QUARTERLY REPORT MARCH 2013
Shell Pakistan Limited

COMPANY INFORMATION

Board of Directors

Chairman	Omar Y Sheikh
	Rafi H Basheer
	Farrokh K Captain
	Chong Keng Cheen
	Rahat Hussain
	Imran R Ibrahim
	Nasser N S Jaffer
	Zaffar A Khan
	Michael Noll
	Haroon Rashid
	Badaruddin F Vellani

Managing Director & Chief Executive
Omar Y Sheikh

Audit Committee

Chairman	Badaruddin F Vellani
	Imran R Ibrahim
	Michael Noll

Human Resource and Remuneration Committee

Chairman	Chong Keng Cheen
	Farrokh K Captain
	Omar Y Sheikh

Company Secretary
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 quarter ended March 31, 2013

Our performance
During the quarter the Company made a loss of Rs. 125 million as against a loss of Rs. 224 million in the same period last year. We have grown sales of petrol and jet fuel, restricted our cost increases in a high inflationary environment and reduced our financial charges in the quarter compared to the same period last year.

The performance of your Company continues to remain significantly affected by the continual high interest cost for financing receivables owed by the Government, having to pay corporate tax based on turnover and low fuel margins.

Receivables & financing costs
During the quarter there has been further progress, albeit slower than expected, in the collection of receivables from the Government and with our continued extensive efforts we have managed to collect a further Rs. 1,481 million during the quarter.

At the end of the quarter, we are still owed:

- Rs. 5,782 million for tax refunds - delayed between 1-4 years
- Rs. 2,601 million for fuel price subsidies - delayed between 2-10 years

The rate of progress on collecting these monies is slow, and we continue to incur financing cost on bank borrowings required to fund these receivables. The management is continuously engaged with relevant Government authorities, and we expect that the Government will pay the remaining amount on an expedited basis to ensure business continuity and growth.

Turnover tax
Due to the minimum tax on turnover regime applicable to oil companies, the Company is having to pay Corporate Tax irrespective of the level of profits earned in the period, which is unfairly eroding its operating profit performance and is stifling future investment and growth prospects in the industry. The management is in continuous discussions with government authorities to remove this anomaly and to bring us in line with various allowances and lower rates that are already given to other similarly regulated sectors in the country.

Fuel margins

Petrol and diesel margins in Pakistan are regulated and fixed in rupees per liter. These margins are not at a level sufficient to cover steadily rising direct costs of operations and the high cost of financing required for investment in stocks and business assets. In an environment of rising product prices and high inflation, this is far from an ideal operating position. In April 2013 a slight increase in margins on regulated petroleum products was given. We consider this an interim relief and hope that the Government will consider further favorable revisions to the same, in line with increasing cost of doing business.

Going forward

This is a challenging period, not only for the Company but for the wider local and international business operational environment. However, the management is committed to turning around the profitability of the Company and positioning it for growth.

We thank our shareholders, customers and staff for their sustained support and trust in the Company.

Omar Sheikh
Chairman & Chief Executive

Condensed Interim Balance Sheet

as at March 31, 2013

	Note	(Unaudited) March 31, 2013	(Audited) December 31, 2012 (restated)
		(Rupees '000)	
ASSETS			
Non-Current Assets			
Property, plant & equipment	5	**6,223,011**	6,330,565
Intangible assets		**845,177**	931,867
Long term investments	6	**3,150,111**	2,989,350
Long term loans and advances		**83,135**	98,853
Long term deposits and prepayments		**201,114**	199,951
Long term debtors		**-**	1,216
Deferred taxation - net	7	**579,054**	579,060
		11,081,602	11,130,862
Current Assets			
Stores		**14,845**	14,845
Stock-in-trade	8	**19,540,503**	17,377,946
Trade debts		**2,647,299**	2,006,553
Loans and advances		**64,312**	81,061
Short term prepayments		**168,846**	210,334
Other receivables	9	**9,391,615**	10,665,171
Cash and bank balances		**204,765**	3,388,485
		32,032,185	33,744,395
TOTAL ASSETS		**43,113,787**	44,875,257
EQUITY AND LIABILITIES			
EQUITY			
Share capital		**856,100**	856,100
Reserves		**1,924,830**	1,924,830
Unappropriated profit		**2,845,143**	2,969,974
		5,626,073	5,750,904
LIABILITIES			
Non-Current Liabilities			
Asset retirement obligation		**339,506**	339,596
Current Liabilities			
Trade and other payables	10	**26,673,447**	26,221,721
Accrued mark-up / interest		**17,435**	52,449
Short term borrowing - secured		**10,100,000**	12,170,000
Taxation		**357,326**	340,587
		37,148,208	38,784,757
Total liabilities		**37,487,714**	39,124,353
Contingencies and commitments	11		
TOTAL EQUITY AND LIABILITIES		**43,113,787**	44,875,257

