Shell Pakistan Limited

Quarterly & Nine Monthly Report September '12

Chairman's Review

For the quarter and nine months ended September 30, 2012

On behalf of the Board of Directors of Shell Pakistan Limited, I share with you the results of the Company for the above mentioned period.

Our performance

During the third quarter of this year the Company made a profit of Rs. 441 million as against a loss of Rs. 285 million in the same period last year. Excluding the impact of one-off items, the underlying business environment has remained challenging even though our operating performance improved significantly over the same quarter last year as well as the second quarter of this year. The factors that continue to affect the Company's performance are high interest cost for financing receivables owed by the Government, corporate tax payments in a period of a net loss, and low fuel margins. As a result of the above factors, the Company incurred a net loss of Rs. 1,547 million during the nine months of 2012 as against a profit of Rs. 1,122 million in the same period last year.

Despite these challenges, cash generated from operational activities has increased from an outflow of Rs. 6,063 million in 2011, to an inflow of Rs. 2,684 million in 2012. This is driven by improved working capital management and the Company's successful collection of some old debts. In a high inflation environment we have managed to reduce overall expenses by 2% in the first nine months of 2012 compared to the same period last year. Our external borrowings have shrunk to Rs. 13,428 million at the end of September 2012 compared to Rs. 15,745 million at the end of December 2011.

During the first nine months of 2012, the Company has made significant investments in marketing activities in both the Retail and Lubricants businesses leading to significant growth in motor-gasoline and consumer lubricants sales.

Receivables & financing costs

During the third quarter of this year, there has been little progress in the Government releasing monies due to us. At the end of September, we are still owed:

- Rs. 7,927 million for tax refunds – delayed between 1-3 years
- Rs. 2,601 million for fuel price subsidies – delayed between 2-9 years

We have with great difficulty collected Rs. 3,450 million during the first nine months of 2012 with cooperation from relevant Government authorities. However the rate of progress by the Government on releasing these monies is slow, causing the Company to continue to bear significant financing costs on bank borrowings required to fund these receivables. Your management continues to engage relevant Government authorities, and we are pressing the Government to pay the remaining amounts on an expedited basis, to ensure business continuity, growth and investment in this key sector.

Turnover tax

Minimum tax on turnover continues to have negative impacts on the Company. Your Company has paid Corporate Income Tax at an unreasonably high rate of nearly 9 times the pre-tax income for the first nine months of 2012. This has resulted in a post tax loss and is stifling future investment and growth prospects in the industry. We continue to discuss the removal of this anomaly with the tax authorities, to bring us in line with various allowances and standard rates already given to other similarly regulated sectors in the country.

Fuel margins

Petrol and diesel margins in Pakistan are regulated and fixed in rupees per liter. These margins are not sufficient to cover steadily rising costs of operations and high financing costs required for investment in stocks and business assets. We are continuously engaging the Government for a revision of margins to align with the increasing cost of doing business.

Going forward

We are in the midst of a challenging period in Pakistan. However, your Company is committed to turning around its profitability to position it for growth.

