESTMENTS**

**\7**<sup>%</sup> Joint Installation of Marketing Companies

PSO STRATEGIC INVESTMENTS

70

Asia Petroleum Limited

77% Pak Grease Manufacturing Company Ltd

# MAJOR EVENTS







Won first prize for the Best Annual Report in Fuel and Energy at the Best Corporate Report Award ceremony 2014



Received KSE-Top Performing Companies Award

## STRATEGIC OBJECTIVES

- Compliance with regulatory and legal requirements and assure ethical operations in all spheres of business
- Focus on HR capital skill development and increased employee engagement for an effective and motivated entrepreneurial team
- Optimize and ensure efficient supply chain and

pursue long term supply arrangements.

- Effective HSE compliance with steps taken to encourage use of fuels that reduce carbon footprint.
- Increase market leadership and strategise measures to improve the bottom line.

- Continue to create upstream synergy and evaluate diversification opportunities for growth.
- Focus on responsible corporate citizenship with active CSR initiatives in health, education, community development and support for special persons.



## MANAGEMENT OBJECTIVES & STRATEGIES

PSO is committed to retaining its corporate leadership by attaining strategic objectives and upholding values and business ethics principles in every action and decision. PSO maintains cohesiveness among all stakeholders and ensures effective communication within the organization to promote team work and recognize individual contributions at every level.

PSO encourages creative ideas from all stakeholders and continuously improves it's products and processes. PSO promotes a culture of health, safety and environment with emphasis on community development for the betterment of society.

## CRITICAL PERFORMANCE INDICATORS

PSO has a performance monitoring and review mechanism which is integrated with the Company's objectives and strategies. This mechanism serves as a watchdog to ensure that implementation of the corporate plan viz-a- viz the objectives is on track and on time. The broader thrust of the performance objectives is to excel in delivering value to customers in terms of quality and timeliness in provision of products and services.

The critical performance benchmarks include responsible and safe operations, meeting the highest professional standards, and commitment to the Company's values. Innovation and creativity is highly valued and so are operational and cost efficiencies. Highly ethical, safe, environment friendly and socially responsible business practices receive due weightage in the annual performance appraisal of the employees, which form the basis for their professional advancement and reward. These indicators are expected to be maintained in the future with further improvements keeping in view changes in business dynamics.

## SIGNIFICANT CHANGES OVER PREVIOUS PERIOD

PSO is focused on attaining its strategic objectives in alignment with the corporate vision and mission of the company based on its values.

PSO is continously striving to make improvements in its operational processes in order to meet business needs and be the first in taking initiatives in the energy sector.

In a change of strategy, 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 the business case.

The Company's commitment to the energy security of Pakistan has been enhanced by diversification into LNG as a fuel for power generation and other sectors. PSO is currently in negotiations for entering into a medium / long term Sales Purchase Agreement with Qatargas for the import of LNG into Pakistan.

Other avenues for additional supplies of LNG are being explored as well by the Company.

This process change, is a defining moment for PSO's future growth resulting in saving valuable foreign exchange for Pakistan.

## RELATIONSHIP BETWEEN RESULTS & OBJECTIVES

In FY15, PSO's bottom line decreased to Rs 6.9 billion mainly due to inventory losses on account of sharp fall in crude oil prices, increase in finance cost due to prevailing circular debt and less receipt of interest from the power sector. At the close of FY15, PSO 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 its leadership position and remained a brand of choice for customers.

During the year, PSO reinforced its committment to quality assurance by carrying out quality and quantity tests at numerous locations through its MQTU network. The Company ensured strict HSE compliance in operations though effective system development, training, inspections and audit. Safety of people, equipment and environment has always been a core strategic objective at PSO. This is achieved through Safety & Environmental audits, customized trainings to internal and external stakeholders and implementation of comprehensive Standard Operating Procedures (SOPs) in critical activities and processes.

Focused on 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 fuel cards customers and expansion in non-fuel retail activities, show continuous committement to provision of quality 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. Additionally, PSO facilitated Pakistan Railways for its revival by providing maximum fuel transportation volumes at Rail head destinations.

