



QUARTERLY & NINE MONTHLY REPORT SEPTEMBER 2013
Shell Pakistan Limited



COMPANY INFORMATION

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

Managing Director & Chief Executive
Omar Y Sheikh

Chairman **Audit Committee**
Badaruddin F Vellani
Imran R Ibrahim
Michael Noll

Chairman **Human Resource and Remuneration Committee**
Chong Keng Cheen
Farrokh K Captain
Omar Y Sheikh

Company Secretary
Tariq Saeed

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

Auditors
A.F. Ferguson & Co.

Legal Advisors
Vellani & Vellani
Advocates & Solicitors

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

Chairman's Review

for the quarter and nine months ended September 30, 2013



Our performance

I am pleased to report that the Company's performance has witnessed a significant recovery and our results have started to reflect the continued focus by management to improve operating performance. The aggregate financial result for the nine months ended September 30, 2013 is a net profit of Rs. 214 million compared to a net loss of Rs. 1,547 million in the same period last year. This improvement was achieved by concerted efforts to increase our market share as well as to restrict costs despite operating in a high inflation environment.

Despite this significant improvement compared with last year, overall financial results of the Company are still not satisfactory. We continue to be affected by very low regulated fuel margins, an onerous turnover tax mechanism and continued financing cost of Government receivables. Further, our financial results were significantly impacted by the high rupee depreciation in recent months.

Receivables & financing costs

During the first nine months of 2013, progress was made, albeit slower than expected, in collecting receivables from the Government. With the Company's continued extensive efforts, we have managed to collect Rs. 1,822 million in this period.

At the end of this period, the Company is still owed:

- Rs. 1,548 million for sales tax refunds
- Rs. 2,306 million for petroleum development levy and other duties
- Rs. 296 million for imported purchases
- Rs. 343 million for fuel price subsidies on HSD
- Rs. 2,071 million for fuel price subsidies on imported motor gasoline

These receivables are outstanding for periods ranging between 1 to 10 years.

The rate of progress on collecting these monies has recently come to a halt, and we continue to incur financing cost on bank borrowings required to fund these receivables. 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 an environment of rising product prices and high inflation, this is far from an ideal operating position. In April 2013, an insignificant increase in margins on regulated petroleum products was granted by the Government. We continue to advocate for a further favorable revision of these margins to bring them in line with increasing costs of doing business. Currently regulated margins for motor gasoline and diesel are the lowest in the region.

Turnover tax

Due to the minimum tax on turnover regime applicable to oil companies, the 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 already granted to other similarly regulated sectors in the country.

Going forward

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

Omar Y Sheikh

Chairman & Chief Executive

Condensed Interim Balance Sheet

as at September 30, 2013

	Note	Unaudited September 30, 2013	Audited December 31, 2012 (Restated)
————— (Rupees '000) —————			
ASSETS			
Non-current assets			
Property, plant and equipment	5	6,157,262	6,330,565
Intangible assets		663,551	931,867
Long-term investments	6	3,401,371	2,989,350
Long-term loans and advances		56,436	98,853
Long-term deposits and prepayments		191,528	199,951
Long-term debtors		-	1,216
Deferred taxation - net	7	795,345	737,557
		11,265,493	11,289,359
Current assets			
Stores		14,845	14,845
Stock-in-trade		15,308,311	17,353,514
Trade debts		2,586,372	2,006,553
Loans and advances		93,387	81,061
Short-term prepayments		213,119	210,334
Other receivables	8	7,867,998	10,665,171
Cash and bank balances		830,363	3,388,485
		26,914,395	33,719,963
TOTAL ASSETS		38,179,888	45,009,322
EQUITY AND LIABILITIES			
Equity			
Share capital		856,100	856,100
Reserves		1,924,830	1,924,830
Unappropriated profit		3,756,675	3,542,289
Remeasurement of post employment benefits - Actuarial loss		(445,081)	(445,081)
Total equity		6,092,524	5,878,138
Liabilities			
Non-current liability			
Asset retirement obligation		349,223	339,596
Current liabilities			
Trade and other payables	9	29,015,023	26,228,552
Accrued mark-up / interest		3,628	52,449
Short-term borrowings - secured		2,300,000	12,170,000
Taxation		419,490	340,587
		31,738,141	38,791,588
Total liabilities		32,087,364	39,131,184
Contingencies and commitments	10		
TOTAL EQUITY AND LIABILITIES		38,179,888	45,009,322

