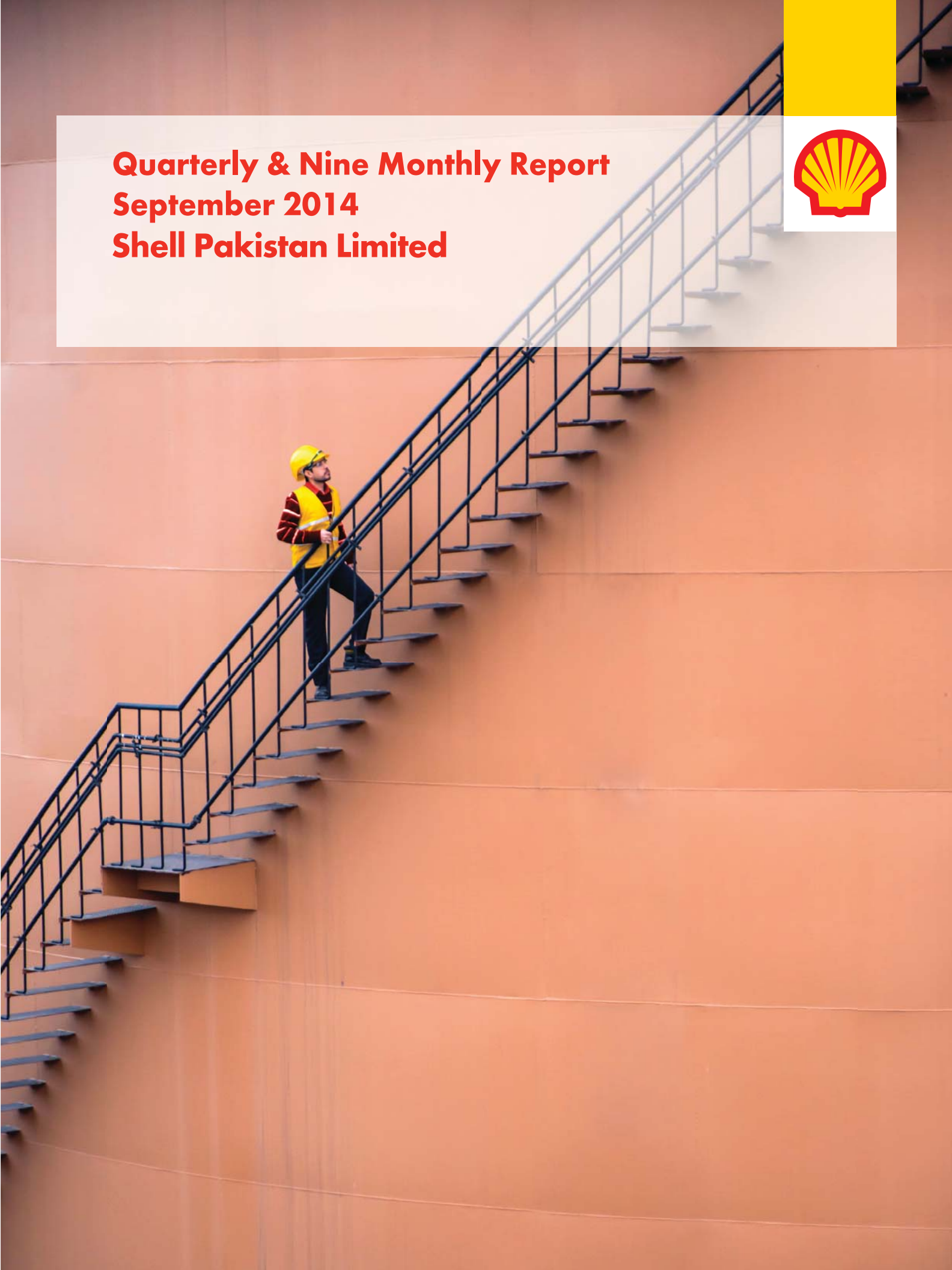


**Quarterly & Nine Monthly Report  
September 2014  
Shell Pakistan Limited**



# COMPANY INFORMATION

## Board of Directors

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

## Chief Executive Officer

Omar Y Sheikh

## Audit Committee

Badaruddin F Vellani                      Chairman  
Imran R Ibrahim  
Haroon Rashid

## Human Resource and Remuneration Committee

Chong Keng Cheen                      Chairman  
Farrokh K Captain  
Omar Y Sheikh

## Company Secretary

Tariq Saeed

## Registered Office

Shell House  
6, Ch. Khaliqzaman Road  
Karachi-75530

## 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

# REVIEW

For the quarter and nine months ended September 30, 2014



## 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 third quarter and the nine months ended September 30, 2014. During this quarter 2014, your Company earned a net profit of Rs. 165 million leading to a net profit of Rs. 896 million in the first nine months of 2014. This compares to a net profit of Rs. 280 million in third quarter 2013 and a net profit of Rs. 214 million in the first nine months of 2013.

