Report to Shareholders

The Board of Management of PSO is pleased to present the thirty-fourth annual report and the audited financial statements of the company for the year ended June 30, 2010. This Report presents the financial, operating and corporate responsibility performance of the company, and highlights the key business challenges faced by us during the year.

Despite several challenges, your Company continued its journey of success with earning after tax of Rs. 9.05 billion and has emerged with a more progressive and dynamic outlook.

GLOBAL & DOMESTIC OVERVIEW

The outgoing year witnessed the making of a global recovery. Leading indicators, and upgraded projections from the IMF, have so far pointed to a sharp rebound in the world economy. The latest projections from the IMF are for world output to increase by 4.2 percent in 2010, against an estimated contraction of 0.6 percent in 2009. However, as noted in the World Economic Outlook for April, the recovery is "uneven" in terms of regions and countries, and is "fragile".

A sharp spike in global commodity prices, mainly relating to food and energy, has exerted strong upward pressure on the domestic price level. Given this backdrop of global price developments, it should be of little surprise that the sharp resurgence of inflation is not restricted to Pakistan and is both a global as well as a regional phenomenon, though with varying orders of magnitude. In FY10 inflation in Pakistan was registered at 12.5%.

Despite severe challenges, the economy showed resilience in the outgoing year. Growth in Gross Domestic Product (GDP) for 2009-10, on an inflation-adjusted basis, has been recorded at a provisional 4.1%. This compares with GDP growth of 1.2% in the previous year. However, the recovery is still fragile and the stabilization needs to be consolidated so that the gains over the past two difficult years are not lost.

PETROLEUM INDUSTRY OVERVIEW

During FY10, oil prices remained relatively stable maintaining an average of $ 73.44/ bbl as compared to a sharp fluctuation in international prices in FY09 which helped maintain the POL prices in the country. In the period under review, POL consumption in the country was recorded to be 20.8 million tons, as compared to 19.2 million tons last year. The primary reason for this 8% growth has been the increased consumption of Mogas and Fuel Oil.

Consumption of Black Oil grew to 9.3 million tons - an increase of 14% over the preceding year. Black Oil demand picked up owing to supply constraints for natural gas. Reduced hydro-electric potential also contributed to rise in Fuel Oil consumption. This trend in Fuel Oil consumption is expected to continue in subsequent years.

White Oil reported a slight increase from 10.0 million tones to 10.2 million tones. During FY10 consumption of HSD decreased by 3%. During the period under review, demand for motor gasoline increased by over 27% over the preceding year mainly due to 50% increase in cars sales and 44% increase in motor cycles' sales, gas shortage in winters, one day holiday of CNG per week and extraordinary increase in use of generators due to frequent power outages.

Demand of Jet A-1 (local) registered an increase of around 9% due to increase in domestic carriers and technical landings.

During FY10, local refineries produced 7.9 million tons while the deficit requirement of around 11.3 million tons was imported.

The major chunk of demand was in FO and HSD for which 6.7 million and 3.75 million tons were imported respectively by PSO. A significant reduction in the refining capacity of different refineries was witnessed mainly due to the mounting circular debt and lower refining margins.

PSO PERFORMANCE

During FY10, PSO sold 14.2 million tons of POL products as compared to 13.2 million tons during the preceding year.

Black Oil

In Black Oil, PSO enhanced its market share appreciably from 85.8% in FY09 to 88.3%. PSO registered a ever highest sales volumes of 8.2 million MTs for Furnace Oil (FO). The surge was mainly due to increase in demand in power generation sector. PSO despite the mounting circular debt responsibly met the demands of the power sector of the country. In the period under review, the company remained committed to keep the homeland lit up .

White Oil

In White Oil, PSO reduced its market share from 59.4% in FY09 to 55.4% in FY10. Decrease in PSO's market participation in White Oil by 4% was mainly due to the overall economic downturn and circular debt.

Mogas

PSO lost 2.1% share in Mogas as compared to previous year bringing its market share in this product to around 45.9%. PSO's Mogas volumes increased by 22% whereas the industry volumes grew by 27%. This increase in volumes was reported due to increase usage of generators and more vehicles on the road.

PSO registered a ever highest sales volume of 0.89 million MTs for Mogas as compared to previous year's 0.73 million MTs.

HSD

HSD sales by PSO during the year also witnessed a downward trend along with the industry's depreciating trend. The industry showed a negative growth of 3% whereas PSO showed a negative volume growth of 10%. The reason behind this negative growth was the slow down of economic activity. As a result, the company's market participation decreased to around 56.8% from 61.1% during the preceding year.

Comparison with FY09 figures shows that during FY10, the company achieved a sales volume of 4.2 million MTs against previous year's figures of 4.7 million MTs.

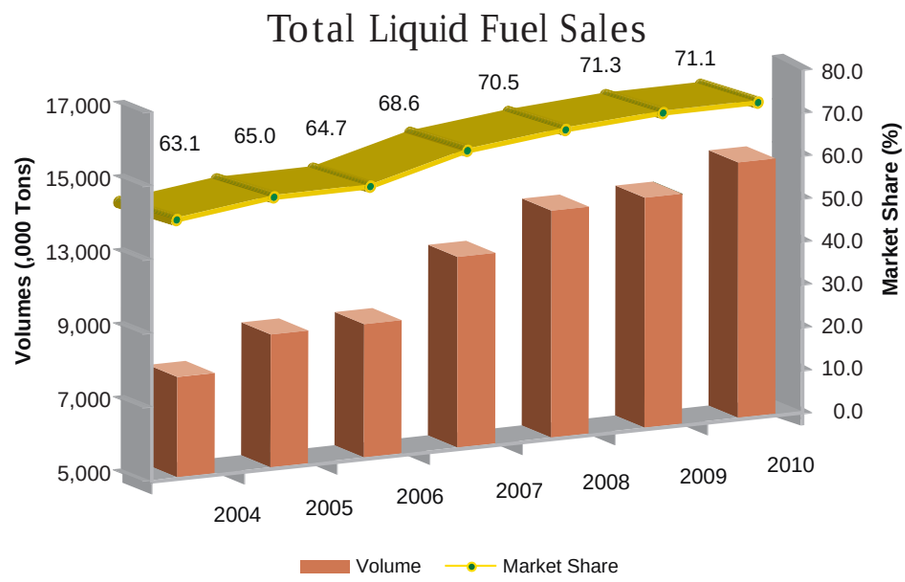
JP-1(local)

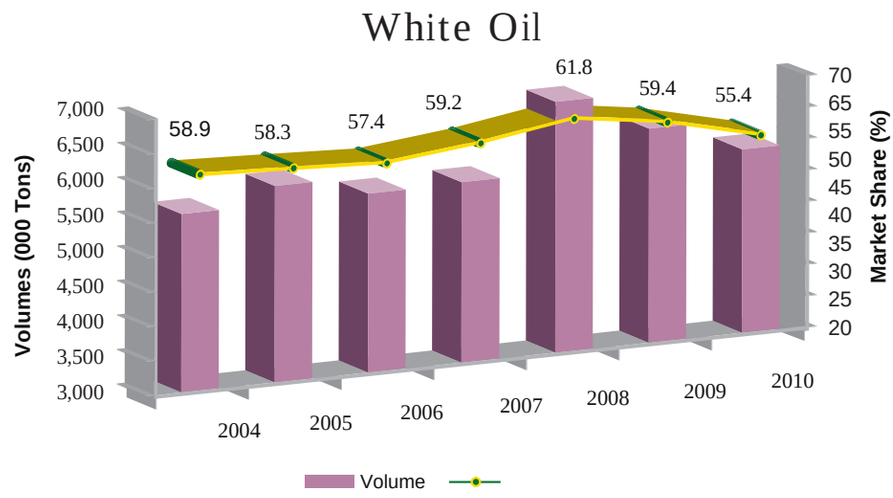
In FY10, PSO continued to provide fuel at 9 airports across the country and registered an increase of 7% in its sales volume as compared to the preceding year. The Company maintained its leadership with a market share of 65.8%.