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

Omar Y Sheikh

Chairman & Chief Executive

Imran R Ibrahim

Director

Condensed Interim Statement of Comprehensive Income (Unaudited)

for the quarter and nine months ended September 30, 2013

	Note	Nine months ended		Quarter ended	
		September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
(Rupees '000)					
Sales		212,833,140	175,822,315	73,660,925	56,393,570
Other revenue		529,006	531,621	84,601	198,371
		<u>213,362,146</u>	<u>176,353,936</u>	<u>73,745,526</u>	<u>56,591,941</u>
Sales tax		(29,206,304)	(23,249,649)	(10,505,666)	(7,322,899)
Net revenue		<u>184,155,842</u>	<u>153,104,287</u>	<u>63,239,860</u>	<u>49,269,042</u>
Cost of products sold		(175,931,071)	(145,718,672)	(59,561,917)	(45,757,857)
Gross profit		<u>8,224,771</u>	<u>7,385,615</u>	<u>3,677,943</u>	<u>3,511,185</u>
Distribution and marketing expenses		(2,812,111)	(2,570,543)	(1,083,959)	(789,628)
Administrative expenses		(2,984,496)	(2,917,008)	(1,014,657)	(1,363,125)
		<u>2,428,164</u>	<u>1,898,064</u>	<u>1,579,327</u>	<u>1,358,432</u>
Other expenses		(1,517,800)	(692,500)	(1,108,549)	(136,797)
		<u>910,364</u>	<u>1,205,564</u>	<u>470,778</u>	<u>1,221,635</u>
Other income		229,043	232,569	136,815	100,004
Operating profit		<u>1,139,407</u>	<u>1,438,133</u>	<u>607,593</u>	<u>1,321,639</u>
Finance costs		(446,084)	(1,346,036)	(76,558)	(379,507)
		<u>693,323</u>	<u>92,097</u>	<u>531,035</u>	<u>942,132</u>
Share of profit of associate - net of tax		412,021	530,680	93,193	171,810
Profit before taxation		<u>1,105,344</u>	<u>622,777</u>	<u>624,228</u>	<u>1,113,942</u>
Taxation	11	(890,957)	(2,169,952)	(344,540)	(672,669)
Profit / (loss) for the period		<u>214,387</u>	<u>(1,547,175)</u>	<u>279,688</u>	<u>441,273</u>
Other comprehensive income		-	-	-	-
Total comprehensive income / (loss) for the period		<u>214,387</u>	<u>(1,547,175)</u>	<u>279,688</u>	<u>441,273</u>
(Rupees)					
Earnings / (loss) per share		<u>2.50</u>	<u>(18.07)</u>	<u>3.27</u>	<u>5.15</u>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

Omar Y Sheikh
Chairman & Chief Executive

Imran R Ibrahim
Director

Condensed Interim Statement of Changes in Equity

for the nine months ended September 30, 2013

	Share capital	Capital reserves - share premium	General revenue reserves	Unappropriated profit	Remeasurement of post employment benefits - Actuarial loss	Total
(Rupees '000)						
Balance as at January 1, 2012 (Audited) - as previously reported	684,880	1,889,048	207,002	5,477,191	-	8,258,121
Effect of change in accounting policy due to application of IAS - 19 (Revised) note 3.1, net of tax	-	-	-	-	18,716	18,716
Balance as at January 1, 2012 (Restated)	684,880	1,889,048	207,002	5,477,191	18,716	8,276,837
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 September 30, 2012	-	-	-	(1,547,175)	-	(1,547,175)
Balance as at September 30, 2012 (Unaudited and Restated)	856,100	1,717,828	207,002	3,930,016	18,716	6,729,662
Loss for the three months ended December 31, 2012 - (Restated)	-	-	-	(387,728)	-	(387,728)
Other comprehensive loss for the three months ended December 31, 2012 - (Restated)	-	-	-	-	(463,797)	(463,797)
Balance as at December 31, 2012 (Audited and Restated)	856,100	1,717,828	207,002	3,542,288	(445,081)	5,878,137
Profit for the nine months ended September 30, 2013	-	-	-	214,387	-	214,387
Other comprehensive income for the nine months ended September 30, 2013	-	-	-	-	-	-
Balance as at September 30, 2013 (Unaudited)	856,100	1,717,828	207,002	3,756,675	(445,081)	6,092,524

