2015

SHELL PAKISTAN LIMITED

QUARTERLY & SIX MONTHLY REPORT JUNE 2015

COMPANY INFORMATION

Board of Directors
Omar Sheikh — Chairman
Farrokh K Captain
Soo Lim Goh
Rahat Hussain
Imran R Ibrahim
Nasser N S Jaffer
Zaffar A Khan
John King Chong Lo
Haroon Rashid
Badaruddin F Vellani
Faisal Waheed

Managing Director & Chief Executive Officer
Omar Sheikh

Audit Committee
Badaruddin F Vellani — Chairman
Soo Lim Goh
Imran R Ibrahim

Human Resource and Remuneration Committee
Rahat Hussain — Chairman
Farrokh K Captain
Omar Sheikh

Company Secretary
Tariq Saeed

Registered Office
Shell House
6, Ch. Khaliquzzaman Road
Karachi-75530
Pakistan

Auditors
A F Ferguson & Co.

Legal Advisors
Vellani & Vellani
Advocates & Solicitors

Registrar & Share Registration Office
FAMCO Associates (Pvt) Ltd.
8-F, next to Hotel Faran, Nursery
Block-6, P.E.C.H.S.
Shahra-e-Faisal
Karachi-75400

CHAIRMAN'S REVIEW

For the half year ended June 30, 2015

Our performance

On behalf of the Board of Directors of Shell Pakistan Limited, I am pleased to share the results of your Company for the half year ended June 30, 2015. In the second quarter of 2015, the Company delivered a strong operational performance with above market growth in Motor Gasoline and Automotive Diesel as well as improved market share in Lubricants. Your Company delivered a profit after tax of Rs 1,287 million for the 2nd quarter of 2015 compared to a profit after tax of Rs 220 million for the 2nd quarter 2014. For the half year ended June 2015, your Company delivered a profit after tax of Rs 534 million compared to a profit after tax of Rs 731 million in the same period last year.

Due to improvement in the global oil prices, stock loss experienced in Q1 was partially offset by stock gains in this quarter. Financial results of your Company however, continued to be affected by low regulated fuel margins, continued significant impact of the turnover tax mechanism and financial burden resulting from overdue receivables from the Government.

Receivables & financing costs

During the current period, your Company was not able to collect further refunds from the Government due to which the Company continues to incur financing cost on bank borrowings required to fund these receivables. As at 30th June 2015, total outstanding receivables stand at Rs 5,820 million. The Company's management is actively working with relevant Government authorities to recover the remaining amount on an expedited basis to ensure business continuity and growth.

Fuel margins

Petrol and diesel margins in Pakistan are regulated and fixed in Rupees per liter. Currently, 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 November 2014, a minimal increase in regulated fuel margins was granted by the Government. However, these still remain the lowest in the region and we continue to advocate for a further favorable revision to bring them in line with increasing costs of doing business.

Turnover tax

Due to the minimum tax on turnover regime applicable to oil companies, your Company pays Corporate Tax irrespective of the level of profits earned in the period, which has unfairly eroded its operating profit performance and is stifling future investment and growth prospects in the industry. The Company's management is in continuous discussions with Government authorities to remove this anomaly and to bring it in line with various allowances and lower rates that are granted to other similarly regulated sectors in the country.

Going forward

The management remains committed to maintain focus on improving the financial performance of your Company. We thank our shareholders, customers and staff for their sustained support and trust in the Company.

Omar Sheikh,
Chairman & Chief Executive

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, 2015 and the related condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows 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, 2015 and 2014 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2015.

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, 2015 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Emphasis of matter

Without qualifying our conclusion, we draw attention to:

- Notes 8.1, 8.2 and 8.3 to the condensed interim financial information. The Company considers the amount of Rs. 1,362,811 thousand, Rs. 295,733 thousand and Rs. 343,584 thousand due from the Government of Pakistan in respect of petroleum development levy and price differential on imported purchases and high speed diesel, respectively, as current assets. The expected timing of the recoverability of these receivables and its consequential impact on their classification in the condensed interim balance sheet cannot presently be determined.

- Note 8.4 to the condensed interim financial information. The Company considers the aggregate amount of Rs. 2,071,107 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.

