

ANNUAL REPORT 2013

Shell Pakistan Limited





STRENSSE



BUILDING AN ENERGY FUTURE

Global energy demands are rising and so are consumer expectations – more people want energy from cleaner sources. At Shell we work with others to unlock new energy sources and optimize existing resources in responsible and innovative ways. We all have a part to play in creating a better energy future and Shell is doing its part.

Shell is a global group of energy and petrochemical companies employing 87,000 people in more than 70 countries. Our aim is to help meet the energy needs of society in ways that are economically, environmentally and socially responsible.

We search for and recover crude oil and natural gas, and extract heavy oil from oil sands for conversion into synthetic crudes. We liquefy natural gas by cooling and transport it to customers across the world. Our gas-to-liquids (GTL) process turns natural gas into cleaner-burning synthetic fuel and other products. We often work in joint ventures, including those with national oil companies. We are also developers of wind power to generate electricity. Our downstream business makes, moves and sells a range of oil products and chemicals for domestic, industrial and transport use. With around 44,000 service stations, Shell has the world's largest single-branded fuel retail network. The chemicals we produce are the raw materials for plastic, coatings and detergents used in the manufacture of textiles, medical supplies and computers. The downstream business also includes our development and distribution of biofuels.

In Pakistan, Shell has a robust downstream business, supplying, distributing and marketing a variety of fuels, and is one of the oldest and largest multinational companies in the country, enjoying a legacy since 1898. It also has a 26% share in the White Oil pipeline operated by Pak Arab Pipeline Company (PAPCO) and a 30% stake in Pakistan Refinery Limited (PRL). We continue to play a leading role in meeting Pakistan's growing energy demand, while prioritising Health, Safety and Environment (HSE) practices in all our operations and activities with our people, assets and communities we work in.

As the world shifts towards a new, low-carbon energy future, Shell is taking steps today to help build the energy system of tomorrow: producing more cleaner-burning natural gas; working to deliver advanced fuels and lubricants and lower-carbon biofuels; and building capabilities in carbon capture and storage. It is because of this that Shell is a preferred innovative energy company.

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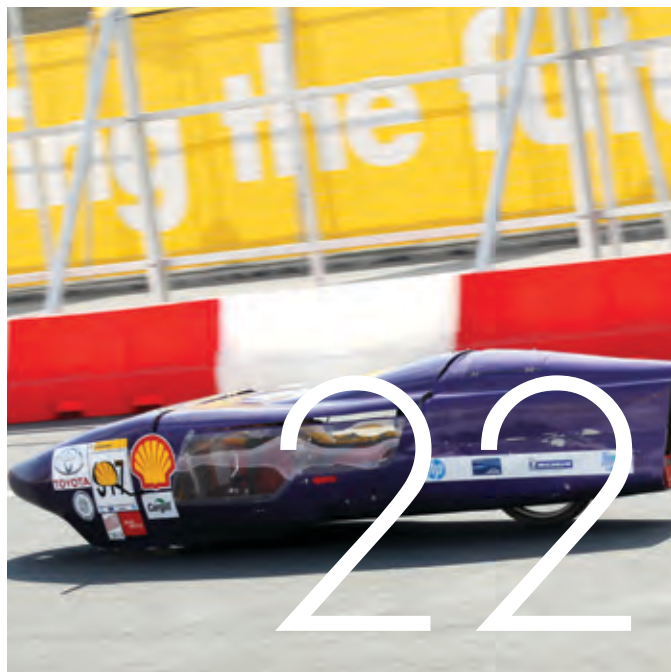


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Form of Proxy

Selling solar lights is just one of the many innovative enterprise development solutions we offer to women in far-flung rural areas through the Shell Tameer program.

Imagine what bright ideas Shell can contribute in building Pakistan's future?



GOVERNANCE & COMPLIANCE

COMPANY INFORMATION

Board of Directors

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

Managing Director & Chief Executive

Omar Sheikh

Audit Committee

Badaruddin F Vellani, Chairman
Imran R Ibrahim
Michael Noll

Human Resource and Remuneration Committee

Chong Keng Cheen, Chairman
Farrokh K Captain
Omar Sheikh

Company Secretary

Tariq Saeed

Registered Office

Shell House
6, Ch. Khaliqzaman Road
Karachi-75530

Auditors

A F Ferguson & Co.

Legal Advisors

Vellani & Vellani
Advocates & Solicitors

Registrar & Share Registration Office

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



The image features a background of an industrial facility, possibly a refinery or power plant, with various pipes, tanks, and structures. A large, semi-transparent white rectangular area covers the left and center of the image, serving as a backdrop for the text. The word "VISION" is written in a bold, red, sans-serif font. Below it, the company's vision statement is written in a smaller, grey, sans-serif font.

