Shell in Pakistan
Over 100 Years of Excellence

# ANNUAL REPORT 2008

**Shell Pakistan Limited**
Shell House, 6 Ch. Khaliquzzaman Road
Karachi-75530, Pakistan.
www.shell.com.pk

# OUR VISION

At Shell Pakistan Limited, we strive to deliver results, perform to the highest standards, develop our people, provide quality customer service and actively pursue consistent safety improvements. A firm foundation based on performance enables us to deliver strong returns and value growth for our shareholders, greater and better choices for our customers and opportunities and improvements in the quality of life of our communities. In an unsettled world, our commitment to performance at every level continues to be both the challenge and the aspiration.


## Our journey says it all


After the independence of Pakistan in 1947, the company name was changed to Burmah Shell Oil Distribution Company of Pakistan. In 1970, when 51% of the shareholding was transferred to Pakistani investors, the name was changed to Pakistan Burmah Shell (PBS) Limited. The Shell and the Burmah Groups, retained the remaining 49% in equal proportions. In February of 1993, as economic liberalisation began to take root and the Burmah Group divested from PBS, Shell Petroleum stepped in to raise its stake to 51%. The years 2001-2 have seen the Shell Petroleum Company successively increasing its share, with the Group now having a 76% stake in Shell Pakistan Limited (SPL) - an expression of confidence.

# WE ARE THE FIRST



- in Aviation Refuelling
- in Domestic Kerosene
- to introduce Quality & Quantity Assurance through Quality Testing Vans
- to introduce ADR Vehicles
- in Retail Diesel Distribution
- to introduce Planned Social Investment Programmes
- to introduce Business Training
- in Quick Lube Change
- to Launch a Social Investment Project encouraging youth towards business start up
- to introduce a unique Retail Visual Identity on our forecourts


# LEADING ALL THE WAY

**Shell has always been committed to innovation. As such, Shell Pakistan leads the industry when it comes to introduction of new products in the market, differentiated services for changing customer needs, and the introduction of global technical and safety standards.**

Shell's range of innovative products is constantly expanding, supported by extensive research and development. With an eye on the future, Shell has evolved with a new identity in Pakistan. The overall brand positioning today has also evolved in line with the global theme of Made to Move, which is symbolic of Shell's endeavour for our customers, who are forever on the move.

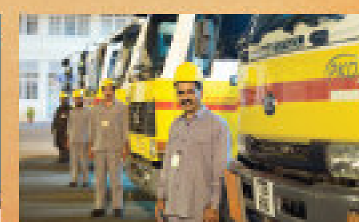
In 2007, our lubricants business launched a new thematic campaign for Shell Helix that emphasised its 're-energising' position. This was followed shortly by the launch of Shell Helix Ultra, Pakistan's first fully synthetic oil for performance motoring, endorsed by Ferrari and the world's greatest Grand Prix Champion, Michael Schumacher.

Our efforts to promote business excellence are not just limited to our products and services, but are also included in the way we do business.

Over the past year, Shell Pakistan has made commendable strides in introducing global technical standards into the industry. Shell Pakistan and its partner hauliers successfully inducted world-class vehicles in its Machike (Lahore) distribution terminal fleet and encouraged hauliers across the country to induct similar vehicles as part of our drive not just for engineering excellence but also to promote safer driving standards. In 2007, Shell Pakistan had inducted eight such vehicles, with the fleet expected to double in number by the end of 2008.

In order to further strengthen and streamline our internal processes and to increase efficiencies, Shell Pakistan has embarked on Shell Group's Global 'Downstream-One' journey. The ultimate goal of Downstream-One is to reduce business complexity and increase operational efficiency in order to reduce costs and increase competitiveness, while simultaneously enhancing customer satisfaction. Shell Pakistan commenced its challenging Downstream-One journey with an introductory mobilisation session in January 2008. With just over 21 months left for our momentous Go-Live on 1st April 2010, Shell Pakistan is engaging and preparing its stakeholders and businesses for the ensuing changes and benefits that will come from moving to a truly global system.

Shell Pakistan's IT department contributed to strengthening efficiencies within the organisation in 2007-08 by providing a robust infrastructure for supporting our growing business. The capacity of our international circuit was upgraded successfully to ensure a more reliable communication network to support consolidated Shell systems. Shell Aviation also rolled out its global Apron system at Karachi airport, which will allow real-time communication from the apron to back-office IT systems. This is the first implementation of its kind for the aviation industry in Pakistan.

# FUELLING MOBILITY

**We at Shell Pakistan strive to meet and exceed customer expectations by delivering the best fuels and service to our customers at every site, every visit, everyday.**

OVER 100 YEARS OF QUALITY SERVICE & PRODUCTS

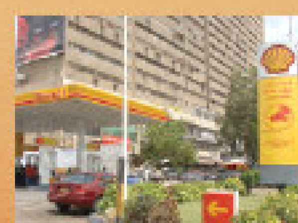
In 2008, we took another important step in recognising the diversified fuelling needs of all our customers. Shell Pakistan became the first Oil Marketing Company (OMC) in Pakistan to offer differentiated services for motorcyclists by allocating a separate fuelling island for them on 100 of its top sites across Pakistan. Motorcycles represent a sizeable segment of Pakistan's vehicle parc and their fuelling requirements are distinct from those of other vehicles. The launch was accompanied with an exciting consumer promotion during which customers had the chance to win more than 10,000 prizes including brand new motorcycles and helmets to seat-covers and wheel locks. To better cater to our biker customers, we followed the separate fuelling islands with Shell Advance Bike Serve stations on our forecourts to offer our bikers a unique service experience. We also introduced waiting rooms where bikers could enjoy recreational activities while waiting for their turn.

Continuing our tradition of teamwork, we continue to provide our consumers with a range of differentiated lubricants to satisfy their diversified needs at our forecourts. We introduced Shell Helix Ultra, leveraging the entry of these new offerings with an exciting new promotion and free giveaways of much coveted Ferrari model cars.

We also introduced our new Shell Helix CNG Super, and revamped our Quick Oil Change service as 'Shell Helix Oil Change Plus', with a new promotion where customers had the chance to win a Suzuki Liana with every Shell Helix oil change.

In addition, we launched a consumer promotion for our Pennzoil family of oils. Primarily for use in tractors, Pennzoil has seen consistently high growth over the last three years since its launch. We also rolled out exciting promotional offers for our Shell Rimula Oils targeted at our trucker consumers. To ensure excellence in our service offer and commitment to highest safety standards to the aviation industry in Pakistan, Shell Pakistan's Aviation business upgraded its fleet of fuel dispensers this year. The inclusion of these new fuel dispensers further strengthens our resolve to provide the right quality of product efficiently and safely to our customers.

In the past year, we played an active role in helping to meet the nation's energy needs, as our commercial fuels business signed on two new contracts with upcoming Independent Power Plants for their fuel oil needs. Going forward, Shell Pakistan will continue to play an active role in fuelling mobility all over the country.




# DELIVERING ON OUR PROMISES

**We at Shell believe that the contribution of our site staff helps us deliver the best fuels to our customers. With our firm belief that 'People Make the Difference Real', (PMtDR), Shell Pakistan ensures that its businesses are resourced with committed individuals who are equipped with essential skills, have clearly defined performance targets, and ensure that their successes are duly recognised.**

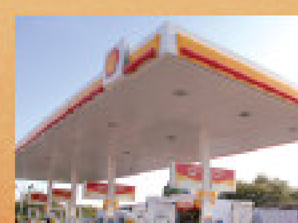


One such recognition platform is the Global Mystery Motorist Programme (MMP), whereby an independent agency conducts service checks on nominated sites and scores them on a pre-determined scale. Our retail business's performance on the MMP is the fourth highest amongst Shell companies in the East, and this is ample testimony to our commitment to deliver on our promises to customers. We also conducted a nationwide revival of the Navigator, an all-encompassing performance tracking tool that brings uniformity in the efforts of the sales team, retailers and their site staff to work towards a common target.

This performance tracking is underscored by a comprehensive rewards and recognition scheme designed to motivate our retailers to stretch themselves to their utmost capacity. This year, we recognised the high performers in the Global Reward & Recognition Programme in May 2008 and highlighted the 50 winners from 2007 in the presence of Shell's East Retail Leadership Team and an audience of 500 Retailers.

We have also strengthened safety on our forecourts, reinforcing this as a major deliverable for our forecourt staff and retailers. In the past year, we conducted Health, Safety, Security and Environment (HSSE) road shows in all major cities to engage our forecourt staff on Shell's vision of achieving zero safety incidents. Our retailers pledged their commitment to Shell's Safety Champion Programme with a goal to ensure compliance to Shell Golden rules [Comply, Intervene and Respect], and to report any potential incidents, near misses and incidents to the area territory manager.

In the coming year we will see many more focused efforts on delivery, so that operational excellence can be set as a minimum working standard across all participating sites.



# PEOPLE MAKE IT HAPPEN

**At Shell Pakistan, developing our people is a top priority. Over the years, we have maintained a distinctive corporate culture that is driven and influenced by our dedicated and energetic workforce.**



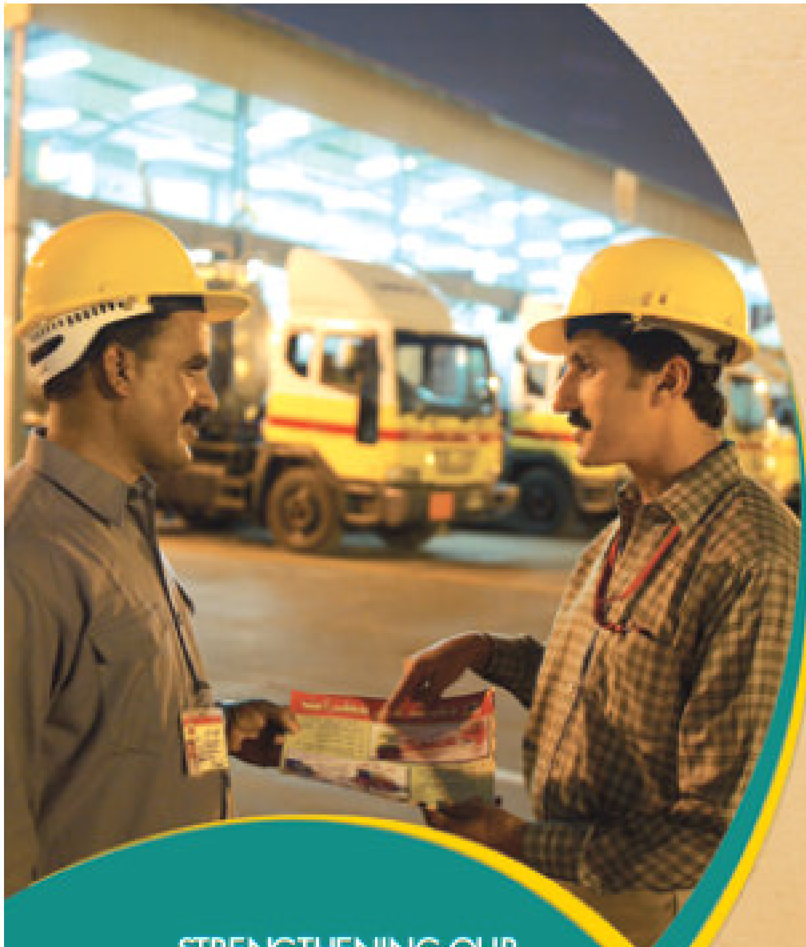
In view of the increasingly competitive employment market, we have actively focused on developing our future leaders. Additionally, as part of our commitment towards top-quartile performance and HR Functional Excellence we have invested extra time and energy into strengthening Learning & Development (L & D) opportunities for our team, and in encouraging Diversity & Inclusiveness (D & I) within our workforce. A number of different initiatives were introduced, including a focus on increasing our diversity of viewpoints and talent, and developing our existing staff.

Our L & D journey last year was particularly exciting as we once again rolled out our world-class leadership development programme, BUILD. Developed in-house by Shell Learning's dedicated team of L&D consultants and experts, BUILD was delivered during the latter half of 2007. With its focus on developing both current and future frontline and team leaders, BUILD was entirely run and facilitated by our HR professionals, and delivered over 125 learning units to over 50 of our frontline staff. In planning and managing our talent pools, we also held sessions on 'Coaching for Performance' (CFP) and Shell Leadership Challenge' (SLC), with the aim of providing our talent pool with the soft skills necessary to complement their substantial technical knowledge.

To complement these development activities in a more personalised way, Shell HR also launched a 'Leaders Develop Leaders' mentorship programme. Originally targeted at our Graduate recruits, the programme was expanded to assist in formalising and developing mentorship dialogues across several levels of high-potential staff. The programme pairs individuals with senior staff from a different business or function, in order to broaden their outlook on professional and personal development.

In recognition of the fact that we are a leading multinational and have a responsibility to set trends for our peers, Shell Pakistan was one of the founding members of Dia, a professional networking platform for working women in Pakistan. In March, 2008, Dia supported a two-day conference on Women Achievers, to which a number of prominent speakers, including GM HR Leon Menezes, were invited.

To ensure that we are continually aligned with the Shell Group principles for D & I, we invited our HR experts from Shell Singapore to run a two-day session on D & I principles as they are within the Group. Going forward into 2008, we continue to reiterate our focus on recruiting and retaining top-end talent, with particular emphasis on both female talent and a multiplicity of professional backgrounds.

# STRENGTHENING OUR SAFETY CULTURE

**At Shell, safety is at the heart of the way we do business. We believe in a policy of no harm to people - be it our customers, employees, retailers, contractors, suppliers and even their staff. A systematic approach to Health, Safety, Security and Environment (HSSE) management, underpinned by a rigorous focus on embedding an HSSE culture through the 'Hearts and Minds' approach, is designed to not only ensure compliance with the law but also to help achieve continuous improvement in safety performance.**



We believe it is possible to operate with zero fatalities and zero incidents, and that we owe such operational standards to our people, our partners, and the communities we serve. The phrase 'Goal Zero', which was launched in 2007, captures this belief. In the past year, we have taken a number of steps towards reduction of injuries and spills, further strengthened our Road Transport Safety and implemented the Permit-to-Work and Asset Integrity programmes in order to achieve our aim of being world-class in HSSE.

In 2007, we set up two company-wide 'Safety Days' to re-energise and re-focus our efforts to improve safety. Activities were focused on employees, site staff and contractors, helping to prevent injuries and accidents. In 2008 as well, we dedicated a safety day to motivate everyone to take personal action and change at least one thing that will help improve Shell's safety performance.

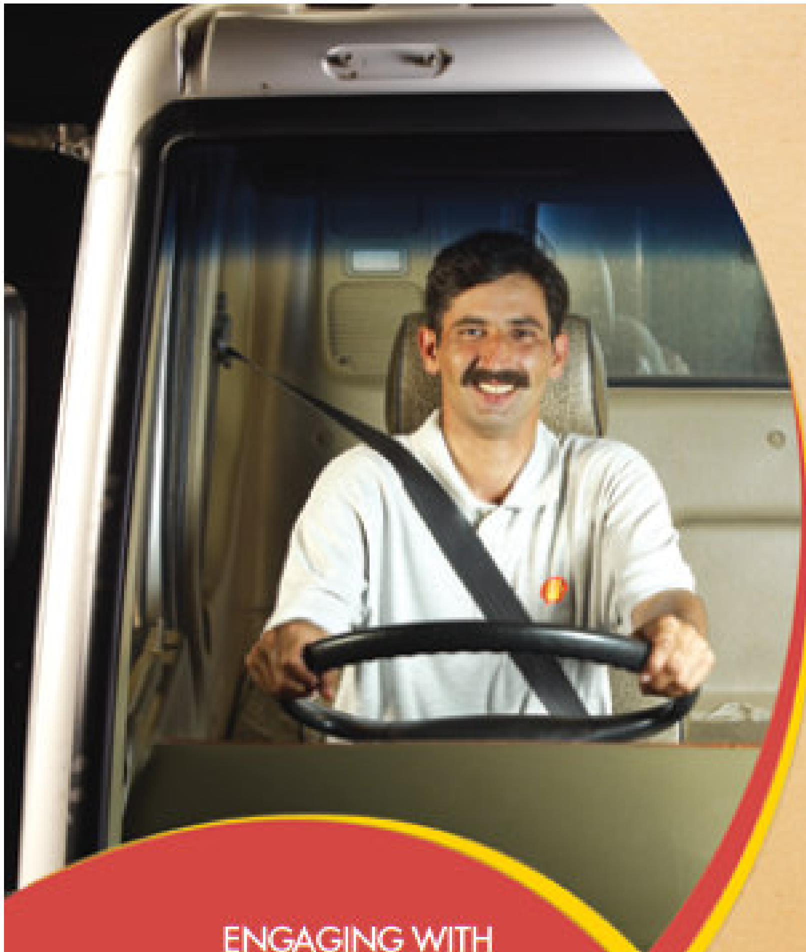
Shell Pakistan's continuous safety initiatives have been successful, as they have resulted in reduction of significant incidents by approximately 75 per cent in the past seven years. For its efforts, Shell Pakistan was given an award for environment-friendly practices at the 'Third Health & Environment National Excellence Awards' in March 2008, and also the 'Annual Environmental Excellence Award' by the National Forum for Environment and Health (NFEH) in July 2008, for the third year in a row. The award was given to SPL in recognition of its outstanding efforts and contributions in sustainable development and environment-friendly operations as a responsible corporate citizen.

In our retail business, HSSE training sessions were conducted for CNG staff and site managers on CNG operating procedures and response to emergencies such as gas leakage and filling procedures at CNG stations. Effective 31st March, we also removed armed guards from all our retail outlets thus making our forecourts safer for staff and customers.

At our customer sites, we have outlined safe decantation procedures for our industrial customers and have also launched an awareness campaign to guide customers on safety at work. We aim for this to result in an increased ownership of HSSE amongst Shell Retailers, in turn making our sites safer for our customers.

For our contractors, we established a Local Contractor Safety Council. All participants were engaged on Shell Safety Guidelines for performing work at height, which is a high risk activity.

Shell Pakistan is striving hard for continuous improvement of HSSE management in all our businesses and operational activities. We firmly believe that our business performance correlates directly with exemplary HSSE performance.



# ENGAGING WITH STAKEHOLDERS

**Shell Pakistan continues to take a lead role in cultivating partnerships with business stakeholders for the overall growth of the oil and gas industry. Whether it involves sharing best practices, implementation of global technical and safety standards, or supporting the Government's initiatives in the power sector, Shell Pakistan is committed to the development of the industry. We work with our stakeholders to not only drive the growth of our businesses, but also to be part of the long-term development of the country.**

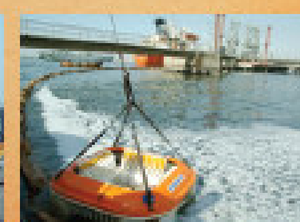
As part of Shell Pakistan's commitment to engage with stakeholders to improve HSSE standards in the industry, we have participated in a number of collective initiatives and conferences to facilitate an understanding of industry issues and to collectively draft solutions. Whilst in past years we made commendable contributions to enhance the Industry Marine HSSE Standards in the country through procurement of Tier 1 marine oil spill equipment and formation of a joint industry-wide marine oil spill resource center, this year, we continued to play a key role in assisting the National Shipping Corporation and Karachi Port Authority in improving shipping and terminal standards.

