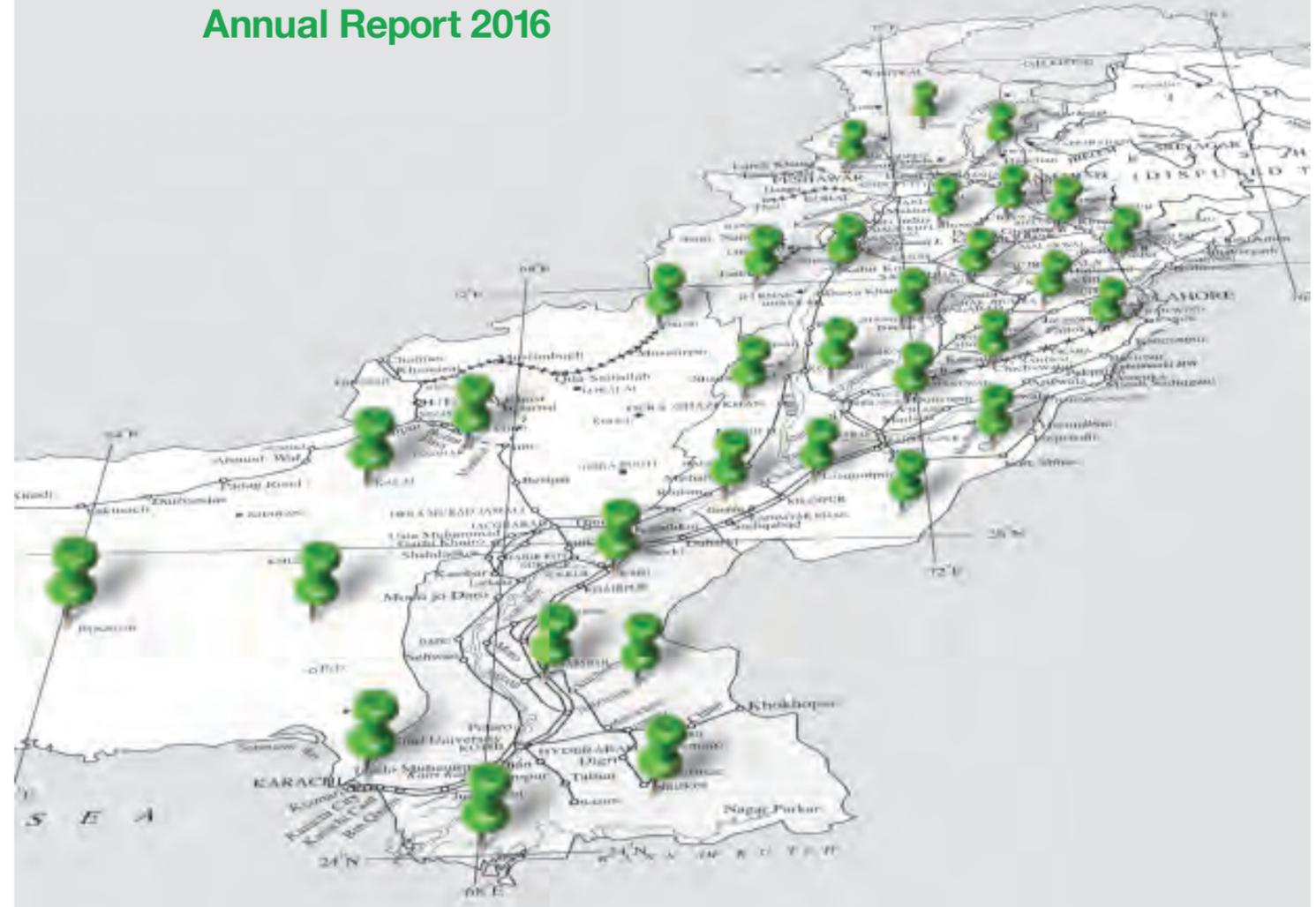


ENERGIZING PAKISTAN'S FUTURE

Annual Report 2016



Annual Report 2016

Pakistan State Oil



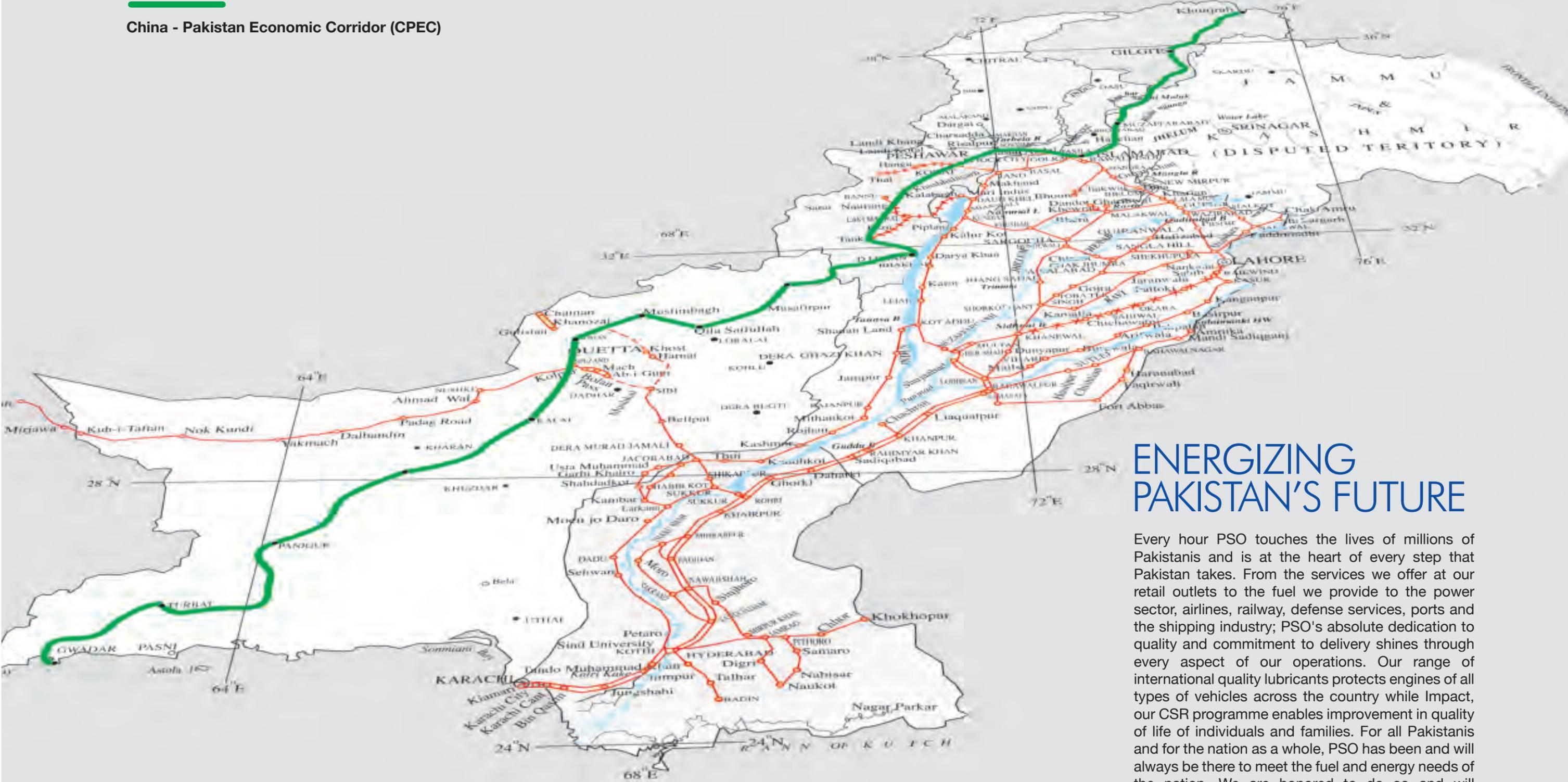
Pakistan State Oil

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Pakistan State Oil

China - Pakistan Economic Corridor (CPEC)



ENERGIZING PAKISTAN'S FUTURE

Every hour PSO touches the lives of millions of Pakistanis and is at the heart of every step that Pakistan takes. From the services we offer at our retail outlets to the fuel we provide to the power sector, airlines, railway, defense services, ports and the shipping industry; PSO's absolute dedication to quality and commitment to delivery shines through every aspect of our operations. Our range of international quality lubricants protects engines of all types of vehicles across the country while Impact, our CSR programme enables improvement in quality of life of individuals and families. For all Pakistanis and for the nation as a whole, PSO has been and will always be there to meet the fuel and energy needs of the nation. We are honored to do so and will continue to energize Pakistan Insha'Allah.