Chartered Accountants
Karachi
Date: August 26, 2015

Engagement Partner: Waqas A Sheikh

CONDENSED INTERIM BALANCE SHEET

As at June 30, 2015

	Note	Unaudited June 30, 2015	Audited December 31, 2014
		(Rupees '000)	
ASSETS			
Non-current assets			
Property, plant and equipment	5	**7,158,772**	7,059,726
Intangible assets		**22,966**	185,706
Long-term investments	6	**3,543,005**	3,276,116
Long-term loans and advances		**10,891**	20,640
Long-term deposits and prepayments		**176,750**	186,022
Deferred taxation - net	7	**-**	225,872
		10,912,384	10,954,082
Current assets			
Stock-in-trade		**14,690,844**	13,086,285
Trade debts		**4,360,731**	2,626,021
Loans and advances		**89,396**	70,227
Short-term prepayments		**244,796**	252,630
Other receivables	8	**11,567,427**	10,393,887
Cash and bank balances		**1,784,616**	1,295,633
		32,737,810	27,724,683
TOTAL ASSETS		**43,650,194**	38,678,765
EQUITY AND LIABILITIES			
Equity			
Share capital		**1,070,125**	1,070,125
Share premium		**1,503,803**	1,503,803
General reserve		**207,002**	207,002
Unappropriated profit		**2,871,855**	3,193,878
Remeasurement of post employment benefits - Actuarial loss		**(79,743)**	(79,743)
Total equity		**5,573,042**	5,895,065
Liabilities			
Non-current liabilities			
Asset retirement obligation		**156,237**	141,610
Deferred taxation - net	7	**141,213**	-
		297,450	141,610
Current liabilities			
Trade and other payables	9	**35,031,585**	28,487,894
Accrued mark-up / interest		**4,106**	10,064
Short-term borrowings - secured		**2,550,178**	3,765,762
Taxation		**193,833**	378,370
		37,779,702	32,642,090
Total liabilities		**38,077,152**	32,783,700
Contingencies and commitments	10		
TOTAL EQUITY AND LIABILITIES		**43,650,194**	38,678,765

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

Omar Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the half year ended June 30, 2015

		Half year ended		Quarter ended	
		June 30, 2015	June 30, 2014	**June 30, 2015**	June 30, 2014
	Note	--------------------------------(Rupees '000)			--------------------------------
Sales		**135,043,958**	150,488,383	**75,825,275**	85,618,024
Other revenue		**334,463**	347,516	**193,581**	188,600
		135,378,421	150,835,899	**76,018,856**	85,806,624
Sales tax		**(24,733,292)**	(21,091,862)	**(13,549,088)**	(12,081,174)
Net revenue		**110,645,129**	129,744,037	**62,469,768**	73,725,450
Cost of products sold		**(104,816,422)**	(124,670,223)	**(57,975,337)**	(70,828,419)
Gross profit		**5,828,707**	5,073,814	**4,494,431**	2,897,031
Distribution and marketing expenses		**(2,172,786)**	(2,205,842)	**(1,100,087)**	(1,312,716)
Administrative expenses		**(2,066,592)**	(1,925,033)	**(995,129)**	(885,373)
		1,589,329	942,939	**2,399,215**	698,942
Other operating expenses		**(494,802)**	(131,341)	**(363,544)**	(42,482)
		1,094,527	811,598	**2,035,671**	656,460
Other income		**128,966**	892,077	**87,589**	(84,552)
Operating profit		**1,223,493**	1,703,675	**2,123,260**	571,908
Finance costs		**(144,693)**	(243,294)	**(73,828)**	(102,531)
		1,078,800	1,460,381	**2,049,432**	469,377
Share of profit of associate - net of tax	6	**266,889**	243,221	**156,688**	139,471
Profit before taxation		**1,345,689**	1,703,602	**2,206,120**	608,848
Taxation	11	**(811,613)**	(972,411)	**(918,969)**	(389,099)
Profit for the period		**534,076**	731,191	**1,287,151**	219,749
Other comprehensive income		**-**	-	**-**	-
Total comprehensive income for the period		**534,076**	731,191	**1,287,151**	219,749
		------------------------------------(Rupees)			------------------------------------
Earnings per share		**4.99**	6.83	**12.03**	2.05

Appropriations have been reflected in the condensed interim statement of changes in equity.

