

CORPORATE GOVERNANCE

Statement of Compliance

With the Public Sector Companies (Corporate Governance) Rules, 2013 and the Listed Companies (Code of Corporate Governance) Regulations, 2019 for the year ended June 30, 2022

Name of the line ministry: Ministry of Energy (Petroleum Division)

This statement is being presented to comply with the Public Sector Companies (Corporate Governance) Rules, 2013 (hereinafter called "The Rules") and the Listed Companies (Code of Corporate Governance) Regulations, 2019 ("the Regulations") issued by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of establishing a framework of good governance, whereby a listed public sector company is managed in compliance with the best practices of the Rules and the Regulations.

Pakistan State Oil Company Limited (the Company/PSO) is primarily regulated under the provisions of the Marketing of Petroleum Products (Federal Control) Act, 1974 ("the 1974 Act") which takes precedence over the provisions contained in the Companies Act, 2017 ("the Act"). The Rules and the Regulations promulgated by the SECP have laid down certain criteria for the election, functioning and responsibilities of the Board of Directors and related administrative matters, the election of the Chairman and the appointment of the Managing Director. However, the said criteria of the Rules and the Regulations are not considered applicable to the extent of overriding provisions contained in the 1974 Act and Board of Management Regulations, 1974 of the Company.

The Company is managed by the Board of Management (BOM) appointed by the Federal Government under section 7 of the 1974 Act.

In view of the above, the Company applied the principles contained in the Rules and the Regulations in the following manner:

1. The independent members of the BOM meet the criteria of independence, as defined under the Rules.
2. The BOM has at least one-third of its total members as independent members. As at June 30, 2022, the composition of BOM was as follows:

Category	Name	Date of appointment
Independent Members	Mr. Zafar I. Usmani	February 21, 2019
	Ms. Tara Uzra Dawood	February 21, 2019
	Mr. Muhammad Hamayun Khan Barakzai	February 21, 2019

Category	Name	Date of appointment
Executive Member	Syed Muhammad Taha	February 26, 2020
Non-Executive Members	Mr. Asim Iqbal	September 20, 2021
	Mr. Hassan Mehmood Yousufzai	June 17, 2021
	Mr. Muhammad Anwer	February 21, 2019
	Ms. Saira Najeeb Ahmed	December 23, 2021
Female Members	Ms. Saira Najeeb Ahmed	December 23, 2021
	Ms. Tara Uzra Dawood	February 21, 2019

3. The members of the BOM had confirmed that none of them served as a director on more than five public sector companies and listed companies simultaneously, except their subsidiaries.
4. The chairman of the Board is working separately from the chief executive of the Company.
5. (a) The Company has prepared a "Code of Conduct" to ensure that professional standards and corporate values are in place.
 - (b) The BOM has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures, including posting the same on the Company's website (www.psopk.com).
 - (c) The BOM has set in place adequate systems and controls for the identification and redressal of grievances arising from unethical practices. The BOM has formed a Compensation Organization & Employee Development Committee whose functions include investigating deviations from the Company's Code of Conduct.
6. The BOM has established a system of sound internal control to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty; and relationship with the stakeholders, in the manner prescribed in the Rules.
7. The BOM has developed and enforced an appropriate conflict of interest policy which lays down circumstances or considerations when a person may be deemed to

- have actual or potential conflict of interests, and the procedures for disclosing such interests.
8. The BOM has a whistle blowing policy and a policy against bribery and receiving gifts in place as an anticorruption measure to minimize actual or perceived corruption in the Company.
 9. The BOM has ensured equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service.
 10. The BOM ensured compliance with the law as well as the Company's internal rules and procedures relating to public procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services, in accordance with the Public Procurement Regulatory Authority (PPRA) Rules.
 11. The BOM has developed a vision/mission statement and corporate strategy of the Company.
 12. The BOM has developed significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended, has been maintained.
 13. During the year, the Company did not deliver any services or sell any goods as a public service obligation, hence, no submissions of requests for compensation were made to the Government.
 14. The BOM has ensured compliance with policy directions requirements received from the Government.
 15. (a) The BOM has met thirteen times during the year.
 - (b) Written notices of the BOM meetings, along with agenda and working papers, were circulated at least seven days before the meetings except in case of emergency meetings.
 - (c) Minutes of the meetings were appropriately recorded and circulated.
 16. The BOM has monitored and assessed the performance of senior management on annual basis and held them accountable for accomplishing objectives, goals and key performance indicators set for this purpose.
 17. The BOM has reviewed and approved the related party transactions placed before it after recommendations of the Board Audit & Compliance Committee. A party wise record of transactions entered into with the related parties during the year has been maintained.
 18. (a) The BOM has reviewed and approved the statement of profit or loss for, and the statement of financial position as at the end of the first, second and third quarters of the year as well as for the financial year end including consolidated statement of profit or loss and consolidated statement of financial position.
 - (b) The Company has prepared half yearly unconsolidated financial statements and undertaken limited scope review by the external auditors.
 - (c) The BOM has placed the annual financial statements on the Company's website.
 19. The BOM has formed the requisite committees, as specified in the Rules. The committees were provided with written terms of reference defining their duties and authority. The minutes of the meetings of the committees were circulated to all BOM members. The committees were chaired by the following Independent/Non-executive Board Members:

Committee	No. of Members	Name of Chair
Board Audit & Compliance Committee	4	Ms. Tara Uzra Dawood
Board Finance & Risk Management Committee	5	Mr. Muhammad Anwer
Board Human Resource & Remuneration Committee	5	Ms. Tara Uzra Dawood
Board Procurement Committee	4	Mr. Hassan Mehmood Yousufzai
Board IT & Innovation Committee	4	Ms. Saira Najeeb Ahmed Ms. Tara Uzra Dawood*
Board Strategy & Diversification Committee	5	Mr. Zafar I. Usmani

* Changed during the year.
 20. The BOM has formed Board Audit & Compliance Committee with defined and written terms of reference, having the following members:

Name	Category	Professional Background
Ms. Tara Uzra Dawood	Independent Chairperson	Doctorate in Judicial Science
Mr. Asim Iqbal	Non-executive Member	Civil Servant
Mr. Muhammad Anwer	Non-executive Member	Civil Servant
Mr. Muhammad Hamayun Khan Barakzai	Independent Member	Graduate in Commerce

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21. The BOM approved the appointment of the Chief Financial Officer during the year with the remuneration and terms and conditions of employment. There was no change in the position of the Head of Internal Audit and Company Secretary during the year.
22. The Chief Financial Officer and the Company Secretary have requisite qualification prescribed in the Rules.
23. The Company has adopted International Financial Reporting Standards as are notified by the Commission in terms of sub-section (1) of section 225 of the Act.
24. The Report to the Shareholders for current year has been prepared in compliance with the requirements of the Act and the Rules and fully describes the salient matters required to be disclosed.
25. The members of the BOM, the Managing Director and executives, or their relatives, are not, directly or indirectly, concerned or interested in any contract or arrangement entered into by or on behalf of the Company except those disclosed to the Company.
26. The responsibility for fixing the remuneration packages of the Managing Director and the Chairman of BOM is the function of the Federal Government under the 1974 Act. Accordingly, this function was performed by the Federal Government. The Non-executive BOM members do not have fixed remuneration per se and are being paid a fixed fee for each meeting attended. The said fees are decided upon by the BOM collectively.
27. The financial statements of the Company were duly endorsed by the Managing Director and Chief Financial Officer before approval of the Board Audit & Compliance Committee and BOM.
28. (a) The Chief Financial Officer, the Head of Internal Audit and representatives of external auditors attended all meetings of the Board Audit & Compliance Committee at which issues relating to accounts and audit were discussed.
- (b) The Board Audit & Compliance Committee met the external auditors, at least once a year, without the presence of the Chief Financial Officer, the Head of Internal Audit and other executives.
- (c) The Board Audit & Compliance Committee met the Head of Internal Audit and other members of the internal audit function, at least once a year, without the presence of Chief Financial Officer and the external auditors.
29. (a) The BOM has set up an effective internal audit function, which has an audit charter, duly approved by the Board Audit & Compliance Committee.
- (b) The Head of Internal Audit has requisite qualification and experience prescribed in the Rules.
- (c) The Internal Audit Reports have been provided to the external auditors for their review.
30. The external auditors of the Company have confirmed that their firms and all their partners are in compliance with the International Federation of Accountants (IFAC) guidelines on Code of Ethics as applicable in Pakistan.
31. The external auditors have confirmed that they have observed applicable guidelines issued by IFAC with regard to provision of non-audit services. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, the regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard.

Additional requirements under the Regulations:

Clause 2(5) of the Public Sector Companies (Corporate Governance Compliance) Guidelines, 2018 issued by the SECP requires that any disclosure required under any other directive, code, regulation or rules shall also be made in the statement of compliance, notwithstanding anything contained in the statement. Accordingly, below are the requirements of the Regulations applicable for listed companies for which parallel provisions do not exist in the Rules.