Contents

About the Report	04
MD & CEO's Message	06
Our Vision	08
Our Mission	08
Our Values	10
Code of Conduct	10
Company Profile	13
Regulatory Framework	14
PSO Strategic Investments	16
Business Lines	17
Geographical Presence	18
Major Events	19

MANAGEMENT REVIEW AND REPRESENTATIONS

Integrated Business Model	22
Objectives & Strategies	24
Management's Plans	24
Significant Changes in Objectives and strategies from the Previous year	24
Relationship between Results and Management's Objectives	25
Critical Performance Indicators	26
Business Continuity Plan and Safety Procedures for Data Protection	26
IT Governance	27
Risk and Opportunity Report	28
Approach to Materiality	29

NOTICE OF MEETING

Resolution of AGM Concerns	31
Investor Grievance Policy	31

CORPORATE GOVERNANCE

Company Information	37
Board of Management Profiles	38
Board Committees	43
Training of Board Members	46
Role of Chairman & CEO	46
CEO Performance Review by the Board	46
Management Committees	46
Compensation, Organization & Employee Development Committee	46
Stakeholder Engagement	47
Report of Audit Committee	48

REPORT TO SHAREHOLDERS

Petroleum Industry Overview	54
Financial Capital	
Sales Performance	55
Business Lines	58
Infrastructure Capital	63
Human Capital	68
Intellectual Capital	73
Natural Capital	75
Social & Relationship Capital	78
Other Matters	82
Forward Looking Statement	85

FINANCIALS

Ratios and analysis	87
Statement of Compliance	106
Review Report to the Members	112
Auditors' Report to the Members	114
Financial Statements	116
Notes to the Financial Statements	121
Attendance at BoM Meetings	186

STAKEHOLDER'S INFORMATION

Shareholders' Category	187
Pattern of Shareholdings	189
Shareholders and Investors Information	193
Glossary	194
Feedback	195
Proxy form	197



About the Report

The purpose of this Integrated Report 2016 is to explain to our stakeholders how PSO has been creating value over time, as we believe that they should be well informed about the company and its developments.

It is important to note that value is not created by or within an organization alone and is influenced by the external environment.

We have moved to integrated reporting model because it is clear and concisely tells you about us, who we are and what we do and how we create value, our strategies, opportunities and risks, our business model and governance and our performance against the strategic objectives in a way that gives our stakeholders a holistic view of your company and its future. This report presents the strategy, governance, business model, performance and future outlook covering different forms of capitals (Financial Capital, Human Capital, Natural Capital and Social and Relationship Capital) together creating value for the company.

The online version of this report is available at our corporate website and may be accessed at the following link:

<http://www.psopk.com/en/investors/results-reporting/financial-reports>

We wish you a pleasant read.



MD & CEO's Message

As the nation's leading oil marketing company, we at PSO are cognizant of our responsibility of keeping the wheels of the nation's economy in constant motion. FY 2016 was an extraordinary time for our company. We managed through market challenges while never losing sight of the reason we are here; to serve our customers, our communities and to earn a fair return for our shareholders. While good governance has been reflected through "walk the talk"; investment in technology, infrastructure and talent critical to the future of our company has been initiated. We see exciting opportunities as the market deregulates.

