

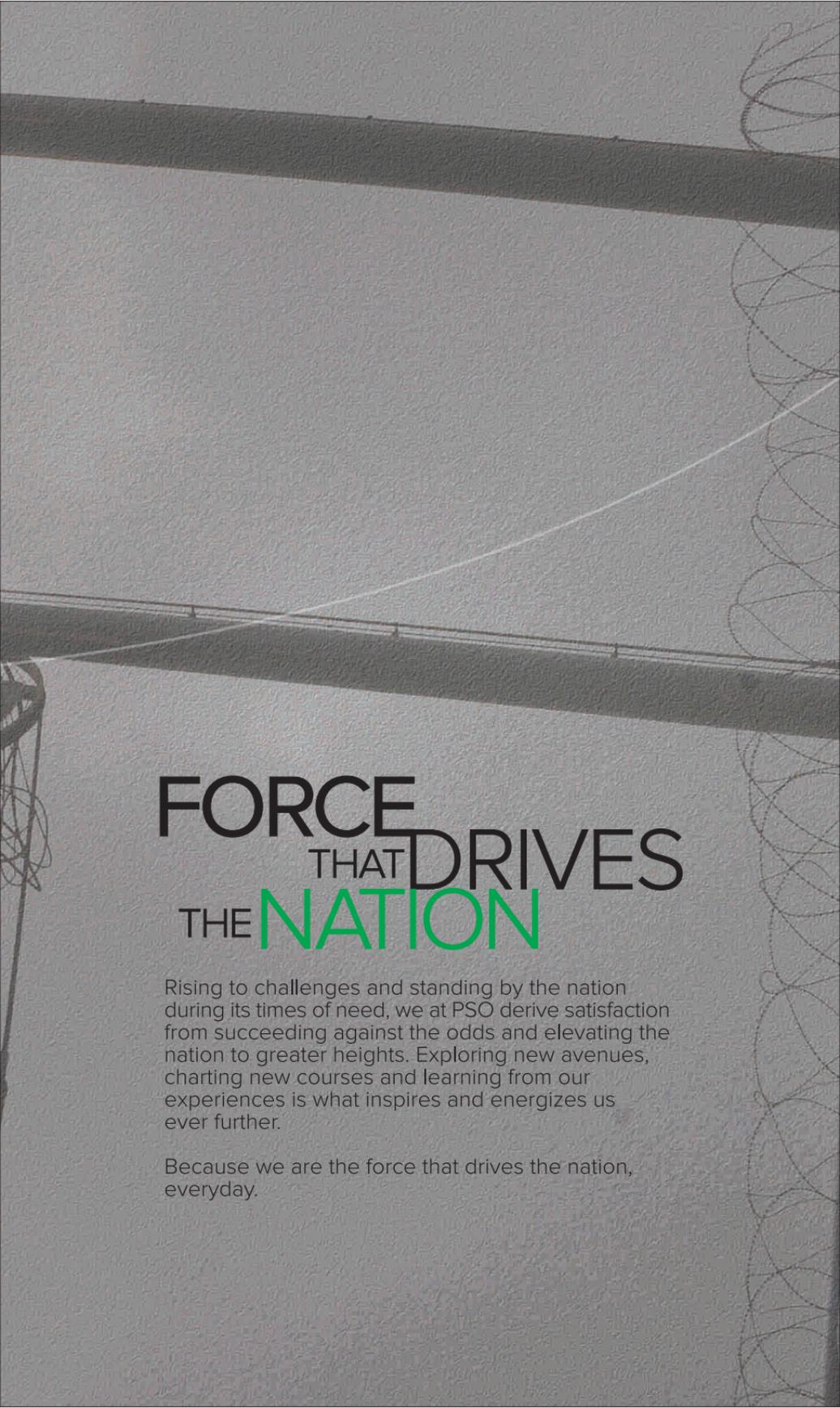
# FORCE THAT DRIVES THE NATION

REPORT FOR THE SIX MONTHS  
ENDED DECEMBER 31, 2012



*Pakistan State Oil*





# FORCE THAT DRIVES THE NATION

Rising to challenges and standing by the nation during its times of need, we at PSO derive satisfaction from succeeding against the odds and elevating the nation to greater heights. Exploring new avenues, charting new courses and learning from our experiences is what inspires and energizes us ever further.

Because we are the force that drives the nation, everyday.



Pakistan State Oil

# COMPANY INFORMATION

## BORD OF MANAGEMENT

Mr. Sohail Wajahat H. Siddiqui  
**CHAIRMAN**

Mr. Naeem Yahya Mir  
**CEO & MD**

Mr. Muhammad Azam  
**MEMBER**

Dr. Mirza Ikhtiar Baig  
**MEMBER**

Mr. Wazir Ali Khoja  
**MEMBER**

Mr. Ahsan Bashir  
**MEMBER**

Mr. Sarfraz Bugti  
**MEMBER**

Mr. Malik Naseem Hussain Lawbar  
**MEMBER**

## COMPANY SECRETARY

Mr. Faisal Khalil Ahmad

## AUDITORS

KPMG Taseer Hadi & Co.  
Chartered Accountants

M. Yousuf Adil Saleem & Co.  
Chartered Accountants

## SOLICITORS

Orr Dignam & Co

## REGISTRAR OFFICE

THK Associates (Pvt.) Ltd.  
Ground Floor, State Life Building  
No. 3 Dr. Ziauddin Ahmed Road,  
Karachi.  
Phone: 021-35689021  
Fax: 021-35655595

## 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  
The HSBC Bank Middle East Limited  
United Bank Limited

## REGISTERED OFFICE

Pakistan State Oil Company Limited  
PSO House  
Khayaban-e-Iqbal, Clifton,  
Karachi - 75600, Pakistan.  
UAN: (92-21) 111-111-PSO (776)  
Fax: (92-21) 9920-7659  
Ta'aluq Careline: 0800-03000  
E-mail: taaluq@psopk.com

# Independent Auditors' Report to the Members on Review of Condensed Interim Financial Information

## INTRODUCTION

We have reviewed the accompanying condensed interim balance sheet of Pakistan State Oil Company Limited (the Company) as at December 31, 2012 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim statement of changes in equity together with the notes forming part thereof for the six-months period then ended (here-in-after referred as the interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures for the quarter ended December 31, 2012 in the interim financial information have not been reviewed and we do not express a conclusion on them.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

## EMPHASIS OF MATTER

We draw attention to:

- 1 Notes 10.2, 10.3 and 11 to the interim financial information. The Company considers the overdue amount of Rs. 20,409 million (net of subsequent recoveries of Rs. 14,836 million) and Rs. 9,572 million due from certain power generation and distribution companies and the Government of Pakistan respectively as good debts for reasons given in the notes;
- 1 Note 16.1.1 to the interim financial information regarding non-accrual of mark-up on delayed payments for reasons given in the aforementioned note; and
- 1 Note 16.1.2 to the interim financial information regarding tax implication of Rs. 958 million on the Company for the assessment years 1996-97 and 1997-98 for which the case is pending in the Supreme Court of Pakistan.

Our conclusion is not qualified in respect of the above mentioned matters.

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Amyr Pirani

M. Yousuf Adil Saleem & Co.  
Chartered Accountants  
Nadeem Yousuf Adil

Date: February 21, 2013  
Place: Karachi

# REPORT TO SHAREHOLDERS



The Board of Management of Pakistan State Oil Company Limited (PSOCL) has reviewed the performance of the Company for the first half of financial year 2012-13 (1HFY13) and is pleased to present its report thereon.

During the period under review, your Company's revenues touched Rs 630 billion as compared to Rs 576 billion in the corresponding period last year, representing a growth of 9.4%. After tax earnings also increased to Rs. 6.3 billion in 1HFY13 in comparison to Rs. 4.6 billion in FY12. The bottom line of the Company improved mainly due to increase in margins of High Speed Diesel, Gasoline and Furnace Oil. The pace of devaluation in the period under review was 3% approx as compared to 4.5% same period last year which resulted in reduced exchange loss in the six months period. However, circular debt continued to put pressure on liquidity which increased the burden of financial cost by 12%.

During the 1st half of FY13, industry's volumes for Black Oil decreased by 5%, whereas, White Oil grew by 2% reflecting an increase in PMG consumption of 14% while a decline of 2% was recorded in HSD demand. In the period under review, PSO continued its domination of the market with its share in the Black Oil and White Oil segments standing at 74.7% and 56.5% respectively, thereby contributing to an overall market share of 64.6%.

The Board, while appreciating the efforts of the Company management's on behalf of the shareholders, expressed rising concern over the balance of receivables, including price differential claims, which stood at over Rs 139 billion as at December 31, 2012. The financial costs which being borne due to these receivables continued to impact and depress Company's profitability. Stringent efforts continue to be made by your management for recovery of receivables from the power sector entities as well as from the Government of Pakistan.

Keeping in view the financial performance over the past six months, the Board of Management has declared an interim cash dividend of Rs. 2.5 per share and bonus shares equivalent to 20% of shares held for the year ending June 30, 2013.

Additionally, the Company is living up to its commitment to provide uninterrupted fuel supplies to all corners of the country. As part of these efforts, the Khuzdar depot in Balochistan has been restored to full operational status to ensure that no product dry-out situations occurs at PSO retail outlets in the surrounding region.