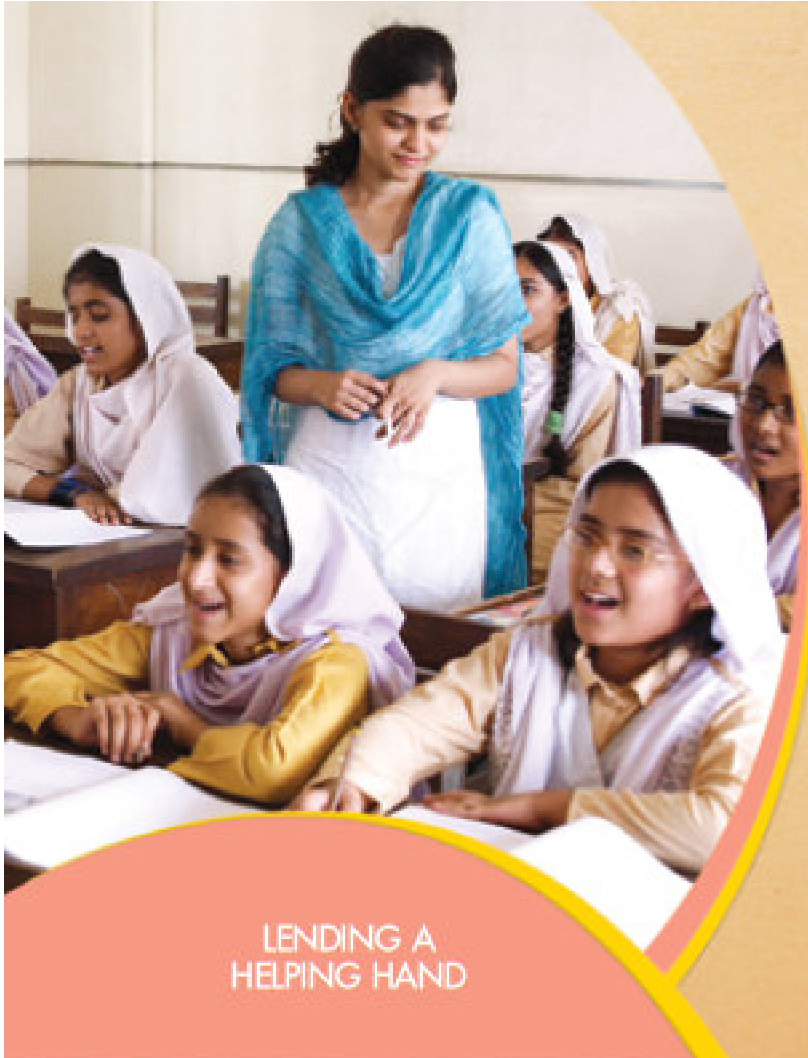
Shell Pakistan also participated in an HSSE seminar arranged by the Petroleum Institute of Pakistan, where Mr. David George - Global Manager Ship Quality Assurance, STASCo - was the keynote speaker and presented on raising shipping standards to ensure safer oil transportation at sea. This seminar provided us with an excellent opportunity to share Shell's global expertise in shipping standards and to drive the case for change to higher standards in Pakistan.

Concurrently, we strive to improve Road Safety standards in alliance with other industry players as well as Government stakeholders. Last year, Shell Pakistan participated in two Road Safety Seminars to ensure a proactive approach towards road safety for petroleum product movement. We engaged the Oil and Gas Regulatory Authority (OGRA) to facilitate the development of safety standards and monitor the industry-wide oil tanker fleet and recommended that Oil Marketing Companies (OMCs) take the initiative in enforcing and improving standards.

In continuation of our commitment to improve the overall performance, Shell Pakistan has already launched its 'Haulier Professionalisation' programme, which has enabled us to further improve the core functions of Haulier businesses such as HSSE compliance, preventive maintenance, and financial reporting. Our haulier participation in this programme has now increased to 25 hauliers.

Shell Pakistan's efforts have been duly recognised as we were awarded the 'Health and Environment Excellence Award 2007' by Help International Welfare Trust and the CSR Association of Pakistan in recognition of overall excellence of stakeholder engagement and CSR efforts.





# LENDING A HELPING HAND

**Shell Pakistan has taken a leadership role in contributing to society through a structured social investment programme that aims to integrate the economic, social and environmental needs of the local communities.**

**Our social investment projects are a testimony to the company's commitment, targets and performance in delivering on our environmental and social responsibilities.**

We realise the importance of strengthening and developing human resources. Our key focus lies in education, which Shell Pakistan has been keenly supporting in a number of ways. In the area of primary education, we have built a school in the remote village of Kalaban, which currently enrols 300 children. We have further partnered with The Citizen's Foundation (TCF) building primary schools in the earthquake-struck northern areas to reach out to under-privileged children. We also support the technical school for the SOS Children's Villages.

We at Shell Pakistan believe the youth of Pakistan must be provided access and opportunities for skill development and youth enterprise as a way to explore new and creative career avenues. Our Shell Tameer Programme, introduced in 2003, today exists as one of the foremost efforts to facilitate youth entrepreneurship in the country. Now in its fifth year of providing entrepreneurship guidance, the Shell Tameer programme has engaged more than 38,000 young people through workshops, seminars, meetings and our website. 43 workshops have been conducted for 2500 young people, and 61 seminars have provided awareness to over 12,000 students.

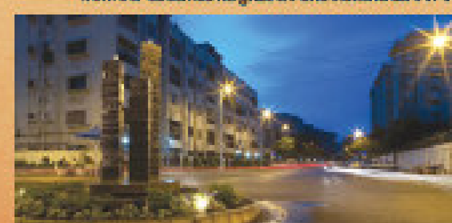
Going forward, Shell Pakistan is also initiating a Scholarship programme together with the Higher Education Commission, to fund the education of up to 50 students annually for degrees in Engineering and MBA. The Shell Scholarship programme will enable deserving youth to seek higher education from the premium institutions in the nation and give back to society.

In the area of health, we partner with premium organisations to serve our fence-line communities and contractors better. In an effort to facilitate the gift of sight, Shell has continued to support the Layton Rahmatullah Benevolent Trust (LRBT), a chain of 14 hospitals throughout the country, which provide free eye-care treatment including cornea replacement surgery to over one million patients annually, completely free of cost.

Shell Pakistan is also one of the first companies in our country to fight the spread of HIV/AIDS. Breaking taboos to educate, we offer Voluntary Counselling and Testing (VCT) services through our partners to disseminate education about HIV/ AIDS, and to facilitate its prevention. Both these initiatives help us strengthen our fence-line communities, and help secure our business performance by offering free medical guidance to our contractors.

This year, we have rolled out a 'Road Safety Awareness Programme', with the tri-fold agenda of promoting road safety awareness amongst primary schoolers, teenagers and adults. While our 'Happy Roads' programme aims to educate primary schoolers, our road safety awareness programme for teenagers and office-goers is a joint effort with Indus Motors, which seeks to spread road courtesy amongst the general public, thereby reducing road fatalities in our country.

Our social investment portfolio extends itself to general community development initiatives as well. Our 'Good Neighbours' project was aimed at beautifying the neighbourhood around Shell House, and indeed, Shell Pakistan's efforts have made the neighbourhood area greener and cleaner, and evoked great appreciation from our esteemed neighbours and stakeholders in the area.




GLANCING THROUGH 2008
Shell Half-Way House
Select

# Statement of

## General Business Principles

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# Notice of Annual General Meeting

Notice is hereby given that the Thirty-Ninth Annual General Meeting of Shell Pakistan Limited will be held on Thursday, September 25, 2008 at 10:00 a.m. at Karachi Sheraton Hotel, Karachi to transact the following business:

**A. ORDINARY BUSINESS**

1. To receive and adopt the Report of Directors and Auditors together with Audited Accounts for the year ended June 30, 2008.

2. To approve the payment of Final dividend of Rs.40.00 per share ( 400%) and also the interim dividend of Rs. 10.00 per share (100%) declared on February 12, 2008 making a total of Rs.50.00 per share ( 500%) for the year ended June 30, 2008.

3. To appoint Auditors for the transitional year July 1, 2008 to December 31, 2008 and to fix their remuneration.

**B. SPECIAL BUSINESS**

4. To consider, and if thought fit, to pass the following resolution as an Ordinary Resolution:

Resolved that

a) A sum of Rs.136,975,790 out of the free reserves of the Company be and is hereby capitalised and applied towards the issue of 13,697,579 ordinary shares of Rs 10/- each as bonus shares in the ratio of 1:4 i.e. one bonus share for every four ordinary shares held by the members whose names appear on the Members Register on September 11, 2008. These bonus shares shall rank pari passu in all respects with the existing shares but shall not be eligible for the dividend declared for the year ended June 30, 2008.

b) Members entitled to fractions of shares as a result of their holding either being less than four ordinary shares or in excess of an exact multiple of four ordinary shares shall be given the sale proceeds of their fractional entitlement for which purpose the fractions shall be consolidated into whole shares and sold on the Karachi Stock Exchange.

c) For the purpose of giving effect to the foregoing, the Directors be and are hereby authorised to give such directions as they deem fit to settle any question or resolve any difficulties that may arise in the distribution of the said bonus shares or in the payment of the sale proceeds of the fractions.

A statement under Section 160 of the Companies Ordinance, 1984 setting forth all material facts concerning the Resolution contained in item 4 above, which will be considered for adoption at the Meeting, is annexed to this Notice being sent to the Members.

By Order of the Board

(Tariq Saeed)
Secretary

Karachi: August 11, 2008

Shell House
6-Ch. Khaliquzzaman Road
Karachi-75530.

**NOTES:**

(i) The register of members will remain closed from September 11 to September 25, 2008 (both days inclusive). Transfers received in order at the office of our Share Registrars, FAMCO Associates (Pvt) Ltd., State Life Building 2-A, I. I. Chundrigar Road, Karachi by the close of business on September 10, 2008 will be in time for the purpose of payment of final dividend and issue of bonus shares to the transferees.

(ii) A member entitled to attend and vote at the meeting shall be entitled to appoint another person, as his/her proxy to attend, demand or join in demanding a poll, speak and vote instead of him/her, and a proxy so appointed shall have such rights, as respects attending, speaking and voting at the meeting as are available to a member. Proxies in order to be effective must be received at the registered office of the Company not later than 48 hours before the meeting. A proxy need not be a member of the Company. A proxy shall be required to produce his/her original CNIC or passport for authentication of his/her identity.

(iii) Shareholders are requested to notify any change in their addresses immediately to our Share Registrars, FAMCO Associates (Pvt) Ltd., State Life Building 2-A, I. I. Chundrigar Road, Karachi.

(iv) CDC Shareholders or their proxies are required to bring with them their Original National Identity Card or passport along with the Participant's ID number and their account number at the time of attending the Annual General Meeting in order to authenticate their identity.

(v) A form of Proxy is enclosed with the Notice of the Meeting being sent to the members.

**STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984**

This statement is annexed to the Notice of the Thirty-Ninth Annual General Meeting of Shell Pakistan Limited to be held on Thursday, September 25, 2008 at 10:00 a.m. at which certain special business is to be transacted. The special business is to capitalise the amount specified above from the free reserves of the Company and apply it towards the issue of bonus shares to the shareholders. The purpose of this statement is to set forth the material facts concerning such special business.

**Item 4 of the Agenda**

The Board of Directors recommend that taking into account the financial position of the Company the issued capital of the Company be increased from _______ shares to _______ shares by capitalisation of free reserves amounting to Rs.__________ and the issue of bonus shares in the ratio of 1:4 i.e. one share for every four ordinary shares. The Directors of the Company are interested in the business to the extent of their shareholding in the Company.

# Company
## Leadership Team

Mr. Zaiviji Ismail bin Abdullah

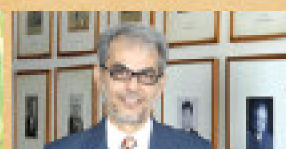
Mr. Amr Ahmed

Mr. Asif Sindhu

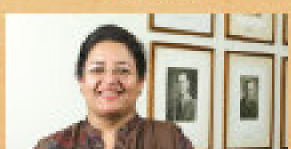
Mr. Abid Saeed Ibrahim

Mr. Leon Menezes

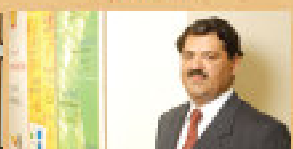
Mr. Saleem Piracha



Mr. Shehzad Mohsin



Ms. Seema Adil



Mr. Tariq Saeed

Mr. Yousuf Ali

Mr. Zain K. Hak

Mr. Zahid Majeed



# Company
## Information

**Board of Directors**

| | |
|---|---|
| Mr. Zaiviji Ismail bin Abdullah | Chairman |
| Ms. Shahnaz Wazir Ali | |
| Mr. Yousuf Ali | |
| Mr. Saw Choo Boon | |
| Ms. Trudy Bovay | |
| Mr. Farrokh K. Captain | |
| Mr. Zaffar Khan | |
| Mr. Imran R. Ibrahim | |
| Mr. Leon Menezes | |
| Mr. Asif Sindhu | |
| Mr. Badaruddin F. Vellani | |

**Chief Executive**

| | |
|---|---|
| Mr. Zaiviji Ismail bin Abdullah | Managing Director & Chief Executive |

**Audit Committee**

| | |
|---|---|
| Mr. Badaruddin F. Vellani | Chairman |
| Ms. Trudy Bovay | |
| Mr. Farrokh K. Captain | |
| Mr. Asif Sindhu | |

**Country Leadership Team**

| | |
|---|---|
| Mr. Zaiviji Ismail bin Abdullah | Chairman |
| Mr. Amr Ahmed | General Manager Distribution |
| Mr. Yousuf Ali | General Manager Lubricants |
| Mr. Zain K. Hak | National Sales Manager |
| Mr. Abid S. Ibrahim | General Manager External Affairs |
| Mr. Leon Menezes | General Manager Human Resources |
| Mr. Asif Sindhu | Finance Director / Chief Financial Officer |
| Mr. Saleem Piracha | General Manager Business Strategy |
| Mr. Tariq Saeed | Company Secretary & Head of Legal |
| Ms. Seema Adil | Country Programme Manager Downstream One |
| Mr. Shehzad Mohsin | General Manager Supply |
| Mr. Zahid Majeed | General Manager Commercial Fuels |

**Company Secretary**

Mr. 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.,
4th Floor, State Life Building 2-A,
I. I. Chundrigar Road,
Karachi - 74000

# Board of Directors

Mr. Farrokh K. Captain, Mr. Asif Sindhu, Mr. Leon Menezes, Mr. Zaiviji Ismail bin Abdullah, Mr. Saw Choo Boon

Mr. Yousuf Ali, Ms. Trudy Bovay, Ms. Shahnaz Wazir Ali, Mr. Badaruddin F. Vellani, Mr Imran R. Ibrahim, Mr. Zaffar Khan

# Report of the Directors

The Directors of your Company present their Annual Report together with Audited Accounts for the year ended June 30, 2008.

The profit for the year ended June 30, 2008 after providing for administrative, marketing and distribution expenses, financial and other charges amounts to:

| | (Rupees' 000) |
|---|---|
| Profit before taxation | 7,723,340 |
| Less: Taxation | 2,586,246 |
| Profit after taxation | 5,137,094 |
| | (Rupees) |
| Earnings per share | 93.76 |

Appropriations and movement in reserves have been disclosed in the Statement of Changes in Equity on page ___ of these financial statements.

At their meeting held on August 11, 2008, the Board of Directors of the Company has proposed a final dividend for the year ended June 30, 2008 of Rs 40.00 per share (400%). This is in addition to the interim dividend of Rs 10.00 per share (100%) resulting in a total dividend for the year of Rs 50.00 per share (500%) amounting to Rs 2,739,516 thousand. The approval of the members for the dividend will be obtained at the Annual General Meeting to be held on September 25, 2008. The final dividend amounting to Rs 2,191,613 thousand has not been recognized as a liability in these financial statements.

Further, the Board has recommended that bonus shares in the ratio of one bonus share for every four shares held be issued by capitalisation of Rs 136,975,790 out of free reserves of the Company. The said bonus shares shall not be entitled for dividend declared for the year ended June 30, 2008.

1. The financial statements, prepared by the management of Shell Pakistan Limited, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of account of Shell Pakistan Limited have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements, and accounting estimates are based on reasonable and prudent judgement.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal controls is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon Shell Pakistan Limited's ability to continue as a going concern.
7. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
8. Key operating and financial data for the last decade in summarised form is given on page ___. Increase in the profitability for the year is primarily contributed by top line growth driven by price and volumes, better product mix and favourable impact of the increasing oil prices during the year. This was however, hampered by increase in the financial charges on account of overdue Price Differential Claims (PDC) recoverable from Government of Pakistan and also due to sharp devaluation in the value of Pak Rupee resulting in significant exchange losses.
9. A statement as to the value of investments of provident, gratuity and pension funds on the basis of audited accounts as at December 31, 2007 is included in note 35.4 to the accounts.
10. During the year 6 board meetings were held and the attendance by each director is given on page ___.
11. The pattern of shareholding and additional information regarding pattern of shareholding is given on page ___. The Company is a subsidiary of Shell Petroleum Company Limited (holding company) incorporated in the United Kingdom.
12. The term of office of the Board of Directors ended on June 12, 2008. At an Extraordinary General Meeting of the Company held on May 28, 2008 Mr. Zaiviji Ismail bin Abdullah, Mr. Yousuf Ali, Mr. Leon Menezes, Mr. Saw Choo Boon, Mr. Farrokh K. Captain and Mr. Asif Sindhu were re-elected while Ms. Trudy Bovey, Mr. Imran R. Ibrahim, Mr. Badaruddin Vellani, Ms. Shahnaz Wazir Ali and Mr. Zaffar Khan were elected Directors of the Company with effect from June 13, 2008 for a term of three years.
13. The Auditors M/s A. F. Ferguson & Co. retired and being eligible offer themselves for reappointment.
14. Detail of purchase/sale of shares by the Directors, CEO, CFO, Company Secretary and their spouses and minor children are given on page ___.

On behalf of the Board

**Zaiviji Ismail bin Abdullah**
Chairman & Chief Executive

Karachi: August 11, 2008

# Chairman's Review

## for the year ended June 30, 2008

The Directors of Shell Pakistan Limited (SPL) present their review for the year ended June 30, 2008. During the year the Company posted a net profit of Rs.5,137 million. This profitability is mainly driven by higher sales volumes, better product mix and robust cost management supported by the positive impact of increasing international oil prices.

However, the current volatility in international oil prices may have a significant impact on our future profitability.

While the high international oil prices had a positive impact on the Company's earnings, the industry went through its most challenging period this year. We faced the worst-ever cash flow crises due to unprecedented increase in GoP receivables on account of Price Differential Claims (PDC).

The PDC balance rose to its highest level international oil prices from USD 75/bbl in June 2007 to over USD 135/bbl in June 2008. During this period, the subsidy on diesel increase from Rs 5.21/ltr in June 2007 to Rs 35.42/ltr in July 2008, leading to increase in borrowing. The Company incurred additional financial cost of around Rs. 680 million to finance these receivables during the current year. Although the Government settled its obligations to a large extent by the end of June 2008, nonetheless, the problem is far from over.

The Board of Directors recommends a final dividend of Rs.40.00, which together with the interim dividend of Rs 10.00 per share declared in February 2008 will bring the total dividend for the financial year 2007-08 to Rs 50.00 per share, which equates to 53% of the net profits for the year.

