Quarterly Report March 2014

Shell Pakistan Limited

COMPANY INFORMATION

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

Managing Director & Chief Executive
Omar Sheikh

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

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

Company Secretary
Tariq Saeed

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

Auditors
A F Ferguson & Co.

Legal Advisors
Vellani & Vellani
Advocates & Solicitors

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

CHAIRMAN'S REVIEW
For the Quarter ended March 31, 2014

Our performance

On behalf of the board of Directors of Shell Pakistan Limited I am pleased to share the results of the Company for the quarter ended March 31, 2014.

The market conditions in Q1 2014 remained challenging with below-expectation volume performance. This was primarily due to slow Industry growth. High Speed Diesel Industry volumes decreased significantly during Q1 due to delayed start to the agriculture season. Motor Gasoline Industry growth was also slower than recent trends due to better availability of CNG. Further, deep discounting in the market also impacted company's market shares during the period.

The company continued to manage the operating costs and contained the increase in expenses at a below inflation level.

During the current period, the company earned a net profit of Rs. 511 million compared to a net loss of Rs. 124 million in the same period last year. A significant portion of this income is attributable to currency appreciation.

Underlying financial results of the Company continue to be affected by very low regulated fuel margins, an onerous turnover tax mechanism and continued financing cost of Government receivables.

Receivables & financing costs

During the current period, the collection of refunds due from the Government has come to a halt and we continue to incur financing cost on bank borrowings required to fund these receivables. At the end of this period, the Company is still owed Rs.6,856 Million as receivables. The Company's management is continuously engaged with relevant Government authorities, and we continue to demand that the Government pay the remaining amount on an expedited basis to ensure business continuity and growth.

Fuel margins

Petrol and diesel margins in Pakistan are regulated and fixed in Rupees per liter. Currently, these margins are not at a level sufficient to cover steadily rising direct costs of operations and the high cost of financing required for investment in stocks and business assets. In April 2013, a minimal increase in margins on regulated petroleum products was granted by the Government. We continue to advocate for a further favorable revision of these margins to bring them in line with increasing costs of doing business. Currently regulated margins for motor gasoline and diesel are the lowest in the region.

Turnover tax

Due to the minimum tax on turnover regime applicable to oil companies, the Company pays Corporate Tax irrespective of the level of profits earned in the period, which has unfairly eroded its operating profit performance and is stifling future investment and growth prospects in the industry. The Company's management is in continuous discussions with Government authorities to remove this anomaly and to bring us in line with various allowances and lower rates that are already granted to other similarly regulated sectors in the country.

Going forward

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

Omar Y Sheikh
Chairman & Chief Executive

CONDENSED INTERIM BALANCE SHEET
As at March 31, 2014

	Note	(Unaudited) March 31, 2014	(Audited) December 31, 2013
ASSETS		---------(Rupees '000)--------	
Non-current assets			
Property, plant and equipment	5	**6,394,246**	6,226,651
Intangible assets		**472,034**	558,350
Long-term investments	6	**3,174,036**	3,070,286
Long-term loans and advances		**33,849**	43,143
Long-term deposits and prepayments		**200,312**	197,155
Deferred taxation - net	7	**313,609**	632,636
		10,588,086	10,728,221
Current assets			
Stores		**14,845**	14,845
Stock-in-trade		**18,297,881**	17,818,412
Trade debts		**1,782,771**	2,259,170
Loans and advances		**148,628**	131,412
Short-term prepayments		**190,553**	190,840
Other receivables	8	**9,141,866**	8,594,635
Cash and bank balances		**-**	858,390
		29,576,544	29,867,704
TOTAL ASSETS		**40,164,630**	40,595,925
EQUITY AND LIABILITIES			
Equity			
Share capital		**856,100**	856,100
Reserves		**1,924,830**	1,924,830
Unappropriated profit		**5,114,892**	4,603,450
Remeasurement of post employment benefits - Actuarial loss		**(161,854)**	(161,854)
Total equity		**7,733,968**	7,222,526
Liabilities			
Non-current liability			
Asset retirement obligation		**379,697**	334,091
Current liabilities			
Trade and other payables	9	**25,449,695**	26,526,642
Accrued mark-up / interest		**15,360**	16,737
Short-term borrowings - secured		**6,088,056**	6,158,020
Taxation		**497,854**	337,909
		32,050,965	33,039,308
Total liabilities		**32,430,662**	33,373,399
Contingencies and commitments	10		
TOTAL EQUITY AND LIABILITIES		**40,164,630**	40,595,925

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

Omar Y Sheikh
Chairman & Chief Executive

Imran R Ibrahim
Director

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the Quarter ended March 31, 2014

