



ANNUAL REPORT 2012
Shell Pakistan Limited



OUR VISION

To be the most competitive and innovative Downstream Oil Marketing Company in Pakistan.

STATEMENT OF GENERAL BUSINESS PRINCIPLES

INTRODUCTION

Shell Pakistan Limited General Business Principles govern how Shell Pakistan Limited conducts its affairs.

The objectives of Shell Pakistan Limited are to engage efficiently, responsibly and profitably in oil, gas, chemical and other selected business and to participate in the search for and development of other sources of energy to meet evolving customer needs and the world's growing demand for energy.

We believe that oil and gas will be integral to the global energy needs for economic development for many decades to come. Our role is to ensure that we extract and deliver them profitably and in environmentally and socially responsible ways.

We seek a high standard of performance, maintaining a strong long-term and growing position in the competitive environments in which we choose to operate. We aim to work closely with our customers, partners and policy-makers to advance more efficient and sustainable use of energy and natural resources.

OUR VALUES

Shell Pakistan Limited employees share a set of core values – honesty, integrity and respect for people. We also firmly believe in the fundamental importance of trust, openness, teamwork and professionalism, and pride in what we do.

SUSTAINABLE DEVELOPMENT

As part of the Business Principles, we commit to contribute to sustainable development. This requires balancing short and long term interests, integrating economic, environmental and social considerations into business decision-making.

RESPONSIBILITIES

Shell Pakistan Limited recognises five areas of responsibility. It is the duty of management continuously to assess the priorities and discharge these inseparable responsibilities on the basis of that assessment.

- a. **To shareholders**
To protect shareholders' investment, and provide a long-term return competitive with those of other leading companies in the industry.
- b. **To customers**
To win and maintain customers by developing and providing products and services which offer value in terms of price, quality, safety and environmental and commercial expertise.
- c. **To employees**
To respect the human rights of our employees and to provide them with good and safe working conditions and competitive terms and conditions of employment. To promote the development and best use of the talents of our employees, to create an inclusive work environment where every employee has an equal opportunity to develop his or her skills and talents. To encourage the involvement of employees in the planning and direction of their work and to provide them with channels to report concerns. We recognize that commercial success depends on the full commitment of all employees.
- d. **To those with whom we do business**
To seek mutually beneficial relationships with contractors, suppliers and in joint ventures and to promote the application of these Shell Pakistan Limited General Business Principles or equivalent principles in such relationships. The ability to promote these principles effectively will be an important factor in the decision to enter into or remain in such relationships.
- e. **To society**
To conduct business as responsible corporate members of society, to comply with applicable laws and regulations, to support fundamental human rights in line with the legitimate role of business, and to give proper regard to health, safety, security and the environment.

PRINCIPLE 1 ECONOMIC

Long-term profitability is essential to achieving our business goals and to our continued growth. It is a measure both of efficiency and of the value that customers place on Shell Pakistan Limited products and services. It supplies the necessary corporate resources for the continuing investment that is required to develop and produce future energy supplies to meet customer needs. Without profits and a strong financial foundation, it would not be possible to fulfil our responsibilities.

PRINCIPLE 2 COMPETITION

Shell Pakistan Limited supports free enterprise. We seek to compete fairly and ethically and within the framework of applicable competition laws; we will not prevent others from competing freely with us.

PRINCIPLE 3 BUSINESS INTEGRITY

Shell Pakistan Limited insists on honesty, integrity and fairness in all aspects of our business and expects the same in our relationships with all those with whom we do business. The direct or indirect offer, payment, soliciting or acceptance of bribes in any form is unacceptable. Facilitation payments are also bribes and should not be made. Employees must avoid conflicts of interest between their private activities and their part in the conduct of company business. Employees must also declare to their employing company potential conflicts of interest. All business transactions on behalf of Shell Pakistan Limited must be reflected accurately and fairly in the accounts of the company in accordance with established procedures and are subject to audit and disclosure.

PRINCIPLE 4 POLITICAL ACTIVITIES

a. Of companies

Shell Pakistan Limited acts in a socially responsible manner within the laws of the country in which we operate in pursuit of our legitimate commercial objectives. Shell Pakistan Limited does not make payments to political parties, organizations or their representatives. Shell Pakistan Limited does not take part in party politics. However, when dealing with the government, Shell Pakistan Limited has the right and the responsibility to make our position known on any matters which affect us, our employees, our customers, our shareholders or local communities in a manner which is in accordance with our values and the Business Principles.

b. Of employees

Where individuals wish to engage in activities in the community, including standing for election to public office, they will be given the opportunity to do so where this is appropriate in the light of local circumstance.

PRINCIPLE 5 HEALTH, SAFETY, SECURITY AND THE ENVIRONMENT

Shell Pakistan Limited has a systematic approach to health, safety, security and environmental management in order to achieve continuous performance improvement.

To this end, Shell Pakistan Limited manages these matters as critical business activities, sets standards and targets for improvement, and measures, appraises and reports performance externally.

We continually look for ways to reduce the environmental impact of our operations, products and services.

PRINCIPLE 6 LOCAL COMMUNITIES

Shell Pakistan Limited aims to be good neighbours by continuously improving the ways in which we contribute directly or indirectly to the general well-being of the communities within which we work.

We manage the social impacts of our business activities carefully and work with others to enhance the benefits to local communities, and to mitigate any negative impacts from our activities.

In addition, Shell Pakistan Limited takes a constructive interest in social matters, directly or indirectly related to our business.

PRINCIPLE 7 COMMUNICATION AND ENGAGEMENT

Shell Pakistan Limited recognises that regular dialogue and engagement with our stakeholders is essential. We are committed to reporting our performance by providing complete relevant information to legitimately interested parties, subject to any overriding considerations of business confidentiality.

In our interactions with employees, business partners and local communities, we seek to listen and respond to them honestly and responsibly.

PRINCIPLE 8 COMPLIANCE

We comply with all applicable laws and regulations of the countries in which we operate.

LIVING BY OUR PRINCIPLES

Our shared core values of honesty, integrity and respect for people, underpin all the work we do and are the foundation of our Business Principles. The Business Principles apply to all transactions, large or small, and drive the behaviour expected of every employee in Shell Pakistan Limited in the conduct of its business at all times.

We are judged by how we act. Our reputation will be upheld if we act in accordance with the law and the Business Principles. We encourage our business partners to live by them or by equivalent principles.

We encourage our employees to demonstrate leadership, accountability and teamwork, and through these behaviours, to contribute to the overall success of Shell Pakistan Limited.

It is the responsibility of management to lead by example, to ensure that all employees are aware of these principles, and behave in accordance with the spirit as well as with the letter of this statement.

The application of these principles is underpinned by a comprehensive set of assurance procedures which are designed to make sure that our employees understand the principles and confirm that they act in accordance with them.

As part of the assurance system, it is also the responsibility of management to provide employees with safe and confidential channels to raise concerns and report instances of non-compliance. In turn, it is the responsibility of Shell Pakistan Limited employees to report suspected breaches of the Business Principles to Shell Pakistan Limited.

The Business Principles have for many years been fundamental to how we conduct our business and living by them is crucial to our continued success.



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Notice of Annual General Meeting

Notice is hereby given that the Forty-Fourth Annual General Meeting of Shell Pakistan Limited will be held on Tuesday, April 23, 2013 at 10:00 a.m. at Sheraton Karachi Hotel, Karachi to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Report of Directors and Auditors together with Audited Financial Statements for the year ended December 31, 2012.
2. To appoint Auditors for the financial year January 1 to December 31, 2013 and to fix their remuneration.

By Order of the Board

Tariq Saeed
Secretary

Karachi: February 28, 2013

Shell House
6, Ch. Khaliquzzaman Road
Karachi - 75530

Notes:

- (i) The register of members will remain closed from April 9 to April 23, 2013 (both days inclusive). Transfers received in order at the office of our Share Registrars, FAMCO Associates (Pvt) Ltd., 1st Floor, State Life Building 1 - A, I. I. Chundrigar Road, Karachi by the close of business on April 8, 2013 will be in time for the purpose of attending the Annual General Meeting.
- (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.
- (iii) Shareholders are requested to notify any change in their addresses immediately to our Share Registrars, FAMCO Associates (Pvt) Ltd., 1st Floor, State Life Building 1- A, I. I. Chundrigar Road, Karachi.
- (iv) Shareholders or their proxies are required to bring with them their original CNIC or Passport along with the Participant's I.D. Number and their Account Number(s) 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.

Omar Y Sheikh

Since August 1, 2012, Omar Sheikh is the Chairman and Managing Director of Shell Pakistan Limited (SPL) and Country Chairperson for Shell companies in Pakistan. Omar has been with Shell since 1995, serving in several roles here in Pakistan and at Shell's Downstream headquarters in London. His most recent role was General Manager (GM) Lubricants for Pakistan. Prior to this, Omar was GM Global Business Improvement in which he oversaw top Shell Lubricants business across the world.

Omar has MBAs from INSEAD and IBA and is a Director on the Boards of a number of education, health, environment and philanthropy-related organisations. He is passionate about helping improve access to education in the country. He is married with two young children.



Rafi H Basheer

Rafi Basheer is a Chartered Accountant and a career finance professional. After completing his accountancy training in London, UK, Rafi worked for two years with PricewaterhouseCoopers in Dubai as Assistant Manager in Audit before joining Shell Pakistan in January 2000.

At Shell, he has held a variety of roles locally and overseas ranging from Retail Finance Manager Shell Pakistan, Mergers and Acquisitions Finance for Shell Downstream Asia/Pacific, Global Governance Manager for the Downstream B2B business to most recently the role of Finance Manager East for the Commercial Fuels business. Rafi enjoys reading, travelling and playing golf but most of his free time is spent with his wife and three young children.



Farrokh K Captain

Farrokh received both his Bachelors and Master degrees from MIT, where he was a member of the class of 1966. After completing his education he joined Arthur D. Little in the USA, and went on to establish their practice in Pakistan. From 1978 to 1994 he led a major US-Pakistan joint venture chemical manufacturing business in Pakistan, namely Captain-PQ Chemical Industries (Pvt.) Limited.

He is also a distinguished member of the Board of the American Business Council. He now devotes much of his time to the field of social work and is a Trustee of the Layton Rehmatulla Benevolent Trust and has served as Chairman of the Pakistan Human Development Fund.



Chong Keng Cheen

Chong Keng Cheen (Nick) is the VP Supply and Distribution East for Shell's Downstream business.

Nick completed his education from Monash, Melbourne in Australia in engineering and subsequently obtained an MBA through distant learning. Nick served two and a half years in the Singapore Army followed by a role at Singapore's Public Utility Board. He joined Shell's Pulau Bukam refinery in 1984 and has held various roles in maintenance, major projects, technical advisory and change management. Nick served as HR GM Singapore before moving on to GM Distribution for the Middle East/Asia, where he oversees a number of countries including Pakistan.



Rahat Hussain

Rahat has over 25 years of experience with Shell, in various parts of the hydrocarbon value chain ranging from Upstream exploration to end customer marketing. Prior to his current role at Shell's Liquefied Natural Gas (LNG) business in Qatar, he was responsible for strategy and marketing at Brunei LNG. He is a member of the leadership teams of Qatar Shell and Shell's Global LNG business, and is a Director on the Board of Qatargas4.

Rahat was born in Pakistan and raised in the UK. He completed his education as a chartered Mechanical Engineer at the University of Manchester and has since participated in executive education programs at IMD and Harvard. He is married with 3 children and is a keen sportsman.



Imran R Ibrahim

Imran Ibrahim is a graduate from Government College, Lahore, and pursued post graduate studies at the Institute of Business Administration in Karachi. He is an entrepreneur with 35 years of experience in diverse areas of business such as distribution of products for various multinationals as well as cotton ginning and edible oil extraction. He is also a Director of PICIC Asset Management Company Limited.

Nasser N S Jaffer

Nasser holds an Associated Science Diploma in Agriculture from the University of California. Since 2003 he is the CEO and Chairman of Jaffer Group of Companies where he manages the overall business to ensure growth, profitability and business satisfactory results for stakeholders. He was Director of Jaffer Brothers (Private) Ltd. from 1969 to 2003, responsible for the chemical, insecticides and pesticides businesses, as well as the fertilizer and machinery business.

He is on the Board of other business, philanthropy, social and health associations such as the Kidney Centre and Honorary Secretary Modern Club and Modern Society. He also held office as the Honorary Consul of the Philippines till 2010.

Zaffar A Khan

Zaffar Khan graduated as a mechanical engineer in 1967 from Peshawar University and soon thereafter joined Esso /Exxon Chemical which became Engro Chemicals in Pakistan. He retired from the company in 2004 after 35 years the last 6 of which were as President & CEO. In the first 10 years at Exxon, Zafar worked in Hong Kong, Singapore and USA in the petrochemical business. His remaining career with Exxon/Engro spanned all major corporate functions.

He has completed an Advanced Management Program at the University of Hawaii and short courses at INSEAD and Harvard Business School. He serves on a number of Boards in both the private and public sectors including areas of environment and philanthropy. He is a recipient of the exalted Sitara-e-Imtiaz.

Michael Noll

Michael is the VP Finance Global Commercial for Shell's Downstream B2B business. He began his career in Germany in 1987 as deputy controller of a Shell Chemicals unit (agrochemicals). After that he held various positions in EP, OP and Chemicals, serving in the Netherlands, UK, Singapore and Germany.

Michael has been involved in two rounds of Globalisation (Chemicals 1998-2000 and Downstream 2005 onwards) and led the Finance, IT and C&P organisation in Germany during the acquisition of the DEA business and the subsequent integration of the new business into Shell.



BOARD OF DIRECTORS

Haroon Rashid

Haroon is the Supply and Distribution General Manager for the Pakistan/Middle East/India Cluster since January, 2011. He joined SPL in 1995 and has held a variety of roles in several countries. From 1995 to 2000 he worked in Retail in Sales, Non-Fuels Retailing and Network Planning.

In 2001 he completed an MBA from INSEAD and thereafter rejoined Shell at the Downstream Management Consultancy in London. In 2005 he became the Downstream Competitor Intelligence Manager, before moving to Singapore in 2008 as the Global Marketing Manager for Aviation.

Haroon is married and has a son and two daughters. When not working, he likes to work on social projects, spend time with his family and plays squash.

Badaruddin F Vellani

Badaruddin is an Honours graduate in Chemical Engineering from the Loughborough University of Technology and is also a Barrister at Law from the Middle Temple (London). Badar was called to the Bar in 1982 and commenced legal practice in Karachi immediately thereafter. He is enrolled as an Advocate of the Supreme Court of Pakistan and is a partner at Vellani & Vellani. In addition to his legal practice, he is a Director on the Boards of several multinational companies in the FMCG, manufacturing, medical and philanthropic sectors.



COMPANY INFORMATION

Board of Directors

Chairman Omar Y Sheikh
Rafi H Basheer
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

Managing Director & Chief Executive

Omar Y Sheikh

Audit Committee

Chairman Badaruddin F Vellani
Imran R Ibrahim
Michael Noll

Human Resource and Remuneration Committee

Chairman Chong Keng Cheen
Farrokh K Captain
Omar Y Sheikh

Company Secretary

Tariq Saeed

Registered Office

Shell House
6, Ch. Khaliquzzaman Road
Karachi – 75530

Auditors

A.F. Ferguson & Co.

Legal Advisors

Vellani & Vellani
Advocates & Solicitors

Registrar & Share Registration Office

FAMCO Associates (Pvt) Ltd.
1st Floor, State Life Building 1- A
I.I Chundrigar Road
Karachi – 74000

Report of the Directors

The Directors of your Company are pleased to present their Annual Report together with audited financial statements for the year ended December 31, 2012.

The loss for the year ended December 31, 2012 after providing for administrative, marketing and distribution expenses, financial and other charges amounts to:

	(Rupees in millions)
Profit before taxation	5
Taxation	<u>(2,087)</u>
Loss for the year	<u>(2,082)</u>
	(Rupees)
Loss per share	<u>(24.33)</u>

Appropriations and movement in reserves have been disclosed in the Statement of Changes in Equity on page 25 of the Annual Report.

1. The financial statements, prepared by the management of the Company, present its state of affairs fairly, the result of its operations, cash flows and changes in equity.
2. Proper books of account of the Company have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements except for changes resulting on initial application of standards, amendments or interpretations to existing standards, as stated in note 2.1.4(a) to the financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departures, if any, have been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Company's ability to continue as a going concern.
7. There has been no material departure from the best practices of Code of Corporate Governance, as detailed in the listing regulations.
8. Key operating and financial data for the last seven years in summarized form is disclosed on page 18. The significant deviations in operating results of the Company from last year have been discussed in the Chairman's Review on page 13.
9. The Board of Directors after assessing the financial position of the Company, considered it prudent not to recommend the payment of a dividend or the issuance of bonus shares for the year.
10. A reasonable indication of future prospects and the reasons for incurring a loss during the year is discussed in the Chairman's Review on page 13.

11. A statement as to the value of investments of provident, gratuity and pension funds on the basis of audited financial statements for the year ended December 31, 2011 is included in note 31.4 to the financial statements.
12. The number of Board and Committees' meetings held during the year and attendance by each Director is disclosed on page 72 & 73.
13. The Board arranged for the Directors to attend the Director Certification Training Program conducted by the Pakistan Institute of Corporate Governance, Karachi. Mr Imran R Ibrahim and Mr Badaruddin F Vellani successfully completed the training program and achieved certification in 2012.
14. The pattern of shareholding and additional information regarding pattern of shareholding is disclosed on page 74 & 75. The Company is a subsidiary of Shell Petroleum Company Limited, London (immediate holding company) which is a subsidiary of Royal Dutch Shell Plc. (ultimate holding company) incorporated in the United Kingdom.
15. The auditors have drawn attention to the following matters in their audit report:
 - The recognition of deferred tax asset amounting to Rs. 1,034,825 thousand on unutilised tax losses based on projections of future taxable profits of the Company;
 - The classification of Government receivables due from the Government of Pakistan on account of petroleum development levy on export sales and price differential claims on imported purchases and high speed diesel as current assets; and
 - The fact that the management of the Company considers the amount due from the Government of Pakistan on account of price differential on imported motor gasoline as a good debt.

The details of the above are further explained in the relevant notes to the financial statements.

16. The Auditors M/s A. F. Ferguson & Co. Chartered Accountants retired and being eligible offer themselves for reappointment.
17. Directors, CEO, CFO, Company Secretary, Head of Internal Audit, other employees and their spouses and minor children have not traded in the shares of the Company during the year.
18. Details of the Corporate Social Responsibility and other activities undertaken by the Company during the financial year are disclosed on pages 09 to 12.

On behalf of the Board

Karachi: February 28, 2013

Omar Y Sheikh
Chairman and Chief Executive

OUR PERFORMANCE

Shell Pakistan Limited's business performance continues to be impacted by high interest costs of financing receivables owed by the Government, income tax payments in a period of a net loss, and low fuel margins.