Operational performance of your Company remained positive in the third quarter of 2014. Motor Gasoline and Lubricants exhibited growth against the third quarter last year. The Company continued its focus on achieving operational excellence and execution of winning consumer promotions / propositions for its customers.

Advertising and promotion spend of Rs. 550 million for the first nine months was more than twice that of last year. These spends were conducted to support consumer and trade promotions and to build brand share of preference both for Fuels and Lubricants.

Financial results of your Company continue to be affected by very 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 first nine months of 2014, limited progress was made in collecting receivables from the Government. Through its continued efforts, the Company managed to collect Rs. 334 million in first nine months of 2014 on account of Petroleum Development Levy. The Company's management is continuously engaged with relevant Government authorities and we continue to demand that the Government pay 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 April 2013, a minimal increase in margins on regulated petroleum products was granted by the Government. Currently regulated margins for motor gasoline and diesel still remain the lowest in the region and we continue to advocate for a further favorable revision of these margins 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 us 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 a relentless 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.

On behalf of the Board of Directors,  
**Omar Y Sheikh,**  
Managing Director

# CONDENSED INTERIM BALANCE SHEET

As at September 30, 2014

<b>ASSETS</b>	<b>Note</b>	<b>Unaudited September 30, 2014</b>	<b>Audited December 31, 2013</b>
		------(Rupees '000)-----	
<b>Non-current assets</b>			
Property, plant and equipment	5	6,607,842	6,226,651
Intangible assets		290,906	558,350
Long-term investments	6	3,081,535	3,070,286
Long-term loans and advances		20,407	43,143
Long-term deposits and prepayments		191,828	197,155
Deferred taxation - net	7	270,518	632,636
		<u>10,463,036</u>	<u>10,728,221</u>
<b>Current assets</b>			
Stores		14,845	14,845
Stock-in-trade		22,785,794	17,818,412
Trade debts		2,286,017	2,259,170
Loans and advances		145,776	131,412
Short-term prepayments		248,200	190,840
Other receivables	8	10,156,380	8,594,635
Cash and bank balances		667,302	858,390
		<u>36,304,314</u>	<u>29,867,704</u>
<b>TOTAL ASSETS</b>		<u>46,767,350</u>	<u>40,595,925</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	9	1,070,125	856,100
Share premium		1,503,803	1,717,828
General Reserve		207,002	207,002
Unappropriated profit		5,156,758	4,603,450
Remeasurement of post employment benefits - Actuarial loss		(161,854)	(161,854)
<b>Total equity</b>		<u>7,775,834</u>	<u>7,222,526</u>
<b>Liabilities</b>			
<b>Non-current liability</b>			
Asset retirement obligation		385,022	334,091
<b>Current liabilities</b>			
Trade and other payables	10	32,381,782	26,448,442
Accrued mark-up / interest		13,676	16,737
Short-term borrowings - secured		5,748,045	6,158,020
Taxation		462,991	416,109
		<u>38,606,494</u>	<u>33,039,308</u>
<b>Total liabilities</b>		<u>38,991,516</u>	<u>33,373,399</u>
<b>Contingencies and commitments</b>			
	11		
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>46,767,350</u>	<u>40,595,925</u>