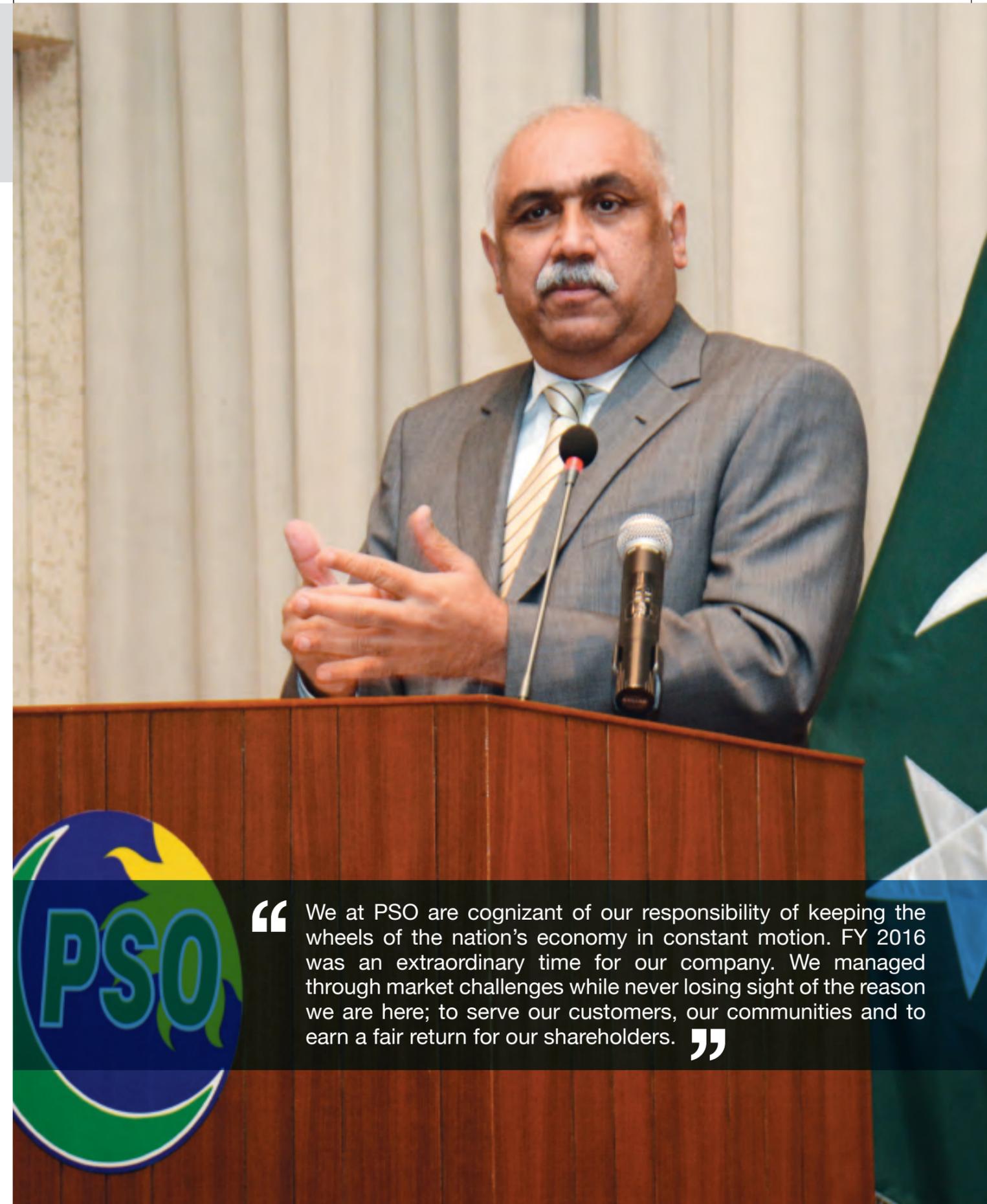
PSO is being positioned to respond to the new business environment and has redefined its priorities that will serve as the foundation to build a stronger company to fulfil the increasing energy needs of the nation. With MP&NR vision strategies have started to evolve as actions are being undertaken to improve quality of fuel, rebuild the supply chain and diversify sourcing.

PSO reported a Profit after Tax of Rs. 10.3 billion and sustained its market leadership with an overall market share of 56%. The company stood strong in meeting the energy challenges of the country while ensuring uninterrupted supply of fuel to the power, aviation, marine and transport sectors. The successful import of 32 cargoes of LNG at an average price of \$ 6.37 per mmbtu (USD 642.5m) has put Pakistan on the LNG world map as a credible buyer. PSO has delivered successfully on the mandate given to it by MP&NR.

We have also supported sustainable social development activities nationwide by partnering with reputable charitable organizations in the fields of healthcare, education, community building and environment. The company extended support worth Rs. 86 Million to these causes as we strongly believe in sharing our success with the communities in which we operate.