Turning around our financial performance remains our top priority. We believe that by focusing on existing customers, expanding into new markets and working with the Government to revise the current regulatory framework, we can continue to be the most competitive and innovative energy company in Pakistan.

It is with these aspirations that we continue to meet the energy demands of a young and growing population in Pakistan, investing in our brands and playing an active and positive role in the community.



2012 IN REVIEW

SAFETY

Our goal is to have zero fatalities and no incidents that harm our employees, customers, contractors, partners and the communities we work in. By prioritising our Health, Safety, Security and Environmental (HSSE) performance, and through the belief that we can build a culture of no harm through constant vigilance, Shell Pakistan Limited (SPL) achieved a remarkable HSSE landmark in 2012: over 19 million man hours without a Lost Time Injury (LTI).

One of the contributing operations to this extraordinary achievement is our Lubricants Oil Blending Plant (LOBP) at Keamari which remained incident free throughout 2012, and is on track to complete 10 years of operations without LTI. It is through the constant vigilance of our staff and contractors and technical upgrades that we are able to minimise human injury and keep Goal Zero at the top of mind.

Safety training across all businesses at SPL throughout 2012 was an important part of reinforcing safety as a personal commitment among staff and contractors. On Safety Day in June, over 18,000 contractors, hauliers, distributors, retailers and staff were engaged at over 150 events across the country, all focused on individuals taking visible leadership in their daily responsibilities when it comes to safety.

Through our ongoing commitment to safety, we measure the safety consciousness of our staff and contractors and ensure the vehicles and the equipment they use are well maintained and operationally sound. In 2012, to ascertain driver safety performance en-route between deliveries, the Road Transport

team in the Supply & Distribution (S&D) business ran spot-checks on SPL lorries and their drivers to check their driving behaviour, and build better relationships with them in real time. This checking system is being used as an effective tool to avoid issues of driver fatigue particularly during the summer months, working at heights, Journey Management Plans and tank lorry maintenance.



GOAL ZERO ON THE ROADS

Road Safety continues to be an area of focus for SPL. Despite a high road exposure of 1,945,904 kms in 2012, we delivered customer orders without any safety incidents on the roads. To build on existing partnerships in the road safety space, SPL and the National Highway Police worked together to bring Defensive Driving programmes up to an internationally accredited level. The resulting training programme was audited by Shell's global transport team and is now being used to train Shell staff and contractors.



We invest heavily in training our drivers.

CREATING SUSTAINABLE BENEFITS

Shell's Social Investments (SI) are voluntary projects which accompany and compliment business activities in areas of priority for the Government, NGOs and other organisations in a country.

In Pakistan, we work with communities and stakeholders on projects that address issues affecting both our fenceline communities and our businesses. Shell believes that SI should be aligned with business activities, be sustainable & replicable, have a measurable positive impact socially, economically & environmentally, and be designed in consultation with local stakeholders. The three areas Shell feels it can add value given its expertise are in the areas of road safety, enterprise development and access to energy.

WORKING TOWARDS SAFER ROADS

Based on a risk assessment exercise, route surveys and feedback, SPL structured and rolled out a countrywide road safety awareness campaign for school children at over 60 schools located near or on major highways that Shell tank lorries use to transport fuels. Because of the proximity of schools to high-speed traffic, these children and their communities were appropriate audiences for increased awareness regarding road safety hazards and rules.

SPL is working to develop a similar road safety awareness programme with the National Highway and Motorway Police of Pakistan, and extend it to SI partner The Citizens Foundation's (TCF) network of over 750 schools.

Drivers, many of whose jobs depend on healthy vision, directly impact the safety of our roads. With this in mind, SPL continued working with long-time partner Layton Rehmatullah Benevolent Trust (LRBT) to organize free eye camps across Pakistan for truck, automobile and motorcycle drivers. In 2012, 134 free eye camps were organised where over 3,400 drivers received free eye tests and diagnostic services.

CREATING AN ENTERPRISE GENERATION SUPPLY CHAIN

Three years ago, SPL began a merit-based scholarship programme to support financially needy university students at engineering and business universities in Pakistan. At the end of the 2011-2012 academic year, 38 of a total of 53 students graduated from their programmes. The remaining 15 are expected to graduate in 2013. The scholars hail from some of the most prestigious universities in Pakistan including LUMS, IBA, NED, IoBM, NUST, UET & GIK.

In 2010, SPL structured an education endowment with TCF for the children of staff that work at our Retail sites called Fuelling

INSPIRING YOUTH TO CHANGE OUR ENERGY FUTURE

The world faces a critical energy challenge. Global energy demand is estimated to double by 2050. To keep pace with rising demand, the world will need to invest heavily in all energy sources – oil and natural gas, biofuels, solar, wind, nuclear power. At the same time, we must urgently tackle greenhouse gas emissions. The growing global transport system contributes significantly to these challenges.

Shell is well positioned to help address these challenges through Mobility – our approach to helping consumers and business customers meet their energy needs with products and services that address efficiency and performance improvements.

The Shell Eco-marathon (SEM) is how Shell gets young people to think about smarter Mobility. By challenging students from around the world to design, build and test ultra energy-efficient vehicles, Shell is sparking debate about the future of mobility while inspiring young engineers to push the boundaries of fuel efficiency.

Pakistani teams have participated in SEM Asia for four years. In 2012, two Pakistani teams were in the top ten performers in different vehicle categories. A team from NED placed 4th in Ethanol Prototype category, while a team from NUST came 6th in the Urban Concept Gasoline category.



Teams from Pakistan and India celebrate after the Eco-marathon 2012.

Education. When the endowment began in 2010, only seven children were enrolled in the programme. Since then, the programme has been extended to SPL truck drivers and installation staff and enrolment has jumped to over 50 children at TCF schools across the country.

Through an integrated framework, Shell is linking students at a young age with opportunities to build on enterprise ideas, and therefore be a highly trained part of an enterprise supply chain. Shell Tameer (the local version of Shell's global LiveWIRE programme) expanded its enterprise generation activities in 2012, and new Tameer Information Desks for Entrepreneurs (TIDE) were opened at three new universities: IBA in Karachi, LUMS in Lahore and Bahria University in Islamabad. Through a wider university spread, TIDE continues to focus on its mandate of promoting innovative and social entrepreneurship amongst students and has engaged with over 200 students through training courses and over 1,000 through enterprise generation awareness sessions.



Salma is presented with the Social Entrepreneurship prize at 2012 Tameer Awards.

Tameer held its fifth Awards event in March 2012 to showcase 10 successful enterprises of young entrepreneurial trailblazers from across Pakistan. The Awards provided these 10 finalists with a platform to publicise their enterprise successes and promote their brands.

Through new partnerships with CARE International, SME Business Support Fund and the Organisation for Social Development Initiatives, and a new business alignment with Shell Lubricants in the agricultural sector, Tameer was able to conduct over 550 training activities reaching a total of 36,000 young individuals.

RESPONSIBLE ACCESS TO ENERGY

The model village at Goth Noor Muhammad that was completed in 2012 has significantly changed the lives of over 100 families. SPL is working with PPAF and implementing partner HANDS through Shell Tameer's business solution workshops to develop sustainable alternative livelihood and energy generation projects for the community, including used oil and other recycled goods, bio fuel generation and solar power options.

Each kitchen at Goth Noor Muhammad is already equipped with a smoke-free stove which residents report has decreased the number of eye and respiratory-related illnesses and diminished the amount of fire wood used.

SHELL PEOPLE & TALENT

SPL continues to attract and develop some of the best women and men who contribute to Shell's mandate to deliver the best energy products and solutions to our customers. In 2012, renewed focus went into reaching out to new talent in both fresh graduate and experienced candidate populations. Thirty seven new staff members were hired in mostly sales and finance related roles in 2012, while 13 students interned at SPL through its annual summer internship programme.

We remain focussed on developing our people through regular training sessions, on-the-job coaching and other special interventions. One unique intervention in this area was People Development Week held in October 2012 as part of a global initiative across Shell's Downstream businesses. Over 50 sessions held across nine locations focused on leadership development and competency frameworks, and were attended by almost all Shell staff and some contractors. There were also almost 20 in-house trainings held throughout the year, engaging over 180 staff members.

RETAIL

SPL is the largest multinational oil company in Pakistan with a 15% share of the white-oils market. Our Retail business comprises over 780 outlets. SPL continues to promote world-class technical standards and deregulation for the oil marketing sector in Pakistan.

Seventy-five of SPL's Retail sites participated in launching new Shell lubricant products, engaging over 50,000 motorcar drivers and resulting in an increase of 40% in specific lubricant sales.

SPL upgraded its passenger car lubricants portfolio to a new synthetic line with improved fuel economy credentials. The new range, including Helix Ultra E and HX7 E, is the most advanced in Pakistan according to American Petroleum Institute (API) classifications, differentiating our brand in the automobile market.



ENGINE OIL THAT WORKS AS HARD AS YOU DO

In 2012, the Rimula brand underwent a major facelift to win trucker loyalty through a blitz of activity across Pakistan. This massive awareness campaign was followed up with smaller engagements at top trucker hotels called *Rimula ke Mehman*, catering to over 10,000 truckers in 15 days, providing them with free LRBT eye tests and building connections with customers.

To reach out to another key market segment, *Rimula Baithaks* were organized at over 100 locations across Pakistan's agricultural heartland during the winter season. Shell Tameer played a significant role in these activities, offering enterprise generation trainings to customers, and reaching out to over 7,000 people.



LUBRICANTS

Shell remains the market leader in Pakistan's Lubricants market. In 2012, SPL grew its position in the premium lubricants segment by introducing top grade, new products into the market. SPL takes pride in its partnerships with leading Original Engine Manufacturers (OEM) in Pakistan to help supply quality lubricants for a wide range of engine oil needs. By designing attractive promotions to reward loyalty and ensure timely customer interactions on high streets, SPL was able to capture strong growth in the indirect business sector.

AVIATION

SPL continued to be the preferred supplier for both domestic and foreign airlines visiting Pakistan in 2012. We expanded our customer base in the International Special Carriers segment and grew volumes in both Jet Fuel and Aviation Gasoline for Pakistan military customers.

The Aviation team ensured safe and timely fuelling of over 19,000 flights at different airports across Pakistan during the year, including over 280 Haj flights from Islamabad, Karachi and Quetta. This safety performance was augmented by a new system called Safe System of Work which has been rolled out at all locations with comprehensive training of staff.

COMMERCIAL FUELS

SPL secured new platinum and gold grade customer accounts and made significant inroads into the power sector with a refreshed Customer Value Proposition (CVP) framework.

Offer-to-Cash efficiency improvement was noticeable particularly within the Commercial Fuel business's Independent Power Producer (IPP) customers, through the reduction of delivery promises from 48 hours to 24 hours, in line with customer requirements. The aim of these process improvements was to make it easier for customers to do business with Shell and build customer confidence in the Shell brand.

SUPPLY & DISTRIBUTION

SPL made significant strides toward optimising operations in storage, supplies and deliveries to ensure our processes are efficient and that ultimately despite sometimes challenging business environments, Shell continues to serve its customers in time and with high satisfaction.

At SPL's LOBP plant truck loading operations have been optimised through upgraded dock levellers. This has not only increased the efficiency at LOBP but also ensured product integrity during transit to customers. These investments in efficiency have added value to the Lubricants business bottom line.

ENERGISING THE FUTURE TOGETHER

We continue to focus on implementing safety and efficiency throughout our operations while we reach out to new customers and meet their energy needs. SPL aims to offer its customers with an integrated value chain of diverse products. Our strategy in Pakistan continues to reinforce our position as a leader in the oil and gas industry, allowing us to continue to provide competitive shareholder return, while helping to meet Pakistan's growing energy demand.



Chairman's Review

for the year ended December 31, 2012



On behalf of the Board of Directors of Shell Pakistan Limited, I share the results of the Company for the year ended December 31, 2012.

During 2012, the Company made a loss after tax of Rs. 2,082 million against a profit of Rs. 906 million in the same period last year.

Your Company has over the years maintained a policy of healthy dividend payout to its shareholders. In view of the loss sustained by the Company in the year and the challenging environment your Company is operating in, the Board has not recommended a dividend for 2012.

2012 has been a year of trying circumstances for your Company. The financial performance of your Company in 2012 continued to be affected by high costs of funding government receivables, a disproportionate and punitive income tax regime and extremely low fuel margins. These elements coupled with continued ban on exports and the adverse effect of one-off items during the year resulted in a significant loss for the year.

Financing Government owed receivables cost your Company approximately Rs. 1,100 million in 2012. This financial burden wiped out the operating profit generated by your Company. With persistent efforts, your Company managed to collect Rs. 3,754 million from the Government. As of December 31, 2012, there is still a large outstanding amount of Rs. 9,644 million on account of price differential claims, sales tax refunds and petroleum development levy refunds. An immediate settlement of these dues is critical and the top priority of the management of your Company.

Your Company continues to bear the impact of minimum tax on turnover which has resulted in us paying Rs. 1,146 million in income tax in spite of incurring a pre-tax loss. Fuel margins are regulated at a wafer thin level and the minimum tax regime is applied on the selling price of the product. In a rising price environment, as witnessed in 2012, this led to an increased income tax liability with no increase in the regulated margins. The Minimum Tax on Turnover mechanism is punitive in nature for our industry and results in our effective tax rate being well in excess of the standard 35% corporate rate of income tax. The management of your Company is in

continued discussions with tax authorities to remove this anomaly and bring the oil and gas sector in line with allowances and lower rates that are extended to other similarly regulated sectors in Pakistan.

Fuel margins in Pakistan are among the lowest in the world. We continue to impress upon Government authorities to revise the margin structure in Pakistan to make it financially viable for continued operations and investment in the Downstream Oil sector.

Despite these challenges in the business environment, your Company's operating performance in its inland business has improved compared to previous years. Your Company has continued to make efforts to grow volumes and market share in core segments, and maintains a high level of commitment toward operational excellence, efficiency and safety performance across all of its businesses.

Your Company achieved new Health, Safety, Security and Environment (HSSE) milestones in 2012, completing over 19 million man hours without injury. This is a particularly exceptional accomplishment given that your Company's road transportation exposure in 2012 was 1,945,904 kms. Over 18,000 staff and contractors were engaged on Safety Day in June to raise awareness of and reinforce your Company's safety priorities.

Your Company continues to focus on ensuring a high standard of compliance with Shell's core values of honesty, integrity and respect through strict adherence with its General Business Principles and Anti Bribery and Corruption parameters.

During the year, your Company delivered significant growth in motor gasoline volumes and lubricants profitability. Significant investment was made in growing the fuels and lubricants businesses by introducing new products and strengthening its position in core customer segments. Your Company launched a new portfolio of top-of-the-line, fuel efficient Helix-E Lubricants for passenger cars and attracted new customers via linked fuel offerings. Several marketing campaigns were run throughout the year to strengthen the brands of your Company.

Capitalising on investments in enhanced processes and systems, your Company delivered further improvements in its ability to serve customers efficiently. With this mindset, your Company improved its customer satisfaction ratings significantly and was a proud recipient of a global Shell award for best-in-class Offer-to-Cash performance.

Our Social Investment (SI) projects achieved milestones through consistent efforts to align objectives with your Company's business activities and the three thematic SI focus areas; i.e. Enterprise Development, Access to Energy and Road Safety.

This year at the Tameer Awards ceremony, ten young businesswomen and men were chosen from over 1,000 applicants to showcase their start ups' successes. The event was attended by students, entrepreneurs and journalists, and was an excellent opportunity for the finalists to grow their networks – evident through the increase in sales that all of them have experienced after the Tameer Awards.

Your Company's education endowment, Fuelling Education, with The Citizens Foundation (TCF) began over two years ago to provide scholarships for the children of Shell truck drivers, Retail and Depot staff. In only two academic cycles, the programme's enrolment has grown from 7 to over 50 students at TCF schools across Pakistan, and the team envisions this number will double soon.

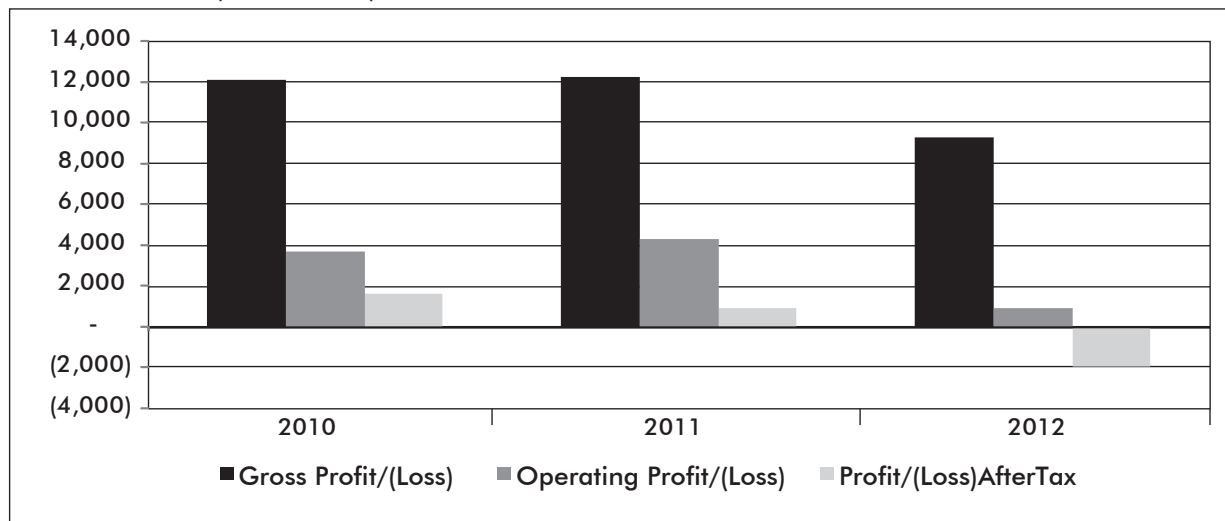
Your company is committed to be the most innovative and competitive Company in the Downstream Oil Marketing sector in Pakistan. For us to be able to play our role effectively in the growth of Pakistan, we urge the Government to urgently redress the long standing issues your Company faces.

We would like to thank you, our shareholders, along with our customers, partners and staff for their continued support of Shell's work in Pakistan.