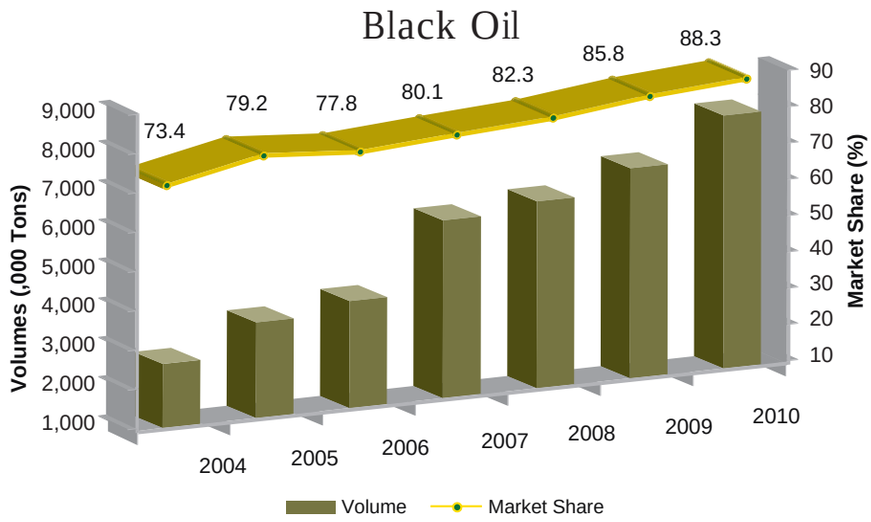
Your Company ended FY10 with an overall market share of 71.1% in liquid fuels as compared to 71.3% during FY09.

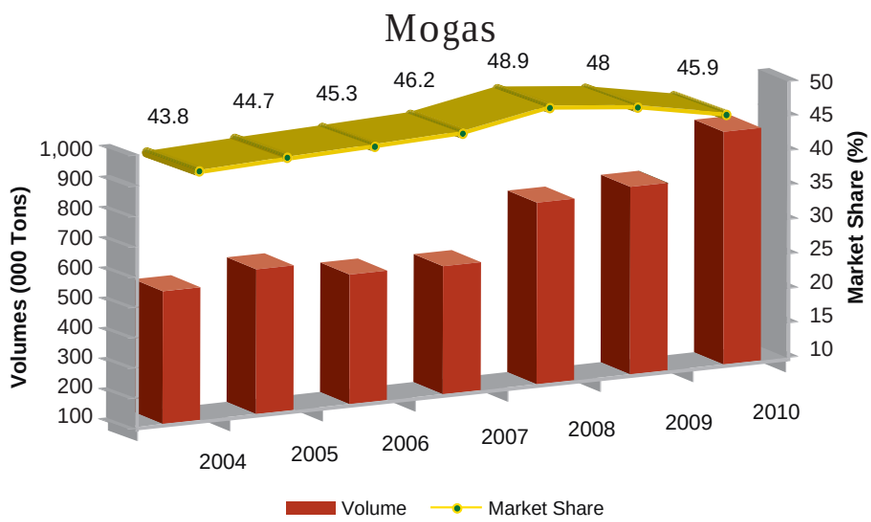
Product	Volume in '000 Tons		Market Share %	
	Jul - Jun 2010	Jul - Jun 2009	Jul - Jun 2010	Jul-Jun 2009
	White Oil			
H S D	4,219	4,675	56.8	61.1
Motor Gasoline	892	734	45.9	48.0
JP-1 (Local)	445	414	65.8	66.4
S K O	99	101	60.5	56.5
White Oil	5,655	5,924	55.4	59.4
	Black Oil			
FO	8,210	6,976	88.8	86.4
LDO	16	29	21.0	32.6
Black Oil	8,226	7,005	88.3	85.8
Total (White & Black Oil)	13,881	12,929	71.1	71.3
JP-1 (Export)	289	171	45.8	40.9

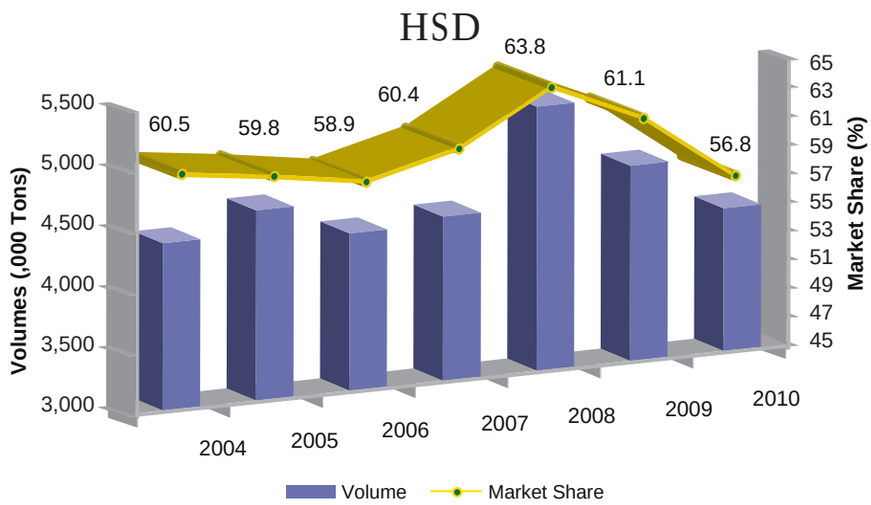
Source: OCAC






Black Oil
73.4
79.2
77.8
80.1
82.3
85.8
88.3
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
Volumes (,000 Tons)
90
80
70
60
50
40
30
20
10
Market Share (%)
2004
2005
2006
2007
2008
2009
2010
Volume
Market Share


Mogas
43.8
44.7
45.3
46.2
48.9
48
45.9
1,000
900
800
700
600
500
400
300
200
100
Volumes (000 Tons)
50
45
40
35
30
25
20
15
10
Market Share (%)
2004
2005
2006
2007
2008
2009
2010
Volume
Market Share


HSD
60.5
59.8
58.9
60.4
63.8
61.1
56.8
5,500
5,000
4,500
4,000
3,500
3,000
Volumes (,000 Tons)
65
63
61
59
57
55
53
51
49
47
45
Market Share (%)
2004
2005
2006
2007
2008
2009
2010
Volume
Market Share

Key Achievements

Supply

PSO has over 90% share in import of deficit products in the country. In FY10, more than 11 million tons of products (228 cargoes) were arranged through imports in order to meet the dynamic market demand. PSO imported more than 6.7 million tons of FO, 3.75 million tones of Diesel, 0.44 million tons of Mogas and 0.37 million tons of Jet fuel during the year to cater the surge in demand. Furthermore, 2.96 million tons were arranged from the local refineries in FY10.

Logistics

The company successfully managed to maintain an uninterrupted and timely flow of POL supplies to all retail and industrial customers despite enormous logistical challenges and constraints. In the period under review, your Company moved 9.96 million tones of POL products. New all-time high records of supplies were made, with highest-ever volume of FO 1.03 million tones moved in a month i.e. May. The demand-supply balance was maintained through well-coordinated and integrated efforts of all components of the supply chain and with support of PSO's cartage contractors and Pakistan Railways.