In the period under review PSO also continued to fulfill its role as a responsible corporate citizen by continuing its efforts for social development across Pakistan. As part of these efforts, PSO has carried out the ground breaking ceremony for the PSO Street Support Program in Thatta. Under this CSR initiative, the national oil giant will develop two streets in low income areas of each province with state-of-the-art facilities and infrastructure in order to improve the lives of the inhabitants of these areas.

We would like to take this opportunity to thank our business partners and those who continue to steer the Company forward with their support and conviction. We are also grateful to the Government of Pakistan, especially the Ministry of Petroleum & Natural Resources and the Ministry of Finance, for their unwavering support.

Naeem Yahya Mir  
CEO & Managing Director

Sohail Wajahat H.Siddiqui  
Chairman

Karachi: February 21, 2013

## CONDENSED INTERIM BALANCE SHEET

AS AT DECEMBER 31, 2012

|                                           |              | Un-audited<br>December 31,<br>2012 | Audited<br>June 30,<br>2012 |
|-------------------------------------------|--------------|------------------------------------|-----------------------------|
|                                           |              | (Rupees in '000)                   |                             |
| <b>ASSETS</b>                             | <b>Notes</b> |                                    |                             |
| Non-current assets                        |              |                                    |                             |
| Property, plant and equipment             | 6            | 5,483,436                          | 5,831,993                   |
| Intangible assets                         | 7            | 22,578                             | 29,991                      |
| Long-term investments                     |              | 2,161,150                          | 1,968,073                   |
| Long-term loans, advances and receivables |              | 369,974                            | 385,497                     |
| Long-term deposits and prepayments        |              | 127,318                            | 123,740                     |
| Deferred tax                              | 8            | 1,736,337                          | 1,292,316                   |
|                                           |              | <u>9,900,793</u>                   | <u>9,631,610</u>            |
| <b>CURRENT ASSETS</b>                     |              |                                    |                             |
| Stores, spare parts and loose tools       |              | 137,267                            | 134,431                     |
| Stock-in-trade                            | 9            | 108,754,582                        | 88,523,794                  |
| Trade debts                               | 10           | 139,774,180                        | 218,022,292                 |
| Loans and advances                        |              | 741,604                            | 526,118                     |
| Deposits and short term prepayments       |              | 1,160,416                          | 2,528,406                   |
| Other receivables                         | 11           | 23,764,634                         | 21,122,166                  |
| Taxation - net                            |              | 3,955,212                          | 5,314,752                   |
| Cash and bank balances                    |              | 4,227,764                          | 1,624,025                   |
|                                           |              | <u>282,515,659</u>                 | <u>337,795,984</u>          |
| Net assets in Bangladesh                  | 12           | -                                  | -                           |
| Total assets                              |              | <u><u>292,416,452</u></u>          | <u><u>347,427,594</u></u>   |
| <b>EQUITY AND LIABILITIES</b>             |              |                                    |                             |
| Share capital and reserves                |              |                                    |                             |
| Share capital                             | 13           | 2,058,227                          | 1,715,190                   |
| Capital reserves                          |              | 430,361                            | 351,652                     |
| Revenue reserves                          |              | 53,395,105                         | 47,893,066                  |
|                                           |              | <u>55,883,693</u>                  | <u>49,959,908</u>           |
| Non-current liabilities                   |              |                                    |                             |
| Long-term deposits                        |              | 1,358,513                          | 1,176,078                   |
| Retirement and other service benefits     |              | 2,678,614                          | 2,518,502                   |
|                                           |              | <u>4,037,127</u>                   | <u>3,694,580</u>            |
| Current liabilities                       |              |                                    |                             |
| Trade and other payables                  | 14           | 185,251,234                        | 246,767,460                 |
| Provisions                                |              | 688,512                            | 688,512                     |
| Accrued interest / mark-up                |              | 652,602                            | 544,485                     |
| Short term borrowings                     | 15           | 45,903,284                         | 45,772,649                  |
|                                           |              | <u>232,495,632</u>                 | <u>293,773,106</u>          |
| Total equity and liabilities              |              | <u><u>292,416,452</u></u>          | <u><u>347,427,594</u></u>   |
| Contingencies and commitments             | 16           |                                    |                             |

The annexed notes 1 to 24 form an integral part of this condensed interim financial information.

Naeem Yahya Mir  
CEO & Managing Director

Sohail Wajahat H.Siddiqui  
Chairman

## CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2012

| Notes                                                                                                                        | Six months period ended      |                      | Quarter ended        |                      |
|------------------------------------------------------------------------------------------------------------------------------|------------------------------|----------------------|----------------------|----------------------|
|                                                                                                                              | December 31,<br>2012         | December 31,<br>2011 | December 31,<br>2012 | December 31,<br>2011 |
|                                                                                                                              | ----- (Rupees in '000) ----- |                      |                      |                      |
| Sales - net of trade discounts and allowances amounting to Rs. 444,992 thousand (July - December 2011: Rs. 558,379 thousand) | 629,532,818                  | 575,745,095          | 304,575,929          | 297,235,770          |
| Less:                                                                                                                        |                              |                      |                      |                      |
| - Sales tax                                                                                                                  | (86,521,987)                 | (78,257,488)         | (41,621,675)         | (40,608,607)         |
| - Inland freight equalization margin                                                                                         | (8,172,741)                  | (4,611,905)          | (4,200,064)          | (2,487,145)          |
|                                                                                                                              | (94,694,728)                 | (82,869,393)         | (45,821,739)         | (43,095,752)         |
| Net sales                                                                                                                    | 534,838,090                  | 492,875,702          | 258,754,190          | 254,140,018          |
| Cost of products sold                                                                                                        | (516,737,240)                | (476,458,683)        | (252,006,850)        | (245,401,241)        |
| Gross profit                                                                                                                 | 18,100,850                   | 16,417,019           | 6,747,340            | 8,738,777            |
| Other operating income                                                                                                       | 1,195,520                    | 1,065,890            | 633,247              | 578,469              |
| Operating costs:                                                                                                             |                              |                      |                      |                      |
| Transportation costs                                                                                                         | (519,008)                    | (598,001)            | (284,663)            | (345,139)            |
| Distribution and marketing expenses                                                                                          | (2,868,667)                  | (2,598,292)          | (1,442,435)          | (1,328,071)          |
| Administrative expenses                                                                                                      | (938,330)                    | (858,898)            | (468,612)            | (437,858)            |
| Depreciation and amortization                                                                                                | (588,717)                    | (565,509)            | (295,294)            | (284,688)            |
| Other operating expenses                                                                                                     | (3,098,845)                  | (3,679,473)          | (2,153,086)          | (2,338,377)          |
|                                                                                                                              | (8,013,567)                  | (8,300,173)          | (4,644,090)          | (4,734,133)          |
| Profit from operations                                                                                                       | 11,282,803                   | 9,182,736            | 2,736,497            | 4,583,113            |
| Other income                                                                                                                 | 2,138,852                    | 1,260,639            | 1,527,326            | 364,583              |
| Finance costs                                                                                                                | (4,479,288)                  | (4,000,167)          | (1,608,175)          | (2,127,653)          |
|                                                                                                                              | 8,942,367                    | 6,443,208            | 2,655,648            | 2,820,043            |
| Share of profit of associates                                                                                                | 326,434                      | 252,879              | 144,343              | 135,079              |
| Profit before taxation                                                                                                       | 9,268,801                    | 6,696,087            | 2,799,991            | 2,955,122            |
| Taxation                                                                                                                     | (2,994,928)                  | (2,112,720)          | (715,631)            | (859,064)            |
| Profit for the period                                                                                                        | 6,273,873                    | 4,583,367            | 2,084,360            | 2,096,058            |
|                                                                                                                              |                              | Restated             |                      | Restated             |
|                                                                                                                              |                              | (Rupees)             |                      |                      |
| Earnings per share - basic and diluted                                                                                       | 30.48                        | 22.27                | 10.13                | 10.18                |

The annexed notes 1 to 24 form an integral part of this condensed interim financial information.

Naeem Yahya Mir  
CEO & Managing Director

Sohail Wajahat H.Siddiqui  
Chairman

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)**  
**FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2012**

|                                                                                                 | Six months period ended      |                      | Quarter ended        |                      |
|-------------------------------------------------------------------------------------------------|------------------------------|----------------------|----------------------|----------------------|
|                                                                                                 | December 31,<br>2012         | December 31,<br>2011 | December 31,<br>2012 | December 31,<br>2011 |
|                                                                                                 | ----- (Rupees in '000) ----- |                      |                      |                      |
| Profit for the period                                                                           | 6,273,873                    | 4,583,367            | 2,084,360            | 2,096,058            |
| Other comprehensive income                                                                      |                              |                      |                      |                      |
| Items that may be reclassified subsequently<br>to profit and loss account                       |                              |                      |                      |                      |
| Unrealised gain/(loss) due to change in<br>fair values of other long-term investments           | 74,656                       | (80,264)             | 59,221               | (4,662)              |
| Share of unrealised gain/(loss) due to<br>change in fair values of investments in<br>associates | 4,053                        | 254                  | 3,514                | (335)                |
|                                                                                                 | 78,709                       | (80,010)             | 62,735               | (4,997)              |
| Total comprehensive income for the period                                                       | <u>6,352,582</u>             | <u>4,503,357</u>     | <u>2,147,095</u>     | <u>2,091,061</u>     |

The annexed notes 1 to 24 form an integral part of this condensed interim financial information.