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 businesses 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, 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.

CHAIRMAN'S REVIEW



On behalf of the Board of Directors of Shell Pakistan Limited, I am pleased to share the results of the Company for the year ended December 31, 2013.

During 2013, the Company earned a profit after tax of Rs. 1,061 million against a loss after tax of Rs. 1,935 million (restated) in the same period last year. The Company's performance has witnessed a significant recovery and our results have started to reflect the continued focus by management to improve operating performance. This was achieved by concerted efforts to increase our market share as well as to restrict costs, notwithstanding a high inflationary environment.

In line with our efforts to ensure a reasonable dividend payout to shareholders, the Board of Directors recommends a dividend of Rs. 4.00 per share for the year ended December 31, 2013. Further, the Board has recommended that bonus shares in the ratio of one bonus share for every four shares held be issued by capitalization of Rs. 214.02 million out of the free

reserves of the Company. The said bonus shares shall not be entitled for dividend declared for the year ended December 31, 2013.

Despite this significant improvement compared with last year, financial results of the Company are still not satisfactory. High cost of funding government receivables, a disproportionate and punitive income tax regime and extremely low fuel margins continued to affect the profitability of your Company. The impact of high rupee depreciation in the second half of 2013 also had a significant impact on the financial performance.

Overall market conditions remained competitive and despite the challenges, we continue to maintain our position as the second largest Oil Marketing Company in Pakistan.

During 2013, progress was made, albeit slower than expected, in collecting receivables from the Government. With the Company's continued efforts, we have managed to collect Rs. 2,469 million this year. At the end of 2013, the Company is still owed Rs. 6,671 million as receivables which have been outstanding for periods ranging between one to ten years.

The repayment of these monies has recently come to a halt, and we continue to incur financing cost on bank borrowings required to fund these receivables. The Company's management is continuously engaged with relevant Government authorities and we continue to demand that the Government pay the remaining amount on an expedited basis to ensure business continuity and growth.

With a minimal increase allowed in April 2013, fuel margins continued to be slim under the regulated market. With the minimum tax regime applied on rising product selling prices, income tax liability of your Company increased significantly. This once again resulted in our effective tax rate being well in excess of the standard 34% corporate rate of income tax. We continued our discussions with tax authorities to bring the oil and gas sector in line with allowances and lower rates that are extended to other similarly regulated sectors in Pakistan.

Despite these challenges, the Company's underlying operational performance during 2013 generally improved. The Company gained market share in both Motor Gasoline and Diesel for Retail business and significantly grew profitability of its Aviation and Lubricants business segments.

The Company also delivered storage and transport cost savings through operational excellence.

Your Company continued to invest in improving standards and customer value propositions, for instance through the launch of Shell's latest Retail Visual Identity at five state-of-the-art fuel stations and by introducing new products and promotions such as Rimula R4X and a nationwide Shell Helix Ferrari offer.

In 2013, there was a continued focus on ensuring high standards of compliance with Shell's core values of honesty, integrity and respect. This was achieved through strict adherence to the Company's General Business Principles and Anti Bribery and Corruption policy.

I am happy to report that in 2013, SPL achieved a remarkable safety performance with another year without Lost Time Injury (LTI). Safety is a deeply integrated value and I am proud of the commitment of teams across the Company. With a road transportation exposure of nearly 42 million kms in 2013, this is a significant accomplishment.

Your Company's social investment programs enable communities to develop and provide opportunities for improvement and empowerment. SPL supports a number of projects mainly in the areas of Enterprise Generation, Safety and Education. In 2013, Shell Tameer, the Company's flagship enterprise development program, further penetrated into the rural segment providing opportunities to women in marginalized communities. A total of 3,000 women were assisted in setting up their own businesses in Sind and Punjab. The Company

continued to invest in its Road Safety Program in 2013 with road safety workshops arranged for 3,000 students and free eye tests and follow up care for over 25,000 drivers, contractor staff and fence line communities. In 2013, two schools in the flood hit areas of Battagram and Nowshera were completed in partnership with The Citizens Foundation (TCF), bringing the total number of Shell built schools across the country to six.

All of this has been possible through the commitment of its employees and in 2013 your Company continued to invest in developing its talent pool and offering them a wide variety of development and career building opportunities.

In summary, 2013 has been a year of significant improvement in the performance of the Company. We look forward to continued improvement in 2014 and beyond. A critical enabler of this will be repayment of government receivables and improvements in the regulatory and tax environment. The management of your Company continues to work on further improving its operational performance as well as engaging with relevant authorities on resolution of government related issues.