The annexed notes 1 to 16 form an integral part of these financial statements.

Omar Y Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

Condensed Interim Statement of Comprehensive Income (Unaudited)

for the quarter ended March 31, 2013

	Note	(Unaudited) March 31, 2013	March 31, 2012
		(Rupees '000)	
Sales		**63,822,797**	57,837,345
Other revenue		**108,120**	149,720
		63,930,917	57,987,065
Sales tax		**(8,438,875)**	(7,738,102)
Net Revenue		**55,492,042**	50,248,963
Cost of products sold		**(53,360,681)**	(47,975,434)
Gross Profit		**2,131,361**	2,273,529
Distribution and marketing expenses		**(943,216)**	(830,733)
Administrative expenses		**(950,123)**	(885,184)
		238,022	557,612
Other operating income		**56,572**	58,007
		294,594	615,619
Other operating expenses		**(79,440)**	(249,116)
Operating profit		**215,154**	366,503
Finance costs		**(235,309)**	(506,539)
		(20,155)	(140,036)
Share of profit of associate - net of tax		**160,761**	183,703
Profit before taxation		**140,606**	43,667
Taxation	12	**(265,437)**	(267,309)
Loss for the quarter		**(124,831)**	(223,642)
Other comprehensive Income		**-**	-
Total comprehensive loss for the quarter		**(124,831)**	(223,642)
			(restated)
		(Rupees)	
Loss per share		**(1.46)**	(2.61)

The annexed notes 1 to 16 form an integral part of these financial statements.

Omar Y Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

Condensed Interim Statement of Changes in Equity (Unaudited)

for the quarter ended March 31, 2013

	Share capital	Capital reserves - share premium	General revenue reserves	Unappropriated profit	Total
	(Rupees '000)				
Balance originally reported as at January 1, 2012	684,880	1,889,048	207,002	5,477,191	8,258,121
Remeasurement of retirement benefit obligation due to implementation of IAS 19 (revised) - (note 3.1)	-	-	-	58,253	58,253
Balance as at January 1, 2012 (restated)	684,880	1,889,048	207,002	5,535,444	8,316,374
Bonus shares issued during the period in the ratio of 1 share for every 4 shares held	171,220	(171,220)	-	-	-
Loss for the year	-	-	-	(2,082,531)	(2,082,531)
Other comprehensive loss for the year due to application of IAS 19 (revised) - (note 3.1)	-	-	-	(482,939)	(482,939)
Balance as at December 31, 2012 (restated)	856,100	1,717,828	207,002	2,969,974	5,750,904
Loss after taxation for the quarter ended March 31, 2013	-	-	-	(124,831)	(124,831)
Other comprehensive income for the quarter	-	-	-	-	-
Balance as at March 31, 2013	**856,100**	**1,717,828**	**207,002**	**2,845,143**	**5,626,073**

The annexed notes 1 to 16 form an integral part of these financial statements.