Naeem Yahya Mir  
 CEO & Managing Director

Sohail Wajahat H.Siddiqui  
 Chairman

## CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)

FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2012

|                                                                  |    | Six months period ended |                      |
|------------------------------------------------------------------|----|-------------------------|----------------------|
|                                                                  |    | December 31,<br>2012    | December 31,<br>2011 |
| Notes                                                            |    | (Rupees in '000)        |                      |
| <b>CASH GENERATED FROM OPERATING ACTIVITIES</b>                  |    |                         |                      |
|                                                                  | 19 | 8,084,587               | 9,450,069            |
| Cash generated from operations                                   |    | 15,523                  | (14,559)             |
| Decrease/(increase) in long-term loans, advances and receivables |    | (3,578)                 | 22,948               |
| (Increase)/decrease in long-term deposits and prepayments        |    | 182,435                 | 24,655               |
| Increase in long-term deposits                                   |    | (2,079,408)             | 2,204,802            |
| Taxes (paid)/refund - net                                        |    | (2,777,961)             | (1,251,899)          |
| Finance charges paid                                             |    | (435,871)               | (747,019)            |
| Retirement benefits paid                                         |    | 2,985,727               | 9,688,997            |
| Net cash generated from operating activities                     |    |                         |                      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                      |    |                         |                      |
| Acquisition of property, plant and equipment                     |    | (232,875)               | (174,439)            |
| Purchase of intangibles - computer software                      |    | (160)                   | (8,642)              |
| Proceeds from disposal of property, plant and equipment          |    | 5,504                   | 7,239                |
| Dividends received                                               |    | 433,816                 | 674,200              |
| Net cash generated from investing activities                     |    | 206,285                 | 498,358              |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                      |    |                         |                      |
| Short-term borrowings                                            |    | 8,162,667               | 7,026,446            |
| Dividends paid                                                   |    | (718,908)               | (244,348)            |
| Net cash generated from financing activities                     |    | 7,443,759               | 6,782,098            |
| Net increase in cash and cash equivalents                        |    | 10,635,771              | 16,969,453           |
| Cash and cash equivalents at beginning of the period             |    | (18,116,141)            | (19,531,039)         |
| Cash and cash equivalents at end of the period                   | 20 | (7,480,370)             | (2,561,586)          |

The annexed notes 1 to 24 form an integral part of this condensed interim financial information.

Naeem Yahya Mir  
CEO & Managing Director

Sohail Wajahat H.Siddiqui  
Chairman

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)**  
FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2012

|                                                                             | Capital Reserves |                                  |                                                                                               |                                                                       | Revenue Reserves |                       |            |
|-----------------------------------------------------------------------------|------------------|----------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|------------------|-----------------------|------------|
|                                                                             | Share capital    | Surplus on vesting of net assets | Share of unrealised gain on revaluation of long term investment available for sale investment | Company's share of unrealised gain/(loss) of investment in associates | General reserve  | Unappropriated profit | Total      |
| (Rupees in '000)                                                            |                  |                                  |                                                                                               |                                                                       |                  |                       |            |
| Balance as at July 1, 2011                                                  | 1,715,190        | 3,373                            | 491,751                                                                                       | (1,935)                                                               | 25,282,373       | 14,412,233            | 41,902,985 |
| Total comprehensive income for the six months period                        |                  |                                  |                                                                                               |                                                                       |                  |                       |            |
| Profit for the six months period ended December 31, 2011                    | -                | -                                | -                                                                                             | -                                                                     | -                | 4,583,367             | 4,583,367  |
| Other comprehensive income                                                  |                  |                                  |                                                                                               |                                                                       |                  |                       |            |
| Unrealised loss due to change in fair values of long-term investments       | -                | -                                | (80,264)                                                                                      | -                                                                     | -                | -                     | (80,264)   |
| Unrealised gain due to change in fair values of investments in associates   | -                | -                                | -                                                                                             | 254                                                                   | -                | -                     | 254        |
|                                                                             | -                | -                                | (80,264)                                                                                      | 254                                                                   | -                | -                     | (80,010)   |
|                                                                             | -                | -                                | (80,264)                                                                                      | 254                                                                   | -                | 4,583,367             | 4,503,357  |
| Transaction with the owners                                                 |                  |                                  |                                                                                               |                                                                       |                  |                       |            |
| Distribution                                                                |                  |                                  |                                                                                               |                                                                       |                  |                       |            |
| Final dividend for the year ended June 30, 2011 @ Rs.2 per share            | -                | -                                | -                                                                                             | -                                                                     | -                | (343,038)             | (343,038)  |
| Balance as at December 31, 2011                                             | 1,715,190        | 3,373                            | 411,487                                                                                       | (1,681)                                                               | 25,282,373       | 18,652,562            | 46,063,304 |
| Profit for the six months period ended June 30, 2012                        | -                | -                                | -                                                                                             | -                                                                     | -                | 4,472,688             | 4,472,688  |
| Other comprehensive income                                                  |                  |                                  |                                                                                               |                                                                       |                  |                       |            |
| Unrealised loss due to change in fair values of other long-term investments | -                | -                                | (64,639)                                                                                      | -                                                                     | -                | -                     | (64,639)   |
| Unrealised gain due to change in fair values of investments in associates   | -                | -                                | -                                                                                             | 3,112                                                                 | -                | -                     | 3,112      |
|                                                                             | -                | -                                | (64,639)                                                                                      | 3,112                                                                 | -                | -                     | (61,527)   |
|                                                                             | -                | -                                | (64,639)                                                                                      | 3,112                                                                 | -                | 4,472,688             | 4,411,161  |
| Transaction with the owners                                                 |                  |                                  |                                                                                               |                                                                       |                  |                       |            |
| Distributions                                                               |                  |                                  |                                                                                               |                                                                       |                  |                       |            |
| Interim dividend for the year ended June 30, 2012 @ Rs.3 per share          | -                | -                                | -                                                                                             | -                                                                     | -                | (514,557)             | (514,557)  |
| Balance as at June 30, 2012                                                 | 1,715,190        | 3,373                            | 346,848                                                                                       | 1,431                                                                 | 25,282,373       | 22,610,693            | 49,959,908 |
| Profit for the six months period ended December 31, 2012                    | -                | -                                | -                                                                                             | -                                                                     | -                | 6,273,873             | 6,273,873  |
| Other comprehensive income                                                  |                  |                                  |                                                                                               |                                                                       |                  |                       |            |
| Unrealised gain due to change in fair values of long-term investments       | -                | -                                | 74,656                                                                                        | -                                                                     | -                | -                     | 74,656     |
| Unrealised gain due to change in fair values of investments in associates   | -                | -                                | -                                                                                             | 4,053                                                                 | -                | -                     | 4,053      |
|                                                                             | -                | -                                | 74,656                                                                                        | 4,053                                                                 | -                | -                     | 78,709     |
|                                                                             | -                | -                                | 74,656                                                                                        | 4,053                                                                 | -                | 6,273,873             | 6,352,582  |
| Transaction with the owners                                                 |                  |                                  |                                                                                               |                                                                       |                  |                       |            |
| Distribution                                                                |                  |                                  |                                                                                               |                                                                       |                  |                       |            |
| Final dividend for the year ended June 30, 2012 @ Rs.2.5 per share          | -                | -                                | -                                                                                             | -                                                                     | -                | (428,797)             | (428,797)  |
| Issuance of bonus shares @ 20%                                              | 343,037          | -                                | -                                                                                             | -                                                                     | -                | (343,037)             | -          |
| Balance as at December 31, 2012                                             | 2,058,227        | 3,373                            | 421,504                                                                                       | 5,484                                                                 | 25,282,373       | 28,112,732            | 55,883,693 |

The annexed notes 1 to 24 form an integral part of this condensed interim financial information.

Naeem Yahya Mir  
CEO & Managing Director

Sohail Wajahat H.Siddiqui  
Chairman

**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)  
FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2012**

**1. LEGAL STATUS AND NATURE OF BUSINESS**

Pakistan State Oil Company Limited ('the Company') is a public company incorporated in Pakistan under the repealed Companies Act, 1913 (now Companies Ordinance, 1984) and listed on the Karachi, Lahore and Islamabad stock exchanges. The registered office of the Company is located at PSO House, Khayaban-e-Iqbal, Clifton, Karachi. The principal activities of the Company are procurement, storage and marketing of petroleum and related products. It also blends and markets various kinds of lubricating oils.

The Board of Management - Oil ("the Board"), nominated by the Federal Government under Section 7 of the Marketing of Petroleum Products (Federal Control) Act, 1974 ("the Act") manages 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.

**2. Basis of preparation**

2.1 This condensed interim financial information has been prepared in accordance with requirements of the International Accounting Standard (IAS) - 34 "Interim Financial Reporting" and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.

2.2 This condensed interim financial information is presented in Pakistan Rupees which is also the Company's functional currency and all financial information presented has been rounded off to the nearest thousand rupees.

2.3 This condensed interim financial information is un-audited and is being submitted to the shareholders as required by listing regulations of Karachi, Lahore and Islamabad Stock Exchanges and section 245 of the Companies Ordinance, 1984. The figures for the six months period ended December 31, 2012 have, however, been subjected to limited scope review by the auditors as required by the Code of Corporate Governance.

**3. Accounting policies**

3.1 The accounting policies and method of computation adopted for the preparation of this condensed interim financial information are the same as those applied in the preparation of the Company's annual financial statements for the year ended June 30, 2012.

3.2 Amendments to approved accounting standards and interpretations which became effective during the period:

Amendments to IAS 1 - Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income Effective from accounting periods beginning on or after July 01, 2012

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). Presently, all items in 'other comprehensive income' would be reclassified to profit or loss at a future point in time.

