



QUARTERLY & SIX MONTHLY REPORT JUNE 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

* Faisal Waheed has been appointed as CFO and director on August 22, 2013 in place of Mr. Rafi H Basheer



Our performance

I am pleased to report that the Company's performance is on an improving path and has consequently delivered a profit in the second quarter of 2013. The aggregate financial result for the first half of 2013 is a net loss of Rs. 65 million as against a net loss of Rs. 1,988 million in the same period last year. This improvement was achieved due to increased sales volumes and tight control of costs.

Despite this significant improvement compared with last year, the overall financial results of the Company are still not satisfactory. We continue to be affected by very low regulated fuel margins, an unfair turnover tax mechanism and continued financing cost of Government receivables.

Receivables & financing costs

During the first half 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. 1,526 million in this period.

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

- Rs. 1,936 million for sales tax refunds
- Rs. 2,305 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 is slow, 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 expect that the Government will 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 Sheikh

Chairman & Chief Executive

Independent Auditors' Report to the Members on Review of Condensed Interim Financial Information

Introduction

We have reviewed the accompanying condensed interim balance sheet of Shell Pakistan Limited as at June 30, 2013 and the related condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows together with the notes forming part thereof (here-in-after referred to as the "condensed interim financial information") for the half year then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim statement of comprehensive income for the quarters ended June 30, 2013 and 2012 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2013.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended June 30, 2013 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Without qualifying our conclusion, we draw attention to:

- Note 7 to the condensed interim financial information. As explained in the note, the Company has recognized deferred tax asset on unutilized tax losses based on projections of future taxable profits of the Company. The realizability of such an asset is dependent on the underlying assumptions and business drivers materializing as projected.
- Notes 8.1, 8.2 and 8.3 to the condensed interim financial information. The Company considers the amount of Rs. 2,291,557 thousand, Rs. 295,733 thousand and Rs. 343,584 thousand due from the Government of Pakistan in respect of petroleum development levy and price differential on imported purchases and high speed diesel, respectively, as current assets. The expected timing of the recoverability of these receivables and its consequential impact on their classification in the condensed interim balance sheet cannot presently be determined.
- Note 8.4 to the condensed interim financial information. The Company considers the aggregate amount of Rs. 2,071,107 thousand, receivable from the Government of Pakistan in respect of price differential on imported motor gasoline as a good debt for reasons given in the note. The ultimate outcome of the matter cannot presently be determined.

Chartered Accountants
Karachi
Date: August 28, 2013

Engagement Partner: Imtiaz A. H. Laliwala

Condensed Interim Balance Sheet

as at June 30, 2013

	Note	Unaudited June 30, 2013	Audited December 31, 2012 (Restated)
(Rupees '000)			
ASSETS			
Non-current assets			
Property, plant and equipment	5	6,102,216	6,330,565
Intangible assets		749,992	931,867
Long-term investments	6	3,308,179	2,989,350
Long-term loans and advances		69,926	98,853
Long-term deposits and prepayments		196,321	199,951
Long-term debtors		-	1,216
Deferred taxation - net	7	798,684	737,557
		11,225,318	11,289,359
Current assets			
Stores		14,845	14,845
Stock-in-trade		14,612,987	17,353,514
Trade debts		2,708,130	2,006,553
Loans and advances		71,757	81,061
Short-term prepayments		243,581	210,334
Other receivables	8	8,196,374	10,665,171
Cash and bank balances		1,854,602	3,388,485
		27,702,276	33,719,963
TOTAL ASSETS		38,927,594	45,009,322
EQUITY AND LIABILITIES			
Equity			
Share capital		856,100	856,100
Reserves		1,924,830	1,924,830
Unappropriated profit		3,476,989	3,542,289
Remeasurement of post employment benefits - Actuarial loss		(445,081)	(445,081)
Total equity		5,812,838	5,878,138
Liabilities			
Non-current liability			
Asset retirement obligation		344,370	339,596
Current liabilities			
Trade and other payables	9	32,339,521	26,228,552
Accrued mark-up / interest		11,915	52,449
Short-term borrowings - secured		-	12,170,000
Taxation		418,950	340,587
		32,770,386	38,791,588
Total liabilities		33,114,756	39,131,184
Contingencies and commitments	10		
TOTAL EQUITY AND LIABILITIES		38,927,594	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