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

Omar Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

For the half year ended June 30, 2015

	Share capital	Capital reserve Share premium	Revenue reserve General reserve	Revenue reserve Unappropriated profit	Revenue reserve Remeasurement of post employment benefits - Actuarial (loss) / gain	Total
	(Rupees '000)					
Balance as at January 1, 2014 (Audited)	856,100	1,717,828	207,002	4,603,450	(161,854)	7,222,526
Total comprehensive income for the half year ended June 30, 2014	-	-	-	731,191	-	731,191
Transactions with owners						
Bonus shares issued during the period in the ratio of 1 share for every 4 shares held	214,025	(214,025)	-	-	-	-
Final dividend for the year ended December 31, 2013 at the rate of Rs. 4 per share	-	-	-	(342,439)	-	(342,439)
	214,025	(214,025)	-	(342,439)	-	(342,439)
Balance as at June 30, 2014 (Unaudited)	1,070,125	1,503,803	207,002	4,992,202	(161,854)	7,611,278
Total comprehensive loss for the half year ended December 31, 2014	-	-	-	(1,798,324)	82,111	(1,716,213)
Balance as at December 31, 2014 (Audited)	1,070,125	1,503,803	207,002	3,193,878	(79,743)	5,895,065
Total comprehensive income for the half year ended June 30, 2015	-	-	-	534,076	-	534,076
Transactions with owners						
Final dividend for the year ended December 31, 2014 at the rate of Rs. 8 per share	-	-	-	(856,099)	-	(856,099)
Balance as at June 30, 2015 (Unaudited)	1,070,125	1,503,803	207,002	2,871,855	(79,743)	5,573,042

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

Omar Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the half year ended June 30, 2015

	Note	Half year ended June 30, 2015	Half year ended June 30, 2014
		----------(Rupees '000)----------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	12	**3,647,278**	9,460,650
Finance costs paid		**(49,281)**	(119,356)
Income tax paid		**(629,065)**	(660,168)
Long-term loans and advances		**9,749**	17,437
Long-term deposits and prepayments		**9,272**	232
Net cash generated from operating activities		**2,987,953**	8,698,795
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(474,795)**	(586,972)
Proceeds from disposal of operating assets		**45,848**	12,374
Mark-up / interest received on short-term deposits		**33,723**	72,713
Net cash used in investing activities		**(395,224)**	(501,885)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(888,162)**	(266,971)
Net increase in cash and cash equivalents		**1,704,567**	7,929,939
Cash and cash equivalents at beginning of the period		**(2,470,129)**	(5,299,630)
Cash and cash equivalents at end of the period		**(765,562)**	2,630,309

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

Omar Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2015

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 half year ended June 30, 2015 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, 2014.

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, 2014.

3.2 There are certain new International Financial Reporting Standards (standards), amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2015. These are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations and are, therefore, not disclosed in this condensed interim financial information.

3.3 Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

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, 2014.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2015

5. PROPERTY, PLANT AND EQUIPMENT	Unaudited June 30, 2015	Audited December 31, 2014
	----------(Rupees '000)----------	
Operating assets, at net book value - notes 5.1 and 5.2		
- Operating assets	**6,708,813**	6,063,938
- Provision for impairment	**(434,111)**	(462,357)
	6,274,702	5,601,581
Capital Work in Progress - note 5.3	**884,070**	1,458,145
	7,158,772	7,059,726

5.1 Additions to operating assets, including transfers from capital work-in-progress, during the period / year were as follows:

Owned assets		
Leasehold land	**1,871**	32,186
Buildings on leasehold land	**282**	13,353
Tanks and pipelines	**38,206**	294,224
Plant and machinery	**460,891**	139,150
Air conditioning plant	**156**	2,790
Dispensing pumps	**116,537**	173,452
Rolling stock and vehicles	**3,929**	108,141
Electrical, mechanical and fire fighting equipment	**9,664**	95,409
Furniture, office equipment and other assets	**426,269**	121,607
Computer auxiliaries	**2,768**	-
	1,060,573	980,312

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

	Cost	Accumulated depreciation	Net book value
	----------------(Rupees '000)----------------		
June 30, 2015 (Unaudited)			
Owned assets			
Buildings on leasehold land	63,228	29,855	33,373
Tanks and pipelines	14,711	6,072	8,639
Plant and machinery	15,105	13,368	1,737
Air conditioning plant	228	72	156
Dispensing pumps	71,528	68,250	3,278
Rolling stock and vehicles	27,371	27,038	333
Electrical, mechanical and fire fighting equipment	46,823	26,869	19,954
Furniture, office equipment and other assets	128,171	127,109	1,062
	367,165	298,633	68,532
December 31, 2014 (Audited)	419,045	204,255	214,790

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2015

	Unaudited June 30, 2015	Audited December 31, 2014
	-----------(Rupees '000)----------	
5.3 Capital work-in-progress		
Buildings on leasehold land	**501,120**	714,456
Tanks and pipelines	**27,140**	26,204
Plant and machinery	**85,632**	483,427
Dispensing pumps	**7,745**	-
Rolling stock and vehicles	**18,736**	20,483
Electrical, mechanical and fire fighting equipment	**227,983**	203,350
Furniture, office equipment and other assets	**15,714**	10,225
	884,070	1,458,145