	Note	March 31, 2014	March 31, 2013
		---------(Rupees '000)--------	
Sales		**64,870,359**	63,822,797
Other revenue		**158,916**	108,120
		65,029,275	63,930,917
Sales tax		**(9,010,688)**	(8,438,875)
Net revenue		**56,018,587**	55,492,042
Cost of products sold		**(53,841,804)**	(53,360,681)
Gross profit		**2,176,783**	2,131,361
Distribution and marketing expenses		**(893,126)**	(943,216)
Administrative expenses		**(1,039,660)**	(950,123)
		243,997	238,022
Other expenses		**(88,859)**	(79,440)
		155,138	158,582
Other income		**976,629**	56,572
Operating profit		**1,131,767**	215,154
Finance costs		**(140,763)**	(235,309)
		991,004	(20,155)
Share of profit of associate - net of tax		**103,750**	160,761
Profit before taxation		**1,094,754**	140,606
Taxation	11	**(583,312)**	(265,437)
Profit / (loss) for the quarter		**511,442**	(124,831)
Other comprehensive income		**-**	-
Total comprehensive income / (loss) for the quarter		**511,442**	(124,831)
		-----------(Rupees)-----------	
Earnings / (loss) per share		**5.97**	(1.46)

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

Omar Y Sheikh
Chairman & Chief Executive

Imran R Ibrahim
Director

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the Quarter ended March 31, 2014

	Share capital	Capital reserves - share premium	General revenue reserves	Unappropriated profit	Remeasurement of post employment benefits - Actuarial (loss) / gain	Total
	--	----------	-------(Rupees '000)-------	----------	----------	--
Balance as at December 31, 2012 (Restated)	856,100	1,717,828	207,002	3,542,289	(445,081)	5,878,138
Profit for the year ended December 31, 2013	-	-	-	1,061,161	-	1,061,161
Other Comprehensive income for the year ended December 31, 2013	-	-	-	-	283,227	283,227
Balance as at December 31, 2013	856,100	1,717,828	207,002	4,603,450	(161,854)	7,222,526
Profit after taxation for the quarter ended March 31, 2014	-	-	-	511,442	-	511,442
Balance as at March 31, 2014	**856,100**	**1,717,828**	**207,002**	**5,114,892**	**(161,854)**	**7,733,968**

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

Omar Y Sheikh
Chairman & Chief Executive

Imran R Ibrahim
Director

CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the Quarter ended March 31, 2014

	Note	March 31, 2014	March 31, 2013
		---------(Rupees '000)--------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	12	**(295,400)**	(612,530)
Finance costs paid		**(82,365)**	(221,977)
Income tax paid		**(104,341)**	(248,692)
Long term loans and advances		**9,294**	15,718
Long term deposits and prepayments		**(3,156)**	(1,163)
Mark-up / interest received on short term deposits		**6,877**	3,121
Long term debtors		**-**	1,216
Net cash generated from operating activities		**(469,091)**	(1,064,307)
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(325,051)**	(77,946)
Proceeds from disposal of operating assets		**5,735**	28,734
Net cash used in investing activities		**(319,316)**	(49,212)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(19)**	(200)
Net increase in cash and cash equivalents		**(788,426)**	(1,113,720)
Cash and cash equivalents at beginning of the year		**(5,299,630)**	(8,781,515)
Cash and cash equivalents at end of the year		**(6,088,056)**	(9,895,235)

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

Omar Y Sheikh
Chairman & Chief Executive

Imran R Ibrahim
Director

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended March 31, 2014

1. THE COMPANY AND ITS OPERATIONS

1.1 Shell Pakistan Limited (the Company) is a limited liability Company incorporated in Pakistan and is listed on the Karachi and Lahore Stock Exchanges. The Company is a subsidiary of Shell Petroleum Company Limited, United Kingdom (immediate parent) which is a subsidiary of Royal Dutch Shell Plc. (ultimate parent). The registered office of the Company is located at Shell House, 6, Ch. Khaliquzzaman Road, Karachi-75530, Pakistan.

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

2. BASIS OF PREPARATION

2.1 This condensed interim financial information of the Company for the quarter ended March 31, 2014 is unaudited and has been prepared in accordance with the requirements of the International Accounting Standard 34 - 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In case where the requirements differ, the provisions of or directives issued under the Ordinance have been followed.

2.2 This condensed interim financial information is being submitted to the shareholders in accordance with section 245 of the Ordinance and should be read in conjunction with the audited annual financial statements of the Company for the year ended December 31, 2013.

3. ACCOUNTING POLICIES

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of audited annual financial statements of the Company for the year ended December 31, 2013.