Further, the Board has recommended that bonus shares in the ratio of one bonus share for every four shares held be issued by capitalization of Rs 136,975,790 out of free reserves of the Company. The said bonus shares shall not be entitled for dividend declared for the year ended June 30, 2008.

During this year your Company continued to play a vital role in addressing the diversified and increasing energy needs of the country. We not only made further investments in the business infrastructure, but also made the highest ever contribution to the national exchequer in our capacity as one of the largest taxpayers in the country. Apart from this your Company continued to play a leading role in innovation, striving towards higher standards of services, and continue our pursuance on community development programs.

On business developments, your Company continues to invest on its network coverage in order to harness the existing opportunities in the market and address consumer demand, thereby yielding positive returns to our shareholders. During the year, the Company commissioned 12 new Retail outlets and 32 CNG facilities.

Your Company ensured strong commitment to its consumers through its investment in the best services and products. We took significant new measures in recognising the diversified fuelling needs of all our customers. Recognising the fact that motorcycles constitute around 50% of the on-road vehicles in Pakistan, your Company became the first OMC in Pakistan to offer differentiated services for this segment by allocating a separate fuelling island for them on 100 of its top sites across Pakistan. We also introduced Shell Helix Ultra and Helix CNG Super to better cater to our consumer's diversified needs in lubricants that offered additional consumer benefits of longer oil drain intervals and with better fuel efficiency.

One of the major success stories of the year is the Company's re-entry into the Fuel Oil business through securing long-term contracts with upcoming Independent Power Plants. Signing of these contracts has ensured sustained profitable volumes in the business and a strong presence in the Fuel Oil sector.

The Shell Cards business continued in its drive to help grow the Retail volumes throughout the year. In April 2008, the cards business delivered the highest-ever volume since its inception. With more focused investments and upcoming marketing initiatives during the coming year, we expect to leverage the Shell Card brand and at the same time continue with vigorous business development.

On the social investment front, your Company continues its efforts to promote the wellbeing of the country by undertaking various community related projects. We have increased our focus on education, and initiated a flagship Scholarship program in conjunction with the Higher Education Commission to offer under-privileged students the opportunity to pursue higher professional studies in premium institutions of the country.

Your Company continues to strive for operational excellence and sustainable development by improving on Health, Safety, Security and Environment (HSSE) standards. This year saw your Company strengthen its safety procedures through observing two Shell-wide 'Safety Days', that enabled staff, contractors and dealers to review their safety compliance in all areas of business and take personal accountability to ensure consistent improvement in safety records.

Our efforts in promoting best practices in the industry have been recognized yet again, and this year we have received the 'Health & Environment National Excellence Awards', as well as the 'Annual Environmental Excellence Award' by the National Forum for Environment and Health (NFEH) in July 2008, for the third year in a row.

On the human resource front, your Company introduced various initiatives to retain its strong position as the Employer of Choice. We further expanded our in-house 'Leaders Develop Leaders' program to provide guidance and mentorship to encourage young talents within the Company. Going forward, we continue to reiterate our focus on recruiting and retaining top-end talent.

It is pertinent to note that your Company faces multiple challenges on account of repeated reductions in OMC margins by the Government. This situation is further aggravated by increasing working capital requirements. In addition to this, your Company continues to finance the receivables from the Government on account of PDC, which are growing at a rapid pace, as the full impact of increase in international oil prices has not been passed on to the end consumers.

In this difficult economic environment, your Company has been taking proactive measures in engaging various stakeholders, including the Government, to address the energy challenges.

Shell has been present in this region for more than 100 years, playing a key role in the economic development of the country. Being fully aware and cognizant of market realities and ever-challenging regulatory dynamics, your Company is geared towards maintaining its momentum in setting new standards in the industry, generating long-term growth, improving shareholders' value and contributing to the economic development of Pakistan for yet another 100 years.

We thank our shareholders, customers and staff for their sustained support in ensuring the continued success of the Company and making Shell their brand of first choice.

Karachi: August 11, 2008

**Zaiviji Ismail bin Abdullah**
Chairman & Chief Executive

# Highlights

| | | Year ended June 30, 2008 | Year ended June 30, 2007 |
|---|---|---|---|
| Sales volume | Tonnes | 2,826,851 | 2,644,857 |
| Sales revenue | Rs / m | 157,626 | 130,130 |
| Profit before taxation | Rs / m | 7,723 | 379 |
| Profit after taxation | Rs / m | 5,137 | 707 |
| New capital expenditure | Rs / m | 934 | 1,383 |
| Shareholders' equity | Rs / m | 13,612 | 9,461 |
| Dividend | Rs / m | 2,740 | 877 |
| Earnings per share - diluted | Rs | 93.76 | 12.90 |



# Financial Statistical Summary

| | | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Share capital | Rs. / mn | 548 | 548 | 438 | 351 | 351 | 351 | 351 | 351 | 351 | 351 | 351 |
| Reserves | Rs. / mn | 13,064 | 8,913 | 9,718 | 7,952 | 6,781 | 5,501 | 5,470 | 5,039 | 4,421 | 3,701 | 3,258 |
| Shareholders' equity | Rs. / mn | 13,612 | 9,461 | 10,157 | 8,303 | 7,132 | 5,852 | 5,821 | 5,390 | 4,772 | 4,051 | 3,609 |
| Break up value | Rs. | 248 | 173 | 232 | 237 | 203 | 167 | 166 | 154 | 136 | 116 | 103 |
| Dividend per share | Rs. | 50.0 | 16.0 | 30.0 | 35.0 | 35.0 | 35.0 | 18.0 | 12.5 | 16.5 | 12.5 | 8.5 |
| Bonus | | 1:4 | – | 1:4 | 1:4 | – | – | – | – | – | – | – |
| Profit before tax | Rs. / mn | 7,723 | 379 | 4,640 | 3,643 | 2,189 | 1,900 | 1,572 | 1,650 | 2,013 | 1,341 | 922 |
| Profit after tax | Rs. / mn | 5,137 | 707 | 3,147 | 2,451 | 1,508 | 1,255 | 1,063 | 1,056 | 1,299 | 881 | 592 |
| Earnings per share of Rs. 10 | Rs. | 93.76 | 12.9 | 57.4 | 55.9 | 43.0 | 35.8 | 30.3 | 30.1 | 37.0 | 25.1 | 19.6 |
| Price earnings ratio | | 8.5 | 31.8 | 8.4 | 9.9 | 8.1 | 11.8 | 7.3 | 9.3 | 7.0 | 6.4 | 8.6 |
| **Working Capital** | | | | | | | | | | | | |
| Current assets to current liabilities | | 1.3 | 1.0 | 1.1 | 1.1 | 1.0 | 0.9 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Number of days stock | | 39 | 31 | 28 | 22 | 22 | 16 | 24 | 14 | 18 | 18 | 15 |
| Number of days trade debts | | 11 | 13 | 14 | 10 | 8 | 6 | 5 | 3 | 3 | 4 | 4 |
| **Performance** | | | | | | | | | | | | |
| Profit after tax as % of average capital employed | | 38.9 | 7.2 | 33.9 | 31.4 | 21.4 | 21.1 | 18.6 | 20.3 | 28.6 | 20.8 | 18.8 |
| Profit after tax as % of average shareholders' equity | | 44.53 | 7.2 | 34.1 | 31.8 | 21.7 | 21.5 | 19.0 | 20.8 | 29.4 | 23.0 | 21.3 |
| Cost of sales as % of sales | | 90.7 | 94.5 | 91.5 | 91.0 | 92.2 | 94.1 | 94.3 | 94.9 | 94.7 | 96.1 | 94.9 |
| Profit before tax as % of sales | | 4.90 | 0.30 | 3.9 | 3.7 | 2.8 | 2.1 | 2.0 | 2.2 | 3.2 | 2.7 | 2.1 |
| Profit after tax as % of sales | | 3.26 | 0.6 | 2.7 | 2.5 | 1.9 | 1.4 | 1.3 | 1.4 | 2.1 | 1.8 | 1.4 |
| Total debt ratio % | | 0.40 | 0.3 | 0.3 | 0.8 | 1.4 | 1.7 | 1.7 | 1.9 | 2.5 | 5.2 | 3.3 |

# Statement of Compliance

## with the Code of Corporate Governance and Best Practices on Transfer Pricing

**A. Statement of Compliance with the Code of Corporate Governance**
**[As required by the Listing Regulations]**

1. The term of office of the Board of Directors ended on June 12, 2008. At an Extraordinary General Meeting of the Company held on May 28, 2008, Mr. Zaiviji Ismail bin Abdullah, Mr. Yousuf Ali, Mr. Leon Menezes, Mr. Saw Choo Boon, Mr. Farrokh K. Captain and Mr. Asif Sindhu were re-elected while Ms. Trudy Bovey, Mr. Imran R. Ibrahim, Mr. Badaruddin Vellani, Ms. Shahnaz Wazir Ali and Mr. Zaffar Khan were elected Directors of the Company with effect from June 13, 2008 for a term of three years.

   The Company encourages representation of independent non-executive Directors and Directors representing minority interests on its Board of Directors. At present the Board includes five independent non-executive Directors, two of whom represent minority shareholders.

2. The Directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

3. To the best of our knowledge all the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.

4. All casual vacancies occurring in the Board were filled up by the Directors within 30 days thereof.

5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the Directors and employees of the Company.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive Directors, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The present Board of Directors has assumed office with effect from June 13, 2008. A comprehensive course designed to apprise the Directors of their duties and responsibilities will be conducted before the end of the current calendar year. The re-elected Directors received appropriate computer-based training during the previous year.

10. The Board has approved appointment of Head of Internal Audit, including her remuneration and terms and conditions of employment, as determined by the CEO. There was no change in the appointment of CFO and Company Secretary during the year.

11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and it fully describes the salient matters required to be disclosed. Matters relating to the risks and uncertainties surrounding the Company and significant deviations, if any, in the financial statements from the prior year have been highlighted in the Chairman's review.

12. The financial statements of the Company were duly endorsed by the CEO and the CFO before approval by the Board.

13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an audit committee. It comprises four members, of whom three are non-executive Directors including the Chairman of the committee.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the Committee have been formulated and advised to the Committee for compliance.

17. The Board has set-up an effective internal audit function.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. We confirm that all other material principles contained in the Code have been complied with.

**B. Statement of Compliance with the Best Practices on Transfer Pricing**
**[As required by the Listing Regulations]**

The Company has fully complied with the Best Practices on Transfer Pricing as contained in the Listing Regulations of the Stock Exchange.

Karachi: August 11, 2008

**Zaiviji Ismail bin Abdullah**
Chairman & Chief Executive

# Review Report

## to the Members on Statement of Compliance with Best Practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Shell Pakistan Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange and Chapter XIII of the Lahore Stock Exchange where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2008.

A. F. Ferguson & Co.
Chartered Accountants

Karachi: August 20, 2008



# Auditors' Report to the Members

We have audited the annexed balance sheet of Shell Pakistan Limited as at June 30, 2008 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statement in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

(ii) the expenditure incurred during the year was for the purpose of the Company's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2008 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

A. F. Ferguson & Co.
Chartered Accountants

Karachi: August 20, 2008

# Balance Sheet

## as at June 30, 2008

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Fixed assets | 3 | 6,826,848 | 6,579,993 |
| Long-term investments | 4 | 2,134,783 | 2,015,535 |
| Long-term loans and advances | 5 | 146,381 | 182,579 |
| Long-term deposits and prepayments | 6 | 201,718 | 110,994 |
| Long-term debtors | 7 | 134,920 | 328,227 |
| Deferred taxation - net | 8 | – | 280,967 |
| | | 9,444,650 | 9,498,295 |
| **Current assets** | | | |
| Stores and spares | 9 | 13,328 | 30,286 |
| Stock-in-trade | 10 | 18,095,523 | 8,244,054 |
| Trade debts | 11 | 4,904,940 | 4,251,325 |
| Loans and advances | 12 | 47,029 | 42,720 |
| Trade deposits and short-term prepayments | 13 | 207,864 | 140,239 |
| Other receivables | 14 | 6,079,111 | 5,970,763 |
| Taxation | | – | 219,715 |
| Cash and bank balances | 15 | 872,414 | 814,530 |
| | | 30,220,209 | 19,713,632 |
| **Total assets** | | 39,664,859 | 29,211,927 |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| Share capital | 16 | 547,904 | 547,904 |
| Reserves | | 2,233,026 | 2,233,026 |
| Unappropriated profit | | 10,830,708 | 6,679,841 |
| | | 13,611,638 | 9,460,771 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred taxation - net | 8 | 51,574 | – |
| Liabilities against assets subject to finance lease | 17 | 2,216 | 547 |
| Long-term loan | 18 | 2,500,000 | – |
| Asset retirement obligation | 19 | 191,620 | 138,494 |
| | | 2,745,410 | 139,041 |
| **Current liabilities** | | | |
| Current maturity of liabilities against assets subject to finance lease | 17 | 56,742 | 32,203 |
| Short-term running finances utilised under mark-up arrangements | 20 | 4,338,339 | 725,836 |
| Short-term loans | 21 | 1,500,000 | 6,810,000 |
| Trade and other payables | 22 | 16,483,008 | 11,912,496 |
| Mark-up accrued | 23 | 157,268 | 131,580 |
| Taxation | | 772,454 | – |
| | | 23,307,811 | 19,612,115 |
| | | 26,053,221 | 19,751,156 |
| **Total Equity and Liabilities** | | 39,664,859 | 29,211,927 |
| Contingencies and commitments | 24 | | |

The annexed notes 1 to 45 form an integral part of these financial statements.

**Zaiviji Ismail bin Abdullah**
Chairman & Chief Executive

**Farrokh K. Captain**
Director

# Profit and Loss Account

## for the year ended June 30, 2008

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| **Sales** | 25 | 157,626,491 | 130,129,844 |
| Non-fuel retail | | | |
| - Sales | | 119,915 | 141,615 |
| - Others | | 20,205 | 17,909 |
| Other revenue | 26 | 341,349 | 447,517 |
| | | 158,107,960 | 130,736,885 |
| Less: Sales tax | | 18,263,271 | 15,691,451 |
| **Net revenue** | | 139,844,689 | 115,045,434 |
| Cost of products sold | 27 | 124,694,471 | 108,664,932 |
| **Gross profit** | | 15,150,218 | 6,380,502 |
| Distribution expenses | 28 | 2,950,422 | 3,366,555 |
| Administrative and marketing expenses | 29 | 2,109,289 | 1,716,707 |
| | | 10,090,507 | 1,297,240 |
| Other operating income | 30 | 306,453 | 215,322 |
| | | 10,396,960 | 1,512,562 |
| Other operating expenses | 31 | 1,915,601 | 377,978 |
| **Operating profit** | | 8,481,359 | 1,134,584 |
| Finance cost | 32 | 970,267 | 878,098 |
| | | 7,511,092 | 256,486 |
| Share of profit of associate - net of tax | 4.1 | 212,248 | 122,250 |
| **Profit before taxation** | | 7,723,340 | 378,736 |
| Taxation | 33 | 2,586,246 | (327,923) |
| **Profit after taxation** | | 5,137,094 | 706,659 |
| | | Rupees | Rupees |
| **Earnings per share** | 34 | 93.76 | 12.90 |

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

The annexed notes 1 to 45 form an integral part of these financial statements.

**Zaiviji Ismail bin Abdullah**
Chairman & Chief Executive

**Farrokh K. Captain**
Director

# Cash Flow Statement

## for the year ended June 30, 2008

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 38 | 3,033,014 | 2,259,708 |
| Mark-up on short-term finances and short-term loans paid | | (848,056) | (729,776) |
| Taxes paid | | (1,261,536) | (1,055,695) |
| Long-term loans and advances (net) | | 36,198 | (42,939) |
| Long-term deposits and prepayments (net) | | (90,724) | (549) |
| Mark-up received on short-term deposits | | 21,162 | 5,807 |
| Long term debtors (net) | | 102,785 | (328,227) |
| Net cash generated from operating activities | | 992,843 | 108,329 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Fixed capital expenditure | | (933,830) | (1,383,390) |
| Proceeds from sale of property, plant and equipment | | 121,860 | 21,080 |
| Dividend received from associate | | 93,000 | 28,600 |
| Net cash used in investing activities | | (718,970) | (1,333,710) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Dividends paid | | (986,257) | (1,387,277) |
| Repayment of liability under finance lease | | (32,235) | (59,985) |
| Proceeds from long-term loan | | 2,500,000 | - |
| Net cash generated from / (used in) financing activities | | 1,481,508 | (1,447,262) |
| Net increase / (decrease) in cash and cash equivalents | | 1,755,381 | (2,672,643) |
| Cash and cash equivalents at July 1 | | (6,721,306) | (4,048,663) |
| Cash and cash equivalents at June 30 | 39 | (4,965,925) | (6,721,306) |

The annexed notes 1 to 45 form an integral part of these financial statements.

**Zaiviji Ismail bin Abdullah**
Chairman & Chief Executive

**Farrokh K. Captain**
Director

# Statement of Changes in Equity

## for the year ended June 30, 2008

| | Issued, subscribed and paid-up capital | Reserve for issue of bonus shares | Capital reserve-share premium | General revenue reserves | Unappropriated profit | Total |
|---|---|---|---|---|---|---|
| | (Rupees '000) | | | | | |
| **Balances as at June 30, 2006** | 438,323 | - | 2,026,024 | 207,002 | 7,485,397 | 10,156,746 |
| Final dividend for the year ended June 30, 2006 declared subsequent to the year end | - | - | - | - | (964,311) | (964,311) |
| Transfer to reserve for issue of bonus shares in respect of stock dividend for the year ended June 30, 2006 declared subsequent to the year end | - | 109,581 | - | - | (109,581) | - |
| Issue of bonus shares | 109,581 | (109,581) | - | - | - | - |
| Interim dividend declared for the year ended June 30, 2007 | - | - | - | - | (438,323) | (438,323) |
| Profit after taxation for the year ended June 30, 2007 | - | - | - | - | 706,659 | 706,659 |
| **Balances as at June 30, 2007** | 547,904 | - | 2,026,024 | 207,002 | 6,679,841 | 9,460,771 |
| Final dividend for the year ended June 30, 2007 declared subsequent to the year end | - | - | - | - | (438,323) | (438,323) |
| Interim dividend declared for the year ended June 30, 2008 | - | - | - | - | (547,904) | (547,904) |
| Profit after taxation for the year ended June 30, 2008 | - | - | - | - | 5,137,094 | 5,137,094 |
| **Balances as at June 30, 2008** | 547,904 | - | 2,026,024 | 207,002 | 10,830,708 | 13,611,638 |

Appropriations made by the Directors subsequent to the year ended June 30, 2008 are disclosed in note 43 of these financial statements.

The annexed notes 1 to 45 form an integral part of these financial statements.

**Zaiviji Ismail bin Abdullah**
Chairman & Chief Executive

**Farrokh K. Captain**
Director

1. **THE COMPANY AND ITS OPERATIONS**

The Company is a limited liability Company incorporated in Pakistan and is listed on the Karachi and Lahore Stock Exchanges. The address of its registered office is Shell House, 6, Ch. Khaliquzzaman Road, Karachi-75530, Pakistan.

The Company markets petroleum products and compressed natural gas. It also blends and markets various kinds of lubricating oils.

