

The Board of Management of Pakistan State Oil reviewed the performance and financial statements of the company for the first half of financial year 2007-08 on February 15, 2008.

During the first half of FY08, international crude oil prices averaged over \$78 / bbl as against \$61 / bbl in 1HFY07. The trend of increase in crude price witnessed in the first quarter of FY08 continued during the second quarter, with OPEC basket price peaking at \$92 / bbl during the first half as compared to \$73 / bbl during the same period last year.

Despite intense competition PSO was able to sell over 6.2 million tons of POL products, translating into an all time high sales turnover of Rs. 248 billion - an increase of 25% over prior year. The all time high profit before tax of Rs. 8.2 billion and profit after tax of Rs. 5.5 billion was achieved owing to 13% higher sales volume as well as due to inventory gains during the period. It may be pertinent to observe that PSO has approximately 80% of the country's storage capacity and has recorded gain or loss on its stock depending upon international oil price movement. Last year the company had an inventory loss during the same period.

Based on the improved performance, the Board of Management announced the second interim cash dividend of Rs 6 per share, in addition to the first interim dividend of Rs 5 per share translating into a cash payout of Rs 1.9 billion to its shareholders which is Rs 5 per share more than the prior year period.

Throughout the first half the company continued to face liquidity problems due to ever-increasing receivables from the government resulting high financial cost. Despite the rising international prices, government continued to provide the subsidy on diesel, which touched its highest ever level at Rs 17.14 per litre in December 2007. At this level of subsidy the sale price of diesel would have been Rs. 54.87 per litre vs current price of Rs. 37.73 in the market.

The subsidy accumulation on account of Price Differential Claims (PDC) of your company reached a level of Rs 26 billion at the end of November, however, a reimbursement of Rs 12 billion was received through financing arrangement with a syndicate of banks, thus mitigating the cash flow crunch to some extent. Your company is pursuing another similar arrangement to address the increasing PDC receivable.

Following a 13% growth in sales volume PSO was able to enhance its overall market share to approximately 70% compared to 67.4% in the same period last year. The company outperformed its

competitors by recording 14% increase in White Oil sales volume against industry growth of 10%, whereas Black Oil sales increased by 11% versus a single digit industry growth of 6%.

Consequently, the company improved its market share in Motor Gasoline from 46.3% to 49.8%, while High Speed Diesel market share increased to 62.7%. Similarly, Jet A-1 market share increased to 63.6% vs 62.8% in the same period last year. In fuel oil, the company maintained its leadership with 82.7% market share.

PSO has been maintaining strong focus on enhancement of Non-fuel retail business. Accordingly ATMs were installed in collaboration with leading banks at selected retail outlets. The company also established food outlet as part of its QSR network plan in collaboration with a foreign fast food chain at one of its retail outlet, which is the first internationally recognized quick service restaurant (QSR) established at any OMC's forecourt in Pakistan. Besides this PSO customers can now experience state-of-the-art car cleaning solution 'Wash Express' which has been introduced at selected outlets.

In order to maintain its leadership position in aviation industry, PSO developed an exclusive aviation, consumer and retail facilities at the newly developed Sialkot International Airport (SIAL) inaugurated by the President of Pakistan in December 2007. PSO's refueling facility at SIAL is fully capable of providing services to larger body aircraft as per international Aviation Quality Control & Safety Standards.

The Pakistan Credit Rating Agency (PACRA) assigned your company a long-term and short-term entity ratings of 'AAA' and A1+ which is the highest credit ratings in PACRA's rating scale.

During the period under review, your company also won the Pakistan Society of Human Resource Management (PSHRM) Most Preferred Local Company Award thus moving towards becoming the 'Employer of Choice'. The company also won ICAP-ICMAP 'Best Corporate Report Award 2006' in Fuel and Energy sector.

Looking ahead your Board is confident that the company is well poised to meet anticipated market challenges and continue to deliver improved performance.

Mohammad Abdul Aleem  
Managing Director & CEO

Sardar M. Yasin Malik  
Chairman

Karachi, February 15, 2008