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

October 17, 2012

Omar Sheikh
Chairman & Chief Executive

Condensed Interim Balance Sheet

as at September 30, 2012

	Note	Unaudited September 30, 2012	Audited December 31, 2011
		(Rupees '000)	
ASSETS			
Non-current assets			
Property, plant & equipment	5	**6,392,484**	6,652,020
Intangible assets		**1,061,035**	1,321,105
Long term investments	6	**3,280,290**	2,749,610
Long term loans and advances		**116,916**	93,914
Long term deposits and prepayments		**163,463**	194,242
Long term debtors		**2,145**	3,732
Deferred taxation	7	**168,242**	1,383,816
		11,184,575	12,398,439
Current Assets			
Stores and spares		**14,845**	15,143
Stock-in-trade	8	**19,340,902**	17,847,222
Trade debts		**2,140,928**	2,488,910
Loans and advances		**85,883**	66,532
Trade deposits and short term prepayments		**213,827**	271,133
Other receivables	9	**10,851,352**	14,633,255
Cash and bank balances		**1,506,162**	1,438,447
Taxation		**151,635**	-
		34,305,534	36,760,642
TOTAL ASSETS		**45,490,109**	49,159,081
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	**856,100**	684,880
Reserves		**1,924,830**	2,096,050
Unappropriated profit		**3,930,016**	5,477,191
		6,710,946	8,258,121
LIABILITIES			
Non-Current Liabilities			
Asset retirement obligation		**198,074**	189,351
Current Liabilities			
Trade and other payables	11	**25,017,772**	24,495,103
Accrued mark-up		**135,196**	217,645
Short term running finances utilised under mark-up arrangements - secured		**6,948,121**	7,866,032
Short term loans - secured		**6,480,000**	7,879,000
Taxation		-	253,829
		38,581,089	40,711,609
		38,779,163	40,900,960
TOTAL EQUITY AND LIABILITIES		**45,490,109**	49,159,081
Contingencies and commitments	12		

The annexed notes 1 to 17 form an integral part of these condensed interim financial statements.

Omar Sheikh
Chairman & Chief Executive

Imran R. Ibrahim
Director

Condensed Interim Statement of Comprehensive Income (Unaudited)

for the quarter and nine months ended September 30, 2012

	Note	Nine months ended		Quarter ended	
		September 30, 2012	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
		(Rupees '000)			
Sales		**175,822,315**	187,958,915	**56,393,570**	57,541,150
Other Revenue		**501,621**	392,827	**168,371**	146,569
		176,323,936	188,351,742	**56,561,941**	57,687,719
Sales tax		**(23,249,649)**	(21,087,872)	**(7,322,899)**	(6,741,774)
Net Revenue		**153,074,287**	167,263,870	**49,239,042**	50,945,945
Cost of products sold		**(145,553,341)**	(157,394,977)	**(45,716,781)**	(48,635,890)
Gross Profit		**7,520,946**	9,868,893	**3,522,261**	2,310,055
Distribution and marketing expenses		**(2,570,543)**	(3,024,285)	**(789,628)**	(1,086,858)
Administrative expenses		**(3,052,339)**	(2,708,101)	**(1,374,201)**	(839,613)
		1,898,064	4,136,507	**1,358,432**	383,584
Other operating expenses		**(692,500)**	(552,440)	**(136,797)**	95,421
		1,205,564	3,584,067	**1,221,635**	479,005
Other operating income		**232,569**	146,716	**100,004**	37,950
Operating profit		**1,438,133**	3,730,783	**1,321,639**	516,955
Financing cost		**(1,346,036)**	(1,505,909)	**(379,507)**	(645,818)
		92,097	2,224,874	**942,132**	(128,863)
Share of profit of associate - net of tax		**530,680**	483,050	**171,810**	165,632
Profit before taxation		**622,777**	2,707,924	**1,113,942**	36,769
Taxation	13	**(2,169,952)**	(1,585,505)	**(672,669)**	(321,549)
(Loss) / Profit after tax		**(1,547,175)**	1,122,419	**441,273**	(284,780)
(Loss) / Earnings per share (Rupees)		**(18.07)**	13.11	**5.15**	(3.33)

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

The annexed notes 1 to 17 form an integral part of these condensed interim financial statements.

Omar Sheikh
Chairman & Chief Executive

Imran R. Ibrahim
Director

Condensed Interim Statement of Changes in Equity (Unaudited)