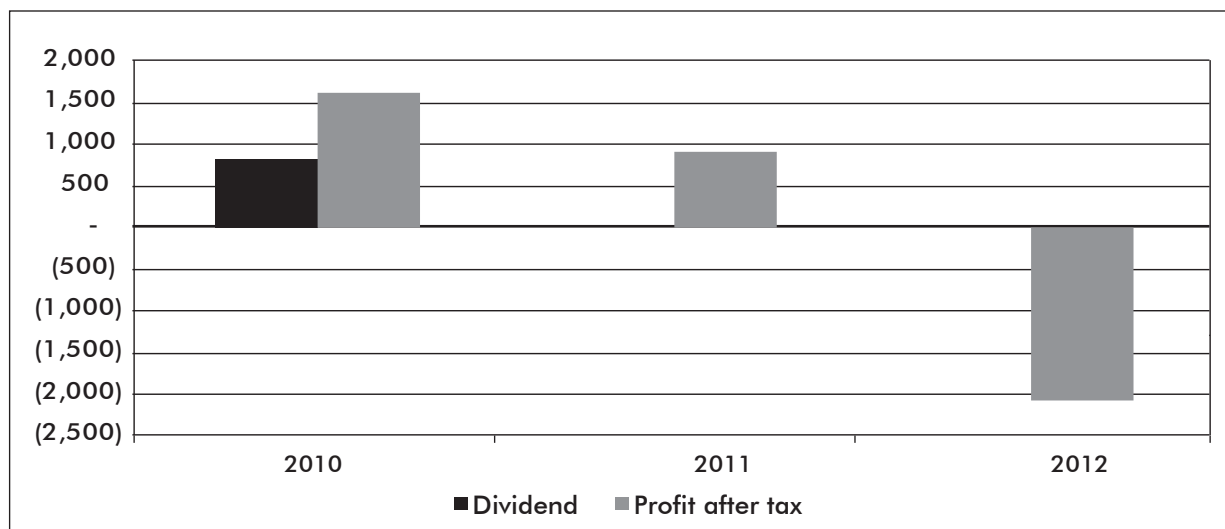
Omar Y Sheikh
Chairman & Chief Executive

Performance at a Glance

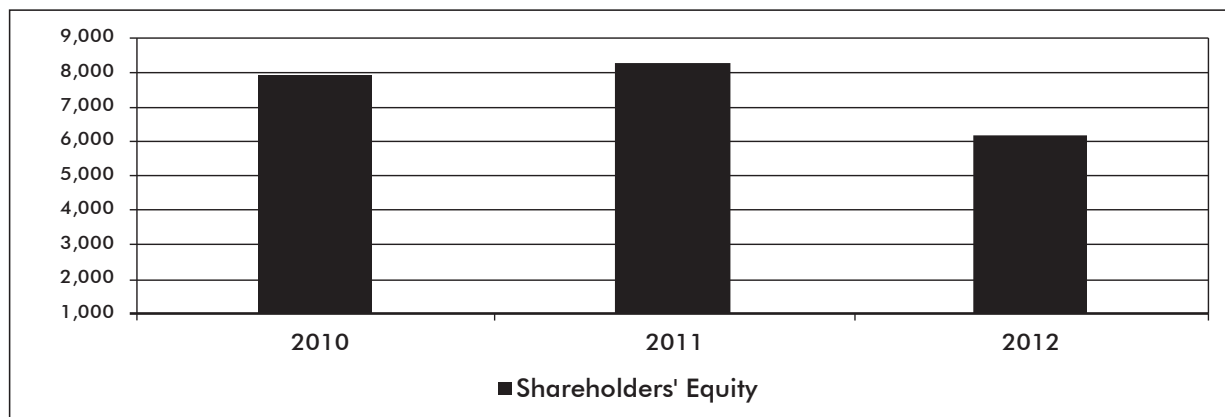
PROFITABILITY (Rs. in million)



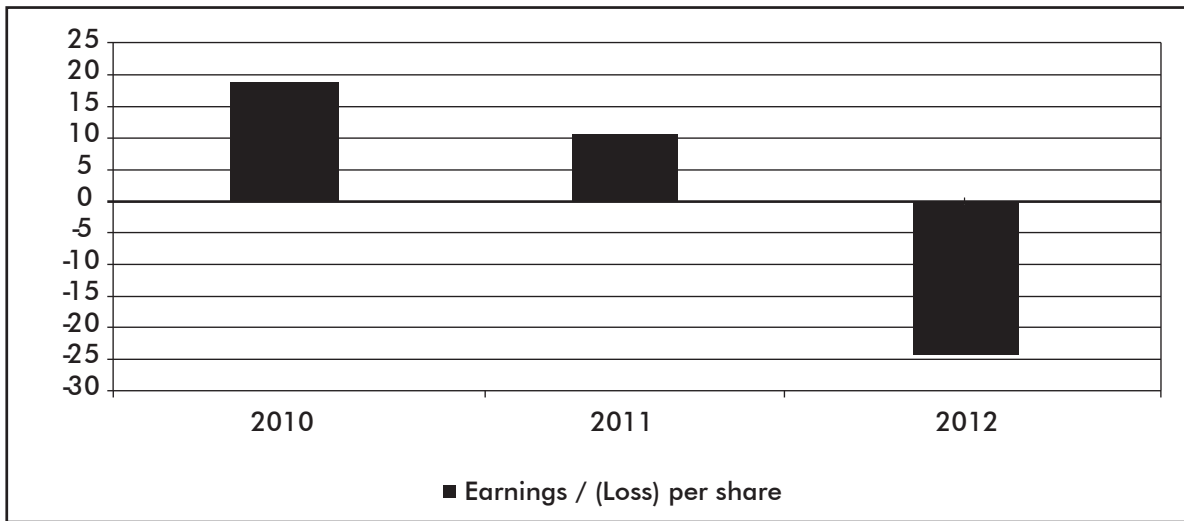
DIVIDEND PAY OUT (Rs. in million)



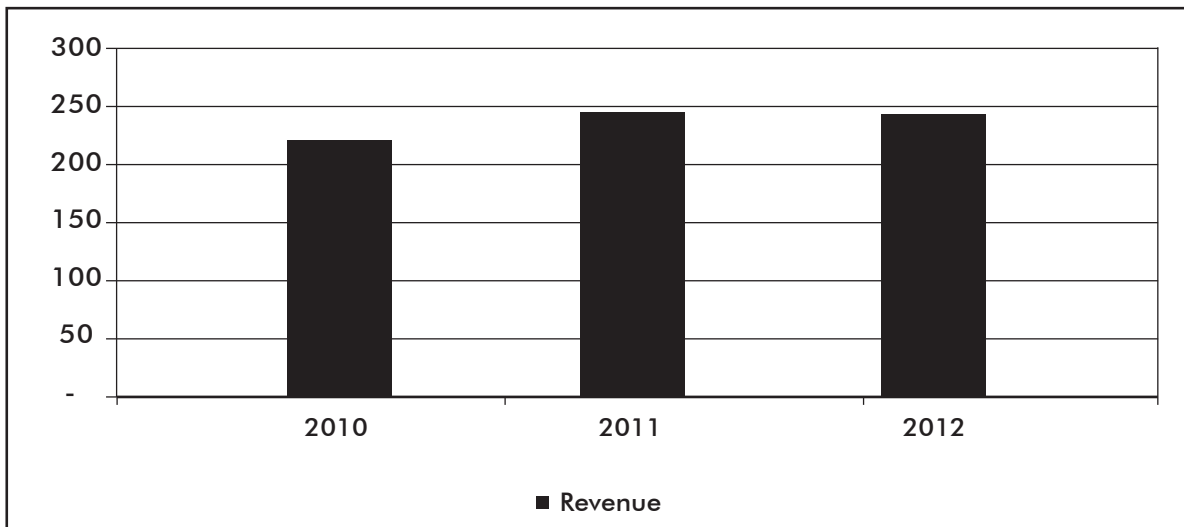
SHAREHOLDERS EQUITY (Rs. in million)



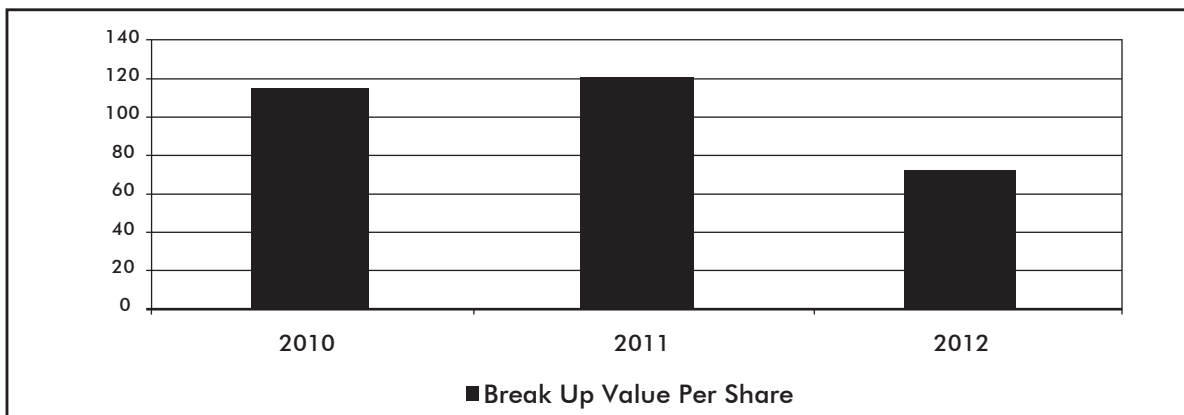
EARNINGS PER SHARE (Rs. per share)



REVENUE (Rs. in billion)



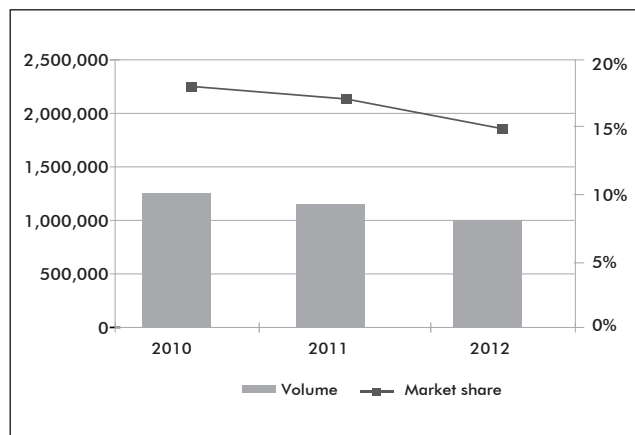
BREAK UP VALUE PER SHARE (Rs. per share)



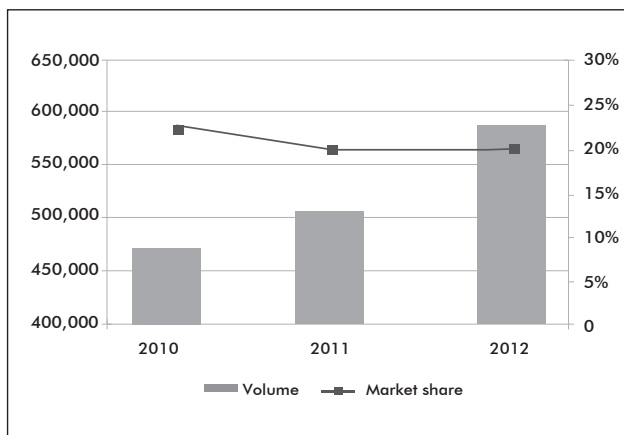
Operating and Financial Highlights

PRODUCT-WISE VOLUME (MTs) AND MARKET SHARE (%)

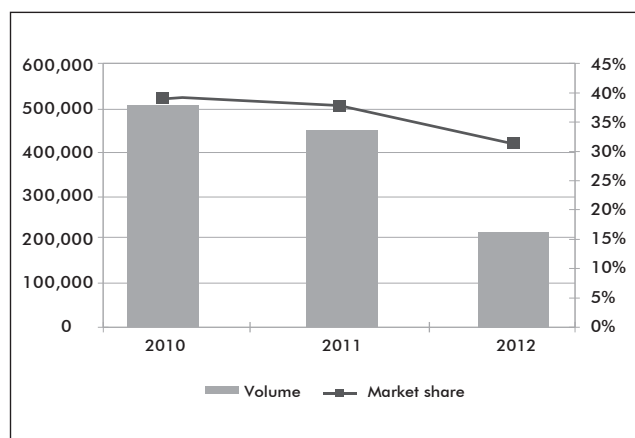
HIGH SPEED DIESEL



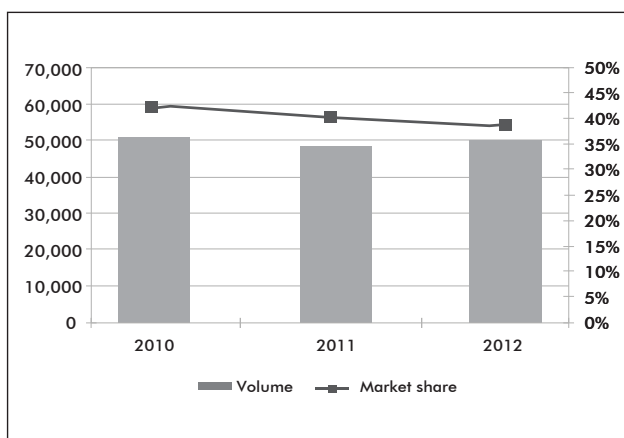
MOTOR GASOLINE



JET FUELS



LUBRICANTS



		2012	2011
Sales volume	Tonnes	1,953,824	2,373,944
Sales revenue	Rs. / mn	244,317	247,507
Profit / (loss) before taxation	Rs. / mn	5	2,833
Profit / (loss) after taxation	Rs. / mn	(2,083)	906
New capital expenditure	Rs. / mn	616	1,110
Shareholders' equity	Rs. / mn	6,176	8,258
Earnings / (loss) per share	Rs.	(24.33)	10.58

Operating and Financial Highlights

		----- Year ended December 31 -----					Jul - Dec 2008	Year ended --- June 30 ---	
		2012	2011	2010	2009	2008		2008	2007
Share capital	Rs. / mn	856	685	685	685	685	685	548	548
Reserves	Rs. / mn	5,320	7,573	7,215	7,586	5,571	5,571	13,064	8,913
Shareholders' equity	Rs. / mn	6,176	8,258	7,900	8,271	6,256	6,256	13,612	9,461
Break up value per share	Rs.	72	121	115	121	91	91	199	138
Dividend per share	Rs.	-	-	10	26	-	-	40	13
Bonus	Ratio	-	1:4	-	-	-	-	1:4	-
Profit / (loss) before tax	Rs. / mn	5	2,833	3,044	3,910	(3,048)	(8,420)	7,723	379
Profit / (loss) after tax	Rs. / mn	(2,083)	906	1,616	2,563	(1,726)	(5,164)	5,137	707
Earnings / (loss) per share	Rs.	(24.3)	10.6	18.9	29.9	(20.2)	(60.3)	60.0	8.3

Working Capital

Current assets to current liabilities	Times	0.9	0.9	0.8	0.9	0.9	0.9	1.3	1.0
Number of days stock	Days	32	27	23	26	22	26	39	31
Number of days trade debts	Days	3	4	3	3	6	6	12	13

Performance

Profit / (loss) after tax as % of average shareholders' equity	%	(28.9)	11.2	20.0	35.3	(20.3)	(52.0)	44.5	7.2
Cost of sales as a % of sales	%	83.6	83.5	82.8	80.8	85.1	91.4	79.1	94.5
Profit / (loss) before tax as % of sales	%	0.0	1.1	1.4	2.2	(1.7)	(8.8)	4.9	0.3
Profit / (loss) after tax as % of sales	%	(0.9)	0.4	0.7	1.5	(0.9)	(5.4)	3.3	0.6
Total debt ratio	Times	2.0	1.9	1.3	1.0	2.6	2.6	0.6	0.8

Statement of Compliance with the Code of Corporate Governance

for the year ended December 31, 2012.

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in Regulation No. 35 of the Listing Regulations of Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. As at December 31, 2012 the Board included the following members:

Independent Directors	Executive Directors	Non-Executive Directors
Mr Farrokh K Captain	Mr Omar Y Sheikh	Mr Chong Keng Cheen
Mr Nasser N S Jaffer	Mr Rafi H Basheer	Mr Michael Noll
Mr Zaffar A Khan	Mr Haroon Rashid	Mr Rahat Hussain
Mr Badaruddin F Vellani		Mr Imran R Ibrahim

The independent directors meet the criteria of independence under clause i (b) of the Code. The three non-executive directors occupy executive positions in other Shell Group Companies.

2. The Directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the Company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution or a Non-Banking Financial Institution or, being a member of a stock exchange, has been declared a defaulter by that stock exchange.
4. One casual vacancy occurred on the Board on October 17, 2012 which was filled by the Directors on the same date as of the resignation of the outgoing Director.
5. The Company has prepared a "Code of Conduct" defining acceptable and unacceptable behaviours to promote integrity for the Board, senior management and other employees and has ensured that appropriate steps have been taken to disseminate it through the Company along with its supporting policies and procedures.
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, other executive and non-executive directors have been taken by the Board.
8. All the meetings of the Board were presided over by the Chairman. The Board met six times during the year, including at least once in every quarter. Written notices of the Board meetings, along with the agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. Two of the directors, Mr Imran R Ibrahim and Mr Badaruddin F Vellani, have attended the directors' training course conducted by the Pakistan Institute of Corporate Governance and the remaining directors will acquire the required directors' training certification within the time specified in clause (xi) of the Code, unless exempt thereunder.
10. There was no change in the position of Chief Financial Officer, Company Secretary and Head of Internal Audit during the year.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of 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 of three members, all of whom are non-executive directors. The Chairman of the Committee is an independent director.
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 formed by the Board and advised to the Committee for compliance.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises of three members, of whom one is an executive director, one is an independent director and the Chairman of the Committee is a non-executive director.
18. The Board has set up an effective internal audit function managed by suitably qualified and experienced personnel that are involved in the internal audit function on a full time basis.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), 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 the ICAP.
20. 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.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchanges.
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchanges.
23. We confirm that all other material principles enshrined in the Code have been complied with.

Karachi: February 28, 2013

Omar Y Sheikh
Chairman and Chief Executive

REVIEW REPORT

TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF 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 (the Company) for the year ended December 31, 2012 to comply with the Listing Regulations of the Karachi and Lahore Stock Exchanges, 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's personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Listing Regulations of the Karachi and Lahore Stock Exchanges require the Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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 December 31, 2012.

A. F. Ferguson & Co.
Chartered Accountants
Karachi
Date: March 19, 2013

Engagement Partner: **Imtiaz A. H. Laliwala**

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Shell Pakistan Limited as at December 31, 2012 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows 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 statements 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 statement of comprehensive income together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied except for changes as stated in note 2.1.4 (a) to the financial statements with which we concur;
 - (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, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 December 31, 2012 and of the total comprehensive loss, changes in equity and its cash flows for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Without qualifying our opinion, we draw attention to:

- Note 10.1 to the financial statements. As explained in the note, the Company has recognised deferred tax asset on unutilised tax losses based on projections of future taxable profits of the Company. The realisability of this asset is dependent on the underlying assumptions and business drivers materialising as projected.
- Notes 14.1, 14.2 and 14.3 to the financial statements. The Company considers the amount of Rs. 2,291,557 thousand, Rs.295,733 thousand and Rs. 343,584 thousand due from the Government of Pakistan in respect of petroleum development levy and price differential on imported purchases and high speed diesel, respectively, as current assets. The expected timing of the recoverability of these receivables and its consequential impact on their classification in the balance sheet cannot presently be determined.
- Note 14.4 to the financial statements. The Company considers the aggregate amount of Rs. 1,961,211 thousand, receivable from the Government of Pakistan in respect of price differential on imported motor gasoline as a good debt for reasons given in the note. The ultimate outcome of the matter cannot presently be determined.