PSO as a responsible corporate citizen fulfills its responsibilities towards internal and external stakeholders by supporting deprived segments of society. PSO actively participated in relief and rehabilitation activities for IDPs and provided relief items to meet the nutritional and shelter needs of flood victims. PSO also pledged its support for the social welfare, contributing significantly to several social welfare organizations, hospitals and educational institutions.

## BUSINESS CONTINUITY PLANNING AND SAFETY PROCEDURES FOR DATA PROTECTION

PSO has a comprehensive disaster recovery plan in place which entails backup facilities at Lube Manufacturing Terminal Karachi and Kotlakhpat (Lahore). This system is also subject to regular drills and system checks to ensure continued effectiveness and uptime in case of any emergency.

Detailed Standard Operating Procedures (SOPs) and ready reference checklists have also been developed wherein situations/areas of high risk that could hamper company operations have been identified and explored in detail.

Accordingly action plans have been prepared to manage strategic business risks of the company considering the general economic conditions, competitive realities and possible scenarios and ensuring that risk management process and culture are embedded throughout the company.

## **IT GOVERNANCE**

In line with its objective of ensuring transparency and oversight across the organization, PSO has developed an IT Governance policy. This policy defines the scope of governance and outlines the chain of responsibility, authority and communication across the Company.

For this purpose, an Information System (IS) Steering Committee has been formed to ensure that all IS strategies are aligned with the company's vision, review recommendations for improvements in business processes and to evaluate the impact of improvements on the company's business and control environment.

## **RISK & OPPORTUNITY REPORT**

Business inherently involves opportunities and risks. Effective management of opportunities and risks is therefore a key factor in sustainably safeguarding a company's value. Business success depends on the principle that the risks taken are managed and that they are outweighed by the opportunities offered.

At PSO, effective management forms an integral part of the governance system for timely identification, evaluation and handling of risks through planning, recording and audit systems. Risks by nature contain a certain level of uncertainty which require us to be vigilant in identification of these risks for timely formulation of mitigating strategies. Major risks and their mitigating strategies/opportunities for PSO are categorized below:

| Risk  | Potential Impact   | Mitigating Strategies/Opportunities   |  |  |  |
|---|--|---|--|--|--|
| Strategic   |  |   |  |  |  |
| Circular Debt/Mounting<br>receivables from Power<br>Sector and Gas<br>Companies | Inability to settle<br>international and local<br>payment commitments.<br>High financing cost to<br>PSO.<br>Disruption in smooth<br>supply chain of white oil<br>fuel business.        | Continuous follow-up with the<br>Government and Power Producers for<br>the release of funds.<br>Restricted supplies to Power Sector.<br>Follow-up with Government and<br>regulatory authorities for streamlining of<br>LNG processes. |  |  |  |
| Shift in energy mix   | Shift in energy mix may<br>cause reduction in<br>demand for Furnace Oil<br>by Power Producers.   | Diversification in alternate fuel products<br>like LNG and bio fuels.   |  |  |  |
| Employee retention and development  | Attrition of trained and potential resource.   | The company is in the process of developing structured job rotations and employee development policies.   |  |  |  |
| Changes in regulatory requirements  | Regulatory requirements<br>such as procurement of<br>goods and services,<br>pricing and IFEM may<br>affect company's<br>profitability and sales.                                       | The company maintains close liaison<br>with regulatory authorities to safeguard<br>its interest.  |  |  |  |
| Operational   |  |   |  |  |  |
| Higher imports cost   | Stringent regulatory<br>requirements for<br>procurement of products<br>through tendering<br>process may result in<br>higher premiums and<br>create competitive<br>disadvantage to PSO. | Flexibility in tendering terms and<br>conditions as per market practices to<br>enable cost effective procurement in<br>order to remain competitive in the<br>market.  |  |  |  |