for the nine months ended September 30, 2012

	Share capital	Capital reserves - share premium	General revenue reserves	Unappropriated profit	Total
	(Rupees '000)				
Balance as at January 1, 2011 (audited)	684,880	1,889,048	207,002	5,119,105	7,900,035
Final dividend for the year ended December 31, 2010 at Rs. 8 per share	-	-	-	(547,904)	(547,904)
Profit for the nine months ended September 30, 2011	-	-	-	1,122,419	1,122,419
Other comprehensive income for the nine months ended September 30, 2011	-	-	-	-	-
Balance as at September 30, 2011 (unaudited)	684,880	1,889,048	207,002	5,693,620	8,474,550
Loss for the three months ended December 31, 2011	-	-	-	(216,429)	(216,429)
Other comprehensive income for the three months ended December 31, 2011	-	-	-	-	-
Balance as at January 1, 2012 (audited)	684,880	1,889,048	207,002	5,477,191	8,258,121
Bonus shares issued during the period in the ratio of 1 share for every 4 shares held	171,220	(171,220)	-	-	-
Loss for the nine months ended September 30, 2012	-	-	-	(1,547,175)	(1,547,175)
Other comprehensive income for the nine months ended September 30, 2012	-	-	-	-	-
Balance as at September 30, 2012 (unaudited)	856,100	1,717,828	207,002	3,930,016	6,710,946

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.

Omar Sheikh
Chairman & Chief Executive

Imran R. Ibrahim
Director

Condensed Interim Statement of Cash Flows (Unaudited)

for the nine months ended September 30, 2012

	Note	Nine months ended 2012	2011
		(Rupees '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (used in) operations	14	**5,297,204**	(3,790,021)
Finance costs paid		**(1,271,536)**	(1,222,474)
Taxes paid		**(1,359,842)**	(1,072,937)
Long term loans and advances		**(23,001)**	(11,884)
Long term deposits and prepayments		**30,778**	19,480
Mark up received on short term deposits		**8,446**	21,854
Long term debtors		**1,587**	(6,653)
Net cash generated from operating activities		**2,683,636**	(6,062,635)
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(316,945)**	(752,179)
Proceeds from disposal of property, plant and equipment		**17,935**	47,231
Net cash used in investing activities		**(299,010)**	(704,948)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**-**	(528,359)
Repayment of liability under finance lease		**-**	(15,088)
Net cash used in financing activities		**-**	(543,447)
Net (decrease)/increase in cash and cash equivalents		**2,384,626**	(7,311,030)
Cash and cash equivalents at beginning of the period		**(14,306,585)**	(8,941,413)
Cash and cash equivalents at end of the period		**(11,921,959)**	(16,252,443)

The annexed notes 1 to 17 form an integral part of these financial statements.

Omar Sheikh
Chairman & Chief Executive

Imran R. Ibrahim
Director

Notes to the Condensed Interim Financial Information

for the period ended September 30, 2012

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 nine months ended September 30, 2012 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, 2011.

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, 2011.

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, 2011.

	Unaudited September 30, 2012	**Audited December 31, 2011**
	(Rupees '000)	
5. PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value		
- notes 5.1 and 5.2	**6,199,275**	5,606,489
Capital work-in-progress - note 5.3	**335,780**	1,128,102
	6,535,055	6,734,591
Provision for impairment	**(142,571)**	(82,571)
	6,392,484	6,652,020

	Unaudited September 30, 2012	Audited December 31, 2011
	(Rupees '000)	

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

	Unaudited September 30, 2012	Audited December 31, 2011
Owned assets		
Buildings on freehold land	**16,104**	53,882
Buildings on leasehold land	**18,182**	-
Tanks and pipelines	**438,671**	1,580
Plant and machinery	**189,118**	86,479
Lifts	**3,600**	-
Dispensing pumps	**21,466**	2,091
Rolling stock and vehicles	**37,993**	31,679
Electrical, mechanical and fire fighting equipment	**272,447**	146,420
Furniture, office equipment and other assets	**119,741**	618
Computer auxiliaries	**7,602**	3,922
	1,124,924	326,671

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

	Cost	Accumulated depreciation	Net book value
		(Rupees '000)	
September 30, 2012 (unaudited)			
Owned assets			
Rolling stock and vehicles	38,365	30,936	7,429
December 31, 2011 (audited)	514,276	333,978	180,298

5.3 **Capital work-in-progress**

	Unaudited September 30, 2012	Audited December 31, 2011
	(Rupees '000)	
Buildings on leasehold land	**204,916**	587,451
Tanks and pipelines	**58,063**	338,305
Plant and machinery	**72,212**	175,269
Electrical, mechanical and fire fighting equipment	**35**	26,466
Furniture, office equipment and other assets	**554**	611
	335,780	1,128,102