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

Omar Y Sheikh
Chairman & Chief Executive

Imran R Ibrahim
Director

Condensed Interim Statement of Cash Flows (Unaudited)

for the nine months ended September 30, 2013

	Note	Nine months ended	
		September 30, 2013	September 30, 2012
(Rupees '000)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	12	8,812,477	5,292,074
Finance costs paid		(332,544)	(1,271,536)
Income taxes paid		(869,843)	(1,359,842)
Long term loans and advances		42,417	(23,001)
Long term deposits and prepayments		8,423	30,778
Mark up / interest received on short term deposits		35,276	8,446
Long term debtors		1,216	1,587
Net cash generated from operating activities		7,697,422	2,678,506
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(428,102)	(316,945)
Proceeds from disposal of operating assets		42,612	17,935
Net cash used in investing activities		(385,490)	(299,010)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(54)	5,130
Net increase in cash and cash equivalents		7,311,878	2,384,626
Cash and cash equivalents at beginning of the period		(8,781,515)	(14,306,585)
Cash and cash equivalents at end of the period		(1,469,637)	(11,921,959)

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

Omar Y Sheikh
Chairman & Chief Executive

Imran R Ibrahim
Director

Notes to the Condensed Interim Financial Information (Unaudited)

for the period ended September 30, 2013

1. THE COMPANY AND ITS OPERATIONS

- 1.1** Shell Pakistan Limited (the Company) is a limited liability Company incorporated in Pakistan and is listed on the Karachi and Lahore Stock Exchanges. The Company is a subsidiary of Shell Petroleum Company Limited, United Kingdom (immediate parent) which is a subsidiary of Royal Dutch Shell Plc. (ultimate parent). The registered office of the Company is located at Shell House, 6, Ch. Khaliquzzaman Road, Karachi-75530, Pakistan.
- 1.2** The Company markets petroleum products and compressed natural gas. It also blends and markets various kinds of lubricating oils.

2. BASIS OF PREPARATION

- 2.1** This condensed interim financial information of the Company for the nine months ended September 30, 2013 is unaudited and has been prepared in accordance with the requirements of the International Accounting Standard 34 - 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In case where the requirements differ, the provisions of or directives issued under the Ordinance have been followed.
- 2.2** This condensed interim financial information is being submitted to the shareholders in accordance with section 245 of the Ordinance and should be read in conjunction with the audited annual financial statements of the Company for the year ended December 31, 2012.

3. ACCOUNTING POLICIES

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of audited annual financial statements of the Company for the year ended December 31, 2012 except as described below in note 3.1.

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

The Company has applied IAS 19 - Employee benefits (revised in June 2011) which is applicable for annual periods beginning on or after January 1, 2013. In accordance with the transitional provisions as set out in IAS 19, the Company has applied the revised standard retrospectively and consequently the earliest periods presented in the condensed interim balance sheet and condensed interim statement of changes in equity have been restated. There is no impact of such application on the condensed interim statement of comprehensive income and condensed interim statement of cash flows.

The revised standard requires (i) past service cost to be recognized immediately in the profit or loss; (ii) replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year; and (iii) introduced a new term 'remeasurements' which is made up of actuarial gains and losses, the difference between actual investment return and the return implied by the net interest cost. The revised standard eliminates the corridor approach and requires to recognize all remeasurement gain or loss / actuarial gain or loss in the Other Comprehensive Income (OCI) immediately as they occur. In line with the requirements of the revised standard which is applicable for annual periods beginning on or after January 1, 2013, it is the Company's policy to conduct an actuarial valuation at the end of the year and accordingly, any actuarial gain or loss arising therefrom is recognized at year end.

Notes to the Condensed Interim Financial Information (Unaudited)

for the period ended September 30, 2013

The impact of retrospective application of IAS 19 (Revised) is as follows:

	Other Receivables	Trade and other payables	Other Comprehen- sive Income - Remeasure- ment of post employment benefits - Actuarial loss, net of tax	Unappro- priated profit	Deferred Taxation - net
	Increase / (Decrease)				
	(Rupees '000)				
Balance as at January 1, 2012 as previously reported (audited)	14,633,255	24,495,103	-	(5,477,191)	1,383,816
Reclassification of staff retirement benefit schemes as at December 31, 2011	11,928	11,928	-	-	-
Restatement - recognition of remeasurement (gain) / loss in OCI	-	(28,689)	(18,716)	-	(9,973)
Balance as at January 1, 2012 - restated	<u>14,645,183</u>	<u>24,478,342</u>	<u>(18,716)</u>	<u>(5,477,191)</u>	<u>1,373,843</u>
Balance as at December 31, 2012 as previously reported (audited)	10,685,776	25,793,208	-	(3,394,660)	579,060
Reclassification of staff retirement benefit schemes as at December 31, 2012	(20,605)	(20,605)	-	-	-
Restatement - recognition of remeasurement (gain) / loss in OCI					
- For the year ended December 31, 2011	-	(28,689)	(18,716)	-	(9,973)
- For the year ended December 31, 2012	-	484,638	463,797	(147,629)	168,470
	-	455,949	445,081	(147,629)	158,497
Balance as at December 31, 2012 - restated	<u>10,665,171</u>	<u>26,228,552</u>	<u>445,081</u>	<u>(3,542,289)</u>	<u>737,557</u>

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

- 4.1** The preparation of this condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. However, actual results may differ from these estimates.
- 4.2** During the preparation of this condensed interim financial information, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the audited annual financial statements for the year ended December 31, 2012.

Notes to the Condensed Interim Financial Information (Unaudited)

for the period ended September 30, 2013

	Unaudited September 30, 2013	Audited December 31, 2012	
	(Rupees '000)		
5. PROPERTY, PLANT AND EQUIPMENT			
Operating assets, at net book value - notes 5.1 and 5.2			
- Operating assets	5,763,422	6,138,864	
- Provision for impairment - note 5.3	(484,911)	(374,213)	
	5,278,511	5,764,651	
Capital work-in-progress - note 5.4	878,751	565,914	
	<u>6,157,262</u>	<u>6,330,565</u>	
5.1 Additions to operating assets, including transfers from capital work-in-progress, during the period / year were as follows:			
Owned assets			
Leasehold land	8,901	-	
Buildings on freehold land	-	16,332	
Buildings on leasehold land	71	18,039	
Tanks and pipelines	91,688	590,878	
Plant and machinery	5,118	197,860	
Lifts	2,283	3,600	
Dispensing pumps	618	21,466	
Rolling stock and vehicles	15,111	42,226	
Electrical, mechanical and fire fighting equipments	18,633	298,191	
Furniture, office equipment and other assets	-	119,923	
Computer auxiliaries	5,595	11,500	
	<u>148,018</u>	<u>1,320,015</u>	
5.2 The following assets were disposed / written off during the period / year:			
	Cost	Accumulated depreciation	Net book value
	(Rupees '000)		
September 30, 2013 (unaudited)			
Owned assets			
Building on leasehold land	51,642	32,647	18,995
Dispensing pumps	34,765	30,828	3,937
Electrical, mechanical and fire fighting equipments	24,097	14,126	9,971
Furniture, office equipment and other assets	36,093	34,051	2,042
Rolling stocks and vehicles	62,655	29,286	33,369
Tanks and pipelines	15,374	7,456	7,918
Air conditioning plant	663	663	-
Computer auxiliaries	11,026	10,995	31
	<u>236,315</u>	<u>160,052</u>	<u>76,263</u>
December 31, 2012 (audited)	<u>346,699</u>	<u>249,708</u>	<u>96,991</u>

Notes to the Condensed Interim Financial Information (Unaudited)

for the period ended September 30, 2013

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

	Unaudited September 30, 2013	Audited December 31, 2012
	————— (Rupees '000) —————	
5.3 Provision for impairment		
Balance at the beginning of the period / year	374,213	82,571
Provision made during the period / year		
- CNG assets - note 5.3.1	144,015	200,000
- Other than CNG assets - note 5.3.2	24,981	91,642
	168,996	291,642
Amount reversed during the period / year	(58,298)	-
Balance at the end of the period / year	484,911	374,213

5.3.1 During the period, the CNG assets were tested for impairment due to prevailing load shedding of gas and reduced CNG margins which affect the consumption of CNG by transport sector. The projected cash flows from the CNG business have been consequently revised which indicated an impairment of approximately Rs.144,015 thousand (December 31, 2012: Rs.200,000 thousand). It also includes the impairment of those CNG assets which are idle and are not generating any cash flows to the Company.