| Risk   | Potential Impact  | Mitigating Strategies/Opportunitie   |
|--|---|--|
| Breakdown of<br>communication<br>through natural<br>calamities or<br>disasters | Disruption of business<br>activities and breakdown<br>in whole supply chain.  | The company has Disaster Recovery<br>Plan in place.<br>The company has online replication of<br>data in the hot DRP site at Karachi<br>which can be connected with other<br>PSO sites and allow operations to be<br>executed temporarily in case of any<br>disaster. Further, PSO has a warm DRP<br>site in central region to mitigate the<br>geographical risk. |
| Reputation<br>Management   | Unverified media reports<br>may affect company's<br>reputation.   | Effective monitoring of media reports<br>and their timely clarifications.<br>Ensuring provision of high quality<br>products and services.<br>Contribution to the nation's<br>development through CSR initiatives.  |
| Financial  |   |  |
| Exchange rate risk   | The company carries<br>exchange rate risk in white<br>oil products, where in any<br>devaluation of Pak Rupee<br>may significantly impact its<br>profitability and cash flows. | As regulatory framework does not allow<br>obtaining exchange rate risk cover<br>against oil imports, the company is<br>following up the matter with<br>Government to allow recoverability of<br>exchange rate differences through<br>pricing mechanism of white oil fuel<br>products.  |
| Fluctuation in<br>international oil<br>prices                                  | Changes in international<br>oil prices may affect<br>company's profitability.   | The loss of risk can be minimized by<br>undertaking effective inventory<br>management.   |
| Credit risk  | Risk of default in payments<br>by credit customers,<br>leading to adverse<br>financial impact on the<br>company.  | Credit exposures are regular reviewed<br>to align them with changing conditions<br>and credit worthiness of the customers  |

## APPROACH TO MATERIALITY

In general, matters are considered to be material if, individually or in aggregate, they are expected to significantly affect the performance and profitability of the Company.

## NOTICE OF THE MEETING

Notice is hereby given that the Thirty Ninth Notes: Annual General Meeting of the Company will be held at Pearl Continental Hotel, "Ball Room", Club Road, Karachi on October 14, 2015 at 11:30 a.m. to transact the following business:

#### I. Ordinary Business

- 1. To confirm the minutes of the Thirty Eighth Annual General Meeting held on October 14, 2014.
- 2. To receive, approve and adopt the audited accounts for the year ended June 30, 2015 together with the Report to the Shareholders and Auditors' Report thereon
- 3. To appoint and lay information before the members of the Company of the appointment of Messrs A.F. Ferguson & Co. and Messrs Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants, as auditors of the Company for the year ending June 30, 2016.
- 4. To approve final cash dividend of 40% in addition to the interim cash dividend of 60% already paid, thereby making a total cash dividend of 100% for the year ended June 30, 2015.

#### III. Other Business

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

By Order of the Karachi: September 01, 2015 Managing Director

> AYESHA AFZAL Company Secretary

- a. A member entitled to attend and vote at this meeting may appoint any other member as his/ her proxy to attend and vote. A proxy from is enclosed.
- b. The Share Transfer books of the company will remain closed from October 08, 2015 to October 14, 2015(both days inclusive). Transfers received in order at the office of Company's Share Registrar, M/s THK Associates (Pvt) Limited, State Life Building-3, Dr. Ziauddin Ahmed Road, Karachi up to the close of business on October 07, 2015 will be considered in time to be eligible for payment of Final dividend.
- c. The instrument appointing a proxy and the power of attorney or other authority under which it is signed or a notarially attested copy of power of attorney must be deposited at the registered office of the company situated at address at least 48 hours before the time of the meeting.
- d. Members are requested to notify changes immediately, if any, in their registered addresses to our Share Registrar, M/s THK Associates (Pvt) Limited.
- e. CDC Account Holders will further have to follow the under mentioned guidelines as laid down in Circular 1 dated January, 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

### A. For attending the meeting:

- i) In case of Individuals, the account holder or sub-account holder shall authenticate his/her identity by showing his/her original Computerized National Identity Card (CNIC) or original passport alongwith Participants ID number and their account number at the time of attending the meeting.
- ii) In case of corporate entity, the Board of Directors resolution/power of attorney with specimen signature of nominee shall be produced (unless it has provided earlier) at the time of the meeting.

#### B. For appointing proxies:

- i) In case of individuals, the account holder or sub-account holder shall submit the proxy form as per the above requirement.
- ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC number shall be mentioned on the form.
- iii) Attested copies of CNIC or the passport of the beneficial owners and of the proxy shall be furnished with the proxy form.
- iv) The Proxy shall produce his/her original CNIC or original passport at the time of the meeting.
- v) In case of a corporate entity, the Board of Directors resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the company.