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

**Omar Y Sheikh**  
Chief Executive Officer

**Imran R Ibrahim**  
Director

# CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the quarter and nine months ended September 30, 2014

	Note	Nine months ended		Quarter ended	
		September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
------(Rupees '000)-----					
Sales		224,084,417	212,833,140	73,596,034	73,660,925
Other revenue		576,753	529,006	229,237	84,601
		<u>224,661,170</u>	<u>213,362,146</u>	<u>73,825,271</u>	<u>73,745,526</u>
Sales tax		(31,505,499)	(29,206,304)	(10,413,637)	(10,505,666)
Net revenue		<u>193,155,671</u>	<u>184,155,842</u>	<u>63,411,634</u>	<u>63,239,860</u>
Cost of products sold		(184,877,963)	(175,931,071)	(60,207,740)	(59,561,917)
<b>Gross profit</b>		<b>8,277,708</b>	<b>8,224,771</b>	<b>3,203,894</b>	<b>3,677,943</b>
Distribution and marketing expenses		(3,349,793)	(2,812,111)	(1,143,951)	(1,083,959)
Administrative expenses		(2,970,573)	(2,984,496)	(1,045,540)	(1,014,657)
		<u>1,957,342</u>	<u>2,428,164</u>	<u>1,014,403</u>	<u>1,579,327</u>
Other operating expenses		(159,009)	(1,517,800)	(27,668)	(1,108,549)
		<u>1,798,333</u>	<u>910,364</u>	<u>986,735</u>	<u>470,778</u>
Other income		368,986	229,043	(523,091)	136,815
<b>Operating profit</b>		<b>2,167,319</b>	<b>1,139,407</b>	<b>463,644</b>	<b>607,593</b>
Finance costs		(329,721)	(446,084)	(86,427)	(76,558)
		<u>1,837,598</u>	<u>693,323</u>	<u>377,217</u>	<u>531,035</u>
Share of profit of associate - net of tax	6	346,971	412,021	103,750	93,193
<b>Profit before taxation</b>		<b>2,184,569</b>	<b>1,105,344</b>	<b>480,967</b>	<b>624,228</b>
Taxation	12	(1,288,822)	(890,957)	(316,411)	(344,540)
<b>Profit for the period</b>		<b>895,747</b>	<b>214,387</b>	<b>164,556</b>	<b>279,688</b>
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the period</b>		<b>895,747</b>	<b>214,387</b>	<b>164,556</b>	<b>279,688</b>
------(Rupees)-----					
			Restated		Restated
<b>Earnings per share</b>		<u>8.37</u>	<u>2.00</u>	<u>1.54</u>	<u>2.61</u>

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 Y Sheikh**  
Chief Executive Officer

**Imran R Ibrahim**  
Director

# CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

For the nine months ended September 30, 2014

	Capital reserve		Revenue reserve			Total
	Share capital	Share premium	General reserve	Unappropriated profit	Remeasurement of post employment benefits - Actuarial loss	
------(Rupees '000)-----						
<b>Balance as at January 1, 2013 (Audited)</b>	856,100	1,717,828	207,002	3,542,289	(445,081)	5,878,138
Profit for the nine months ended September 30, 2013	-	-	-	214,387	-	214,387
Other comprehensive income for the nine months ended September 30, 2013	-	-	-	-	-	-
<b>Balance as at September 30, 2013 (Unaudited)</b>	856,100	1,717,828	207,002	3,756,676	(445,081)	6,092,525
Profit for the three months ended December 31, 2013	-	-	-	846,774	-	846,774
Other comprehensive income for the three months ended December 31, 2013	-	-	-	-	283,227	283,227
<b>Balance as at December 31, 2013 (Audited)</b>	856,100	1,717,828	207,002	4,603,450	(161,854)	7,222,526
Bonus shares issued during the period in the ratio of 1 share for every 4 shares held - note 9	214,025	(214,025)	-	-	-	-
Final dividend for the year ended December 31, 2013 at Rs. 4 per share	-	-	-	(342,439)	-	(342,439)
Profit for the nine months ended September 30, 2014	-	-	-	895,747	-	895,747
Other comprehensive income for the nine months ended September 30, 2014	-	-	-	-	-	-
<b>Balance as at September 30, 2014 (Unaudited)</b>	<b>1,070,125</b>	<b>1,503,803</b>	<b>207,002</b>	<b>5,156,758</b>	<b>(161,854)</b>	<b>7,775,834</b>