5.3.2 These include impairment recorded on different assets installed at the retail sites under an approved divestment plan.

	Unaudited September 30, 2013	Audited December 31, 2012
	————— (Rupees '000) —————	
5.4 Capital work-in-progress		
Buildings on leasehold land	641,140	336,837
Tanks and pipelines	23,116	58,707
Plant and machinery	180,082	144,366
Electrical, mechanical and fire fighting equipments	26,389	25,450
Furniture, office equipment and other assets	8,024	554
	878,751	565,914

Notes to the Condensed Interim Financial Information (Unaudited)

for the period ended September 30, 2013

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, 2013	Audited December 31, 2012
	————— (Rupees '000) —————	
Balance at the beginning of the period / year	2,984,350	2,744,610
Share of profit	629,700	1,107,750
Share of taxation	(217,679)	(387,551)
	412,021	720,199
Dividend received	-	(480,459)
Balance at the end of the period / year	<u>3,396,371</u>	<u>2,984,350</u>

7. DEFERRED TAXATION

This is composed of the following:

	Unaudited September 30, 2013	Audited December 31, 2012 (Restated)
	————— (Rupees '000) —————	
Taxable temporary differences arising in respect of:		
- accelerated tax depreciation	(714,601)	(959,427)
- investment in associate	(152,437)	(111,235)
Deductible temporary differences arising in respect of:		
- short-term provisions	623,995	625,765
- carry forward tax losses - note 7.1	1,038,388	1,182,454
	<u>795,345</u>	<u>737,557</u>

- 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, 2013 amount to Rs. 5,935,734 thousand (December 31, 2012: Rs. 6,845,699 thousand), out of which deferred income tax asset has been recognised on tax losses amounting to Rs. 3,054,081 thousand (December 31, 2012: Rs. 3,378,440 thousand), based on 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 a half yearly basis.

Notes to the Condensed Interim Financial Information (Unaudited)

for the period ended September 30, 2013

- 7.2** The Company has not recognized deferred tax asset on minimum tax available for carry forward, as explained in note 11.1
- 7.3** As at September 30, 2013, deferred tax asset / liability on the deductible / taxable temporary differences has been recognized at the rate of 34% being the rate substantively enacted at the balance sheet date and is expected to apply to the periods when the asset is realized or the liability is settled.

	Unaudited September 30, 2013	Audited December 31, 2012 (Restated)
	(Rupees '000)	
8. OTHER RECEIVABLES		
Petroleum development levy and other duties - note 8.1	2,305,672	2,306,044
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	1,961,211
Sales tax refundable - note 8.5	1,547,730	4,737,218
Inland freight equalisation mechanism	289,910	127,243
Service cost receivable from related parties	87,959	89,270
Service cost receivable from associate company - PAPCO	7,774	7,935
Staff retirement benefit schemes	457,386	335,181
Mark-up receivable on short-term deposits	2,955	2,955
Taxes recoverable	646,629	646,629
Others	34,784	34,839
	8,091,223	10,887,842
Provision for impairment	(223,225)	(222,671)
	7,867,998	10,665,171

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

Notes to the Condensed Interim Financial Information (Unaudited)

for the period ended September 30, 2013

- 8.2** This represents amount receivable on account of price differential on imports and the ex-refinery price on direct and retail sales during the period 1990-2001.
- 8.3** 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.
- 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 & 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.

Further 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.

The Company during the current period has also approached the 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 has accordingly submitted audit report thereafter in respect of this claim and being confident of recovering this amount in full has recorded receivable in current period in the condensed interim financial information.

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 the amounts in full. The receivable represents the Company's share of differential claims on shared import cargoes of motor gasoline.

Notes to the Condensed Interim Financial Information (Unaudited)

for the period ended September 30, 2013

- 8.5** This principally represents sales tax refundable on account of export sales for which the Company has filed claim with FBR and is actively pursuing for recovery. During the period, the Company has received refunds aggregating to Rs.1,822,439 thousand in respect of these claims.