## **RESOLUTION OF** AGM CONCERNS

Safeguarding and maximizing the shareholders value is an important goal of the company. Our Annual General Meeting (AGM) is one of the most effective ways to engage our shareholders, wherein all queries and concerns of our shareholders our addressed on priority. In the last AGM meeting the concerns and queries of the shareholders were duly addressed and their advice for future relevant actions was received.

## **INVESTOR GRIEVANCE POLICY**

PSO continuously engages with its investors through Company's secretariat and responds to their queries and request for information and their concerns / grievances. PSO's registrar also timely addresses investors grievances.

## ANNUAL GENERAL MEETING 2014

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## COMPANY INFORMATION

Pakistan State Oil Company Limited (PSO) has been formed under the provisions of Marketing of Petroleum Products (Federal Control) Act, 1974 ("the 1974 Act"). PSO received notification from the Ministry of Petroleum & Natural Resources (MPNR), dated 12-02-2015 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.

In view of the above, the Managing Director, PSO has been exercising and performing powers and functions of the Board since 12-02-2015.

### MANAGING DIRECTOR & CEO

Mr. Sheikh Imran ul Haque

#### COMPANY SECRETARY

Ms. Ayesha Afzal

#### AUDITORS

A. F. Ferguson & Co. Ernst & Young Ford Rhodes Sidat Hyder

#### REGISTRAROFFICE

THK Associates (Pvt.) Ltd. Ground Floor, State Life Building No. 3 Dr. Ziauddin Ahmed Road, Karachi. Phone: 021-35689021 Fax: 021-3565595

#### **REGISTERED OFFICE**

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

#### BANKERS

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





## **BOARD COMMITTEES**

PSO was informed by the Ministry of Petroleum & Natural Resources (MNPR) via the notification, dated 12-02-2015 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. However, prior to this notification the following committees of the Board existed during the fiscal year 2015.

- Board Audit and Compliance Committee
- Board Finance and Risk Management Committee
- Board Human Resource and Remuneration Committee

## **BOARD FINANCE AND RISK MANAGEMENT COMMITTEE**

Board Finance & Risk Management Committee constituted of three Board members including a Chairman with Company Secretary as the Secretary to this Committee.

#### TERMS OF REFERENCE

The Board Finance and Risk Management Committee primarily reviews the financial and operating plans of the Company and is responsible for overseeing the risk management activities, recommending appropriate risk management procedures and measurement methodologies across the Company.

The Finance and Risk Management Committee's scope of work entails carrying out following activities and duties and recommending their findings to the Board of Management for approval:

- 1. Reviewing Corporate Strategy, Operational Plans and Long term Projections of the Company.
- 2. Reviewing Proposals / Feasibility Studies prepared by the management of all major projects.
- 3. Review the proposed annual Business Plan and Budget and endorsing the same for approval of Board of Management.
- 4. Identification and management of strategic business risks of the Company considering the general economic conditions of the country, competitive realities and scenarios and ensuring that risk management processes and cultures are embedded throughout the Company.

- Providing regular update to the Board of 5. Management on key risk management issues and its proposed mitigating factors.
- 6. Considering investments and disinvestments of funds outside normal conduct of business and reviewing cash and fund management policies and procedures.
- 7. Consideration of any other issue or matter as may be assigned by the Board of Management.

## **BOARD AUDIT AND COMPLIANCE COMMITTEE**

Board Audit & Compliance Committee constituted of three Board members including a Chairman with Company Secretary as the Secretary to this Committee.

#### TERMS OF REFERENCE

The Committee shall, among other things, be responsible for recommending to the Board of Management the appointment of external auditors by the company's shareholders and shall consider any questions of resignation or removal of external auditors, audit fees and provision by external auditors of any service to the company in addition to audit of its financial statements. In the absence of strong grounds to proceed otherwise, the Board of Management shall act in accordance with the recommendations of the Board Audit & Compliance Committee in all these matters.

The committee will also assist the Board in overseeing the Company's compliance program with respect to: (i) compliance with the laws; and (ii) compliance with the Company's Code of Conduct and related policies by employees, officers, directors and other agents and associates of the Company.