Amendments to certain existing standards and new interpretations on approved accounting standards which became effective during the period were either not relevant to the Company's operations or did not have any impact on the accounting policies of the Company and therefore have not been detailed here.

- 3.3 There is no change in status of Benazir Employee Stock Option Scheme ("the Scheme") as mentioned in note 2.6 to the audited financial statements for the year ended June 30, 2012. In June 2011, the Securities & Exchange Commission of Pakistan on receiving representations from some of entities covered under the Scheme and after having consulted the Institute of Chartered Accountants of Pakistan granted exemption to such entities from the application of IFRS 2 to the Scheme.

Had the exemption not been granted the staff costs of the Company for the six months period would have been higher by Rs. 114,497 thousand, profit after taxation would have been lower by Rs. 114,497 thousand, retained earnings would have been lower by Rs. 905,762 thousand, earning per share would have been lower by Rs. 0.56 per share and reserves would have been higher by Rs. 905,762 thousand.

#### 4. Financial risk management

The financial risk management objectives and policies are consistent with those disclosed in the annual financial statements of the Company as at and for the year ended June 30, 2012.

#### 5. Accounting estimates and judgements

The preparation of this condensed interim financial information in conformity with the approved accounting standards requires management to make estimates, assumptions and use judgments that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised prospectively commencing from the period of revision.

In preparing this condensed interim financial information, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation and uncertainty were the same as those that were applied to the financial statements as at and for the year ended June 30, 2012.

## 6. Property, plant and equipment

6.1 Additions and disposals to operating assets during the period are as follows

|                                  | Additions (at cost)  |                      | Disposals ( at net book value ) |                      |
|----------------------------------|----------------------|----------------------|---------------------------------|----------------------|
|                                  | December 31,<br>2012 | December 31,<br>2011 | December 31,<br>2012            | December 31,<br>2011 |
|                                  | (Rupees in '000)     |                      |                                 |                      |
| Buildings on freehold land       | -                    | 6,954                | -                               | -                    |
| Buildings on leasehold land      | 29,143               | 26,553               | -                               | 240                  |
| Tanks and pipelines              | 39,003               | 45,929               | 2                               | 75                   |
| Plant and machinery              | 21,539               | 76,739               | 210                             | 324                  |
| Service and filling stations     | 113,241              | 123,062              | 26                              | 624                  |
| Vehicles and other rolling stock | 33,666               | 2,359                | -                               | 8                    |
| Furniture and fittings           | 1,846                | 7,007                | 47                              | -                    |
| Office equipment                 | 10,014               | 10,782               | 2                               | 222                  |
|                                  | <u>248,452</u>       | <u>299,385</u>       | <u>287</u>                      | <u>1,493</u>         |

The above disposals represented assets costing Rs. 24,057 thousand (December 31, 2011: Rs. 20,574 thousand) which were disposed off for Rs. 5,504 thousand (December 31, 2011: Rs. 7,239 thousand).

## 7. Intangible assets

Additions made during the period amounted to Rs. 160 thousand (December 31, 2011: Rs. 8,642 thousand).

## 8. Deferred tax

|                                        | Un-audited<br>December 31,<br>2012 | Audited<br>June 30,<br>2012 |
|----------------------------------------|------------------------------------|-----------------------------|
|                                        | (Rupees in '000)                   |                             |
| Debit balance arising in respect of:   |                                    |                             |
| Liabilities written back               | 776,459                            | 336,741                     |
| Provision for:                         |                                    |                             |
| - retirement benefits                  | 521,049                            | 485,287                     |
| - doubtful trade debts                 | 844,108                            | 849,956                     |
| - doubtful other receivables           | 182,946                            | 92,800                      |
| - impairment of stores and spare parts | 8,535                              | 8,535                       |
| - excise, taxes and other duties       | 25,491                             | 25,491                      |
| - impairment of stocks-in-trade        | 7,510                              | 7,510                       |
| - long term loans and advances         | 2,850                              | 2,850                       |
| - accelerated tax amortisation         | 810                                | -                           |
| Unutilised minimum tax paid            | -                                  | 182,042                     |
|                                        | <u>2,369,758</u>                   | <u>1,991,212</u>            |
| Credit balance arising in respect of:  |                                    |                             |
| - accelerated tax depreciation         | (595,049)                          | (670,798)                   |
| - accelerated tax amortisation         | -                                  | (1,163)                     |
| - investments in associates            | (38,372)                           | (26,935)                    |
|                                        | <u>(633,421)</u>                   | <u>(698,896)</u>            |
|                                        | <u>1,736,337</u>                   | <u>1,292,316</u>            |

## 9. Stock in trade

Includes in stock in trade valued at net realisable value amounting to Rs. 1,455,923 thousand (June 30, 2012 : Rs. 45,997,354 thousand).

## 10. Trade debts

|                                                         | Un-audited<br>December 31,<br>2012 | Audited<br>June 30,<br>2012 |
|---------------------------------------------------------|------------------------------------|-----------------------------|
|                                                         | (Rupees in '000)                   |                             |
| Considered good                                         |                                    |                             |
| - Due from Government agencies<br>and autonomous bodies | 52,535,555                         | 61,654,064                  |
| - Due from other customers                              | 87,238,625                         | 156,368,228                 |
| Trade debts - gross                                     | 139,774,180                        | 218,022,292                 |
| Considered doubtful                                     | 2,411,738                          | 2,428,445                   |
|                                                         | 142,185,918                        | 220,450,737                 |
| Less: Provision for impairment                          | (2,411,738)                        | (2,428,445)                 |
|                                                         | <u>139,774,180</u>                 | <u>218,022,292</u>          |

10.1 These debts include Rs. 128,566 thousand (June 30, 2012: Rs. 44,975,624 thousand) which are secured by way of letters of credit and bank guarantees.

10.2 The receivable from Water and Power Development Authority (WAPDA), Hub Power Company Limited (HUBCO) and Kot Addu Power Company Limited (KAPCO) as at December 31, 2012 aggregated to Rs. 114,861,522 thousand (June 30, 2012: Rs. 193,461,519 thousand), which includes overdue amounts of Rs. 29,961,996 thousand (June 30, 2012: Rs. 64,617,029 thousand). The Company does not consider this balance as doubtful, as this has been largely accumulated due to existing circular debt situation. The Company, based on measures being undertaken by the Government of Pakistan (GoP) in this regard is confident of realising the entire aforementioned receivables in due course. Accordingly, the Company while estimating the provision for impairment on the basis of overdue analysis has not considered the aforementioned receivable balance of WAPDA, HUBCO and KAPCO. Subsequent to the period end, payments of Rs. 10,700,000 thousand, Rs. 4,038,275 thousand and Rs. 5,708 thousand have been received against overdue amounts from HUBCO, WAPDA and KAPCO respectively.

10.3 The receivable from Karachi Electric Supply Company Limited (KESC) as at December 31, 2012 comprises of overdue amount of Rs 5,278,127 thousand (June 30 2012: 5,861,968 thousand) on account of supplies made under Gas Load Management Programme (GLMP). This amount is overdue however, it has not been impaired. During the current period, the Company has recovered Rs. 584,150 thousand against this receivable. The management is confident to recover the remaining amount in due course of time, since the oil supplies under GLMP arrangement were made on the directives of the Government of Pakistan.

10.4 The movement in provision during the period is as follows:

|                                                                        | Unaudited<br>December 31,<br>2012 | Audited<br>June 30,<br>2012 |
|------------------------------------------------------------------------|-----------------------------------|-----------------------------|
|                                                                        | (Rupees in '000)                  |                             |
| Balance at beginning of the period                                     | 2,428,445                         | 2,780,313                   |
| Reversal for the period/year recognised<br>in other operating expenses | (16,707)                          | (351,868)                   |
| Balance at end of the period                                           | <u>2,411,738</u>                  | <u>2,428,445</u>            |

10.5 Includes Rs.59,813,021 thousand (June 30, 2012: Rs. 91,819,012 thousand) due from related parties.

11. Other receivables

Included in other receivables is an aggregate amount of Rs. 9,572,253 thousand (June 30, 2012: Rs. 9,668,585 thousand) due from GoP on account of the following:

11.1 Import price differential on motor gasoline aggregating Rs. 1,350,961 thousand (June 30, 2012: Rs.1,350,961 thousand)

These represent price differential claims on account of import of motor gasoline by the Company, being the difference between their landed costs and the ex-refinery prices announced by Oil and Gas Regulatory Authority (OGRA). In 2007, the Company as well as other oil marketing companies were asked in the meeting chaired by Director General Oil to import motor gasoline to meet the increasing local demand. Accordingly, oil marketing companies approached the MoP & NR - GoP with a proposal for pricing mechanism whereby end consumer price of motor gasoline was proposed to be fixed at weighted average of ex-refinery (import parity) price and landed cost of imported product. Although at that time, no response was received from the MoP & NR - GoP, the Company along with another oil marketing Company continued to import motor gasoline on behalf of the industry being confident that price differential on motor gasoline, will be settled as per previous practice i.e. based on the differential between ex-refinery and import cost at the time of filing of cargo with Customs, as imports were being made on MoP & NR - GoP's instruction.