Unaudited September 30, 2013	Audited December 31, 2012 (Restated)
————— (Rupees '000) —————	

9. TRADE AND OTHER PAYABLES

Creditors - note 9.1	22,448,637	18,997,173
Oil marketing companies	7,607	7,607
Accrued liabilities	3,624,275	3,981,959
Excise and customs duties and development surcharge	109,873	51,416
Dealers' and customers' security deposits	548,152	529,372
Advances received from customers	1,338,311	1,723,140
Provision for post retirement medical benefits	77,544	77,544
Staff retirement benefit schemes	404,081	404,081
Workers' welfare fund	286,517	265,463
Workers' profits participation fund	44,395	1,940
Unclaimed dividends	107,347	107,401
Other liabilities	18,284	81,456
	<u>29,015,023</u>	<u>26,228,552</u>

- 9.1** This includes amounts due to related parties aggregating to Rs. 14,716,234 thousand (December 31, 2012: Rs. 11,961,042 thousand). Particulars of the amounts due are as follows:

Unaudited September 30, 2013	Audited December 31, 2012	
————— (Rupees '000) —————		
Affiliates of Parent company	12,167,871	10,067,546
Pakistan Refinery Limited	2,484,302	1,846,150
Other related parties	64,061	47,346
	<u>14,716,234</u>	<u>11,961,042</u>

Notes to the Condensed Interim Financial Information (Unaudited)

for the period ended September 30, 2013

10. CONTINGENCIES AND COMMITMENTS

10.1 Contingencies

10.1.1 Infrastructure fee

The Sindh Finance Act, 1994, prescribed the imposition of an infrastructure fee at the rate of 0.5% of the C&F value of all goods entering or leaving the province of Sindh via sea or air. Subsequent to the period end, Sindh Assembly has 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, 2013 at Rs. 48,993 thousand (December 31, 2012: Rs. 42,493 thousand). However, the eventual obligation on account of the aggregate fee, if any, cannot be ascertained presently because of uncertainty in relation to the extent of its application to the Company. For these reasons and based on legal advice obtained, no provision has been made in 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, 2013

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 an earlier year and set-off against tax liability for the tax year 2008. The Company thereafter filed an application against the order for rectification of certain mistakes apparent from the record. The tax officer rectified the order accepting the Company's contention and reduced the demand to Rs. 527,150 thousand. The Company in response to the demand deposited an amount of Rs. 120,000 thousand and filed an appeal with the Commissioner Inland Revenue (CIR) (Appeals) and thereafter with Appellate Tribunal Inland Revenue (ATIR). The remaining demand has been adjusted by the taxation authorities from sales tax refundable. In 2012, both CIR (Appeals) and ATIR have decided the case against the Company.

During the current period, the High Court of Sindh, in respect of another company, has overturned the interpretation of the Appellate Tribunal on Sec 113 (2) (c) of the Income Tax Ordinance, 2001 and has decided that the minimum turnover tax cannot be carry 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.

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 has deposited an amount of Rs. 29,106 thousand and has filed a rectification application and an appeal with CIR (Appeals). The tax officer rectified the order allowing Azad Kashmir tax credit and partial relief on amortization of software cost reducing demand to Rs. 109,895 thousand. The Company has made payment of Rs. 100,000 thousand under protest against the rectified order and filed another rectification application and appeal before CIR (Appeals). The tax officer has provided further relief in revised rectified order on account of software cost but it contains certain mistakes for which the Company has filed another rectification application which is still pending. After the revised rectified order the demand of Rs. 9,895 thousand has been converted into a tax refund of Rs. 733 thousand. 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 there from. 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, 2013

10.1.3 Sales tax and federal excise duty (FED)

10.1.3.1 In 2011, the tax authorities after conducting sales tax and federal excise duty audit for the period July 2008 to June 2009 and post refund audit for the period September and October 2008 raised sales tax and federal excise duty demands amounting to Rs. 1,843,529 thousand through several orders. In 2012, the tax authorities also conducted sales tax and federal excise duty audit for period July 2009 to December 2009 raising additional sales tax and federal excise duty demands amounting to Rs. 1,093,370 thousand through several orders. In 2013 the tax authorities also conducted sales tax and federal excise duty audit for period January 2011 to December 2011 raising additional sales tax and federal excise duty demands amounting to Rs. 2,764,271 thousand. These demands primarily arose on account of (i) disallowing input tax against zero rated supplies; (ii) levying FED on license fee, group service fee and trademarks and manifestation fee; (iii) levying sales tax on difference in output sales tax as per return and financial statements; and (iv) sales tax on lubricants paid on the value of supply instead of retail price as mentioned on packs (v) Unlawful adjustment of Input Sales tax.