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 The preparation of this condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. However, actual results may differ from these estimates.

4.2 During the preparation of this condensed interim financial information, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the audited annual financial statements for the year ended December 31, 2013.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended March 31, 2014

		(Unaudited) March 31, 2014	(Audited) December 31, 2013
5.	**PROPERTY, PLANT AND EQUIPMENT**	---------(Rupees '000)--------	
	Operating assets, at net book value - notes 5.1 and 5.2		
	- Operating assets	**5,953,856**	5,958,422
	- Provision for impairment - note 5.3	**(462,357)**	(462,357)
		5,491,499	5,496,065
	Capital Work in Progress - note 5.4	**902,747**	730,586
		6,394,246	6,226,651
5.1	Additions to operating assets, including transfers from capital work-in-progress, during the period / year were as follows:		
	Owned assets		
	Leasehold land	**-**	14,243
	Buildings on freehold land	**-**	8,191
	Tanks and pipelines	**42,158**	208,260
	Plant and machinery	**68,408**	41,701
	Lifts	**-**	2,283
	Dispensing pumps	**32,776**	30,447
	Rolling stock and vehicles	**7,148**	70,071
	Electrical, mechanical and fire fighting equipments	**186**	37,764
	Furniture, office equipment and other assets	**-**	126,482
	Computer auxiliaries	**-**	28,996
		150,676	568,438

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

	Cost	Accumulated depreciation	Net book value
	-----------------	(Rupees '000)	-----------------
March 31, 2014 (unaudited)			
Owned assets			
Rolling stocks and vehicles	15,107	14,889	218
	15,107	14,889	218
December 31, 2013 (audited)	531,188	407,381	123,807

5.2.1 For details of the assets disposed / written off during the year ended December 31, 2013, please refer to the audited annual financial statements for the same year.

5.3 Provision for impairment

	(Unaudited) March 31, 2014	(Audited) December 31, 2013
	---------(Rupees '000)--------	
Balance at the beginning of the period / year	**462,357**	374,213
Provision made during the period / year		
- CNG assets - note 5.3.1	-	144,015
- Other than CNG assets - note 5.3.2	-	53,823
	-	197,838
Amount reversed during ther period / year	-	(109,694)
Balance at the end of the period / year	**462,357**	462,357

5.3.1 During the period, the CNG assets were tested for impairment due to prevailing load shedding of gas and reduced CNG margins which affect the consumption of CNG by transport sector. The projected cash flows from the CNG business for the current period have indicated an impairment of approximately NIL (December 31, 2013: Rs.144,015 thousand). It also includes the impairment testing of those CNG assets which are idle and are not generating any cash flows to the Company.

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

5.4 Capital work-in-progress

	(Unaudited) March 31, 2014	(Audited) December 31, 2013
	---------(Rupees '000)--------	
Buildings on leasehold land	**490,781**	450,253
Tanks and pipelines	-	1,486
Plant and machinery	**256,608**	239,387
Electrical, mechanical and fire fighting equipments	**129,092**	35,479
Furniture, office equipment and other assets	**8,025**	3,532
Rolling stocks & vehicles	**18,241**	449
	902,747	730,586

6. LONG-TERM INVESTMENTS

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

	(Unaudited) March 31, 2014	(Audited) December 31, 2013
	---------(Rupees '000)--------	
Balance at the beginning of the period / year	**3,065,286**	2,984,350
Share of profit	**147,880**	845,897
Share of taxation	**(44,130)**	(291,109)
	103,750	554,788
Dividend received	-	(473,852)
Balance at the end of the period / year	**3,169,036**	3,065,286

7. DEFERRED TAXATION

This is composed of the following:

	(Unaudited) March 31, 2014	(Audited) December 31, 2013
	---------(Rupees '000)--------	
Taxable temporary differences arising in respect of:		
- accelerated tax depreciation	**(828,331)**	(842,889)
- investment in associate	**(129,704)**	(119,329)
Deductible temporary differences arising in respect of:		
- short-term provisions	**654,696**	636,498
- carry forward tax losses - note 7.1	**616,948**	958,356
	313,609	632,636

7.1 Deferred income tax asset is recognised for tax losses available for carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The aggregate unutilised tax losses as at March 31, 2014 amount to Rs. 3,861,321 thousand (December 31, 2013: Rs. 4,865,464 thousand), out of which deferred income tax asset has been recognised on tax losses amounting to Rs. 1,814,551 thousand (December 31, 2013: Rs. 2,818,695 thousand), based on projections of future taxable profits of the Company. Tax losses in respect of business are available for utilization against future taxable profits till December 31, 2014. The management reviews realizability of deferred tax asset on a half yearly basis.