- a) As at June 30, 2022, the total number of Board Members was 08 as follows:

(i)	Male	06
(ii)	Female	02

- b) The BOM has formed Committees comprising members given below:

Board Human Resource & Remuneration Committee	Ms. Tara Uzra Dawood Mr. Hassan Mehmood Yousufzai Mr. Muhammad Hamayun Khan Barakzai Mr. Zafar I. Usmani Syed Muhammad Taha	Chairperson Member Member Member Member
Board Procurement Committee	Mr. Hassan Mehmood Yousufzai Mr. Asim Iqbal Mr. Muhammad Anwer Mr. Muhammad Hamayun Khan Barakzai	Chairman Member Member Member

Board Finance & Risk Management Committee	Mr. Muhammad Anwer	Chairman
	Mr. Asim Iqbal	Member
	Mr. Hassan Mehmood Yousufzai	Member
	Ms. Saira Najeeb Ahmed Syed Muhammad Taha	Member Member
Board IT & Innovation Committee	Ms. Saira Najeeb Ahmed	Chairperson
	Ms. Tara Uzra Dawood	Member
	Mr. Zafar I. Usmani	Member
	Syed Muhammad Taha	Member
Board Strategy & Diversification Committee	Mr. Zafar I. Usmani	Chairman
	Mr. Hassan Mehmood Yousufzai	Member
	Mr. Muhammad Anwer	Member
	Ms. Saira Najeeb Ahmed	Member
	Syed Muhammad Taha	Member

Details of Board Audit & Compliance Committee are given in paragraph 20.

- c) The frequency of meetings (yearly) of the Board Committees was as follows:

Board Sub-Committee	Frequency
Board Audit & Compliance Committee	5
Board Human Resource & Remuneration Committee	6
Board Procurement Committee	6
Board Finance & Risk Management Committee	1
Board IT & Innovation Committee	2
Board Strategy & Diversification Committee	-

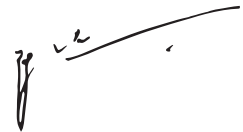
- d) The Board has arranged Directors' Training Program for the following:
- Syed Muhammad Taha (MD/CEO & Member, Board of Management)
 - Mr. Hassan Mehmood Yousufzai (Member, Board of Management)
 - Mr. Muhammad Anwer (Member, Board of Management)
- e) The external auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan (ICAP) and are registered with Audit Oversight Board of Pakistan, that the partners of the firm involved in the audit are not close relative (spouse, parent, dependent and non-dependent children) of the Chief Executive Officer, Chief Financial Officer, Head of Internal audit, Company Secretary or Board member of the Company.
- f) All the meetings of the BOM were presided over by the Chairman.

- g) All the powers of the BOM were duly exercised and decisions on material transactions were taken by the BOM except for appointment and determination of remuneration and terms and conditions of employment of the Managing Director which is the function of the Federal Government under section 6(1) & (3) of the 1974 Act, hence, this matter was referred to the Federal Government for approval.
- h) We confirm that all requirements of regulations 3, 6, 7, 8, 27, 32, 33 and 36 of the Regulations have been complied with.



Syed Muhammad Taha
Managing Director & CEO

August 26, 2022
Karachi



Zafar I. Usmani
Chairman

CORPORATE GOVERNANCE

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Review Report to the Members

On the Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019 and Public Sector Companies (Corporate Governance) Rules, 2013

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Listed Companies (Code of Corporate Governance) Regulations, 2019 and Public Sector Companies (Corporate Governance) Rules, 2013 (both herein referred to as 'Codes') prepared by the Board of Management (BOM) of Pakistan State Oil Company Limited (the Company) for the year ended June 30, 2022 to comply with the requirements of regulation 36 and rule 24 of Listed Companies (Code of Corporate Governance) Regulations, 2019 and provisions of Public Sector Companies (Corporate Governance) Rules, 2013 respectively.

The responsibility for compliance with the Codes is that of the BOM of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Codes and report if it does not and to highlight any non-compliance with the requirements of the Codes. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Codes.

As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the BOM's statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Codes require the Company to place before the Board Audit and Compliance Committee, and upon recommendation of the Board Audit and Compliance Committee, place before the BOM for their review and approval, its related party transactions. We are only required and have ensured compliance of this requirement to the extent of the approval of the related

party transactions by the BOM upon recommendation of the Board Audit and Compliance Committee.

Moreover, the Public Sector Companies (Corporate Governance) Rules, 2013 require the BOM to ensure compliance with the law as well as the Company's internal rules and procedures relating to public procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services, in accordance with the Public Procurement Regulatory Authority (PPRA) Rules. We have only carried out procedures to check compliance with the above-mentioned rules on a test basis as a part of our audit of the financial statements of the Company.

Based on our review, nothing has come to our attention which causes us to believe that the 'Statement of Compliance' does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Codes as applicable to the Company for the year ended June 30, 2022 except that certain clauses are considered inapplicable due to overriding provisions of the Marketing of Petroleum Products (Federal Control) Act, 1974 (the 1974 Act) and the Board of Management Regulations, 1974 applicable to the Company, as explained in the enclosed Statement of Compliance.

We draw attention to the Statement of Compliance, which states that the Company is primarily regulated under the provisions of (the 1974 Act) and managed by the BOM appointed by the Federal Government under section 7 of the 1974 Act.



Karachi
Date: September 26, 2022

KPMG Taseer Hadi & Co.
Chartered Accountants

UDIN: CR202210202uUJs5DkSL