The terms of reference of the Audit & Compliance Committee shall also include the following:

#### AUDIT

- 1. Determination of appropriate measures to safeguard 2 Provide oversight as needed to ensure that the the company's assets; Compliance program effectively prevents and/or 2. Review of preliminary announcements of results prior to detects violations by Company employees, officers, publication; directors and other agents and associates of the Review of guarterly, half-yearly and annual financial 3. Company law, regulation, Company policy, special statements of the company, prior to their approval by conditions imposed on the Company by any licensing the Board of Management, focusing on: authorities, and the Code of Conduct.

- Major judgmental areas;
- Significant adjustments resulting from the audit;
- The going-concern assumption;
- Any changes in accounting policies and practices;
- Compliance with applicable accounting standards; and
- Compliance with listing regulations and other statutory and regulatory requirements. Δ
- Facilitating the external audit and discussion with external auditors on major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary)
- 5. Review of management letter issued by external auditors and management's response thereto;
- auditors of the company;
- Perform any other activities consistent with this Charter, 6. Ensuring coordination between the internal and external and the Company's Bylaws and Certified of Incorporation, as the Committee may deem necessary 7. Review of the scope and extent of internal audit and or appropriate for the fulfillment of its responsibilities ensuring that the internal audit function has adequate under this Charter or as required by applicable law or resources and is appropriately placed within the regulation, or as may be determined by the Board. Company;
- Do every other act incidental to, arising out of or in 9. 8. Consideration of major findings of internal investigations connection with, or otherwise related to the authority and management's response thereto; aranted to the Committee hereby or the carrying out 9. Ascertaining that the internal control system including of the Committee's duties and responsibilities financial and operational controls, accounting system hereunder. and reporting structure are adequate and effective;
- 10. Review of the company's statement on internal control systems prior to endorsement by the Board of Management;

- 11. Instituting special projects, value for money studies or other investigations on any matter specified by the Board of Management, in consultation with the Chief Executive and to consider remittance of any matter to the external auditors or to any other external body;
- 12. Determination of compliance with relevant statutory requirements;
- 13. Monitoring compliance with the best practices of corporate governance and identification of significant violations thereof:
- 14. Recommending or approving the hiring or removal of the chief internal auditor:
- 15. Overseeing whistle-blowing policy and protection mechanism and
- 16. Consideration of any other issue or matter as may be assigned by the Board of Management.

#### COMPLIANCE

- 1. Review Code of Conduct and related policies applicable to employees, officers, and directors and other agents and associates of the Company at least annually and make recommendations to the Board as appropriate.
- The Whistle blowing unit will report to the Audit & 3. Compliance Committee.
- 4. Review and evaluate, at least annually, the performance of the Committee, including compliance by the Committee with this Charter.
- 5. Review and assess, at least annually, the adequacy of this Charter and submit any proposed changes to the Board for approval.
- 6. Review resources assigned to the Compliance program to assess their adequacy relative to the program's effectiveness.
- Receive such reports of relevant conduct, misconduct, and other issues as appropriate to the Committee.

10. Notwithstanding any of the foregoing, the legal liability of any of the Committee members shall not be greater than that of other members of the Board.

## **BOARD HUMAN RESOURCE AND REMUNERATION COMMITTEE**

The Board Human Resource & Remuneration Committee constituted of four Board members including a Chairman with Company Secretary as the Secretary to this Committee.

#### TERMS OF REFERENCE

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

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

The terms of reference of the Committee shall also include the following:

- 1. Review organization structure periodically to:
  - a. Evaluate and recommend for approval of changes in the organization, functions and relationships affecting management positions equivalent in importance to those on the management position schedule.
  - b. Establish plans and procedures that provide an effective basis for management control over company manpower.
  - c. Determine appropriate limits of authority and approval procedures for personnel matters requiring decisions at different levels of management.
- 2. Review the employees' development system to ensure that it:
  - a. Foresees the company's senior management requirements.
  - b. Provides for early identification and development of key personnel.

- c. Brings forward specific succession plans for senior management positions.
- d. Training and development plans.
- 3. Compensation and Benefits:
  - a. Review data of competitive compensation practices and review and evaluate policies and programmes through which the company compensates its employees.
  - b. Recommend for approval salary ranges, salaries and other compensation for the CEO and Senior Management/Senior General Managers reporting to the CEO.