7.2 The Company has not recognized deferred tax asset on minimum tax available for carry forward, as explained in note 11.1

7.3 As at March 31, 2014, deferred tax asset / liability on the deductible / taxable temporary differences has been recognized at the rate of 34% being the rate substantively enacted at the balance sheet date and is expected to apply to the periods when the asset is realized or the liability is settled.

8. OTHER RECEIVABLES

	(Unaudited) March 31, 2014	(Audited) December 31, 2013
	---------(Rupees '000)--------	
Petroleum development levy and other duties - note 8.1	**2,306,592**	2,305,669
Price differential claims		
- on imported purchases - note 8.2	**295,733**	295,733
- on high speed diesel (HSD) - note 8.3	**343,584**	343,584
- on imported motor gasoline - note 8.4	**2,071,107**	2,071,107
Sales tax refundable - note 8.5	**1,839,105**	1,655,379
Inland freight equalisation mechanism	**590,919**	352,909
Service cost receivable from related parties	**29,161**	74,632
Service cost receivable from associate company - PAPCO	**8,897**	12,083
Staff retirement benefit schemes	**866,964**	751,489
Taxes recoverable - note 8.6	**949,742**	949,742
Others	**63,271**	5,533
	9,365,075	8,817,860
Provision for impairment	**(223,209)**	(223,225)
	9,141,866	8,594,635

8.1 This includes petroleum development levy recoverable amounting to Rs. 2,295,879 thousand (December 31, 2013: Rs. 2,295,879 thousand) from the Federal Board of Revenue (FBR) on account of export sales. In 2011, the Company approached the Government of Pakistan (GoP) and FBR for settlement of this receivable. The GoP sought certain information which has been provided by the Company. The FBR through the Large Taxpayer Unit (LTU) has completed the verification exercise for claims amounting to Rs. 604,939 thousand which have been forwarded to the Ministry of Finance for processing. The remaining claims are under verification. The Company is confident of the recovery of the amount in full on completion of the verification exercise by FBR.

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

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

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

In 2009, oil marketing companies approached the MoPNR requesting an expeditious settlement of these claims. Further, the Company along with the industry also approached MoPNR through letter dated July 23, 2009 requesting for an early settlement of these claims. On October 2, 2009, MoPNR requested that an audited claim be submitted to allow further consideration and resolution of the matter. The Company has accordingly submitted audit reports thereafter and for claims till May 31, 2011. In 2011, the Company received an amount of Rs. 454,000 thousand from GoP in respect of these claims.

Further in 2012, to meet the increasing local demand, oil marketing companies resorted to import Motor Gasoline on the instruction of MoPNR. The company again along with oil marketing companies approached the GoP with a proposal to include the high premium on the gallop cargo in the pricing mechanism. MoPNR accepted the oil marketing companies' proposal and directed OGRA through its directive PL-3(457) / 2012-43 dated June 30, 2012 to adjust the actual premium differential of the imported Motor Gasoline through the IFEM mechanism.

The Company during the current period has also approached the MoPNR through letter dated May 20, 2013 requesting an early settlement of the claim amounting to Rs. 109,896 thousand in respect of this import. On June 6, 2013, MoPNR requested that an audited claim be submitted to allow further consideration and resolution of the matter.

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

The Company along with the industry and Oil Companies Advisory Committee (OCAC) continues to follow up this matter with MoPNR and is confident of recovering the amounts in full. The receivable represents the Company's share of differential claims on shared import cargoes of motor gasoline.

8.5 This principally represents sales tax refundable on account of export sales for which the Company has filed claims with FBR and is actively pursuing for its recovery.

8.6 In 2013, the Deputy Commissioner Inland Revenue (DCIR) in compliance with the directions of ATIR, completed denovo proceedings in respect of tax year 2006 and raised a demand of Rs. 425,514 thousand. The demand primarily relates to disallowance of premium paid to Shell International Trading Middle East (SITME) on imports of high speed diesel while treating the same as payment to non-resident on which the Company failed to deduct tax under section 152 of the Income Tax Ordinance, 2001. The Company in response to the aforementioned order deposited an amount of Rs. 301,167 while an amount of Rs. 111,785 thousand was adjusted against sales tax refund. The Company has filed an appeal against the aforementioned order before CIR (Appeals) which is pending hearing. In addition a rectification application was also filed for correction of certain mistakes apparent in the order which has been accepted and given effect. The Company, based on the advice of its tax consultant expects a favourable outcome at appellate levels and considers the possibility of any liability arising under the aforementioned order to be remote.