A. F. Ferguson & Co.
Chartered Accountants
Karachi
Date: March 19, 2013

Engagement Partner: **Imtiaz A. H. Laliwala**

Balance Sheet

as at December 31, 2012

	Note	2012	2011
———— (Rupees '000) ————			
ASSETS			
Non-current assets			
Property, plant and equipment	4	6,330,565	6,652,020
Intangible assets	5	931,867	1,321,105
Long-term investments	6	2,989,350	2,749,610
Long-term loans and advances	7	98,853	93,914
Long-term deposits and prepayments	8	199,951	194,242
Long-term debtors	9	1,216	3,732
Deferred taxation - net	10	579,060	1,383,816
		11,130,862	12,398,439
Current assets			
Stores		14,845	15,143
Stock-in-trade	11	17,377,946	17,847,222
Trade debts	12	2,006,553	2,488,910
Loans and advances	13	81,061	66,532
Short-term prepayments		210,334	271,133
Other receivables	14	10,685,776	14,633,255
Cash and bank balances	15	3,388,485	1,438,447
		33,765,000	36,760,642
TOTAL ASSETS		44,895,862	49,159,081
EQUITY AND LIABILITIES			
Equity			
Share capital	16	856,100	684,880
Reserves		1,924,830	2,096,050
Unappropriated profit		3,394,660	5,477,191
Total equity		6,175,590	8,258,121
Liabilities			
Non-current liability			
Asset retirement obligation	17	339,596	189,351
Current liabilities			
Trade and other payables	18	25,817,640	24,495,103
Accrued mark-up / interest	19	52,449	217,645
Short-term borrowings - secured	20	12,170,000	15,745,032
Taxation		340,587	253,829
		38,380,676	40,711,609
Total liabilities		38,720,272	40,900,960
Contingencies and commitments			
	21		
TOTAL EQUITY AND LIABILITIES		44,895,862	49,159,081

The annexed notes 1 to 40 form an integral part of these financial statements.

Omar Y Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

Statement of Comprehensive Income

for the year ended December 31, 2012

	Note	2012	2011
———— (Rupees '000) ————			
Sales	22	244,316,875	247,506,537
Other revenue		717,704	550,168
		245,034,579	248,056,705
Sales tax		(32,233,969)	(28,907,356)
Net revenue		212,800,610	219,149,349
Cost of products sold	23	(203,521,445)	(206,913,532)
Gross profit		9,279,165	12,235,817
Distribution and marketing expenses	24	(3,229,142)	(3,896,174)
Administrative expenses	25	(4,171,129)	(3,471,447)
		1,878,894	4,868,196
Other operating expenses	26	(1,330,649)	(745,931)
		548,245	4,122,265
Other operating income	27	370,530	171,144
Operating profit		918,775	4,293,409
Finance costs	28	(1,634,318)	(2,095,883)
		(715,543)	2,197,526
Share of profit of associate - net of tax	6	720,199	635,191
Profit before taxation		4,656	2,832,717
Taxation	29	(2,087,187)	(1,926,727)
(Loss) / Profit for the year		(2,082,531)	905,990
Other comprehensive income		-	-
Total comprehensive (loss) / income for the year		(2,082,531)	905,990
———— (Rupees) ————			
(Loss) / Earnings per share	30	(24.33)	Restated 10.58

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

The annexed notes 1 to 40 form an integral part of these financial statements.

Omar Y Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

Statement of Changes in Equity

for the year ended December 31, 2012

	Share capital	Capital reserves- share premium	General revenue reserves	Unappropriated profit	Total
	(Rupees '000)				
Balance as at January 1, 2011	684,880	1,889,048	207,002	5,119,105	7,900,035
Final dividend for the year ended December 31, 2010 at Rs. 8 per share	-	-	-	(547,904)	(547,904)
Profit for the year	-	-	-	905,990	905,990
Other comprehensive income for the year	-	-	-	-	-
Balance as at December 31, 2011	684,880	1,889,048	207,002	5,477,191	8,258,121
Bonus shares issued during the year in the ratio of 1 share for every 4 shares held - note 16.3	171,220	(171,220)	-	-	-
Loss for the year	-	-	-	(2,082,531)	(2,082,531)
Other comprehensive income for the year	-	-	-	-	-
Balance as at December 31, 2012	<u>856,100</u>	<u>1,717,828</u>	<u>207,002</u>	<u>3,394,660</u>	<u>6,175,590</u>

The annexed notes 1 to 40 form an integral part of these financial statements.

Omar Y Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

Statement of Cash flows

for the year ended December 31, 2012

	Note	2012	2011
		(Rupees '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (used in) operations	35	8,338,680	(1,014,641)
Finance costs paid		(1,592,605)	(1,736,854)
Income tax paid		(1,146,256)	(1,446,186)
Long-term loans and advances		(4,939)	(11,954)
Long-term deposits and prepayments		(5,709)	(3,576)
Mark-up / interest received on short-term deposits		17,412	28,310
Long-term debtors		14,799	11,323
Net cash generated from / (used in) operating activities		5,621,382	(4,173,578)
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(615,789)	(1,110,291)
Proceeds from disposal of operating assets		39,189	56,446
Dividend received from associate		480,459	433,434
Net cash used in investing activities		(96,141)	(620,411)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(171)	(552,971)
Repayment of liability under finance lease		-	(18,212)
Net cash used in financing activities		(171)	(571,183)
Net increase / (decrease) in cash and cash equivalents		5,525,070	(5,365,172)
Cash and cash equivalents at beginning of the year		(14,306,585)	(8,941,413)
Cash and cash equivalents at end of the year	36	(8,781,515)	(14,306,585)

The annexed notes 1 to 40 form an integral part of these financial statements.

Omar Y Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

Notes to the Financial Statements

for the year ended December 31, 2012

1. THE COMPANY AND ITS OPERATIONS

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

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

2. 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

2.1.1 These financial statements have been prepared under the historical cost convention, as modified by remeasurement of certain financial assets and financial liabilities at fair value and recognition of certain staff retirement and other service benefits at present value.

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

2.1.3 The preparation of financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

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

a) *Standards, amendments to published standards and interpretations that are effective in 2012 and are relevant to the Company*

The following amendment to published standard is mandatory for the financial year beginning on or after January 1, 2012:

- IFRS 7 (Amendment), 'Financial Instruments: Disclosures' on transfer of assets. These amendments arise from the IASB's review of off-balance sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment only affects the disclosures in the Company's financial statements.

Notes to the Financial Statements

for the year ended December 31, 2012

b) Standards, amendments to published standards and interpretations effective in 2012 but are not relevant

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on or after January 1, 2012 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

c) Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted by the Company

The following new standards and amendments to published standards are not effective for the financial year beginning on or after January 1, 2012 and have not been early adopted by the Company:

- IFRS 9, 'Financial instruments' (effective for periods beginning on or after January 1, 2015). IFRS 9 replaces the parts of IAS 39, 'Financial instruments: recognition and measurement' that relate to classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. For financial liabilities, the standard retains most of the requirements of IAS 39. The Company is yet to assess the full impact of IFRS 9.
- IFRS 12, 'Disclosure of interests in other entities' (effective for periods beginning on or after January 1, 2013). This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The Company is yet to assess the full impact of IFRS 12.
- IFRS 13, 'Fair value measurement' (effective for periods beginning on or after January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance and how it should be applied where its use is already required or permitted by other standards within IFRSs. The Company is yet to assess the full impact of IFRS 13.
- IAS 1 (Amendment), 'Financial statements presentation' (effective for periods beginning on or after July 1, 2012). The main change resulting from this amendment is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI. The amendment will only affect disclosures in the Company's financial statements.
- IAS 19 (Amendment), 'Employee benefits' (effective for periods beginning on or after January 1, 2013). The amendment eliminates the corridor approach and recognises all actuarial gains and losses in 'other comprehensive income' (OCI) as they occur and replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. The application of the amendment is likely to result in immediate recognition of all actuarial gains and losses in OCI and requires additional disclosures to present the characteristics of benefit plans, the amount recognised in the financial statements, and results in changes in benefit classification and presentation. The Company is in the process to assess the impacts of this amendment.

Notes to the Financial Statements

for the year ended December 31, 2012

- IAS 27 (Revised), 'Separate financial statements' (effective for periods beginning on or after January 1, 2013). The revised standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in new IFRS 10, 'Consolidated financial statements'. The revised standard is already applied in principle by the Company and therefore will have no further consequences.
- IAS 28 (Revised), 'Associates and joint ventures' (effective for periods beginning on or after January 1, 2013). This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11, 'Joint arrangements'. The Company is yet to assess the full impact of IAS 28.
- IAS 32 (Amendment), 'Financial instruments: Presentation' (effective for periods beginning on or after January 1, 2014). This amendment updates the application guidance in IAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendment does not have any significant impact on the Company's financial statements.

Amendments to following standards as a result of annual improvements to International Financial Reporting Standards 2011, issued by IASB in May 2012:

- IAS 16 (Amendment), 'Property, plant and equipment' (effective for periods beginning on or after January 1, 2013). The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. It is unlikely that the amendment will have any significant impact on the Company's financial statements.
- IAS 32 (Amendment), 'Financial instruments: Presentation' (effective for periods beginning on or after January 1, 2013). The amendment clarifies that the treatment of income tax relating to distributions and transaction costs is in accordance with IAS 12. So, income tax related to distributions is to be recognised in the profit and loss account, and income tax related to the costs of equity transactions is to be recognised in equity. The Company's current accounting treatment is already in line with this amendment.

There are number of other standards, amendments and interpretations to the published standards that are not yet effective and are also not relevant to the Company and therefore, have not been presented here.

2.2 Property, plant and equipment

Property, plant and equipment are initially stated at cost and subsequently carried 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 accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to specific assets as and when these are available for use.

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 economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are recognised in the profit or loss in the statement of comprehensive income as and when incurred.

Notes to the Financial Statements

for the year ended December 31, 2012

Depreciation is charged to profit or loss in the statement of comprehensive income using the straight-line method whereby the cost of an operating asset less its estimated residual value is written off over its estimated useful life at rates given in note 4.1. 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 available for use while no depreciation is charged for the month in which an asset is disposed off.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of an asset is recognised in the profit or loss in the statement of comprehensive income in the period of disposal.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.3 Intangible assets – Computer software

Intangible assets are initially stated at cost and subsequently carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Costs associated with maintaining computer software programs are recognised as an expense in the profit or loss in the statement of comprehensive income as incurred. Costs directly associated with acquiring software that have probable economic benefits exceeding one year, are recognised as an intangible asset. Direct costs include the purchase cost of software and related overhead cost. Subsequent directly attributable costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Computer software costs are amortised from the month when such assets are available for use on a straight-line basis at a rate mentioned in note 5.1.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.4 Investment in associates

Associates are all entities over which the Company has significant influence but no control. Investments 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 or loss in the statement of comprehensive income, and its share in the post acquisition movement of other comprehensive income is recognised in the statement of comprehensive income. 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.

The investment in associates' carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Notes to the Financial Statements

for the year ended December 31, 2012

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

2.5 Financial instruments

2.5.1 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. The management determines the classification of its financial assets at the time of initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets if expected to be settled within twelve months, otherwise, they are classified as non-current assets.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. The Company's loans and receivables comprise 'trade debts', 'loans', 'deposits', 'other receivables' and 'cash and bank balances' in the balance sheet.

c) Held to maturity financial assets

Held to maturity financial assets are financial assets with fixed or determinable payments and fixed maturity with a positive intention and ability to hold to maturity. There were no held to maturity financial assets at the balance sheet date.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investments within twelve months of the balance sheet date.

All financial assets are recognised at the time when the Company becomes a party to the contractual position of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the profit or loss in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets

Notes to the Financial Statements

for the year ended December 31, 2012

and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity financial assets are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognised in the profit or loss in the statement of comprehensive income within 'other operating income / expenses' in the period in which they arise. Dividend income from financial assets at 'fair value through profit or loss' is recognised in the profit or loss in the statement of comprehensive income as part of 'other operating income' when the Company's right to receive payment is established. Gains or losses on sale of investments at 'fair value through profit or loss' are recognised in the profit or loss in the statement of comprehensive income as 'gains and losses from investment securities'.

Gains or losses from changes in fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are taken to profit or loss in the statement of comprehensive income as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit or loss in the statement of comprehensive income as part of 'other operating income'. Dividends on available-for-sale equity instruments are recognised in the profit or loss in the statement of comprehensive income as part of 'other operating income' when the Company's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company measures the investments at cost less impairment in value, if any.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in equity is removed from equity and recognised in the profit or loss in the statement of comprehensive income. Impairment losses recognised in the profit or loss in the statement of comprehensive income on equity instruments classified as available-for-sale are not reversed. Impairment testing of trade debts and other receivables is described in note 2.8.

2.5.2 Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in the profit or loss in the statement of comprehensive income.

2.5.3 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the Financial Statements

for the year ended December 31, 2012

2.6 Stock-in-trade

Stock-in-trade is valued at the lower of cost, calculated on a first-in first-out basis, and net realizable value. Cost comprises invoice value, charges like customs duties and similar levies and other direct costs but excludes borrowing cost. Cost for bonded stock of finished goods comprises invoice value and costs incurred to date.

Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessary to make the sale.

Stock-in-transit is valued at cost comprising invoice value plus other charges incurred thereon. Provision is made for obsolete and slow moving stock-in-trade based on management's best estimate and is recognised in the profit or loss in the statement of comprehensive income.

2.7 Impairment of non-financial assets

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 the impairment loss, if any. An impairment loss is recognised for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Impairment losses are recognised in the profit or loss in the statement of comprehensive income.

2.8 Trade debts and other receivables

Trade debts and other receivables 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 and other receivables 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. The amount of provision is charged to profit or loss in the statement of comprehensive income. Trade debts and other receivables considered irrecoverable are written-off.

Exchange gains and losses arising on translation in respect of trade debts and other receivables in foreign currency are added to the carrying amount of the respective receivables.

2.9 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the statement of cash flows, cash and cash equivalents include cash in hand, balances with banks, short-term loans and short-term running finances utilised under mark-up arrangements.

2.10 Share capital

Ordinary shares are classified as equity and recognised at their face value.

2.11 Provisions

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

Notes to the Financial Statements

for the year ended December 31, 2012

Provision for asset retirement obligation is based on current requirements, technology and price levels and the present value is calculated using amounts discounted over the useful economic life of the assets. The liability is recognised (together with a corresponding amount as part of the related property, plant and equipment) once an obligation crystallizes in the period when a reasonable estimate can be made. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the provision are incorporated on a prospective basis.

2.12 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 recognised in the profit or loss in the statement of comprehensive income on a straight-line basis over the period of the lease.

2.13 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method. Exchange gains and losses arising on translation in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

2.14 Retirement and other service benefits

2.14.1 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 and pension schemes

Approved funded gratuity schemes for management and unionized staff and contributory pension scheme for management and non-contributory pension scheme for unionized 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 accounted for using the corridor method. Under this method, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the profit or loss in the statement of comprehensive income over the expected average remaining working lives of the employees participating in the plan.

The Company, however, is in the process of setting up a new defined contribution pension fund, effective 2013, for its management staff. Members of the existing defined benefit pension and gratuity schemes will be given the option to join the new defined contribution fund in return for voluntarily relinquishing membership of the existing schemes. The bifurcation of funds will be based on actuarial valuations as of that date.

ii) Approved contributory provident fund

Approved contributory provident funds for all employees. Equal monthly contributions are made both by the Company and the employee at the rate of 4.5% of basic salary and charged to profit or loss in the statement of comprehensive income.

Notes to the Financial Statements

for the year ended December 31, 2012

iii) Un-funded post retirement medical benefits

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 recommendations. The actuarial valuation is carried out annually using the Projected Unit Credit Method. Actuarial gains and losses are accounted for using the corridor method. Under this method, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the profit or loss in the statement of comprehensive income over the expected average remaining working lives of the employees participating in the plan.

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

2.14.2 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 employees and by using the current salary levels of employees.

2.15 Taxation

2.15.1 Current

Provision for current taxation is based on the taxable income for the year, determined in accordance with the prevailing law for taxation on income, using prevailing tax rates. The charge for current tax also includes tax credits and adjustments, where considered necessary, for prior years determined during the year or otherwise considered necessary for such years.

2.15.2 Deferred

Deferred income tax is recognised using the liability method on all temporary differences between the carrying amounts of assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes.

Deferred tax asset is recognised for all the deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax liabilities are recognised for all the taxable temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the profit or loss in the statement of comprehensive income.

2.16 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 recognised in the profit or loss in the statement of comprehensive income.

Notes to the Financial Statements

for the year ended December 31, 2012

2.17 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 goods have passed to customers which coincides with dispatch of goods to customers.
- Other revenue (including license fee) is recognised on an accrual basis.
- Dividend income is recognised when the Company's right to receive the dividend is established.

2.18 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 currency.

2.19 Dividend distribution and appropriation to reserves

Dividend distribution and appropriation to reserves are recognised in the financial statements in the period in which these are approved.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

3.1 Property, plant and equipment and intangible assets

The Company reviews appropriateness of the rates of depreciation / amortisation, useful lives and residual values used in the calculation of depreciation / amortisation on an annual basis. Further, where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

3.2 Stock-in-trade

The Company reviews the net realizable value of stock-in-trade to assess any diminution in the respective carrying values. Net realizable value is determined with reference to estimated selling price less estimated expenditures to make the sales.

3.3 Income taxes

In making the estimates for income taxes payable by the Company, the management looks at the applicable law and the decisions of appellate authorities on certain issues in the past. Further, the Company uses financial projections, which are prepared using assumptions for key economic and business drivers, to assess realisability of deferred tax assets.

Notes to the Financial Statements

for the year ended December 31, 2012

3.4 Provision for retirement and other service benefit obligations

The present value of these obligations depends on a number of factors that are determined on actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of these obligations. The present values of these obligations and the underlying assumptions are disclosed in notes 31.1.1 and 31.2.1 respectively.

3.5 Provision for impairment of trade debts and other receivables

The Company assesses the recoverability of its trade debts and other receivables if there is objective evidence that the Company will not be able to collect all the amount due according to the original terms. 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.

3.6 Asset retirement obligation

The Company reviews the timing and amount of future expenditures annually together with the interest rate to be used to discount the future cash flows. The estimated future expenditure is determined in accordance with local conditions and requirements and on the basis of estimates provided by the Parent Company's technical staff.