At the end, on behalf of the Board of Directors I would like to thank our staff, shareholders, customers and all other stakeholders for their dedication, commitment and continued support.

Omar Sheikh
Chairman and Chief Executive

BOARD OF DIRECTORS



Omar Sheikh

Omar Sheikh is the Chairman & Managing Director of Shell Pakistan Limited and is the Country Chairperson for Shell companies in Pakistan since August 1, 2012. He joined Shell in 1995 and has held several senior leadership roles in Retail, Commercial and Strategy & Portfolio in Pakistan and internationally within the Group.

He is a Director of Pakistan Refinery Limited and Pak Arab Pipeline Company Limited and also serves on the boards of other business, philanthropy, educational and health associations such as the Petroleum Institute of Pakistan (PIP), The Kidney Centre, The Layton Rahmatulla Benevolent Trust (LRBT), Pakistan Centre for Philanthropy (PCP) and Pakistan Human Development Fund (PHDF).

Omar is a graduate of IBA Karachi and holds an MBA from INSEAD, France.



Faisal Waheed

Faisal Waheed is the Director Finance and CFO for Shell Pakistan Limited. He joined Shell in 2013 and holds a post graduate degree from IBA, Karachi and ACMA from CIMA UK. Faisal has worked in various leadership roles in FMCG and B2B businesses both locally and overseas. He began his career with Unilever Pakistan in 1999 and was later seconded to a regional role in Unilever Europe based out of the UK. This was followed by a stint in Finance Information Management at the Unilever Head Office in London. In 2010, he joined Engro where he progressed to the role of Chief Financial Officer of Engro EXIMP (Pvt.) Limited in 2011.

Faisal also serves on the boards of PRL (Pakistan Refinery Limited) and PAPCO (Pak Arab Pipeline Company Limited).



Farrokh K Captain

Farrokh Captain received both his Bachelors and Master degrees from the Massachusetts Institute of Technology where he was a member of the class of 1966. After completing his education he joined Arthur D. Little, a major management consulting company in the USA, and then went on to establish their practice in Pakistan. Since 1978 he has lead a major US-Pakistan joint venture chemical manufacturing business in Pakistan, Captain-PQ Chemical Industries Limited.

Farrokh is President of the Board of the American Business Council. He now devotes much of his time in the field of social work. He is Chairman of The i-Care Foundation, Pakistan's first Donor Advised Fund, a Trustee of the Layton Rahmatulla Benevolent Trust, and has served 10 years as Chairman of the Pakistan Human Development Fund. He is currently serving his eighth three-year term as Director of Shell Pakistan Limited.



Michael Noll

Michael Noll is the VP Finance Global Manufacturing in Shell's Downstream business. He started his career in 1987 in Germany 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 mostly in Finance and Business Development.

Over the past 15 years he has served in a number of CFO roles across Shell's global business lines and he holds several board director positions in large refinery joint ventures.



Chong Keng Cheen

Chong Keng Cheen (Nick Chong) is currently the VP Specialities (B2B) for Shell's Global Downstream business.

Nick completed his education from Monash, Melbourne in Australia in engineering and subsequently obtained a MBA through distant learning. Nick served two and a half years in the Singaporean Army followed by a position in 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. Key roles in Nick's recent career at Shell include HR GM Singapore, GM Distribution Middle East/Asia and VP Supply and Distribution East for Shell's Downstream business where he oversaw a number of countries including Pakistan.



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 40 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 a Director of PICIC Asset Management Company Limited.



Nasser N S Jaffer

Nasser N S Jaffer holds an Associated Science Diploma programme in Agriculture from University of California. He is the CEO of Jaffer Group of Companies and Chairman on its Board of Directors. He was Director of Jaffer Brothers (Private) Ltd. from 1969 to 2003, responsible for the chemical and pesticides businesses, as well as the fertilizer and machinery business from time to time. In 2003 he took over as Chairman and CEO of the company to manage the overall business to ensure growth, profitability and business satisfactory results to the stakeholders.

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.



Haroon Rashid

Haroon Rashid is the Distribution Operations Manager for the Shell Pakistan/India/ Middle East Cluster. He joined Shell Pakistan in 1995 and has had a variety of roles and experiences in several countries. From 1995 to 2000 he worked in Retail in Sales, Non-Fuels Retailing and Network Planning.

In 2001 he took time to complete an MBA from INSEAD after which he rejoined Shell as a Consultant in the Downstream Management Consultancy, London. In 2005 he became the Downstream Competitor Intelligence Manager, also in London, before moving to Singapore in 2008 as the Global Marketing Manager for Aviation. He was GM Supply and Distribution for the Shell Pakistan/India/ Middle East cluster from 2011-2013.



