

REPORT TO SHAREHOLDERS

The Board of Management of Pakistan State Oil reviewed the un-audited financial statements for the nine months ended March 31, 2007 and is pleased to present its 3rd Quarter report:

During the review period, total industry off-takes improved by over 11% versus corresponding period last year. This increase is attributable to high sales volumes of furnace oil to the IPPs. PSO enhanced its market share in Black Oil category by 6% to over 79%.

White Oil consumption in the country remained subdued due to customer preference to alternate fuels – declining by 4% in comparison with the same period last year. Despite this decline, your company improved its market presence with Motor Gasoline increasing to 46% from 45%, Diesel from 58% to 60% and Kerosene from 61% to 72%. PSO is also leading in providing CNG fuel facility at its extensive retail network across the country. Earnings from this fuel category are increasing and trend for the future seems promising.

The review period saw a declining trend in the international oil prices. During the first quarter the average oil price of OPEC basket stood at \$ 66 per barrel, which fell to \$ 56 in the second quarter and slid further to \$ 51 in January 2007. The trend, however, is currently reversing again since February 2007.

PSO sales revenue increased to Rs **291** billion versus Rs 236 billion during comparative period last year. Earnings for the quarter were Rs. 1,014 million vs previous quarter's Rs 569 million, and accumulated to Rs 2,150 million for the nine-month period (July 2006 – March 2007) versus Rs 4,503 million earned in the comparative period of last year. Higher receivables from the government due to subsidies provided to consumers by the GoP adversely impacted company's cash flows and profitability.

Inventory losses and higher financing costs impacted the results negatively. Your company is continuously making efforts for recovery of receivables from GoP to reduce the financial cost.

Based on this performance, the Board of Management is pleased to announce a second interim cash dividend of Rs 4/- per share. This takes the year to-date payout to Rs. 10/- per share.

Pakistan Credit Rating Agency Limited maintained the long-term and short-term entity ratings of your company at "AAA" (Triple A) and "A1+" (A one plus), respectively, which is the highest ratings by all standards.

PSO sponsored 3rd Pakistan Oil & Gas Conference (OGCON) 2007 at Islamabad which was attended by a number of foreign and local energy sector professionals, government officials and media representatives.

Your company has partnered with Telenor in establishing connectivity between the pump controllers at its nationwide New Vision retail outlet network and PSO head office through customized GPRS solution. This technological edge would result in improved business process, greater service reliability and data security.

The Board is confident that, given its inherent strengths including a highly motivated team of professionals, your company will continue to perform well despite global market unpredictability and local intense competition.

Jalees Ahmed Siddiqi
Managing Director & CEO

Pervaiz Kausar
Chairman

Karachi, April 26, 2007