	Note	2012 —————(Rupees '000)—————	2011 —————
4. PROPERTY, PLANT AND EQUIPMENT			
Operating assets, at net book value	4.1		
- Operating assets		6,138,864	5,606,489
- Provision for impairment	4.8	(374,213)	(82,571)
		5,764,651	5,523,918
Capital work-in-progress	4.7	565,914	1,128,102
		6,330,565	6,652,020

Notes to the Financial Statements

for the year ended December 31, 2012

	Owned assets							Leased assets							
	Freehold land	Building on leasehold land	Building on freehold land	Tanks and pipelines	Plant and machinery	Air Conditioning plant	Lifts	Dispensing Pumps	Rolling stock and vehicles	Electrical, mechanical and fire fighting equipments	Furniture, office equipments and other assets	Computer auxiliaries	Main frame	Vehicles	Total
4.1 Operating assets	(Rupees '000)														
At January 01, 2012															
Cost	73,523	159,007	3,657,964	1,532,108	482,420	29,587	4,333	898,944	523,387	2,566,391	1,133,332	155,370	38,393	-	11,351,768
Accumulated depreciation and impairment	57,311	56,595	1,573,595	907,934	208,628	29,479	1,954	671,927	392,919	1,010,825	756,733	124,066	35,884	-	5,827,850
Net book value	16,212	102,412	2,084,369	624,174	273,792	108	2,379	227,017	130,468	1,555,566	376,599	31,304	2,509	-	5,523,918
Year ended December 31, 2012															
Opening net book value	16,212	102,412	2,084,369	624,174	273,792	108	2,379	227,017	130,468	1,555,566	376,599	31,304	2,509	-	5,523,918
Additions	-	16,332	18,039	590,878	197,860	-	3,600	21,466	42,226	298,191	119,923	11,500	-	-	1,320,015
Disposals / write offs - notes 4.4 and 4.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	81,150	25,030	19,038	-	-	38,670	91,398	46,497	37,059	7,863	-	-	346,699
	-	-	(44,168)	(11,944)	(16,624)	-	-	(32,531)	(76,116)	(28,947)	(31,515)	(7,863)	-	-	(249,708)
	-	-	36,982	13,086	2,414	-	6,139	15,282	15,282	17,544	5,544	-	-	-	96,991
Depreciation charge for the year - note 4.2	-	3,560	3,027	69,698	31,431	-	273	69,080	83,999	140,461	96,551	14,922	-	-	690,649
Impairment for the year - note 4.8	-	-	-	22,954	22,931	-	-	2,209	6,980	234,353	5,835	-	-	-	291,642
Closing net book value	16,212	102,412	2,084,369	624,174	273,792	108	2,379	227,017	130,468	1,555,566	376,599	31,304	2,509	-	5,523,918
At December 31, 2012															
Cost	73,523	175,339	3,594,853	2,097,956	661,242	29,587	7,933	881,740	474,215	2,818,091	1,216,196	159,007	38,393	-	12,325,084
Accumulated depreciation and impairment	60,871	59,622	1,730,028	969,048	246,366	29,479	2,227	710,685	400,802	1,356,692	827,604	131,125	35,884	-	6,560,433
Net book value	12,652	115,717	1,864,825	1,128,908	414,876	108	5,706	171,055	73,413	1,461,399	388,592	27,882	2,509	-	5,764,651
At January 01, 2011															
Cost	73,523	105,125	3,778,485	1,571,684	395,941	29,587	4,333	1,022,516	345,730	2,469,818	1,212,711	152,017	38,393	242,501	11,539,373
Accumulated depreciation and impairment	54,077	53,817	1,425,340	862,718	166,533	25,478	1,762	684,910	218,909	889,358	721,662	111,927	35,884	128,529	5,380,904
Net book value	19,446	51,308	2,353,145	708,966	229,408	4,109	2,571	337,606	126,821	1,580,460	491,049	40,090	2,509	113,972	6,158,469
Year ended December 31, 2011															
Opening net book value	19,446	51,308	2,353,145	708,966	229,408	4,109	2,571	337,606	126,821	1,580,460	491,049	40,090	2,509	113,972	6,158,469
Additions	-	53,882	-	1,580	86,479	-	-	2,091	31,679	146,420	618	3,922	-	-	326,671
Transfers in / out	-	-	-	-	-	-	-	-	113,972	-	-	-	-	-	(113,972)
Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposals / write offs - notes 4.4 and 4.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	120,521	41,156	17,841	-	-	125,663	96,523	49,847	79,997	569	-	-	514,276
	-	-	(51,874)	(17,184)	(11,841)	-	-	(104,611)	(57,486)	(29,220)	(73,034)	(569)	-	-	(333,978)
	-	-	68,647	23,972	-	-	21,052	39,037	39,037	20,627	6,963	-	-	-	180,298
Depreciation charge for the year - note 4.2	-	3,234	180,878	57,043	27,073	4,001	192	86,892	102,967	142,817	106,190	12,708	-	-	726,773
Impairment for the year - note 4.8	-	-	-	5,357	63	-	-	4,670	-	-	1,910	-	-	-	38,400
Closing net book value	16,212	102,412	2,084,369	624,174	273,792	108	2,379	227,017	130,468	1,555,566	376,599	31,304	2,509	-	5,523,918
At December 31, 2011															
Cost	73,523	159,007	3,657,964	1,532,108	482,420	29,587	4,333	898,944	523,387	2,566,391	1,133,332	155,370	38,393	242,501	11,594,269
Accumulated depreciation and impairment	57,311	56,595	1,573,595	907,934	208,628	29,479	1,954	671,927	392,919	1,010,825	756,733	124,066	35,884	242,501	6,070,551
Net book value	16,212	102,412	2,084,369	624,174	273,792	108	2,379	227,017	130,468	1,555,566	376,599	31,304	2,509	-	5,523,918
Depreciation rate % per annum	5	2.50	5	3 to 4	3 to 10	6.67	5	6.67 and 20	5 to 20	5 to 10	5 to 20	20 to 25	2.50	20	20

Notes to the Financial Statements

for the year ended December 31, 2012

	Note	2012 (Rupees '000)	2011
4.2	The depreciation charge for the year has been allocated as follows:		
	Cost of products sold	28,784	25,327
	Administrative expenses	661,865	701,446
		690,649	726,773

4.3 The Company's assets include tanks, dispensing pumps and electrical equipments having a cost of Rs. 1,048,986 thousand (2011: Rs. 1,089,636 thousand) 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.

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

	Cost	Accumulated depreciation	Net Book Value	Sales Proceeds	Gain / (loss)	Mode of Disposal	Particulars of buyers
(Rupees '000)							
Buildings on leasehold land	5,472	3,558	1,914	1,092	(822)	Negotiation	Note 4.5
Tanks and pipelines	6,378	2,396	3,982	3,888	(94)	Negotiation	Note 4.5
Dispensing pumps	5,816	4,097	1,719	1,933	214	Negotiation	Note 4.5
Rolling stock and vehicles	1,379	46	1,333	1,172	(161)	By Company policy to existing / separating executives	Sameeruddin Mohiuddin
	1,529	153	1,376	1,260	(116)		Kashif Khan
	1,357	45	1,312	1,204	(108)		Wasi A. Sheikh
	1,269	690	579	793	214		Imran Ahmed Khan
	1,354	783	571	779	208		Asim Moin Khan
	1,239	434	805	866	61		Yasir Malik
	908	840	68	398	330		Shah Hussain
	1,389	1,008	381	764	383		Mubashir Omer
	1,389	1,035	354	747	393	Rehan-ul-Haq	
	3,000	2,387	613	2,924	2,311		Seema Aadil
Electrical, mechanical and fire fighting equipment	12,770	5,449	7,321	3,651	(3,670)	Negotiation	Note 4.5

4.5 These represent disposals to various retail site dealers. Due to the significant number of dealers involved, particulars of the disposal above Rs. 50,000 as required by the Fourth Schedule of the Companies Ordinance, 1984 have not been disclosed here.

4.6 Disposals / write offs of fixed assets include assets written off having a cost of Rs. 263,857 thousand (2011: Rs. 434,708 thousand) and a net book value of Rs. 71,338 thousand (2011: Rs. 148,104 thousand). Due to the significant number of line items involved, particulars of the write offs, above Rs. 50,000 as required by the Fourth Schedule of the Companies Ordinance, 1984 have not been disclosed here.

	2012 (Rupees '000)	2011
4.7 Capital work-in-progress		
Buildings on leasehold land	336,837	587,451
Tanks and pipelines	58,707	338,305
Plant and machinery	144,366	175,269
Electrical, mechanical and fire fighting equipments	25,450	26,466
Furniture, office equipment and other assets	554	611
	565,914	1,128,102

Notes to the Financial Statements

for the year ended December 31, 2012

4.8 Provision for impairment

The Company carried out a review for impairment on its operating assets wherein it was identified that carrying values of certain operating assets exceeds their estimated recoverable amounts. Accordingly, provision for impairment of Rs. 291,642 thousand (2011: Rs. 38,400 thousand) has been recognised in Other Operating Expenses (note 26), as summarised below:

	Note	2012 —————(Rupees '000)—————	2011 —————
Balance at the beginning of the year		82,571	44,171
Provision made during the year			
- CNG assets	4.8.1	200,000	-
- Other than CNG assets	4.8.2	91,642	38,400
		<u>291,642</u>	<u>38,400</u>
Balance at the end of the year		<u>374,213</u>	<u>82,571</u>

4.8.1 The CNG assets were tested for impairment after the Supreme Court of Pakistan took a suo moto action and reduced CNG margins by 40% in order to discourage CNG consumption by the transport sector. This, coupled with the significantly higher load shedding of gas during winter, casts significant doubt over the long term availability of gas supply in the country. The projected cash flows from the CNG business have been consequently revised which indicated an impairment of approximately Rs. 200,000 thousand.

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

5. INTANGIBLE ASSETS – Computer software

As at January 1

	Note	2012 —————(Rupees '000)—————	2011 —————
Cost		1,933,497	1,933,497
Accumulated amortisation		(612,392)	(253,790)
Net book value		<u>1,321,105</u>	<u>1,679,707</u>

Year ended December 31

Opening net book value		1,321,105	1,679,707
Amortisation charge	5.1 and 25	(389,238)	(358,602)
Closing net book value		<u>931,867</u>	<u>1,321,105</u>

As at December 31

Cost		1,933,497	1,933,497
Accumulated amortisation		(1,001,630)	(612,392)
Net book value		<u>931,867</u>	<u>1,321,105</u>

5.1 The cost is being amortised over a period of 5 years. The remaining amortisation period of computer software is 1 to 3 years.

Notes to the Financial Statements

for the year ended December 31, 2012

6. LONG - TERM INVESTMENTS

	2012		2011	
	Percentage Holding	Amount (Rupees '000)	Percentage Holding	Amount (Rupees '000)
Investment in associate - unquoted				
Pak-Arab Pipeline Company Limited (PAPCO)				
18,720,000 (2011: 18,720,000)				
ordinary shares of Rs. 100 each - note 6.1				
	26	2,984,350	26	2,744,610
Others - held as available-for-sale - at cost				
Arabian Sea Country Club Limited 500,000				
(2011: 500,000) ordinary shares of				
Rs. 10 each				
	5	5,000	5	5,000
		2,989,350		2,749,610

6.1 Movement of investment in associate

	2012 (Rupees '000)	2011
Balance at the beginning of the year	2,744,610	2,542,853
Share of profit	1,107,750	981,817
Share of taxation	(387,551)	(346,626)
	720,199	635,191
Dividend received	(480,459)	(433,434)
Balance at the end of the year	2,984,350	2,744,610

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.

The financial year end for PAPCO is June 30. Total assets and liabilities are based on unaudited condensed interim financial information for the half year ended December 31, 2012, whereas revenues and total comprehensive income for the year is based on audited financial statements for the years ended June 30, 2012 and June 30, 2011 and unaudited financial information for the half years ended December 31, 2012, December 31, 2011 and December 31, 2010.

	2012 (Rupees '000)	2011
Total assets	21,872,802	22,010,759
Total liabilities	10,394,533	11,454,568
Revenues	6,988,903	6,560,447
Total comprehensive income	2,769,993	2,443,045

Share of contingent liabilities based on the latest financial statements of PAPCO for the six months ended December 31, 2012 amounts to Rs. 17,187 thousand (December 31, 2011: Rs. 18,505 thousand).

Notes to the Financial Statements

for the year ended December 31, 2012

	Note	2012 (Rupees '000)	2011
7. LONG-TERM LOANS AND ADVANCES - Considered good			
Due from Directors Receivable within one year	7.1, 7.2 and 7.3 13	1,282 (1,282) -	2,681 (1,399) 1,282
Due from Executives Receivable within one year	7.1, 7.2 and 7.3 13	160,160 (65,176) 94,984	129,725 (50,122) 79,603
Due from Employees Receivable within one year	7.2 13	9,428 (5,559) 3,869	14,682 (6,228) 8,454
Advances to contractors		-	4,575
		98,853	93,914

7.1 Reconciliation of the carrying amount of loans and advances to executives and directors

	2012		2011	
	Directors	Executives	Directors	Executives
	(Rupees '000)			
Balance at the beginning of the year	2,681	129,725	-	126,005
Disbursements	-	125,945	3,497	86,716
Repayments	(1,399)	(95,510)	(816)	(82,996)
Balance at the end of the year	1,282	160,160	2,681	129,725

7.2 Loans to staff are unsecured and are given for housing, purchase of motor cars / motorcycles and for other 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.

7.3 The maximum aggregate amounts due from Chief Executive, Directors and Executives at the end of any month during the year were Nil (2011: Nil), Rs. 2,565 thousand (2011: Rs. 2,914 thousand) and Rs. 252,193 thousand (2011: Rs. 135,880 thousand) respectively. The loans to Directors represent key management personnel loans outstanding at year end.

	Note	2012 (Rupees '000)	2011
8. LONG-TERM DEPOSITS AND PREPAYMENTS			
Deposits		111,293	97,145
Prepayments		88,658	97,097
		199,951	194,242

9. LONG-TERM DEBTORS

Long-term debtors	9.1 and 12	1,216	3,732
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9.1 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 2 years.

Notes to the Financial Statements

for the year ended December 31, 2012

10. DEFERRED TAXATION	Note	2012 (Rupees '000)	2011
This is composed of the following:			
Taxable temporary difference arising in respect of:			
- accelerated tax depreciation		(959,427)	(719,540)
- investment in associate		(111,235)	(87,261)
Deductible temporary difference arising in respect of:			
- short-term provisions		614,897	400,066
- carry forward tax losses	10.1	1,034,825	1,790,551
		<u>579,060</u>	<u>1,383,816</u>

10.1 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 December 31, 2012 amount to Rs. 6,423,901 thousand (2011: Rs. 5,444,606 thousand), inclusive of business loss of Rs. 5,031,149 thousand, out of which deferred income tax asset has been recognised on tax losses amounting to Rs. 2,956,643 thousand (2011: Rs. 5,115,860 thousand), based on recent projections of future taxable profits of the Company. Tax losses in respect of business are available for utilisation against future taxable profits till December 31, 2014.

11. STOCK-IN-TRADE	Note	2012 (Rupees '000)	2011
Raw and packing materials		1,391,642	889,352
Provision for impairment	11.6	(19,500)	(25,000)
		<u>1,372,142</u>	<u>864,352</u>
Finished products			
- in hand and in pipeline system	11.1, 11.2, 11.4 & 11.5	9,735,549	12,204,462
- in White Oil Pipeline	11.3, 11.4 & 11.5	6,274,034	4,780,013
		<u>16,009,583</u>	<u>16,984,475</u>
Provision for impairment	11.6	(3,779)	(1,605)
		<u>16,005,804</u>	<u>16,982,870</u>
		<u>17,377,946</u>	<u>17,847,222</u>

11.1 Includes stock-in-transit amounting to Rs. 19,014 thousand (2011: Rs. 3,181,508 thousand).

11.2 During the year, expired lubricants amounting to Nil (2011: Rs. 2,378 thousand) were written-off.

11.3 Stock in White Oil Pipeline includes High Speed Diesel amounting to Rs. 3,115 thousand (2011: Rs. 4,780 thousand) which has been maintained as line fill necessary for the pipeline to operate.

11.4 Finished goods include bonded stock amounting to Rs. 829,197 thousand (2011: Rs. 5,965,925 thousand).

11.5 The above balance includes items costing Rs. 74,775 thousand (2011: Nil) which have been valued at their net realizable value amounting to Rs. 74,301 thousand (2011: Nil).

Notes to the Financial Statements

for the year ended December 31, 2012

	Note	2012 (Rupees '000)	2011
11.6			
The movement in the provision for expired / obsolete stock is as follows:			
Balance at the beginning of the year		26,605	7,917
Provision made during the year		23,279	26,605
Amounts reversed / utilised during the year		(26,605)	(7,917)
Balance at the end of the year		<u>23,279</u>	<u>26,605</u>

12. TRADE DEBTS

Considered good			
- Secured	12.1	350,215	606,516
- Unsecured	12.2	1,657,554	1,886,126
		<u>2,007,769</u>	<u>2,492,642</u>
Considered doubtful		633,102	671,251
Trade debts - gross		2,640,871	3,163,893
Provision for impairment	12.3 & 12.5	(633,102)	(671,251)
Trade debts - net		<u>2,007,769</u>	<u>2,492,642</u>

The above trade debts are classified as follows:

	Note	2012		
		Long-term (note 9)	Short-term (Rupees '000)	Total
Trade debts - gross		1,795	2,639,076	2,640,871
Provision for impairment	12.3	(579)	(632,523)	(633,102)
		<u>1,216</u>	<u>2,006,553</u>	<u>2,007,769</u>
				2011
		Long-term (note 9)	Short-term (Rupees '000)	Total
Trade debts - gross		16,594	3,147,299	3,163,893
Provision for impairment	12.3	(12,862)	(658,389)	(671,251)
		<u>3,732</u>	<u>2,488,910</u>	<u>2,492,642</u>

12.1 These debts are secured by way of bank guarantees and security deposits.

12.2 Amount due from related party, included in trade debts, is as follows:

	Note	2012 (Rupees '000)	2011
Shell Aviation		-	190,668

12.3 Provision for impairment

Balance at the beginning of the year		671,251	671,389
Provision made during the year	26	73,191	52,679
Amounts reversed during the year	27	(84,721)	(36,702)
Amounts written off / reclassified during the year		(26,619)	(16,115)
Balance at the end of the year		<u>633,102</u>	<u>671,251</u>

Notes to the Financial Statements

for the year ended December 31, 2012

12.4 As at December 31, 2012, trade receivables aggregating to Rs. 162,009 thousand (2011: Rs. 133,901 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no or some recent history of default, however, no losses. The ageing analysis of these trade receivables is as follows:

	Note	2012 (Rupees '000)	2011
Upto 1 month		47,171	48,410
1 to 6 months		27,935	35,582
More than 6 months		86,903	49,909
		<u>162,009</u>	<u>133,901</u>

12.5 As at December 31, 2012, trade receivables of Rs. 633,102 thousand (2011: Rs. 671,251 thousand) were impaired and provided for. The ageing of these receivables is as follows:

	Note	2012 (Rupees '000)	2011
Upto 6 months		3,750	16,303
More than 6 months		629,352	654,948
		<u>633,102</u>	<u>671,251</u>

13. LOANS AND ADVANCES - Considered good

Current portion of long-term loans due from	7		
- Directors		1,282	1,399
- Executives		65,176	50,122
- Employees		5,559	6,228
		<u>72,017</u>	<u>57,749</u>
Advances to employees		9,044	8,783
		<u>81,061</u>	<u>66,532</u>

14. OTHER RECEIVABLES

Petroleum development levy and other duties	14.1	2,306,044	2,364,502
Price differential claims			
- on imported purchases	14.2	295,733	295,733
- on high speed diesel (HSD)	14.3	343,584	747,490
- on imported motor gasoline	14.4	1,961,211	1,961,211
Sales tax refundable	14.5	4,737,218	8,530,611
Inland freight equalisation mechanism		127,243	339,063
Service cost receivable from related parties	14.6	89,270	74,787
Service cost receivable from associated company - PAPCO		7,935	4,712
Staff retirement benefit schemes	31.1.10	355,786	229,702
Mark-up receivable on short-term deposits		2,955	1,576
Taxes recoverable	21.1.2	646,629	288,896
Others		34,839	978
		<u>10,908,447</u>	<u>14,839,261</u>
Provision for impairment		<u>(222,671)</u>	<u>(206,006)</u>
		<u>10,685,776</u>	<u>14,633,255</u>

Notes to the Financial Statements

for the year ended December 31, 2012

14.1 This includes petroleum development levy recoverable amounting to Rs. 2,291,557 thousand (2011: Rs. 2,274,308 thousand) from the Federal Board of Revenue (FBR) on account of export sales. In 2011, the Company approached the Government of Pakistan (GoP) and FBR for settlement of this receivable. The GoP sought certain information which has been provided by the Company. The FBR through the Large Taxpayer Unit (LTU) has completed the verification exercise for claims amounting to Rs. 604,939 thousand which have been forwarded to the Ministry of Finance for processing. The remaining claims are under verification. The Company is confident of recovery of the amount in full on completion of the verification exercise by FBR.