6. LONG-TERM INVESTMENTS

This includes investment in associate "Pak-Arab Pipeline Company Limited (PAPCO)", which is carried under equity method of accounting amounting to Rs. 3,275,290 thousand (December 31, 2011: Rs. 2,744,610 thousand) as follows:

	Unaudited September 30, 2012	Audited December 31, 2011
	(Rupees '000)	
Movement of investment in associate		
Balance at the beginning of the period / year	**2,744,610**	2,542,853
Share of profit	**816,222**	981,817
Share of taxation	**(285,542)**	(346,626)
	530,680	635,191
Dividend received	**-**	(433,434)
Balance at the end of the period / year	**3,275,290**	2,744,610

7. DEFERRED TAXATION

This is composed of the following:

Taxable temporary differences arising in respect of:		
- accelerated tax depreciation	**(937,041)**	(719,540)
- investment in associate	**(140,329)**	(87,261)
Deductible temporary differences arising in respect of:		
- short-term provisions	**473,581**	400,066
- carry forward tax losses - note 7.1	**772,031**	1,790,551
	168,242	1,383,816

7.1 Deferred income tax asset is recognised for tax losses available for carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The aggregate unutilised tax losses as at September 30, 2012 amount to Rs. 5,619,729 thousand (December 31, 2011: Rs. 5,444,606 thousand), out of which deferred income tax asset has been recognised on tax losses amounting to Rs. 2,275,295 thousand (December 31, 2011: Rs. 5,115,860 thousand), based on projections of future taxable profits of the Company. Tax losses amounting to Rs. 5,031,148 thousand available for utilisation against future taxable profits expire in 2014.

8. STOCK-IN-TRADE

This includes finished products aggregating Rs. 2,801,134 thousand at cost (December 31, 2011: Nil) which have been valued at their net realisable value amounting to Rs. 2,744,393 thousand (December 31, 2011: Nil).

Notes to the Condensed Interim Financial Information

for the period ended September 30, 2012

		Unaudited September 30, 2012	Audited December 31, 2011
		(Rupees '000)	
9.	**OTHER RECEIVABLES**		
	Petroleum development levy and other duties - note 9.1	**2,305,706**	2,364,502
	Price differential claims		
	- on imported purchases - note 9.2	**295,733**	295,733
	- on high speed diesel (HSD) - note 9.3	**343,584**	747,490
	- on imported motor gasoline - note 9.4	**1,961,211**	1,961,211
	Sales tax refundable - note 9.5	**4,991,780**	8,530,611
	Inland freight equalisation mechanism	**219,084**	339,063
	Service cost receivable from related parties	**78,107**	74,787
	Service cost receivable from associate company - PAPCO	**7,265**	4,712
	Staff retirement benefit schemes	**303,875**	229,702
	Mark-up receivable on short-term deposits	**2,955**	1,576
	Taxes recoverable	**546,629**	288,896
	Others	**18,095**	978
		11,074,024	14,839,261
	Provision for impairment	**(222,672)**	(206,006)
		10,851,352	14,633,255

9.1 This includes petroleum development levy recoverable amounting to Rs. 2,288,862 thousand (December 31, 2011: Rs. 2,274,308 thousand) from the Federal Board of Revenue (FBR) on account of export sales. In 2011, the Company approached the Government of Pakistan (GoP) and FBR for settlement of this receivable. The GoP sought certain information which has been provided by the Company. The FBR through the Large Taxpayer Unit (LTU) has completed the verification exercise for claims amounting to Rs. 604,939 thousand which have been forwarded to the Ministry of Finance for processing. The remaining claims are under verification. The Company is confident of the recovery of the amount in full on completion of the verification exercise by FBR.

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

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

During the period, the Company has received an amount of Rs. 403,906 thousand from GoP in respect of these claims. The Company along with the industry and Oil Companies Advisory Committee (OCAC) continues to follow up this matter with the Ministry of Petroleum & Natural Resources (MoPNR) and is confident of recovering the amount in full.