Badaruddin F Vellani
Director

Condensed Interim Statement of Comprehensive Income (Unaudited)

for the half year ended June 30, 2013

	Note	Half year ended		Quarter ended	
		June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
(Rupees '000)					
Sales		139,172,215	119,428,745	75,349,418	61,591,400
Other revenue		444,405	333,250	336,285	183,530
		139,616,620	119,761,995	75,685,703	61,774,930
Sales tax		(18,700,638)	(15,926,750)	(10,261,763)	(8,188,648)
Net revenue		120,915,982	103,835,245	65,423,940	53,586,282
Cost of products sold		(116,369,154)	(99,960,814)	(63,008,473)	(51,985,380)
Gross profit		4,546,828	3,874,431	2,415,467	1,600,902
Distribution and marketing expenses		(1,728,152)	(1,656,661)	(784,936)	(825,928)
Administrative expenses		(1,969,839)	(1,678,138)	(1,019,716)	(792,954)
		848,837	539,632	610,815	(17,980)
Other expenses		(409,251)	(555,703)	(329,811)	(306,587)
		439,586	(16,071)	281,004	(324,567)
Other income		92,228	132,565	35,656	74,558
Operating profit / (loss)		531,814	116,494	316,660	(250,009)
Finance costs		(369,526)	(966,529)	(134,217)	(459,990)
		162,288	(850,035)	182,443	(709,999)
Share of profit of associate - net of tax	6	318,829	358,870	158,068	175,167
Profit / (loss) before taxation		481,117	(491,165)	340,511	(534,832)
Taxation	11	(546,417)	(1,497,283)	(280,980)	(1,229,974)
Profit / (loss) for the period		(65,300)	(1,988,448)	59,531	(1,764,806)
Other comprehensive income		-	-	-	-
Total comprehensive (loss) / income for the period		(65,300)	(1,988,448)	59,531	(1,764,806)
(Rupees)					
Earnings / (loss) per share		(0.76)	(23.23)	0.70	(20.61)

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

Omar Y Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

Condensed Interim Statement of Changes in Equity

for the half year ended June 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 half year ended June 30, 2012	-	-	-	(1,988,448)	-	(1,988,448)
Balance as at June 30, 2012 (Unaudited and restated)	856,100	1,717,828	207,002	3,488,743	18,716	6,288,389
Profit for the half year ended December 31, 2012 (Restated)	-	-	-	53,546	-	53,546
Other comprehensive loss for the half year 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	3,542,289	(445,081)	5,878,138
Loss for the half year ended June 30, 2013	-	-	-	(65,300)	-	(65,300)
Other comprehensive income for the half year ended June 30, 2013	-	-	-	-	-	-
Balance as at June 30, 2013 (Unaudited)	856,100	1,717,828	207,002	3,476,989	(445,081)	5,812,838

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

Omar Y Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

Condensed Interim Statement of Cash Flows (Unaudited)

for the half year ended June 30, 2013

	Note	Half year ended	
		June 30, 2013	June 30, 2012
(Rupees '000)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	12	11,639,442	4,748,531
Finance costs paid		(304,386)	(932,336)
Income taxes paid		(529,181)	(716,168)
Long-term loans and advances		28,927	(40,634)
Long-term deposits and prepayments		3,630	31,410
Mark-up / interest received on short-term deposits		11,319	5,063
Long-term debtors		1,795	11,800
Net cash generated from operating activities		10,851,546	3,107,666
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(253,175)	(230,643)
Proceeds from disposal of operating assets		37,800	15,588
Net cash used in investing activities		(215,375)	(215,055)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(54)	(129)
Net increase in cash and cash equivalents		10,636,117	2,892,482
Cash and cash equivalents at beginning of the period		(8,781,515)	(14,306,585)
Cash and cash equivalents at end of the period		1,854,602	(11,414,103)