The Company continued to follow up this matter with MoP & NR for early settlement of these claims and the concerned ministry has also confirmed vide its letter Ref. PL-NP(4) /2010 -F & P dated July 28, 2010 that the abovementioned claims are under process. During financial year 2010-2011, MoP & NR vide its letter No. PL-3(434) /2011 Vol XII dated May 31, 2011 implemented the ECC decision where by ex refinery price of motor gasoline will be fixed at weighted average of ex-refinery (import parity) price and landed cost of imported product. During the financial year 2011-2012, the audit for the period from March 1 to May 31, 2011 was completed and audit report was submitted to MoP& NR. Based on the findings of the audit the claim amount was increased by Rs. 50,000 thousand. Further, price

differential claim of Rs. 181,000 thousand has arisen on import of motor gasoline during financial year 2011-2012. Out of total claim of Rs. 6,350,961 thousand, the Company has received an amount of Rs. 5,000,000 thousand. The Company is confident to recover the balance amount of Rs. 1,350,961 thousand in due course of time. During the current period, MoP & NR vide its letter no NP-7 (4)/2011-12 dated July 27, 2012 has stated that the Company's claim is under process subject to clearance of special audit by the Auditor General of Pakistan. The Company is confident about recovery of the amount in full in due course of time.

**11.2 Price differential claims (PDC) on High Speed Diesel aggregating Rs. 905,354 thousand (June 30, 2012: Rs. 1,001,686 thousand)**

This represents the balance of price differential claims (PDC) due from GoP. These claims have arisen on the instructions of MoP & NR for keeping the consumer prices of High Speed Diesel stable. The balance outstanding at period end is withheld by the GoP subject to finalisation of the report on independent verification of these claims.

The Company vide its letter Ref. AH/3010/Conf. dated July 26, 2010 requested a written acknowledgement of the aforementioned balance from MoP & NR. The concerned Ministry vide its letter Ref. PL-NP(4)/2010 - F&P dated July 28, 2010 confirmed that the claims referred in the Company's letter are under process. Ministry of Petroleum and Natural Resources (MoP & NR) vide its letter No. P-7(4)/2010-11 dated April 7, 2011, requested Ministry of Finance (MoF) to make allocation amounting to Rs. 3,741,000 thousand in respect of outstanding price differential claims/subsidy on petroleum products due to capping of prices from May 2004 to October 2008 in budget estimates for financial year 2011-12 for payment to Oil Marketing Companies. The Company vide its letter No. YS/ Ministry dated May 25, 2011 also requested the MoF to include this claim in the budget for the financial year 2011-12. The Company vide its letter No. YS/Ministry dated July 1, 2011 appraised MoP & NR that budgetary provision in respect of abovementioned claim has not been made in the budget for the financial year 2011-12 and requested MoP & NR to follow up the matter with MoF for payment of abovementioned claim. Further, the Company has received directive from Government of Pakistan vide letter No.2(5)/2008-BR-1/298 dated April 25, 2012 to adjust an amount of Rs. 514,600 thousand against dividends payable to GoP. Accordingly, the Company adjusted an amount of Rs. 115,517 thousand and Rs. 96,332 thousand against interim and final dividend for the financial year 2011-2012 respectively. During the current period, MoP & NR vide its letter no NP-7(4)/2011-12 dated July 27, 2012 has stated that the Company's claim is under process subject to clearance of special audit by the Auditor General of Pakistan. The Company is confident about recovery of the amount in full in due course of time.

**11.3 Price differential between the products Low Sulphur Furnace Oil (LSFO) and High Sulphur Furnace Oil (HSFO) aggregating Rs. 3,407,357 thousand (June**

30, 2012: Rs. 3,407,357 thousand).

In 1996, through a decision taken at a meeting of the Privatisation Commission, and Finance Division, GoP the Company was advised to supply LSFO to Kot Addu Power Project at the HSFO price and WAPDA was advised to absorb the price differential between the two products. In accordance with the decision of ECC dated November 4, 2003, the Company was allowed to recover this amount through a pricing mechanism after recovery of the amount outstanding against its claims for import price differential aggregating to Rs.1,465,406 thousand, the notification for which expired on December 31, 2004. Although no recovery has been made on this account, the Company continues to follow up the matter with MoP & NR. In 2005, the Company submitted an independent report on the verification of the above claim to MoP & NR, upon their request. In 2006, a joint reconciliation exercise was carried out with WAPDA as per the decision taken in a meeting held on May 19, 2006 under the Chairmanship of Additional Finance Secretary (GoP) and the final reconciliation statements were submitted to MoF and WAPDA. Subsequently, on February 3, 2007 the Company and WAPDA agreed upon the final receivable balance of Rs. 3,407,357 thousand. Further, the GOP – Finance Division through its letter No. F.1(21)-CF.III/2005-385 dated March 3, 2007 intimated that the amount of Rs. 3,407,357 thousand will be paid to the Company during financial year 2007-2008 and necessary provision in this respect will be made by GoP in the budget for financial year 2007-08.

The Company through its letter dated May 20, 2008 requested the GoP to arrange the payment of the agreed amount before the end of the budget year 2007-08, to which GoP did not respond. The Company again requested GoP through letters dated September 29, 2008 and April 22, 2009 for an early settlement. MoF through letter No. F.5.CF.I/1997-98-607 dated August 4, 2009 acknowledged and agreed to pay this amount to the Company. Further MoP & NR vide its letter No. PI-7(4)/2009 dated March 26, 2010, requested GoP – Finance division to make an allocation in respect of above mentioned claim of the Company in the budget for Fiscal year 2010-11 for payment to the Company. During the year ended June 30, 2011, the Company vide its letter No. 100-01 (3) dated April 5, 2011 requested the Ministry of Water and Power for its intervention for settlement of aforementioned amount before June 30, 2011 or the inclusion of the same in the budget for the fiscal year 2011-12. The Ministry of Water & Power vide its letter No. PI-6 (38)/2009 dated April 25, 2011 and the Company vide its letter No. YS/Ministry dated May 25, 2011 also requested MoF to allocate Rs. 3,407,000 thousand in the budget for financial year 2011-12 in respect of above mentioned claim. The Ministry of Water & Power vide its letter No. PL-6 (38)/2010 dated June 29, 2011 mentioned its understanding that the budgetary provision in respect of above claim has not been made in the budget for year 2011-12 and requested MoF to release the above mentioned claim through special budgetary grant to clear the long outstanding claims

of the Company during financial year 2011-12. The MoW&P vide its letter No. PI-6(38)/2010 dated March 05, 2012 requested Ministry of Finance (MoF) to allocate the above mentioned claims in the budget for fiscal year 2012-13. The Company considers that the above amount will be recovered in full in due course of time.

**11.4 Price differential claim on account of supply of furnace oil to KESC at Natural Gas prices aggregating to Rs.3,908,581 thousand (June 30, 2012: Rs. 3,908,581 thousand).**

The Company received a directive from MoP & NR through letter NG(1)-7(58)09-LS(Vol-1) dated November 26, 2009 in which the Company was directed to supply furnace oil to Karachi Electric Supply Company (KESC) at the prices equivalent to natural gas prices plus applicable duties and taxes under the Natural Gas Load Management Program (NGLMP) for Winter 2009-2010. As per this arrangement the differential cost between the natural gas and furnace oil would be borne by GoP and reimbursed directly to the Company by Ministry of Finance. The Company was again directed by GoP in May 2010 to supply furnace oil to KESC at natural gas prices. Accordingly, furnace oil was provided to KESC due to which price differential claim of Rs. 5,708,581 thousand arose out of which Rs. 1,800,000 thousand were received from MoF in June 2010.

The Company vide its letter No. 100-01 (3) dated April 5, 2011 requested the Ministry of Water and Power and MoP & NR for their intervention for settlement of aforementioned amount before June 30, 2011 or the inclusion of the same in the budget for the fiscal year 2011-2012. The Ministry of Water and Power vide its letter No. PI-6(38)/2010 dated May 7, 2011 and MoP & NR vide its letter No. P-7(4)/2010-11 dated April 25, 2011 requested MoF to allocate the above mentioned claims of Rs. 3,300,000 thousand and Rs. 608,581 thousand respectively in budget for fiscal year 2011-12. The Company vide its letter Ref. Y/S Ministry dated May 25, 2011 also requested the MoF to include claim of Rs. 3,300,000 thousand and Rs. 608,581 thousand in the budget for the fiscal year 2011-12. The Company vide its letter No. 100-02(7) dated February 14, 2012 requested the Ministry of Water & Power (MoW&P) to include claim of Rs. 3,300,000 thousand and Rs. 608,851 thousand in the budget for the fiscal year 2012-13. The MoW&P vide its letter No. PI-6(38)/2010 dated March 20, 2012 requested Ministry of Finance (MoF) to allocate the above mentioned claims in the budget for the fiscal year 2012-13. Further, the Company vide its letter no. DMD/SB/Receivables dated December 14, 2012 requested MoW&P to arrange for the release of Rs. 3,900,000 thousand. In response to this letter, MoW&P through its letter dated December 24, 2012 has requested MoF to release the said amount at the earliest. The Company is actively pursuing this matter with GoP and is confident to recover the amount in full in due course of time.

- 11.5 Includes Rs. 18,153 thousand (June 30, 2012: Rs. 13,905 thousand) receivable from Asia Petroleum Limited, a related party, on account of facilities charges.

## 12. Net assets in Bangladesh

The Company has no control over net assets amounting to Rs. 28,589 thousand (June 30, 2012: Rs. 28,589 thousand) and has maintained in its record the position as it was in 1971. Full provision for impairment has been made against these net assets.