To enhance efficiency of oil transportation, 6 training sessions were arranged during FY10 which benefited 600 drivers and improved their professional skills.

Being fully aware of its stakeholders valuable contributions towards efficient supply chain, PSO also provides life insurance cover of Rs. 300,000 to all PSO drivers and cleaners of tank lorries. In FY10 only one accident was reported.

Operations

During FY10, your Company focused on making operational activities more economical, efficient and customer-oriented. The company faced stiff challenges in terms of highest ever POL demand and successfully managed its customers needs, specifically the huge Fuel Oil demand of the power sector. With relentless efforts by the workforce at operating locations, un-interrupted supplies were made round-the-clock to meet the customers' fuel needs to save the country from the black-outs.

In the reported period, your Company efficiently managed inventory efficiently and benefited the bottom-line by proficient handling of products at various depots/locations. Furthermore, your Company enhanced the loading facilities at Shikarpur Terminal and Keamari Terminal 'B'. In FY10, your Company increased the Fuel Oil throughput by 20% as compared to last year to meet emergent demand in Energy Sector.

In FY10, smooth operations were managed to ensure un-interrupted supplies despite the vulnerable security situation in the northern region. During the recent military excercises of "Azm-e-Nau" conducted by the Pakistan Army, full support and cooperation was extended by your Company in terms of smooth and uninterrupted fuel supply.

During the period under review non-IFEM Locations including Daulatpur, Sahiwal, Faqirabad and Kotlajam were made available for operational activities at a very short notice.

In FY10, Zulfiqarabad Oil Terminal acquired IMS certification. Furthermore, surveillance audits of ISO 9001:2000 were carried out at Keamari Terminal-A, B, ZOT, Shikarpur, Sihala, Mehmoodkot, Machike, Tarujabba, Chakpirana, Lalpir, Vehari, Faisalabad & Quetta.

During the year ended June 30, 2010, your Company reported the following operational milestones:

- Highest filling of LSFO through Tank Lorries and Tank Wagons i.e 8529.91 MTs on 01st May 2010 from Keamari Terminal 'B'.
- Highest HSFO dispatches from Zulfiqarabad Oil Terminal Complex through Pipeline, Tank Lorries and Tank Wagons i.e. 563,480 MTs in the month of April 2010.
- 13618 K.Ltrs of HSD were filled in a day i.e on 20th April, 2010 at Mehmoodkot terminal.
- Highest filling of PMG i.e 1028 K.Ltrs. was reported in a single day on 01st March, 2010 at Vehari
- Highest filling of PMG in a day at Faisalabd depot i.e. 1027 KL on 01st Jan, 2010.
- Highest ever volume i.e. 354,069 M.Ts of LSFO/HSFO/HSD were handled in a month of July 2009 at Lalpir depot.

Retail Business

Your company achieved an impressive sales volume of 0.89 million MTs of Mogas and 4.2 million MTs of HSD in FY10.

The Company successfully tested and launched E-10 Gasoline at more than 70 outlets in Sindh and Punjab provinces during FY10. E-10 is a blend of ethanol and gasoline, which consists of 10 percent ethanol dissolved in normal gasoline. This initiative is in line with the government's strategy to promote alternate energy resources. This fuel will not only help the country in reducing its import bill in coming years but is also providing motorists with an economical fuel option.

Ethanol, a byproduct of molasses through distillation, would not only be comparatively cheaper but will also enhance performance of the engine through lead removal.

Consumer Business

In FY10, your company outperformed its previous year's sales record in furnace oil registering a growth of 18% as compared to last year translating into sales of 8,221,409 MTs sales of Furnace Oil. Similarly sales targets of HSD and SKO were surpassed by 23% and 6% respectively.

Fuel Supply Agreements were signed with M/s PEPCO/GENCO (III) (for a period of 15 years) and with M/s KESC (for a period of 10 years). The agreement with GENCO (III) will secure FO volumes of 2 to 2.3 million MTs (70-73%) of total PEPCO/GENCO fuel oil requirement. In addition, the Company continued its dominating streak in winning tender business of major Govt. Entities including two Army tenders for Al Meezan with combined volumes of 7,743 MTs MOGAS, 31,357 MTs HSD and 9,201 MTs SKO. Fuel Supply Agreement was also signed with M/s Techno Power (150) MW (Rental Power Project) for period of 3 years.

In the period under review, your Company entered into Sales Purchase Agreement with M/s Chevron Pakistan Limited and M/s Bakari Oil Trading Company for the supply of POL products for a period of two years. FWO and NLC contracts for supply of black oil were extended uptil 2011.

Lubricant & Agency Trade

During the period under review, Lubricants market share has increased to 26.6% as compared to 23.3% in the last fiscal year. Your company's lubricants maintained the market leader position in the sugar industry segment with 60% share. Different trade incentive schemes were launched during the year that offered free product and discounts to channel members.Your company won the lubes tender for Pakistan Railways and Pakistan Army for supplying 3680 Kls and 462 Kls respectively.Your company also appointed distributors in Hi-Street to enhance lubricants sales.

Furthermore, lubricant sales were made of 6170 Kls to tender customers including Pakistan Army, Pakistan Railways, OGDC, NLC, FWO, Pakistan Steel Mill and DG Agriculture.

Cards

During FY10, your Company largely witnessed the consolidation, financial viability and streamlining of the overall Cards Business, focusing mainly on the potential, credit-worthy customers, generating a significant growth of 18% in terms of sales turnover as compared to the previous year. Despite the financial turmoil confronting the nation's economy, the revenue from Cards business recorded a phenomenal growth of over 134% in the current fiscal year. While in financial terms, the business reduced the overall credit exposure by 19%. Now that the Cards Business has stabilized since its inception eight years ago, a number of strategic alliances coupled with further enrichment of technology-driven initiatives, would mark the year ahead.

Gaseous Fuels

Your Company maintained its leadership position in the CNG industry too in the period under review. It has a market share of 22% in current fiscal year 2010. PSO has shown growth of 13% in FY10 against industry growth of 11% as compared to FY09.

In order to ensure "Zero incident" at PSO CNG stations, your Company arranged series of CNG Technical Training Seminars in Multan, Lahore, Karachi and Islamabad in FY10 for the Divisional Engineers and the business partners (PSO CNG operators). The core focus of these technical training sessions is the Safe operations and maintenance of CNG stations.

Moreover, in order to encourage safe use of CNG in Pakistan, your Company carried out "CNG Customer Awareness Campaign" as a step to make this industry safe for general public.

In order to attract consumers towards PSO CNG stations; CNG Customer Care Days were celebrated at PSO CNG stations in FY10.

On the LPG front, in FY10 all four PSO LPG Plants and LPG Head Office were certified on QMS ISO 9001: 2008. This certificate of ISO 9001:2008 Quality Management Systems for LPG Business is in line with the industry requirement for compliance to national and international standards. Customers will benefit from this certification by receiving products and services that are in conformance to the international standards.

Aviation & Marine

In FY10, despite the acute shortage of Jet Fuel throughout the country, your Company managed to retain its market share of 66% by delivering 442,340 MTs of Jet A-1 which is 7% more as compared to last year's volume. Your Company successfully completed the pre and post Hajj operations and registered upliftment of 15,326 MTs of Jet fuel by fueling 531 flights.

In exports business, your Company exported 292,035 MTs of JP-8, 70% more as compared to last year's volume.