Omar Y Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

Condensed Interim Statement of Cash Flows (Unaudited)

for the quarter ended March 31, 2013

	Note	(Unaudited) March 31, 2013	March 31, 2012
		(Rupees '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	13	**(612,531)**	(1,698,575)
Finance costs paid		**(221,977)**	(456,077)
Taxes paid		**(248,692)**	(366,014)
Long term loans and advances		**15,718**	(14,337)
Long term deposits and prepayments		**(1,163)**	33,778
Mark up received on short term deposits		**3,121**	1,779
Long term debtors		**1,216**	629
Net cash generated from operating activities		**(1,064,308)**	(2,498,817)
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(77,946)**	(10,936)
Proceeds from disposal of property, plant and equipment		**28,734**	9,047
Dividend received from associate		**-**	-
Net cash used in investing activities		**(49,212)**	(1,889)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(200)**	-
Repayment of liability under finance lease		**-**	(783)
Net cash used in financing activities		**(200)**	(783)
Net (decrease)/increase in cash and cash equivalents		**(1,113,720)**	(2,501,489)
Cash and cash equivalents at beginning of the year		**(8,781,515)**	(14,306,585)
Cash and cash equivalents at end of the quarter		**(9,895,235)**	(16,808,074)

The annexed notes 1 to 16 form an integral part of these financial statements.

Omar Y Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

Notes to the Condensed Interim Financial Information (Unaudited)

for the quarter ended March 31, 2013

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 Company is a subsidiary of Shell Petroleum Company Limited, United Kingdom (immediate parent) which is a subsidiary of Royal Dutch Shell plc (ultimate parent). 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 quarter ended March 31, 2013 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.

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, 2012.

3. ACCOUNTING POLICIES

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, 2012 except as noted below.

3.1 Initial application of a standard, amendment or interpretation to an existing standard:

Change in accounting policy due to the application of IAS 19 - Employee benefits (as revised by the IASB in 2011 and applicable for annual periods beginning on or after January 01, 2013)

The Company has applied IAS 19 - Employee benefits (revised in June 2011), and the related consequential amendments which is applicable for annual periods beginning on or after January 01, 2013. In accordance with the transitional provisions as set out in IAS 19 the Company has applied IAS 19 retrospectively and, consequently the earliest periods presented in the Condensed Interim Statement of Changes in Equity and the Condensed Interim Balance Sheet have been restated. There is no impact on the Condensed Interim Statement of Income and Condensed Interim Statement of Cash Flows.

IAS 19 amends the methodology for accounting for defined benefits plans and employee termination benefits. The most significant change relates to the accounting for changes in the value of defined benefit obligations and plan assets. The amendments require the actuarial gains and losses, the effect of the asset ceiling and the variance of return on plan assets to be recognized in the balance sheet immediately with a charge or credit to other comprehensive income (OCI) in the periods in which they occur. The charge to profit and loss statement is based on interest income or expense calculated on the net defined benefit liability / asset at the start of the year by applying the discount rate to such liability / asset. In addition, past service cost and curtailments are recognized in the profit and loss statement, in the period in which a change takes effect.

The impacts of retrospective application IAS 19 - Employee benefits (revised in June 2011) as would have been reflected in the results of the year ended December 31, 2012 are disclosed below.

Impact on Balance Sheet as at December 31, 2012

	Other Receivables	Trade and other payables	Equity
		(Rupees '000)	
Balance reported as at December 31, 2012	10,685,776	25,817,640	6,175,590
Balance in respect of staff retirement benefits - reclassified	(20,605)	(20,605)	-
Remeasurement of retirement benefit obligation due to implementation of IAS 19 (revised) recognized in OCI for the year ended December 31, 2011	-	(58,253)	58,253
Remeasurement of retirement benefit obligation due to implementation of IAS 19 (revised) recognized in OCI for the year ended December 31, 2012	-	482,939	(482,939)
Restated balance as at December 31, 2012	10,665,171	26,221,721	5,750,904

Impact on Statement of Other Comprehensive Income for the year ended December 31, 2012

	Other Comprehensive Income (Rupees '000)
Other Comprehensive Income as originally reported for the year ended December 31, 2012	-
Amount recognised for the year on account of remeasurement of retirement benefit obligation due to implementation of IAS 19 (revised)	(482,939)
Restated other comprehensive loss for the year ended December 31, 2012	(482,939)

There is no impact on the loss after tax in the statement of comprehensive income or the earnings per share as originally reported for the year ended December 31, 2012.