## 13. Share capital

| Unaudited<br>December 31,<br>2012 | Audited<br>June 30,<br>2012 |  | Unaudited<br>December 31,<br>2012 | Audited<br>June 30,<br>2012 |
|-----------------------------------|-----------------------------|--|-----------------------------------|-----------------------------|
| (Number of shares)                |                             |  | (Rupees in '000)                  |                             |

### Authorised capital

|                    |                    |                                   |                  |                  |
|--------------------|--------------------|-----------------------------------|------------------|------------------|
| <u>500,000,000</u> | <u>200,000,000</u> | Ordinary shares of<br>Rs. 10 each | <u>5,000,000</u> | <u>2,000,000</u> |
|--------------------|--------------------|-----------------------------------|------------------|------------------|

During the period, the authorized share capital of the Company has increased from Rs. 2,000,000 thousand to Rs. 5,000,000 thousand through special resolution passed in the Annual General Meeting held on September 26, 2012.

### Issued, subscribed and paid-up capital

|                    |                    |                                                                                            |                  |                  |
|--------------------|--------------------|--------------------------------------------------------------------------------------------|------------------|------------------|
| 3,000,000          | 3,000,000          | Ordinary shares of Rs. 10<br>each issued for cash                                          | 30,000           | 30,000           |
| 7,694,469          | 7,694,469          | Ordinary shares of Rs. 10<br>each issued against<br>shares of the<br>amalgamated companies | 76,945           | 76,945           |
| 195,128,212        | 160,824,432        | Ordinary shares of Rs. 10<br>each issued as bonus<br>shares                                | 1,951,282        | 1,608,245        |
| <u>205,822,681</u> | <u>171,518,901</u> |                                                                                            | <u>2,058,227</u> | <u>1,715,190</u> |

## 14. Trade and other payables

- 14.1 This includes amounts payable in respect of purchase of oil from local and foreign suppliers aggregating Rs. 128,485,985 thousand (June 30, 2012: Rs. 192,372,011 thousand).
- 14.2 Includes Rs. 2,334,919 thousand (June 30, 2012 : Rs. 17,832,391 thousand) and Rs. 21,190,582 thousand (June 30, 2012 : Rs. 30,763,541 thousand) payable to related parties namely Pakistan Refinery Limited and Pak Arab Refinery Limited respectively.

## 15. Short-term borrowings - secured

|                                        | Notes       | Unaudited<br>December 31,<br>2012<br>(Rupees in '000) | Audited<br>June 30,<br>2012 |
|----------------------------------------|-------------|-------------------------------------------------------|-----------------------------|
| Short-term finances                    | 15.1 & 15.2 | 34,195,150                                            | 26,032,483                  |
| Finances under mark-up<br>arrangements | 15.1 & 15.3 | 11,708,134                                            | 19,740,166                  |
|                                        |             | <u>45,903,284</u>                                     | <u>45,772,649</u>           |

- 15.1 The total outstanding balance is against the facilities aggregating Rs. 64,285,000 thousand (June 30, 2012: Rs. 56,047,171 thousand) available from various banks. These facilities will expire on various dates by November 30, 2013 and are secured by way of floating charge on Company's all present and future assets, except land and building, and hypothecation of moveable assets, stocks and receivables.
- 15.2 The rate of mark up for these facilities ranges from Re. 0.03 to Re. 0.30 (June 30, 2012: Re. 0.03 to Re. 0.36) per Rs. 1,000 per day.
- 15.3 The rate of mark up for these facilities ranges from Re. 0.27 to Re. 0.32 (June 30, 2012: Re. 0.34 to Re. 0.39) per Rs. 1,000 per day, net of prompt payment rebates. These facilities are renewable subject to payment of repurchase price on specified dates.

## 16. Contingencies and commitments

### 16.1 Contingencies

The Company has contingent liabilities in respect of legal claims in the ordinary course of business.

- 16.1.1 Claims against the Company not acknowledged as debts includes claim amounting to Rs. 12,787,889 thousand (June 30, 2012: Rs. 11,307,100 thousand) for delayed payment charges on the understanding that this amount will be payable only when the Company will realise interest from other entities under circular debt. Charges claimed by the Company for delayed payment by customers due to circular debt is recognised on receipt basis as the ultimate outcome of the matter and amount of settlement between the stakeholders cannot be presently determined.
- 16.1.2 In the assessment years 1996-97 and 1997-98, the taxation authorities applied presumptive tax on the Company to the value of petroleum products imported by the Company on behalf of the GoP by treating the Company as the importer of such products. The Income Tax Appellate Tribunal (ITAT) cancelled the order of the assessing officer, and as a consequence of the order of the ITAT, an amount of Rs. 958,152 thousand became refundable

to the Company, which was adjusted against the tax liability of the subsequent years. The department had filed an appeal with the High Court of Sindh against the aforesaid decision of the ITAT, which was adjudicated against the Company. The Company filed petition for leave to appeal with the Supreme Court of Pakistan against the aforementioned decision, which was granted by the Supreme Court of Pakistan through its order dated March 7, 2007 also suspending the operation of the impugned judgment of the High Court of Sindh. The management maintains that the Company was merely acting as a handling agent on behalf of GoP, which was in fact the importer of the products. Hence, the ultimate liability, if any, is recoverable from GoP, for which the management is in communication with the MoP & NR.

Based on the merits of the case and its legal advisor's opinion, the Company is confident that the ultimate outcome of the matter would be in its favour and therefore no provision has been made in this respect in this condensed interim financial information.

- 16.1.3 In the year 2005, a demand was raised by the Collector of Customs, Sales Tax and Central Excise (Adjudication) in respect of sales tax, central excise duty and petroleum development levy aggregating Rs. 165,781 thousand inclusive of additional sales tax and central excise duty on exports of POL products to Afghanistan during the period August 2002 to November 2003. The demand was raised on the grounds that the export consignments were not verified by the Pakistan Embassy / Consulate in Afghanistan as required under Export Policy and Procedures, 2000. It is the Company's contention that this requirement was in suspension as in the aforesaid period the Pakistan Embassy / Consulate was not fully functional. This condition of suspension was removed only on July 22, 2004 through Export Policy Order, 2004 when the Pakistan Embassy / Consulate became fully functional in Afghanistan. Besides the issue of verification, it is also the Company's contention that export of POL products to Afghanistan can be verified from the relevant documents and therefore, the demand is unwarranted.

The Company had been contesting the matter before honorable Appellate Tribunal Inland Revenue who has remanded the case back to adjudication officer vide its order dated February 06, 2012. Based on the view of tax advisors, the Company is confident that the ultimate outcome of the matter would be in its favour and therefore no provision has been made in this respect in this condensed interim financial information.

- 16.1.4 The Company received demands for tax years 2004 to 2008, from the taxation authorities aggregating to Rs. 823,227 thousand in respect of tax less withheld on incentives paid to dealers operating retail outlets. As per the taxation authorities, such payments were in the nature of prizes on sales promotion to dealers and hence subject to withholding of tax @ 20% under section 156 of the Income Tax Ordinance (ITO), 2001. The Company based on the advice of its tax consultant, has paid an amount of Rs. 321,993 thousand there against under the "Tax Arrears Settlement Incentive

Scheme (TASIS), 2008", while treating the same as recoverable from dealers, on the contention that incentives to dealers attract tax @ 10% under section 156A of the ITO, 2001. Therefore, the Company filed an appeal against the demands under section 156 of the ITO, 2001, with the CIR (Appeals) and also a petition in the High Court of Sindh for the stay thereof. The High Court of Sindh in its order, dated January 13, 2009 granted the stay to the Company with directions to deposit Rs. 200,000 thousand in addition to payment of Rs. 321,993 thousand earlier made by the Company, with the taxation authorities against such demands. Further, the High Court of Sindh directed CIR (Appeals) to hear the appeal.

The CIR (Appeals) passed an order on February 13, 2009 against the Company. The Income Tax Appellate Tribunal Inland Revenue (ATIR) on the appeal filed against CIR (Appeals) order, set aside and remanded the case to taxation officer for fresh consideration which was subsequently adjudicated against the Company by the taxation officer vide order dated February 15, 2010. The Company filed an appeal before the CIR (Appeals) against the said decision of the taxation officer on March 25, 2010 which was adjudicated against the Company on November 25, 2010. The Company has filed an appeal before ATIR against the said order which is pending for decision. During last year, taxation authorities issued notices for recovery of the outstanding demands and in order to avoid any coercive action from Tax authorities the Company had paid the remaining amount of Rs. 301,234 thousand on the advice of its tax advisor. The Company based on merits of the case and on advice of its tax advisor is confident that the matter will ultimately be decided in its favour and therefore no provision has been made for the said amount.

Further, the Company intends to recover the aforementioned advance tax paid from the dealers, included in other receivables, out of which Rs. 167,679 thousand (June 30, 2012: Rs. 151,553 thousand) have been already recovered from such dealers till December 31, 2012. The management is confident that it will recover the remaining amount.