1.1 The Company has investments in two non-trading subsidiaries, namely Shell Pakistan Provident Trust (Private) Limited and Shell Pakistan Pensions Trust (Private) Limited. The management has decided to liquidate the subsidiary companies and the process of liquidation in this respect has already commenced. In view of the liquidation process, the Company applied to the Securities and Exchange Commission of Pakistan (SECP) requesting for exemption from preparation of the consolidated financial statements as required under Section 237 of the Companies Ordinance, 1984. The exemption was granted by the SECP vide their letter No. EMD/233/411/2002-6489 dated June 17, 2008. The audited financial statements of the subsidiaries will be annexed in the annual report of the Company.

1.2 The Board of Directors of the Company in its meeting held on February 12, 2008 has decided to change the financial year of the Company from July - June to January - December to bring it in line with the accounting year followed by Royal Dutch Shell Plc, the ultimate parent company. Permission for change in the year end has been obtained from the Commissioner of Income Tax vide their letters CIT/E&C/LTU/2008/63 and CIT/E&C/LTU/2008 dated July 10, 2008 and July 15, 2008 respectively.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 **Basis of preparation**

**a) Statement of compliance**

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Where the requirements of the Companies Ordinance, 1984 and the directives issued by SECP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984 and the directives issued by SECP prevail.

**b) Accounting convention**

These financial statements have been prepared under the historical cost convention except that obligations in respect of certain employee benefit schemes and asset retirement are measured at their present value.

**c) Critical accounting estimates and judgements**

The preparation of financial statements in conformity with International 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 41 to these financial statements.



Notes to the Financial Statements
for the year ended June 30, 2008

d) **Standards, Interpretations and amendments to published approved accounting standards that are effective in 2008**

The following standards, interpretations and amendments to existing standards have been published that are mandatory and relevant for the companies accounting period beginning on July 1, 2007:

i. IAS 1 - Presentation of Financial Statements - Capital Disclosures — effective from January 1, 2007

Adoption of IAS 1 - Presentation of Financial Statements - Capital Disclosures impacts the extent of disclosures presented in note 40.3 to the financial statements.

ii. IFRS 2 - Share-based payment — effective from January 1, 2007

The Company has adopted IFRS 2 - Share-based payment with effect from July 1, 2007. The accounting policy on share-based payment is disclosed in note 2.18.

Other new standards, interpretations and amendments to existing standards that are mandatory for accounting periods beginning on or after July 1, 2007 which are not considered relevant nor have any significant effect on the Company's operations are not detailed in these financial statements.

e) **Standards, Interpretations and amendments to published approved accounting standards that are not yet effective**

The following standards, interpretations and amendments of approved accounting standards, effective for the Company's accounting periods beginning on or after July 1, 2008 are either not relevant to the Company's operations or are not expected to have a significant impact on the Company's financial statements other than increased disclosures in certain cases:

| | |
|---|---|
| IAS 1 - Presentation of Financial Statements (Revised September 2007) | effective from January 1, 2009 |
| IAS 23 - Borrowing Costs (Revised March 2007) | effective from January 1, 2009 |
| Amendments to IAS 27 (Revised) - Consolidated and Separate Financial Statements | effective from July 1, 2009 |
| IFRS 3 (Revised) - Business Combinations | effective from July 1, 2009 |
| IFRS 7 - Financial Instruments: Disclosures | effective from April 28, 2008 |
| IFRS 8 - Operating Segments | effective from January 1, 2009 |
| IFRIC 12 - Service Concession Arrangements | effective from January 1, 2008 |
| IFRIC 13 - Customer Loyalty Programmes | effective from July 1, 2008 |
| IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their interaction | effective from January 1, 2008 |
| IFRIC 15 - Agreements for the Construction of Real Estate | effective from January 1, 2009 |
| IFRIC 16 - Hedges of a Net Investment in a Foreign Operation | effective from October 1, 2008 |

# Notes to the Financial Statements

for the year ended June 30, 2008

2.2 **Fixed assets**

**Property, plant and equipment - tangible**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except freehold land and capital work-in-progress which are stated at cost less impairment losses, if any.

Subsequent costs are included in the asset's carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation is charged to income applying the straight line method whereby the depreciable amount of an asset is written off over its estimated useful life at the rates given in note 3.1. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on additions is charged from the month in which an asset is put to use while no depreciation is charged for the month in which an asset is disposed of.

Repairs and maintenance are charged to income as and when incurred.

Profit and loss arising on disposal of property, plant and equipment is included in income in the year of disposal.

Provision for asset retirement obligation is based on current requirements, technology and price levels and is stated at fair value. The associated asset retirement costs are capitalised as part of the carrying amount of the related property, plant and equipment. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the liability are incorporated on a prospective basis.

**Intangible**

Costs that are clearly associated with an identifiable non-monetary asset without physical substance, which has a probable economic benefit beyond one year, are recognised as intangible assets. Associated costs include staff costs of the development team and an appropriate portion of relevant overheads.

Expenditure that enhances and extends the benefits of computer software programmes beyond their original specifications and useful lives is recognised as a capital improvement and added to the original cost of the software.

Intangible assets are amortised using the straight line method over their estimated useful lives.

2.3 **Investments**

**Available for sale**

Investment in unlisted equity securities classified as available for sale is carried at cost, in the absence of fair market value. Provision is made for any diminution in the carrying amount in the event of any permanent impairment in the value of investment.



# Notes to the Financial Statements

for the year ended June 30, 2008

**Investments in associates**

Associates are all entities over which the Company has significant influence but no control, generally represented by a shareholding of 20% to 50% of the voting rights. Investment in associates are accounted for using the equity method of accounting and are initially recognised at cost in accordance with the requirements of IAS 28: "Investments in Associates".

The Company's share of an associate's post acquisition profits or losses is recognised in the profit and loss account and its share in the post acquisition movement of reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying value of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise future losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Company and its associate are eliminated to the extent of the Company's interest in the associate.

**Investments in subsidiaries**

As disclosed in note 1.1, the Company has investment in two non-trading subsidiaries which are in the process of liquidation. The investment in these subsidiaries is carried at cost, less any provision for diminution.

2.4 **Stores and spares**

Stores are valued at the lower of average cost and net realisable value whereas spares are valued at the lower of cost worked out on a first-in first-out basis and net realisable value. Items in transit are stated at cost incurred to date.

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make the sale. Provision is made in the financial statements for obsolete and slow moving stores and spares based on the management's best estimate.

2.5 **Stock-in-trade**

Stock-in-trade is valued at the lower of cost, calculated on a first-in first-out basis, and net realisable value. Charges such as excise and customs duties and similar levies on unsold stock of products are added to the value of the stock and carried forward.

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make the sale.

Stock-in-transit is valued at cost comprising invoice value plus other charges incurred thereon. Provision is made in the financial statements for obsolete and slow moving stock-in-trade based on management's best estimate.

2.6 **Trade debts**

Trade debts are recognised initially at invoice value, which approximates fair value, and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade debts is established when there is objective evidence that the Company will not be able to collect all the amount due according to the original terms of the receivable. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the trade debt is impaired.

# Notes to the Financial Statements

for the year ended June 30, 2008

**2.7 Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents include cash in hand, balances with banks in current accounts and short-term finances.

**2.8 Impairment**

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists the asset's recoverable amount is estimated in order to determine the extent of impairment loss, if any. Impairment losses are recognised as an expense in the profit and loss account.

**2.9 Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

**2.10 Liabilities against assets subject to finance lease**

Liabilities against assets subject to finance lease are accounted for at the net present value of minimum payments under the lease arrangements.

Finance charges under lease arrangements are allocated to periods during the lease term so as to produce a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

**2.11 Trade and other payables**

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost.

**2.12 Taxation**

**Current**

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any. The charge for current taxation also includes adjustments where necessary, relating to prior years which arise from assessments framed/finalised during the year.

**Deferred**

Deferred taxation is recognised on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes. A net deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

**2.13 Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which such dividends are declared by the Company and approved by the shareholders.



# Notes to the Financial Statements

for the year ended June 30, 2008

**2.14 Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of consideration received or receivable on the following basis:

- Sales are recorded when significant risks and rewards of ownership of the goods have passed to the customers which coincides with despatch of goods to customers.
- Non-fuel retail income and other revenue (including licence fee) is recognised on an accrual basis.
- Dividend income is recognised when the Company's right to receive the dividend is established.

**2.15 Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

**2.16 Staff retirement benefits**

Except for certain expatriates for whom benefits are provided by membership of their respective Shell retirement benefit funds, staff retirement benefits include:

i) Approved funded gratuity schemes for management and unionised staff and contributory pension scheme for management and non-contributory pension scheme for unionised staff. Contributions are made to these schemes on the basis of actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. Actuarial gains and losses are amortised over the expected future service of the current members;

ii) Approved contributory provident funds for all employees; and

iii) Un-funded post retirement medical benefits for all management staff. Annual provision is made in the financial statements for this scheme on the basis of actuarial recommendation. The actuarial valuation is carried out using the Projected Unit Credit Method. Actuarial gains and losses are amortised over the expected future service of the current employees.

Retirement benefits are payable to staff on completion of prescribed qualifying periods of service under these schemes.

**2.17 Employees' compensated absences**

The Company accounts for the liability in respect of employees' compensated absences in the year in which these are earned. Provision to cover the obligation under the scheme is made based on the current leave entitlements of the employees and by using the current salary levels of employees.

**2.18 Employee share based payment**

The Shell Group awards shares under a Performance Share Plan (PSP) to certain employees from time to time. The fair value of these shares, which is eventually recharged by the parent company to Shell Pakistan Limited, is recognised as an expense, with a corresponding increase in liabilities, over the period that the employees become entitled to the award. The liability is remeasured at each reporting date and at settlement date. These are recognised as salaries, wages and benefits in the profit and loss account.

**2.19 Foreign currencies**

Transactions in foreign currencies are accounted for in Pakistani Rupees at the rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Rupees at the rates of exchange which approximate those prevailing at the balance sheet date. Exchange differences are taken to the profit and loss account.

**2.20 Financial instruments**

Financial instruments carried on the balance sheet include investments, loans and advances, deposits, debtors, other receivables, cash and bank balances, long-term loan, liabilities against assets subject to finance lease, short-term running finances utilised under mark-up arrangements, short-term loans, trade and other payables and mark-up accrued. At the time of initial recognition, all the financial assets and liabilities are measured at cost, which is the fair value of consideration given or received for it. The carrying amount of the assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated and the impairment loss is recognised in the profit and loss account.

**2.21 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed in the profit and loss account in the period in which they arise.

**2.22 Offsetting**

Financial assets and liabilities are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset or settle the liability simultaneously.

**2.23 Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Pakistani Rupees, which is the Company's functional and presentation currency.

## 3. FIXED ASSETS

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| Property, plant and equipment | | | |
| Operating fixed assets | 3.1 | 5,965,298 | 5,496,543 |
| Capital work-in-progress | 3.6 | 851,079 | 1,064,265 |
| | | 6,816,377 | 6,560,808 |
| Intangible assets | 3.1 | 10,471 | 19,185 |
| | | 6,826,848 | 6,579,993 |





**3.1 The following is a statement of operating tangible and intangible fixed assets:**

Year ended June 30, 2008 (Rupees in '000)

| | Owned assets: Freehold land | Leasehold land | Buildings on freehold land | Buildings on leasehold land | Tanks and pipelines | Plant and machinery | Aircraft-fueling plant | Lifts | Dispensing pumps | Rolling stock and vehicles | Electrical, mechanical and fire fighting equipment | Furniture, office equipment and other assets | Computer auxiliaries | Main frame | Leased assets: Plant and Machinery | Vehicles | Total operating fixed assets | Intangible: Computer software |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **As at July 1, 2007** | | | | | | | | | | | | | | | | | | |
| Cost | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Accumulated depreciation / amortisation | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Net book value | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| **Year ended June 30, 2008** | | | | | | | | | | | | | | | | | | |
| Opening net book value | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Additions | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Disposals / write - offs (Note 3.5) | | | | | | | | | | | | | | | | | | |
| Cost | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Accumulated Depreciation | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Depreciation / amortisation charge for the year | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Closing net book value | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| **As at June 30, 2008** | | | | | | | | | | | | | | | | | | |
| Cost | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Accumulated depreciation / amortisation | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Net book value | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Depreciation rate % per annum | – | 5 | 2.50 | 5 | 4 | 5 | 6.67 | 6.67 | 6.67 | 5 to 20 | 5 to 10 | 5 to 20 | 33.33 | 20 | 5 | 20 | | 20 |

Year ended June 30, 2007 (Rupees in '000)

| | Owned assets: Freehold land | Leasehold land | Buildings on freehold land | Buildings on leasehold land | Tanks and pipelines | Plant and machinery | Aircraft-fueling plant | Lifts | Dispensing pumps | Rolling stock and vehicles | Electrical, mechanical and fire fighting equipment | Furniture, office equipment and other assets | Computer auxiliaries | Main frame | Leased assets: Plant and Machinery | Vehicles | Total operating fixed assets | Intangible: Computer software |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **As at July 1, 2006** | | | | | | | | | | | | | | | | | | |
| Cost | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Accumulated depreciation / amortisation | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Net book value | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| **Year ended June 30, 2007** | | | | | | | | | | | | | | | | | | |
| Opening net book value | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Additions | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Disposals | | | | | | | | | | | | | | | | | | |
| Cost | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Accumulated Depreciation | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Depreciation / amortisation charge for the year | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Closing net book value | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| **As at June 30, 2007** | | | | | | | | | | | | | | | | | | |
| Cost | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Accumulated depreciation / amortisation | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Net book value | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Depreciation rate % per annum | – | 5 | 2.50 | 5 | 4 | 5 | 6.67 | 6.67 | 6.67 | 5 to 20 | 5 to 10 | 5 to 20 | 33.33 | 20 | 5 | 20 | | 20 |

3.2 The depreciation and amortisation charge for the year has been allocated as follows:

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| Cost of products sold | | 15,517 | 13,890 |
| Administrative and marketing expenses | | | |
| - Depreciation - tangible assets | 29 | 655,401 | 564,406 |
| - Amortisation - intangible assets | 29 | 8,714 | 10,378 |
| | | 664,115 | 574,784 |
| | | 679,632 | 588,674 |

3.3 Company assets include tanks, dispensing pumps and electrical equipments having a cost of Rs 1,358.669 million (2007: Rs 1,250.512 million) which have been installed at dealer sites. Due to the significant number of dealers involved, the particulars of the assets not in the possession of the Company as required by the Fourth Schedule to the Companies Ordinance, 1984 have not been disclosed here.

3.4 The following assets with a book value exceeding Rs.50,000 were disposed off during the year:

| | Cost | Accumulated Depreciation | Book Value | Sales Proceeds | Mode of Disposal | Particulars of Buyers |
|---|---|---|---|---|---|---|
| | (Rupees '000) | | | | | |
| Freehold land | 1,067 | - | 1,067 | 19,165 | Press advertisement | Shams Petrochemical, Karachi |
| Buildings on freehold land | 1,378 | 112 | 1,266 | 15,282 | Press advertisement | Shams Petrochemical, Karachi |
| Buildings on leasehold land | 3,208 | 390 | 2,818 | 571 | Press advertisement | M/s Gulzar & Co, Karachi |
| | 4,171 | 571 | 3,600 | 14,641 | Press advertisement | Shams Petrochemical, Karachi |
| Tanks and pipelines | 256 | 64 | 192 | 90 | Press advertisement | M/s Gulzar & Co, Karachi |
| | 1,548 | 170 | 1,378 | 5,607 | Press advertisement | Shams Petrochemical, Karachi |
| Plant and machinery | 838 | 115 | 723 | 2,942 | Press advertisement | Shams Petrochemical, Karachi |
| Dispensing pumps | 14,344 | 8,189 | 6,155 | 469 | Press advertisement | M/s Gulzar & Co, Karachi |
| Rolling stock and vehicles | 943 | 786 | 157 | 536 | Company policy | Omar Malik - Executive |
| | 943 | 810 | 133 | 377 | Company policy | Yousuf Ali - Key management personnel |
| | 795 | 656 | 139 | 348 | Company policy | Ali Rizvi - Executive |
| | 943 | 822 | 121 | 377 | Company policy | Hassan - Executive |
| | 795 | 654 | 141 | 437 | Company policy | Mushtaq Khan - Executive |
| | 1,576 | 771 | 805 | 698 | Company policy | Khalid Siddiq - Executive |
| | 1,088 | 963 | 125 | 435 | Company policy | Munir Ahmad - Executive |
| | 373 | 277 | 96 | 337 | Company policy | Ejaz Alam - Executive |
| | 381 | 250 | 131 | 318 | Company policy | Zarak Khan - Executive |
| | 381 | 250 | 131 | 318 | Company policy | Adnan Sadiq - Executive |
| | 795 | 663 | 132 | 318 | Company policy | Asfandyar - Executive |
| | 795 | 688 | 107 | 318 | Company policy | Amir Millwala - Executive |
| | 795 | 670 | 125 | 569 | Company policy | Anwar Shami - Executive |
| | 1,675 | 977 | 698 | 705 | Press advertisement | M. Siddique Awan, Karachi |
| Electrical, mechanical and fire fighting equipment | 12,131 | 1,864 | 10,267 | 835 | Press advertisement | M/s Gulzar & Co, Karachi |
| | 738 | 101 | 637 | 2,590 | Press advertisement | Shams Petrochemical, Karachi |
| | 765 | 279 | 486 | 532 | Press advertisement | M/s Gulzar & Co, Karachi |
| | 847 | 158 | 689 | 840 | Negotiation | Pak-Arab Refinery Limited, Karachi |
| Furniture and office equipment | 186 | 47 | 139 | 165 | Press advertisement | M/s Gulzar & Co, Karachi |
| | 127 | 27 | 100 | 408 | Press advertisement | Shams Petrochemical, Karachi |
| Assets held under finance lease - vehicles | 1,219 | 406 | 813 | 926 | Press advertisemen | Kamran Ahmed, Karachi |
| | 835 | 408 | 427 | 632 | Press advertisement | Wasim Mirza, Karachi |
| | 1,002 | 461 | 541 | 650 | Press advertisement | Syed Ahmed Ali, Karachi |
| | 969 | 343 | 626 | 798 | Insurance claim | Commercial Union, Karachi |
| | 879 | 330 | 549 | 659 | Company policy | Raja Babar - Executive |
| | 886 | 332 | 554 | 828 | Company policy | S. A. Salahuddin - Executive |
| | 1,189 | 463 | 726 | 695 | Company policy | Usman Najeeb - Executive |
| | 4,257 | 3,192 | 1,065 | 949 | Company policy | Ijaz A. Khan - Key management personnel |
| | 1,178 | 903 | 275 | 471 | Company policy | Zehra Ahmed - Executive |
| | 1,225 | 558 | 667 | 835 | Press advertisement | Javed Bari, Karachi |
| | 835 | 390 | 445 | 611 | Press advertisement | Adnan Bhatti, Karachi |
| | 795 | 557 | 238 | 572 | Press advertisement | Wasim Mirza, Karachi |
| | 795 | 623 | 172 | 318 | Company policy | Zulfiqar Shaikh - Executive |

3.5 Disposal of fixed assets include assets written - off having a cost of Rs 96.268 million (2007: Rs Nil) and a net book value of Rs 62.141 million (2007: Rs Nil).