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

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 judgement in the process of applying the Company's accounting policies. Estimates and judgements 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 judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the audited annual financial statements for the year ended December 31, 2012.

	Unaudited March 31, 2013	Audited December 31, 2012
	(Rupees '000)	
5. PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value - notes 5.1 and 5.2	**6,058,911**	6,138,864
Capital work-in-progress - note 5.3	**538,313**	565,914
	6,597,224	6,704,778
Provision for impairment	**(374,213)**	(374,213)
	6,223,011	6,330,565

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

	Unaudited March 31, 2013	Audited December 31, 2012
Owned assets		
Lease hold land	**8,580**	-
Buildings on freehold land	**71**	16,332
Buildings on leasehold land	**-**	18,039
Tanks and pipelines	**85,076**	590,878
Plant and machinery	**3,331**	197,860
Lifts	**2,283**	3,600
Dispensing pumps	**301**	21,466
Rolling stock and vehicles	**1,115**	42,226
Electrical, mechanical and fire fighting equipment	**10,688**	298,191
Furniture, office equipment and other assets	**-**	119,923
Computer auxiliaries	**-**	11,500
	111,445	1,320,015

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

	Cost	Accumulated depreciation	Net book value
		(Rupees '000)	
March 31, 2013 (unaudited)			
Owned assets			
Building on leasehold land	14,086	9,037	5,049
Dispensing pumps	5,242	4,540	702
Electrical, mechanical and fire fighting equipment	6,728	3,883	2,845
Furniture,office equipment and other assets	14,021	12,699	1,322
Tanks and pipelines	3,831	1,956	1,875
Rolling stock and vehicles	33,831	19,455	14,376
	77,739	51,570	26,169
December 31, 2012 (audited) - note 5.2.1	346,699	249,708	96,991

5.2.1 For details of the assets disposed/written off during the year ended December 31, 2012, please refer to the annual audited financial statements for the same year.

5.3 Capital work-in-progress	**Unaudited March 31, 2013**	**Audited December 31, 2012**
	(Rupees '000)	
Buildings on leasehold land	**359,364**	336,837
Tanks and pipelines	**-**	58,707
Plant and machinery	**153,034**	144,366
Electrical, mechanical and fire fighting equipment	**25,361**	25,450
Furniture, office equipment and other assets	**554**	554
	538,313	565,914

6. LONG-TERM INVESTMENTS

This includes investment in associate "Pak-Arab Pipeline Company Limited (PAPCO)", which is carried under equity method of accounting amounting to Rs. 3,145,111 thousand (December 31, 2012: Rs. 2,984,350 thousand) as follows:

Movement of investment in associate	**Unaudited March 31, 2013**	**Audited December 31, 2012**
	(Rupees '000)	
Balance at the beginning of the period / year	**2,984,350**	2,744,610
Share of profit	**246,056**	1,107,750
Share of taxation	**(85,295)**	(387,551)
	160,761	720,199
Dividend received	**-**	(480,459)
Balance at the end of the period / year	**3,145,111**	2,984,350

7. DEFERRED TAXATION

This is composed of the following:

Taxable temporary differences arising in respect of:		
- accelerated tax depreciation	**(959,433)**	(959,427)
- investment in associate	**(111,235)**	(111,235)
Deductible temporary differences arising in respect of:		
- short-term provisions	**614,897**	614,897
- carry forward tax losses - note 7.1	**1,034,825**	1,034,825
	579,054	579,060

7.1 Deferred income tax asset is recognised for tax losses available for carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The aggregate unutilised tax losses as at March 31, 2013 amount to Rs. 6,423,901 thousand (December 31, 2012: Rs. 6,423,901 thousand), out of which deferred income tax asset has been recognised on tax losses amounting to Rs. 2,956,643 thousand (December 31, 2012: Rs. 2,956,643 thousand), based on projections of future taxable profits of the Company. Tax losses are available for utilization against future taxable profits till 2018. The management reviews realisability of deferred tax asset on a bi-annual basis at half year and year end.

