

We are pleased to present, on behalf of the Board of Management, Pakistan State Oil Company Limited, the unaudited financial statements for First Quarter (July 1 - September 30, 2007) of the Financial Year 2008 (FY08):

The quarter saw all-time high crude prices, OPEC basket averaged \$71 /Bbl compared to \$65 / Bbl during the same period last year. The trend still continues and the crude price touched \$81/ Bbl in October 2007. This oil price increase had a positive impact on company's results through inventory gains in contrast to same period last year when the company suffered due to significant inventory losses.

The positive economic activity led to growth in POL industry. In liquid fuels consumption grew by 9.2%. Black Oil once again dominated the increase and recorded an almost double digit growth of 9.9%, whereas White Oil also showed growth of 8.6% over last year. Part of this growth is a result of stoppage of smuggled products from Iran.

The company showed a robust performance and grew faster than industry. In liquid fuel sales volume increased by 15.2% as compared to the previous year. In Black Oil volume went up by 16.6%, whereas in White Oil the increase was 13.8%, thus capturing market shares of 84.4% and 61.2% respectively. Overall PSO market share of 71.7% during the quarter is the highest-ever for 7 years.

PSO is also leading in providing CNG fuel facilities at its extensive retail network. Earnings from this fuel category are increasing and the future trend seems promising.

PSO card business (Fleet, Corporate, & Prepaid) recorded 28% growth against the same period last year.

PSO sales revenue increased to Rs. 122 billion versus Rs. 101 billion during the same period last year. After tax earnings for the quarter were Rs 2,103 million versus Rs 567 million in the comparative period. Rising receivables from the government due to subsidies provided to consumers had an adverse impact on company's cash flows and profitability. This is an area of major concern for PSO.

Based on this performance, a cash dividend of Rs. 5/- per share for the 1<sup>st</sup> quarter ended September 30, 2007, was declared for the shareholders.

During the review period the formula for calculating margins of OMCs and dealers on Mogas was altered on August 25, 2007, due to which OMCs and dealers margins reduced by 24%. This will affect company's profitability adversely.

To further enhance its presence and image, the company has launched a new concept of 'Green Stations' to incorporate state-of-the-art technology in New Vision retail outlet network to offer the customers a world class user-friendly retail environment while fueling their vehicles.

PSO entered into a fuel supply arrangement for Atlas Power Limited's planned 212 MW Independent Power Project (IPP). Under the arrangement, PSO will meet furnace oil requirements of 212 MW Atlas Power plant located at Shaikhupura Road - Lahore. This is significant in the backdrop of growing energy demand in the country. This is the first fuel supply agreement signed by any IPP of new regime.

Through high sales volume, new businesses solicitation, network expansion, technological advancement and brand equity enhancement, company will mitigate the impact of reduction in margins recently announced by the government.

Being a conscientious corporate citizen, the company came to the aid of our compatriots hit by the deluge in Turbat and Pasni areas of Balochistan by sending relief goods as well as refueling relief flights to the area.

The company's performance and commitment to the corporate responsibility is appreciable and it is hoped that with a highly motivated team of professionals, company will continue to perform well despite global market unpredictability and intense competition.

**Jalees Ahmed Siddiqi**  
Managing Director & CEO

**Pervaiz Kausar**  
Chairman

Islamabad, October 29, 2007