Zaffar A Khan

Zaffar Khan graduated as a mechanical engineer in 1967 from Peshawar University and soon thereafter joined Esso/Exxon Chemical which following an employee led buyout became Engro Chemical in Pakistan. He retired from the Company in 2004 after serving for 35 years the last 6 of which were as President & CEO. During the early years of his career he served Exxon Chemical for 10 years in Hong Kong, Singapore and USA in the petrochemical business. His career with Exxon/Engro spanned all major corporate functions i.e. Marketing, Manufacturing, Finance & Corporate Services.

He has done an Advanced Management Program from the University of Hawaii and has attended short courses at INSEAD and the Harvard Business School. Zaffar serves on a number of diverse boards and is an Adjunct Professor at IBA. He is a recipient of the exalted Sitara-e-Imtiaz.



Badaruddin F Vellani

Badaruddin F Vellani 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). He was called to the Bar in 1982 and commenced Retail practice in Karachi immediately thereafter. He is enrolled as an Advocate of the Supreme Court of Pakistan and is the Senior Partner at the law firm, Vellani & Vellani. In addition to his legal practice, he is also member of the Board of Directors in a number of multinational companies engaged in the FMCG, manufacturing, retail and pharmaceutical sectors and is on the Board of several philanthropic organisations and foundations.



Rahat Hussain

Rahat Hussain is the VP responsible for Shell's LNG business in Qatar. He has extensive experience in various elements of the hydrocarbon value chain during a career spanning 25 years with Royal Dutch Shell group of companies. This has ranged from upstream exploration and production projects, through midstream JV operations, to end customer marketing. Prior to Qatar he was responsible for strategy and marketing at Brunei LNG. He has worked in the Netherlands, USA, Oman, UK and Pakistan, where he was the commercial manager for Shell's upstream business. He is also a member of the leadership teams of Qatar Shell and Shell's Global LNG business, and is a Board Director of Qatargas4.

Rahat was born in Pakistan and moved with his family to the UK at an early age. 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.

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, 2013.

The profit for the year ended December 31, 2013 after providing for administrative, marketing and distribution expenses, financial and other charges amounts to:

	(Rupees in millions)
Profit before taxation	2,424
Taxation	<u>(1,363)</u>
Profit for the year	<u>1,061</u>
	(Rupees)
Earnings per share	<u>12.40</u>

Appropriations and movement in reserves have been disclosed in the Statement of Changes in Equity on page 40 of the Annual Report.

At their meeting held on March 11, 2014, the Board of Directors of the Company has proposed a dividend for the year ended December 31, 2013 of Rs. 4.00 per share (40%). The approval of the members for the dividend will be obtained at the Annual General Meeting to be held on April 23, 2014. The dividend amounting to Rs. 342,439 thousand has not been recognized as a liability in these financial statements.

Further, the Board has recommended that bonus shares in the ratio of one bonus share for every four shares held be issued by capitalization of Rs. 214,025 thousand out of the free reserves of the Company. The said bonus shares shall not be entitled for dividend declared for the year ended December 31, 2013.

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, has been adequately disclosed.

5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no 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 36. The significant deviations in operating results of the Company from last year have been discussed in the Chairman's Review on page 10.
9. A reasonable indication of future prospects is discussed in the Chairman's Review on page 10.
10. 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.
11. The number of Board and Committees' meetings held during the year and attendance by each Director is disclosed on page 88.
12. The Board has arranged for the requisite training of its directors and Imran R Ibrahim, and Badaruddin F Vellani have already obtained certification from the Pakistan Institute of Corporate Governance (PICG), Karachi in prior years. During the year, Faisal Waheed and Nasser N S Jaffer commenced the director's training program conducted by PICG and will complete the same in 2014. The remaining directors, unless exempted, will acquire certification within the specified time.
13. The pattern of shareholding and additional information regarding pattern of shareholding is disclosed on page 90. 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.
14. The auditors have drawn attention to the following matters in their audit report:
 - The recognition of deferred tax asset amounting to Rs. 958,356 thousand on unutilized 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.

15. The retiring auditors M/s A. F. Ferguson & Co. Chartered Accountants, being eligible, offer themselves for reappointment.
16. 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.
17. Details of the Corporate Social Responsibility and other activities undertaken by the Company during the financial year are disclosed on pages 24 to 31.

On behalf of the Board

Omar Sheikh
Chairman and Chief Executive

Karachi: March 11, 2014

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Forty-Fifth Annual General Meeting of Shell Pakistan Limited will be held on Wednesday, April 23, 2014 at 10:30 a.m. at Movenpick Hotel Karachi (formerly Sheraton Hotel Karachi) to transact the following business:

A. ORDINARY BUSINESS

1. To receive, consider and adopt the Report of Directors and Auditors together with the Audited Accounts for the year ended December 31, 2013.
2. To approve the payment of dividend of Rs. 4.00 per share (40%) for the year ended December 31, 2013.
3. To appoint Auditors for the financial year January 1 to December 31, 2014 and to fix their remuneration.