6. LONG-TERM INVESTMENTS

This includes investment of 26% in an unquoted associate "Pak-Arab Pipeline Company Limited (PAPCO)", which is carried under equity method of accounting as summarized below:

	Unaudited June 30, 2015	Audited December 31, 2014
	-----------(Rupees '000)----------	
Balance at the beginning of the period / year	**3,271,116**	3,065,286
Share of profit	**437,061**	811,876
Share of taxation	**(170,172)**	(270,324)
	266,889	541,552
Dividend received	**-**	(335,722)
Balance at the end of the period / year	**3,538,005**	3,271,116

7. DEFERRED TAXATION

This is composed of the following:

Taxable temporary differences arising in respect of:		
- accelerated tax depreciation	**(860,104)**	(843,629)
- investment in associate	**(166,601)**	(139,912)
	(1,026,705)	(983,541)
Deductible temporary differences arising in respect of:		
- other provisions	**553,683**	541,726
- carry forward tax losses - note 7.1	**331,809**	667,687
	885,492	1,209,413
	(141,213)	225,872

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2015

7.1 Deferred income tax asset, recognized on tax losses available for carry-forward, has been restricted to the extent for which the realization of the related tax benefit is probable through future taxable profits. The aggregate unutilized tax losses as at June 30, 2015 amount to Rs. 1,036,903 thousand (December 31, 2014: Rs. 2,023,295 thousand).

	Unaudited June 30, 2015	Audited December 31, 2014
	----------(Rupees '000)----------	
8. OTHER RECEIVABLES		
Petroleum development levy and other duties - note 8.1	**1,380,087**	1,374,289
Price differential claims on:		
- imported purchases - note 8.2	**295,733**	295,733
- high speed diesel (HSD) - note 8.3	**343,584**	343,584
- imported motor gasoline - note 8.4	**2,071,107**	2,071,107
Regulatory duty receivable - note 8.5	**118,404**	-
Sales tax refundable - note 8.6	**1,610,910**	1,299,263
Receivable under inland freight equalization mechanism	**987,221**	980,903
Receivable from related parties	**3,383,018**	2,000,064
Service cost receivable from associated company - PAPCO	**8,710**	9,955
Staff retirement benefit schemes	**515,584**	1,226,448
Taxes recoverable - notes 8.7 and 10.1.2	**968,073**	968,073
Others	**108,221**	47,693
	11,790,652	10,617,112
Less:		
Provision for impairment	**(223,225)**	(223,225)
	11,567,427	10,393,887

8.1 Includes petroleum development levy amounting to Rs. 1,362,811 thousand (December 31, 2014: Rs. 1,357,013 thousand) recoverable from the Government of Pakistan (GoP) on account of export sales. In 2011, the Company approached the GoP and Federal Board of Revenue (FBR) for settlement thereof. The GoP sought certain information which was duly provided by the Company. The FBR through the Large Taxpayers Unit (LTU) completed the verification exercise for claims amounting to Rs. 938,866 thousand, a refund of which was received last year. The remaining claims are under verification and the Company is confident of recovery of the amount in full on completion of the verification exercise by FBR.

8.2 Represents receivable from the GoP on account of price differential on imports and the ex-refinery price on direct and retail sales during the period 1990 to 2001.

8.3 Represents price differential claims receivable from the GoP on local / imported purchases of HSD, which was based on rates notified by the GoP to subsidize petroleum prices by restricting the increase in prices, in order to reduce the burden of rising oil prices on the end consumers.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2015

8.4 Represents the Company's share of price differential claims on account of import of motor gasoline by the Company, being the difference between the 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 (OMCs) were asked in a meeting chaired by the Director General Oil to import motor gasoline to meet the increasing local demand. Accordingly, OMCs 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 imported product. Despite no response from the MoPNR, the Company along with another OMC 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, the Company along with other OMC 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 accordingly submitted audit reports thereafter for claims till May 31, 2011. In 2011, the Company received an amount of Rs. 454,000 thousand from GoP as a partial settlement of these claims.

In 2012, to meet the increasing local demand, oil marketing companies again resorted to import motor gasoline on the instruction of MoPNR. The Company along with other OMCs again approached the GoP with a proposal to include the high premium on the gallop cargo in the pricing mechanism. MoPNR accepted the OMCs' proposal and directed OGRA through its directive PL-3 (457) / 2012 - 43 dated June 30, 2012 to adjust the actual premium differential of the imported motor gasoline through the IFEM mechanism.