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

14.3 This represents price differential on local / imported purchases of HSD during the period 2004 to 2008 which was based on rates notified by GoP to subsidise petroleum prices by restricting the increase in prices in order to reduce the burden of rising oil prices on the end consumers.

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

14.4 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 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 imported product. Although no response was received from the MoPNR, the Company along with another oil marketing company continued to import motor gasoline on behalf of the industry being confident that price differential on motor gasoline, will be settled as per previous practice i.e. based on the differential between ex-refinery and import cost at the time of filing of cargo with Customs, as imports were being made on MoPNR instructions.

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

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

14.5 This principally represents sales tax refundable on account of export sales for which the Company has filed claims with FBR and is actively pursuing for its recovery. During the year, the Company has received refunds aggregating to Rs. 3,349,929 thousand in respect of these claims.

Notes to the Financial Statements

for the year ended December 31, 2012

14.6 Amounts due from related parties, included in other receivables, are as follows:

	Note	2012 ———— (Rupees '000) ————	2011 ———— (Rupees '000) ————
Shell International Petroleum Company Limited		11,065	-
Shell International Limited		4,021	33
Shell Development & Offshore Pakistan BV		800	4,246
Shell Markets (Middle East) Limited		10,358	9,227
Shell Eastern Petroleum (Pte) Limited		1,826	7,416
Shell Polska Limited		353	4,880
Shell China Limited		11,813	17,353
Shell Malaysia Trading SDN		12,126	11,835
Superkad Services SDN BHD		9,268	-
Shell EP International Limited		4,538	-
Others		23,102	19,797
		<u>89,270</u>	<u>74,787</u>

15. CASH AND BANK BALANCES

Balances with banks			
- current account		2,098,022	1,379,652
- savings account	15.1	1,277,705	49,996
		<u>3,375,727</u>	1,429,648
Cash in hand		12,758	8,799
		<u>3,388,485</u>	<u>1,438,447</u>

15.1 Balances with banks carry interest at the rate of 6% (2011: 5.5%) per annum.

16. SHARE CAPITAL

16.1 Authorised capital

2012 (Number of Shares)	2011 (Number of Shares)		2012 ———— (Rupees '000) ————	2011 ———— (Rupees '000) ————
<u>100,000,000</u>	<u>100,000,000</u>	Ordinary shares of Rs. 10 each	<u>1,000,000</u>	<u>1,000,000</u>

16.2 Issued, subscribed and paid-up capital

2012			2011				2012 ———— (Rupees '000) ————	2011 ———— (Rupees '000) ————
Issued for Cash	Issued as bonus share	Total	Issued for Cash	Issued as bonus share	Total			
(Number of Shares)								
23,481,000	-	23,481,000	23,481,000	-	23,481,000	Fully paid in cash	234,810	234,810
-	62,128,886	62,128,886	-	45,006,913	45,006,913	Issued as fully paid - bonus shares	621,290	450,070
<u>23,481,000</u>	<u>62,128,886</u>	<u>85,609,886</u>	<u>23,481,000</u>	<u>45,006,913</u>	<u>68,487,913</u>	Closing balance	<u>856,100</u>	<u>684,880</u>

Notes to the Financial Statements

for the year ended December 31, 2012

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

16.4 The Shell Petroleum Company Limited, United Kingdom (immediate parent), a subsidiary of Royal Dutch Shell Plc. (ultimate parent), held 65,154,963 (2011: 52,123,970) ordinary shares of Rs. 10 each at December 31, 2012

17. ASSET RETIREMENT OBLIGATION	Note	2012 ————— (Rupees '000) —————	2011 ————— (Rupees '000) —————
Balance at the beginning of the year		189,351	187,104
Obligation recognised in respect of:			
- change in estimate	17.1	123,791	-
- additions		18,247	178
		142,038	178
Reversal of liability	27	(2,825)	(8,638)
Accretion expense	28	11,032	10,707
		8,207	2,069
Balance at the end of the year		<u>339,596</u>	<u>189,351</u>

17.1 Change in estimate represents the effect of adjustment in inflation rate used for estimating the future outflows of resources required to settle asset retirement obligation.

18. TRADE AND OTHER PAYABLES	Note	2012 ————— (Rupees '000) —————	2011 ————— (Rupees '000) —————
Creditors	18.1	18,997,173	18,782,851
Oil marketing companies		7,607	7,607
Accrued liabilities		4,006,391	2,539,936
Excise and customs duties and development surcharge		51,416	80,743
Dealers' and customers' security deposits	18.2	529,372	663,949
Advances received from customers		1,723,140	1,917,721
Provision for post retirement medical benefits	31.2.2	46,281	41,558
Workers' welfare fund		265,463	265,463
Workers' profits participation fund	18.3	1,940	11,441
Unclaimed dividends		107,401	107,572
Payable to the Earthquake Relief Fund		948	948
Other liabilities	18.4	80,508	75,314
		<u>25,817,640</u>	<u>24,495,103</u>

Notes to the Financial Statements

for the year ended December 31, 2012

18.1	This includes amounts due to the following related parties:		2012	2011
			—————	—————
			(Rupees '000)	
	Pakistan Refinery Limited		1,846,150	1,092,366
	Shell International Petroleum Company Limited		5,487,008	4,913,082
	Shell International Trading Middle East		1,128,008	6,543,749
	Shell Lubricants Supply Company		491,964	469,940
	Shell International Limited		-	68,214
	Shell International BV		212,820	151,462
	Shell Information Technology		452,150	285,180
	Shell Eastern Trading (Pte) Limited		169,708	48,005
	Shell Deutschland Oil GmbH		7,955	10,819
	Shell Business Service Centre		198,885	94,507
	Shell International Limited - SRES		-	48,722
	Shell Shared Services (Asia) BV		203,046	125,940
	Shell & Turcas Petrol A.S.		9,371	16,060
	Shell People Services Asia SDN BHD		27,363	16,974
	Shell Aviation Limited		1,625,283	-
	Euroshell cards BV		53,985	-
	Other related parties		47,346	45,274
			<u>11,961,042</u>	<u>13,930,294</u>
18.2	The security deposits are non-interest bearing and are refundable on termination of contracts.			
18.3	Workers' profits participation fund	Note	2012	2011
			—————	—————
			(Rupees '000)	
	Balance at the beginning of the year		11,441	4,193
	Allocation for the year	26	-	119,051
			<u>11,441</u>	<u>123,244</u>
	Amount paid during the year		(9,501)	(111,803)
	Balance at the end of the year		<u>1,940</u>	<u>11,441</u>
18.4	Other liabilities include Rs. 80,056 thousand (2011: Rs. 49,044 thousand) in respect of termination benefits payable to employees under a staff redundancy plan finalised during 2009. Termination benefits to be paid through post retirement benefit funds have been accounted for in the funds valuation as disclosed in note 31 to the financial statements.			
19.	ACCRUED MARK-UP / INTEREST	Note	2012	2011
			—————	—————
			(Rupees '000)	
	Mark-up / interest accrued on:			
	- short-term running finances utilised under mark-up arrangements		44,225	207,151
	- short-term loans		8,224	10,494
			<u>52,449</u>	<u>217,645</u>
20.	SHORT-TERM BORROWINGS - Secured			
	Running finances utilised under mark-up arrangements	20.1	-	7,866,032
	Loans	20.2	12,170,000	7,879,000
			<u>12,170,000</u>	<u>15,745,032</u>

Notes to the Financial Statements

for the year ended December 31, 2012

- 20.1** The facilities for short-term running finances available from various banks aggregate to Rs. 38,405,000 thousand (2011: Rs 19,480,000 thousand) based on a new joint hypothecation agreement entered during the year. The rates of mark-up range from Re. 0.2726 to Re. 0.3255 per Rs. 1,000 per day (2011: Re. 0.3433 to Re. 0.4216 per Rs. 1,000 per day). The purchase prices are payable on various dates by January 10, 2013. These arrangements are secured by hypothecation of the Company's present and future stock-in-trade, trade debts and other receivables.
- 20.2** These have been obtained from various banks and carry mark-up at rates ranging from 9.55% to 9.70% (2011: 12.33% to 13.27%) per annum. The loans, repayable by January 13, 2013, are secured by hypothecation of the Company's stock-in-trade, trade debts and other receivables.

21. CONTINGENCIES AND COMMITMENTS

21.1 Contingencies

21.1.1 Infrastructure fee

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

The Company and several others challenged the levy in constitutional petitions before the High Court of Sindh. These petitions were dismissed as, during their pendency, the nature of the levy was changed by the Government of Sindh through an Ordinance. The Company and others therefore filed civil suits in the High Court of Sindh challenging the amended Ordinance. However, these suits were also dismissed in October 2003. All the plaintiffs preferred intra-court appeals against the dismissal. The intra-court appeals were decided by the High Court in September 2008 wherein it was held that the levy is valid and collectable only from December 12, 2006 onwards and not prior to this date. Being aggrieved by the said 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 December 31, 2012 at Rs. 42,493 thousand (2011: Rs. 30,993 thousand). However, the eventual obligation on account of the aggregate fee, if any, cannot be ascertained presently because of uncertainty in relation to the extent of its application to the Company. For these reasons and based on legal advice obtained, no provision has been made in these financial statements against the levy as the management expects a favourable outcome.

Notes to the Financial Statements

for the year ended December 31, 2012

21.1.2 Taxation

21.1.2.1 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. During the year, both CIR (Appeals) and ATIR have decided the case against the Company. The Company is in the process of filing an appeal before the High Court against the order of ATIR and based on the advice of its tax consultant expects a favourable outcome and as such has not made any provision thereagainst. The adjustment made against the demand has been considered recoverable and is included in other receivables as reflected on the balance sheet in these financial statements.

21.1.2.2 During the year, the Company received a demand from tax authorities in respect of tax year 2004 amounting to Rs. 161,057 thousand. The demand principally arose due to addition made by assessing officer in respect of allocation of common expenses, disallowance of software cost claimed as revenue expenditure and credit disallowed in respect of income derived from Azad Kashmir. The Company in response to the order has deposited an amount of Rs. 29,106 thousand and has filed a rectification application and an appeal with CIR (Appeals). The tax officer rectified the order allowing Azad Kashmir tax credit and partial relief on amortization of software cost reducing demand to Rs. 109,895 thousand. The Company has made payment of Rs. 100,000 thousand under protest against the rectified order and filed another rectification application and appeal before CIR (Appeals). The 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.

21.1.3 Sales tax and federal excise duty (FED)

21.1.3.1 In 2011, the tax authorities after conducting sales tax and federal excise duty audit for the period July 2008 to June 2009 and post refund audit for the period September and October 2008 raised sales tax and federal excise duty demands amounting to Rs. 1,843,529 thousand through several orders. Further, during the year, the tax authorities also conducted sales tax and federal excise duty audit for period July 2009 to December 2009 raising additional sales tax and federal excise duty demands amounting to Rs. 1,093,370 thousand through several orders. These demands primarily arose on account of (i) disallowing input tax against zero rated supplies; (ii) levying FED on license fee, group service fee and trademarks and manifestation fee; (iii) levying sales tax on difference in output sales tax as per return and financial statements; and (iv) sales tax on lubricants paid on the value of supply instead of retail price as mentioned on packs. The Company in response to the aforementioned orders filed appeals and sought stay against the demands with the ATIR and CIR (Appeals) where one of the appeals has been decided in favour of the Company by the ATIR and three appeals have been decided on most of the grounds of appeal in favour of the Company by CIR (Appeals) except for issue of FED on dealers joining fee and income from Company Owned Company Operated (COCO) sites. Further, during the year, the tax authorities have adjusted sales tax demand of Rs. 173,799 thousand pertaining to September 2008 against sales tax refundable.

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

Notes to the Financial Statements

for the year ended December 31, 2012

21.1.3.2 During the year, 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. Recently, Model Customs Adjudication has quashed the show cause notices of Faisalabad, Lahore and Multan Collectorates based on the notification. The Company is also of the opinion that OMCs cannot be required to pay the tax on unregulated products / exports retrospectively since clarification of FBR was in field at that time and is confident that revised notification in this respect will be issued 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 financial statements.

21.1.4 PARCO pipeline fill

The MoPNR had made a claim relating to the loan arranged by the Government of Pakistan to the Company to finance the initial fill of the Pak-Arab Refinery Limited (PARCO) pipeline. MoPNR calculated the Company's liability by applying the price prevailing on August 11, 2000 to the quantity of fuel supplied at the time of initial fill.

The Company maintained that its liability was limited only to the extent of Rs. 78,164 thousand (2011: Rs. 78,164 thousand) which was based on the price prevailing at the time of the initial fill and was fully paid in March 2007. The Company did not acknowledge the additional liability of Rs. 215,836 thousand as claimed by MoPNR.

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

21.1.5 Others

The amount of other claims against the Company not acknowledged as debt as at December 31, 2012 aggregate to approximately Rs. 2,661,817 thousand (2011: Rs. 2,402,630 thousand). This includes claims by refineries, amounting to Rs. 996,554 thousand (2011: Rs. 996,554 thousand) in respect of delayed payment charges. The Company does not acknowledge the claim for late payment charges as the delayed payment to refineries arose due to the liquidity crisis faced by oil marketing companies over the past few years caused by non-settlement of price differential claims by the Government of Pakistan.

21.2 Commitments

21.2.1 Capital expenditure contracted for but not incurred as at December 31, 2012 amounted to approximately Rs. 229,567 thousand (2011: Rs. 308,517 thousand).

Notes to the Financial Statements

for the year ended December 31, 2012

21.2.2 Commitments for rentals of assets under operating lease agreements as at December 31, 2012 amounted to Rs. 2,652,712 thousand (2011: Rs. 2,822,905 thousand) payable as follows:

	2012	2011
	————— (Rupees '000) —————	
Not later than one year	150,685	152,284
Later than one year and not later than five years	607,538	638,394
Later than five years	1,894,489	2,032,227
	<u>2,652,712</u>	<u>2,822,905</u>

21.2.3 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 December 31, 2012, the value of these cheques amounted to Rs. 4,070,188 thousand (2011: Rs. 4,927,938 thousand). The maturity dates of these cheques extend to June 18, 2013 (2011: June 29, 2012).

21.2.4 Letters of credit and bank guarantees outstanding at December 31, 2012 amount to Rs. 4,689,651 thousand (2011: Rs. 4,441,046 thousand).

22. SALES (INCLUSIVE OF SALES TAX)

	Note	2012	2011
		————— (Rupees '000) —————	
Gross sales			
- Local		245,479,000	217,147,625
- Export		2,323	31,324,480
		<u>245,481,323</u>	<u>248,472,105</u>
Less: Trade discounts and rebates		1,164,448	965,568
		<u>244,316,875</u>	<u>247,506,537</u>

23. COST OF PRODUCTS SOLD

Opening stock of raw and packing materials		864,352	1,000,955
Raw and packing materials purchased		7,644,615	7,049,537
Closing stock of raw and packing materials	11	(1,372,142)	(864,352)
Raw and packing materials consumed		7,136,825	7,186,140
Manufacturing expenses		644,888	475,789
Cost of products manufactured		7,781,713	7,661,929
Opening stock of finished products		16,982,870	11,347,483
Finished products purchased		173,556,721	190,444,859
Duties and levies	23.1	21,205,945	14,442,131
Closing stock of finished products	11	(16,005,804)	(16,982,870)
		<u>203,521,445</u>	<u>206,913,532</u>

23.1 Duties and levies

Petroleum development levy	15,018,168	7,285,712
Customs and excise duty	1,122,238	2,176,507
Inland freight equalisation margin	4,551,237	4,890,945
Others	514,302	88,967
	<u>21,205,945</u>	<u>14,442,131</u>

Notes to the Financial Statements

for the year ended December 31, 2012

24. DISTRIBUTION AND MARKETING EXPENSES

	Note	2012 (Rupees '000)	2011
Salaries, wages and benefits	24.1	1,099,304	1,213,495
Staff training		1,409	7,100
Stores and materials		27,923	31,082
Fuel and power		54,238	60,052
Rent, taxes and utilities		423,651	283,516
Repairs and maintenance		288,943	331,694
Insurance		17,942	87,266
Travelling		207,255	219,013
Advertising and publicity		289,473	329,815
Legal and professional charges		41,857	136,335
Communication and stationery		68,460	38,890
Computer expenses		53,191	44,694
Storage and other charges		140,899	181,756
Others		1,357	67,294
		2,715,902	3,032,002
Handling and storage charges recovered		(49,827)	(46,498)
Secondary transportation expenses		563,067	910,670
		3,229,142	3,896,174

24.1 Salaries, wages and benefits include Rs. 94,631 thousand (2011: Rs. 138,003 thousand) in respect of staff retirement benefits.