The outstanding receivables of Rs. 233 billion from the power sector (Rs. 209b) PIA (Rs. 13.1b) and SNGPL (Rs. 10.9b) continue to put pressure on the already constrained liquidity position. We have worked with the Ministry of Water & Power, NEPRA and PIA for timely realization of the payments due to no avail. PSO is taking steps to further recover Rs. 14 billion from OMCs/IFEM (Rs. 3.8b), CNG (Rs. 0.9b) and GOP (Rs. 9.3b). The industry faces HSD quality challenges due to price arbitrage of SKO and imports across the border, incentivization due IFEM, delays in LPG retail outlet approvals and margin erosion due to enhanced licence fee. As the market deregulates, role of the regulator is critical and the new leadership at OGRA is striving to meet the challenge and willing to work with the industry.

I take this opportunity to express gratitude for the guidance of our Board of Management, support of the Government of Pakistan and in particular MP&NR, the dedication, fortitude and perseverance of our team and continued trust of our shareholders, customers and business partners which enabled us to achieve our goals. I thank you for your trust and continuing loyalty.



“ We at PSO are cognizant of our responsibility of keeping the wheels of the nation's economy in constant motion. FY 2016 was an extraordinary time for our company. We managed through market challenges while never losing sight of the reason we are here; to serve our customers, our communities and to earn a fair return for our shareholders. ”

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

RESPECT

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

Code of Conduct

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

- Unsatisfactory and negligent job performance.
- Excessive and unauthorized absence from duty.

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





Company Profile

Pakistan State Oil 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 3,565 retail outlets and controls 74% of the country's oil storage capacity and refueling facilities at 9 airports & 2 sea ports. 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.

55.9%
Overall Market Share

70.5%
Black Oil Market Share

46.8%
White Oil Market Share

76%
Total OMC Import

68%
Total OMC Storage

09
Airports

3,565
Retail Outlets

1,892
New Vision Outlets

255
CNG Facilities

150K
Card Holders

144
Shop Stops

24
Mobile Quality Testing Units

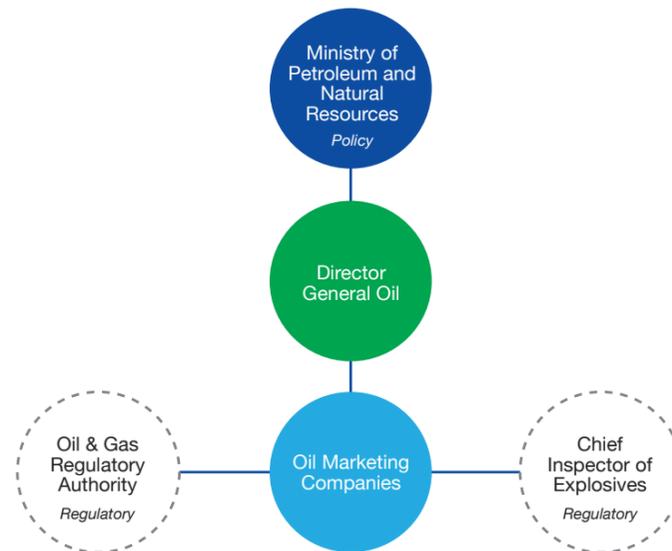
Regulatory Framework



Pakistan State Oil Company Limited is a public limited company incorporated in Pakistan under the Companies Act, 1913 (now Companies Ordinance, 1984), listed on the Pakistan Stock Exchange, and is governed by the provisions of the Marketing of Petroleum Products (Federal Control) Act, 1974 (the "Act"). The registered office of the Company is located at PSO House, Khayaban-e-Iqbal, Clifton, Karachi.

The Managing Director of the Company is appointed by the Federal Government in exercise of its powers under section 6 of the Act. Under subsection 4 of section 6 of the Act, Managing Director shall exercise and perform all the powers and functions of the Board of Directors of the Company. Moreover, the Board of Management set up by the Federal Government under section 7 of the Act controls, manages and directs the affairs of the Company. The provisions of the Act shall have effect notwithstanding anything contained in the Companies Act, 1913 (now Companies Ordinance, 1984) or any other law for the time being in force or any agreement, contract, Memorandum or Articles of Association of the Company.