9.4 This represents the Company's share of price differential claims on account of import of motor gasoline by the Company, being the difference between their landed cost and ex-refinery prices announced by Oil and Gas Regulatory Authority (OGRA). In 2007, the Company as well as other oil marketing companies were asked in a meeting chaired by Director General Oil to import motor gasoline to meet the increasing local demand. Accordingly, oil marketing companies approached MoPNR with a proposal for pricing mechanism whereby end consumer price of motor gasoline was proposed to be fixed at weighted average of ex-refinery (import parity) price and landed cost of the imported product. Although no response was received from the MoPNR, the Company along with another oil marketing company continued to import motor gasoline on behalf of the industry being confident that price differential on motor gasoline, will be settled as per previous practice i.e. based on the differential between ex-refinery and import cost at the time of filing of cargo with Customs, as imports were being made on MoPNR instructions.

In 2009, oil marketing companies approached the MoPNR requesting an expeditious settlement of these claims. Further, the Company along with the industry also approached MoPNR through letter dated July 23, 2009 requesting for an early settlement of these claims. On October 2, 2009, MoPNR requested that an audited claim be submitted to allow further consideration and resolution of the matter. The Company has accordingly submitted audit reports thereafter and for claims till May 31, 2011.

In 2011, the Company received an amount of Rs. 454,000 thousand from GoP in respect of these claims. The Company along with the industry and Oil Companies Advisory Committee (OCAC) continues to follow up this matter with MoPNR and is confident of recovering this amount in full. The receivable represents the Company's share of differential claims on shared import cargoes of motor gasoline.

9.5 This principally represents sales tax refundable on account of export sales for which the Company has filed claim with FBR and is actively pursuing for recovery. During the period, the Company has received refunds aggregating to Rs. 3,046,491 thousand in respect of these claims.

10. SHARE CAPITAL

During the period, a 25% issue of bonus shares in the ratio of one share for every four shares held by shareholders was proposed in the 274th meeting of the Board of Directors of the Company held on March 7, 2012. The approval of the members for issue of bonus shares was obtained in the 43rd Annual General Meeting held on April 19, 2012. The effect of the issue of 17,121,973 bonus shares of Rs. 10 each has been accounted for in this condensed interim financial information.

11. TRADE AND OTHER PAYABLES

	Unaudited September 30, 2012	Audited December 31, 2011
	(Rupees '000)	
Creditors - note 11.1	**19,054,476**	18,782,851
Oil marketing companies	**7,607**	7,607
Accrued liabilities	**3,197,416**	2,539,936
Excise and customs duties and development surcharge	**39,704**	80,743
Dealers' and customers' security deposits	**529,810**	663,949
Advances received from customers	**1,733,954**	1,917,721
Provision for post retirement medical benefits	**41,558**	41,558
Workers' welfare fund	**265,463**	265,463
Workers' profits participation fund	**1,940**	11,441
Unclaimed dividends	**112,702**	107,572
Payable to the Earthquake Relief Fund	**948**	948
Other liabilities	**32,194**	75,314
	25,017,772	24,495,103

11.1 This includes amounts due to related parties aggregating to Rs. 10,195,252 thousand (December 31, 2011: Rs. 13,930,294 thousand). Particulars of the amounts due are as follows:

	Unaudited September 30, 2012	Audited December 31, 2011
	(Rupees '000)	
Affiliates of Parent Company	**8,295,728**	12,792,654
Pak-Arab Pipeline Company Limited (Associated Company)	**16,712**	-
Pakistan Refinery Limited	**1,882,812**	1,092,366
Other related parties	**-**	45,274
	10,195,252	13,930,294