B. SPECIAL BUSINESS

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

Resolved that the Authorised Capital of the Company be increased from Rs.1,000,000,000 (Rupees one thousand million) to Rs.1,500,000,000 (Rupees one thousand five hundred million) and that Clause 5 of the Memorandum of Association be and is hereby amended to read as follows:

"5. The Share Capital of the Company is Rs.1,500,000,000 (Rupees one thousand five hundred million) divided into 150,000,000 shares of Rs.10 each, with power to increase and reduce the Capital of the Company."

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

Resolved that

- a. A sum of Rs. 214,024,660 out of the free reserves of the Company be and is hereby capitalised and applied towards the issue of 21,402,466 ordinary shares of Rs. 10 each as bonus shares in the ratio of 1:4 i.e. one bonus share for every four ordinary shares held by the members whose names appear on the Members Register on April 9, 2014. These bonus shares shall rank pari passu in all respects with the existing shares but shall not be eligible for the dividend declared for the year ended December 31, 2013.
- b. Members entitled to fractions of shares as a result of their holding either being less than four ordinary shares or in excess of an exact multiple of four ordinary shares shall be given the sale proceeds of their fractional entitlement for which purpose the fractions shall be consolidated into whole shares and sold on the Karachi Stock Exchange.
- c. For the purpose of giving effect to the foregoing, the Directors be and are hereby authorised to give such directions as they deem fit to settle any question or remove any difficulties that may arise in the distribution of the said bonus shares or in the payment of the sale proceeds of the fractions.

A statement under Section 160 of the Companies Ordinance, 1984 setting forth all material facts concerning the Resolutions contained in items 4 and 5 of the Notice which will be considered for adoption at the Meeting is annexed to this Notice of Meeting being sent to the Members.

By Order of the Board

Karachi: March 11, 2014

Tariq Saeed
Secretary

Shell House
6, Ch. Khaliqzaman Road
Karachi-75530.

NOTES:

- (i) The register of members will remain closed from April 9 to April 23, 2014 (both days inclusive). Transfers received in order at the office of our Share Registrars, FAMCO Associates (Pvt) Ltd., 8-F, next to Hotel Faran, Nursery, Block-6, P.E.C.H.S., Shakra-e-Faisal, Karachi by the close of business on April 8, 2014 will be in time for the purpose of payment of dividend.
- (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) Members are requested to notify any change in their addresses immediately to our Share Registrars, FAMCO Associates (Pvt) Ltd., 8-F, next to Hotel Faran, Nursery, Block-6, P.E.C.H.S., Shakra-e-Faisal, Karachi.
- (iv) Members or their proxies are required to present their original CNIC or Passport along with the Participant's I.D. and 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.

STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

This statement is annexed to the Notice of the Forty-Fifth Annual General Meeting of Shell Pakistan Limited to be held on Wednesday, April 23, 2014 at 10:30 a.m. at which certain special business is to be transacted. The special business is to increase the Authorised Capital of the Company and to issue bonus shares. The purpose of this statement is to set forth the material facts concerning such special business.

Item 4 of the Agenda

In order to enable the proposed issue of bonus shares and to provide for future issue of capital by issue of bonus shares or otherwise, the Board of Directors recommend that the Authorised Capital be increased from Rs. 1,000,000,000 (Rupees one thousand million) to Rs. 1,500,000,000 (Rupees one thousand five hundred million).

Item 5 of the Agenda

The Board of Directors recommend that taking into account the financial position of the Company the issued capital be increased by capitalisation of free reserves amounting to Rs. 214,024,660 and the issue of bonus shares in the ratio of 1:4 i.e. one share for every four ordinary shares held by the members whose names appear on the Members Register on April 9, 2014. The Directors of the Company are interested in the business to the extent of their shareholding in the Company.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

Shell Pakistan Limited for the year ended December 31, 2013.

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, 2013 the Board comprised of the following directors:

Independent Directors

Farrokh K Captain
Nasser N S Jaffer
Zaffar A Khan
Badaruddin F Vellani

Executive Directors

Omar Sheikh
Faisal Waheed
Haroon Rashid

Non-Executive Directors

Chong Keng Cheen
Michael Noll
Rahat Hussain
Imran R Ibrahim

The independent directors meet the criteria of independence under clause i (b) of the Code. Three of the four non-executive directors namely Chong Keng Cheen, Michael Noll and Rahat Hussain occupy executive positions in other Shell Group Companies.