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

**Omar Y Sheikh**  
Chief Executive Officer

**Imran R Ibrahim**  
Director

# CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the nine months ended September 30, 2014

	Note	Nine Months ended	
		September 30, 2014	September 30, 2013
------(Rupees '000)-----			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	13	<b>1,880,593</b>	8,812,477
Finance costs paid		<b>(150,886)</b>	(332,544)
Income tax paid		<b>(879,822)</b>	(869,843)
Long-term loans and advances		<b>22,736</b>	42,417
Long-term deposits and prepayments		<b>5,327</b>	8,423
Mark-up / interest received on short-term deposits		<b>102,776</b>	35,276
Long term debtors		-	1,216
<b>Net cash generated from operating activities</b>		<b>980,724</b>	7,697,422
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		<b>(842,959)</b>	(428,102)
Proceeds from disposal of operating assets		<b>12,371</b>	42,612
Dividend received from associate		<b>335,722</b>	-
<b>Net cash used in investing activities</b>		<b>(494,866)</b>	(385,490)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid		<b>(266,971)</b>	(54)
<b>Net increase in cash and cash equivalents</b>		<b>218,887</b>	7,311,878
Cash and cash equivalents at beginning of the period		<b>(5,299,630)</b>	(8,781,515)
<b>Cash and cash equivalents at end of the period</b>		<b>(5,080,743)</b>	(1,469,637)

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

**Omar Y Sheikh**  
Chief Executive Officer

**Imran R Ibrahim**  
Director



# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended September 30, 2014

## 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. Khaliqzaman 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 nine months ended September 30, 2014 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, 2013.

## 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, 2013.

## 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 judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. However, actual results may differ from these estimates.
- 4.2 During the preparation of this condensed interim financial information, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applicable to the audited annual financial statements for the year ended December 31, 2013.

5. PROPERTY, PLANT AND EQUIPMENT	Unaudited September 30, 2014	Audited December 31, 2013
	----- (Rupees '000) -----	
Operating assets, at net book value - notes 5.1 and 5.2		
- Operating assets	<b>6,230,487</b>	5,958,422
- Provision for impairment	<b>(462,357)</b>	(462,357)
	<b>5,768,130</b>	5,496,065
Capital work-in-progress - note 5.3	<b>839,712</b>	730,586
	<b><u>6,607,842</u></b>	<u>6,226,651</u>

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended September 30, 2014

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

## Owned assets

	Unaudited September 30, 2014	Audited December 31, 2013
	------(Rupees '000)-----	
Leasehold land	29,816	14,243
Buildings on freehold land	1,989	8,191
Tanks and pipelines	247,075	203,997
Plant and machinery	121,201	41,701
Lifts	-	2,283
Dispensing pumps	173,452	30,447
Rolling stock and vehicles	24,705	70,071
Electrical, mechanical and fire fighting equipments	57,247	37,764
Furniture, office equipment and other assets	98,489	126,482
Computer auxiliaries	-	28,996
	<u>753,974</u>	<u>564,175</u>

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

	Cost	Accumulated depreciation	Net book value
	------(Rupees '000)-----		
<b>September 30, 2014 (unaudited)</b>			
<b>Owned assets</b>			
Buildings on leasehold land	18,691	12,098	6,593
Tanks and pipelines	11,003	5,072	5,931
Dispensing pumps	18,178	16,141	2,037
Rolling stock and vehicles	16,376	16,136	240
Electrical, mechanical and fire fighting equipments	11,564	6,026	5,538
Furniture, office equipment and other assets	4,124	4,091	33
	<u>79,936</u>	<u>59,564</u>	<u>20,372</u>
<b>December 31, 2013 (audited)</b>	<u>531,189</u>	<u>407,381</u>	<u>123,808</u>

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended September 30, 2014

	Unaudited September 30, 2014	Audited December 31, 2013
	------(Rupees '000)-----	
<b>5.3 Capital work-in-progress</b>		
Buildings on leasehold land	526,705	450,253
Tanks and pipelines	9,863	1,486
Plant and machinery	138,864	239,387
Electrical, mechanical and fire fighting equipments	135,284	35,479
Furniture, office equipment and other assets	10,378	3,532
Rolling stocks & vehicles	18,618	449
	<u>839,712</u>	<u>730,586</u>

## 6. LONG-TERM INVESTMENTS

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

	Unaudited September 30, 2014	Audited December 31, 2013
	------(Rupees '000)-----	
Balance at the beginning of the period / year	3,065,286	2,984,350
Share of profit	502,797	845,897
Share of taxation	(155,826)	(291,109)
	346,971	554,788
Dividend received	(335,722)	(473,852)
Balance at the end of the period / year	<u>3,076,535</u>	<u>3,065,286</u>

## 7. DEFERRED TAXATION

This is composed of the following:

Taxable temporary differences arising in respect of:

- accelerated tax depreciation	(819,408)	(842,889)
- investment in associate	(120,453)	(119,329)

Deductible temporary differences arising in respect of:

- short-term provisions	611,577	636,498
- carry forward tax losses - note 7.1	598,802	958,356
	<u>270,518</u>	<u>632,636</u>

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended September 30, 2014

- 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 September 30, 2014 amount to Rs. 3,205,848 thousand (December 31, 2013: Rs. 4,865,464 thousand), inclusive of business loss of Rs. 1,391,297 thousand (December 31, 2013: Rs. 3,050,913 thousand). Of the aforementioned aggregate of unutilized losses, a deferred income tax asset has been recognized on losses amounting to Rs. 1,814,551 thousand (December 31, 2013: Rs. 2,818,695 thousand), based on recent projections of future taxable profits of the Company. Tax losses in respect of business are available for utilization against future taxable profits till December 31, 2014. The management reviews realizability of deferred tax asset on half yearly basis.
- 7.2 The Company has not recognized deferred tax asset on minimum tax available for carry forward, as explained in note 12.1.

	Unaudited September 30, 2014	Audited December 31, 2013
	------(Rupees '000)-----	
<b>8. OTHER RECEIVABLES</b>		
Petroleum development levy and other duties - note 8.1	1,971,917	2,305,669
Price differential claims		
- on imported purchases - note 8.2	295,733	295,733
- on high speed diesel (HSD) - note 8.3	343,584	343,584
- on imported motor gasoline - note 8.4	2,071,107	2,071,107
Sales tax refundable - note 8.5	1,679,356	1,655,379
Inland freight equalisation mechanism	682,450	271,501
Service cost receivable from related parties	1,156,202	74,632
Service cost receivable from associated company - PAPCO	11,063	12,083
Staff retirement benefit schemes	1,034,077	751,489
Taxes recoverable - note 8.6 and 11.1.2	949,742	949,742
Others	184,374	86,941
	<u>10,379,605</u>	<u>8,817,860</u>
Provision for impairment	<u>(223,225)</u>	<u>(223,225)</u>
	<u>10,156,380</u>	<u>8,594,635</u>

- 8.1 This includes petroleum development levy recoverable amounting to Rs. 1,962,259 thousand (December 31, 2013: Rs. 2,295,879 thousand) 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 had been duly provided by the Company. The FBR through the Large Taxpayers Unit (LTU) has completed the verification exercise for claims amounting to Rs. 907,044 thousand and a refund cheque of Rs. 333,620 thousand has been received thereagainst. The remaining claims are under verification. The Company is confident of the recovery of the outstanding amount in full on completion of the verification exercise by FBR.
- 8.2 This represents amount receivable from GoP on account of price differential on imports and the ex-refinery price on direct and retail sales during the period 1990-2001.

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended September 30, 2014

8.3 This represents price differential claim from GoP on local / imported purchases of HSD which was based on rates notified by 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.

8.4 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 and Natural Resources (MoPNR) with a proposal for pricing mechanism whereby end consumer price of motor gasoline was proposed to be fixed at weighted average of ex-refinery (import parity) price and landed cost of the imported product. Despite no response 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.

In 2012, to meet the increasing local demand, oil marketing companies resorted to import Motor Gasoline on the instruction of MoPNR. The Company again along with oil marketing companies approached the GoP with a proposal to include the high premium on the gallop cargo in the pricing mechanism. MoPNR accepted the oil marketing companies' 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 the industry and Oil Companies Advisory Council (OCAC) continue to follow up this matter with MoPNR and is confident of recovering the amounts in full. The receivable represents the Company's share of differential claims on shared import cargoes of motor gasoline.

8.5 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.

8.6 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.

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended September 30, 2014

The Company has filed an appeal against the aforementioned order before CIR (Appeals) which is pending hearing. 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, 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.

## 9. SHARE CAPITAL

During the period, a 25% issue of bonus shares i.e. in the ratio of one share for every four shares held by shareholders was proposed in the 284<sup>th</sup> meeting of the Board of Directors of the Company held on March 11, 2014. The approval of the members for issue of bonus shares was obtained in the 45<sup>th</sup> Annual General Meeting held on April 23, 2014. The effect of the issue of 21,402,466 bonus shares of Rs.10 each has been accounted for in this condensed interim financial information.