12. CONTINGENCIES AND COMMITMENTS

12.1 Contingencies

12.1.1 Infrastructure fee

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

The Company and several others challenged the levy in constitutional petitions before the High Court of Sindh. These petitions were dismissed as, during their pendency, the nature of the levy was changed by the Government of Sindh through an Ordinance. The Company and others therefore filed civil suits in the High Court of Sindh challenging the amended Ordinance. However, these suits were also dismissed in October 2003. All the plaintiffs preferred intra-court appeals against the dismissal. The intra-court appeals were decided by the High Court in September 2008 wherein it was held that the levy is valid and collectable only from December 12, 2006 onwards and not prior to this date. Being aggrieved by the said judgement, 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 of 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, 2012 at Rs. 40,055 thousand (December 31, 2011: Rs. 30,993 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 a legal advice obtained, no provision has been made in the condensed interim financial information against the levy as the Company's management expects a favourable outcome.

12.1.2 Taxation

12.1.2.1 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 demands deposited an amount of Rs. 120,000 thousand and filed an appeal with the Commissioner Inland Revenue (CIR) (Appeals). The remaining demand has been adjusted by the taxation authorities from sales tax refundable. During the period, CIR (Appeals) has decided the case against the Company. The Company has filed an appeal against the order before the Appellate Tribunal Inland Revenue (ATIR) and based on the advice of its tax consultant expects a favourable outcome and as such has not made any provision thereagainst. The adjustment made against the demand has been included in other receivables as reflected on the balance sheet in the condensed interim financial information.

12.1.2.2 During the period, the Company received a demand from tax authorities in respect of tax year 2004 amounting to Rs. 161,057 thousand. The demand principally arose due to addition made by assessing officer in respect of allocation of common expenses, disallowance of software cost claimed as revenue expenditure and credit disallowed in respect of income derived from Azad Kashmir. The Company in response to the order has deposited an amount of Rs. 29,106 thousand and has filed a rectification application and an appeal with CIR (Appeals), where the Company, based on the advice of its tax consultant expects a favourable outcome. The Company, however, has provided for an amount of Rs. 19,068 thousand representing its best estimate of potential liability arising therefrom. The payment made against the demand to the extent considered recoverable has been included in other receivables as reflected on the balance sheet in the condensed interim financial information.

12.1.3 Sales tax and federal excise duty (FED)

12.1.3.1 In 2011, the tax authorities after conducting sales tax and federal excise audit for period July 2008 to June 2009 and post refund audit for period September and October 2008 raised sales tax and federal excise duty demands amounting to Rs. 1,843,529 thousand through several orders. The demands primarily arose on account of (i) disallowing input tax against zero rated supplies; (ii) levying FED on license fee, group service fee and trademarks and manifestation fee; (iii) levying sales tax on difference in output sales tax as per return and financial statements; and (iv) sales tax on lubricants paid on the value of supply instead of retail price as mentioned on packs.

During the period, the tax authorities while conducting sales tax and federal excise audit for period July 2009 to December 2009 raised further demand of Rs. 1,093,370 thousand on similar issues. The Company in response to the aforementioned orders filed appeals and sought stay against the demands with the ATIR and CIR (Appeals) where one of the appeals has been decided in favour of the Company by the ATIR. Further, CIR has also granted stay against recovery of the demands for other appeal.

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

12.1.3.2 During the period, the Company received an order from Model Customs Collectorate, Hyderabad raising sales tax demand of Rs. 46,838 thousand, without specifying the basis of computation, on goods imported by levying further sales tax @ 2% representing minimum value addition under Sub-section-5 of Section 3 read with Section 7A of the Sales Tax Act, 1990 and Chapter X of the Sales Tax Special Procedure Rules, 2007.

Further, the Company has also received show cause notices from other Model Customs Collectorates with a potential demand of Rs. 4,775,814 thousand, the basis of computation of which has not been specified. The Company is of the view that the sales tax on minimum value addition is not applicable as OMCs are manufacturers of lubricants and other products and the prices of POL products imported by them for sale in the country are administered under a special pricing arrangement agreed with the GoP. The FBR has issued directives restricting collectorates from any recovery actions and has also issued a notification dated February 10, 2012 confirming that value addition sales tax is not to be charged on POL products whose prices are regulated under special pricing arrangement by the GoP or regulatory authority working under the GoP. Recently, Model Customs Adjudication has quashed the show cause notices of Faisalabad, Lahore and Multan Collectorates based on the notification. The Company is also of the opinion that OMCs cannot be required to pay the tax on unregulated products / exports retrospectively since clarification of FBR was in field at that time and is confident that revised notification in this respect will be issued for which it will be approaching FBR along with the industry. 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.