# Notes to the Financial Statements

for the year ended June 30, 2008

### 3.6 Capital work-in-progress

| | 2008 | 2007 |
|---|---|---|
| | (Rupees '000) | |
| Buildings on leasehold land | 194,004 | 145,968 |
| Tanks and pipelines | 44,869 | 82,438 |
| Plant and machinery | 1,986 | 1,641 |
| Airconditioning plant | 162 | 162 |
| Dispensing pumps | 9,010 | 9,292 |
| Rolling stock and vehicles | 101,271 | 104,656 |
| Electrical, mechanical and fire fighting equipment | 356,623 | 493,802 |
| Furniture, office equipment and other assets | 30,854 | 38,576 |
| Computer auxiliaries | 5,459 | 111 |
| Computer software and consultancy costs | 6,556 | 6,556 |
| Capital stores and spares | 100,285 | 181,063 |
| | 851,079 | 1,064,265 |

### 4. LONG-TERM INVESTMENTS

| | Note | 2008 Percentage Holding | 2008 Amount (Rupees '000) | 2007 Percentage Holding | 2007 Amount (Rupees '000) |
|---|---|---|---|---|---|
| **Investment in associate - unquoted**<br>Pak-Arab Pipeline Company Limited (PAPCO) 18,720,000 (2007: 18,720,000) ordinary shares of Rs 100 each | 4.1 | 26 | 2,129,782 | 26 | 2,010,534 |
| **Others - held as available for sale - at cost**<br>Non-trading subsidiaries | 4.2 | 100 | 1 | 100 | 1 |
| Arabian Sea Country Club Limited 500,000 (2007: 500,000) ordinary shares of Rs 10 each | | - | 5,000 | - | 5,000 |
| | | | 2,134,783 | | 2,015,535 |

### 4.1 Movement of investment in associate

| | 2008 | 2007 |
|---|---|---|
| | (Rupees '000) | |
| Beginning of the year | 2,010,534 | 1,916,884 |
| Share of profits | 342,043 | 188,231 |
| Share of taxation | (129,795) | (65,981) |
| Dividend received | (93,000) | (28,600) |
| End of the year | 2,129,782 | 2,010,534 |

Pak-Arab Pipeline Company Limited (PAPCO) commenced its commercial operations in Pakistan in March 2005 as a joint venture between PARCO and oil marketing companies to provide transportation services of petroleum products through the white oil pipeline.



# Notes to the Financial Statements

for the year ended June 30, 2008

The summarised financial information of the PAPCO, based on the audited financial statements for the year ended June 30, 2008 is as follows:

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| Total assets | | 23,884,637 | 24,631,263 |
| Total liabilities | | 15,693,168 | 16,713,448 |
| Revenues | | 4,553,922 | 4,352,199 |
| Profit after taxation | | 631,352 | 596,164 |

4.2 **Investments in non-trading subsidiaries consist of:**

- Shell Pakistan Provident Trust (Private) Limited - 2 (2007: 2) fully paid ordinary shares of Rs 100 each.
- Shell Pakistan Pensions Trust (Private) Limited - 2 (2007: 2) fully paid ordinary shares of Rs 100 each.

The subsidiaries have not commenced operations to date and the Company is in the process of liquidating these companies (as disclosed in note 1.1).

### 5. LONG-TERM LOANS AND ADVANCES - Considered good

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| Due from Directors | | 623 | 1,303 |
| Less: Receivable within one year | 12 | (623) | (680) |
| | | - | 623 |
| Due from Executives | | 49,929 | 69,971 |
| Less: Receivable within one year | 12 | (24,343) | (30,532) |
| | | 25,586 | 39,439 |
| Due from Employees | | 54,215 | 34,244 |
| Less: Receivable within one year | 12 | (18,148) | (11,508) |
| | | 36,067 | 22,736 |
| Advances to contractors | 5.3 | 84,728 | 119,781 |
| | | 146,381 | 182,579 |

5.1 **Reconciliation of loans and advances (long-term and short-term)**

| | 2008 Directors | 2008 Executives | 2007 Directors | 2007 Executives |
|---|---|---|---|---|
| | (Rupees '000) | | | |
| Opening balance | 1,303 | 69,971 | - | 59,776 |
| Disbursements | - | 20,517 | 4,800 | 50,255 |
| Repayments | 680 | 40,559 | 3,497 | 40,060 |
| Closing balance | 623 | 49,929 | 1,303 | 69,971 |

5.2 Loans to staff are unsecured and are given for housing, purchase of motor cars / motorcycles and for general purpose in accordance with the Company's policy and are repayable over a period of two to five years. Interest is charged on loans given for housing and purchase of motor cars at 1% per annum.

The maximum aggregate amounts due from the Chief Executive, Directors and Executives at the end of any month during the year were Rs Nil, Rs 1.246 million and Rs 66.010 million respectively (2007: Rs Nil, Rs 2.997 million and Rs 69.971 million). The loan to Director is the only key management personnel loan outstanding at year end.

5.3 These represent advances in respect of various Company operated outlets which are primarily given in the form of petroleum products for meeting the working capital requirements of these sites.

# Notes to the Financial Statements

for the year ended June 30, 2008

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| **6. LONG-TERM DEPOSITS AND PREPAYMENTS** | | | |
| Deposits | | 59,009 | 29,390 |
| Prepayments | | 142,709 | 81,604 |
| | | 201,718 | 110,994 |
| **7. LONG - TERM DEBTORS** | | | |
| Long-term debtors | 11 | 134,920 | 328,227 |

7.1 These represent amounts due from customers in respect of which the Company has entered into agreements for recovery of outstanding balances over a period of 1 to 7 years. These balances carry interest at the rate of 15% per annum.

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| **8. DEFERRED TAXATION - NET** | | | |
| This is composed of the following: | | | |
| Taxable temporary differences arising in respect of | | | |
| - accelerated tax depreciation | | (620,287) | (451,305) |
| - investment in associate | | (25,778) | (13,853) |
| Deductible temporary difference arising in respect of | | | |
| - short term provisions | | 594,491 | 283,978 |
| - carry forward tax losses | | - | 384,799 |
| - add backs to taxable income expected to be reversed in future periods | | - | 77,348 |
| | | (51,574) | 280,967 |
| **9. STORES AND SPARES** | | | |
| Stores | | 16,885 | 34,755 |
| Spares | | 2,321 | 1,409 |
| Less: Provision for obsolete stores | | (5,878) | (5,878) |
| | | 13,328 | 30,286 |
| **10. STOCK-IN-TRADE** | | | |
| Raw and packing materials | | 1,036,141 | 581,580 |
| Finished goods | | | |
| In hand and in pipeline system | | 6,638,675 | 3,706,394 |
| In White Oil Pipeline | 10.1 | 10,430,149 | 3,962,799 |
| | | 17,068,824 | 7,669,193 |
| Less: Provision for impairment | | (9,442) | (6,719) |
| | | 17,059,382 | 7,662,474 |
| | | 18,095,523 | 8,244,054 |



# Notes to the Financial Statements

for the year ended June 30, 2008

10.1 Stock in White Oil Pipeline includes 55,750 MT (2007: 65,167 MT) of High Speed Diesel oil which has been maintained as line fill necessary for the pipeline to operate. The aggregate cost of the inventory amounted to Rs 4,987.516 million (2007: Rs 2,793.905 million).

10.2 The above amounts include Rs 167.230 million (2007: Rs 145.640) in respect of stock-in-transit as at June 30, 2008.

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| **11. TRADE DEBTS** | | | |
| Considered good | | | |
| - Secured | 11.1 | 2,867,826 | 304,355 |
| - Unsecured | | 2,172,034 | 4,275,197 |
| | 11.2 | 5,039,860 | 4,579,552 |
| Considered doubtful | | 907,157 | 517,173 |
| Trade debts - gross | | 5,947,017 | 5,096,725 |
| Less: Provision for impairment | 11.3 | (907,157) | (517,173) |
| Trade debts - net | | 5,039,860 | 4,579,552 |

The above trade debts are classified as follows:

| | 2008 | | |
|---|---|---|---|
| | Long-term (note 7) | Short-term | Total |
| | (Rupees '000) | | |
| Trade debts - gross | 225,442 | 5,721,575 | 5,947,017 |
| Less: Provision for impairment of trade debts | (90,522) | (816,635) | (907,157) |
| | 134,920 | 4,904,940 | 5,039,860 |

| | 2007 | | |
|---|---|---|---|
| | Long-term (note 7) | Short term | Total |
| | (Rupees '000) | | |
| Trade debts - gross | 328,227 | 4,768,498 | 5,096,725 |
| Less: Provision for impairment of trade debts | - | (517,173) | (517,173) |
| | 328,227 | 4,251,325 | 4,579,552 |

11.1 These debts are secured by way of letters of credit, bank guarantees and security deposits.

11.2 This includes amounts due from related parties at the year end amounting to Rs 12.406 million (2007: Rs 953.968 million). Particulars of the amounts due from related parties are as follows:

| | 2008 | 2007 |
|---|---|---|
| | (Rupees '000) | |
| Shell Aviation Limited | - | 946,084 |
| Shell Gas LPG (Pakistan) Limited | 12,360 | 4,690 |
| Shell Development & Offshore Pakistan | 46 | 3,194 |
| | 12,406 | 953,968 |

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |

### 11.3 Provision for impairment

| | Note | 2008 | 2007 |
|---|---|---|---|
| Balance at July 1 | | 517,173 | 234,784 |
| Provision made during the year | 31 | 513,820 | 282,389 |
| Amount reversed during the year | 30 | (123,836) | - |
| Balance at June 30 | | 907,157 | 517,173 |

### 12. LOANS AND ADVANCES - Considered good

| | Note | 2008 | 2007 |
|---|---|---|---|
| Loans due from | | | |
| - Directors | 5 | 623 | 680 |
| - Executives | 5 | 24,343 | 30,532 |
| - Employees | 5 | 18,148 | 11,508 |
| | | 43,114 | 42,720 |
| Advances to | | | |
| - Employees | | 3,915 | - |
| | | 47,029 | 42,720 |

### 13. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS

| | 2008 | 2007 |
|---|---|---|
| Balances with statutory authorities | | |
| - Customs duty | 63,006 | 47,937 |
| - Excise duty | 3,133 | 3,133 |
| | 66,139 | 51,070 |
| Short-term prepayments | 141,725 | 89,169 |
| | 207,864 | 140,239 |

### 14. OTHER RECEIVABLES

| | Note | 2008 | 2007 |
|---|---|---|---|
| Excise and customs duties | | 278,492 | 197,342 |
| Price differential on imported purchases | 14.1 | 295,733 | 295,733 |
| Price differential claim | 14.2 | 3,403,744 | 3,291,827 |
| Service cost receivable from related parties | | 81,194 | 121,906 |
| Service cost receivable from associate company - PAPCO | | 3,438 | 2,088 |
| Advances to suppliers | | 41,270 | 38,017 |
| Inland freight equalisation mechanism | | 616,971 | 450,009 |
| Staff retirement benefit schemes | 35.1.11 | 143,329 | 197,174 |
| Mark-up receivable on short-term deposits | | 894 | 291 |
| Sales tax | | 1,410,516 | 1,367,855 |
| Workers' profit participation fund | 22.3 | - | 4,963 |
| Others | | 9,536 | 11,360 |
| | | 6,285,117 | 5,978,565 |
| Less: Provision for impairment | 14.3 | (206,006) | (7,802) |
| | | 6,079,111 | 5,970,763 |





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

14.2 This represents claims for price differential receivable from the Government of Pakistan (GoP). From time to time the GoP agrees to subsidise the petroleum prices by restricting the increase in prices of various petroleum products in order to reduce the burden of rising oil prices on the end consumers. The balance as at June 30, 2008 represents the claim for the fortnight June 15, 2008 to June 30, 2008.

### 14.3 Provision for impairment

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| Balance at July 1 | | 7,802 | 13,196 |
| Provision made during the year | 31 | 206,006 | - |
| Amount reversed during the year | 30 | (7,802) | (5,394) |
| Balance at June 30 | | 206,006 | 7,802 |

### 15 CASH AND BANK BALANCES

| | 2008 | 2007 |
|---|---|---|
| With banks on interest bearing current accounts | 817,271 | 770,408 |
| Cash in hand | 55,143 | 44,122 |
| | 872,414 | 814,530 |

15.1 Current accounts with banks carry interest ranging from 0.7% to 5.5% (2007: 0.7% to 5.5%) per annum.

15.2 Included in cash and bank balances is an amount of Rs 35.065 million (2007: Rs 44.260 million) in respect of contributions received for Earthquake Relief Fund.

### 16. SHARE CAPITAL

**Authorised capital**

| 2008 | 2007 | | 2008 | 2007 |
|---|---|---|---|---|
| (Number of shares) | | | (Rupees '000) | |
| 100,000,000 | 100,000,000 | Ordinary shares of Rs. 10 each | 1,000,000 | 1,000,000 |

**Issued, subscribed and paid up capital**

| 2008 | | | 2007 | | | | 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Issued for cash | Issued as bonus | Total | Issued for cash | Issued as bonus | Total | | | |
| (Numbers of shares) | | | | | | | | |
| 23,481,000 | - | 23,481,000 | 23,481,000 | - | 23,481,000 | Fully paid in cash | 234,810 | 234,810 |
| - | 31,309,313 | 31,309,313 | - | 20,351,250 | 20,351,250 | Issued as fully paid bonus shares | 313,094 | 203,513 |
| 23,481,000 | 31,309,313 | 54,790,313 | 23,481,000 | 20,351,250 | 43,832,250 | | 547,904 | 438,323 |
| - | - | - | - | 10,958,063 | 10,958,063 | Issued during the year as fully paid bonus shares | - | 109,581 |
| 23,481,000 | 31,309,313 | 54,790,313 | 23,481,000 | 31,309,313 | 54,790,313 | Closing balance | 547,904 | 547,904 |

16.1 The Shell Petroleum Company Limited, United Kingdom, a subsidiary of Royal Dutch Shell Plc., held 41,699,176 (2007: 41,699,176) ordinary shares of Rs 10 each at June 30, 2008.

## 17. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The Company has entered into lease agreements with various leasing companies for lease of motor vehicles including transport vans. The liability under these agreements are payable by the year 2011 and is subject to finance charge at rates ranging from 5.50% to 14.25% (2007: 5.50% to 15.03%) per annum. An additional charge of 20% is also leviable on overdue rentals.

The Company intends to exercise its options to purchase the leased assets for Rs1.86 million (2007: Rs1.01 million) upon completion of the lease period.

The amount of future payments for the finance lease and the period in which these payments will become due are as follows:

| Year | 2008 | 2007 |
|---|---|---|
| | (Rupees '000) | |
| 2007 - 2008 | - | 33,593 |
| 2008 - 2009 | 60,461 | 241 |
| 2009 - 2010 | 553 | 593 |
| 2010 - 2011 | 2,113 | - |
| | 63,127 | 34,427 |
| Less: Finance charge not due | (4,169) | (1,677) |
| Present value of minimum lease payments | 58,958 | 32,750 |
| Less: Current maturity shown under current liabilities | (56,742) | (32,203) |
| | 2,216 | 547 |

| | 2008 | 2007 |
|---|---|---|
| 18. LONG-TERM LOAN - Secured | 2,500,000 | - |

The above loan has been obtained from a commercial bank and bears mark-up at the rate of 3-month Karachi Interbank Offered Rate (KIBOR) + 0.17% (2007: Nil) per annum payable and revised quarterly. The loan amount is payable in one bullet payment on September 27, 2010. The arrangement is secured by hypothecation of the Company's stock-in-trade, trade debts and other receivables.

## 19. ASSET RETIREMENT OBLIGATION

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| Balance as at July 1 | | 138,494 | 98,320 |
| Liabilities incurred | | 47,985 | 34,551 |
| Accretion expense | 32 | 5,141 | 5,623 |
| Balance as at June 30 | | 191,620 | 138,494 |

## 20. SHORT-TERM RUNNING FINANCES UTILISED UNDER MARK-UP ARRANGEMENTS – Secured

| | 2008 | 2007 |
|---|---|---|
| Short-term running finances utilised under mark-up arrangements | 4,338,339 | 725,836 |



Notes to the Financial Statements
for the year ended June 30, 2008

The facilities for short-term running finances available from various banks aggregate to Rs 15,150 million (2007: Rs 13,700 million). The rates of mark-up range from Re 0.2614 to Re 0.3784 per Rs 1,000 per day (2007: Re 0.2661 to Re 0.2986 per Rs 1,000 per day). The purchase prices are payable on various dates by June 30, 2009. These arrangements are secured by hypothecation of the Company's stock-in-trade, trade debts and other receivables.

| | 2008 | 2007 |
|---|---|---|
| | (Rupees '000) | |
| 21. SHORT-TERM LOANS - Secured | 1,500,000 | 6,810,000 |

The above loan has been obtained from a bank and carries mark-up at 12.16% (2007: 9.16% to 9.44%) per annum. The loan amount is repayable on July 14, 2008. The loan is secured by hypothecation of the Company's stock-in-trade, trade debts and other receivables.

## 22. TRADE AND OTHER PAYABLES

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| Creditors | 22.1 | 11,990,626 | 4,175,781 |
| Bills payable | 22.1 | 772,266 | 5,050,802 |
| Oil marketing companies | | 311,071 | 287,703 |
| Accrued liabilities | | 1,344,994 | 1,046,341 |
| Excise and customs duties and development surcharge | | 764,877 | 725,951 |
| Dealers' and cartage contractors' security deposits | 22.2 | 206,623 | 215,752 |
| Security deposits from customer | | 125,140 | - |
| Provision for post retirement medical benefits | 35.2.2 | 27,598 | 25,901 |
| Workers' welfare fund | | 190,051 | 34,217 |
| Workers' profit participation fund | 22.3 | 3,537 | - |
| Unclaimed dividends | | 71,133 | 71,163 |
| Payable to the Earthquake Relief Fund | | 35,065 | 44,260 |
| Advances received from customers | | 530,030 | 136,152 |
| Other liabilities | | 109,997 | 98,473 |
| | | 16,483,008 | 11,912,496 |

22.1 Amounts due to related parties at the year end aggregated to Rs 5,706.276 million (2007: Rs 7,048.931 million). Particulars of the amounts due to related parties are as follows:

| | 2008 | 2007 |
|---|---|---|
| | (Rupees '000) | |
| Associate company - PAPCO | 42,207 | 81,612 |
| Other related parties | 5,013,763 | 5,993,491 |
| Parent companies | 650,306 | 973,828 |
| | 5,706,276 | 7,048,931 |

22.2 The security deposits are non-interest bearing and are refundable on termination of contracts.

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| **22.3 Workers' profit participation fund** | | | |
| Balance at July 1 | | (4,963) | (532) |
| Allocation for the year | 31 | 403,537 | 15,569 |
| | | 398,574 | 15,037 |
| Add: Amount received | | 4,963 | - |
| Less: Amount paid | | (400,000) | (20,000) |
| Balance at June 30 | | 3,537 | (4,963) |

## 23. MARK-UP ACCRUED

| | 2008 | 2007 |
|---|---|---|
| Mark-up accrued on: | | |
| - short-term running finances utilised under mark-up arrangements | 92,737 | 28,288 |
| - short-term loans | 63,493 | 103,292 |
| - long-term loans | 1,038 | - |
| | 157,268 | 131,580 |

23.1 During the year, the Government of Pakistan (GoP), for the purposes of reimbursing the outstanding price differential claims, arranged for the Company to obtain two term finance facilities amounting to Rs 6,000 million and Rs 5,000 million from consortium of banks (the Syndicates). Accordingly, the Company entered into two term finance agreements (the Agreements) dated January 11, 2008 and May 14, 2008 in this respect. Under both agreements, the principal was due at the end of a three year term in one bullet repayment where as mark-up was due semi-annually and quarterly respectively, revised quarterly and benchmarked to 3-month Karachi Interbank Offered Rate (KIBOR).

