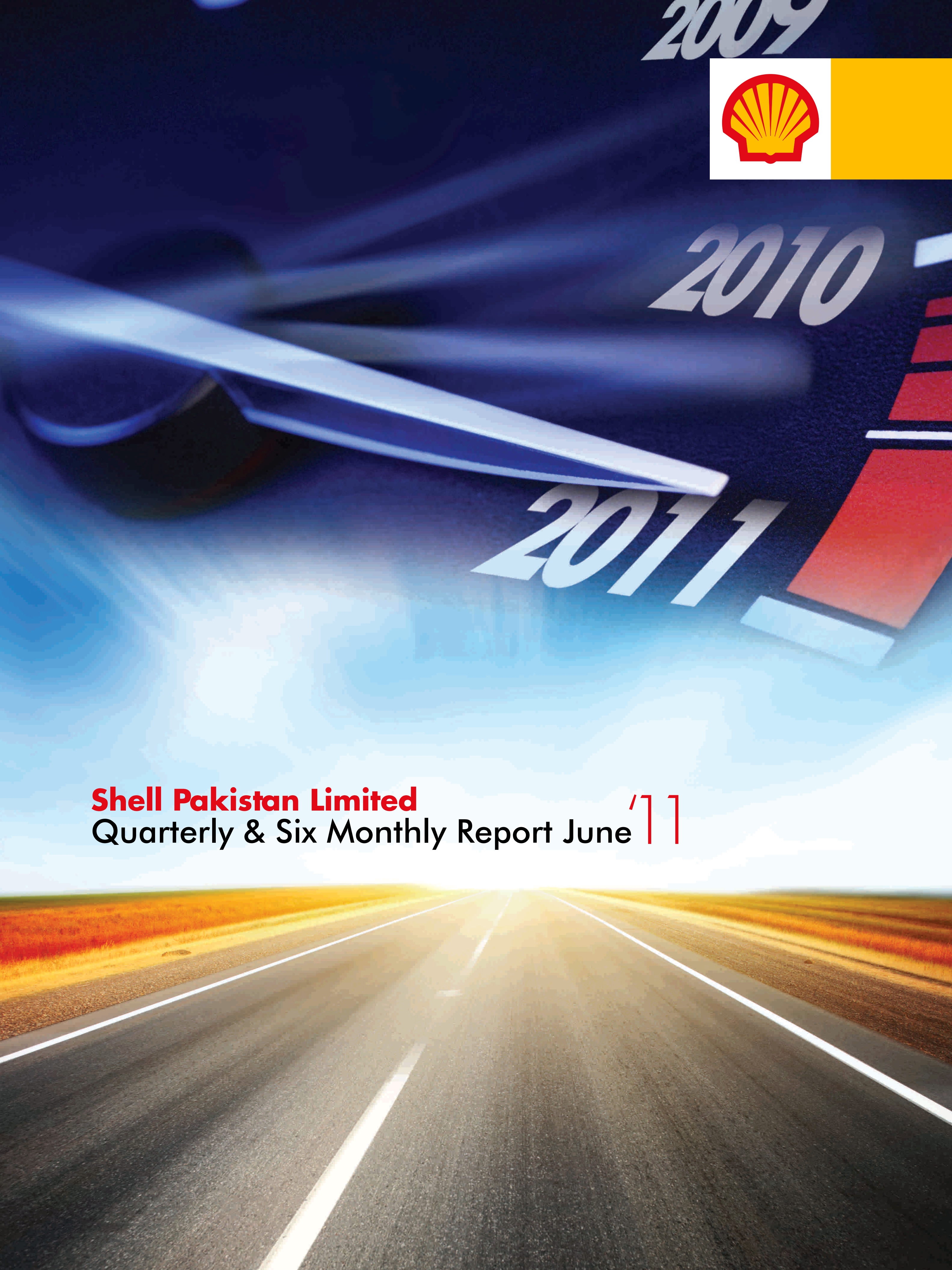

Shell Pakistan Limited
Quarterly & Six Monthly Report June '11

Company Information

Board of Directors

Chairman	Mr. Sarim Sheikh
	Mr. Rafi H. Basheer
	Mr. Farrokh K. Captain
	Mr. Chong Keng Cheen
	Mr. Gary Fisher
	Mr. Imran R. Ibrahim
	Mr. Nasser N.S. Jaffer
	Mr. Zaffar A. Khan
	Mr. Michael Noll
	Mr. Omar Y. Sheikh
	Mr. Badaruddin F. Vellani