The Company in response to the aforementioned orders filed appeals and sought stay against the demands with the CIR (Appeals), ATIR and High Court, where one of the appeals has been decided in favour of the Company by the ATIR and two appeals have been decided on most of the grounds of appeal in favour of the Company by CIR (Appeals) except for issue of FED on dealers joining fee and income from Company Owned Company Operated (COCO) sites.

During the year the ATIR issued order to remand back the matters in respect of dealers joining fee and income from COCO sites to tax authorities for fresh consideration. In 2012, the tax authorities have adjusted sales tax demand of Rs. 173,799 thousand pertaining to September 2008 against sales tax refundable. Subsequent to period end, Company filed a petition against recovery notices of demand of Rs. 2,764,271 thousand in High Court. High Court vide order dated October 10, 2013 passed ad-interim orders restraining the Tax Authorities from recovering the demand.

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.

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, 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 had 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 had 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 had issued directives restricting

Notes to the Condensed Interim Financial Information (Unaudited)

for the period ended September 30, 2013

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 had quashed the show cause notices of Faisalabad, Lahore and Multan Collectorates based on the notification. The Company is also of the opinion that OMCs cannot be required to pay the tax on unregulated products / exports retrospectively since clarification of FBR was in field at that time and is confident that revised notification in this respect will be issued by FBR if required. Further, in the event the Company is required to make a payment in this respect, it is Company's contention that it will be able to claim the amount paid as input tax except for default surcharge which cannot be computed at this stage. Accordingly, no provision has been made in this respect in the condensed interim financial information.

10.1.4 Others

The amount of other claims against the Company not acknowledged as debt as at September 30, 2013 aggregate to approximately Rs. 2,305,294 thousand (December 31, 2012: Rs. 2,661,817 thousand). This includes claims by refineries, amounting to Rs. 996,554 thousand (December 31, 2012: Rs. 996,554 thousand) in respect of delayed payment charges. The Company does not acknowledge the claim for late payment charges as the delayed payment to refineries arose due to the liquidity crisis faced by oil marketing companies over the past few years caused by non-settlement of price differential claims by the Government of Pakistan.

10.2 Commitments

10.2.1 Capital expenditure contracted for but not incurred as at September 30, 2013 amounted to approximately Rs. 404,648 thousand (December 31, 2012: Rs. 229,567 thousand).

10.2.2 Commitments for rentals of assets under operating lease agreements as at September 30, 2013 amounted to Rs. 2,651,571 thousand (December 31, 2012: Rs. 2,652,712 thousand) payable as follows:

	Unaudited September 30, 2013	Audited December 31, 2012
	————— (Rupees '000) —————	
Not later than one year	157,385	150,685
Later than one year and not later than five years	612,777	607,538
Later than five years	1,881,409	1,894,489
	<u>2,651,571</u>	<u>2,652,712</u>

Notes to the Condensed Interim Financial Information (Unaudited)

for the period ended September 30, 2013

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 September 30, 2013, the value of these cheques amounted to Rs. 4,963,463 thousand (December 31, 2012: Rs. 4,070,188 thousand). The maturity dates of these cheques extend to March 24, 2014 (December 31, 2012: June 18, 2013)

10.2.4 Letters of credit and bank guarantees outstanding as at September 30, 2013 amount to Rs.4,656,032 thousand (December 31, 2012: Rs. 4,689,651 thousand).

	Unaudited			
	Nine months ended		Quarter ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(Rupees '000)			
11. TAXATION				
Current				
- for the period - note 11.1	907,682	756,515	341,202	251,754
- for prior periods	41,063	197,868	-	-
Deferred	(57,788)	1,215,569	3,338	420,915
	890,957	2,169,952	344,540	672,669

11.1 This includes minimum tax @ 0.5% of taxable turnover amounting to Rs. 834,392 thousand (September 30, 2012: Rs.731,474 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.5,935,734 thousand (December 31, 2012: Rs. 6,845,694 thousand). Minimum tax which is available for adjustment against the future tax liability and not recognised as tax asset aggregates to Rs. 3,785,571 thousand (December 31, 2012: Rs. 2,951,179 thousand).