- 16.1.5 The Government of Sindh through Sindh Finance Act, 1994 provided for imposition of an infrastructure fee for development and maintenance of infrastructure on goods entering or leaving the Province through air or sea at prescribed rates. The levy was challenged by the Company along with other companies in the High Court of Sindh through civil suits which were dismissed by the single judge of the High Court of Sindh through its decision in October 2003. On appeal filed there against, the High Court of Sindh has held through an order passed in September 2008 that the levy as imposed through the Sindh Finance Act, 1994 and amended time to time was not valid till December 28, 2006, however, thereafter on account of an amendment in the Sindh Finance (Amendment) Ordinance, 2006, it had become valid and is payable by the Appellants. The Company, along with other companies, filed an appeal in the Supreme Court of Pakistan against the aforementioned order of High Court of Sindh. The Supreme Court granted stay by passing an interim order on January 22, 2009. The

order passed by the High Court of Sindh was set aside by the Supreme Court vide its order dated May 20, 2011. Consequently, a new petition has been filed in the High Court of Sindh. Through the interim order passed on May 31, 2011 the High Court has ordered that for every consignment cleared after December 28, 2006, 50% of the value of infrastructure fee should be paid in cash and a bank guarantee for the remaining amount should be submitted until the final order is passed. On the directive of the Directorate of Excise and Taxation (Taxes-III), upto December 31, 2012, the management has deposited Rs. 51,782 thousand in cash and provided bank guarantee amounting to Rs. 51,782 thousand with the Excise and Taxation Department. Based on the views of its legal advisors, the management believes that the matter will ultimately be decided in the Company's favour. Total amount of possible obligation, if any, cannot be determined with sufficient reliability. Accordingly, no provision has been made against infrastructure fee in this condensed interim financial information.

- 16.1.6 The taxation officer passed assessment orders in respect of tax years 2004 to 2008 and made certain disallowances and additions resulting in an additional tax demand of Rs. 1,733,038 thousand. These orders were later rectified and amended to Rs. 1,389,049 thousand. The Company filed appeals against these orders before CIR (Appeals) which were decided against the Company on several points. The Company has filed appeal before Appellate Tribunal Inland Revenue (ATIR) against order of CIR (Appeals) for these years which are pending for hearing. Based on views of the tax advisors, the management believes that the matters will ultimately be decided in the favour of the Company. Accordingly, no provision has been made for the said matters in this condensed interim financial information.
- 16.1.7 The taxation officer passed assessment orders in respect of tax years 2009 to 2011 and made certain disallowances and additions resulting in an additional tax demand of Rs. 4,598,246 thousand. The Company filed appeals against these orders before CIR (Appeals) which were decided in favour of the Company on several points. Subsequent to period end, the Company received revised orders after taking into effects of matters decided in favour of the Company by CIR (Appeals) and tax refunds of Rs. 2,114,028 thousand have been determined in these revised orders. The Company has filed appeal before ATIR for remaining points adjudicated against the Company by CIR (Appeals) which are pending decision. Based on the views of the tax advisors, the management believes that the matters will ultimately be decided in the favour of the Company. Accordingly, no provision has been made for the said matters in this condensed interim financial information.
- 16.1.8 A sales tax order-in-original No. 01/2011 dated June 30, 2011 was issued by Deputy Commissioner Inland Revenue (DCIR), Federal Board of Revenue (FBR) in respect of sales tax audit of the Company for tax year 2008. Under the said order, a demand of Rs. 643,759 thousand was raised on account of certain matters. A demand of Rs. 32,188 thousand in respect of penalty has also been raised. The Company filed an appeal against the said order before Commissioner Inland Revenue (Appeals). The Commissioner Inland

Revenue (Appeals) vide his order dated September 27, 2012 has decided the case in favour of the Company. Under the law the taxation authorities have the right to prefer an appeal against the aforesaid order of Commissioner Inland Revenue (Appeals) in Appellate Tribunal. The Company is evaluating whether departmental right to appeal against the said order has exhausted. However, based on the merit of the cases, no provision has been made in this condensed interim financial information.

16.1.9 An Order was passed by Assistant Commissioner (IR) - Enforcement and Collection Division against the Company on January 22, 2011 in which a demand was raised in respect of input sales tax claimed amounting to Rs. 650,446 thousand along with default surcharge (to be calculated at the time of final payment) and penalty at the rate of 5% of sales tax involved on the grounds that the Company failed to make payments to the supplier in respect of these purchases through banking channels within 180 days of the issuance of sales tax invoice as required under section 73(2) of the Sales Act, 1990. The Company had filed an appeal before CIR (Appeals) against the above mentioned order on February 22, 2011 which was decided against the Company by CIR (Appeals) through his order dated April 23, 2012. The Company filed an appeal against the aforesaid order of the CIR (Appeals) in Appellate Tribunal on June 11, 2012 which is pending adjudication. Further, the Company has obtained stay from Sindh High Court against the aforementioned demand. Based on the views of its tax advisors, the management believes that the matter will ultimately be decided in the Company's favour. Accordingly, no provision has been made in this condensed interim financial information.

16.1.10 The Deputy Commissioner Inland Revenue (DCIR), Federal Board of Revenue (FBR) through his orders passed under the ITO, 2001 classified the payments in respect of trade discounts and advertisement expenses incurred during tax years 2009 and 2010 as prizes subject to withholding of tax @ 20% under section 156 of the ITO, 2001. Consequently, total tax demand of Rs. 339,312 thousand was created vide the abovementioned orders which was subsequently rectified and amended to Rs. 318,837 thousand. The said rectification orders for the tax years 2009 and 2010 were further revised on October 11, 2011 and November 29, 2011 respectively and the said demand was reduced to Rs. 165,856 thousand. The Company has the contention that trade discounts attract tax @ 10% under section 156A of the ITO, 2001 and advertisement expenses attract taxes under section 153 of the ITO, 2001 which have been duly paid by the Company. Therefore, the Company had filed appeals against the said orders before the CIR (Appeals). The CIR (Appeals) while deciding the appeals gave partial relief to the Company by deleting the portions of the demands that related to sales promotions / advertisements. During the current period, the Company has filed an appeal against the aforesaid order of CIR (Appeals) before ATIR, which is pending for hearing. Based on the views of its tax advisors, the management believes that the matter will ultimately be decided in the Company's favour. Accordingly, no provision has been made in this condensed interim financial information.

16.1.11 During the year ended June 30, 2012, the Assistant Commissioner Inland Revenue (ACIR), Federal Board of Revenue (FBR) through his order passed under the ITO, 2001 classified the payments in respect of trade discounts during tax year 2011 as prizes subject to withholding tax @ 20% under section 156 of the ITO, 2001. Consequently total tax demand of Rs. 102,088 thousand was created vide the abovementioned order against which the Company has filed rectification application during the period which is pending. The Company has the contention that trade discounts attract tax @ 10% under section 156A of the ITO, 2001 which have been duly paid by the Company. The Company has filed an appeal against aforesaid order before CIR (Appeals), which is pending for hearing. Based on the views of its tax advisors, the management believes that the matter will ultimately be decided in the Company's favour.

16.1.12 During the year ended June 30, 2002, Schedule I to Stamp Duty Act, 1899 was substituted with a revised Schedule vide Stamp (Sindh Amendment) Ordinance, 2002 and stamp duty was levied at the rate of 0.2% of amount of contracts including purchase orders for supply or to undertake cartage of stores and materials. MoP & NR had approached Chief Minister Sindh vide its letter reference D.O.No.PL-3(413)/2009 dated April 4, 2009 on behalf of the oil marketing companies and refineries and requested Chief Minister Sindh to direct Board of Revenue, Sindh to withdraw the levy of Stamp Duty on purchases of petroleum products as the pricing of petroleum products is a Federal subject.

Management in consultation with its legal advisors evaluated that the purchases of petroleum, oil and lubricants does not fall within the purview of the said act and it may however be applicable on the purchase of certain items the impact of which will not be significant.

16.1.13 During the year ended June 30, 2011, the Deputy District Officer, Property Division-B, Government of Sindh issued a show cause notice dated February 25, 2011 under the Sindh Immovable Properties Tax Act, 1958 against the Company for payment of property tax amounting to Rs. 35,578 thousand in respect of Kemari terminal land rented by the Company from Karachi Port Trust (KPT). During preceding year, the Company filed a suit in High Court of Sindh against KPT for recovery of property taxes paid on behalf of KPT during earlier periods amounting to Rs. 39,781 thousand and restraining the relevant authorities from levying and collecting of property tax from the Company. The decision of the suit is pending and based on the views of its legal advisors, the management believes that the matter will ultimately be decided in the Company's favour. Accordingly, no provision has been made in this condensed interim financial information.

16.1.14 As at December 31, 2012, certain legal cases amounting to Rs. 2,885,202 thousand (June 30, 2012: Rs. 1,772,581 thousand) are filed against the Company. Based on the advices of its legal advisors, the management believes that the outcome of these cases would be decided in the Company's favour, accordingly, no provision has been made with regard to pending

legal cases in this condensed interim financial information.

## 16.2 Commitments

Un-audited  
December 31,  
2012  
Audited  
June 30,  
2012  
(Rupees in '000)

16.2.1 Commitments in respect of capital expenditure contracted for but not yet incurred is as follows:

|                                 |                  |                |
|---------------------------------|------------------|----------------|
| - Property, plant and equipment | 1,016,514        | 714,850        |
| - Intangibles                   | 10,932           | 7,206          |
|                                 | <u>1,027,446</u> | <u>722,056</u> |

16.2.2 Letters of credit and bank guarantees outstanding as at December 31, 2012 amounted to Rs. 10,890,996 thousand (June 30, 2012: Rs. 12,238,537 thousand).