Chief Executive

Managing Director & Chief Executive	Mr. Sarim Sheikh

Audit Committee

Chairman	Mr. Badaruddin F. Vellani
	Mr. Michael Noll
	Mr. Imran R. Ibrahim

Leadership Team

Managing Director & Chief Executive	Mr. Sarim Sheikh
Country Coordinator	Ms. Seema Adil
General Manager Lubricants	Mr. Omar Y. Sheikh
General Manager Retail	Mr. Gary Fisher
General Manager External Affairs	Mr. Abid S. Ibrahim
General Manager Human Resources	Mr. Leon Menezes
General Manager Supply & Distribution	Mr. Haroon Rashid
General Manager Business Strategy	Mr. Omar Motiwalla
Company Secretary & Head of Legal	Mr. Tariq Saeed
Chief Financial Officer	Mr. Rafi H. Basheer
Business Manager Commercial Fuels	Mr. Anwaar Shami

Company Secretary

Mr. Tariq Saeed

Registered Office

Shell House,
6, Ch. Khaliquzzaman Road,
Karachi-75530

Auditors

A. F. Ferguson & Co.

Legal Advisors

Vellani & Vellani
Advocates & Solicitors

Registrar & Share Registration Office

FAMCO Associates (Pvt) Ltd.,
1st Floor, State Life Building 1-A,
I. I. Chundrigar Road,
Karachi-74000

Chairman's Review

For the half year ended June 30, 2011

On behalf of the Board of Directors of Shell Pakistan Limited, I am pleased to share the results of the Company for the half year ended June 30, 2011.

For this period, our Net Revenues were Rs 116,318 million with Gross Profits of Rs 7,559 million, delivering Profit before Tax of Rs 2,671 million. During this half year the Company earned a profit after tax of Rs.1,407 million as against a net profit of Rs. 720 million recorded in the same period last year.

This increase is primarily due to favorable movements in the international oil price during the period with support from improved performance in the export business of the Company and reduction of operating costs. However, your Company continues to be impacted by very low regulated margins set by the Government for motor gasoline and diesel and high financing costs due to significant delay in recovery of refunds of indirect taxes and subsidy claims from the Government.

Regulated margins for petrol and diesel in Pakistan remain one of the lowest in the region, having been further reduced by the Government in late 2010, at a time of both rising oil prices and increasing cost of doing business. In a high oil price and inflationary environment that was prevalent during this half-year period, the level of margins allowed by the Government do not provide appropriate returns to cover the cost of operations and the high cost of financing for the required investments in costlier stock and higher and delayed Government receivables.

Government receivables are now approaching in excess of Rs 13,000 million mainly related to refund of indirect taxes and fuel subsidies. This is causing a continually high financing charge on the Company. Since the inception of these receivables, the delays in settlement have already cost the Company over Rs. 3 billion in interest costs. Your management is vigorously following up with concerned Government authorities for the early settlement of these receivables.

We continue to emphasise that it is imperative for the Government to urgently address the unfavorable impacts of low margins in Oil Marketing Company's margins and delay in settlement of Government receivables. The recent ECC decision on margin increase is a positive step in this direction and we are hopeful that this will be fully and immediately implemented. Also the delays in clearing receivables due from the Government needs to be addressed on an urgent basis to create an environment conducive to business continuity and growth in this key sector of the economy.

Due to these challenges and its impact on the operating position, your Board has not recommended an interim dividend for the current period and will only consider a final dividend at the year end.

We thank our shareholders, customers and staff for their sustained support and trusting Shell as their brand of first choice.

Sarim Sheikh
Chairman & Chief Executive

August 17, 2011

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

Introduction

We have reviewed the accompanying condensed interim balance sheet of **Shell Pakistan Limited** as at June 30, 2011 and the related condensed interim statement of comprehensive income, condensed interim statement of cash flows and condensed interim statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the "condensed interim financial information"), for the half year then ended. Management is responsible for the preparation and presentation of this condensed 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 condensed interim financial information based on our review. The figures of the condensed interim statement of comprehensive income for the quarters ended June 30, 2011 and 2010 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2011.

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 condensed interim financial information as of and for the half year ended June 30, 2011 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Without qualifying our review report, we draw attention to:

- Note 7 to the interim financial information. As explained in note, the Company has recognized deferred tax asset on unutilized tax losses based on projections of future taxable profits of the Company. The realizability of this asset is dependant on the underlying assumptions and business drivers materializing as projected.

- Notes 9.1, 9.2 and 9.3 to the interim financial information. The Company considers the amount of Rs. 2,215,811 thousand, Rs. 295,733 thousand and Rs. 747,490 thousand due from the Government of Pakistan in respect of petroleum development levy and price differential on imported and local purchases respectively as current assets. The expected timing of the recoverability of these receivables and its consequential impact on their classification in the balance sheet cannot presently be determined.

- Note 9.4 to the interim financial information. The Company considers the aggregate amount of Rs.1,961,211 thousand, receivable from the Government of Pakistan in respect of price differential on imported motor gasoline as a good debt for reasons given in the note. The ultimate outcome of the matter cannot presently be determined.