8. STOCK-IN-TRADE

This includes finished products aggregating Rs. 16,166,615 thousand at cost (December 31, 2012: Rs. 74,775 thousand) which have been valued at their net realisable value amounting to Rs. 16,131,476 thousand (December 31, 2012: Nil).

9. OTHER RECEIVABLES

	Unaudited March 31, 2013	Audited December 31, 2012 (restated)
	(Rupees '000)	
Petroleum development levy and other duties - note 9.1	**2,306,758**	2,306,044
Price differential claims		
- on imported purchases - note 9.2	**295,733**	295,733
- on high speed diesel (HSD) - note 9.3	**343,584**	343,584
- on imported motor gasoline - note 9.4	**1,961,211**	1,961,211
Sales tax refundable - note 9.5	**3,474,874**	4,737,218
Inland freight equalisation mechanism	**117,168**	127,243
Service cost receivable from related parties	**80,491**	89,270
Service cost receivable from associate company - PAPCO	**8,624**	7,935
Staff retirement benefit schemes	**336,657**	335,181
Mark-up receivable on short-term deposits	**2,955**	2,955
Taxes recoverable	**646,629**	646,629
Others	**40,156**	34,839
	9,614,840	10,887,842
Provision for impairment	**(223,225)**	(222,671)
	9,391,615	10,665,171

9.1 This includes petroleum development levy recoverable amounting to Rs. 2,291,557 thousand (December 31, 2012: Rs. 2,291,557 thousand) from the Federal Board of Revenue (FBR) on account of export sales. In 2011, the Company approached the Government of Pakistan (GoP) and FBR for settlement of this receivable. The GoP sought certain information which has been provided by the Company. The FBR through the Large Taxpayer Unit (LTU) has completed the verification exercise for claims amounting to Rs. 604,939 thousand which have been forwarded to the Ministry of Finance for processing. The remaining claims are under verification. The Company is confident of the recovery of the amount in full on completion of the verification exercise by FBR.

9.2 This represents amount receivable on account of price differential on imports and the ex-refinery price on direct and retail sales during the period 1990-2002.

9.3 This represents price differential on local / imported purchases of HSD which was based on rates notified by GoP to subsidise petroleum prices by restricting the increase in prices in order to reduce the burden of rising oil prices on the end consumers.

9.4 This represents the Company's share of price differential claims 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 & 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 along with 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 i.e. based on 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 the industry 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 May 31, 2011.

In 2011, the Company received an amount of Rs. 454,000 thousand from GoP in respect of these claims. The Company along with the industry 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 claims on shared import cargoes of motor gasoline.

9.5 This principally represents sales tax refundable on account of export sales for which the Company has filed claim with FBR and is actively pursuing for recovery. During the period, the Company has received refunds aggregating to Rs. 1,480,945 thousand in respect of these claims.

10. TRADE AND OTHER PAYABLES

	Unaudited March 31, 2013	Audited December 31, 2012 (restated)
	(Rupees '000)	
Creditors - note 10.1	**19,121,038**	18,997,173
Oil marketing companies	**7,607**	7,607
Accrued liabilities	**4,343,601**	4,006,391
Excise and customs duties and development surcharge	**23,323**	51,416
Dealers' and customers' security deposits	**538,652**	529,372
Advances received from customers	**1,751,618**	1,723,140
Provision for post retirement medical benefits	**46,281**	46,281
Staff retirement benefit schemes	**429,081**	404,081
Workers' welfare fund	**285,579**	265,463
Workers' profits participation fund	**4,537**	1,940
Unclaimed dividends	**107,401**	107,401
Other liabilities	**14,729**	81,456
	26,673,447	26,221,721

10.1 This includes amounts due to related parties aggregating to Rs. 12,164,971 thousand (December 31, 2012: Rs. 11,961,042 thousand). Particulars of the amounts due are as follows:

	Unaudited March 31, 2013	Audited December 31, 2012
	(Rupees '000)	
Affiliates of Parent company	**10,318,926**	10,067,546
Pakistan Refinery Limited	**1,796,448**	1,846,150
Other related parties	**49,597**	47,346
	12,164,971	11,961,042

11. CONTINGENCIES AND COMMITMENTS

11.1 Contingencies

11.1.1 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.