12.1.4 PARCO pipeline fill

The MoPNR had made a claim relating to the loan arranged by the Government of Pakistan to the Company to finance the initial fill of the Pak-Arab Refinery Limited (PARCO) pipeline. MoPNR calculated the Company's liability by applying the price prevailing on August 11, 2000 to the quantity of fuel supplied at the time of initial fill. The Company maintained that its liability was limited only to the extent of Rs. 78,164 thousand which was based on the price prevailing at the time of initial fill and which was fully paid in March 2007. The Company did not acknowledge the additional liability of Rs. 215,836 thousand as claimed by MoPNR.

During the period, the MoPNR has adjusted the aforementioned additional claim from payment of price differential claim on high speed diesel. The amount adjusted has been charged off in the condensed interim statement of comprehensive income.

12.1.5 Others

The amount of other claims against the Company not acknowledged as debt as at September 30, 2012 aggregate to approximately Rs. 2,370,239 thousand (December 31, 2011: Rs. 2,402,630 thousand). This includes claims by refineries, amounting to Rs. 996,554 thousand (December 31, 2011: Rs. 996,554 thousand) in respect of delayed payment charges. The Company does not acknowledge the claim for late payment charges as the delayed payment to refineries arose due to the liquidity crisis faced by oil marketing companies over the past few years caused by non-settlement of price differential claims by the GoP.

12.2 Commitments

12.2.1 Capital expenditure contracted for but not incurred as at September 30, 2012 amounted to approximately Rs. 96,561 thousand (December 31, 2011: Rs. 308,517 thousand).

12.2.2 Commitments for rentals of assets under operating lease agreements as at September 30, 2012 amounted to Rs. 2,786,226 thousand (December 31, 2011: Rs. 2,822,905 thousand) payable as follows:

	Unaudited September 30, 2012	Audited December 31, 2011
	(Rupees '000)	
Not later than one year	**160,706**	152,284
Later than one year and not later than five years	**654,131**	638,394
Later than five years	**1,971,389**	2,032,227
	2,786,226	2,822,905

12.2.3 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, 2012, the value of these cheques amounted to Rs. 3,954,345 thousand (December 31, 2011: Rs. 4,927,938 thousand). The maturity dates of these cheques extend to March 22, 2013 (December 31, 2011: June 29, 2012).

12.2.4 Letters of credit and bank guarantees outstanding as at September 30, 2012 amount to 3,571,580 thousand (December 31, 2011: Rs. 4,441,046 thousand).

	Unaudited			
	Nine months ended		Quarter ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
13. TAXATION	(Rupees '000)			
Current				
- for the period - note 13.1	**756,515**	1,033,380	**251,754**	321,549
- for prior periods	**197,868**	26,801	**-**	-
Deferred	**1,215,569**	525,324	**420,915**	-
	2,169,952	1,585,505	**672,669**	321,549

13.1 This includes minimum tax @ 0.5% of taxable turnover amounting to Rs. 731,474 thousand (September 30, 2011: Rs.657,028 thousand). Minimum tax is adjustable against the tax liability of succeeding five years. The Company however, on prudence, has not recognised the related deferred tax asset in view of unutilised tax losses available for set off against future taxable income aggregating Rs. 5,619,729 thousand (December 31, 2011: Rs. 5,444,606 thousand). Minimum tax which is available for adjustment against the future tax liability and not recognised as tax asset aggregates to Rs. 2,701,447 thousand (December 31, 2011: Rs. 1,969,973 thousand).