Non Fuel Retail (NFR)

Tight retail fuel margins make the contribution from non-fuel products and services crucial to retail site profitability due to stiff competition in the fuel business; PSO NFR has taken long term steps to facilitate the customers by providing convenience and services at our Retail outlets which distinguishes them from the competitors.

Your Company and Wall Street Exchange Company (WSE) have entered into an agreement whereby WSE will be establishing payment booths at selected PSO retail outlets located throughout Pakistan. Through this venture, both PSO & Wall Street will facilitate disbursement of Home Remittances to a large population through PSO retail outlets.

In FY-10, your Company has established an exclusive merchandising alliance with Pepsi Cola International for PSO Shop Stops. This is in congruence with the Company's strategy to garner royalties from prominent brands being displayed in PSO Shop Stops. Under this arrangement, PSO and Pepsi will launch promotions for the end consumers as well as trade schemes for PSO Shop Stop franchises.

New Business Development

In pursuance of directives of the President of Pakistan for the popularization of biofuel crops in the farming community, your Company submitted a detailed report to the relevant Government agencies in the review period.

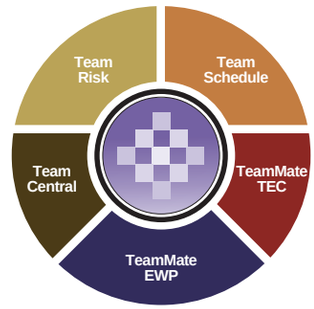
The Company signed MOU with NUST and Ghulam Ishaq Khan university for research work on biodiesel impact on diesel engines' performance.

MOU with KPT was signed and Terms of Reference were finalized during the period under review for conducting feasibility study to connect Keamari Port with Port Qasim through a pipeline.

In FY10, your Company completed study for optimization of current infrastructure at Port Qasim. This would enable enhancement of imported petroleum products handling capacities of FOTCO Jetty and PSO pipeline infrastructure.

In addition to the above, your Company made significant advancement in looking into the possibility of using used vegetable oil in blending of Bio Diesel.

Internal Audit



In FY10, Internal Audit Department at PSO took an initiative and embarked upon the project of implementing an award-winning Audit Management System – CCH TeamMate already being used by more then 1800 organizations worldwide. CCH TeamMate streamlines and integrates every facet of the internal audit process system. From risk assessment to scheduling to report generation and more. It also facilitates the key stakeholders/auditees to provide updates on the audit observation through web integration. By providing an integrating, paperless strategy for managing audits, TeamMate will eliminate the barriers associated with paper-filled binders and disconnected electronic files, driving efficiencies into all facets of the internal audit workflow.

Procurement & Services (P&S)

PSO has a comprehensive Procurement Policy that provides guidelines to ensure competitive bidding through a very transparent procedure without compromising on quality of required goods and given timeline.

In quest of professional excellence, P&S Department is striving for continual improvement in the procurement processes to cope with the present challenging environment where strategic procurement is as important as strategic selling.

In quest of strengthening the vendor base, during FY10, your Company completed pre-qualification of vendors for 30 categories. Furthermore to improve the purchasing process, negotiation teams were formulated which played an integral role in achieving win-win situation for the buyer and the vendors.

Through negotiations, your Company has not only realized cost effectiveness but also acquired benefits in buying terms as well which include warranties, spare parts and other terms. In FY10 your Company continuously checked the authenticity of prices or various materials and services given in purchase requisitions by the vendors through regular market visits.

Total Quality Management (TQM)

In its pursuit to bring significant operating efficiencies and achieve the highest level of customer satisfaction, the company has been focusing on TQM. In the period under review, your Company established Mobile Quality Testing Units (MQTUs) for Quetta division for effective monitoring of product quality and quantity at Retail Outlets. In FY10, MQTUs were equipped with ASTM Color & RON Analyzers at 05 locations resulting in improvement of the testing capabilities. Furthermore; a new method was developed in the period under review to detect the alcoholic contents in Motor Gasoline at Retail Outlets and Storage Points.

In FY10, your Company's TQM department developed several new lubricant blends. Moreover, Bio-Diesel Formulation and Furnace Oil blending was carried out. The new formulation for LDO blend was also developed in FY10.

Human Resource Management

PSO is fully aware of the fact that its significant growth and success is an outcome of the contributions and commitment of the company's greatest asset which is its human resource. The attraction, preservation and development of high caliber people are a source of competitive advantage for the business and your company is fully focused on this important aspect.

In FY10 your Company revised car loan and house rent advance policy to facilitate its employees. Furthermore a day care center was established to create work-life balance for employees.This initiative played a significant role in contributing to the retention of female employees.

Training & Development

Being fully aware of the importance of training, PSO has been making a sizeable investment in ensuring that employees' skills are developed to bring them at par with the organization's professional requirements and enhance their personal capabilities.The management is focusing on capacity building of the human asset of your Company. Through various in-house and external courses and seminars, PSO is providing its employees opportunities for continuous development and learning.

A proper Training Need Analysis was conducted in FY10. During the period under review 113 in-house customized training sessions were conducted and employees were nominated to attend 85 public sessions as part of the training schedule of the Company which benefitted 2,691 employees, nationwide. These trainings focused on marketing and sales, teamwork, general management, leadership , communication , quality management, supply chain management, quality and quantity control of cargo & tank systems, customized training for sales, operations and logistics staff.

The Company has been facilitating Universities by providing learning based professional internship programs during summer and winter vacations by giving them projects for professional experience. During FY10, 400 students joined PSO as interns.

Health Safety & Environment

Your Company has always considered safety as investment. At PSO, safety is considered as a prime concern and given due priority. We believe that all accidents/ incidents are preventable and our first aim is excellence in HSE standards in all PSO businesses.

Reportable injuries and incidents analysis reflect the performance of an organization with respect to work place safety during the reported period. The under mentioned results indicate your Company's performance in safety:

- The Company achieved 1,179,316 Safe Operational Man-hours during FY10 without any Lost Work Day (LWD) injury.
- The Incident Rate remains at 1.01 Man-hours during this period.

  Furthermore, HSE Champion program in FY-10 was launched to create a culture of safety at work place.

Corporate Social Responsibility

During FY10, the company extended help to society in three major areas i.e. education, health care and community building.

Being a conscientious corporate citizen, the company came to the aid of our compatriots hit by the deluge in Hunza by providing free life saving medicines to the Attaabad Landslide victims.

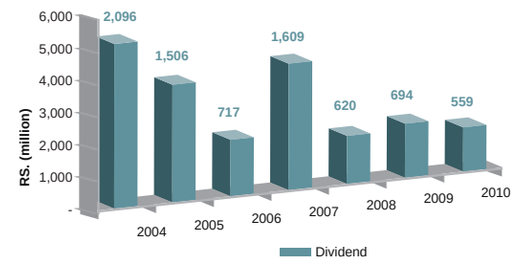
During FY10 the company financially supported several NGOs to enable education to reach to the under privileged, nationwide. With the help of TCF, PSO built schools in earthquake affected areas i.e Nokot, Gulibagh Batang and Vehari. PSO also supported Aziz Jahan Begum trust in the construction of a residential complex for visually impaired children.

In FY10 the company supported many health care institutions through donations, prominent among which are Negahban Welfare Trust (Civil Hospital, Karachi), Kohi Goth Hospital, Indus Hospital, Shikarpur Hospital for Women & Children and Marie Adelaide Leprosy Center in Gawadar.