A.F. Ferguson & Co.
Chartered Accountants

Karachi: August 17, 2011
Engagement Partner: Sohail Hasan

Condensed Interim Balance Sheet
as at June 30, 2011

	Note	(Unaudited) June 30, 2011	(Audited) December 31, 2010
		(Rupees `000)	
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	**6,490,869**	6,502,773
Intangible assets		**1,500,406**	1,679,707
Long term investments	6	**2,865,271**	2,547,853
Long term loans and advances		**80,464**	81,960
Long term deposits and prepayments		**201,731**	190,666
Long term debtors		**10,188**	11,442
Deferred taxation - net	7	**1,468,026**	1,993,350
		12,616,955	13,007,751
Current Assets			
Stores and spares		**15,973**	14,502
Stock-in-trade	8	**18,808,598**	12,348,438
Trade debts		**2,493,329**	2,013,358
Loans and advances		**60,823**	76,187
Trade deposits and short-term prepayments		**222,887**	305,384
Other receivables	9	**14,341,995**	9,686,866
Cash and bank balances		**1,765,402**	1,045,025
		37,709,007	25,489,760
TOTAL ASSETS		**50,325,962**	38,497,511
EQUITY AND LIABILITIES			
EQUITY			
Share capital		**684,880**	684,880
Reserves		**2,096,050**	2,096,050
Unappropriated profit		**5,978,400**	5,119,105
		8,759,330	7,900,035
LIABILITIES			
Non-Current Liabilities			
Liabilities against assets subject to finance lease		**995**	2,662
Asset retirement obligation		**183,930**	187,104
		184,925	189,766
Current Liabilities			
Trade and other payables		**22,320,985**	19,936,550
Accrued mark-up		**162,318**	86,350
Current maturity of liabilities against assets subject to finance lease		**3,013**	15,550
Short-term running finances utilised under mark-up arrangements - secured		**2,832,484**	1,586,438
Short term loans - secured		**15,790,000**	8,400,000
Taxation		**272,907**	382,822
		41,381,707	30,407,710
TOTAL EQUITY AND LIABILITIES		**50,325,962**	38,497,511
Contingencies and commitments	10		

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.

Sarim Sheikh
Chairman & Chief Executive

Badaruddin F. Vellani
Director

Condensed Interim Statement of Comprehensive Income (Unaudited)

for the half year ended June 30, 2011

	Note	Half year ended		Quarter ended	
		June 30, 2011	June 30, 2010	**June 30, 2011**	June 30, 2010
		(Rupees `000)			
Gross Sales		**130,417,765**	102,015,257	64,795,441	53,509,344
Non-fuel retail - Others		-	1,255	-	-
Other revenue		**246,258**	205,671	**130,552**	101,833
		130,664,023	102,222,183	**64,925,993**	53,611,177
Sales tax		**(14,346,098)**	(12,070,457)	**(7,199,150)**	(6,311,299)
Net revenue		**116,317,925**	90,151,726	**57,726,843**	47,299,878
Cost of products sold		**(108,759,087)**	(84,422,177)	**(53,959,829)**	(44,059,720)
Gross profit		**7,558,838**	5,729,549	**3,767,014**	3,240,158
Distribution and marketing expenses		**(1,908,327)**	(1,787,802)	**(735,094)**	(1,106,719)
Administrative expenses		**(1,897,588)**	(1,952,339)	**(1,005,663)**	(887,998)
		3,752,923	1,989,408	**2,026,257**	1,245,441
Other operating expenses		**(612,861)**	(340,338)	**(306,818)**	(241,947)
		3,140,062	1,649,070	**1,719,439**	1,003,494
Other operating income		**108,765**	387,206	**55,886**	115,550
Operating profit		**3,248,827**	2,036,276	**1,775,325**	1,119,044
Finance costs		**(895,091)**	(568,983)	**(520,892)**	(305,513)
		2,353,736	1,467,293	**1,254,433**	813,531
Share of profit of associate - net of tax		**317,418**	295,141	**139,699**	201,865
Profit before taxation		**2,671,154**	1,762,434	**1,394,132**	1,015,396
Taxation	11	**(1,263,955)**	(1,042,224)	**(745,333)**	(697,223)
Profit for the period		**1,407,199**	720,210	**648,799**	318,173
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		**1,407,199**	720,210	**648,799**	318,173
Earnings per share (Rupees)		**20.55**	10.52	**9.47**	4.65

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.

Sarim Sheikh
Chairman & Chief Executive

Badaruddin F. Vellani
Director

Condensed Interim Statement of Cash Flows (Unaudited)
for the half year ended June 30, 2011

	Note	Half year ended June 30, 2011	Half year ended June 30, 2010
		(Rupees `000)	(Rupees `000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	12	**(5,274,689)**	3,380,961
Finance costs paid		**(728,027)**	(554,066)
Taxes paid		**(848,546)**	(699,713)
Long term loans and advances		**1,496**	12,284
Long term deposits and prepayments		**(11,065)**	33,698
Mark up received on short term deposits		**13,242**	17,250
Long term debtors		**1,254**	21,449
Net cash (used in) / generated from operating activities		**(6,846,335)**	2,211,863
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(561,097)**	(148,351)
Proceeds from disposal of property, plant and equipment		**27,869**	7,808
Net cash used in investing activities		**(533,228)**	(140,543)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(521,902)**	(1,701,666)
Repayment of liability under finance lease		**(14,204)**	(22,816)
Net cash used in financing activities		**(536,106)**	(1,724,482)
Net (decrease) / increase in cash and cash equivalents		**(7,915,669)**	346,838
Cash and cash equivalents at beginning of the period		**(8,941,413)**	(5,083,378)
Cash and cash equivalents at end of the period		**(16,857,082)**	(4,736,540)

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.