The GoP issued irrevocable and unconditional guarantees dated January 30, 2008 and May 21, 2008 in favour of the Syndicates stating that it was fully responsible and liable as a Principal Obligor to repay the finance, mark-up and all the obligations arising under the Agreements.

On June 30, 2008, the GoP settled the outstanding principal under the Agreements amounting to Rs 11,000 million consequent to which the Syndicate banks have released the aforementioned guarantees. However, as at this date, mark-up and other charges amounting to Rs 316.742 million are still payable to the banks. The management is of the view that based on the substance of the transaction, the aforementioned mark-up will be settled by the Company upon receipt of the amount from the GoP in accordance with letter of comfort issued by the GoP in favour of the Company. Accordingly, this has not been separately recognised as a liability and the corresponding receivable from the GoP has also not been booked. In respect of the amount settled by the GoP to the banks amounting to Rs 11,000 million which was routed through the Company, it effectively represents settlement of price differential balances by the GoP and has been reflected as such in the cash flow statement. Contra inflows and outflow of this balance as financing activity in the cash flow statement have not been reflected.





## 24. CONTINGENCIES AND COMMITMENTS

### 24.1 Contingencies

#### 24.1.1 Infrastructure fee

Through the Sindh Finance Act 1994, the Government of Sindh imposed a fee, for services rendered in respect of development and maintenance of infrastructure, on goods entering or leaving the Province from or for outside the Country through sea or air.

The Company (SPL) and several others challenged the levy of the said infrastructure fee in constitutional petitions before the High Court of Sindh. However, certain amendments were made to the impugned legislation on three occasions during the pendency of the petitions. In 2001 the said "fee" was changed to a "cess". Consequently the petitions filed by SPL and others were dismissed by the High Court as having become infructuous.

Subsequently, SPL and others filed civil suits in the High Court of Sindh challenging the amending Ordinance. These suits were dismissed by a single judge in October 2003. Being aggrieved, SPL and others filed intra-court appeals against the said judgement on, inter alia, the ground that the import, export, customs duty and highways are exclusive Federal subjects and therefore levy of the infrastructure tax/fee/cess by the Government of Sindh is ultra vires the Constitution. These appeals are currently pending adjudication.

The accumulated levy up to June 30, 2008 comes to Rs 988.031 million (2007: Rs 699.836 million). No provision has been made in these financial statements against the levy as SPL management expects a favourable outcome.

#### 24.1.2 PARCO pipeline fill

The Ministry of Petroleum and Natural Resources (MOPNR) has made a claim relating to the loan arranged by the Government of Pakistan (GoP) to the Company to finance the initial fill of the Pak-Arab Refinery Limited (PARCO) Pipeline. MOPNR has calculated the Company's liability by applying the price prevailing on August 11, 2000 to the quantity of fuel supplied at the time of initial fill.

The Company maintains that its liability is limited only to the extent of Rs 78.164 million (2007: Rs 78.164 million) which has been fully paid in March 2007.

The claim, if calculated on the August 11, 2000 price as indicated by MOPNR, would amount to Rs 294 million. Based on legal advice obtained, the management is confident that its exposure in this respect amounted to Rs 78.164 million and consequently no provision has been made for the additional demand raised by MOPNR.

#### 24.1.3 Others

The aggregate amount of other claims against the Company not acknowledged as debt as at June 30, 2008 amounted to approximately Rs 848.115 million (2007: Rs 533.570 million). This includes claims by refineries, amounting to Rs 355.613 million (2007: Rs Nil) in respect of delayed payment charges.

# Notes to the Financial Statements

## for the year ended June 30, 2008

**24.2 Commitments**

a) Capital expenditure contracted for but not incurred as at June 30, 2008 amounted to approximately Rs 828.745 million (2007: Rs 276.964 million).

b) Commitments for rentals of assets under operating lease agreements as at June 30, 2008 amounted to Rs 1,335.797 million (2007: Rs 1,150.256 million) payable as follows:

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| Not later than one year | | 53,770 | 41,669 |
| Later than one year and not later than five years | | 222,447 | 173,097 |
| Later than five years | | 1,059,580 | 935,490 |
| | | 1,335,797 | 1,150,256 |

c) 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 Bill 2005. As at June 30, 2008 the value of these cheques amounts to Rs 5,339.763 million (2007: Rs 4,820.228 million). The maturity dates of these cheques extend to November 30, 2008.

d) Letters of credit and bank guarantees outstanding as at June 30, 2008 amount to Rs 3,830 million (2007: Rs 3,635 million).

### 25. SALES

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| Gross sales | | 158,585,360 | 131,040,241 |
| Less: Trade discounts and rebates | | 958,869 | 910,397 |
| | | 157,626,491 | 130,129,844 |

### 26. OTHER REVENUE

| | | | |
|---|---|---|---|
| License/franchise fee charged to dealers | | 341,349 | 447,517 |

### 27. COST OF PRODUCTS SOLD

| | Note | 2008 | 2007 |
|---|---|---|---|
| Opening stock of raw and packing materials | | 581,580 | 552,963 |
| Raw and packing materials purchased | | 5,105,250 | 3,840,029 |
| Less: Closing stock of raw and packing materials | 10 | (1,036,141) | (581,580) |
| Raw and packing materials consumed | | 4,650,689 | 3,811,412 |
| Add: Manufacturing expenses | | 117,227 | 119,487 |
| Cost of products manufactured | | 4,767,916 | 3,930,899 |
| Non-fuel retail purchases | | 118,802 | 138,953 |
| Opening stock of finished products | | 7,662,474 | 9,426,923 |
| Finished products purchased | | 114,934,880 | 88,072,996 |
| Duties and levies | 27.1 | 14,269,781 | 14,757,635 |
| Less: Closing stock of finished products | 10 | (17,059,382) | (7,662,474) |
| | | 124,694,471 | 108,664,932 |

**27.1 Duties and levies**

| | | | |
|---|---|---|---|
| Petroleum development levy | | 2,106,094 | 6,035,675 |
| Customs and excise duty | | 7,138,542 | 5,284,344 |
| Inland freight equalisation margin | | 4,811,180 | 3,401,640 |
| Additional petroleum development levy | | 165,413 | - |
| Wharfage | | 48,552 | 35,976 |
| | | 14,269,781 | 14,757,635 |



# Notes to the Financial Statements

## for the year ended June 30, 2008

### 28. DISTRIBUTION EXPENSES

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| Salaries, wages and benefits | 28.1 | 798,112 | 782,511 |
| Staff training | | 9,153 | 18,333 |
| Stores and materials | | 32,094 | 30,335 |
| Fuel and power | | 57,677 | 64,553 |
| Rent, taxes and utilities | | 294,891 | 332,112 |
| Lease rentals and charges | | 11 | 2,085 |
| Repairs and maintenance | | 226,166 | 235,346 |
| Insurance | | 52,904 | 60,946 |
| Travelling | | 158,566 | 159,413 |
| Advertising and publicity | | 410,056 | 450,700 |
| Legal and professional charges | | 4,450 | 3,517 |
| Communication and stationery | | 18,145 | 21,536 |
| Computer expenses | | 5,765 | 11,659 |
| Storage and other charges | | 33,471 | 18,325 |
| Others | | 18,810 | 21,888 |
| | | 2,120,271 | 2,213,259 |
| Less: Handling and storage charges recovered | | (8,166) | (28,197) |
| Secondary transportation expenses | | 838,317 | 1,181,493 |
| | | 2,950,422 | 3,366,555 |

28.1 Salaries, wages and benefits include Rs 70.644 million (2007: Rs 73.665 million) in respect of staff retirement benefits.

### 29. ADMINISTRATIVE AND MARKETING EXPENSES

| | Note | 2008 | 2007 |
|---|---|---|---|
| Salaries, wages and benefits | 29.1 | 278,335 | 221,027 |
| Staff training | | 6,699 | 5,349 |
| Stores and materials | | 274 | 307 |
| Fuel and power | | 19,539 | 14,945 |
| Rent, taxes and utilities | | 23,140 | 9,111 |
| Lease rentals and charges | | - | 416 |
| Repairs and maintenance | | 7,831 | 13,494 |
| Insurance | | 8,587 | 2,265 |
| Travelling | | 37,456 | 34,542 |
| Advertising and publicity | | 20,837 | 16,717 |
| Technical service fee | 37 | 583,169 | 539,682 |
| Trade marks and manifestations license fee | 37 | 162,118 | 65,242 |
| Legal and professional charges | | 63,474 | 40,365 |
| Communication and stationery | | 91,857 | 63,014 |
| Computer expenses | | 145,593 | 122,376 |
| Depreciation - tangible assets | 3.2 | 655,401 | 564,406 |
| Amortisation - intangible assets | 3.2 | 8,714 | 10,378 |
| Others | | 4,724 | - |
| | | 2,117,748 | 1,723,636 |
| Less: Costs recovered under Service Level Agreement from related parties | | (8,459) | (6,929) |
| | | 2,109,289 | 1,716,707 |

# Notes to the Financial Statements

## for the year ended June 30, 2008

29.1 Salaries, wages and benefits include Rs 24.637 million (2007: Rs 18.961 million) in respect of staff retirement benefits.

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| **30. OTHER OPERATING INCOME** | | | |
| Income from financial assets / liabilities | | | |
| Reversal of provision for impairment of trade debts | 11.3 | 123,836 | - |
| Reversal of provision for impairment of other receivables | 14.3 | 7,802 | 5,394 |
| Liabilities no longer payable written back | | 14,520 | 168,186 |
| Mark-up on short-term deposits | | 21,765 | 5,708 |
| Mark-up on delayed payments | | 7,345 | 2,246 |
| Income from non financial assets | | | |
| Scrap sales | | 14,432 | 7,902 |
| Profit on disposal of property, plant and equipment | | 70,230 | - |
| Sundries | | 46,523 | 25,886 |
| | | 306,453 | 215,322 |
| **31. OTHER OPERATING EXPENSES** | | | |
| Workers' profit participation fund | 22.3 | 403,537 | 15,569 |
| Workers' welfare fund | | 156,115 | 10,721 |
| Exchange loss | | 529,025 | 31,821 |
| Provision for impairment of trade debts | 11.3 | 513,820 | 282,389 |
| Provision for impairment of other receivables | 14.3 | 206,006 | - |
| Other receivables written off | | 22,224 | 834 |
| Fixed assets written off | 3.5 | 62,141 | - |
| Auditors' remuneration | 31.1 | 3,535 | 3,448 |
| Loss on disposal of property, plant and equipment | | - | 15,505 |
| Donations | 31.2 | 19,198 | 17,691 |
| | | 1,915,601 | 377,978 |

31.1 Auditors' remuneration

| | 2008 | 2007 |
|---|---|---|
| Audit fee | 2,000 | 1,800 |
| Fee for substantiating inland freight equalisation margin | 384 | 364 |
| Audit of Provident, Pension, Gratuity and Workers' Profit Participation Funds | 125 | 125 |
| Special certifications, HSSE assurance audits and sundry advisory services | 666 | 781 |
| Out of pocket expenses | 360 | 378 |
| | 3,535 | 3,448 |



# Notes to the Financial Statements

## for the year ended June 30, 2008

31.2 Interest of the Directors or their spouses in the donations made during the year is as follows:

| Name of Donee and address | Names of Interested Directors and nature of interest | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| Shell LiveWIRE Trust (Shell House, 6, Ch. Khaliquzzaman Road, Karachi) | Mr. Zaiviji Ismail bin Abdullah - Chairman Board of Trustees<br>Mr. Yousaf Ali - Trustee<br>Mr. Asif Sindhu - Trustee<br>(2007: Mr. Quentin D'Silva - Ex-Chairman Board of Trustees<br>Mr. Zaiviji Ismail bin Abdullah - Chairman Board of Trustees<br>Mr. Yousaf Ali - Trustee<br>Mr. Asif Sindhu - Trustee) | 2,000 | 2,000 |
| The Layton Rahmatulla Benevolent Trust (37-C, Phase II, Sunset Lane No. 4, DHA, Karachi) | Mr. Zaiviji Ismail bin Abdullah - Trustee<br>Mr. Farrokh K. Captain - Trustee<br>(2007: Zaiviji Ismail bin Abdullah - Trustee<br>Mr. Farrokh K. Captain - Trustee) | 3,000 | 4,500 |
| The Kidney Centre Post Graduate Training Institute (172/R, Rafiqui Shaheed Road, Karachi) | Mr. Zaiviji Ismail bin Abdullah - Member, Board of Governors<br>(2007: Mr. Quentin D'Silva - Ex-Member, Board of Governors<br>Mr. Zaiviji Ismail bin Abdullah - Member, Board of Governors) | 2,000 | 4,200 |
| The Aga Khan University Hospital (Stadium Road, Karachi) | (2007: Mr. Quentin D'Silva - Ex-Member, The Resource Development Committee<br>Mr. Zaiviji Ismail bin Abdullah - Member, The Resource Development Committee) | - | 100 |
| Lahore University of Management Sciences (DHA, Lahore Cantt.) | Mr. Zaiviji Ismail bin Abdullah - Member, Board of Governors | 1,150 | - |
| SOS Children's Villages of Pakistan (Ferozepur Road, Lahore) | (2007: Mr. Mansoor H. Noon - Vice President) | - | 500 |

| | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| **32. FINANCE COST** | | | |
| Bank charges | | 87,970 | 85,529 |
| Accretion expense | 19 | 5,141 | 5,623 |
| Mark-up on short-term running finances and short term loans | | 873,744 | 783,611 |
| Finance charge on liabilities against assets subject to finance lease | | 3,412 | 3,335 |
| | | 970,267 | 878,098 |
| **33. TAXATION** | | | |
| Current | | | |
| - for the year | | 2,053,705 | 89,779 |
| - for prior periods | | 200,000 | (84,432) |
| Deferred | | 332,541 | (333,270) |
| | | 2,586,246 | (327,923) |

# Notes to the Financial Statements

## for the year ended June 30, 2008

| 33.1 Relationship between text expense and accounting profit | 2008 | 2007 |
|---|---|---|
| | (Rupees '000) | |
| Accounting profit before taxation (excluding share of associate) | 7,723,340 | 378,736 |
| Tax rate | 35% | 35% |
| Tax on accounting profit | 2,703,169 | 132,558 |
| Tax effect of lower tax on certain income of the Company | (303,702) | (340,706) |
| Tax charge / (reversal) in respect of prior years | 200,000 | (84,432) |
| Tax impact on account of lower tax rate on share of profit of associate | (53,062) | (30,563) |
| Others | 39,841 | (4,780) |
| Tax expense for the current year | 2,586,246 | (327,923) |

### 34. EARNINGS PER SHARE

| 34.1 Profit after taxation | 5,137,094 | 706,659 |
|---|---|---|
| | No. of Shares | |
| Average number of ordinary shares in issue during the year | 54,790,313 | 54,790,313 |
| | Rupees | |
| Earnings per share | 93.76 | 12.90 |

34.2 There were no convertible potential ordinary shares in issue as at June 30, 2008 and June 30, 2007.

### 35. EMPLOYEE BENEFITS

#### 35.1 Pension & Gratuity

As mentioned in note 2.16, the Company operates funded gratuity and pension schemes for all its employees. Contributions are made to these schemes on the basis of actuarial recommendations. The latest actuarial valuation was carried out as at June 30, 2008.

The information provided in notes 35.1.1 to 35.1.11, 35.2 and 35.3 has been obtained from the actuarial valuations carried out as at June 30, 2008.

#### 35.1.1 Actuarial assumptions

The following significant assumptions were used in the valuation of these schemes:

| | 2008 | 2007 |
|---|---|---|
| | % per annum | |
| - Expected long-term rate of increase in salary level | 11.09 | 8.90 |
| - Discount rate | 13.25 | 11.00 |
| - Expected long-term rate of return on assets | 13.25 | 11.00 |

# Notes to the Financial Statements

## for the year ended June 30, 2008

#### 35.1.2 Net asset arising

| | | 2008 | | | | | 2007 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Management | | Non-Management | | Total | Management | | Non-Management | | Total |
| | Note | Pension | Gratuity | Pension | Gratuity | | Pension | Gratuity | Pension | Gratuity | |
| | | (Rupees '000) | | | | | (Rupees '000) | | | | |
| Fair value of plan assets | 35.1.3 | 1,345,689 | 83,780 | 7,287 | 64,759 | 1,501,515 | 1,215,326 | 83,421 | 6,844 | 65,608 | 1,371,199 |
| Less: Present value of defined benefit obligation | 35.1.4 | (1,248,072) | (159,971) | - | (25,941) | (1,433,984) | (1,110,297) | (145,145) | - | (31,791) | (1,287,233) |
| Surplus / (deficit) | | 97,617 | (76,191) | 7,287 | 38,818 | 67,531 | 105,029 | (61,724) | 6,844 | 33,817 | 83,966 |
| Unrecognised past service cost | | - | - | - | - | - | - | - | - | 1,096 | 1,096 |
| Actuarial (gains) / losses to be recognised in future periods in accordance with the Company's accounting policy | | 1,644 | 85,694 | - | (7,976) | 79,362 | (24,613) | 74,643 | - | (17,098) | 34,931 |
| Asset in respect of staff retirement benefit schemes | | 99,261 | 9,503 | 7,287 | 30,842 | 146,893 | 80,416 | 14,018 | 6,844 | 17,815 | 119,893 |

#### 35.1.3 Movement in the fair value of plan assets

| | 2008 | | | | | 2007 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Management | | Non-Management | | Total | Management | | Non-Management | | Total |
| | Pension | Gratuity | Pension | Gratuity | | Pension | Gratuity | Pension | Gratuity | |
| | (Rupees '000) | | | | | (Rupees '000) | | | | |
| Total plan assets as at July 1 | 1,215,326 | 83,421 | 6,844 | 65,608 | 1,371,199 | 1,089,833 | 89,789 | 6,830 | 59,170 | 1,245,622 |
| Expected return on plan assets | 134,040 | 8,918 | 753 | 7,234 | 150,945 | 117,136 | 8,671 | 703 | 6,381 | 132,891 |
| Contribution by the Company | 63,241 | 19,335 | - | 565 | 83,141 | 61,937 | 17,353 | - | 540 | 79,830 |
| Contribution by the employees | 9,209 | - | - | - | 9,209 | 8,734 | - | - | - | 8,734 |
| Benefits paid | (65,460) | (24,603) | - | - | (90,063) | (77,443) | (33,713) | - | (503) | (111,659) |
| Inter fund transfer | - | - | - | - | - | - | - | (330) | 330 | - |
| Actuarial (losses) / gains on plan assets | (10,667) | (4,618) | (310) | (8,431) | (20,926) | 15,133 | 380 | (149) | (424) | 14,909 |
| Total plan assets as at June 30 | 1,345,689 | 83,780 | 7,287 | 64,759 | 1,501,515 | 1,215,326 | 83,421 | 6,844 | 65,608 | 1,371,199 |