Further in 2013, the Company approached MoPNR through letter dated May 20, 2013 requesting an early settlement of the claim amounting to Rs. 109,896 thousand in respect of this import. On June 6, 2013, MoPNR requested that an audited claim be submitted to allow further consideration and resolution of the matter. The Company accordingly submitted an audit report thereafter in respect of this claim.

The Company along with industry and Oil Companies Advisory Council (OCAC) continues to follow up this matter with MoPNR and is confident of recovering the amounts in full.

8.5 This represents receivable in respect of regulatory duty imposed by the Ministry of Finance, Economic Affairs, Statistics and Revenue, GoP through SRO 392(I)/2015 dated April 30, 2015 on import of crude oil, high speed diesel and motor gasoline. Under the product pricing formula, the OMCs were required to recover similar cost elements and duties from customers on sale of petroleum products through prices notified on monthly basis. Since the notification of regulatory duty was received on May 4, 2015, the impact of the regulatory duty could not be incorporated in the prices effective from May 1, 2015, which were announced on April 30, 2015. Therefore, the recovery of regulatory duty was to be made through subsequent month's prices of petroleum products. However, through SRO 603(I)/2015 dated June 30, 2015, the regulatory duty has been rescinded resulting in a receivable balance of regulatory duty. The Company is currently engaged with the MoPNR and is actively pursuing recovery thereagainst. MoPNR, in accordance with the decision of Economic Coordination Committee (ECC) dated July 10, 2015, has requested OGRA to develop a comprehensive recovery mechanism of regulatory duty based on the principle that there should be no gain or loss to OMCs.

8.6 This principally represents sales tax refundable on account of export sales for which the Company has filed claims with FBR and is actively pursuing for its recovery.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2015

8.7 In 2013, the Deputy Commissioner Inland Revenue (DCIR) in compliance with the directions of ATIR, completed denovo proceedings in respect of tax year 2006 and raised a demand of Rs. 425,514 thousand. The demand primarily relates to disallowance of premium paid to Shell International Trading Middle East (SITME) on imports of high speed diesel, while treating the same as payment to non-resident, on which the Company failed to deduct tax under section 152 of the Income Tax Ordinance, 2001. The Company in response to the aforementioned order deposited an amount of Rs. 301,167 thousand while an amount of Rs. 111,785 thousand was adjusted against sales tax refund. In addition a rectification application was also filed for correction of certain mistakes apparent in the order which has been accepted and given effect. The Company also filed an appeal against the aforementioned order before CIR (Appeals) which in its order dated February 2, 2015 has upheld the order passed by the DCIR. The Company has filed an appeal thereagainst before the ATIR which is pending to be heard. The Company, based on the advice of its tax consultant expects a favourable outcome at appellate levels and considers the possibility of any liability arising under the aforementioned order to be remote.

	Unaudited June 30, 2015	**Audited December 31, 2014**
	----------(Rupees '000)-----------	
9. TRADE AND OTHER PAYABLES		
Creditors - note 9.1	**27,263,100**	21,205,158
Accrued liabilities	**5,020,876**	4,086,359
Excise, custom duties and development surcharge	**14,423**	11,939
Dealers' and customers' security deposits	**492,998**	533,295
Advances received from customers	**1,731,500**	2,154,738
Provision for post retirement medical benefits	**78,183**	80,479
Workers' welfare fund	**217,700**	195,684
Workers' profits participation fund	**79,183**	48,245
Unclaimed dividends	**86,727**	118,790
Other liabilities	**46,895**	53,207
	35,031,585	28,487,894

9.1 This includes amounts due to related parties aggregating to Rs. 25,639,995 thousand (December 31, 2014: Rs. 17,484,610 thousand). Particulars of the amounts due are as follows:

	Unaudited June 30, 2015	**Audited December 31, 2014**
	----------(Rupees '000)-----------	
Affiliates of Parent company	**23,984,268**	16,518,805
Pakistan Refinery Limited	**1,510,299**	827,964
Other related parties	**145,428**	137,841
	25,639,995	17,484,610

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2015

10. CONTINGENCIES AND COMMITMENTS

10.1 Contingencies

10.1.1 Infrastructure fee

The Sindh Finance Act, 1994, prescribed imposition of 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. On July 1, 2013, Sindh Assembly amended the Sindh Finance Act, 1994 through legislation of Sindh Finance Act, 2013 according to which infrastructure fee will range from 0.90% to 0.95% of total value of goods against various slabs of net weight of goods as assessed by the Customs Authorities plus one paisa per kilometer.