Sarim Sheikh
Chairman & Chief Executive

Badaruddin F. Vellani
Director

Condensed Interim Statement of Changes in Equity (Unaudited)

for the half year ended June 30, 2011

	Share capital	Capital reserves - Share premium	General revenue	Unappro-priated profit	Total
			(Rupees '000)		
Balance as at January 1, 2010 (audited)	684,880	1,889,048	207,002	5,489,673	8,270,603
Final dividend for the year ended December 31, 2009 at Rs. 25 per share	-	-	-	(1,712,198)	(1,712,198)
Total comprehensive income for the half year ended June 30, 2010	-	-	-	720,210	720,210
Balance as at June 30, 2010 (unaudited)	684,880	1,889,048	207,002	4,497,685	7,278,615
Interim dividend for the year ended December 31, 2010 at Rs. 4 per share	-	-	-	(273,952)	(273,952)
Total comprehensive income for the half year ended December 31, 2010	-	-	-	895,372	895,372
Balance as at December 31, 2010 (audited)	684,880	1,889,048	207,002	5,119,105	7,900,035
Final dividend for the year ended December 31, 2010 at Rs. 8 per share	**-**	**-**	**-**	**(547,904)**	**(547,904)**
Total comprehensive income for the half year ended June 30, 2011	**-**	**-**	**-**	**1,407,199**	**1,407,199**
Balance as at June 30, 2011 (unaudited)	**684,880**	**1,889,048**	**207,002**	**5,978,400**	**8,759,330**

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.

Sarim Sheikh
Chairman & Chief Executive

Badaruddin F. Vellani
Director

Notes to the Condensed Interim Financial Information (Unaudited)
for the half year ended June 30, 2011

1. THE COMPANY AND ITS OPERATIONS

1.1 Shell Pakistan Limited (the Company) is a limited liability company incorporated in Pakistan and is listed on the Karachi and Lahore Stock Exchanges. The registered office of the Company is located at Shell House, 6, Ch. Khaliquzzaman Road, Karachi-75530, Pakistan.

1.2 The Company markets petroleum products and compressed natural gas. It also blends and markets various kinds of lubricating oils.

2. BASIS OF PREPARATION

2.1 This condensed interim financial information of the Company for the half year ended June 30, 2011 is unaudited and has been prepared in accordance with the requirements of the International Accounting Standard 34 - 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In case where the requirements differ, the provisions of or directives issued under the Ordinance have been followed. This condensed interim financial information has, however, been subjected to limited scope review by the auditors, as required by the Code of Corporate Governance.

2.2 This condensed interim financial information is being submitted to the shareholders in accordance with section 245 of the Ordinance and should be read in conjunction with the audited annual financial statements of the Company for the year ended December 31, 2010.

3. ACCOUNTING POLICIES

3.1 The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of audited annual financial statements of the Company for the year ended December 31, 2010 except for the changes resulting from initial application of standards, amendments or interpretations to existing standards as stated in note 3.2 which though adopted do not presently have any impact on this condensed interim financial information but may effect the accounting for future transactions and events.

3.2 The following new standards and amendments and interpretations to existing standards are mandatory for the financial year beginning on January 1, 2011:

- IFRS 1 (Amendment) 'First time adoption';
- IAS 24 (Revised) 'Related party transactions';
- IAS 32 (Amendment) 'Financial instruments: Presentation on classification of rights issues';
- IFRIC 14 (Amendment) 'Pre-payments of a minimum funding requirement';
- IFRIC 19 (Interpretation) 'Extinguishing financial liabilities with equity instruments'; and
- Number of other amendments in other IFRS and IAS which were part of the International Accounting Standard Board's (IASB's) annual improvement project, published in May 2010.

3.3 The following new standards and amendments have been issued but are not effective for the financial year beginning January 1, 2011 and have not been early adopted by the Company:

- IFRS 7 (Amendment), 'Financial instruments;
- IFRS 9, 'Financial Instruments: Disclosures';
- IFRS 12, 'Disclosure of interests in other entities';
- IFRS 13, 'Fair value measurement';
- IAS 1 (Amendment), 'Presentation of financial statements';
- IAS 12 (Amendment), 'Income taxes';
- IAS 19 (Revised), 'Employee benefits'; and
- IAS 28 (Revised), 'Investment in associates and joint ventures'.