In 2011, 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 50% of the fee amount involved and furnishing a guarantee / security for the balance amount.

Subsequent to the orders of the court, the Company has reviewed its position and without acknowledging it as a debt now estimates the accumulated levy up to March 31, 2013 at Rs. 55,562 thousand (2012: Rs. 42,493 thousand). However, the eventual obligation on account of the aggregate fee, if any, cannot be ascertained presently because of uncertainty in relation to the extent of its application to the Company. For these reasons and based on legal advice obtained, no provision has been made in these financial statements against the levy as the management expects a favourable outcome.

11.1.2 Taxation

11.1.2.1 In 2011, 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 had also disallowed the credit for minimum tax amounting to Rs. 482,685 thousand paid in an earlier year and set-off against tax liability for the tax year 2008. The Company thereafter filed an application against the order for rectification of certain mistakes apparent from the record. The tax officer rectified the order accepting the Company's contention and reduced the demand to Rs. 527,150 thousand. The Company in response to the demand deposited an amount of Rs. 120,000 thousand and filed an appeal with the Commissioner Inland Revenue (CIR) (Appeals) and thereafter with Appellate Tribunal Inland Revenue (ATIR). The remaining demand has been adjusted by the taxation authorities from sales tax refundable. During 2012, both CIR (Appeals) and ATIR have decided the case against the Company. During the current period, the Company has filed an appeal before the High Court against the order of ATIR and based on the advice of its tax consultant and lawyer expects a favourable outcome and as such has not made any provision thereagainst. The adjustment made against the demand has been considered recoverable and is included in other receivables as reflected on the balance sheet in these financial statements.

11.1.2.2 In 2012, the Company received a demand from tax authorities in respect of tax year 2004 amounting to Rs. 161,057 thousand. The demand principally arose due to addition made by assessing officer in respect of allocation of common expenses, disallowance of software cost claimed as revenue expenditure and credit disallowed in respect of income derived from Azad Kashmir. The Company in response to the order has deposited an amount of Rs. 29,106 thousand and has filed a rectification application and an appeal with CIR (Appeals). The tax officer rectified the order allowing Azad Kashmir tax credit and partial relief on amortization of software cost reducing demand to Rs. 109,895 thousand. The Company has made payment of Rs. 100,000 thousand under protest against the rectified order and filed another rectification application and appeal before CIR (Appeals). The Company, based on the advice of its tax consultant expects a favourable outcome. The Company, however, has provided for an amount of Rs. 19,068 thousand representing its best estimate of potential liability arising therefrom. The payment made against the demand to the extent considered recoverable has been included in other receivables as reflected on the balance sheet in these financial statements.

11.1.3 Sales tax and federal excise duty (FED)

11.1.3.1 In 2011, the tax authorities after conducting sales tax and federal excise duty audit for the period July 2008 to June 2009 and post refund audit for the period September and October 2008 raised sales tax and federal excise duty demands amounting to Rs. 1,843,529 thousand through several orders. Further, in 2012, the tax authorities also conducted sales tax and federal excise duty audit for period July 2009 to December 2009 raising additional sales tax and federal excise duty demands amounting to Rs. 1,093,370 thousand through several orders. These demands primarily arose on account of (i) disallowing input tax against zero rated supplies; (ii) levying FED on license fee, group service fee and trademarks and manifestation fee; (iii) levying sales tax on difference in output sales tax as per return and financial statements; and (iv) sales tax on lubricants paid on the value of supply instead of retail price as mentioned on packs. The Company in response to the aforementioned orders filed appeals and sought stay against the demands with the ATIR and CIR (Appeals) where one of the appeals has been decided in favour of the Company by the ATIR and three appeals have been decided on most of the grounds of appeal in favour of the Company by CIR (Appeals) except for issue of FED on dealers joining fee and income from Company Owned Company Operated (COCO) sites. Further, during 2012, the tax authorities have adjusted sales tax demand of Rs. 173,799 thousand pertaining to September 2008 against sales tax refundable.