9. TRADE AND OTHER PAYABLES	**(Unaudited) March 31, 2014**	**(Audited) December 31, 2013**
	---------(Rupees '000)	**--------**
Creditors - note 9.1	**19,717,913**	20,990,907
Oil marketing companies	**7,607**	7,607
Accrued liabilities	**2,632,578**	3,061,333
Excise and customs duties and development surcharge	**19,840**	18,508
Dealers' and customers' security deposits	**551,029**	546,018
Advances received from customers	**1,761,121**	1,334,588
Provision for post retirement medical benefits	**77,544**	79,840
Workers' welfare fund	**331,708**	307,743
Workers' profits participation fund	**75,498**	24,518
Unclaimed dividends	**107,328**	107,347
Other liabilities	**167,530**	48,233
	25,449,695	26,526,642

9.1 This includes amounts due to related parties aggregating to Rs. 13,886,661 thousand (December 31, 2013: Rs. 14,491,583 thousand). Particulars of the amounts due are as follows:

	(Unaudited) March 31, 2014	**(Audited) December 31, 2013**
	---------(Rupees '000)	**--------**
Affiliates of Parent company	**12,487,086**	13,192,405
Pakistan Refinery Limited	**1,299,152**	1,191,646
Other related parties	**102,423**	107,532
	13,888,661	14,491,583

10. CONTINGENCIES AND COMMITMENTS

10.1 Contingencies

10.1.1 Infrastructure fee

The Sindh Finance Act, 1994, prescribed the imposition of an infrastructure fee at the rate of 0.5% of the C&F value of all goods entering or leaving the province of Sindh via sea or air. Subsequent to the period end, Sindh Assembly has amended the Sindh Finance Act, 1994 through legislation of Sindh Finance Act, 2013 according to which infrastructure fee will range from 0.90% to 0.95% of total value of goods as assessed by the Customs Authorities plus one paisa per kilometer against various slabs of net weight of goods.

The Company and several others challenged the levy in constitutional petitions before the High Court of Sindh. These petitions were dismissed as, during their pendency, the nature of the levy was changed by the Government of Sindh through an Ordinance. The Company and others therefore filed civil suits in the High Court of Sindh challenging the amended Ordinance. However, these suits were also dismissed in October 2003. All the plaintiffs preferred intra-court appeals against the dismissal. The intra-court appeals were decided by the High Court in September 2008 wherein it was held that the levy is valid and collectable only from December 12, 2006 onwards and not prior to this date. Being aggrieved by the said judgment, both the Company and the Government of Sindh filed separate appeals before the Supreme Court of Pakistan.

In 2011, the Government of Sindh unconditionally withdrew its appeals on the plea that the Sindh Assembly had legislated the Sindh Finance (Amendment) Act, 2009, levying infrastructure fee with retrospective effect from 1994. However, the Supreme Court of Pakistan, in view of the new legislation, directed the Company and others to file fresh petitions to challenge the same before the High Court and set aside the earlier order of the High Court.

The High Court on fresh petitions filed, passed an interim order directing that any bank guarantee / security furnished for consignments cleared upto December 27, 2006 are to be returned and for period thereafter guarantees or securities furnished for consignments cleared are to be encashed to the extent of 50% and the remaining balance is to be retained till the disposal of petitions. For future clearances, the Company is required to clear the goods on paying 50% of the fee amount involved and furnishing a guarantee / security for the balance amount.

Subsequent to the orders of the court, the Company has reviewed its position and without acknowledging it as a debt now estimates the accumulated levy up to September 30, 2013 at Rs. 54,993 thousand (December 31, 2013: Rs. 52,993 thousand). However, the eventual obligation on account of the aggregate fee, if any, cannot be ascertained presently because of uncertainty in relation to the extent of its application to the Company. For these reasons and based on legal advice obtained, no provision has been made in the condensed interim financial information against the levy as the management expects a favourable outcome.

10.1.2 Taxation

10.1.2.1 In 2011, the Company received a demand from tax authorities in respect of tax year 2008 amounting to Rs. 735,109 thousand. The demand principally arose due to addition made by assessing officer in respect of allocation of common expenses and taxing the reversal of provision for impairment in trade and other receivables. Further, assessing officer had also disallowed the credit for minimum tax amounting to Rs. 482,685 thousand paid in earlier year and set-off against tax liability for the tax year 2008. The Company thereafter filed an application against the order for rectification of certain mistakes apparent from the record.