Notes to the Condensed Interim Financial Information (Unaudited)

for the half year ended June 30, 2011

3.4 There are number of new standards and amendments and interpretations to published standards that are not yet effective, and are also not relevant to the Company and therefore have not been presented here.

4. ACCOUNTING ESTIMATES AND JUDGMENTS

4.1 The preparation of this condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. However actual results may differ from these estimates.

4.2 During the preparation of 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 annual audited financial statements for the year ended December 31, 2010.

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	(Rupees `000)	
5. PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value - notes 5.1 and 5.2	**5,883,621**	6,202,640
Capital work-in-progress - note 5.3	**689,819**	344,304
	6,573,440	6,546,944
Less: Provision for impairment	**(82,571)**	(44,171)
	6,490,869	6,502,773

5.1 Additions to operating assets during the period / year were as follows:

Owned assets		
Leasehold land	**-**	3,967
Buildings on freehold land	**5,985**	7,597
Buildings on leasehold land	**55,937**	209,605
Tanks and pipelines	**2,170**	71,989
Plant and machinery	**26,498**	162,969
Air conditioning plant	**-**	1,534
Dispensing pumps	**-**	22,095
Rolling stock and vehicles	**18,865**	19,535
Electrical, mechanical and fire fighting equipment	**101,770**	92,217
Furniture, office equipment and other assets	**435**	227,787
Computer auxiliaries	**3,922**	16,658
Leased assets		
Vehicles	**-**	40,794
	215,582	876,747

Notes to the Condensed Interim Financial Information (Unaudited)

for the half year ended June 30, 2011

5.2 The following assets were disposed / written off during the period / year:

	Cost	Accumulated depreciation	Net book value
		(Rupees `000)	
June 30, 2011 (unaudited)			
Owned assets			
Building on leasehold land	114,739	49,845	64,894
Tanks and pipelines	44,713	17,183	27,530
Plant and machinery	11,401	437	10,964
Dispensing pumps	73,781	53,083	20,698
Rolling stock and vehicles	51,063	21,903	29,160
Electrical, mechanical and fire fighting equipment	1,727	1,651	76
Furniture, office equipment and other assets	38,844	35,280	3,564
Computer auxiliaries	41	41	-
Leased assets			
Vehicles	16,024	11,538	4,486
	352,333	190,961	161,372
December 31, 2010 (audited)	472,072	224,451	247,621

5.3 Capital work-in-progress comprise the following:

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	(Rupees `000)	
Buildings on leasehold land	**372,613**	50,252
Tanks and pipelines	**215,417**	126,333
Plant and machinery	**62,749**	7,545
Dispensing pumps	**2,086**	2,091
Rolling stock and vehicles	**965**	17,975
Electrical, mechanical and fire fighting equipments	**35,203**	136,883
Furniture, office equipment and other assets	**786**	1,221
Capital stores and spares	**-**	2,004
	689,819	344,304

6. LONG TERM INVESTMENTS

This includes investment in an associate "Pak Arab Pipeline Company Limited (PAPCO)", which is carried under equity method of accounting amounting to Rs. 2,860,271 thousand (December 31, 2010: Rs. 2,542,853 thousand) as follows:

Notes to the Condensed Interim Financial Information (Unaudited)

for the half year ended June 30, 2011

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	(Rupees `000)	
Movement of investment in associate		
Balance at the beginning of the period / year	**2,542,853**	2,307,806
Share of profit	**477,573**	916,887
Share of taxation	**(160,155)**	(320,879)
	317,418	596,008
Dividend received	**-**	(360,961)
Balance at the end of the period / year	**2,860,271**	2,542,853

7. DEFERRED TAXATION

This includes deferred income tax asset amounting to Rs.1,886,890 thousand (December 31, 2010: Rs. 2,438,707 thousand) recognised for tax losses available for carry forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The aggregate unutilized tax losses as at June 30, 2011 amount to Rs. 5,719,861 thousand (December 31, 2010: Rs. 7,296,481 thousand) out of which deferred income tax asset has been recognised on tax losses amounting to Rs. 5,391,114 thousand (December 31, 2010: Rs. 6,967,734 thousand) based on projections of future taxable profits of the Company.

8. STOCK-IN-TRADE

This includes finished product aggregating Rs. 4,316,737 thousand at cost (December 31, 2010: Rs. 1,441,913 thousand) which have been valued at their net realizable value amounting to Rs. 4,124,058 thousand (December 31, 2010: Rs. 1,426,142 thousand).

9. OTHER RECEIVABLES

This includes receivables aggregating Rs. 5,220,245 thousand (December 31, 2010: Rs. 5,106,027 thousand) from the Government of Pakistan (GoP) on account of the following:

9.1 Petroleum development levy recoverable amounting to Rs. 2,215,811 thousand (December 31, 2010: Rs. 2,070,888 thousand) from the Federal Board of Revenue on account of export sales. The Company has not received any amount against this receivable during the period and is actively pursuing the matter with the Federal Board of Revenue.