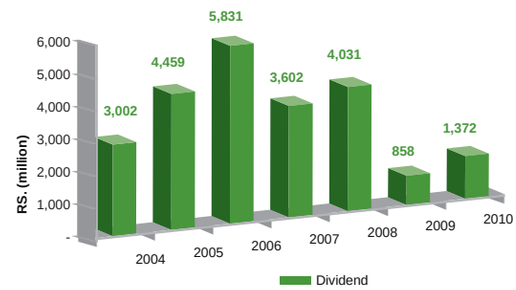
FINANCIAL PERFORMANCE

For the year ended June 30, 2010, the Company achieved an impressive performance with turnover touching the Rs. 877 billion mark compared to Rs. 719 billion in FY09, an increase of 22% mainly due to heavy reliance of the power sector on PSO for the supply of Furnace Oil. During FY10, profit before tax was recorded at Rs. 17.96 billion versus a loss of Rs. 11.35 billion last year and profit after tax at Rs. 9.05 billion against a loss Rs. 6.69 billion registered in previous financial year. The earning per share was Rs. 52.76 versus loss per share of Rs. 39.05 last year.

Capital Expenditure



Dividend Payout



Dividends and Other Appropriations

Based on these results, the board announced a dividend of Rs. 5 per share. Combined with the earlier interim dividends aggregating Rs. 3 per share, the total dividend for the year stood at Rs. 8 per share translating into a total payout of Rs. 1.37 billion to the shareholders.

Contribution to National Exchequer

During FY10, PSO contributed Rs.175 billion to the government exchequer in the form of corporate taxes, excise duty, sales tax, import duty and petroleum development levy (PDL).

Circular Debt

Despite being profitable, the Company continued to face liquidity problems due to ever-increasing receivables throughout FY2010. As of June 30, 2010, various major power generation companies including WAPDA, KAPCO, HUBCO and KESC and the PIA (Pakistan International Airlines) owe your Company an aggregate amount of Rs. 111 billion. On account of PDC, GoP owes Rs. 11.86 billion. This has created such an acute financial crunch that we have to struggle to meet our import payments. Consequently, the Company owed Rs. 81 billion to local refineries and hence had to rely on short-term borrowings for its needs.

Financial Charges

The heavy bank barrowings resulted in high financial costs borne by the Company in terms of interest payments, which dented your Companyís profit margins. The Company ended up incurring Rs 9.88 billion as financial charges during FY10 as compared to Rs. 6.2 billion as financial charges in FY09.

Pak Rupee Devaluation

In addition to heavy financial charges borne by your Company, Pakistan Rupee devaluation of 4.9% against the US$ also adversely affected the profitability of the Company as more than 90% of oil product imports in the country are carried out by PSO.

Strategy to Overcome Liquidity Problems

The management of PSO has formulated various strategies to overcome the liquidity problems. These include rigorous monitoring of the net working capital position of the Company to ensure that current asset - current liability maturities are adequately matched with temporary mismatches being covered through short-term borrowings. In addition, all out recovery efforts were made throughout FY10 to ensure availability of products in the country. As a result of these measures, the Company received Rs. 377 billion from the power sector and Rs 5.5 billion on account of PDC from GoP.

Other Matters

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

- Note 12.2 - Over due balance of Rs 22,676 million from power generation companies.
- Note 15.1 - Import price differential aggregating to Rs 1,465 million receivable from GoP.
- Note 15.2 - Import price differential on motor gasoline aggregating to Rs 3,049 million receivable from GoP.
- Note 15.5 - Price differential between the products Low Sulphur Furnace Oil (LSFO) and High Sulphur Furnace Oil (HSFO) aggregating Rs 3,407 million receivable from GoP.
- Note 25.1.2 - Appeal filed in Supreme Court of Pakistan against the order of the High Court of Sindh with respect to tax liability of Rs 958 million in respect of Assessment years 1996-97 and 1997-98.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

PSO Board of Management is fully cognizant of its responsibility as recognized by the Code of Corporate Governance issued by the Securities & Exchange Commission of Pakistan (SECP). The following are the comments on acknowledgement of PSO's commitment towards high standards of Corporate Governance and continuous improvement:

- The financial statements, prepared by the management of the company, present fairly its state of affairs, the result of its operations, cash flows 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 changes as described in note 2.5 of the financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure, if any, has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the company's ability to continue as a going concern.

- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data of last six years in summarized form is annexed.
- The following is the value of investment of provident and pension funds based on their respective unaudited accounts as on 30 June 2010:

	Rs Million
PSOCL Management Employees' Pension Fund	1,571
PSOCL Workers' Staff Pension Fund	966
State Oil Co Ltd Staff Provident Fund	1,100
State Oil Co Ltd Employees' Provident Fund	750
PSOCL Employees' Gratuity Fund	793

- During the year, 8 meetings of the Board of Management were held and the attendance by each member is given on Page 122.
- The pattern of shareholding is annexed.

ASSOCIATED COMPANIES

Asia Petroleum Limited (APL)

APL was incorporated in Pakistan as an unlisted public limited company on July 17, 1994. The Company has been principally established to transport Residual Fuel Oil (RFO) to the Hub Power Company Limited (HUBCO) at Hub, Balochistan. For this purpose, the Company laid an underground oil pipeline starting from Pakistan State Oil Company Limited (PSO) Zulfiqarabad terminal at Pipri to HUBCO at Hub. PSO holds a 49% equity stake in APL.

Pak Grease Manufacturing Company (Private) Limited (PGMCL)

PGMCL was incorporated in Pakistan on March 10, 1965 as a private company. The principal activity of the Company is to manufacture and sell petroleum grease products. PSO holds a 22% equity stake in PGMCL.

OUTLOOK AND CHALLENGES

Since its inception, Pakistan has always been an energy deficit country. Your Company has been meeting energy challenges for Pakistan despite the limited domestic refining capacity resulting in import of crude and refined products. It is expected that future energy demand in the country will continue to grow owing to expected natural gas constraints specifically for power generation sector.

Your Company is geared to continue to ensure product availability to all sectors of the economy. Your Company will continue to import the deficit products in a cost effective and timely manner. Additionally, your Company plans to acquire a refinery as part of its backward integration strategy to develop a confirmed supply source and reduce reliance on imports.

The Circular debt crisis held your Company back in FY10 and it had to shelve its plans for its brand repositioning, capacity-building, enhancement of the storage network and the improvement of its customer care services. Moreover, other investment and expansion projects have been withheld due to mounting circular debt. In the current fiscal year, PSO shall focus on improving service at its retail outlets and promoting the environment-friendly ethanol based gasoline i.e. E-10. By the end of 2010, your Company plans to have E-10 available at 100 outlets across the country.

Your Company shall continue to embark upon various initiatives aiming at sustainable earnings by focusing on Non Fuel Retail business and establishing LPG auto gas filling facilities.

Furthermore, the Company plans to augment its storage infrastructure to meet the future oil demand. We have already chalked out a development / up gradation plan for key storages in line with future Furnace Oil demand for IPPs.

Your Company is also working on a scoping study to connect Keamari with Port Qasim through a white oil pipeline. It is expected that efficiency and flexibility shall be increased manifold if these two ports are connected to each other through an integrated pipeline system.

IFEM deregulation awaits implementation, and if so implemented would certainly change the market dynamics. Your Company is expected to benefit from this deregulation with the largest distribution network in the country. This would result in empowering your Company to set market prices and increase its market share in the southern Region/ Sindh. However, Punjab would continue to remain a competitive region.

Your Company is fully aware of its struggling lubricant performance and is about to relaunch an improved range of the Carient and Deo Lubricants range. In the current fiscal year, the Company intends to focus strongly on its lubricants brand equity with aggressive marketing efforts supported by print and electronic media and other below the line activities to enhance the brand experience.