The tax officer rectified the order accepting the Company's contention and reduced the demand to Rs. 527,150 thousand. The Company in response to the demand deposited an amount of Rs. 120,000 thousand and filed an appeal with the Commissioner Inland Revenue (CIR) (Appeals) and thereafter with Appellate Tribunal Inland Revenue (ATIR). The remaining demand has been adjusted by the taxation authorities from sales tax refundable. In 2012, both CIR (Appeals) and ATIR have decided the case against the Company. The Company in response to this order of ATIR has filed an appeal before High Court of Sindh which is pending hearing.

In 2013, the High Court of Sindh, in respect of another company, had overturned the interpretation of the Appellate Tribunal on Sec 113 (2) (c) of the Income Tax Ordinance, 2001 and decided that the minimum tax could not be carried forward where there no tax was paid on account of loss for the year or carried forward losses. The Company's management is however of the view, duly supported by the legal advisor, that the above order is not correct and would not be maintained by the Supreme Court which the Company intends to approach, if same decision is awarded to the Company in appeal to the High Court. Therefore, the Company has continued to consider the adjustment made against the demand and the deposit of Rs. 120,000 thousand as recoverable and the same is included in other receivables as reflected on the balance sheet in the financial statements.

10.1.2.2 In 2012, the Company received a demand from tax authorities in respect of tax year 2004 amounting to Rs. 161,057 thousand. The demand principally arose due to addition made by assessing officer in respect of allocation of common expenses, disallowance of software cost claimed as revenue expenditure and credit disallowed in respect of income derived from Azad Kashmir. The Company in response to the order deposited an amount of Rs. 29,106 thousand and filed a rectification application and an appeal with CIR (Appeals). The tax officer rectified the order allowing Azad Kashmir tax credit and partial relief on amortization of software cost reducing the tax demand to Rs. 109,895 thousand after taking into consideration Rs. 29,106 thousand already deposited on this account. Thereafter, the Company made a payment of Rs. 100,000 thousand under protest against the rectified order and filed another rectification application and appeal before CIR (Appeals). The tax officer provided further relief in the revised rectified order on account of software cost which resulted in a net tax refund of Rs.733 thousand after taking into consideration the payments already made in this regard. The revised rectified order still contains certain mistakes for which the Company has filed another rectification application which is still pending.

In 2013, CIR (Appeals) had upheld the basis used by tax officer in respect of allocation of expenses and had directed the tax authorities to work out correct figures, in order to determine the allocation ratio. The CIR (Appeals) in respect of disallowance of software cost had directed tax authorities to give consequential effect to the subsequent years. The Company has filed an appeal against the CIR (Appeals) order before the ATIR.

The Company, based on the advice of its tax consultant expects a favourable outcome. The Company, however, has provided for an amount of Rs. 19,068 thousand representing its best estimate of potential liability arising therefrom. The payment made against the demand to the extent considered recoverable has been included in other receivables as reflected on the balance sheet in these financial statements.

10.1.3 **Sales tax and federal excise duty (FED)**

10.1.3.1 In 2011, the tax authorities after conducting sales tax and federal excise duty audit for the period July 2008 to June 2009 and post refund audit for the period September and October 2008 raised sales tax and federal excise duty demands amounting to Rs. 1,843,529 thousand including penalty through several orders. In 2012 and 2013, the tax authorities also conducted sales tax and federal excise duty audit for period July 2009 to December 2009 and January 2011 and December 2011 and raised additional sales tax and federal excise duty demands amounting to Rs. 1,093,370 thousand and Rs. 2,902,486 thousand including penalty, respectively.

These demands primarily arose on account of (i) disallowing input tax against zero rated supplies; (ii) levying FED on license fee, group service fee and trademarks and manifestation fee; (iii) levying sales tax on difference in output sales tax as per return and financial statements; (iv) sales tax on lubricants paid on the value of supply instead of retail price as mentioned on packs; and (v) unlawful adjustment of input sales tax.

In 2012, the tax authorities have adjusted sales tax demand of Rs. 173,799 thousand pertaining to September 2008 against sales tax refundable. The Company in response to the aforementioned orders filed appeals and sought stay against the demands with the CIR (Appeals), ATIR and High Court. The appeal for October 2008 has been decided in favour of the Company by the ATIR whereas appeals for July 2008 to June 2009 and July 2009 to December 2009 have been decided on most of the grounds in favour of the Company by CIR (Appeals) except for issue of FED on dealers joining fee and income from Company Owned Company Operated (COCO) sites. Appeal on such issue was filed by the Company with the ATIR which has remanded back the matter to the tax authorities for fresh adjudication.