2. The directors have confirmed that none of them is serving as a director of 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 taxpayers and none of them have 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 as a defaulter by that stock exchange.
4. One casual vacancy occurred on the Board on August 22, 2013 due to the resignation of Rafi H Basheer which was immediately filled up with the appointment of Faisal Waheed.
5. The Company has prepared a "Code of Conduct" defining acceptable and unacceptable behaviors 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. The Code of Conduct is available on the website of the Company: www.shell.com.pk
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, 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 and the Board met 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. The Company has arranged for the requisite training of its directors and Imran R Ibrahim, and Badaruddin F Vellani have already obtained certification from the Pakistan Institute of Corporate Governance (PICG), Karachi in prior years. During the year, Faisal Waheed and Nasser N S Jaffer commenced the directors' training program conducted by the PICG and will complete the same in 2014. The remaining directors, unless exempted, will acquire certification within the specified time.
10. The Board appointed Faisal Waheed as the Chief Financial Officer in place of Rafi H Basheer with effect from August 23, 2013 and approved his remuneration and terms and conditions of employment. There has been no change in the position of the Company Secretary or 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 the 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 of three members of whom two are non-executive and one is an independent director. The chairman of the Committee is an independent director. The terms of reference of the Committee have been formulated and advised to the Committee for compliance.
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.
17. The Board has formed a Human Resource and Remuneration Committee comprising of three members namely; Chong Keng Cheen, Omar Sheikh and Farrokh K Captain with Chong Keng Cheen as its chairman. The terms of reference of the Committee have been formulated and advised to the Committee for compliance.
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.

On behalf of the Board of Directors.

Omar Sheikh
Chairman and Chief Executive

Karachi: March 11, 2014



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, 2013 to comply with Regulation No. 35 of Chapter XI contained in 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 of Corporate Governance.

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 of Directors' 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 requires 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 requirements 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, 2013.

Further, we draw attention to paragraph 9 of the Statement of Compliance, which states that during the year two directors commenced the Directors' training program, as required under clause (xi) of the Code of Corporate Governance, and will complete the same in 2014.