9.2 Price differential on imports and ex-refinery price amounting to Rs. 295,733 thousand (December 31, 2010: Rs. 295,733 thousand) on direct and retail sales during the period 1990-2002.

9.3 Price differential claims receivable from the GoP amounting to Rs. 747,490 thousand (December 31, 2010: Rs. 747,490 thousand). From time to time the GoP agrees to subsidise the petroleum prices by restricting the increase in prices of various petroleum products in order to reduce the burden of rising oil prices on the end consumers.

9.4 Price differential claim amounting to Rs. 1,961,211 thousand (December 31, 2010: Rs. 1,991,916 thousand) on account of import of motor gasoline by the Company, being the difference between their landed cost and 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 a meeting chaired by Director General Oil to import motor gasoline to meet the increasing local demand. Accordingly, oil marketing companies approached the Ministry of Petroleum and Natural Resources (MoPNR) 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 the imported product. Although no response was received from the MoPNR, the Company alongwith 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 representing the differential between ex-refinery and import cost at the time of filing of cargo with Customs, as imports were being made on MoPNR instructions.

In 2009, oil marketing companies approached the MoPNR requesting an expeditious settlement of these claims. Further, the Company along with other affected oil marketing companies also approached MoPNR through letter dated July 23, 2009 requesting for an early settlement of these claims. On October 2, 2009, MoPNR requested that an audited claim be submitted to allow further consideration and resolution of the matter. The Company has accordingly submitted audit reports thereafter and for claims till February 28, 2011.

During the period, the Company has received an amount of Rs. 454,000 thousand from GoP in respect of these claims. The Company along with other oil marketing companies and Oil Companies Advisory Committee (OCAC) continues to follow up this matter with MoPNR and is confident of recovering this amount in full. The receivable represents the Company's share of differential claim on shared import cargoes of motor gasoline.

10. CONTINGENCIES AND COMMITMENTS

10.1 Contingencies

10.1.1 Infrastructure fee

The Sindh Finance Act 1994, prescribed the imposition of an infrastructure fee at the rate of 0.5% of the C&F value of all goods entering or leaving the province of Sindh via sea or air.

The Company and several others challenged the levy in constitutional petitions before the High Court of Sindh. These petitions were dismissed as, during their pendency, the nature of the levy was changed by the Government of Sindh through an Ordinance. The Company and others therefore filed civil suits in the High Court of Sindh challenging the amended Ordinance. However, these suits were also dismissed in October 2003. All the plaintiffs preferred intra-court appeals against the dismissal. The intra-court appeals were decided by the High Court in September 2008 wherein it was held that the levy is valid and collectable only from December 12, 2006 onwards and not prior to this date. Being aggrieved by the said judgment, both the Company and the Government of Sindh filed separate appeals before the Supreme Court of Pakistan.

During the period the Government of Sindh, unconditionally withdrew its appeals on the plea that the Sindh Assembly had legislated the Sindh Finance (Amendment) Act, 2009 levying infrastructure fee with retrospective effect from 1994. However the Supreme Court of Pakistan, in view of the new legislation, directed the Company and others to file fresh petitions to challenge the same before the High Court and set aside the earlier order of the High Court.

The High Court on fresh petitions filed, passed an interim order directing that any bank guarantee / security furnished for consignments cleared upto December 27, 2006 are to be returned and for period thereafter guarantees or securities furnished for consignments cleared are to be encashed to the extent of 50% and the remaining balance is to be retained till the disposal of petitions. For future clearances the Company is required to clear the goods on paying of 50% of the fee amount involved and furnishing a guarantee / security for the balance amount.

Subsequent to the orders of the High Court, the Company has reviewed its position and without acknowledging as debt now estimates the accumulated levy upto June 30, 2011 at Rs. 68,300 thousand (December 31, 2010: Rs. 53,300 thousand) based on demands raised by the authorities. However the eventual obligation on account of the aggregate cess, if any, cannot be determined presently because of the uncertainty involved in the extent of its application to the Company. For these reasons and based on legal advice obtained no provision has been made in this condensed interim financial information against the levy as the Company’s management in any case expects a favourable outcome.

10.1.2 Taxation

10.1.2.1 During the period, the Company received orders for the tax years 2004 to 2007, 2009 and 2010 raising a demand of Rs. 294,233 thousand in respect of these years by holding the Company as an assessee in default for not withholding tax on rebates given to pump operators, dealers and non dealers on sales made to them during these years on the grounds that the rebates given were in the nature of prize for promotion of sales by the Company on which the Company failed to withhold tax as required under Section 156 of the Income Tax Ordinance 2001 (ITO 2001). Against this demand the Company, based on the advice of its tax consultant, has paid an amount of Rs. 179,309 thousand under the tax amnesty scheme announced by the FBR through SRO 647(I)/2011 dated June 25, 2011 to avoid default surcharge and penalties. The payments made against the demand have been included in other receivables as reflected on the balance sheet in the condensed interim financial information. Further, the Company intends to file an appeal against these demands with the Commissioner Inland Revenue (CIR) (Appeals).