The sales tax appeal for the period January 2011 to December 2011 has been decided by the CIR (Appeals). The CIR (Appeals) in his order has set-aside all matters involved in appeal and has directed the tax authorities to re-examine the same in line with his directives. The Company filed an appeal on the matter before the ATIR, which in its order has maintained the stance taken by CIR (Appeals). The Company in response to the order of ATIR, filed a reference application with High Court of Sindh, which through an ad-interim order has restrained tax authority from passing an order. The Company based on the merits of the case and as per the advice of its tax consultant and legal advisor, expects a favourable outcome on the matter and accordingly no provision has been made in this respect in these quarterly financial statements.

10.1.3.2 In 2012, the Company received an order from Model Customs Collectorate, Hyderabad raising sales tax demand of Rs. 46,838 thousand, without specifying the basis of computation, on goods imported by levying further sales tax @ 2% representing minimum value addition under Sub-section 5 of Section 3 read with Section 7A of the Sales Tax Act, 1990 and Chapter X of the Sales Tax Special Procedure Rules, 2007. Further, the Company has also received show cause notices from other Model Customs Collectorates with a potential demand of Rs. 4,775,814 thousand, the basis of computation of which has not been specified. The Company is of the view that the sales tax on minimum value addition is not applicable as OMCs are manufacturers of lubricants and other products and the prices of POL products imported by them for sale in the country are administered under a special pricing arrangement agreed with the GoP.

The FBR has issued directives restricting collectorates from any recovery actions and has also issued a notification dated February 10, 2012 confirming that value addition sales tax is not to be charged on Petroleum (POL) products whose prices are regulated under special pricing arrangement by the GoP or regulatory authority working under the GoP. Further, Model Customs Adjudication has quashed the show cause notices of Faisalabad, Lahore and Multan Collectorates based on the notification. The Company is also of the opinion that OMCs cannot be required to pay the tax on unregulated products / exports retrospectively since clarification of FBR was in field at that time and is confident that revised notification in this respect will be issued by FBR if required. Further, in the event the Company is required to make a payment in this respect, it is Company's contention that it will be able to claim the amount paid as input tax except for default surcharge which cannot be computed at this stage. Accordingly, no provision has been made in this respect in these quarterly financial statements.

10.1.4 **Others**

The amount of other claims against the Company not acknowledged as debt as at March 31, 2014 aggregate to approximately Rs. 2,487,764 thousand (December 31, 2013: Rs. 2,385,953 thousand). This includes claims by refineries, amounting to Rs. 1,093,733 thousand (December 31, 2013: Rs. 1,093,733 thousand) in respect of delayed payment charges. The Company does not acknowledge the claim for late payment charges as the delayed payment to refineries arose due to the liquidity crisis faced by oil marketing companies over the past few years caused by non-settlement of price differential claims by the Government of Pakistan.

10.2 **Commitments**

10.2.1 Capital expenditure contracted for but not incurred as at March 31, 2014 amounted to approximately Rs. 319,968 thousand (December 31, 2013: Rs. 340,555 thousand).

10.2.2 Commitments for rentals of assets under operating lease agreements as at March 31, 2014 amounted to Rs. 2,811,767 thousand (December 31, 2013: Rs. 2,843,019 thousand) payable as follows:

	(Unaudited) March 31, 2014	(Audited) December 31, 2013
	---------(Rupees '000)--------	
Not later than one year	**164,141**	164,621
Later than one year and not later than five years	**635,735**	639,735
Later than five years	**2,011,891**	2,038,663
	2,811,767	2,843,019

10.2.3 Post-dated cheques have been deposited with the Collector of Customs Port Qasim and Karachi Port Trust in accordance with the Customs' Act, 1969 as an indemnity to adequately discharge the liability for the duties and taxes leviable on imports, as required under the Finance Act, 2005. As at March 31, 2014, the value of these cheques amounted to Rs. 5,730,137 thousand (December 31, 2013: Rs. 5,603,246 thousand). The maturity dates of these cheques extend to September 27, 2014 (December 31, 2012: June 18, 2013).

10.2.4 Letters of credit and bank guarantees outstanding as at March 31, 2014 amount to Rs.6,705,524 thousand (December 31, 2013: Rs. 3,907,215 thousand).

11. **TAXATION**	**Quarter ended** March 31, 2014	March 31, 2013
	---------(Rupees '000)--------	
Current		
- for the period - note 11.1	**264,286**	265,437
- for prior periods	**-**	-
Deferred	**319,026**	-
	583,312	265,437

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended March 31, 2014

11.1 This includes minimum tax @ 0.5% of taxable turnover amounting to Rs. 251,096 thousand (March 31, 2013: Rs. 256,646 thousand). Minimum tax is adjustable against the tax liability of succeeding five years. The Company however, on prudence, has not recognised the related deferred tax asset in view of unutilised tax losses available for set off against future taxable income aggregating Rs. 3,861,321 thousand (December 31, 2013: Rs. 4,865,464 thousand). Minimum tax which is available for adjustment against the future tax liability and not recognised as tax asset aggregates to Rs. 3,996,876 thousand (December 31, 2013: Rs. 4,067,710 thousand).