## 10. TRADE AND OTHER PAYABLES

	Unaudited September 30, 2014	Audited December 31, 2013
	------(Rupees '000)-----	
Creditors - note 10.1	25,381,278	20,990,907
Oil marketing companies	7,607	7,607
Accrued liabilities	3,510,879	3,061,333
Excise, customs duties and development surcharge	4,511	18,508
Dealers' and customers' security deposits	567,321	546,018
Advances received from customers	2,114,944	1,334,588
Provision for post retirement medical benefits	77,544	79,840
Workers' welfare fund	309,468	229,543
Workers' profits participation fund	144,266	24,518
Unclaimed dividends	182,815	107,347
Other liabilities	81,149	48,233
	<u>32,381,782</u>	<u>26,448,442</u>

10.1 This includes amounts due to related parties aggregating to Rs. 19,510,867 thousand (December 31, 2013: Rs. 14,491,583 thousand). Particulars of the amounts due are as follows:

	Unaudited September 30, 2014	Audited December 31, 2013
	------(Rupees '000)-----	
Affiliates of Parent Company	17,631,046	13,192,405
Pakistan Refinery Limited	1,777,625	1,191,646
Other related parties	102,196	107,532
	<u>19,510,867</u>	<u>14,491,583</u>

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended September 30, 2014

## 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. 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 as assessed by the Customs Authorities plus one paisa per kilometer against various slabs of net weight of goods.

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 September 30, 2014 at Rs. 61,993 thousand (December 31, 2013: Rs. 52,993 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 the condensed interim financial information against the levy as the management expects a favourable outcome.

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended September 30, 2014

## 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 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. 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 Sec 113 (2) (c) of the Income Tax Ordinance, 2001 and decided that the minimum tax could not be carried forward where there is 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. 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 as reflected on the balance sheet in the condensed interim financial information.

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 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 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 directed tax authorities to give consequential effect to the subsequent years. The Company 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 favorable 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 as reflected on the balance sheet in the condensed interim financial information.



# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended September 30, 2014

## 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 including penalty through several orders. In 2012 and 2013, the tax authorities also conducted sales tax and federal excise duty audit for period July 2009 to December 2009 and January 2011 to 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 trademarks 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. 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 were 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 sales tax appeal for the period January 2011 to December 2011 has been decided by the CIR (Appeals). The CIR (Appeals) in his order 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 High Court of Sindh, which through an ad-interim order restrained tax authority from passing an order. The Company based on the merits of the case and as per the advice of its tax consultant and legal advisor, expects a favorable outcome on the matter and accordingly no provision has been made in this respect in the condensed interim financial information.

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 oil marketing companies 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.

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended September 30, 2014

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. Further, 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 oil marketing companies 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 the condensed interim financial information.

## 11.1.4 Others

The amount of other claims against the Company not acknowledged as debt as at September 30, 2014 aggregate to approximately Rs. 3,915,230 thousand (December 31, 2013: Rs. 2,385,953 thousand). This includes claims by refineries, amounting to Rs.1,093,733 thousand (December 31, 2013: Rs. 1,093,733 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 GoP.

## 11.2 Commitments

11.2.1 Capital expenditure contracted for but not incurred as at September 30, 2014 amounted to approximately Rs. 295,852 thousand (December 31, 2013: Rs. 340,555 thousand).

11.2.2 Commitments for rentals of assets under operating lease agreements as at September 30, 2014 amounted to Rs. 3,463,628 thousand (December 31, 2013: Rs. 2,843,019 thousand) payable as follows:

	Unaudited September 30, 2014	Audited December 31, 2013
	------(Rupees '000)-----	
Not later than one year	172,071	164,621
Later than one year and not later than five years	703,551	639,735
Later than five years	<u>2,588,006</u>	2,038,663
	<u>3,463,628</u>	<u>2,843,019</u>

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 September 30, 2014, the value of these cheques amounted to Rs. 8,465,270 thousand (December 31, 2013: Rs. 5,603,246 thousand). The maturity dates of these cheques extend to December 21, 2014 (December 31, 2013: June 28, 2014).

11.2.4 Letters of credit and bank guarantees outstanding as at September 30, 2014 amount to Rs. 11,210,233 thousand (December 31, 2013: Rs. 3,907,215 thousand).