	Unaudited Nine months ended	
	September 30, 2012	September 30, 2011
14. CASH GENERATED FROM OPERATIONS	(Rupees '000)	
Profit before taxation	**622,777**	2,707,924
Adjustment for non-cash charges and other items:		
Depreciation and amortisation charge	**769,118**	818,452
Accretion expense in respect of asset retirement obligation	**8,723**	(538)
Provision for impairment of trade debts	**1,809**	22,702
Reversal of provision for impairment of trade debts	**(52,680)**	(48,281)
Provision for impairment of operating assets	**60,000**	35,562
Write off of operating assets	**1,634**	-
Gain/Loss on disposal of operating assets	**(12,140)**	117,876
Share of profit of associate	**(530,681)**	(483,050)
Mark-up on short-term deposits	**(9,825)**	(21,854)
Mark-up on short-term running finances, short-term loans and long-term loans	**1,189,091**	1,344,902
Finance charge on liabilities against assets subject to finance lease	**-**	884
Working capital changes - note 14.1	**3,249,378**	(8,284,600)
	5,297,204	(3,790,021)

Notes to the Condensed Interim Financial Information

for the period ended September 30, 2012

	Unaudited Nine months ended	
	September 30, 2012	September 30, 2011
	(Rupees '000)	(Rupees '000)
14.1 Working capital changes		
Decrease / (increase) in current assets		
Stores and spares	**299**	(1,471)
Stock-in-trade	**(1,493,680)**	(6,954,260)
Trade debts	**415,519**	(204,597)
Loans and advances	**(19,351)**	17,950
Short-term prepayments	**57,306**	(34,010)
Other receivables	**3,766,616**	(4,758,859)
	2,726,709	(11,935,247)
(Decrease) / increase in current liability		
Trade and other payables	**522,669**	3,650,647
	3,249,378	(8,284,600)

15. RELATED PARTY TRANSACTIONS

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

		Unaudited Nine months ended	
		September 30, 2012	September 30, 2011
		(Rupees '000)	
Nature of relationship	**Nature of transactions**		
Associate			
Pak-Arab Pipeline Company Limited	Pipeline charges	**408,104**	528,104
Staff retirement benefit / contribution funds			
Pension Funds	Contribution	**79,326**	56,912
Gratuity Funds	Contribution	**18,013**	13,836
Provident Funds	Contribution	**33,758**	21,920
Key management personnel	Remuneration - note 15.1	**43,522**	76,568
	Directors' Fee	**920**	960
Other related parties	Purchases	**38,252,528**	74,503,716
	Sales	**1,189,506**	1,473,493
	Technical service fee charged - note 15.2	**1,030,869**	791,235
	Trademarks and manifestations license fee charged - note 15.3	**207,821**	131,916
	Computer expenses charged (Global Infrastructure Desktop charges) - note 15.3	**190,187**	117,708
	Expenses recovered from related parties - note 15.4	**165,213**	135,119
	Other expenses charged by related parties - note 15.4	**471,554**	358,354
	Legal charges	**72**	99

15.1 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.

15.2 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.

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

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

16. CORRESPONDING FIGURES

16.1 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, 2011 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, 2011.

16.2 Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison.

17. DATE OF AUTHORISATION

This condensed interim financial information was authorized for issue on October 17, 2012 by the Board of Directors of the Company.

Omar Sheikh
Chairman & Chief Executive

Imran R. Ibrahim
Director

Company Information

Board of Directors

Chairman	Omar Y. Sheikh
	Rafi H. Basheer
	Farrokh K. Captain
	Chong Keng Cheen
	Moon Hussain
	Imran R. Ibrahim
	Nasser N. S. Jaffer
	Zaffar A. Khan
	Michael Noll
	Haroon Rashid
	Badaruddin F. Vellani
Managing Director & Chief Executive	Omar Y. Sheikh

Audit Committee

Chairman	Badaruddin F. Vellani
	Imran R. Ibrahim
	Michael Noll

Company Secretary
Tariq Saeed

Registered Office
Shell House
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Karachi-75530

Auditors
A. F. Ferguson & Co.

Legal Advisors
Vellani & Vellani
Advocates & Solicitors

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

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