Policy and Regulatory Environment



OGRA

PSO operates under the regulatory framework of OGRA Ordinance 2002 with effect from 15th March, 2006, empowering the authority to regulate mid and downstream oil sectors, under the existing Pakistan Petroleum (Refining, Blending and Marketing) Rules 1971. In line with the directives received from OGRA, PSO carries out quality monitoring at retail outlets on a regular basis and submits monthly reports to OGRA.

With regards to Oil Pricing (except for price of furnace oil which has been deregulated by GoP on July 1, 2000), OGRA was also mandated by the Federal Government vide Cabinet's decision No. 41/03/2006, dated March 02, 2006, to fix prices of petroleum products with effect from April 01, 2006, in accordance with the Government's prescribed formula, under section 6(2) (r) (relating to power of functions of OGRA) and Section 21(2) (b) (relating to policy guidelines) of the OGRA Ordinance, 2002. However, the Federal Government with effect from June 1, 2011 has deregulated the prices of petroleum products of Motor Spirit, High Octane Blending Component, Light Diesel Oil, Jet Propellant 1, 4 & 8. As a result, refineries and oil marketing companies fix and announce their ex - refinery prices and ex - depot prices of above mentioned products. Furthermore, Federal Government deregulated ex-refinery price of High Speed Diesel w.e.f September 17, 2012 in pursuance of ECC decision of September 04, 2012.

OGRA only computes and notifies ex - refinery price of Superior Kerosene Oil including ex - depot prices of SKO & E-10. OGRA also computes and notifies Inland Freight Equalization Margin for all products. It also monitors the pricing of petroleum products under the deregulated scenario and necessary intervention is carried out as and when required.

In pursuance of ECC decision, pricing / import of 95 RON PMG and 97 RON HOBC is being fully deregulated for all refineries and OMCs however pricing of imported 92 RON would be on the basis of PSO actual landed import price.