25. ADMINISTRATIVE EXPENSES

	Note	2012 (Rupees '000)	2011
Salaries, wages and benefits	25.1	532,084	245,235
Staff training		13,555	8,916
Stores and materials		2,794	6,832
Fuel and power		21,216	29,788
Rent, taxes and utilities		10,348	8,468
Repairs and maintenance		29,185	18,334
Insurance		36,974	4,941
Travelling		31,166	54,488
Advertising and publicity		3,839	7,684
Technical service fee		1,287,454	1,037,354
Trade marks and manifestations licence fee		279,292	222,815
Legal and professional charges		434,391	253,941
Communication and stationery		425,373	441,012
Computer expenses		26,736	142,578
Depreciation	4.2	661,865	701,446
Amortisation	5	389,238	358,602
		4,185,510	3,542,434
Costs recovered under Service Level Agreement from related parties		(14,381)	(70,987)
		4,171,129	3,471,447

Notes to the Financial Statements

for the year ended December 31, 2012

25.1 Salaries, wages and benefits include Rs. 45,803 thousand (2011: Rs. 33,021 thousand) in respect of staff retirement benefits.

26.	OTHER OPERATING EXPENSES	Note	2012 ———— (Rupees '000) ————	2011 ———— (Rupees '000) ————
	Workers' profits participation fund	18.3	-	119,051
	Workers' welfare fund		-	64,438
	Exchange loss		877,075	296,305
	Provision for impairment of trade debts	12.3	73,191	52,679
	Provision for impairment of operating assets	4.8	291,642	38,400
	Write off of operating assets		71,338	148,104
	Auditors' remuneration	26.1	3,993	4,617
	Donations	26.2	13,410	22,337
			<u>1,330,649</u>	<u>745,931</u>

26.1 Auditors' remuneration

Audit fee	3,200	2,970
Fee for substantiating Inland Freight Equalisation Margin	63	492
Audit of retirement benefit funds	310	275
Special certifications and sundry advisory services	125	452
Out of pocket expenses	295	428
	<u>3,993</u>	<u>4,617</u>

26.2 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	2012 ———— (Rupees '000) ————	2011 ———— (Rupees '000) ————
Shell LiveWIRE Trust (Shell House, 6 Ch. Khaliqzaman Road, Karachi - 75530)	Mr Omar Y Sheikh / Mr Sarim Sheikh Chairman, Board of Trustees Mr Rafi H Basheer - Trustee (2011: Mr Sarim Sheikh / Mr Zaiviji Ismail bin Abdullah - Chairman, Board of Trustees Mr Rafi H Basheer - Trustee)	2,000	2,000
The Layton Rahmatulla Benevolent Trust (37-C, Sunset Lane No. 4, Phase II Extension, DHA., Karachi - 75500)	Mr Farrokh K Captain - Trustee (2011: Mr Zaiviji Ismail bin Abdullah - Trustee Mr Farrokh K Captain - Trustee)	2,000	2,000
The Kidney Centre Post Graduate Training Institute (197/9, Rafiqi Shaheed Road, Karachi - 75530)	Mr Omar Y Sheikh - Member, Board of Governors Mr Nasser N S Jaffer - Member, Board of Governors (2011: Mr Sarim Sheikh / Mr Zaiviji Ismail bin Abdullah - Member, Board of Governors Mr Nasser N S Jaffer - Member, Board of Governors)	1,000	1,000

Notes to the Financial Statements

for the year ended December 31, 2012

27. OTHER OPERATING INCOME	Note	2012 ————— (Rupees '000)	2011 —————
Income from financial assets			
Reversal of provision for impairment of trade debts	12.3	84,721	36,702
Mark-up / interest on short-term deposits		18,791	26,931
Income from non-financial assets			
Gain on disposal of operating assets		13,536	24,252
Reversal of asset retirement obligation	17	2,825	8,638
Liabilities no longer payable written back		91,909	-
Shell card income		51,857	39,048
Sundries		106,891	35,573
		370,530	171,144
28. FINANCE COSTS			
Bank charges		195,877	217,027
Accretion expense	17	11,032	10,707
Mark-up / interest on short-term borrowings		1,427,409	1,866,644
Finance charge on liabilities against assets subject to finance lease		-	1,505
		1,634,318	2,095,883
29. TAXATION			
Current			
- for the year			
- final tax		103,730	394,688
- minimum turnover tax	29.1	980,833	895,704
- for prior years		197,868	26,801
		1,282,431	1,317,193
Deferred			
		804,756	609,534
		2,087,187	1,926,727

29.1 Minimum tax is charged at 0.5% of taxable turnover which 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 to Rs. 6,423,901 thousand (2011: Rs. 5,444,606 thousand). As at December 31, 2012, minimum tax which is available for adjustment against the future tax liability and not recognised as tax asset aggregates to Rs. 2,951,179 thousand (2011: Rs. 1,970,346 thousand).

Notes to the Financial Statements

for the year ended December 31, 2012

	Note	2012 —————(Rupees '000)—————	2011 —————
29.2	Relationship between tax expense and accounting profit		
	Accounting profit before taxation	<u>4,656</u>	<u>2,832,717</u>
	Tax rate	35%	35%
	Tax on accounting profit	1,630	991,451
	Tax effect of income under final tax regime	(19,013)	169,464
	Tax impact on account of lower tax rate on share of profit of associate	(204,024)	(158,798)
	Prior years charge	197,868	26,801
	Minimum tax	980,833	895,704
	Reversal of deferred tax asset - net	1,098,480	-
	Others	31,413	2,105
	Tax expense for the year	<u>2,087,187</u>	<u>1,926,727</u>
30.	(LOSS) / EARNINGS PER SHARE		
30.1	Basic / Diluted		
	(Loss) / Profit after taxation attributable to ordinary shareholders	<u>(2,082,531)</u>	<u>905,990</u>
		————— No. of Shares —————	Restated
	Weighted average number of ordinary shares in issue during the year	<u>85,609,886</u>	<u>85,609,886</u>
		————— Rupees —————	Restated
	(Loss) / Earnings per share	<u>(24.33)</u>	<u>10.58</u>
31.	EMPLOYEE BENEFITS		
31.1	Pension & Gratuity		
	As mentioned in note 2.14, 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 December 31, 2012.		
31.1.1	Actuarial assumptions		
	The following significant assumptions were used in the valuation of these schemes:		
		2012	2011
		—————% per annum—————	
	- Expected rate of increase in future salaries	11.25	10.75
	- Discount rate	11.50	13.00
	- Expected rate of return on plan assets	11.50	13.00

Notes to the Financial Statements

for the year ended December 31, 2012

31.1.2 Balance sheet reconciliation

	2012					2011				
	Management		Non-Management		Total	Management		Non-Management		Total
	Pension	Gratuity	Pension	Gratuity		Pension	Gratuity	Pension	Gratuity	
	(Rupees '000)					(Rupees '000)				
Fair value of plan assets - note 31.1.3	2,275,470	(170,966)	12,162	89,584	2,206,250	2,083,112	(132,408)	11,701	83,158	2,045,563
Present value of defined benefit obligation - note 31.1.4	(2,156,804)	(372,508)	-	(81,019)	(2,610,331)	(1,624,845)	(303,367)	-	(71,026)	(1,999,238)
Surplus / (deficit)	118,666	(543,474)	12,162	8,565	(404,081)	458,267	(435,775)	11,701	12,132	46,325
Actuarial (gains) / losses to be recognised in future periods in accordance with the Company's accounting policy	296,437	120,226	245	7,778	424,686	(121,262)	57,177	(681)	6,513	(58,253)
Asset / (liability) in respect of staff retirement benefit schemes	415,103	(423,248)	12,407	16,343	20,605	337,005	(378,598)	11,020	18,645	(11,928)

31.1.3 Movement in the fair value of plan assets

	2012					2011				
	Management		Non-Management		Total	Management		Non-Management		Total
	Pension	Gratuity	Pension	Gratuity		Pension	Gratuity	Pension	Gratuity	
	(Rupees '000)					(Rupees '000)				
Fair value of plan assets at the beginning of the year	2,083,112	(132,408)	11,701	83,158	2,045,563	1,805,018	(22,202)	10,036	85,266	1,878,118
Expected return on plan assets	251,274	(20,530)	1,287	10,199	242,230	234,627	(10,773)	1,240	10,799	235,893
Contribution by the Company	103,613	25,790	-	-	129,403	95,696	23,446	-	-	119,142
Contribution by the employees	12,282	-	-	-	12,282	11,322	-	-	-	11,322
Benefits paid during the year	(93,592)	(105,392)	-	(3,228)	(202,212)	(101,519)	(141,070)	-	(16,325)	(258,914)
Actuarial gains / (losses) on plan assets	(81,219)	61,574	(826)	(545)	(21,016)	37,968	18,191	425	3,418	60,002
Fair value of plan assets at the end of the year	2,275,470	(170,966)	12,162	89,584	2,206,250	2,083,112	(132,408)	11,701	83,158	2,045,563

31.1.4 Movement in the present value of defined benefit obligations

	2012					2011				
	Management		Non-Management		Total	Management		Non-Management		Total
	Pension	Gratuity	Pension	Gratuity		Pension	Gratuity	Pension	Gratuity	
	(Rupees '000)					(Rupees '000)				
Present value of obligation at the beginning of the year	1,624,845	303,367	-	71,026	1,999,238	1,639,691	312,376	4	61,081	2,013,152
Current service cost	77,757	23,019	-	2,513	103,289	88,936	17,715	-	2,452	109,103
Interest cost	211,085	28,431	-	9,030	248,546	226,302	24,236	-	8,633	259,171
Benefits paid during the year	(93,592)	(105,392)	-	(3,228)	(202,212)	(101,519)	(141,070)	-	(16,325)	(258,914)
Actuarial (gains) / losses on obligation	325,026	131,091	-	1,678	457,795	(148,319)	43,869	(4)	12,342	(92,112)
Curtailments loss / (gain)	11,683	(8,008)	-	-	3,675	(80,246)	46,241	-	2,843	(31,162)
Present value of obligation at the end of the year	2,156,804	372,508	-	81,019	2,610,331	1,624,845	303,367	-	71,026	1,999,238

31.1.5 Amount recognised in the statement of comprehensive income

	2012					2011				
	Management		Non-Management		Total	Management		Non-Management		Total
	Pension	Gratuity	Pension	Gratuity		Pension	Gratuity	Pension	Gratuity	
	(Rupees '000)					(Rupees '000)				
Current service cost	77,757	23,019	-	2,513	103,289	88,936	17,715	-	2,452	109,103
Interest cost	211,085	28,431	-	9,030	248,546	226,302	24,236	-	8,633	259,171
Expected return on plan assets	(251,274)	20,530	(1,287)	(10,199)	(242,230)	(234,627)	10,773	(1,240)	(10,799)	(235,893)
Curtailments loss / (gain)	11,683	(8,008)	-	-	3,675	(80,246)	46,241	-	2,843	(31,162)
Net actuarial loss / (gain) recognised during the year	(11,454)	6,468	(100)	958	(4,128)	8,987	6,220	(33)	(839)	14,335
Employee contributions	(12,282)	-	-	-	(12,282)	(11,322)	-	-	-	(11,322)
(Reversal) / expense for the year	25,515	70,440	(1,387)	2,302	96,870	(1,970)	105,185	(1,273)	2,290	104,232
Actual return on plan assets	170,055	41,044	461	9,654	221,214	272,595	7,418	1,665	14,217	295,895

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for the year ended December 31, 2012

31.1.6 Movement in the asset / (liability) recognised in the balance sheet

	2012					2011				
	Management		Non-Management		Total	Management		Non-Management		Total
	Pension	Gratuity	Pension	Gratuity		Pension	Gratuity	Pension	Gratuity	
	(Rupees '000)					(Rupees '000)				
Balance at the beginning of year	337,005	(378,598)	11,020	18,645	(11,928)	239,339	(296,859)	9,747	20,935	(26,838)
Net reversal / (charge) for the year	(25,515)	(70,440)	1,387	(2,302)	(96,870)	1,970	(105,185)	1,273	(2,290)	(104,232)
Contributions by the Company	103,613	25,790	-	-	129,403	95,696	23,446	-	-	119,142
Asset / (liability) in respect of staff retirement benefit schemes	415,103	(423,248)	12,407	16,343	20,605	337,005	(378,598)	11,020	18,645	(11,928)
Current account balance with funds	116,790	223,602	-	1,525	341,917	31,281	182,661	-	-	213,942
	531,893	(199,646)	12,407	17,868	362,522	368,286	(195,937)	11,020	18,645	202,014

31.1.7 Plan assets comprised of the following:

	2012					2011				
	Management		Non-Management		Total	Management		Non-Management		Total
	Pension	Gratuity	Pension	Gratuity		Pension	Gratuity	Pension	Gratuity	
	(Rupees '000)					(Rupees '000)				
PIB's, TFC's etc.	2,035,959	98,922	10,008	91,769	2,236,658	1,583,964	89,543	5,857	45,642	1,725,006
Bank deposits	358,706	2,126	2,154	407	363,393	522,538	2,954	15,578	53,294	594,364
Inter-fund dues	-	-	-	-	-	9,734	-	(9,734)	-	-
Benefits due	(2,405)	(48,412)	-	(1,067)	(51,884)	(1,843)	(42,244)	-	(15,778)	(59,865)
Due to Shell Pakistan Limited	(116,790)	(223,602)	-	(1,525)	(341,917)	(31,281)	(182,661)	-	-	(213,942)
	2,275,470	(170,966)	12,162	89,584	2,206,250	2,083,112	(132,408)	11,701	83,158	2,045,563

31.1.8 Expected contributions to the above schemes for the year ending December 31, 2013 are Rs. 344,000 thousand.

31.1.9 The balances due to Shell Pakistan Limited from the funds are interest free and repayable on demand.

31.1.10 The break-up of balance (payable to) / receivable from staff retirement benefit schemes is:

	2012	2011
	(Rupees '000)	
Total balance receivable in respect of defined benefit schemes	362,522	202,014
Total balance (payable) / receivable in respect of defined contribution schemes	(6,736)	27,688
	<u>355,786</u>	<u>229,702</u>

31.2 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:

Notes to the Financial Statements

for the year ended December 31, 2012

		2012	2011
		% per annum	
31.2.1	Actuarial assumptions		
	The following significant assumptions were used in the valuation of this scheme:		
	- Discount rate	11.50	13.00
	- Medical cost trend rate	6.25	7.50
31.2.2	Amount recognised in the balance sheet	2012	2011
		(Rupees '000)	
	Present value of defined benefit obligation	77,544	71,122
	Fair value of plan assets	-	-
		<u>77,544</u>	<u>71,122</u>
	Actuarial losses to be recognised in future periods in accordance with the Company's accounting policy	(31,263)	(29,564)
	Liability recognised at the end of the year	<u>46,281</u>	<u>41,558</u>
31.2.3	Movement in the present value of defined benefit obligation		
	Present value of obligation at the beginning of the year	71,122	58,302
	Current service cost	1,740	1,451
	Interest cost	8,783	7,900
	Benefits paid during the year	(7,340)	(5,776)
	Actuarial losses on obligation	3,239	9,245
	Present value of obligation at the end of the year	<u>77,544</u>	<u>71,122</u>
31.2.4	Movement in the liability recognised in the balance sheet		
	Balance at the beginning of the year	41,558	36,873
	Charge for the year	12,063	10,461
	Payments during the year	(7,340)	(5,776)
	Balance at the end of the year	<u>46,281</u>	<u>41,558</u>
31.2.5	Amount recognised in the statement of comprehensive income		
	Current service cost	1,740	1,451
	Interest cost	8,783	7,900
	Actuarial loss recognised during the year	1,540	1,110
		<u>12,063</u>	<u>10,461</u>
31.2.6	The effect of a 1% movement in the assumed medical cost trend rate is as follows:		
		Increase of 1%	Decrease of 1%
	Additional expense		
	- Effect on the aggregate of the current service cost and interest cost for the year	11,345	8,785
	- Effect on the defined benefit obligation at the end of the year	86,451	70,117

Notes to the Financial Statements

for the year ended December 31, 2012

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

The Company amortizes 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.

	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008
(Rupees '000)					
Present value of defined benefit obligation	2,687,875	2,070,360	2,071,454	1,957,677	1,559,628
Fair value of plan assets	(2,206,250)	(2,045,563)	(1,878,118)	(1,777,661)	(1,460,480)
(Deficit) / surplus	(481,625)	(24,797)	(193,336)	(180,016)	(99,148)
(Percentage)					
Experience adjustments:					
Loss / (gain) on obligation	8	2	1	(3)	-
Gain / (loss) on plan assets	(1)	3	2	5	(9)

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

	2011	2010
(Rupees '000)		
Shell Pakistan Management Staff Provident Fund	539,704	559,916
Shell Pakistan Staff Provident Fund	3,915	3,462
Shell Pakistan Labour Provident Fund	121,799	107,765
Shell Pakistan Management Staff Gratuity Fund	79,164	79,274
Shell Pakistan Labour and Clerical Staff Gratuity Fund	94,827	84,400
Shell Pakistan Management Staff Pension Fund	1,928,393	1,746,359
Shell Pakistan Staff Pension Fund	14,314	9,255
	2,782,116	2,590,431

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

	2012	2011
(Rupees '000)		
- in respect of pension and gratuity scheme	96,870	104,232
- in respect of provident funds	31,501	56,331
- in respect of post retirement medical benefit scheme	12,063	10,461
	140,434	171,024

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32. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2012			2011		
	Chief Executive	Director	Executives	Chief Executive	Director	Executives
	(Rupees '000)			(Rupees '000)		
Short-term employee benefits						
Director's fee	-	1,614	-	-	1,532	-
Managerial remuneration (including bonus) - note 32.2	25,206	61,154	978,247	44,258	63,661	949,488
Housing:						
- Rent	2,753	-	-	5,540	-	-
- Utilities	327	654	29,921	847	1,032	24,144
- Other items	72	144	6,696	108	270	6,468
Medical expenses	67	353	21,254	95	262	22,836
	<u>28,425</u>	<u>63,919</u>	<u>1,036,118</u>	<u>50,848</u>	<u>66,757</u>	<u>1,002,936</u>
Post-employment benefits						
Company's contribution to pension, gratuity and provident fund	2,319	4,383	127,020	1,675	2,563	115,484
	<u>30,744</u>	<u>68,302</u>	<u>1,163,138</u>	<u>52,523</u>	<u>69,320</u>	<u>1,118,420</u>
Number of persons including those who worked part of the year	<u>2</u>	<u>11</u>	<u>389</u>	<u>2</u>	<u>14</u>	<u>395</u>

32.1 As at December 31, 2012 and 2011, the total number of Directors were 10, excluding Chief Executive Officer.

32.2 This includes Rs. 156,511 thousand (2011: Rs. 102,794 thousand) in respect of Performance Share Plan.

32.3 In addition, the Chief Executive, Executive Directors and some of the Executives were also provided with free use of Company maintained cars and are entitled to certain benefits from Shell Group. The Chief Executive was also provided with Company furnished accommodation.