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

Omar Y Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

Notes to the Condensed Interim Financial Information (Unaudited)

for the half year ended June 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. 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 half year ended June 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. This condensed interim financial information has, however, been subjected to limited scope review by the auditors, as required by the Code of Corporate Governance.
- 2.2** This condensed interim financial information is being submitted to the shareholders in accordance with section 245 of the Ordinance and should be read in conjunction with the audited annual financial statements of the Company for the year ended December 31, 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 half year ended June 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 half year ended June 30, 2013

	Unaudited June 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	5,900,849	6,138,864
- Provision for impairment - note 5.3	(484,911)	(374,213)
	5,415,938	5,764,651
Capital work-in-progress - note 5.4	686,278	565,914
	6,102,216	6,330,565

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

Owned assets

Leasehold land	8,580	-
Buildings on freehold land	-	16,332
Buildings on leasehold land	71	18,039
Tanks and pipelines	91,688	590,878
Plant and machinery	2,819	197,860
Lifts	2,283	3,600
Dispensing pumps	618	21,466
Rolling stock and vehicles	9,158	42,226
Electrical, mechanical and fire fighting equipments	17,595	298,191
Furniture, office equipment and other assets	-	119,923
Computer auxiliaries	-	11,500
	132,812	1,320,015

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

	Cost	Accumulated depreciation	Net book value
	(Rupees '000)		
June 30, 2013 (unaudited)			
Owned assets			
Buildings on leasehold land	51,066	32,285	18,781
Tanks and pipelines	14,515	6,985	7,530
Dispensing pumps	33,599	29,764	3,835
Rolling stock and vehicles	34,166	20,401	13,765
Electrical, mechanical and fire fighting equipments	23,540	13,925	9,615
Furniture, office equipment and other assets	36,061	34,025	2,036
	192,947	137,385	55,562
December 31, 2012 (audited)	346,699	249,708	96,991

Notes to the Condensed Interim Financial Information (Unaudited)

for the half year ended June 30, 2013

	Unaudited June 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	(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 June 30, 2013	Audited December 31, 2012
	(Rupees '000)	
5.4 Capital work-in-progress		
Buildings on leasehold land	469,579	336,837
Tanks and pipelines	24,951	58,707
Plant and machinery	155,765	144,366
Electrical, mechanical and fire fighting equipments	34,853	25,450
Furniture, office equipment and other assets	1,130	554
	686,278	565,914

Notes to the Condensed Interim Financial Information (Unaudited)

for the half year ended June 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 June 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	489,336	1,107,750
Share of taxation	(170,507)	(387,551)
	318,829	720,199
Dividend received	-	(480,459)
Balance at the end of the period / year	3,303,179	2,984,350

7. DEFERRED TAXATION

This is composed of the following:

Taxable temporary differences arising in respect of:

- accelerated tax depreciation	(910,050)	(959,427)
- investment in associate	(143,618)	(111,235)

Deductible temporary differences arising in respect of:

- short-term provisions	638,632	625,765
- carry forward tax losses - note 7.1	1,213,720	1,182,454
	798,684	737,557

- 7.1** Deferred income tax asset is recognized for tax losses available for carry-forward, but only for the portion for which the realization of the related tax benefit is probable through future taxable profits. The aggregate unutilized tax losses as at June 30, 2013 amount to Rs. 6,451,419 thousand (December 31, 2012: Rs. 6,845,699 thousand), inclusive of business loss of Rs. 4,636,868 thousand. Of the aforementioned aggregate unutilized losses, the management has recognized a deferred income tax asset on losses amounting to Rs. 3,569,765 thousand (December 31, 2012: Rs. 3,378,440 thousand), based on recent projections of future taxable profits of the Company. The 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 half year ended June 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 June 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 June 30, 2013	Audited December 31, 2012 (Restated)
	————— (Rupees '000) —————	
8. OTHER RECEIVABLES		
Petroleum development levy and other duties - note 8.1	2,304,756	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	1,936,682	4,737,218
Inland freight equalization mechanism	349,190	127,243
Service cost receivable from related parties	62,896	89,270
Service cost receivable from associated company - PAPCO	7,774	7,935
Staff retirement benefit schemes	357,724	335,181
Mark-up receivable on short-term deposits	2,955	2,955
Taxes recoverable	646,629	646,629
Others	40,569	34,839
	8,419,599	10,887,842
Provision for impairment	(223,225)	(222,671)
	8,196,374	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, for which the Company has approached the Government of Pakistan (GoP) and FBR for settlement thereof. The GoP sought certain information which has been duly 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 half year ended June 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 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 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 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.