Notes to the Condensed Interim Financial Information (Unaudited)

for the period ended September 30, 2013

	Unaudited	
	Nine months ended	
	September 30, 2013	September 30, 2012
	(Rupees '000)	
12. CASH GENERATED FROM OPERATIONS		
Profit before taxation	1,105,344	622,777
Adjustment for non-cash charges and other items:		
Depreciation and amortisation charge	713,547	769,117
Accretion expense in respect of asset retirement obligation	9,627	8,723
Provision for impairment of trade debts	31,629	1,809
Reversal of provision for impairment of trade debts	(8,191)	(52,680)
Provision for impairment of operating assets	110,698	60,000
Write off of operating assets	27,395	1,634
Gain on disposal of operating assets	(24,531)	(12,140)
Share of profit of associate	(412,021)	(530,680)
Mark-up / interest on short-term deposits	(35,276)	(9,825)
Mark-up / interest on short-term borrowings	283,723	1,189,091
Working capital changes - note 12.1	7,010,533	3,244,248
	8,812,477	5,292,074
12.1 Working capital changes		
Decrease / (increase) in current assets		
Stores and spares	-	299
Stock-in-trade	2,045,203	(1,493,680)
Trade debts	(603,257)	415,519
Loans and advances	(12,326)	(19,351)
Short-term prepayments	(2,785)	57,306
Other receivables	2,797,173	3,766,616
	4,224,008	2,726,709
Increase in current liability		
Trade and other payables	2,786,525	517,539
	7,010,533	3,244,248

Notes to the Condensed Interim Financial Information (Unaudited)

for the period ended September 30, 2013

13. RELATED PARTY TRANSACTIONS

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

Nature of relationship	Nature of transactions	Unaudited	
		September 30, 2013	September 30, 2012 (Restated)
		Nine months ended	
		(Rupees '000)	
Associate			
Pak-Arab Pipeline Company Limited	Pipeline charges	314,294	408,104
	Others	6,726	5,539
Staff retirement benefit / contribution funds			
Pension Funds	Contribution	75,017	79,326
DC Pension Funds	Contribution	60,939	-
Gratuity Funds	Contribution	18,749	18,013
Provident Funds	Contribution	34,281	33,758
Key management personnel			
	Salaries and other short term employee benefits - note 13.1	34,199	38,419
	Post employment benefits	6,462	5,103
	Directors' Fee	600	920
	Gain on disposal of operating assets	-	402
Other related parties			
	Purchases	50,621,272	38,252,528
	Sales	23,944	24,998
	Collection for sales made in Pakistan to customers of the parent company and its associates	3,287,159	1,164,508
	Technical service fee charged - note 13.2	1,117,598	1,030,869
	Trademarks and manifestations license fee charged - note 13.3	201,708	207,821
	Computer expenses charged (Global Infrastructure Desktop charges) - note 13.3	133,841	190,187
	Expenses recovered from related parties - note 13.4	105,821	165,213
	Other expenses charged by related parties - note 13.4	587,785	498,322
	Legal charges	380	72

Notes to the Condensed Interim Financial Information (Unaudited)

for the period ended September 30, 2013

- 13.1** 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.
- 13.2** 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.
- 13.3** Trademarks and manifestations license fee and Global Infrastructure Desktop charges are based on the agreements entered into by the Company with Shell Group companies.
- 13.4** Expenses recovered from / charged by related parties are based on actuals.

14. CORRESPONDING FIGURES

- 14.1** In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', corresponding figures in the condensed interim balance sheet comprise of balances as per the audited annual financial statements of the Company for the year ended December 31, 2012 and the corresponding figures in the condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows comprise of balances of comparable period as per the condensed interim financial information of the Company for the nine months ended September 30, 2012.
- 14.2** Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. For the purpose of implementation of IAS 19 - Employee benefits (revised in June 2011), certain corresponding figures have been restated in condensed interim balance sheet and condensed interim statement of changes in equity to reflect the retrospective changes required under the standard, as summarized in note 3.1.
- 14.3** During the period, for better presentation, provision for impairment of stock-in-trade amounting to Rs. 24,432 thousand has been reclassified from 'trade and other payables' as reported in financial statements for the year ended December 31, 2012 to 'stock-in-trade'.

The effect of other rearrangements and reclassifications are not material.

15. DATE OF AUTHORISATION

This condensed interim financial information was authorized for issue on October 25, 2013 by the Board of Directors of the Company.

Omar Y Sheikh
Chairman & Chief Executive

Imran R Ibrahim
Director

Shell Pakistan Limited

Shell House, 6 Ch. Khaliqzaman Road, Karachi-75530, Pakistan.
www.shell.com.pk