The Company with respect to the merits of the case based on the advice of its tax consultant and legal opinion obtained expects a favourable outcome on the matter and accordingly no provision has been made in this respect in these financial statements.

11.1.3.2 In 2012, the Company received an order from Model Customs Collectorate, Hyderabad raising sales tax demand of Rs. 46,838 thousand, without specifying the basis of computation, on goods imported by levying further sales tax @ 2% representing minimum value addition under Sub-section 5 of Section 3 read with Section 7A of the Sales Tax Act, 1990 and Chapter X of the Sales Tax Special Procedure Rules, 2007. Further, the Company has also received show cause notices from other Model Customs Collectorates with a potential demand of Rs. 4,775,814 thousand, the basis of computation of which has not been specified. The Company is of the view that the sales tax on minimum value addition is not applicable as OMCs are manufacturers of lubricants and other products and the prices of POL products imported by them for sale in the country are administered under a special pricing arrangement agreed with the GoP. The FBR has issued directives restricting collectorates from any recovery actions and has also issued a notification dated February 10, 2012 confirming that value addition sales tax is not to be charged on Petroleum (POL) products whose prices are regulated under special pricing arrangement by the GoP or regulatory authority working under the GoP. Recently, Model Customs Adjudication has quashed the show cause notices of Faisalabad, Lahore and Multan Collectorates based on the notification. The Company is also of the opinion that OMCs cannot be required to pay the tax on unregulated products / exports retrospectively since clarification of FBR was in field at that time and is confident that revised notification in this respect will be issued by FBR if required. Further, in the event the Company is required to make a payment in this respect, it is Company's contention that it will be able to claim the amount paid as input tax except for default surcharge which cannot be computed at this stage. Accordingly, no provision has been made in this respect in these financial statements.

11.1.4 Others

The amount of other claims against the Company not acknowledged as debt as at March 31, 2013 aggregate to approximately Rs. 2,511,160 thousand (2012: Rs. 2,661,817 thousand). This includes claims by refineries, amounting to Rs. 996,554 thousand (2011: 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.

11.2 Commitments

11.2.1 Capital expenditure contracted for but not incurred as at March 31, 2013 amounted to approximately Rs. 406,955 thousand (December 31, 2012: Rs. 229,567 thousand).

11.2.2 Commitments for rentals of assets under operating lease agreements as at March 31, 2013 amounted to Rs. 2,664,959 thousand (December 31, 2012: Rs. 2,652,712 thousand) payable as follows:

	Unaudited March 31, 2013	Audited December 31, 2012
	(Rupees '000)	
Not later than one year	**150,340**	150,685
Later than one year and not later than five years	**599,677**	607,538
Later than five years	**1,914,942**	1,894,489
	2,664,959	2,652,712

11.2.3 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 March 31, 2013, the value of these cheques amounted to Rs. 4,630,611 thousand (December 31, 2012: Rs. 4,070,188 thousand). The maturity dates of these cheques extend to September 22, 2013 (December 31, 2012: June 18, 2013).

11.2.4 Letters of credit and bank guarantees outstanding as at March 31, 2013 amount to Rs. 6,174,956 thousand (December 31, 2012: Rs. 4,689,651 thousand).

12. TAXATION

	Unaudited Quarter ended March 31, 2013	Unaudited Quarter ended March 31, 2012
	(Rupees '000)	
Current		
- for the period - note 12.1	**265,437**	267,309
- for prior periods	**-**	-
Deferred	**-**	-
	265,437	267,309

12.1 This includes minimum tax @ 0.5% of taxable turnover amounting to Rs. 256,646 thousand (March 31, 2012: Rs.231,402 thousand). Minimum tax is adjustable against the tax liability of succeeding five years. The Company however, on prudence, has not recognised the related deferred tax asset in view of unutilised tax losses available for set off against future taxable income aggregating Rs. 6,423,901 thousand (December 31, 2012: Rs. 6,423,901 thousand). Minimum tax which is available for adjustment against the future tax liability and not recognised as tax asset aggregates to Rs. 3,207,825 thousand (December 31, 2012: Rs. 2,951,179 thousand).