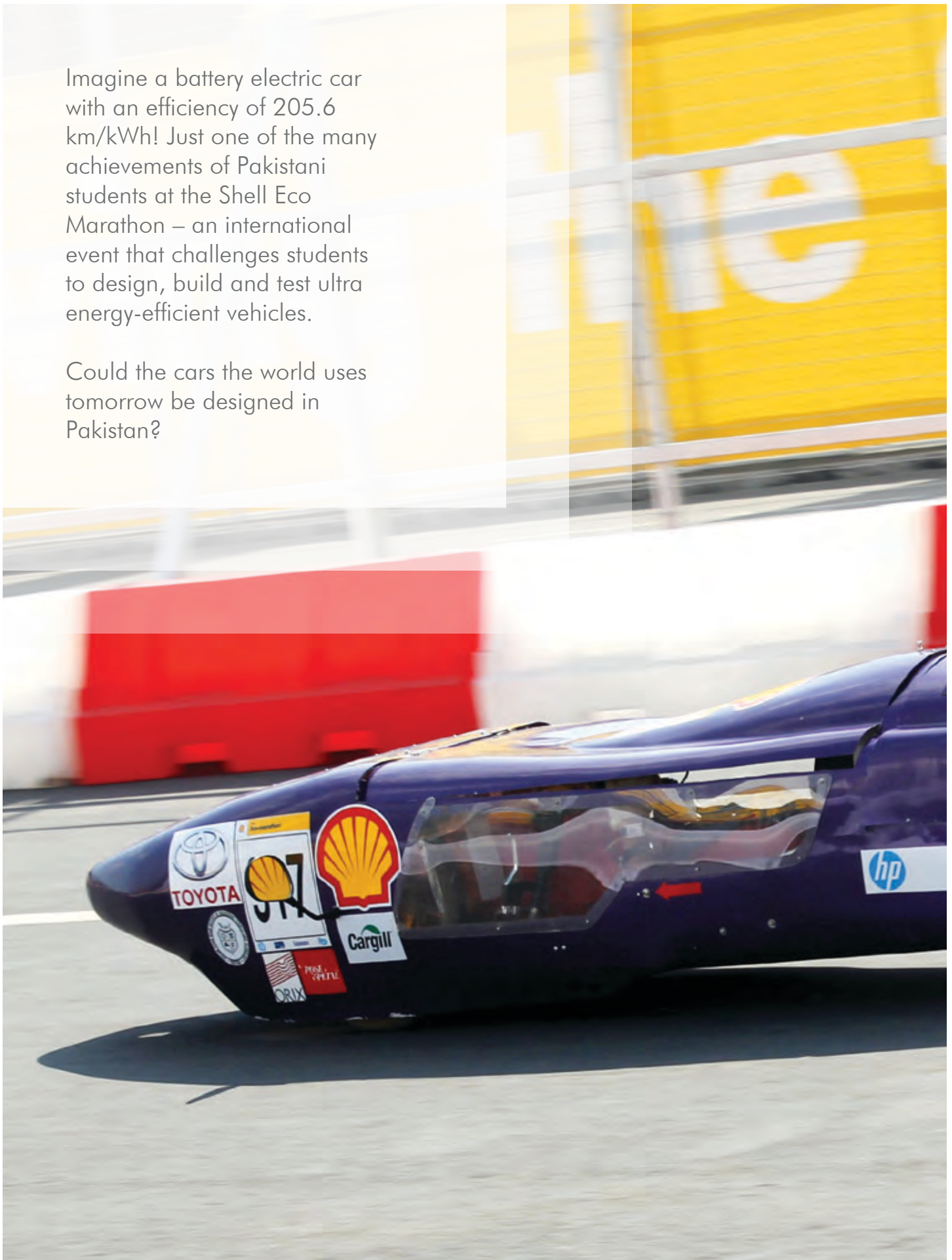
Chartered Accountants
Karachi

Date: March 14, 2014

Engagement Partner: **Imtiaz A H Laliwala**

Imagine a battery electric car with an efficiency of 205.6 km/kWh! Just one of the many achievements of Pakistani students at the Shell Eco Marathon – an international event that challenges students to design, build and test ultra energy-efficient vehicles.

Could the cars the world uses tomorrow be designed in Pakistan?



OUR PERFORMANCE



RETAIL

Our Retail business comprises over 780 retail outlets offering fuel tailored to improve engine and environmental performance. Introducing global standards and a state of the art retail experience, Shell Pakistan has been responsible for revolutionizing local industry standards and improving the fuel retail experience for consumers across the country.

We are committed to making better fuels and creating best value for customers and shareholders by being a leader in fuel quality and innovation.

2013 Highlights

Launch of New Retail Visual Identity

The Retail Team launched Shell's latest Retail Visual Identity by setting up five state-of-the-art fuel stations in three regions. These stations embody the latest construction, safety and global design standards in the industry and are equipped with Shell's-E branding.

The Shell Helix LEGO Promotion

In November 2013, a global promotion designed by Shell, Ferrari and LEGO was rolled out in Pakistan across 75 forecourts. Consumers had to purchase a pack of Shell Helix Synthetic Motor Oils to become the proud owners of any one of six Ferrari model cars made of LEGO pieces. The promotion was supported by an aggressive marketing campaign which targeted over 350,000 fuelling customers. Furthermore, 242 schools and 12 malls were also activated where 92,000 children and 3,700 parents were targeted. This was a positive ending to a year where our brand share preference rose from 37% to 40%.

Improving Standards

Throughout the year, focus remained on continued investment in improving service standards and in line with this, a Site Staff Training Pilot project was launched in partnership with Navitus on 75 forecourts. During the year, 1400 staff received training across the country.

Partnership with HBL

To add to the convenience of retail consumers, the business partnered with HBL to set up 50 ATMs at Shell fuel stations across Pakistan. This move will add to the 'one-stop-shop' experience we offer to our retail consumers.

Network Expansion

Five new sites were added to the retail network in 2013 at Lohianwala, Gujranwala, Karoor Lal Eisan, Islamabad and Basham.

LUBRICANTS



Shell Pakistan is the largest lubricant marketing company in Pakistan with strong customer preference and sizeable market share in the organized sector. The business is focused on sales of key brands - Rimula, Helix and Advance - to high street traders and the transport sector along with heavy-duty brands to industrial and power sector customers.

2013 Highlights **Launch of Rimula R4X**

In 2013, the Lubricants team launched a flagship diesel engine oil Rimula R4X. Developed through years of global research, R4X is a specialized lubricant that enables customers to save significant cost while protecting engines. The target market for the product is mainly truckers and agriculturalists and to create awareness and gain interest, a countrywide launch was organized in January 2013. An extensive on-ground activation was organized that engaged over 5000 people from Karachi to Khyber. Pakistan is the first country where R4X has been launched and the market response to the product has been very encouraging.

Shell Helix and Ferrari Partnership

Shell shares one of the most successful partnerships in Formula One history with Ferrari, having contested together more than half of all the Formula One races. This technical partnership enables Shell to continually develop fuels and lubricants and ensure that any technological advantage developed for Ferrari is passed directly through to the motorist. Highlighting this partnership in Pakistan, the Lubricants teams launched the Shell Helix Brand World at the Vintage Car Club and the Pakwheels Auto shows in 2013.