Notes to the Financial Statements

for the year ended December 31, 2012

33. RELATED PARTY TRANSACTIONS

Transactions with related parties other than those which have been disclosed elsewhere in these financial statements are as follows:

Nature of relationship	Nature of transactions	Note	2012 — (Rupees '000) —	2011
Associate				
Pak-Arab Pipeline Company Limited	Pipeline charges		495,248	709,536
	Others		6,731	6,752
	Dividend received		480,459	433,434
Staff retirement benefit / contribution funds				
Pension Funds	Contribution		103,613	95,696
Gratuity Funds	Contribution		25,790	23,446
Provident Funds	Contribution		39,622	43,175
Key management personnel				
	Salaries and other short term employee benefits		90,731	116,072
	Post-employment benefits		6,702	4,238
	Gain on disposal of operating assets		-	372
Director's fee				
	Fee for attending meetings		1,614	1,532
Other related parties				
	Purchases		57,382,762	89,490,290
	Sales		1,901,276	2,161,446
	Technical service fee charged	33.1	1,287,454	1,037,354
	Trade marks and manifestations license fee charged	33.2	279,292	222,815
	Computer expenses charged (Global Infrastructure Desktop charges)	33.2	171,614	174,879
	Expenses recovered from related parties		168,488	288,344
	Other expenses charged by related parties	33.3	678,318	490,103
	Legal charges		72	-

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

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

Notes to the Financial Statements

for the year ended December 31, 2012

- 33.3** These include charges amounting to Rs. 316,762 thousand (2011: Rs. 197,432 thousand) in respect of services obtained from Shell Shared Business Service Centre companies under agreement entered into with them by the Company.
- 33.4** 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 into with key management personnel are as per their terms of employment as are disclosed in notes 4.4, 7 and 32 to these financial statements.
- 33.5** Transactions and outstanding balance in respect of the workers' profits participation fund are disclosed in note 18.3 to these financial statements.
- 33.6** Expenses recovered from / charged by related parties are based on actuals. The related outstanding balances have been disclosed in notes 12.2, 14.6 and 18.1 to these financial statements.

34. INFORMATION ABOUT PRODUCTS

As described in note 1 to these financial statements the Company markets petroleum products and compressed natural gas. It also blends and markets various kinds of lubricating oils. Revenues (inclusive of sales tax) from external customers for products of the Company (note 22) are as follows:

Product	2012	2011
	(Rupees '000)	
Motor Gasoline	76,671,154	56,512,773
High Speed Diesel	123,482,387	122,688,886
Jet Fuels	22,771,101	43,245,007
Lubricants	14,947,069	12,954,767
Others	6,445,164	12,105,104
	<u>244,316,875</u>	<u>247,506,537</u>

Notes to the Financial Statements

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	Note	2012 ————— (Rupees '000)	2011 —————
35. CASH GENERATED FROM OPERATIONS			
Profit before taxation		4,656	2,832,717
Adjustment for non-cash charges and other items:			
Depreciation and amortisation charge		1,079,887	1,085,375
Accretion expense in respect of asset retirement obligation	28	11,032	10,707
Reversal of liability in respect of asset retirement obligation	27	(2,825)	(8,638)
Provision for impairment of stock-in-trade	11.6	23,279	26,605
Reversal of provision for impairment of stock-in-trade	11.6	(26,605)	(7,917)
Provision for impairment of trade debts	26	73,191	52,679
Reversal of provision for impairment of trade debts	27	(84,721)	(36,702)
Provision for impairment of operating assets	26	291,642	38,400
Write off of operating assets	26	71,338	148,104
Gain on disposal of operating assets	27	(13,536)	(24,252)
Adjustments in operating assets		-	15,751
Share of profit of associate	6.1	(720,199)	(635,191)
Mark-up / interest on short-term deposits	27	(18,791)	(26,931)
Mark-up / interest on short-term borrowings	28	1,427,409	1,866,644
Finance charge on liabilities against assets subject to finance lease	28	-	1,505
Working capital changes	35.1	6,222,923	(6,353,497)
		8,338,680	(1,014,641)
35.1 Working capital changes			
Decrease / (increase) in current assets			
Stores		298	(641)
Stock-in-trade		472,602	(5,517,472)
Trade debts		481,604	(495,142)
Loans and advances		(14,529)	9,655
Short-term prepayments		60,799	34,251
Other receivables		3,899,441	(4,947,768)
		4,900,215	(10,917,117)
Increase in current liability			
Trade and other payables		1,322,708	4,563,620
		6,222,923	(6,353,497)
36. CASH AND CASH EQUIVALENTS			
Cash and bank balances	15	3,388,485	1,438,447
Short-term borrowings	20	(12,170,000)	(15,745,032)
		(8,781,515)	(14,306,585)

Notes to the Financial Statements

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37. FINANCIAL ASSETS AND LIABILITIES

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

	2012						
	Interest / Mark-up bearing			Non-Interest / Mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Subtotal	Maturity upto one year	Maturity after one year	Subtotal	
	(Rupees '000)						
Financial assets							
Available-for-sale							
Investments	-	-	-	-	5,000	5,000	5,000
Loans and receivables							
Loans	71,064	97,181	168,245	953	1,672	2,625	170,870
Deposits	-	-	-	-	111,293	111,293	111,293
Trade debts	-	-	-	2,006,553	1,216	2,007,769	2,007,769
Other receivables	-	-	-	2,766,632	-	2,766,632	2,766,632
Cash and bank balances	1,277,705	-	1,277,705	2,110,780	-	2,110,780	3,388,485
	<u>1,348,769</u>	<u>97,181</u>	<u>1,445,950</u>	<u>6,884,918</u>	<u>119,181</u>	<u>7,004,099</u>	<u>8,450,049</u>
Financial liabilities							
Financial liabilities at amortised cost							
Trade and other payables	-	-	-	23,729,400	-	23,729,400	23,729,400
Accrued mark-up	-	-	-	52,449	-	52,449	52,449
Short-term borrowings	12,170,000	-	12,170,000	-	-	-	12,170,000
	<u>12,170,000</u>	<u>-</u>	<u>12,170,000</u>	<u>23,781,849</u>	<u>-</u>	<u>23,781,849</u>	<u>35,951,849</u>
On balance sheet gap	<u>(10,821,231)</u>	<u>97,181</u>	<u>(10,724,050)</u>	<u>(16,896,931)</u>	<u>119,181</u>	<u>(16,777,750)</u>	<u>(27,501,800)</u>

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for the year ended December 31, 2012

	2011						Total
	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	
	(Rupees '000)						
Financial assets							
Available-for-sale							
Investments	-	-	-	-	5,000	5,000	5,000
Loans and receivables							
Loans	56,913	88,240	145,153	836	1,099	1,935	147,088
Deposits	-	-	-	-	97,145	97,145	97,145
Trade debts	-	-	-	2,488,910	3,732	2,492,642	2,492,642
Other receivables	-	-	-	3,329,412	-	3,329,412	3,329,412
Cash and bank balances	49,996	-	49,996	1,388,451	-	1,388,451	1,438,447
	<u>106,909</u>	<u>88,240</u>	<u>195,149</u>	<u>7,207,609</u>	<u>106,976</u>	<u>7,314,585</u>	<u>7,509,734</u>
Financial liabilities							
Financial liabilities at amortised cost							
Trade and other payables	-	-	-	22,178,177	-	22,178,177	22,178,177
Accrued mark-up	-	-	-	217,645	-	217,645	217,645
ShortTerm borrowings	15,745,032	-	15,745,032	-	-	-	15,745,032
	<u>15,745,032</u>	<u>-</u>	<u>15,745,032</u>	<u>22,395,822</u>	<u>-</u>	<u>22,395,822</u>	<u>38,140,854</u>
On balance sheet gap	<u>(15,638,123)</u>	<u>88,240</u>	<u>(15,549,883)</u>	<u>(15,188,213)</u>	<u>106,976</u>	<u>(15,081,237)</u>	<u>(30,631,120)</u>

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.

37.2 Financial risk management objectives and policies

The Company's activities are exposed to a variety of financial risks namely credit risk, foreign exchange risk, interest rate risk and liquidity risk. The Company finances its operations through equity, borrowings and management of working capital with a view of maintaining an appropriate mix between various sources of finance to minimise risk and provide maximum return to shareholders.

37.2.1 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.

Notes to the Financial Statements

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Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including trade receivables and committed transactions. The maximum credit risk is equal to the carrying amount of financial assets. Out of the financial assets aggregating to Rs. 8,450,049 thousand (2011: Rs. 7,509,734 thousand) the financial assets subject to credit risk amount to Rs. 8,432,291 thousand (2011: Rs. 7,495,935 thousand). For banks and financial institutions, only independently rated parties with a minimum rating of A are accepted. For trade receivables, internal risk assessment process determines the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilisation of credit limits is regularly monitored.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry. The most significant financial assets exposed to credit risk are trade debts and other receivables of the Company. The utilisation of credit limits is regularly monitored.

The carrying values of financial assets which are neither past due nor impaired are as under:

	2012	2011
	(Rupees '000)	
Loans	170,870	147,088
Deposits	111,293	97,145
Trade debts	1,845,760	2,358,741
Other receivables	2,766,632	3,329,412
Cash and bank balances	3,388,485	1,438,447
	8,283,040	7,370,833

The credit quality of receivables can be assessed with reference to their historical performance with no or some defaults in recent history, however, no losses. The credit quality of Company's bank balances can be assessed with reference to external credit ratings as follows:

Bank	Rating agency	Rating	
		Short term	Long term
National Bank of Pakistan	JCR-VIS	A1+	AAA
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA
United Bank Limited	JCR-VIS	A1+	AA+
Habib Bank Limited	JCR-VIS	A1+	AA+
Askari Bank Limited	PACRA	A1+	AA
Faysal Bank Limited	PACRA	A1+	AA
Bank Alfalah Limited	PACRA	A1+	AA
MCB Bank Limited	PACRA	A1+	AA+
Citibank N.A.	Moody's	P1	A1
Deutsche Bank AG	S&P	A1	A+
Bank of Tokyo Mitsubishi UFJ Limited Pakistan	S&P	A1	A+
HSBC Bank Middle East Limited	Moody's	P1	A1

Notes to the Financial Statements

for the year ended December 31, 2012

37.2.2 Market risk

Market risk is the risk that the value of the financial instruments may fluctuate as a result of changes in market interest rates, foreign exchange rates or the equity prices due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. 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 primarily has foreign currency exposures in US Dollar (USD), Great Britain Pounds (GBP) and Euro (EUR).

As at December 31, 2012, had the exchange rates of USD, GBP and EUR appreciated or depreciated against the currency with all other variables held constant, the change in post-tax profit would have been as follows:

Currency	Profit	2012		2011	
		%	Rs. '000	%	Rs. '000
USD	lower / higher	10%	486,723	10%	513,444
GBP	lower / higher	10%	102,417	10%	91,019
EUR	lower / higher	10%	26,373	10%	18,796

ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from short-term loans and running finance facilities. Loans and running finance obtained at variable rates expose the Company to cash flow interest rate risk.

The Company analyses its interest rate exposure on a regular basis by monitoring existing facilities against prevailing market interest rates and taking into account various other financing options available.

At December 31, 2012, if interest rates on Company's borrowings had been 1% higher / lower with all other variables held constant, post tax profit for the year would have been lower / higher by Rs. 79,105 thousand (2011: Rs. 102,343 thousand) mainly as a result of higher / lower interest exposure on variable rate borrowings.

Notes to the Financial Statements

for the year ended December 31, 2012

iii) Price risk

Price risk represents the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting all similar financial instruments traded in the market. The Company is not exposed to equity securities price risk as currently the Company has no investments in listed securities.

37.2.3 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.

The maturity profile of the Company's liabilities based on contractual maturities is disclosed in note 37.1 to these financial statements.

37.3 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.

	Note	2012 (Rupees '000)	2011
Total borrowings	20	12,170,000	15,745,032
Cash and bank balances	15	(3,388,485)	(1,438,447)
Net debt		8,781,515	14,306,585
Total equity		6,175,590	8,258,121
Total capital		14,957,105	22,564,706
Gearing ratio		58.71%	63.40%

37.4 Fair value of financial instruments

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

38. CORRESPONDING FIGURES

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

Notes to the Financial Statements

for the year ended December 31, 2012

39. GENERAL

Figures have been rounded off to the nearest thousand unless otherwise stated.

40. DATE OF AUTHORISATION

These financial statements were authorised for issue on February 28, 2013 by the Board of Directors of the Company.

Omar Y Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

Attendance of the Board and Committees' Meetings held during the year

for the year ended December 31, 2012

Board of Directors

During the year, six meetings of the Board of Directors were held and the attendance of each director is given below:

Name of Director	Total No. of Meetings*	No. of Meetings attended
Mr Omar Y Sheikh (CEO)	6	6
Mr Sarim Sheikh**	5	5
Mr Rafi H Basheer	6	6
Mr Farrokh K Captain	6	5
Mr Chong Keng Cheen	6	3
Mr Imran R Ibrahim	6	6
Mr Nasser N S Jaffer	6	6
Mr Zaffar A Khan	6	6
Mr Michael Noll	6	6
Mr Haroon Rashid	6	5
Mr Badaruddin F Vellani	6	5

* Held during the period when concerned Director was on Board.

**Mr Sarim Sheikh resigned as Chief Executive effective July 31, 2012 and was replaced by Mr Omar Y Sheikh. Further, he resigned from Board of Directors on October 17, 2012 and was replaced by Mr Rahat Hussain.

Remuneration of Chief Executive and Directors is disclosed in Note 32 to the Financial Statements. Non-executive directors are only paid Director's Fees as fee for attending meetings.

Board Audit Committee

During the year, four meetings of the Board Audit Committee were held and the attendance of each director is given below:

Name of Director	Total No. of Meetings*	No. of Meetings attended
Mr Imran R Ibrahim	4	4
Mr Michael Noll	4	4
Mr Badaruddin F Vellani	4	4

* Held during the period when concerned Director was the member of the committee.

Attendance of the Board and Committees' Meetings held during the year

for the year ended December 31, 2012

Board Remuneration Committee**

During the year, one meeting of the Board Remuneration Committee was held and the attendance of each director is given below:

Name of Director	Total No. of Meetings*	No. of Meetings attended
Mr Omar Y Sheikh	1	1
Mr Farrokh K Captain	1	1
Mr Zaffar A Khan	1	1
Mr Michael Noll	1	-

* Held during the period when concerned Director was the member of the committee.

** This committee was dissolved on October 17, 2012 and a Human Resource and Remuneration Sub-Committee was formed as per new Code of Corporate Governance 2012 with Mr Chong Keng Cheen as chairman and Mr Farrokh K Captain and Mr Omar Y Sheikh as members of the committee.

Pattern of Shareholding

as at December 31, 2012

<u>Number of Shareholders</u>	<u>From</u>	<u>Shareholding</u>	<u>To</u>	<u>Total Number of Shares Held</u>
1,527	1	-	100	58,030
2,108	101	-	500	649,785
902	501	-	1,000	684,757
1,478	1,001	-	5,000	3,164,643
240	5,001	-	10,000	1,724,678
82	10,001	-	15,000	1,014,379
36	15,001	-	20,000	621,680
23	20,001	-	25,000	532,070
8	25,001	-	30,000	231,749
19	30,001	-	35,000	615,171
7	35,001	-	40,000	255,402
8	40,001	-	45,000	342,585
7	45,001	-	50,000	335,188
2	50,001	-	55,000	105,156
4	55,001	-	60,000	232,469
3	60,001	-	65,000	190,909
1	65,001	-	70,000	69,531
1	70,001	-	75,000	70,878
1	75,001	-	80,000	75,720
2	90,001	-	95,000	188,000
2	100,001	-	105,000	201,719
2	110,001	-	115,000	225,800
2	120,001	-	125,000	250,000
1	125,001	-	130,000	125,500
1	130,001	-	135,000	132,812
1	135,001	-	140,000	139,801
1	145,001	-	150,000	148,600
1	150,001	-	155,000	151,121
1	155,001	-	160,000	157,141
1	170,001	-	175,000	175,000
1	190,001	-	195,000	192,023
1	215,001	-	220,000	220,000
1	270,001	-	275,000	270,312
1	370,001	-	375,000	375,000
1	420,001	-	425,000	423,130
1	425,001	-	430,000	429,507
1	430,001	-	435,000	432,518
1	585,001	-	590,000	587,093
1	840,001	-	845,000	844,413
1	855,001	-	860,000	856,835
1	2,950,001	-	2,955,000	2,953,798
1	65,150,001	-	65,155,000	65,154,962
6,484				85,609,865

Pattern of Shareholding

as at December 31, 2012

<u>Shareholders' Category</u>	<u>Number of Shareholders</u>	<u>Number of Shares Held</u>	<u>Percentage</u>
Associated companies, undertakings and related parties			
The Shell Petroleum Company Limited, London	1	65,154,962	76.11
NIT AND ICP			
National Investment Trust	-	-	-
National Bank of Pakistan, Trustee Deptt. Investment Corporation of Pakistan	1	102	0.00
	1	1,897	0.00
Mutual funds			
CDC-Trustee AKD Index Tracker Fund	1	4,061	0.01
CDC-Trustee First Habib Stock Fund	1	7,000	0.01
CDC-Trustee KSE Meezan Index Fund	1	12,798	0.02
CDC-Trustee PICIC Growth Fund	1	423,130	0.48
CDC-Trustee PICIC Investment Fund	1	192,023	0.22
TRI STAR Mutual Fund Ltd.	1	127	0.00
Directors			
Mr Farrokh K Captain	1	587,269	0.69
Mr Imran R Ibrahim	1	56,355	0.07
Mr Zaffar A Khan	1	6,445	0.01
Mr Badaruddin F Vellani	1	156	0.00
Directors' spouse			
Mrs Samina Ibrahim w/o. Mr Imran R Ibrahim	1	22,330	0.03
Executives			
	2	2,614	0.00
Public sector companies and corporations			
	2	3,810,633	4.45
Banks, Development Finance Institutions, Non-banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds			
	25	1,057,494	1.24
General Public			
a. Local	6,341	12,241,318	14.29
b. Foreign	4	11,688	0.02
Others			
	96	2,017,463	2.35
	<u>6,484</u>	<u>85,609,865</u>	<u>100.00</u>

Shareholders holding five percent or more voting rights

The Shell Petroleum Company Limited, London

1

65,154,962

75

SHELL PAKISTAN LIMITED

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 Forty-Fourth Annual General Meeting of the Company to be held on April 23, 2013 at 10:00 a.m. at the Sheraton Karachi Hotel, Karachi and at any adjournment thereof.

Signed this _____ day of _____ 2013.

WITNESSES:

1. **Signature**
Name _____
Address _____

CNIC or
Passport No. _____

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

2. **Signature**
Name _____
Address _____

CNIC or
Passport No. _____

Notes:

1. A member entitled to attend and vote at the meeting may 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.
2. Proxies in order to be effective must be received at the registered office of the Company not later than 48 hours before the meeting.
3. A Proxy need not be a member of the Company.
4. Shareholders and their proxies must attach an attested photocopy of their CNIC or Passport with this Proxy Form. A Proxy shall be required to produce his/her original CNIC or passport at the venue of the meeting for authentication of his/her identity.

Shell Pakistan Limited

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