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended September 30, 2014

12. TAXATION	Unaudited			
	Nine months ended		Quarter ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	------(Rupees '000)-----			
Current				
- for the period - note 12.1	926,703	907,682	331,218	341,202
- for prior periods	-	41,063	-	-
Deferred	362,119	(57,788)	(14,807)	3,338
	<u>1,288,822</u>	<u>890,957</u>	<u>316,411</u>	<u>344,540</u>

- 12.1 This includes minimum tax @ 0.5% of taxable turnover amounting to Rs. 815,527 thousand (September 30, 2013: Rs. 834,392 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 insufficiency of normal taxable income thereafter. As at September 30, 2014, minimum tax which is available for adjustment against the future tax liability and not recognized as tax asset aggregates to Rs. 4,883,237 thousand (December 31, 2013: Rs. 4,067,710 thousand).

13. CASH GENERATED FROM OPERATIONS	Unaudited	
	Nine months ended	
	September 30, 2014	September 30, 2013
	------(Rupees '000)-----	
Profit before taxation	2,184,569	1,105,344
Adjustment for non-cash charges and other items:		
Depreciation and amortization charge	747,262	713,547
Accretion expense in respect of asset retirement obligation	13,966	9,627
Reversal of liability in respect of asset retirement obligation	(4,023)	-
Provision for impairment of trade debts	-	31,629
Reversal of provision for impairment of trade debts	(506)	(8,191)
Provision for impairment of operating assets	-	110,698
Loss / (gain) on disposal of operating assets	3,268	(24,531)
Write-off of operating assets	7,298	27,395
Share of profit of associate - note 6	(346,971)	(412,021)
Mark-up / interest on short-term deposits	(102,776)	(35,276)
Mark-up / interest on short-term borrowings	147,826	283,723
Working capital changes - note 13.1	(769,320)	7,010,533
	<u>1,880,593</u>	<u>8,812,477</u>

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended September 30, 2014

	Unaudited Nine months ended	
	September 30, 2014	September 30, 2013
<b>13.1 Working capital changes</b>	------(Rupees '000)-----	
<b>Decrease / (increase) in current assets</b>		
Stock-in-trade	(4,967,382)	2,045,203
Trade debts	(26,341)	(603,257)
Loans and advances	(14,364)	(12,326)
Short-term prepayments	(57,360)	(2,785)
Other receivables	(1,561,745)	2,797,173
	<u>(6,627,192)</u>	<u>4,224,008</u>
<b>Increase in current liability</b>		
Trade and other payables	<u>5,857,872</u>	<u>2,786,525</u>
	<u>(769,320)</u>	<u>7,010,533</u>

## 14. RELATED PARTY TRANSACTIONS

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

Nature of relationship	Nature of transactions	Unaudited Nine months ended	
		September 30, 2014	September 30, 2013
		------(Rupees '000)-----	
<b>Associate</b>			
Pak-Arab Pipeline Company Limited	Pipeline charges	413,412	314,294
	Others	6,940	6,726
	Dividend Received	335,722	-
<b>Staff retirement benefit / contribution funds</b>			
Pension Funds	Contribution	20,574	75,017
Defined Contribution Pension Funds	Contribution	67,315	60,939
Gratuity Funds	Contribution	5,139	18,749
Provident Funds	Contribution	38,251	34,281
<b>Key management personnel</b>	Salaries and other short term employee benefits - note 14.1	33,454	34,199
	Post-employment benefits	3,848	6,462
	Directors' fee	1,900	900
<b>Other related parties</b>	Purchases	74,813,372	50,621,272
	Sales	20,065	23,944
	Collection for sales made in Pakistan to customers of parent company and its associates	4,450,027	3,287,159
	Technical service fee charged - note 14.2	1,118,437	1,117,598
	Trademarks and manifestations license fee charged - note 14.3	216,569	201,708
	Computer expenses charged (Global Infrastructure Desktop charges) - note 14.3	152,555	133,841
	Expenses recovered from related parties - note 14.4	80,259	105,821
	Other expenses charged by related parties - note 14.4	485,536	587,785
	Legal charges	-	380

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended September 30, 2014

- 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, 2013 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 nine months ended September 30, 2013.
- 15.2 Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison.

## 16. DATE OF AUTHORIZATION

This condensed interim financial information was authorized for issue on October 22, 2014 by the Board of Directors of the Company.

**Omar Y Sheikh**  
Chief Executive Officer

**Imran R Ibrahim**  
Director

**Shell Pakistan Limited**

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