## ROLE OF CHAIRMAN AND MANAGING DIRECTOR

Chairman of the Board is responsible to ensure that the Board is working properly and all matters relevant to the governance of the Company are placed on the agenda of Board Meetings. The Chairman conducts the Board meeting and has the responsibility to lead the Board and ensure its effective functioning and continuous development. The Chairman has no involvement in day-to-day operations of the company.

The Managing Director and Chief Executive of the Company is responsible for the management of the Company and for its financial and other matters, subject to the oversight and directions of the Board. His responsibilities include implementation of strategies and polices approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and used economically, efficiently and effectively in accordance with all statutory obligations.

MD's performance is monitored and evaluated by the Board against the objectives and performance targets set by the Board.

However, pursuant to the Notification from the MPNR dated 12-02-2015, the Managing Director is exercising and performing 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.

## EXECUTIVE COMMITTEE (EX-COM)

CHAIRMAN MEMBERS MD GMs, DGMs

(Functional heads/ Section heads)

The Ex-Com is a high-level committee that meets to review the day-to-day company affairs. The Ex-Com members also share key accomplishments at this forum.

## MANAGEMENT COMMITTEE (MAN-COM)

CHAIRMAN MEMBERS MD

GM(F), GM(CP), GM(CB),GM(Ops), GM(RB/LS&AT/ Chemicals/LMT&LT)

**SECRETARY** 

DGM(CP)

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

COMPENSATION, **ORGANIZATION & EMPLOYEE** DEVELOPMENT COMMITTEE (COED)

CHAIRMAN MD

**MEMBERS** GM (CP) GM (CB) GM (Ops) GM (F)

SECRETARY DGM (HR)



The COED reviews matters pertaining to human resources such as recruitment, transfers, disciplinary actions, promotions and employee benefits

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## COMMITMENT TO HSE

As Pakistan's leading Oil Marketing Company, PSO is well aware of its commitment to the broader stakeholder community. PSO ensures that its policies & procedures are eco-friendly and over the years we have demonstrated our focus on the environment by decreasing our environmental footprint year on year. Similarly the health and safety of each individual who interacts with our business remains a paramount consideration.

#### HSE at PSO

Our HSE policy is an important ingredient of our overall code of business conduct. It states that PSO will ensure:

- The health of its employees, contractors, customers and public is protected.
- All activities are carried out safely.
- Environment is protected.

To implement the HSE policy, Pakistan State Oil Company Limited will:

- Comply with Pakistan's relevant laws and regulations.
- Ensure that all its activities are carried out in accordance with the Company's Health, Safety and Environmental Standards and Procedures.
- Ensure that environmental performance meets legislative requirements.
- Require every employee to exercise personal responsibility in preventing harm to self or others and to the environment.
- Maintain public confidence in the integrity of its operations by openly reporting its performance to all stakeholders who work with the Company.
- Provide appropriate Health, Safety and Environment training/information to employees, contractors and other stakeholders who work with the Company.
- Integrate Risk Assessment with all business processes.
- Promote prevention of pollution and proper handling and disposal of solid, liquid wastes and gaseous emissions.
- Continuously improve our performance by improving the leadership, capability and capacity of our organization.

## COMMITMENT TO ETHICAL BUSINESS CONDUCT

Committed to maintaining the highest standards of accountability, governance and service quality, PSO ensures adherence to the ethical guidelines laid out in the Company's code of conduct.

With a strong belief that it is fundamental to the Company's professional integrity to enable individuals to voice their concerns regarding any instance of malpractice or impropriety, PSO has implemented a Whistle Blowing Policy. Through this initiative a Whistle Blowing Unit reporting directly to Board Audit Committee has been established.

This policy lays out the procedures for lodging and handling of concerns, reporting requirements while also ensuring the identity protection of whistle blowers. A reporting mechanism has also been placed on company's website for easy accessibility to all parties. By implementing this policy, PSO has encouraged both internal and external parties to intimate the Company regarding any instance of improper conduct without fear. Monitoring of the effectiveness and compliance of the Whistle Blowing Program is carried out by the Board Audit Committee.

## STAKEHOLDER RELATIONS AND PROCEDURES ADOPTED FOR THEIR ENGAGEMENT

PSO recognizes the value of transparent and open communications with all its stakeholders in line with regulatory considerations and ensuring corporate confidentiality. We acknowledge that consistent, coherent and clear communications help to establish sound reputation of the Company and its management. Accordingly, PSO aims to promote dialogue with investors, analysts and other stakeholders.