	Quarter ended	
	March 31, 2014	**March 31, 2013**
12. CASH GENERATED FROM OPERATIONS	---------(Rupees '000)--------	
Profit before taxation	**1,094,754**	140,606
Adjustment for non-cash charges and other items:		
Depreciation and amortisation charge	**240,479**	246,050
Accretion expense in respect of asset retirement obligation	**45,605**	(91)
Provision for impairment of trade debts	**-**	806
Reversal of provision for impairment of trade debts	**(1,892)**	(4,728)
Write off of operating assets	**-**	8,123
Gain on disposal of operating assets	**(2,440)**	(10,718)
Share of profit of associate	**(103,750)**	(160,761)
Mark-up / interest on short-term deposits	**(6,876)**	(3,121)
Mark-up / interest on short-term running finances, short term loans and long term loans	**80,986**	186,965
Working capital changes - note 12.1	**(1,642,266)**	(1,015,661)
	(295,400)	(612,530)

12.1 **Working capital changes**

Decrease / (increase) in current assets		
Stock-in-trade	**(479,469)**	(2,162,557)
Trade debts	**478,291**	(636,823)
Loans and advances	**(17,216)**	16,749
Short-term prepayments	**287**	41,488
Other receivables	**(547,231)**	1,273,556
	(565,338)	(1,467,587)
Increase in current liability		
Trade and other payables	**(1,076,928)**	451,926
	(1,642,266)	(1,015,661)

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended March 31, 2014

13. RELATED PARTY TRANSACTIONS

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

Nature of relationship	Nature of transactions	Quarter ended March 31, 2014	Quarter ended March 31, 2013
		---------(Rupees '000)--------	
Associate			
Pak-Arab Pipeline Company Limited	Pipeline charges	**119,200**	74,176
	Others	**2,739**	2,768
Staff retirement benefit / contribution funds			
Pension Funds	Contribution	**6,836**	33,105
DC Pension Funds	Contribution	**21,970**	-
Gratuity Funds	Contribution	**1,638**	7,403
Provident Funds	Contribution	**12,081**	22,327
Key management personnel	Salaries and other short term employee benefits - note 13.1	**15,076**	15,997
	Post employment benefits	**1,254**	1,588
	Directors' Fee	**500**	280
Other related parties	Purchases	**15,693,486**	15,608,567
	Sales	**3,454**	7,932
	Collection for sales made in Pakistan to customers of the parent company and its associates	**1,563,286**	1,150,998
	Technical service fee charged - note 13.2	**316,564**	345,021
	Trademarks and manifestations license fee charged - note 13.3	**72,042**	62,551
	Computer expenses charged (Global Infrastructure Desktop charges) - note 13.3	**48,377**	39,520
	Expenses recovered from related parties - note 13.4	**24,315**	39,967
	Other expenses charged by related parties - note 13.4	**168,853**	155,056
	Legal charges	**-**	25

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the period ended March 31, 2014

13.1 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. The Company considers its Chief Executive and Executive Directors to be key management personnel.

13.2 Technical services include advice and assistance to the Company in its operations. The fee for these services has been determined on the basis of agreements between the Company and a related Shell Group company based on an agreed methodology.

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

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

14. NON ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

14.1 During the quarter, the Board of Directors of the Company in their meeting held on March 11, 2014 have proposed a cash dividend of Rs. 4 per share and 25% issue of bonus shares in the ratio of one share for every four shares held by the shareholders. The approval of the members for cash dividend and issue of bonus shares has been obtained in the Annual General Meeting held on April 23, 2014. The financial statements for the quarter ended March 31, 2014 do not include the effect of these appropriations which will be accounted for in the subsequent financial statements for the year ending December 31, 2014.

15. CORRESPONDING FIGURES

15.1 In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', corresponding figures in the condensed interim balance sheet comprise of balances as per the audited annual financial statements of the Company for the year ended December 31, 2013 and the corresponding figures in the condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows comprise of balances of comparable period as per the condensed interim financial information of the Company for the three months ended March 31, 2013.

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

16. DATE OF AUTHORISATION

This condensed interim financial information was authorized for issue on April 23, 2014 by the Board of Directors of the Company.

Omar Y Sheikh
Chairman & Chief Executive

Imran R Ibrahim
Director

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