Your Company will also continue to maintain its focus on its cards business so as to lock-in corporate and fleet customers. PSO believes that the future growth lies in innovation, highest level of customer service and diversification into new business areas.

Being fully aware of the global trend in development of alternative and renewable energy resources, the Company has already initiated research and development work on bio-diesel and tests are in advance stages to blend it with conventional diesel.

The management of your Company shall remain committed to bring transparency to the organisation which remains a big challenge for the state-run institutions.

Your Company shall continue to invest on human capital, capacity building, training programs, skill development, succession planning as well as health, safety and environment.

We would like to take advantage of this opportunity to thank our business partners and those who continue to steer the Company forward with their support and conviction. We owe a special gratitude to the Government of Pakistan, especially the Ministry of Petroleum & Natural Resources and the Ministry of Finance, for their unwavering support throughout the fiscal year. As we continue our journey towards achieving bigger and better milestones, we look forward to another year of accomplishment and to creating more value for you, our shareholders, whilst working to meet and exceed the country's growing demand for energy.

Irfan K. Qureshi	Nazim F. Haji
Managing Director	Chairman

August 6, 2010

Notice of Annual General Meeting

Notice is hereby given that the Thirty Fourth Annual General Meeting of the Company will be held at Pearl Continental Hotel, "Marquee Hall", Club Road, Karachi on Wednesday, September 29, 2010 at 10.00 a.m. to transact the following business:

Ordinary Business

1. To confirm the minutes of the Thirty Third Annual General Meeting held on September 29, 2009
2. To receive and adopt the audited accounts for the year ended June 30, 2010 together with the Report to the Shareholders and Auditors' Report thereon
3. To lay information before the members of the Company of the appointment of M/s M.Yousuf Adil Saleem & Co. and KPMG Taseer Hadi & Co., Chartered Accountants, as auditors of the Company, for the year ending June 30, 2011
4. To approve final cash dividend for the financial year ended June 30, 2010, at the rate of Rs. 5/- per share, equivalent to 50%.This is in addition to already paid interim dividend at Rs. 3/- per share i.e 30%

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

By Order of the Board
Mir Shahzad K.Talpur
Company Secretary
Karachi: August 23, 2010

Notes:

a. A member entitled to attend and vote at this meeting may appoint any other member as his/her proxy to attend and vote.

b. The Share Transfer books of the company will remain closed from 22nd September 2010 to 29th September 2010 (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 21st September 2010 , will be considered in time for transfers.

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 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) 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.

Brightening the Future!

Being the sole furnace oil supplier to the power sector of Pakistan, PSO is dedicated to keep the country lit up.

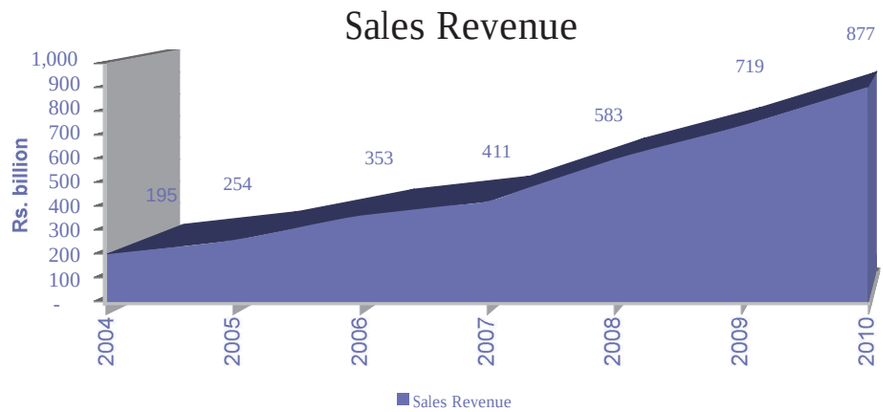
Energizing the Nation

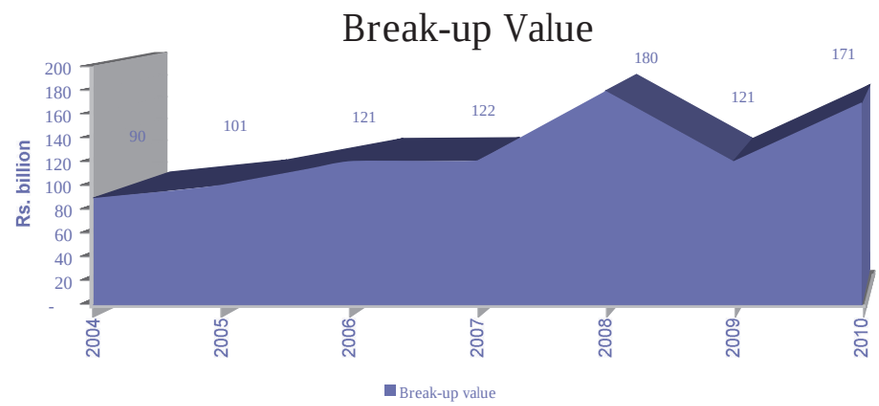
PSO at a Glance

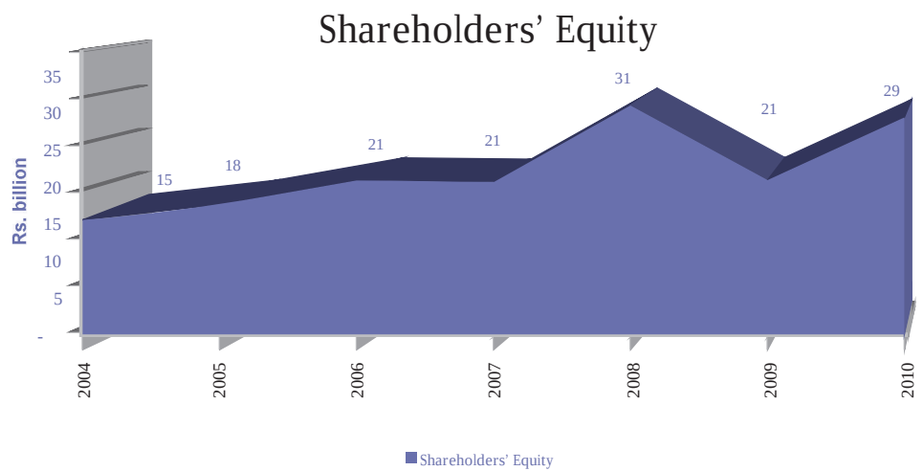
Rupees in Million (unless noted)