## 17. Taxation

|                        | Unaudited<br>Six months period ended |                      | Unaudited<br>Quarter ended |                      |
|------------------------|--------------------------------------|----------------------|----------------------------|----------------------|
|                        | December 31,<br>2012                 | December 31,<br>2011 | December 31,<br>2012       | December 31,<br>2011 |
|                        | (Rupees in '000)                     |                      |                            |                      |
| Current - for the year | 3,554,011                            | 2,503,191            | 1,305,619                  | 1,274,590            |
| Prior year - reversal  | (115,062)                            | (135,287)            | (115,062)                  | (135,287)            |
| Deferred               | (444,021)                            | (255,184)            | (474,926)                  | (280,239)            |
|                        | <u>2,994,928</u>                     | <u>2,112,720</u>     | <u>715,631</u>             | <u>859,064</u>       |

## 18. Earnings per share

### 18.1 Basic

|                                                                                        | Unaudited<br>Six months period ended |                           | Unaudited<br>Quarter ended |                           |
|----------------------------------------------------------------------------------------|--------------------------------------|---------------------------|----------------------------|---------------------------|
|                                                                                        | December 31,<br>2012                 | December 31,<br>2011      | December 31,<br>2012       | December 31,<br>2011      |
|                                                                                        | (Rupees in '000)                     |                           |                            |                           |
| Profit after taxation attributable to ordinary shareholders                            | 6,273,873                            | 4,583,367                 | 2,084,360                  | 2,096,058                 |
| Weighted average number of ordinary shares in issue during the period (2011: Restated) | 205,822,681                          | 205,822,681               | 205,822,681                | 205,822,681               |
| Earnings per share (2011: Restated)                                                    | <u>30.48</u>                         | <u>Restated<br/>22.27</u> | <u>10.13</u>               | <u>Restated<br/>10.18</u> |

Number of shares for prior period have also been adjusted for the effect of bonus share issued during the period.

## 18.2 Diluted

There is no dilutive effect on the basic earnings per share of the Company as there were no convertible potential ordinary shares in issue as at December 31, 2011 and December 31, 2012.

## 19. Cash generated from operations

|                                                    | Note | Un-audited<br>Six months period ended |                      |
|----------------------------------------------------|------|---------------------------------------|----------------------|
|                                                    |      | December 31,<br>2012                  | December 31,<br>2011 |
| (Rupees in '000)                                   |      |                                       |                      |
| Profit before taxation                             |      | 9,268,801                             | 6,696,087            |
| Adjustments for:                                   |      |                                       |                      |
| Depreciation                                       |      | 581,145                               | 557,810              |
| Amortisation                                       |      | 7,572                                 | 7,699                |
| Reversal of provision against doubtful trade debts |      | (16,707)                              | (141,873)            |
| Retirement and other services benefits accrued     |      | 595,983                               | 609,873              |
| Profits on disposal of operating assets            |      | (5,217)                               | (5,746)              |
| Share of profit of investments in associates       |      | (326,434)                             | (252,879)            |
| Dividend income                                    |      | (221,750)                             | (209,497)            |
| Finance charges                                    |      | 4,479,288                             | 4,000,167            |
|                                                    |      | 5,093,880                             | 4,565,554            |
| Working capital changes                            | 19.1 | (6,278,094)                           | (1,811,572)          |
| Cash generated from operations                     |      | <u>8,084,587</u>                      | <u>9,450,069</u>     |

## 19.1 Working capital changes

(Increase) / decrease in current assets:

|                                       |              |              |
|---------------------------------------|--------------|--------------|
| - Stores, spare parts and loose tools | (2,836)      | 5,661        |
| - Stock in trade                      | (20,230,788) | 2,902,101    |
| - Trade debts                         | 78,264,819   | (50,092,760) |
| - Loans and advances                  | (215,486)    | (96,373)     |
| - Deposits and short-term prepayments | 1,367,990    | 452,810      |
| - Other receivables                   | (2,642,468)  | 458,535      |

(Decrease) / increase in current liabilities:

|                            |                    |                    |
|----------------------------|--------------------|--------------------|
| - Trade and other payables | (62,819,325)       | 44,558,454         |
|                            | <u>(6,278,094)</u> | <u>(1,811,572)</u> |

## 20. Cash and cash equivalents

Cash and cash equivalents comprise of the following items included in the balance sheet:

|                                    | Note | Unaudited            |                      |
|------------------------------------|------|----------------------|----------------------|
|                                    |      | December 31,<br>2012 | December 31,<br>2011 |
| (Rupees in '000)                   |      |                      |                      |
| Cash and bank balances             |      | 4,227,764            | 2,882,982            |
| Finance under mark-up arrangements | 15   | (11,708,134)         | (5,444,568)          |
|                                    |      | <u>(7,480,370)</u>   | <u>(2,561,586)</u>   |

## 21. Transactions with related parties

Related parties comprise of associates, other companies with common directors, retirement benefit funds, directors and key management personnel and state controlled entities. Transactions with key management personnel are carried out in accordance with terms of their employment contracts. Transactions with retirement benefit funds are in accordance with their respective trust deeds and service rules of the Company. Transactions with the associates and state owned entities are at agreed terms.

Details of transactions with the related parties during the period, other than disclosed elsewhere in the condensed interim financial information, are as follows:

| Name of the related party and relationship with the Company | Nature of transaction               | Un-audited<br>Six months period ended |                      |
|-------------------------------------------------------------|-------------------------------------|---------------------------------------|----------------------|
|                                                             |                                     | December 31,<br>2012                  | December 31,<br>2011 |
| (Rupees in '000)                                            |                                     |                                       |                      |
| <b>Associates</b>                                           |                                     |                                       |                      |
| - Pak Grease Manufacturing Company (Private) Limited        | Purchases                           | 14,023                                | 56,214               |
|                                                             | Dividend received                   | 4,803                                 | 4,117                |
| - Asia Petroleum Limited                                    | Income (facility charges)           | 110,542                               | 94,521               |
|                                                             | Rental income                       | 3,120                                 | 3,235                |
|                                                             | Other services                      |                                       | 504                  |
|                                                             | Dividend received                   | 207,264                               | 460,586              |
|                                                             | Pipeline charges                    | 1,105,423                             | 945,218              |
| <b>Retirement benefit funds</b>                             |                                     |                                       |                      |
| - Gratuity fund                                             | Contributions                       | 200,000                               | 343,420              |
| - Provident fund                                            | Contributions                       | 52,433                                | 38,884               |
| - Pension funds                                             | Contributions                       | 208,403                               | 387,885              |
| <b>Other related parties</b>                                |                                     |                                       |                      |
| - Pakistan Refinery Limited                                 | Purchases                           | 15,487,968                            | 18,812,898           |
|                                                             | Dividend received                   | -                                     | 9,450                |
| - Pak Arab Pipeline Company Limited                         | Pipeline charges                    | 1,942,005                             | 1,667,885            |
|                                                             | Dividend received                   | 221,750                               | 200,047              |
| -Govt. of Pakistan                                          | Adjusted against PDC                | 96,332                                | -                    |
|                                                             | Dividend paid                       | -                                     | 77,011               |
| -PSOCL Employee Empowerment Trust                           | Dividend paid                       | 13,059                                | 10,502               |
| Key management personnel                                    | Remuneration                        | 138,961                               | 72,929               |
|                                                             | Contribution to retirement benefits | 2,911                                 | 1,801                |

| Name of the related party and relationship with the Company | Nature of transaction  | Un-audited<br>Six months period ended |                   |
|-------------------------------------------------------------|------------------------|---------------------------------------|-------------------|
|                                                             |                        | December 31, 2012                     | December 31, 2011 |
|                                                             |                        | (Rupees in '000)                      |                   |
| Profit oriented state - controlled entities - various       | Purchases              | 64,135,428                            | 33,609,652        |
|                                                             | Sales                  | 122,612,561                           | 128,025,789       |
|                                                             | Transportation charges | -                                     | 10,613            |
|                                                             | Utility charges        | 85,332                                | 70,142            |
|                                                             | Rental charges         | 60,663                                | 22,831            |
|                                                             | Insurance premium paid | 643,916                               | 909,653           |
|                                                             | Dividend paid          | 70,001                                | 55,356            |

Loan and advances includes Rs. 60,001 thousand (June 30, 2012: Rs. 57,195 thousand) to Pak Arab Refinery Limited, a related party, against purchase of Liquefied Petroleum Gas (LPG).

## 22. Operating segments

This condensed interim financial information has been prepared on the basis of a single reportable segment.

Sales from fuel products and others represent 99% and 1% (December 31, 2011: 99% and 1%) of total revenue of the Company respectively.

Total sales of the Company relating to customers in Pakistan was 98.4% during the six months period ended December 31, 2012 (December 31, 2011: 98.2%) .

All non-current assets of the Company as at December 31, 2012 are located in Pakistan.

Sales to three major customers of the Company is around 33% during the six months period ended December 31, 2012 (December 31, 2011: 31.2%).

## 2. Non - Adjusting Events After Balance Sheet Date

The Board of Management in their meeting held on February 21, 2013 proposed an interim cash dividend of Rs. 2.5 per share amounting to Rs. 514,557 thousand (December 31, 2011: Nil) and 20% bonus shares (41,164,536 shares) i.e. one share for every five ordinary shares held (December 31, 2011: Nil) for the year ending June 30, 2013. This condensed interim financial information does not include the effect of these appropriations which will be accounted for in the annual financial statements for the year ending June 30, 2013.

## 24. Date of authorisation for issue

The condensed interim financial information was authorised for issue on February 21, 2013 by the Board of Management - Oil of the Company.

Naeem Yahya Mir  
CEO & Managing Director

Sohail Wajahat H.Siddiqui  
Chairman



***Pakistan State Oil***

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