The wide stakeholder community includes but not limited to following:

## a) Institutional Investors and other shareholders

The Company follows best practices and guidelines with respect to maintaining investor relations and conducts security analyst briefings. The purpose of the briefings is to share details pertaining to results announced and to respond to any analyst queries relating to results and future prospects. Furthermore, PSO engages with a wide group of shareholders through the Annual General Meeting and dispatch of Annual Reports, which include comprehensive updates on financial and operational footprints of the Company.

#### b) Media

We engage with print and visual media through regular press releases on key achievements, periodical results and other corporate events.



## c) Government and Regulating bodies

PSO continually engages with Government of Pakistan and regulatory bodies at local, provincial and federal levels. PSO's senior management is in close liaison with government officials on various issues with respect to the Company and oil industry.

## d) Other Stakeholders

Other stakeholders include bankers, suppliers, customers and employees. PSO engages with these stakeholders on a regular basis through effective use of internal and external communication.

#### WEBSITE

The Company's web site www.psopk.com offers a detailed overview and information of the following aspects of your company:

- Business lines, its operational aspects and current activities
- Management team
- Procurement activities
- Periodical financial results and other financial information
- Human Resource recruitment
- Media engagement

It is also highlighted here that the PSO's website fulfills the mandatory requirements as laid down by the SECP for all listed companies.

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## **REPORT OF AUDIT COMMITTEE**

PSO was informed by the Ministry of Petroleum & Natural Resources (MPNR) via the Notification dated 12-02-2015 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 Board Audit & Compliance Committee of the denotified BOM comprised of three non-executive members including its Chairman. The Chairman of the committee had relevant financial and accounting background.

The Committee met four times during the year ended June 30, 2015 pre denotified period. The meetings of the committee were held prior to approval of annual results for FY 2014 and interim results for 1st Quarter FY 2015 as required by the Code of Corporate Governance (CCG). Meetings were also held to review other matters as per the Terms of Reference (TOR) of the Committee.

Regular attendees at Committee meetings, on the invitation of the Committee, included the Head of Internal Audit / Chief Audit Executive (CAE) and Chief Financial Officer (CFO). The Head of Internal Audit had direct access to the Committee. Audit observations along with the compliance status were regularly presented to the Committee.

The functions performed by the Committee during the pre-denotified period are given below:

#### FINANCIAL REPORTING:

The Committee reviewed and recommended for approval of BOM, the draft annual and interim results of the Company as mentioned above. The Committee discussed with the CFO, CAE and the external auditors' the significant accounting policies, estimates and judgments applied in preparing the financial information.

#### ASSESSMENT OF INTERNAL AUDIT FUNCTION AND THE REVIEW OF MAJOR AUDIT OBSERVATIONS:

The Committee as per its established process to review the effectiveness of the Internal Control system and the Internal Audit function reviewed and approved the risk based internal audit plan of FY2015 covering all the business activities. Furthermore, the Committee also reviewed the status of planned versus actual audit activities.

The Committee reviewed the major internal audit observations and the status of decisions made in the previous Committee meetings. The Committee recommended improvements in internal controls and advised for corrective actions where required.

#### WHISTLE BLOWING:

As per the Whistle Blowing Policy approved by BOM, the Committee is entrusted with the responsibility to monitor the effectiveness of the whistle blowing unit. Report on the Complaints received vis-a-vis the action taken were presented in the Committee meetings during the said period.

#### REVIEW OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE:

The Committee places great importance on ensuring compliance with the best practices of the CCG. In this respect, the Committee reviewed the Company's Compliance with the CCG for FY2014.

#### APPOINTMENT OF EXTERNAL AUDITORS:

As per the requirements of the CCG and the TOR approved by the BOM, the Committee recommended, for BOM approval, the appointment of external auditors and their remuneration for the year ended June 2015.

## REVIEW OF EXTERNAL AUDITORS' MANAGEMENT LETTER:

The Committee also reviewed the Management Letter issued by the external auditors' for FY2014 wherein control weaknesses are highlighted. Compliance status of previously highlighted observations by the external auditors' were also reviewed and corrective measures are discussed to improve overall control environment.

Employees conduct an interactive discussion on Company matters