Notes to the Condensed Interim Financial Information (Unaudited)
for the half year ended June 30, 2011

However, the Company, based on the merits of the case and on the advice of its tax consultant, out of the above demand has provided an amount of Rs. 19,854 thousand in the condensed interim financial information, representing its best estimate of the liability @ 10% under Section 156 A on rebates to pump operators. Under Section 156 A of the ITO 2001, tax is required to be withheld at 10% of the amount of any commission or discount allowed on petroleum products sold to pump operators. The management is confident that the eventual outcome of the matter will be in its favour, accordingly no provision has been made against the remaining balance of Rs. 159,455 thousand.

For tax year 2008 the Company received a show cause notice on similar grounds. The Company has filed a constitutional petition with the High Court for this year and has obtained a stay from further proceedings by depositing an amount of Rs. 16,388 thousand and furnishing a guarantee of Rs. 7,867 thousand. The payments made against the demand have been included in taxation as reflected on the balance sheet in the condensed interim financial information.

10.1.2.2 During the period, the Company received a demand from tax authorities in respect of tax year 2008 amounting to Rs. 735,109 thousand. The demand principally arose due to addition made by assessing officer in respect of allocation of common expenses and taxing the reversal of provision for impairment in trade and other receivables. Further, assessing officer has also disallowed the credit for minimum tax amounting to Rs. 482,685 thousand paid in earlier year and set-off against tax liability for the tax year 2008. The Company in response to the demands has deposited an amount of Rs. 120,000 thousand and has filed an appeal with the Commissioner Inland Revenue (CIR) (Appeals) where the Company, based on the advice of its tax consultant expects a favourable outcome and as such has not made any provision there against. The payments made against the demand have been included in other receivables as reflected on the balance sheet in the condensed financial information.

10.1.3 PARCO pipeline fill

The MoPNR has made a claim relating to the loan arranged by the Government of Pakistan to the Company to finance the initial fill of the Pak-Arab Refinery Limited (PARCO) Pipeline. MoPNR has calculated the Company's liability by applying the price prevailing on August 11, 2000 to the quantity of fuel supplied at the time of initial fill.

The Company maintains that its liability is limited only to the extent of Rs. 78,164 thousand (December 31, 2009: Rs. 78,164 thousand) which is based on the price prevailing at the time of the initial fill and has been fully paid in March 2007.

The claim, if calculated on August 11, 2000 price as indicated by MoPNR, would amount to Rs. 294,000 thousand. Based on legal advice obtained, the management is confident that its liability in this respect amounted to Rs. 78,164 thousand which has been paid and consequently no provision has been made for the additional demand raised by MoPNR.

10.1.4 Others

The aggregate amount of other claims against the Company not acknowledged as debt as at June 30, 2011 amounting to approximately Rs. 2,335,010 thousand (December 31, 2010: Rs. 1,921,096 thousand). This includes claims by refineries, amounting to Rs. 996,554 thousand (December 31, 2010: Rs. 996,554 thousand) in respect of delayed payment charges. The Company does not acknowledge the claim for late payment charges as the delayed payment to refineries arose due to the liquidity crisis faced by oil marketing companies over the past few years caused by non-settlement of price differential claims by the Government of Pakistan.

10.2 Commitments

10.2.1 Capital expenditure contracted for but not incurred as at June 30, 2011 amounted to approximately Rs. 359,874 thousand (December 31, 2010: Rs.196,710 thousand).

10.2.2 Commitments for rentals of assets under operating lease agreements as at June 30, 2011 amounted to Rs. 2,773,336 thousand (December 31, 2010: Rs. 2,361,356 thousand) payable as follows:

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	(Rupees `000)	
Not later than one year	**148,031**	147,548
Later than one year and not later than five years	**619,249**	584,816
Later than five years	**2,006,056**	1,628,992
	2,773,336	2,361,356

10.2.3 Post-dated cheques have been deposited with the Collector of Customs Port Qasim and Karachi Port Trust in accordance with the Customs' Act, 1969 as an indemnity to adequately discharge the liability for the duties and taxes leviable on imports, as required under the Finance Act 2005. As at June 30, 2011, the value of these cheques amounted to Rs. 6,451,303 thousand (December 31, 2010: Rs. 6,657,745 thousand). The maturity dates of these cheques extend to December 15, 2011 (December 31, 2010: June 27, 2011).

10.2.4 Letters of credit and bank guarantees outstanding as at June 30, 2011 amount to Rs. 8,844,024 thousand (December 31, 2010: Rs. 4,220,825 thousand).