		2010	2009	2008	2007	2006	2005	2004
Sales Volume (Million Tons)		14.2	13.2	13.0	11.8	9.8	9.7	8.6
Profit & Loss Account								
Sales Revenue		877,173	719,282	583,214	411,058	352,515	253,777	195,130
Net Revenue		742,758	612,696	495,279	349,706	298,250	212,504	161,538
Gross Profit		29,166	3,010	30,024	12,259	17,207	13,746	9,191
Operating Profit / (Loss)		27,329	(5,577)	22,451	7,950	11,264	9,340	6,452
Marketing & Administrative Expenses		5,181	5,113	4,425	3,748	3,428	3,219	2,654
Profit / (Loss) before Tax		17,963	(11,357)	21,377	7,122	11,418	9,191	6,263
Profit / (Loss) after Tax		9,050	(6,699)	14,054	4,690	7,525	5,656	4,212
Earning / (Loss) before Interest, taxes, depreciation & Amortization (EBITDA)		29,028	(3,983)	23,912	9,420	13,385	10,546	7,243
Capex		559	694	620	1,609	751	1,506	2,096
Balance Sheet								
Share Capital		1,715	1,715	1,715	1,715	1,715	1,715	1,715
Reserves		27,621	19,156	29,250	19,224	19,098	15,830	13,731
Shareholders' Equity		29,336	20,871	30,965	20,939	20,813	17,545	15,446
Property Plant & Equipment		6,411	7,056	7,567	8,138	7,674	8,256	7,738
Net current assets		23,298	8,666	22,143	11,128	10,978	7,970	6,309
Long Term Liabilities		2,836	2,528	2,409	2,412	2,299	1,999	1,636
Profitabiltiy Ratios								
Gross Profit ratio	%	3.3	0.42	5.1	3.00	4.9	5.4	4.7
Net Profit / ratio	%	1.0	(0.93)	2.4	1.1	2.1	2.2	2.2
EBITDA margin	%	3.31	(0.55)	4.1	2.3	3.8	4.2	3.7
Return on Shareholders' Equity	%	30.8	(32.10)	45.4	22.4	36.2	32.2	27.3
Return on total assets	%	4.5	(4.37)	11.1	6.30	10.7	10.8	9.9
Return on capital employed	%	31.1	15.47	68.1	35.4	54.1	48.9	40.8
Asset utilisation								
Inventory turnover ratio	(x)	14.37	11.83	10.1	11.7	11.5	11.2	13.1
Debtor turnover ratio	(x)	8.9	12.57	24.6	32.5	38.1	39.9	40.1
Creditor turnover ratio	(x)	6.1	6.32	9.6	10.8	12.5	13.5	12.2
Total asset turnover ratio	(x)	4.93	5.13	5.8	5.7	5.8	5.37	5.2
Fixed asset turnover ratio	(x)	130.3	98.38	74.3	52.0	44.3	31.7	27.5
Investment								
Earning per share	Rs.	52.76	(39.05)	81.9	27.3	43.9	33.0	24.6
Market value per share (Year End)	Rs.	260.20	213.65	417.2	391.5	309.0	386.0	256.8
Highest Price	Rs.	342.95	428.79	539.7	418.3	452.3	490.1	316.6
Lowest Price	Rs.	218.33	96.00	317.5	280.5	264.7	239.0	232.8
Break-up value	Rs.	171	121.34	180.0	121.7	121.0	102.0	90.0
Price earning ratio (P/E)	(x)	4.9	(5.47)	5.1	14.3	7.0	11.6	10.4
Dividend per share	Rs.	8.0	5.0	23.5	21.0	34.0	26.0	17.5
Dividend payout	%	15.16	-	28.7	76.8	77.5	78.8	71.3
Dividend yield	%	3.07	2.34	5.6	5.4	11.0	6.7	6.8
Dividend cover ratio	(x)	6.58	-	3.5	1.3	1.3	1.3	1.4
Leverage								
Interest Cover ratio	(x)	2.8	-	16.4	6.9	12.7	25.2	34.1
Current Ratio	(x)	1.14	1.07	1.2	1.2	1.2	1.2	1.3
Quick Ratio	(x)	0.79	0.75	0.6	0.6	0.6	0.6	0.7
Contribution								
Employees as remuneration		3,200	2,872	2,438	2,006	1,857	1,870	1,474
Government as taxes		174,795	161,388	85,208	68,096	58,822	38,823	50,942
Shareholders as dividends		1,372	858	4,031	3,602	5,831	4,459	3,002
Retained within the business		7,678	-	10,000	1,100	1,900	1,230	1,210
Financial charges to providers of finance		9,882	6,232	1,368	1,158	884	371	189