# Notes to the Financial Statements

for the year ended June 30, 2008

### 35.1.4 Movement in the present value of defined benefit obligation

| | 2008 Management Pension | 2008 Management Gratuity | 2008 Non-Management Pension | 2008 Non-Management Gratuity | 2008 Total | 2007 Management Pension | 2007 Management Gratuity | 2007 Non-Management Pension | 2007 Non-Management Gratuity | 2007 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | (Rupees '000) | | | | | (Rupees '000) | | | | |
| Present value of obligation as at July 1 | 1,110,297 | 145,145 | - | 31,781 | 1,287,223 | 1,030,062 | 129,141 | 4 | 37,971 | 1,197,178 |
| Current service cost | 70,378 | 14,955 | - | 1,447 | 86,780 | 65,859 | 14,188 | - | 1,215 | 81,262 |
| Interest cost | 118,628 | 14,650 | - | 3,496 | 136,774 | 106,975 | 13,281 | - | 2,989 | 123,245 |
| Benefits paid | (65,490) | (24,573) | - | - | (90,063) | (77,440) | (32,713) | - | (503) | (110,656) |
| Past service cost | - | - | - | - | - | - | - | - | 1,096 | 1,096 |
| Actuarial losses / (gains) on obligation | 14,262 | 8,794 | - | (783) | 22,273 | (15,159) | 11,247 | (4) | (11,088) | (15,004) |
| Present value of obligation as at June 30 | 1,248,072 | 158,977 | - | 35,941 | 1,442,986 | 1,110,297 | 145,145 | - | 31,781 | 1,287,223 |

### 35.1.5 Amount recognised in the profit and loss account

| | 2008 Management Pension | 2008 Management Gratuity | 2008 Non-Management Pension | 2008 Non-Management Gratuity | 2008 Total | 2007 Management Pension | 2007 Management Gratuity | 2007 Non-Management Pension | 2007 Non-Management Gratuity | 2007 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | (Rupees '000) | | | | | (Rupees '000) | | | | |
| Current service cost | 70,378 | 14,955 | - | 1,447 | 86,780 | 65,859 | 14,188 | - | 1,215 | 81,262 |
| Interest cost | 118,628 | 14,650 | - | 3,496 | 136,774 | 106,975 | 13,281 | - | 2,989 | 123,245 |
| Expected return on plan assets | (134,040) | (8,918) | (718) | (7,204) | (150,880) | (117,130) | (8,871) | (700) | (4,281) | (130,982) |
| Past service cost | - | - | - | 1,096 | 1,096 | | | | | |
| Actuarial (gain) / loss recognised during the year | (1,338) | 4,160 | 310 | (1,474) | 1,658 | 322 | 3,730 | 145 | (1,454) | 2,743 |
| Employee contributions | (9,209) | - | - | - | (9,209) | (8,736) | - | - | - | (8,736) |
| Expense / (reversal) for the year | 44,259 | 24,847 | (448) | (2,639) | 66,141 | 47,290 | 22,328 | (555) | (1,531) | 67,532 |
| Actual return on plan assets | 133,298 | 4,400 | (1,207) | 443 | 137,039 | 135,262 | 9,201 | 858 | 2,907 | 147,556 |

### 35.1.6 Movement in the asset / (liability) recognised in the balance sheet

| | 2008 Management Pension | 2008 Management Gratuity | 2008 Non-Management Pension | 2008 Non-Management Gratuity | 2008 Total | 2007 Management Pension | 2007 Management Gratuity | 2007 Non-Management Pension | 2007 Non-Management Gratuity | 2007 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | (Rupees '000) | | | | | (Rupees '000) | | | | |
| Balance at July 1 | 80,416 | 14,018 | 6,846 | 17,415 | 118,695 | 66,777 | 30,023 | 6,516 | 13,314 | 106,630 |
| Net (charge) / reversal for the year | (44,259) | (24,847) | 448 | 3,689 | (64,141) | (47,290) | (22,328) | 555 | 3,531 | (65,537) |
| Contributions by the Company | 43,241 | 19,333 | - | 568 | 63,141 | 61,937 | 17,333 | - | 580 | 79,850 |
| Transfers between funds | - | - | - | - | - | - | - | (230) | 230 | - |
| Asset in respect of staff retirement benefit schemes | 79,261 | 9,503 | 7,287 | 20,843 | 136,893 | 80,416 | 14,018 | 6,846 | 17,415 | 118,695 |
| Current account balances with funds | 3,649 | 13,300 | - | 477 | 16,326 | 37,655 | 17,374 | (13,060) | (7,061) | 34,908 |
| Balance in respect of seconded staff | (18,470) | (5,413) | (443) | - | (21,336) | (17,332) | (4,360) | - | - | (21,692) |
| | 66,428 | 16,390 | 6,846 | 21,319 | 130,889 | 100,759 | 28,032 | (6,214) | 10,354 | 134,931 |

### 35.1.7 Plan assets comprised of the following

| | 2008 Management Pension | 2008 Management Gratuity | 2008 Non-Management Pension | 2008 Non-Management Gratuity | 2008 Total | 2007 Management Pension | 2007 Management Gratuity | 2007 Non-Management Pension | 2007 Non-Management Gratuity | 2007 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | (Rupees '000) | | | | | (Rupees '000) | | | | |
| Defence Saving Certificates (DSCs) | 153,804 | - | 2,745 | - | 156,549 | 647,104 | 13,130 | 3,475 | 38,553 | 701,634 |
| Others (PIB's, TFC's etc) | 1,084,048 | 45,496 | 3,216 | 27,111 | 1,159,871 | 125,064 | 24,814 | 3,248 | - | 156,130 |
| Mutual Fund Units | 103,962 | 40,288 | 2,223 | 10,465 | 156,938 | 63,200 | 26,443 | 1,999 | - | 91,742 |
| Cash | 38,054 | 7,107 | 3 | 29,350 | 74,514 | 409,578 | 37,134 | 581 | 29,749 | 476,742 |
| Receivable and (payable) balances | (33,179) | (17,211) | (8) | (2,160) | (52,558) | (33,702) | (17,907) | (187) | (3,273) | (55,069) |
| | 1,346,689 | 83,780 | 7,287 | 64,739 | 1,500,515 | 1,211,244 | 83,631 | 6,844 | 64,298 | 1,371,199 |

| | 2008 Management Pension | 2008 Management Gratuity | 2008 Non-Management Pension | 2008 Non-Management Gratuity | 2008 Total | 2007 Management Pension | 2007 Management Gratuity | 2007 Non-Management Pension | 2007 Non-Management Gratuity | 2007 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | (Percentage Composition) | | | | | (Percentage Composition) | | | | |
| Defence Saving Certificates (DSCs) | 11% | 0% | 38% | 0% | 10% | 53% | 16% | 36% | 60% | 51% |
| Others (PIB's, TFC's etc) | 81% | 63% | 33% | 42% | 78% | 11% | 30% | 33% | 0% | 11% |
| Mutual Fund Units | 8% | 49% | 30% | 16% | 11% | 5% | 32% | 29% | 0% | 7% |
| Cash | 3% | 9% | 0% | 45% | 4% | 34% | 44% | 4% | 45% | 35% |
| Receivable and (payable) balances | (3%) | (21%) | 0% | (3%) | (3%) | (3%) | (22%) | (2%) | (5%) | (4%) |
| | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

35.1.8 The expected return on plan assets was taken as 13.25%, which is representative of yields on long-term Government bonds and term deposits with banks. Due to the increased volatility in the equity prices in recent months, there is no clear indication of return on equity. It is therefore assumed that the yield on equity matches that on debt.

35.1.9 Expected contributions to the above schemes for the year ending June 30, 2008 is Rs 134 million.

35.1.10 The balances due from / payable to the funds are interest free and repayable on demand.

35.1.11 The break-up of balance receivable from staff retirement benefit schemes is:

| | 2008 | 2007 |
|---|---|---|
| | (Rupees '000) | |
| Total balance receivable in respect of defined benefit schemes | 130,889 | 134,299 |
| Total balance receivable in respect of defined contribution schemes | 12,440 | 62,875 |
| | 143,329 | 197,174 |

35.2 **Post retirement medical benefits**

The Company also provides post retirement medical benefits to its management staff. Actuarial valuation of the scheme is carried out annually. The amount recognised in the balance sheet is based on a valuation carried out as at the balance sheet date and is as follows:

35.2.1 **Actuarial assumptions**

The following significant assumptions were used in the valuation of this scheme:

| | 2008 | 2007 |
|---|---|---|
| - Discount rate | 13.3% | 11.0% |
| - Expected long-term rate of increase in medical cost | 7.9% | 5.7% |

35.2.2 **Amount recognised in the balance sheet**

| | 2008 | 2007 |
|---|---|---|
| | (Rupees '000) | |
| Present value of defined benefit obligation | 38,503 | 38,304 |
| Less: Fair value of plan assets | - | - |
| | 38,503 | 38,304 |
| Actuarial losses to be recognised in future periods in accordance with the Company's accounting policy | 10,905 | 12,403 |
| Liability recognised at June 30 | 27,598 | 25,901 |





35.2.3 **Movement in the liability recognised in the balance sheet**

| | 2008 | 2007 |
|---|---|---|
| | (Rupees '000) | |
| Balance at July 1 | 25,901 | 24,025 |
| Add: Charge for the year | 5,622 | 5,255 |
| Less: Payments during the year | (3,925) | (3,379) |
| Balance at June 30 | 27,598 | 25,901 |

35.2.4 **Amount recognised in the profit and loss account**

| | 2008 | 2007 |
|---|---|---|
| Current service cost | 983 | 907 |
| Interest cost | 4,003 | 3,726 |
| Actuarial loss recognised during the year | 636 | 622 |
| | 5,622 | 5,255 |

35.2.5 **The effect of a 1% movement in the assumed medical cost trend rate is as follows:**

| | Increase of 1% | Decrease of 1% |
|---|---|---|
| **Additional expense / (Income)** | | |
| - Effect on the aggregate of the current service cost and interest cost for the year | 792 | (629) |
| - Effect on the defined benefit obligation as at June 30, 2008 | 4,462 | (3,696) |

35.3 **Five year data on surplus / deficit of the plans and experience adjustments**

The Company amortises gains and losses over the expected remaining service of current plan members. The following table shows the total pension, gratuity and post retirement medical benefit obligation at the end of each year and the proportion thereof resulting from experience loss during the year. Similarly, it shows the total pension and gratuity plan assets at the end of each year and the proportion thereof resulting from experience gain during the year.

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| | | | (Rupees '000) | | |
| Present value of defined benefit obligation | 1,481,487 | 1,325,527 | 1,233,387 | 1,076,567 | 956,352 |
| Fair value of plan assets | 1,500,515 | 1,371,199 | 1,245,335 | 1,099,066 | 1,111,049 |
| Surplus | 19,028 | 45,672 | 11,948 | 22,499 | 154,697 |
| | | | (Percentage) | | |
| Experience adjustments | | | | | |
| Loss on obligation | 1 | - | 2 | 7 | 2 |
| (Loss) / gain on plan assets | (2) | 1 | 1 | (7) | 3 |

# Notes to the Financial Statements

for the year ended June 30, 2008

35.4 The value of investments made by the staff retirement funds operated by the Company as per their last audited financial statements are as follows:

| | December 31 2007 | 2006 |
|---|---|---|
| | (Rupees '000) | |
| Shell Pakistan Management Staff Provident Fund | 394,171 | 391,791 |
| Shell Pakistan Staff Provident Fund | 16,531 | 14,005 |
| Shell Pakistan Labour Provident Fund | 83,026 | 73,418 |
| Shell Pakistan Management Staff Gratuity Fund | 54,874 | 85,098 |
| Shell Pakistan Labour and Clerical Staff Gratuity Fund | 55,795 | 62,409 |
| Shell Pakistan Management Staff Pension Fund | 1,235,196 | 1,099,001 |
| Shell Pakistan Staff Pension Fund | 7,170 | 6,470 |

35.5 Aggregate amount charged in these financial statements in respect of the staff retirement benefit schemes are as follows:

| | 2008 | 2007 |
|---|---|---|
| | (Rupees '000) | |
| - in respect of pension and gratuity schemes | 66,141 | 65,537 |
| - in respect of provident funds | 23,518 | 21,834 |
| - in respect of post retirement medical benefit schemes | 5,622 | 5,255 |
| | 95,281 | 92,626 |

35.6 Share based payment

The Shell Group had a Performance Share Plan (PSP) which was launched in 2005. Under the PSP a conditional number of Royal Dutch Shell Plc. (RDS) shares were awarded to some of the Company's employees. Under this scheme if certain Performance Conditions of Shell Group are met, a number of shares may be awarded to the participants at the end of the three year performance period. These shares vested with employees in the current year and the benefit provided is recharged by RDS to Shell Pakistan Limited. The cost of this benefit has been disclosed in note 36.

In the current year, effective January 1, 2008, the Shell Group has launched another PSP for three years with similar conditions under which shares may be awarded at the completion of performance period. No amount has been accrued in the financial statements in respect of this plan as it is presently not determinable.



# Notes to the Financial Statements

for the year ended June 30, 2008

36. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Chief Executive | Directors | Executives | Chief Executive | Directors | Executives |
| | (Rupees '000) | | | | | |
| **Short-term employee benefits** | | | | | | |
| Managerial remuneration (including bonus) | 14,287 | 20,548 | 660,201 | 11,451 | 22,032 | 476,024 |
| Housing | | | | | | |
| - Rent | 3,136 | - | - | 1,912 | - | - |
| - Utilities | 1,461 | 1,040 | 34,730 | 916 | 753 | 26,601 |
| - Other items | 3,421 | 458 | 5,048 | 2,569 | 228 | 4,821 |
| Medical expenses | 106 | 234 | 7,922 | 509 | 237 | 11,021 |
| Shares based payment | 1,835 | 2,884 | 10,923 | - | - | - |
| | 24,246 | 25,164 | 718,824 | 17,357 | 23,250 | 518,467 |
| **Post-employment benefits** | | | | | | |
| Company's contribution to pension, gratuity and provident fund | - | 2,993 | 90,500 | 210 | 2,279 | 64,307 |
| | 24,246 | 28,157 | 809,324 | 17,567 | 25,529 | 582,774 |
| Number of persons at year end | 1 | 3 | 443 | 1 | 4 | 271 |

36.1 Aggregate amount charged in the financial statements for the year for fee to 5 Non-Executive Directors was Rs 250,000 (2007: 5 Non-Executive Directors Rs 175,000). In addition, an amount of Rs 3.848 million was charged in these financial statements in respect of share based compensation to the former Chief Executive of the Company.

36.2 In addition, the Chief Executive, Directors and some of the Executives were also provided with free use of Company maintained cars and the Chief Executive was also provided with Company provided furnished accommodation.

# Notes to the Financial Statements

for the year ended June 30, 2008

| 37. RELATED PARTY TRANSACTIONS | Note | Parent company 2008 | Parent company 2007 | Other related parties 2008 | Other related parties 2007 |
|---|---|---|---|---|---|
| | | (Rupees '000) | | | |
| (i) Purchases | | - | - | 80,999,199 | 49,986,635 |
| (ii) Sales | | - | - | 3,091,364 | 6,792,163 |
| (iii) Other items | | | | | |
| - Technical service fee charged | 29 | 583,169 | 539,682 | - | - |
| - Trade marks and manifestations license fee charged | 29 | - | - | 162,118 | 65,242 |
| - Computer expenses charged (Global Infrastructure Desktop charges) | | | - | 80,821 | 87,869 |
| - Expenses recovered from related parties | | 132,599 | 150,798 | 82,806 | 53,021 |
| - Other expenses charged by related parties | | - | - | 111,088 | 90,164 |
| - Legal charges | | - | - | 395 | 2,369 |

37.1 In addition to this, the Company also paid pipeline transportation expenses amounting to Rs 969.860 million (2007: Rs. 1,012.743 million) to PAPCO which is an associate of the company.

37.2 Purchases from / sales to related parties are made on commercially agreed terms negotiated by the Company. The related outstanding balances have been disclosed in relevant notes to these financial statements.

37.3 Technical services include advice and assistance on the implementation of strategies and in the Company's operations. The costs for these services and the fees have been determined on the basis of agreements between the Company and related Shell Group companies based on an agreed methodology.

37.4 Trade marks and manifestations license fee and Global Infrastructure Desktop charges are based on the agreements entered into by the Company.

37.5 Transactions and balances with staff retirement benefit schemes are disclosed in note 35 to these financial statements.

37.6 Transactions and outstanding balance in respect of the Workers' Profit Participation Fund are disclosed in note 22.3 to these financial statements.

37.7 Expenses recovered from / charged by related parties are based on actuals. The related outstanding balances have been disclosed in notes 14 and 22.1 to these financial statements.

37.8 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.

Particulars of transactions entered with key management personnel are as per the terms of their employment and are disclosed in note 3.4, 5 and 36 to these financial statements.



# Notes to the Financial Statements

for the year ended June 30, 2008

| 38. CASH GENERATED FROM OPERATIONS | Note | 2008 | 2007 |
|---|---|---|---|
| | | (Rupees '000) | |
| Profit before taxation | | 7,723,340) | 378,736 |
| Adjustment for non-cash charges and other items: | | | |
| Depreciation / amortisation expense charged to the profit and loss account | 3.2 | 679,632 | 588,674 |
| Accretion expense in respect of asset retirement obligation | 32 | 5,141 | 5,623 |
| Provision for impairment of trade debts | 31 | 513,820 | 282,389 |
| Provision for impairment of other receivables | 14 | 206,006 | 7,802 |
| Fixed assets written off | 31 | 62,141 | - |
| Reversal of provision for impairment of trade debts | 30 | (123,836) | - |
| Reversal of provision for impairment of other receivables | 14.3 | (7,802) | - |
| (Profit) / loss on disposal of property, plant and equipment | 30 & 31 | (70,230) | 15,505 |
| Share of profit of associate | 4.1 | (212,248) | (122,250) |
| Mark-up on short-term deposits | 30 | (21,765) | (5,708) |
| Mark-up on short-term running finances and loans | 32 | 873,744 | 784,321 |
| Working capital changes | 38.1 | (6,594,929) | 324,616 |
| | | 3,033,014 | 2,259,708 |

38.1 Working capital changes

| | 2008 | 2007 |
|---|---|---|
| Decrease / (Increase) in current assets | | |
| Stores and spares | 16,958 | (1,421) |
| Stock-in-trade (net) | (9,851,469) | 1,735,832 |
| Trade debts | (953,077) | 698,013 |
| Loans and advances (net) | (4,309) | (899) |
| Trade deposits and short-term prepayments (net) | (67,625) | 27,078 |
| Other receivables (net) | (305,949) | (2,017,123) |
| | (11,165,471) | 441,480 |
| Increase / (decrease) in current liabilities | | |
| Trade and other payables (excluding unclaimed dividends) | 4,570,542 | (116,864) |
| | (6,594,929) | 324,616 |

| 39. CASH AND CASH EQUIVALENTS | Note | 2008 | 2007 |
|---|---|---|---|
| Cash and bank balances | 15 | 872,414 | 814,530 |
| Short-term running finances utilised under mark-up arrangements | 20 | (4,338,339) | (725,836) |
| Short-term loans | 21 | (1,500,000) | (6,810,000) |
| | | (4,965,925) | (6,721,306) |

## 40. FINANCIAL ASSETS AND LIABILITIES

40.1 The Company's exposure to interest rate risk on its financial assets and liabilities at the balance sheet date are summarised as follows:

2008

| | Interest / Mark-up bearing | | | Non interest / Mark-up bearing | | | |
|---|---|---|---|---|---|---|---|
| | Maturity upto one year | Maturity after one year | Subtotal | Maturity upto one year | Maturity after one year | Subtotal | Total |
| | ---(Rupees '000)--- | | | | | | |
| **Financial assets** | | | | | | | |
| Investments | - | - | - | - | 5,000 | 5,000 | 5,000 |
| Loans and advances | 43,259 | 60,665 | 103,924 | 4,770 | 85,716 | 90,486 | 194,410 |
| Deposits | - | - | - | - | 89,009 | 89,009 | 89,009 |
| Trade debts | 291,641 | 134,800 | 426,441 | 4,613,399 | - | 4,613,399 | 5,039,840 |
| Other receivables | - | - | - | 4,305,504 | - | 4,305,504 | 4,305,504 |
| Cash and bank balances | 817,271 | - | 817,271 | 55,143 | - | 55,143 | 872,414 |
| | 1,151,071 | 195,465 | 1,346,636 | 8,878,816 | 149,725 | 9,028,541 | 10,375,197 |
| **Financial liabilities** | | | | | | | |
| Liabilities against assets subject to finance lease | 56,742 | 3,316 | 59,958 | - | - | - | 59,958 |
| Running finance utilised under mark-up arrangements | 4,338,339 | - | 4,338,339 | - | - | - | 4,338,339 |
| Loans | 1,500,000 | 2,500,000 | 4,000,000 | - | - | - | 4,000,000 |
| Trade and other payables | - | - | - | 17,036,699 | - | 17,036,699 | 17,036,699 |
| Mark-up accrued | - | - | - | 157,268 | - | 157,268 | 157,268 |
| | 5,895,081 | 2,503,316 | 8,397,297 | 17,193,967 | - | 17,193,967 | 25,591,264 |
| On balance sheet gap (a) | (4,744,010) | (2,306,651) | (7,050,661) | (8,305,151) | 149,725 | (8,155,426) | (15,206,067) |

2007

| | Interest / Mark-up bearing | | | Non interest / Mark-up bearing | | | |
|---|---|---|---|---|---|---|---|
| | Maturity upto one year | Maturity after one year | Subtotal | Maturity upto one year | Maturity after one year | Subtotal | Total |
| | ---(Rupees '000)--- | | | | | | |
| **Financial assets** | | | | | | | |
| Investments | - | - | - | - | 5,000 | 5,000 | 5,000 |
| Loans and advances | 41,883 | 61,580 | 103,463 | 837 | 120,599 | 121,436 | 224,899 |
| Deposits | - | - | - | - | 39,290 | 39,290 | 39,290 |
| Trade debts | 328,257 | - | - | 4,251,353 | - | 4,579,583 | 4,579,583 |
| Other receivables | - | - | - | 4,166,413 | - | 4,166,413 | 4,166,413 |
| Cash and bank balances | 770,408 | - | 770,408 | 44,123 | - | 44,123 | 814,530 |
| | 813,291 | 61,580 | 873,871 | 8,785,553 | 155,289 | 8,940,313 | 9,819,183 |
| **Financial liabilities** | | | | | | | |
| Liabilities against assets subject to finance lease | 33,203 | 547 | 33,750 | - | - | - | 33,750 |
| Running finance utilised under mark-up arrangements | 735,836 | - | 735,836 | - | - | - | 735,836 |
| Loans | 6,810,000 | - | 6,810,000 | - | - | - | 6,810,000 |
| Trade and other payables | - | - | - | 11,136,427 | - | 11,136,427 | 11,136,427 |
| Mark-up accrued | - | - | - | 121,580 | - | 121,580 | 121,580 |
| | 7,579,039 | 547 | 7,579,586 | 11,258,007 | - | 11,258,007 | 18,836,593 |
| On balance sheet gap (a) | (6,765,748) | 61,033 | (6,704,715) | (2,464,054) | 155,289 | (2,313,698) | (9,007,410) |

a) The on balance sheet gap represents the net amounts of on-balance sheet items.

The effective interest / mark-up rates for the monetary financial assets and liabilities are mentioned in the respective notes to the financial statements.





### 40.2 Financial risk management objectives and policies

The Company finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimise risk. Taken as a whole, the Company's risk arising from financial instruments is limited as there is no significant exposure to price and cash flow risk in respect of such instruments.

### 40.2.1 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted.

The Company's credit risk is primarily attributable to its receivables. Out of the financial assets aggregating Rs 10,375.197 million (2007: Rs 9,819.183 million) the financial assets subject to credit risk amount to Rs 10,320.054 million (2007: Rs 9,775.061 million). The Company manages credit risk of receivables through the monitoring of credit exposures, limiting transactions with customers and continuing assessment of the credit worthiness of customers. Credit risk for balances at bank is limited by dealing with various banks with reasonably high credit rating.

Significant receivable balances relate to the balances due from the Government of Pakistan (including its related agencies) and balances due from related parties. The Company believes that it is not exposed to any specific credit risk in respect of these balances.

### 40.2.2 Currency risk

Foreign currency risk arises mainly where payables exist due to imports of goods and transactions with foreign related parties as well as trade receivables from foreign related parties. The Company obtains forward exchange cover, where necessary and permissible, to hedge foreign currency exposure.

### 40.2.3 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulties in raising funds to meet commitments associated with financial instruments.

Through its treasury function, the Company continually monitors its liquidity position and ensures availability of funds by maintaining flexibility in funding by keeping committed credit lines available.

During the course of the year, the Company faced unprecedented liquidity issues on account of delay in settlement of Price Differential Claims (PDC) recoverable from Government of Pakistan (GoP), whereby the Company had to enhance its borrowing limits with Commercial banks. The Company has vigorously engaged with the concerned stakeholders at various forums for the early recovery and settlement of these receivables. As at June 30, 2008 the GoP has settled all outstanding claims of PDC upto June 15, 2008.

### 40.2.4 Interest rate risk

Interest risk arises from possibility that changes in interest rate will affect the value of financial instruments. The company is not materially exposed to interest rate changes.

### 40.3 Capital Risk Management

The Company's prime objective when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balances. Total capital is calculated as equity as shown in the balance sheet plus net debt.

| | 2008 | 2007 |
|---|---|---|
| | (Rupees '000) | |
| Total Borrowings | 8,397,297 | 7,568,586 |
| Less: Cash and bank balances | (872,414) | (814,530) |
| Net Debt | 7,524,883 | 6,754,056 |
| Total Equity | 13,611,638 | 9,460,771 |
| Total Capital | 21,136,521 | 16,214,827 |
| Gearing Ratio | 35.6% | 41.7% |

### 40.4 Financial risk management objectives and policies

The Company finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimise risk. Taken as a whole, the Company's risk arising from financial instruments is limited as there is no significant exposure to price and cash flow risk in respect of such instruments.

### 40.5 Fair value of financial instruments

The carrying value of financial instruments reflected in the financial statements approximate their fair values.

## 41. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with 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, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgement was exercised in application of accounting policies are as follows:

i) Provision for impairment of trade debts and other receivables (note 11 and note 14);
ii) Asset retirement obligations (note 19);
iii) Taxation (note 33); and
iv) Accounting for staff retirement benefit schemes (note 35)





## 42. CORRESPONDING FIGURES

For better presentation the following significant reclassifications in the corresponding figures have been made:

| Description | Head of account of the financial statements for the year ended June 30, 2007 | Head of account of the financial statements for the year ended June 30, 2008 | (Rupees '000) |
|---|---|---|---|
| Long-term debtors | Trade debts (note 11) | Long-term debtors (note 7) | 328,227 |
| Workers' profit participation fund | Profit and loss account | Other operating expenses (note 31) | 15,569 |
| Workers' welfare fund | Profit and loss account | Other operating expenses (note 31) | 10,721 |
| Exchange loss | Finance cost (note 32) | Other operating expenses (note 31) | 31,821 |
| Provision for impairment of trade debts | Administrative and marketing expenses (note 29) | Other operating expenses (note 31) | 282,389 |
| Other receivables written off | Administrative and marketing expenses (note 29) | Other operating expenses (note 31) | 834 |
| Auditors' remuneration | Administrative and marketing expenses (note 29) | Other operating expenses (note 31) | 3,448 |
| Loss on disposal of property, plant and equipment | Administrative and marketing expenses (note 29) | Other operating expenses (note 31) | 15,505 |
| Donations | Administrative and marketing expenses (note 29) | Other operating expenses (note 31) | 17,691 |

## 43. DIVIDENDS

Subsequent to the year end, the Board of Directors of the Company in their meeting held on August 11, 2008 have proposed a final cash dividend for the year ended June 30, 2008 of Rs 40.00 per share (400%). This is in addition to the interim cash dividend of Rs 10.00 per share resulting in a total cash dividend for the year of Rs 50.00 per share (2007: Rs 16.00 per share) amounting to Rs 2,739.516 million (2007: Rs 876.645 million). The Directors have also recommended a stock dividend through the issue of bonus shares in the proportion of 1 share for every 4 shares held (25%). The bonus shares, so issued shall not be eligible for the final cash dividend declared for the year ended June 30 2008. The approval of the members for the final cash dividend and proposed bonus issue will be obtained in the Annual General Meeting to be held on September 25, 2008.

## 44. GENERAL

Figures have been rounded off to the nearest thousand.

## 45. DATE OF AUTHORISATION

These financial statements were authorised for issue on August 11, 2008 by the Board of Directors of the Company.

**Zaiviji Ismail bin Abdullah**
Chairman & Chief Executive

**Farrokh K. Captain**
Director

# Attendance at Board Meetings

## for the year ended June 30, 2008

| Name of Directors | Total No. of Board Meetings* | No. of Board Meetings Attended |
|---|---|---|
| Mr. Zaiviji Ismail bin Abdullah | 6 | 6 |
| Mr. Yousuf Ali | 6 | 6 |
| Mr. Akber Aziz | 6 | 6 |
| Mr. Saw Choo-Boon | 6 | 2 |
| Mr. Farrokh K. Captain | 6 | 5 |
| Mr. Hussain Dawood | 4 | 1 |
| Mr. Ijaz A. Khan | 6 | 5 |
| Mr. M. Azam Khan | 6 | 6 |
| Mr. Leon Menezes | 6 | 6 |
| Mr. Manzoor H. Noon | 6 | 3 |
| Mr. Asif Sindhu | 6 | 6 |
| Mr. Fatehali W. Vellani | 2 | 2 |

*held during the period concerned Director was on the Board.



# Pattern of Shareholding

## for the year ended June 30, 2008

| Number of Shareholders | Shareholding From | | Shareholding To | Total Number of Shares Held |
|---|---|---|---|---|
| 1,609 | 1 | - | 100 | 67,886 |
| 2,000 | 101 | - | 500 | 573,920 |
| 794 | 501 | - | 1,000 | 580,079 |
| 838 | 1,001 | - | 5,000 | 1,811,848 |
| 136 | 5,001 | - | 10,000 | 942,568 |
| 41 | 10,001 | - | 15,000 | 498,877 |
| 13 | 15,001 | - | 20,000 | 235,752 |
| 16 | 20,001 | - | 25,000 | 355,743 |
| 10 | 25,001 | - | 30,000 | 268,774 |
| 5 | 30,001 | - | 35,000 | 161,570 |
| 1 | 35,001 | - | 40,000 | 36,675 |
| 3 | 40,001 | - | 45,000 | 129,801 |
| 2 | 45,001 | - | 50,000 | 95,363 |
| 2 | 50,001 | - | 55,000 | 105,022 |
| 3 | 55,001 | - | 60,000 | 170,717 |
| 3 | 60,001 | - | 65,000 | 186,200 |
| 1 | 65,001 | - | 70,000 | 65,001 |
| 2 | 70,001 | - | 75,000 | 145,500 |
| 2 | 85,001 | - | 90,000 | 175,737 |
| 1 | 95,001 | - | 100,000 | 96,718 |
| 1 | 100,001 | - | 105,000 | 100,212 |
| 2 | 105,001 | - | 110,000 | 215,600 |
| 1 | 125,001 | - | 130,000 | 129,687 |
| 1 | 135,001 | - | 140,000 | 135,400 |
| 2 | 140,001 | - | 145,000 | 284,520 |
| 1 | 170,001 | - | 175,000 | 173,000 |
| 1 | 175,001 | - | 180,000 | 178,202 |
| 1 | 215,001 | - | 220,000 | 220,000 |
| 1 | 230,001 | - | 235,000 | 232,137 |
| 1 | 245,001 | - | 250,000 | 249,312 |
| 1 | 260,001 | - | 265,000 | 262,776 |
| 1 | 270,001 | - | 275,000 | 274,885 |
| 1 | 375,001 | - | 380,000 | 375,740 |
| 1 | 410,001 | - | 415,000 | 413,725 |
| 1 | 545,001 | - | 550,000 | 548,375 |
| 1 | 810,001 | - | 815,000 | 812,968 |
| 1 | 1,780,001 | | 1,785,000 | 1,780,847 |
| 1 | 41,695,001 | | 41,700,000 | 41,699,176 |
| 5,502 | | | | 54,790,313 |

| Shareholders Category | Number of Shareholders | Number of Shares Held | Percentage % |
|---|---|---|---|
| Individuals | 5,389 | 8,016,484 | 14.63 |
| Investment Companies | 21 | 881,793 | 1.61 |
| Insurance Companies | 9 | 2,446,496 | 4.46 |
| Joint Stock Companies | 60 | 551,714 | 1.01 |
| Modaraba Companies | 4 | 65,382 | 0.12 |
| Financial Institutions | 8 | 944,164 | 1.72 |
| Associated Companies* | 1 | 41,699,176 | 76.11 |
| Abandoned Properties** | 1 | 142,145 | 0.26 |
| Others | 9 | 42,959 | 0.08 |
| | 5,502 | 54,790,313 | 100.00 |

* This category represents the foreign shareholding of The Shell Petroleum Company Ltd., London.

** This category represents shareholders of Bangladesh, whose dividend is paid to the Administrator, Abandoned Properties Organisation, Government of Pakistan.

# Pattern of Shareholding

for the year ended June 30, 2008

## Additional Information

| Shareholders' Category | Number of Shareholders | Number of Shares Held |
|---|---|---|
| **Associated companies** | | |
| The Shell Petroleum Company Limited, London | 1 | 41,699,176 |
| **NIT and ICP** | | |
| National Investment Trust | - | - |
| National Bank of Pakistan Trustee Department | 1 | 1,835 |
| Investment Corporation of Pakistan | - | - |
| **Directors** | | |
| Mr. Farrokh K. Captain | 1 | 375,853 |
| Mr. Imran R. Ibrahim | 1 | 781 |
| Mr. Zaffar A. Khan | 1 | 3,125 |
| Mr. Badaruddin F. Vellani | 1 | 100 |
| Ms. Shahnaz Wazir Ali | 1 | 5 |
| **Chief Executive Officer** | - | - |
| **Directors' / CEO's spouses** | | |
| Ms. Samina w/o. Mr. Imran R. Ibrahim | 1 | 1,085,030 |
| **Executives** | 7 | 3,121 |
| **Public sector companies and corporations** | 3 | 2,507,424 |
| **Banks, Development Finance Institutions, Non-banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds** | 39 | 1,830,411 |
| **Shareholders holding 10% or more voting interest** | | |
| The Shell Petroleum Company Limited, London | 1 | 41,699,176 |



# Shell Pakistan Limited

# Accounts of Subsidiary Companies

as of December 31, 2007

# Shell Pakistan Provident Trust (Pvt.) Ltd.

## Balance Sheet as at December 31, 2007

| | 2007 (Rupees) | 2006 (Rupees) |
|---|---|---|
| **AUTHORISED CAPITAL** | | |
| 10 ordinary shares of Rs 100 each | 1,000 | 1,000 |
| **ISSUED, SUBSCRIBED AND PAID UP CAPITAL** | | |
| 2 ordinary shares of Rs 100 each fully paid in cash | 200 | 200 |
| **ASSETS** | | |
| Cash in hand | 200 | 200 |

Note 1: The Board of Directors of the company has decided to liquidate the company and the process of liquidation has commenced.

Note 2: As there were no transactions during the year, no profit and loss account has been prepared.

**Zaiviji Ismail bin Abdullah**
Chairman & Chief Executive

**Leon Menezes**
Director

### AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Shell Pakistan Provident Trust (Private) Limited as at December 31, 2007 together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statement in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statement is free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statement. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statement. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;

b) in our opinion:

i) the balance sheet together with the notes thereon has been drawn up in conformity with the Companies Ordinance, 1984, and is in agreement with the books of account;
ii) no business was conducted, expenditure incurred or investments made during the year;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet together with the notes thereon conforms with approved accounting standards as applicable in Pakistan, and, gives the information required by the Companies Ordinance, 1984, in the manner so required and gives a true and fair view of the state of the company's affairs as at December 31, 2007; and

d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

A.F.Ferguson & Co.
Chartered Accountants
Karachi: August 20, 2008

# Shell Pakistan Pensions Trust (Pvt.) Ltd.

## Balance Sheet as at December 31, 2007

| | 2007 (Rupees) | 2006 (Rupees) |
|---|---|---|
| **AUTHORISED CAPITAL** | | |
| 10 ordinary shares of Rs 100 each | 1,000 | 1,000 |
| **ISSUED, SUBSCRIBED AND PAID-UP CAPITAL** | | |
| 2 ordinary shares of Rs 100 each fully paid in cash | 200 | 200 |
| **ASSETS** | | |
| Cash in hand | 200 | 200 |

Note 1: The Board of Directors of the company has decided to liquidate the company and the process of liquidation has commenced.

Note 2: As there were no transactions during the year, no profit and loss account has been prepared.

**Zaiviji Ismail bin Abdullah**
Chairman & Chief Executive

**Leon Menezes**
Director

### AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Shell Pakistan Pensions Trust (Private) Limited as at December 31, 2007 together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statement in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statement is free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statement. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statement. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;

b) in our opinion:

i) the balance sheet together with the notes thereon has been drawn up in conformity with the Companies Ordinance, 1984, and is in agreement with the books of account;
ii) no business was conducted, expenditure incurred or investments made during the year;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet together with the notes thereon conforms with approved accounting standards as applicable in Pakistan, and, gives the information required by the Companies Ordinance, 1984, in the manner so required and gives a true and fair view of the state of the Company's affairs as at December 31, 2007; and

d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

A.F.Ferguson & Co.
Chartered Accountants
Karachi: August 20, 2008

# Form of Proxy

The Secretary
Shell Pakistan Limited
Shell House
6, Ch. Khaliquzzaman Road
P.O. Box No. 3901
Karachi – 75530

I/We ______________________________
of ______________ in the district of ______________
being a member of Shell Pakistan Limited and holder of ______________
______________ Ordinary Shares as per Share Register Folio
(No. of Shares)
No. ______________ and/or CDC Participant I. D. No. ______________
and Sub Account No. ______________ hereby appoint ______________
of ______________ in the district of ______________
or failing him ______________ of ______________
as my/our proxy to vote for me/us and on my/our behalf at the Thirty-Ninth Annual General Meeting of the Company to be held on September 25, 2008 at 10 a.m. and at any adjournment thereof.

Signed this ______________ day of ______________ 2008.

**WITNESSES:**

1. **Signature** ______________
   Name ______________
   Address ______________
   ______________
   NIC or ______________
   Passport No. ______________

2. **Signature** ______________
   Name ______________
   Address ______________
   ______________
   NIC or ______________
   Passport No. ______________

Signature
(Signature should agree with the specimen signature registered with the Company)

**Notes:**

1. A member entitled to be present and vote at the Meeting may appoint a proxy to attend. A proxy is entitled to speak, vote, demand or join in demanding a poll. A proxy need not be a member of the Company.
2. Proxies in order to be effective must be received at the Registered Office of the Company not less than 48 hours before the Meeting.
3. CDC Shareholders and their Proxies must each attach an attested photocopy of their National Identity Card or Passport with this proxy form.