	(Unaudited)			
	Half year ended		Quarter ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	(Rupees `000)			
11. TAXATION				
Current				
- for the period - note 11.1	**711,830**	819,954	**343,208**	542,032
- for prior periods	**26,801**	-	**26,801**	-
Deferred	**525,324**	222,270	**375,324**	155,191
	1,263,955	1,042,224	**745,333**	697,223

11.1 This includes minimum tax @ 0.5% (June 30, 2010: @ 1%) amounting to Rs. 435,133 thousand (June 30, 2010: Rs. 696,541 thousand) under section 113 of the Income Tax Ordinance, 2001. The minimum tax paid is adjustable against the tax liability of succeeding five years. The Company however, on prudence, has not recognised the tax asset in view of the prior year's unutilized tax losses available for set off against future taxable income aggregating Rs. 5,719,861 thousand (December 31, 2010: Rs. 7,296,481 thousand).

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for the half year ended June 30, 2011

	Unaudited Half year ended	
	June 30, 2011	June 30, 2010
	(Rupees `000)	
12. CASH GENERATED FROM OPERATIONS		
Profit before taxation	**2,671,154**	1,762,434
Adjustment for non-cash charges and other items:		
Depreciation and amortisation charge	**552,530**	432,376
Accretion expense in respect of asset retirement obligation	**5,287**	-
Reversal of liability in respect of asset retirement obligation - net	**(8,461)**	(5,012)
Provision for impairment of trade debts	**9,293**	23,754
Reversal of provision for impairment of trade debts	**(32,474)**	(66,081)
Trade debts written off	**3,988**	-
Operating assets written off	**124,397**	74,110
Gain on disposal of property, plant and equipment	**(6,650)**	(767)
Provision for impairment of operating assets	**38,400**	-
Share of profit of associate	**(317,418)**	(295,141)
Mark-up on short-term deposits	**(13,959)**	(20,059)
Mark-up on short-term running finances and loans	**803,995**	465,728
Reversal of provision for stock-in-trade - net	**(3,539)**	(11,155)
Working capital changes - note 12.1	**(9,101,232)**	1,020,774
	(5,274,689)	3,380,961

12.1 Working capital changes

Decrease / (increase) in current assets		
Stores and spares	**(1,471)**	389
Stock-in-trade	**(6,456,622)**	(779,229)
Trade debts	**(460,778)**	(281,563)
Loans and advances	**15,364**	(7,323)
Trade deposits and short-term prepayments	**82,497**	78,932
Other receivables	**(4,654,412)**	(558,519)
	(11,475,422)	(1,547,313)
Increase in current liabilities		
Trade and other payables	**2,374,190**	2,568,087
	(9,101,232)	1,020,774

Notes to the Condensed Interim Financial Information (Unaudited)

for the half year ended June 30, 2011

13. RELATED PARTY TRANSACTIONS

Significant transactions entered during the period by the Company with related parties are as follows:

Nature of relationship	Nature of transactions	Note	Unaudited Half year ended June 30, 2011	June 30, 2010
			(Rupees `000)	
Associate				
Pak Arab Pipeline Company Ltd.	Pipeline charges		**379,472**	341,295
Contribution to staff retirement benefit funds	Pension fund		**37,717**	40,099
	Gratuity fund		**9,033**	9,526
	Provident fund		**14,583**	15,643
Key management personnel	Remuneration		**57,712**	49,996
Other related parties	Purchases		**51,711,224**	30,506,188
	Sales		**832,113**	995,115
	Fee for technical services	13.1	**588,799**	851,952
	Trade marks and manifestations license fee charged	13.2	**85,856**	68,617
	Computer expenses charged (Global Infrastructure Desktop charges)	13.2	**67,087**	67,237
	ERP Implementation charges		**-**	1,270,668
	Expenses recovered from related parties	13.3	**95,119**	183,481
	Other expenses charged by related parties	13.3	**197,538**	48,721
	Legal charges		**99**	38

13.1 Technical services include advice and assistance to the Company in its operations. The fee for these services has been determined on the basis of agreements between the Company and a related Shell Group Company based on an agreed methodology.

13.2 Trade mark and manifestations license fee and Global Infrastructure Desktop charges are based on the agreements entered into by the Company with the Shell Group Companies.

13.3 Expenses recovered from / charged by related parties are based on actuals charged by or recovered from the related parties.

14. CORRESPONDING FIGURES

14.1 In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', corresponding figures in the condensed interim balance sheet comprise of balances as per the annual audited financial statements of the Company for the year ended December 31, 2010 and the corresponding figures in the condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows comprise of balances of comparable period as per the condensed interim financial information of the Company for the half year ended June 30, 2010.

15. GENERAL

Figures have been rounded off to the nearest thousand.

16. DATE OF AUTHORISATION

This condensed interim financial information was authorized for issue on August 17, 2011 by the Board of Directors of the Company.

Sarim Sheikh
Chairman & Chief Executive

Badaruddin F. Vellani
Director

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