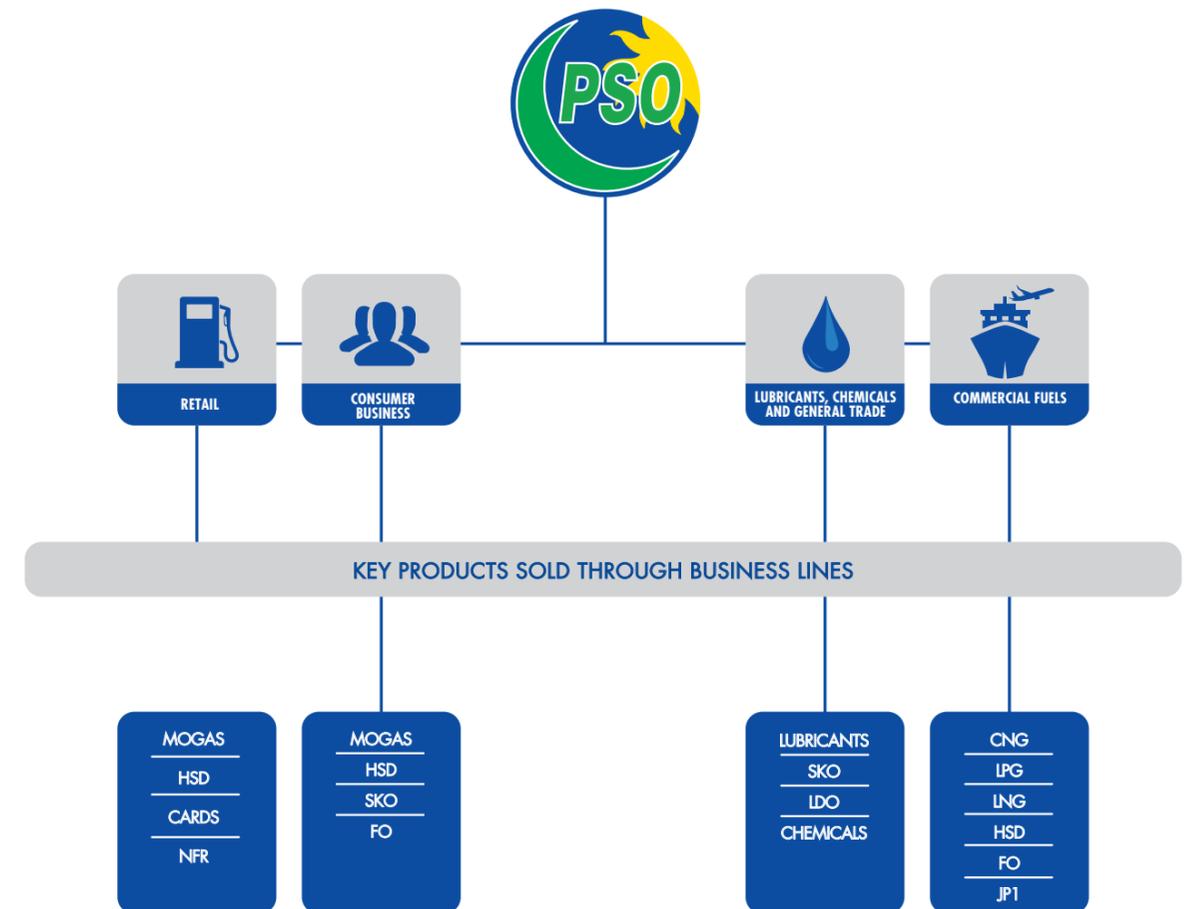
PPRA

The Public Procurement Regulatory Ordinance was promulgated vide presidential order dated May 15, 2002. Being a public sector organization, PSO has been rigorously following the Public Procurement Rules & Regulations 2004. Regulatory compliance to the provisions of Public Procurement Rules & Regulations 2004 is ensured in all aspects of the procurement processes including procurement planning, advertisements, pre-qualifications, methods of procurement, opening, evaluation & rejection of bids, acceptance of bids and award of procurement contracts and redressal of grievances.