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 of Sindh 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 of Sindh and set aside the earlier order of the High Court of Sindh.

The High Court of Sindh 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 High Court of Sindh, the Company has reviewed its position and without acknowledging it as a debt now estimates the accumulated levy up to June 30, 2015 at Rs. 69,493 thousand (December 31, 2014: Rs. 61,993 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 this condensed interim financial information against the levy as the management expects a favourable outcome.

10.1.2 Taxation

10.1.2.1 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 earlier year and set-off against tax liability for the tax year 2008. The

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2015

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. In 2012, both CIR (Appeals) and ATIR have decided the case against the Company. The Company in response to this order of ATIR has filed an appeal before High Court of Sindh which is pending hearing.

In 2013, the High Court of Sindh, in respect of another Company, overturned the interpretation of the Appellate Tribunal on Section 113 (2) (c) of the Income Tax Ordinance, 2001 and decided that the minimum tax could not be carried forward where there was no tax paid on account of loss for the year or carried forward losses. The Company's management is however of the view, duly supported by the legal advisor, that the above order is not correct and would not be maintained by the Supreme Court, which the Company intends to approach, if same decision is awarded to the Company in appeal to the High Court of Sindh. Therefore, the Company has continued to consider the adjustment made against the demand and the deposit of Rs. 120,000 thousand as recoverable and the same is included in Other receivables.

10.1.2.2 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 deposited an amount of Rs. 29,106 thousand and 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 the tax demand to Rs. 109,895 thousand after taking into consideration Rs. 29,106 thousand already deposited on this account. Thereafter, the Company made a payment of Rs. 100,000 thousand under protest against the rectified order and filed another rectification application and appeal before CIR (Appeals). The tax officer provided further relief in the revised rectified order on account of software cost which resulted in a net tax refund of Rs. 733 thousand after taking into consideration the payments already made in this regard. The revised rectified order still contains certain mistakes for which the Company has filed another rectification application which is still pending.

In 2013, CIR (Appeals) upheld the basis used by tax officer in respect of allocation of expenses and had directed the tax authorities to work out correct figures, in order to determine the allocation ratio. The CIR (Appeals) in respect of disallowance of software cost had directed tax authorities to give consequential effect to the subsequent years. The Company has filed an appeal against the CIR (Appeals) order before the ATIR, which is pending.

The Company, based on the advice of its tax consultant expects a favourable outcome, however, an amount of Rs. 19,068 thousand has been provided for representing the best estimate of potential liability arising therefrom. The payment made against the demand to the extent considered recoverable has been included in Other receivables.

10.1.2.3 During the period, the tax authorities after finalizing the income tax audit for the tax year 2011 raised a demand of Rs. 1,694,921 thousand. The demand principally arose due to the disallowance of premium paid to SITME on imports, disallowance of technical service fee and other associated company payments for alleged non-withholding of tax and allocation of expenses. Additionally, unutilized tax losses of previous years were not adjusted in computing the tax liability. The Company in response to order filed a rectification application and an appeal with the CIR (Appeals). The tax officer rectified the order allowing

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2015

the unutilized tax losses for previous years thereby reducing the demand to Rs. 250,144 thousand. The revised rectified order still contains certain mistakes for which the Company has filed another rectification application with the authorities.

The Company based on the merits of the aforementioned matter and as per the advice of its tax consultants expects a favorable outcome on these matters and accordingly no provision in this respect has been made in this condensed interim financial information.

10.1.3 **Sales tax and Federal Excise Duty (FED)**

10.1.3.1 In 2011, the tax authorities after conducting sales tax and FED audit for the period July 2008 to June 2009 and post refund audit for the period September and October 2008 raised sales tax and FED demands amounting to Rs. 1,843,529 thousand including penalty through several orders. In 2012 and 2013, the tax authorities also conducted sales tax and FED audit for period July 2009 to December 2009 and January 2011 and December 2011 and raised additional sales tax and federal excise duty demands amounting to Rs. 1,093,370 thousand and Rs. 2,902,486 thousand including penalty, respectively.

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 trade marks and manifestation fee; (iii) levying sales tax on difference in output sales tax as per return and financial statements; (iv) sales tax on lubricants paid on the value of supply instead of retail price as mentioned on packs; and (v) unlawful adjustment of input sales tax.