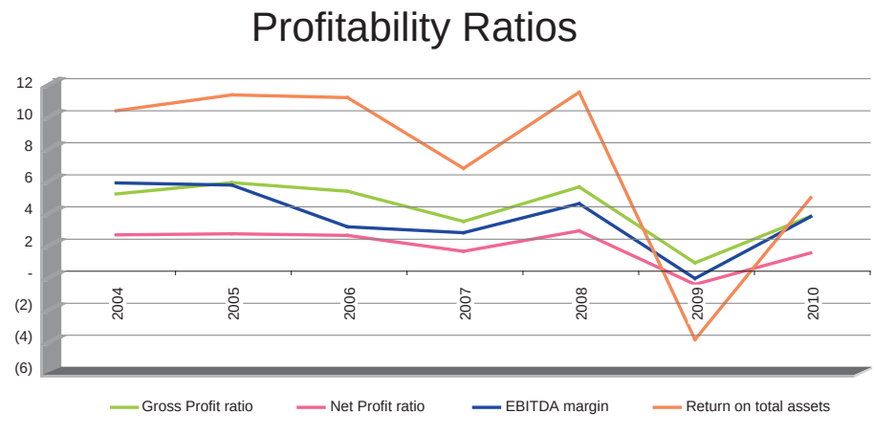
PSO at a Glance

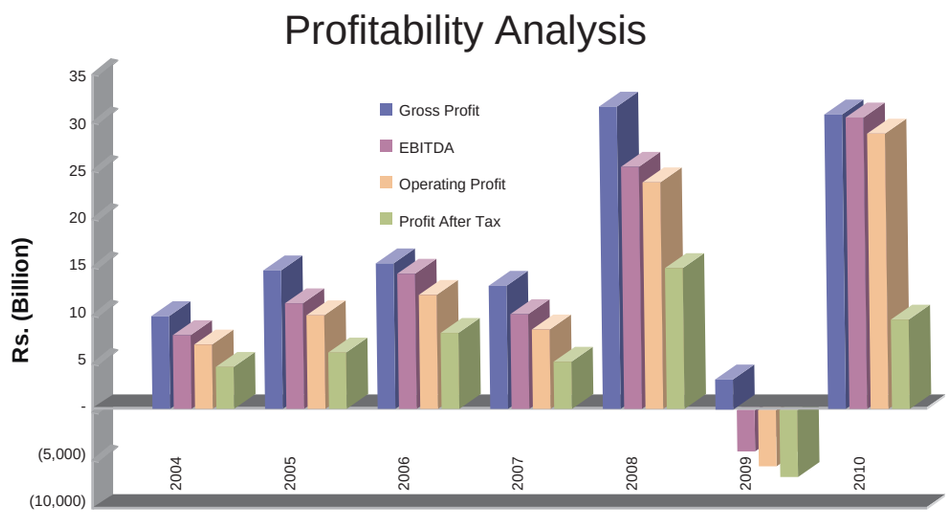


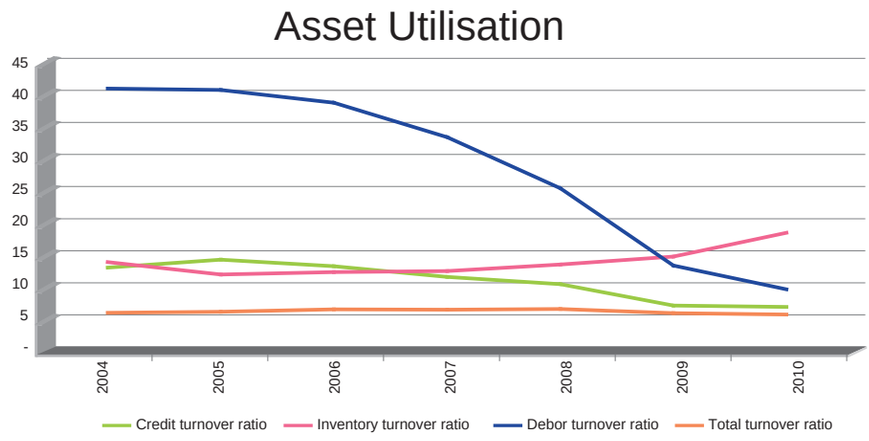




PSO at a Glance



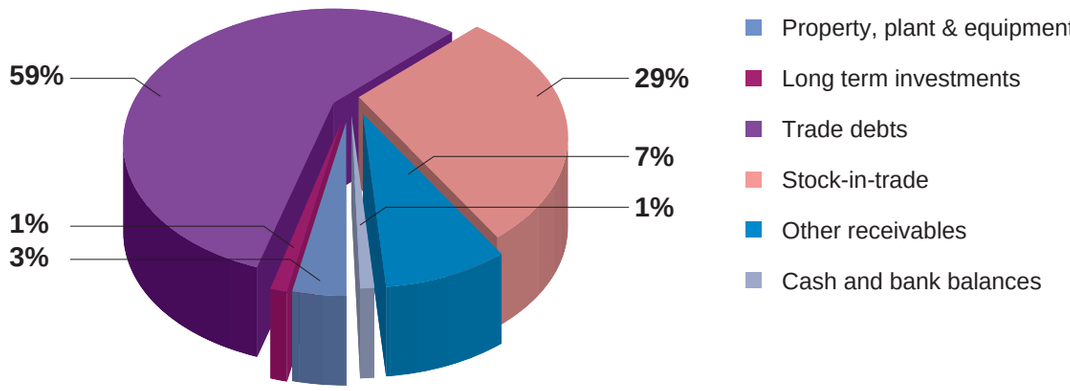




Composition of Balance Sheet

Assets

FY 2010



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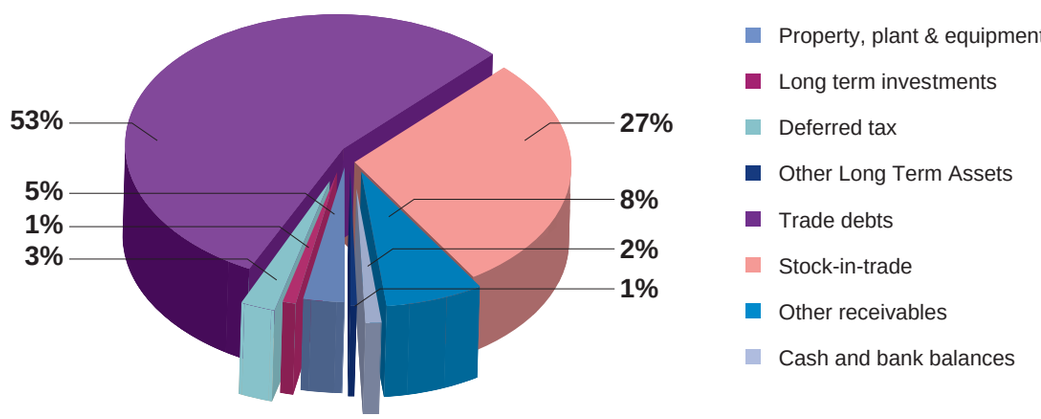
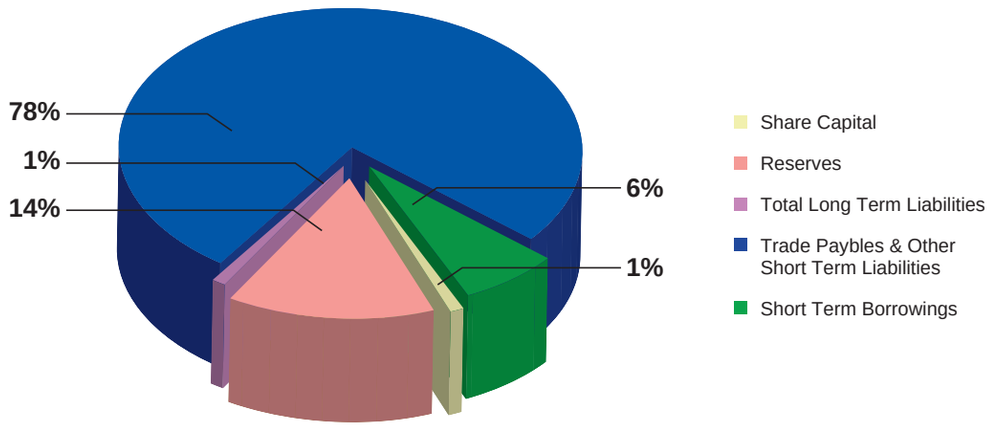


Composition of Balance Sheet

Equity And Liabilities

FY2010



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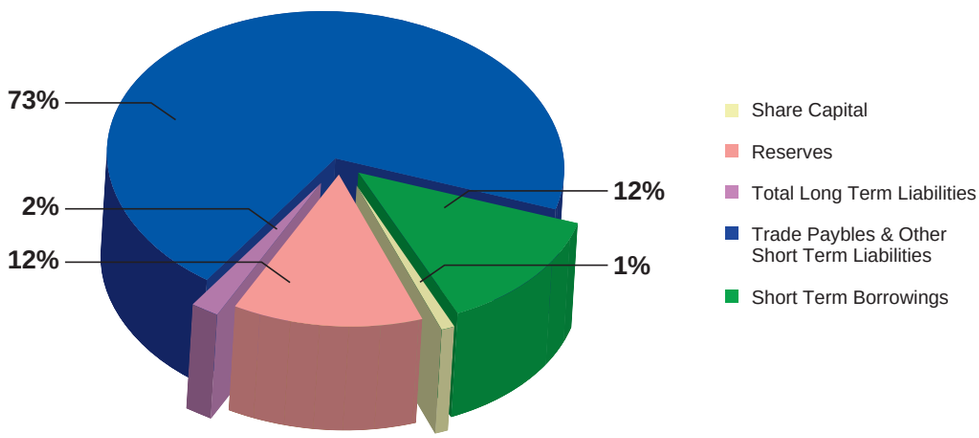
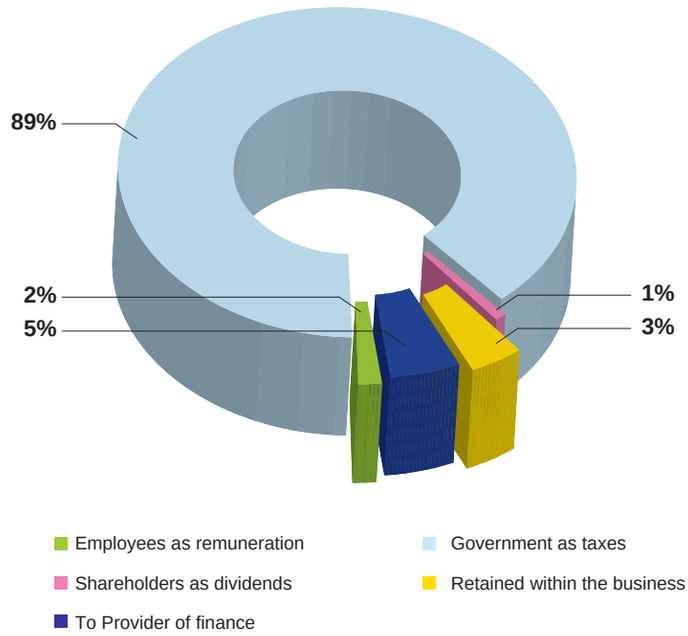


Contribution & Value Additions

FY 2010



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