Notes to the Condensed Interim Financial Information (Unaudited)

for the half year ended June 30, 2013

The Company along with the industry and Oil Companies Advisory Committee (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. During the period, the Company has received refunds aggregating to Rs. 1,525,790 thousand in respect of these claims.

	Unaudited June 30, 2013	Audited December 31, 2012 (Restated)
	————— (Rupees '000) —————	
9. TRADE AND OTHER PAYABLES		
Creditors - note 9.1	25,000,568	18,997,173
Oil marketing companies	7,607	7,607
Accrued liabilities	4,221,270	3,981,959
Excise and customs duties and development surcharge	23,923	51,416
Dealers' and customers' security deposits	544,399	529,372
Advances received from customers	1,590,652	1,723,140
Provision for post retirement medical benefits	77,544	77,544
Staff retirement benefit schemes	404,081	404,081
Workers' welfare fund	273,888	265,463
Workers' profits participation fund	10,924	1,940
Unclaimed dividends	107,347	107,401
Other liabilities	77,318	81,456
	<u>32,339,521</u>	<u>26,228,552</u>

- 9.1** This includes amounts due to related parties aggregating to Rs. 13,298,775 thousand (December 31, 2012: Rs. 11,961,042 thousand). Particulars of the amounts due are as follows:

	Unaudited June 30, 2013	Audited December 31, 2012
	————— (Rupees '000) —————	
Affiliates of Parent Company	10,866,423	10,067,546
Pakistan Refinery Limited	2,317,973	1,846,150
Other related parties	114,379	47,346
	<u>13,298,775</u>	<u>11,961,042</u>

Notes to the Condensed Interim Financial Information (Unaudited)

for the half year ended June 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 June 30, 2013 at Rs. 44,993 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 half year ended June 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 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 but it contains certain mistakes for which the Company has filed another rectification application. 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 half year ended June 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. These demands primarily arose on account of (i) disallowing input tax against zero rated supplies; (ii) levying FED on license fee, group service fee and trademarks and manifestation fee; (iii) levying sales tax on difference in output sales tax as per return and financial statements; and (iv) sales tax on lubricants paid on the value of supply instead of retail price as mentioned on packs. The Company in response to the aforementioned orders filed appeals and sought stay against the demands with the ATIR and CIR (Appeals) where one of the appeals has been decided in favour of the Company by the ATIR and three appeals have been decided on most of the grounds of appeal in favour of the Company by CIR (Appeals) except for issue of FED on dealers joining fee and income from Company Owned Company Operated (COCO) sites.

Subsequent to the period end, 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.

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 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

Notes to the Condensed Interim Financial Information (Unaudited)

for the half year ended June 30, 2013

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 June 30, 2013 aggregate to approximately Rs. 2,570,011 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 June 30, 2013 amounted to approximately Rs. 242,791 thousand (December 31, 2012: Rs. 229,567 thousand).

10.2.2 Commitments for rentals of assets under operating lease agreements as at June 30, 2013 amounted to Rs. 2,673,325 thousand (December 31, 2012: Rs. 2,652,712 thousand) payable as follows:

	Unaudited June 30, 2013	Audited December 31, 2012
	————— (Rupees '000) —————	
Not later than one year	156,554	150,685
Later than one year and not later than five years	613,258	607,538
Later than five years	1,903,513	1,894,489
	<u>2,673,325</u>	<u>2,652,712</u>

Notes to the Condensed Interim Financial Information (Unaudited)

for the half year ended June 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 June 30, 2013, the value of these cheques amounted to Rs. 5,619,471 thousand (December 31, 2012: Rs. 4,070,188 thousand). The maturity dates of these cheques extend to December 24, 2013 (December 31, 2012: June 18, 2013).

10.2.4 Letters of credit and bank guarantees outstanding as at June 30, 2013 amount to Rs. 4,387,465 thousand (December 31, 2012: Rs. 4,689,651 thousand).