In 2012, the tax authorities adjusted sales tax demand of Rs. 173,799 thousand pertaining to September 2008 against sales tax refundable. The Company in response to the aforementioned orders filed appeals and sought stay against the demands with the CIR (Appeals), ATIR and High Court of Sindh. The appeals for September and October 2008 have been decided in favour of the Company by the ATIR whereas appeals for July 2008 to June 2009 and July 2009 to December 2009 have been decided on most of the grounds 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. Appeal on such issue was filed by the Company with the ATIR which remanded back the matter to the tax authorities for fresh adjudication.

The CIR (Appeals) whilst deciding sales tax appeal for the period January 2011 to December 2011 set-aside all matters involved in appeal and directed the tax authorities to re-examine the same in line with his directives. The Company filed an appeal on the matter before the ATIR, which in its order, has maintained the stance taken by CIR (Appeals). The Company in response to the order of ATIR, filed a reference application with the High Court of Sindh, which through an ad-interim order restrained tax authorities from passing an order.

In 2014, the tax authorities issued a notice proposing to levy sales tax on value of supplies of jet fuel to various airlines during the period July 2012 to June 2013, thereby proposing to raise a demand of Rs. 2,558,997 thousand. The Company filed an application with the High Court of Sindh, which has passed an ad-interim order restraining the tax authorities from passing an order.

During the period, the tax authorities whilst finalizing sales tax and FED audit for the period January 2012 to December 2012 issued a show cause notice inter alia proposing to levy sales tax on the value of supplies of jet fuel during the period January 2012 to June 2012, thereby proposing to raise a demand of Rs. 1,046,760 thousand. Further, FED amounting to Rs. 186,201 thousand in respect of trade mark and manifestation fee and group fee is also being demanded. The Company filed a petition with the High Court of Sindh, which has passed an order restraining the tax authorities from passing an order.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2015

The Company based on the merits of the aforementioned matters and as per the advice of its tax consultant and legal advisor, expects a favorable outcome on these matters and accordingly no provision has been made in respect of these matters in this condensed interim financial information.

10.1.3.2 In 2012, the Company received an order from Model Customs Collectorate, Hyderabad raising sales tax demand of Rs. 46,838 thousand on imported goods, without specifying the basis of computation, 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 have 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 Petroleum (POL) products imported by OMCs for sale in the country are administered under a special pricing arrangement agreed with the GoP.

The FBR issued directives restraining the Collectorates from any recovery actions and has also issued a notification dated February 10, 2012 confirming that value addition sales tax was not to be charged on POL products whose prices are regulated under special pricing arrangement by the GoP or regulatory authority working under the GoP. Further, Model Customs Adjudication quashed the show cause notices of Faisalabad, Lahore and Multan Collectorates based on the notification. The Company is also of the view that OMCs cannot be required to pay tax on unregulated products / exports retrospectively since clarification of FBR was available 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, the Company 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 in this respect has been made in this condensed interim financial information.

10.1.4 **Others**

The amount of other claims against the Company not acknowledged as debt as at June 30, 2015 aggregate to approximately Rs. 3,223,441 thousand (December 31, 2014: Rs. 3,181,879 thousand). This includes claims by refineries, amounting to Rs. 1,094,021 thousand (December 31, 2014: Rs. 1,094,021 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, 2015 amounted to approximately Rs. 287,822 thousand (December 31, 2014: Rs. 361,694 thousand).

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2015

10.2.2 Commitments for rentals of assets under operating lease agreements as at June 30, 2015 amounted to Rs. 2,667,620 thousand (December 31, 2014: Rs. 2,731,934 thousand) payable as follows:

	Unaudited June 30, 2015	Audited December 31, 2014
	---------(Rupees '000)---------	
Not later than one year	**169,714**	169,186
Later than one year and not later than five years	**646,896**	653,131
Later than five years	**1,851,010**	1,909,617
	2,667,620	2,731,934

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, 2015, the value of these cheques amounted to Rs. 6,836,984 thousand (December 31, 2014: Rs. 8,909,134 thousand). The maturity dates of these cheques extend to December 23, 2015 (December 31, 2014: June 22, 2015).

10.2.4 Letters of credit and bank guarantees outstanding as at June 30, 2015 amount to Rs. 13,718,223 thousand (December 31, 2014: Rs. 4,579,015 thousand).

	Unaudited			
	Half year ended		Quarter ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	--------(Rupees '000)--------			
11. TAXATION				
Current - for the period - note 11.1	**444,528**	595,485	**240,631**	331,199
Deferred	**367,085**	376,926	**678,338**	57,900
	811,613	972,411	**918,969**	389,099

11.1 This includes minimum tax @ 0.5% of taxable turnover amounting to Rs. 422,070 thousand (June 30, 2014: Rs. 535,370 thousand). Minimum tax is adjustable against the tax liability of succeeding five years. The Company however, on prudence, has not recognized the related deferred tax asset in view of unutilized tax losses available for set off against future taxable income, as explained in note 7.1 and expectation of minimum tax to be higher than corporate tax in future periods. As at June 30, 2015 minimum tax which is available for adjustment against the future tax liability and not recognized as tax asset aggregates to Rs. 5,238,318 thousand (December 31, 2014: Rs. 4,816,248 thousand).