	Unaudited Quarter ended March 31, 2013	Unaudited Quarter ended March 31, 2012
	(Rupees '000)	(Rupees '000)
13. CASH GENERATED FROM OPERATIONS		
Profit before taxation	**140,606**	43,667
Adjustment for non-cash charges and other items:		
Depreciation and amortisation charge	**246,050**	257,289
Accretion expense in respect of asset retirement obligation	**(91)**	2,912
Provision for impairment of trade debts	**806**	2,033
Reversal of provision for impairment of trade debts	**(4,728)**	(23,248)
Write off of operating assets	**8,122**	-
Gain/Loss on disposal of operating assets	**(10,718)**	(7,402)
Share of profit of associate	**(160,761)**	(183,703)
Mark-up on short-term deposits	**(3,121)**	(1,779)
Mark-up on short-term running finances, short-term loans and long-term loans	**186,965**	458,442
Finance charge on liabilities against assets subject to finance lease	**-**	783
Working capital changes - note 13.1	**(1,015,661)**	(2,247,569)
	(612,531)	(1,698,575)

13.1 Working capital changes

	March 31, 2013	March 31, 2012
Decrease / (increase) in current assets		
Stock-in-trade	**(2,162,557)**	2,735,712
Trade debts	**(636,823)**	103,076
Loans and advances	**16,749**	11,570
Short-term prepayments	**41,488**	50,686
Other receivables	**1,273,556**	1,295,513
	(1,467,587)	4,196,557
(Decrease) / increase in current liability		
Trade and other payables	**451,926**	(6,444,126)
	(1,015,661)	(2,247,569)

14. RELATED PARTY TRANSACTIONS

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

		Quarter ended	
		March 31, 2013	March 31, 2012
		(Rupees '000)	
Nature of relationship	**Nature of transactions**		
Associate			
Pak-Arab Pipeline Company Limited	Pipeline charges	**74,176**	124,665
	Others	**2,768**	2,864
Staff retirement benefit / contribution funds			
Pension Funds	Contribution	**33,105**	26,900
Gratuity Funds	Contribution	**7,403**	6,723
Provident Funds	Contribution	**22,327**	10,089
Key management personnel	Remuneration - note 14.1	**17,585**	22,638
	Directors' Fee	**200**	200
Other related parties	Purchases	**15,608,567**	10,223,142
	Sales	**1,169,898**	504,071
	Technical service fee charged - note 14.2	**345,021**	274,686
	Trademarks and manifestations license fee charged - note 14.3	**62,551**	56,310
	Computer expenses charged (Global Infrastructure Desktop charges) - note 14.3	**39,520**	48,884
	Expenses recovered from related parties - note 14.4	**39,967**	46,106
	Other expenses charged by related parties - note 14.4	**155,056**	81,255
	Legal charges	**25**	72

14.1 Key Management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. The Company considers its Chief Executive and Executive Directors to be key management personnel.

14.2 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.

14.3 Trademarks and manifestations license fee and Global Infrastructure Desktop charges are based on the agreements entered into by the Company with Shell Group companies.

14.4 Expenses recovered from / charged by related parties are based on actuals.

15. CORRESPONDING FIGURES

15.1 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 audited annual financial statements of the Company for the year ended December 31, 2012 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 three months ended March 31, 2012.

15.2 Corresponding figures have been rearranged, and reclassified, wherever necessary, for the purpose of comparison. For the purpose of implementation of IAS 19 - Employee benefits (revised in June 2011), certain corresponding figures have been restated to reflect the retrospective changes required under the standard.

16. DATE OF AUTHORISATION

This condensed interim financial information was authorized for issue on April 23, 2013 by the Board of Directors of the Company.

Omar Y Sheikh	**Badaruddin F Vellani**
Chairman & Chief Executive	Director

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