	Unaudited			
	Half year ended		Quarter ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(Rupees '000)			
11. TAXATION				
Current				
- for the period - note 11.1	566,481	504,761	301,044	237,452
- for prior periods	41,063	197,868	41,063	197,868
Deferred	(61,127)	794,654	(61,127)	794,654
	546,417	1,497,283	280,980	1,229,974

11.1 The current tax charge includes minimum tax @ 0.5% of taxable turnover amounting to Rs. 545,205 thousand (June 30, 2012: Rs. 477,641 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. As at June 30, 2013, minimum tax which is available for adjustment against the future tax liability and not recognized as tax asset aggregates to Rs. 3,496,384 thousand (December 31, 2012: Rs. 2,951,179 thousand).

Notes to the Condensed Interim Financial Information (Unaudited)

for the half year ended June 30, 2013

	Unaudited	
	Half year ended	
	June 30, 2013	June 30, 2012
	(Rupees '000)	
12. CASH GENERATED FROM OPERATIONS		
Profit / (loss) before taxation	481,117	(491,165)
Adjustment for non-cash charges and other items:		
Depreciation and amortization charge	497,139	520,342
Accretion expense in respect of asset retirement obligation	9,786	5,844
Reversal of liability in respect of asset retirement obligation	(5,012)	-
Provision for impairment of trade debts	3,045	11,948
Reversal of provision for impairment of trade debts	(7,168)	(39,936)
Trade debts written off directly	22,298	-
Provision for impairment of other receivables	554	-
Provision for impairment of operating assets - note 5.3	168,996	8,400
Reversal of provision for impairment of operating assets - note 5.3	(58,298)	-
Gain on disposal of operating assets	(13,154)	(10,407)
Write off of operating assets	30,916	-
Share of profit of associate, net - note 6	(318,829)	(358,870)
Mark-up / interest on short-term deposits	(11,319)	(6,442)
Mark-up / interest on short-term borrowings	263,853	861,254
Provision for impairment of stock in trade - net	2,271	25,586
Working capital changes - note 12.1	10,573,247	4,221,977
	<u>11,639,442</u>	<u>4,748,531</u>
12.1 Working capital changes		
Decrease / (increase) in current assets		
Stores	-	298
Stock-in-trade	2,738,256	2,168,737
Trade debts	(720,332)	573,177
Loans and advances	9,304	2,494
Short-term prepayments	(33,247)	88,811
Other receivables	2,468,243	3,130,160
	<u>4,462,224</u>	<u>5,963,677</u>
Increase / (decrease) in current liability		
Trade and other payables	6,111,023	(1,741,700)
	<u>10,573,247</u>	<u>4,221,977</u>

Notes to the Condensed Interim Financial Information (Unaudited)

for the half year ended June 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	
		June 30, 2013	June 30, 2012
		(Rupees '000)	
Associate			
Pak-Arab Pipeline Company Limited	Pipeline charges	198,601	301,655
	Others	4,993	4,129
Staff retirement benefit / contribution funds			
Pension Funds	Contribution	60,726	57,765
Gratuity Funds	Contribution	15,075	14,190
Provident Funds	Contribution	23,989	24,188
Key management personnel			
	Salaries and other short term employee benefits - note 13.1	24,237	30,860
	Post-employment benefits	3,230	3,620
	Directors' fee	400	720
	Gain on disposal of operating assets	-	402
Other related parties			
	Purchases	30,685,958	28,581,652
	Sales	11,977	14,604
	Collections for sales made in Pakistan to customers of the parent company and its associates	2,244,191	900,847
	Technical service fee charged - note 13.2	692,479	549,372
	Trademarks and manifestations license fee charged - note 13.3	131,453	113,386
	Computer expenses charged (Global Infrastructure Desktop charges) - note 13.3	90,908	58,329
	Expenses recovered from related parties - note 13.4	79,741	109,197
	Other expenses charged by related parties - note 13.4	376,915	221,617
	Legal charges	383	72

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.

Notes to the Condensed Interim Financial Information (Unaudited)

for the half year ended June 30, 2013

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 half year ended June 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 August 22, 2013 by the Board of Directors of the Company.

Omar Y Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

Shell Pakistan Limited

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