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2015

	Unaudited Half year ended June 30, 2015	Unaudited Half year ended June 30, 2014
	-----------(Rupees '000)----------	
12. CASH GENERATED FROM OPERATIONS		
Profit before taxation	**1,345,689**	1,703,602
Adjustment for non-cash charges and other items:		
Depreciation and amortization	**509,906**	486,568
Reversal of provision for impairment of operating assets	**(28,246)**	-
Accretion expense in respect of asset retirement obligation, net	**2,924**	9,257
Provision / (Reversal of provision) for impairment of stock-in-trade, net	**31,653**	(24,775)
Provision / (Reversal of provision) for impairment of trade debts, net	**126,248**	(1,745)
Write-off of operating assets	**56,187**	7,298
(Gain) / Loss on disposal of operating assets	**(33,503)**	3,753
Share of profit of associate	**(266,889)**	(243,221)
Mark-up / interest on short-term deposits	**(33,723)**	(72,713)
Mark-up / interest on short-term running finance	**43,323**	108,135
Working capital changes - note 12.1	**1,893,709**	7,484,491
	3,647,278	9,460,650

12.1 **Working capital changes**

(Increase) / decrease in current assets		
Stock-in-trade	**(1,636,212)**	450,075
Trade debts	**(1,860,958)**	(38,673)
Loans and advances	**(19,169)**	(383)
Short-term prepayments	**7,834**	(46,858)
Other receivables	**(1,173,540)**	(135,920)
	(4,682,045)	228,241
Increase in current liabilities		
Trade and other payables	**6,575,754**	7,256,250
	1,893,709	7,484,491

13. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

13.1 Financial risk factors

The Company's activities expose it to a variety of financial risks namely market risk (including currency risk, price risk and interest rate risk), credit risk, foreign exchange risk and liquidity risk.

There has been no change in the risk management policies during the period, consequently this condensed interim financial information does not include all the financial risk management information and disclosures required in the annual financial statements.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2015

13.2 **Fair value of financial assets and liabilities**

The carrying value of all financial assets and liabilities reflected in this condensed interim financial information approximate their fair value.

14. RELATED PARTY TRANSACTIONS

Transactions with related parties during the period are as follows:

		Unaudited Half year ended	
		June 30, 2015	**June 30, 2014**
		----------(Rupees '000)----------	
Nature of relationship	**Nature of transactions**		
Holding Company	Dividend paid	**651,550**	260,620
Associate	Pipeline charges	**333,049**	251,214
	Others	**7,332**	4,869
Staff retirement benefit / contribution funds			
Pension Funds	Contribution	**15,290**	13,840
Defined Contribution Pension Fund	Contribution	**50,995**	44,715
Gratuity Funds	Contribution	**3,820**	3,387
Provident Funds	Contribution	**27,499**	25,360
Key management personnel	Salaries and other short term employee benefits - note 14.1	**36,853**	24,265
	Post employment benefits	**2,865**	2,551
Non-Executive Directors	Directors' fee	**1,400**	1,200
Other related parties	Purchases	**61,103,123**	46,462,593
	Sales	**2,965,531**	10,505
	Collection for sales made in Pakistan to customers of the parent company and its associates	**2,196,918**	3,094,913
	Technical service fee charged - note 14.2	**765,882**	653,821
	Trade marks and manifestations license fee charged - note 14.3	**153,596**	133,819
	Computer expenses charged (Global Infrastructure Desktop charges) - note 14.3	**46,026**	61,919
	Expenses recovered from related parties - note 14.4	**105,525**	47,105
	Other expenses charged by related parties - note 14.4	**303,412**	332,568

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2015

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 an agreement between the Company and a related Shell Group company based on an agreed methodology.

14.3 Trade marks 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, 2014 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, 2014.

15.2 Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of better presentation, the effects of which are not material.

16. DATE OF AUTHORIZATION

This condensed interim financial information was authorized for issue on August 19, 2015 by the Board of Directors of the Company.

Omar Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

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Shell Pakistan Limited
Shell House
6 Ch. Khaliquzzaman Road
Karachi – 75530
Pakistan

www.shell.com.pk