Strategic Investments



Business Lines



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

Geographical Presence



- ▲ PSO TERMINALS
- PSO DEPOTS

Major Events



Seminar on LNG



Kuwait Petroleum International visits PSO



Procurement Conference 2016



Fuel Supply Agreement for Thar Coal Mines



Management Hajj Balloting



Talent Hunt at IBA



POL Training - Pak Army



PSO Day



PIP Meeting



Lube Gala



Winter Internship 2016



Pensioners' AGM



PSO Kahaniyan



BoM Meeting



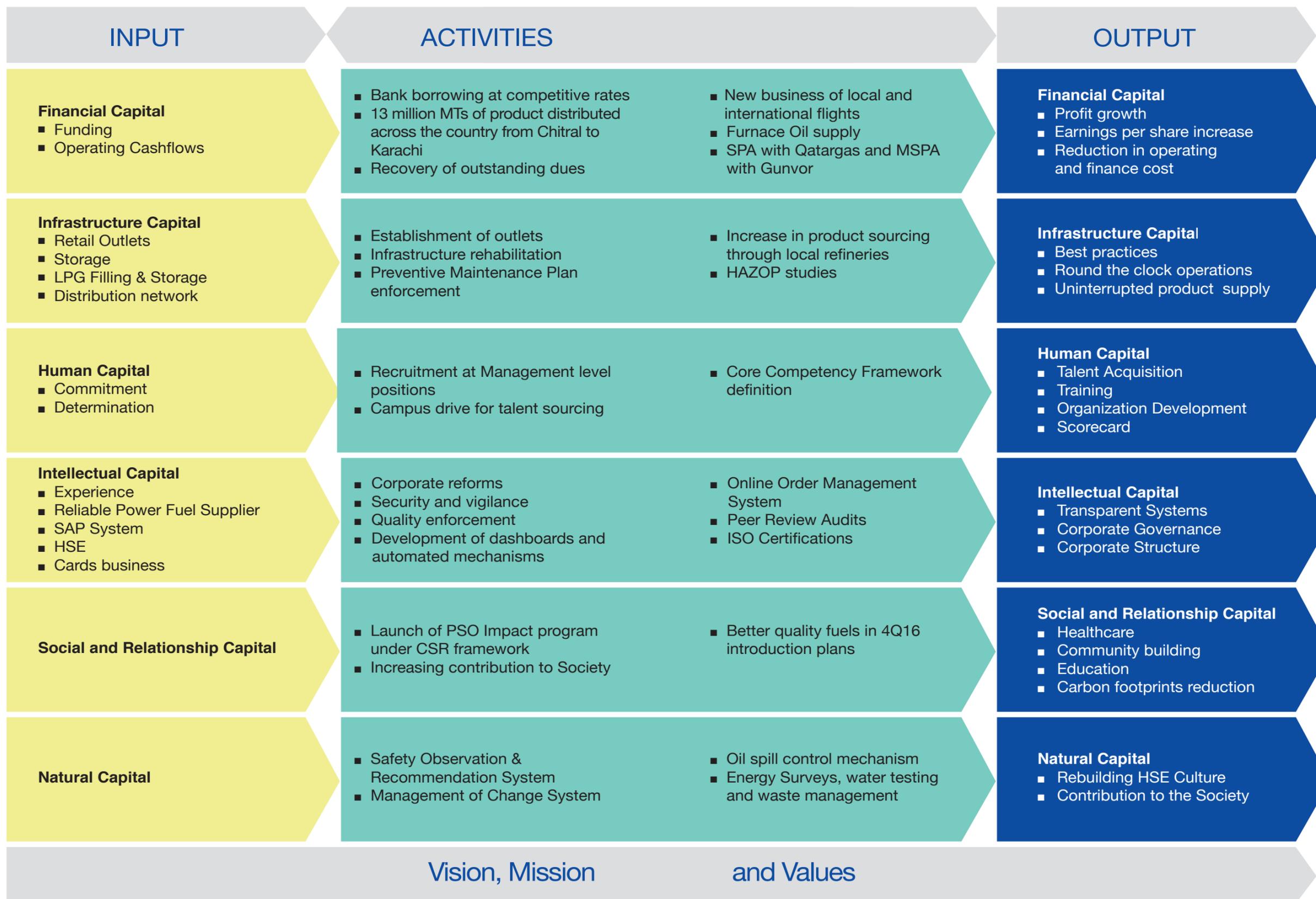
Blood Donation Drive



ROADS

At this very minute, there are motorcycles, cars, trucks and buses being refueled at our 3,565 retail outlets that make up PSO's extensive network. Our customers don't just buy fuel, they have access to value added services, adding to their PSO experience. In terms of availability and accessibility, PSO is again a market leader, acting as the lifeline for the entire transportation system of the country.

Integrated Business Model



Objective & Strategies

The Company strives to achieve excellence in its operations and business activities in an increasing competitive environment and deregulated market.

The Company pursues increasing market share in major products while maximizing profitability. It is focused on improving brand perception with its renewed, qualitative services and customer enrichment experience to make PSO the brand of choice. Simultaneously strengthen Governance, institutionalize corporate reforms and controls to ensure that transparency is being enforced. And as a responsible corporate citizen the company will continue to promote best HSE industry practices. It has initiated revamping its processes for rejuvenated business performance after inducting a new management team. Needless to state that the Company is focused on promoting an open culture, while enduring on talent development.

Management Plans

PSO is aggressively committed to retaining its leadership position while upholding values and business ethics principles in every action and decision.

PSO will maintain cohesiveness among all stakeholders through team work and recognition of contributions to business improvement and performance through a scorecard mechanism. PSO encourages continuous improvement in its products, processes and services. The review and monitoring mechanism is being strengthened for stewardship of the business performance and evaluation for improvements.



Significant Changes in Objectives and Strategies from the Previous Year

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

In a change of strategy, PSO is devising plans for an efficient and cost effective supply chain. Efforts are diverted for employee engagement business activities to have a committed organization. Development of corporate reforms for viable and enduring outcomes.

Relationship between Results and Management's Objective

The Company achieved a Profit after Tax, 48% higher than last year and a market share of 55.9% that included a growth in market share of 4% in Black Oil products and a decline of 3% in market share of White Oil products. PSO continued to retain its leadership position.

During the year, PSO reinforced its commitment to quality assurance by carrying out quality and quantity tests at numerous locations through its MQTU network. The Company reinforced HSE compliance in operations through training, inspections and audit. Moreover, it caters to continuous improvements in

business processes through technology, building corporate reforms and taking steps to strengthen human capital.

Construction, rehabilitation and upgrading of retail outlets and operation locations continued; strategic partnership initiatives commenced for Non-Fuel Retail activities and Lubricants. PSO as a responsible corporate citizen continues to fulfil its responsibilities towards internal and external stakeholders by supporting projects in health care, community building and education.