The events were held in various cities and were a platform to showcase over 300 vehicles powered by Shell Helix Motor Oils. The vehicles in these shows hailed from a variety of categories including vintage, classic, sports, exotic, luxury, SUV, bikes and modified vehicles. F1 gaming simulators and the F1 model car remained the center of attraction to thousands of motor enthusiasts participating in the events.

A similar drive was organized at nine universities across Pakistan to share the Ferrari and Formula One experience with students. F1 simulators along with an F1 replica helped create an exciting and realistic experience for the younger population.

Stakeholder Engagements

In 2013, the Lubricants Team joined hands with the Pakistan Society of Sugar Technologists (PSST) to conduct the 47th Annual Convention bringing together stakeholders at one of the country's key agricultural and technical forums. The sessions focused on the technical and agricultural growth of the industry and brought together over two hundred stakeholders to share best practices and discuss issues and challenges.

The team also organized a number of engagement sessions with leading OEM partners like Altas Honda and Al-Ghazi Tractors Limited over the year to establish a stronger connect and understand how Shell can add more value to their business.

Partnership with Daewoo

Shell is the lubricants partner of choice for leading fleet management companies like Agility Logistics, KKC Logistics, and recently a contract has been signed with Daewoo Express for supply to the Daewoo fleet in Pakistan. The partnership also entails a 'beyond business' proposition for Daewoo whereby Shell will extend its free education program for children of Daewoo Bus Service employees and safety trainings for Daewoo Express's drivers.



AVIATION

Shell is the second largest jet-fuel supplier in Pakistan with a presence at five major airfields across the country. Shell supplies jet fuel to both domestic and foreign airline carriers. Additionally, the military segment is also being catered for by Shell supplies in jet fuel as well as aviation gasoline.

2013 Highlights

New Business Opportunities

The core inland business for Aviation grew substantially in 2013 and this growth was driven primarily by entering into yearly contracts with Emirates, Saudi Air and Oman Air at Islamabad and winning fuelling contracts for Emirates, Cathay Pacific, Turkish Airline and Sri Lankan Airline at the Karachi Airport. This segment was approached using the strong regional and global relationship that Shell Aviation enjoys with these airlines while local decision makers were demonstrated key edges that we have in safe and on-time fuelling at the apron.

For PIA, in their 2013 offshore location tender, Shell was the supplier of first choice at key locations like Birmingham, Toronto, Jeddah, Oslo and Kuala Lumpur. This was a two year contract and will be valid till June 2015.

Air Blue is also being fuelled by Shell domestically at Karachi and Islamabad while at all key international locations where they fly, Shell Aviation is their jet fuel supplier.

In addition, we continued to penetrate more into the military jet fuel and aviation gasoline segment through our reseller. We broke in for the first time in this segment, providing jet fuel at key military locations.

One significant highlight in 2013 was the highest sale recorded in a single year at Islamabad Airport since 2006 where we sold 176 million liters of jet fuel to various domestic and international carriers.

Operational Safety

With renewed focus and training interventions in safety area, there was no major HSSE/Product Quality related incident in 2013 and on December 31, 2013, Shell Aviation Pakistan team completed 438 days with 'no harm' and 529 days with 'no leak' at Pakistan sites. All five airports received the Goal Zero Award for 2013 with Sukkur Airport receiving the Double Platinum Award in 2013. IATA inspections and airline audits were held for our fuelling facilities at Islamabad and Karachi and all of them were passed successfully.

DEVELOPING PEOPLE



People are at the heart of our business. Our collaborative culture values human ingenuity and creativity, which helps people develop personally and achieve professional career goals. We find that ideas accelerate when people with different capabilities get together. We create a work environment that values differences and enables people to work together to deliver our strategy.

People Development

Working in an international environment allows our staff new insights and knowledge. Along with this, we provide them with professional training and development programs as well as offering leadership programs.

In 2013, nearly 250 employees received a combination of classroom events, virtual trainings, projects, stretching roles and mentoring support. Shell Pakistan celebrated a week of development activities with more than 420 staff participating in different sessions and events designed to support their learning.

Career Growth

We encourage creativity and innovative thinking and we give employees the opportunity to take on increased responsibility by offering a spectrum of opportunities locally and internationally. In 2013, we continued to help diversify staff experience and expertise through 20 cross business moves and ten cross border export to Shell Group.

Building the Talent Pipeline

Our people are recruited, trained and recompensed according to a People Strategy that is based on three priorities – assuring sources of talent now and in the future; strengthening leadership and professionalism; and enhancing individual and organizational performance.

In 2013, we recruited seven students into the Management Trainee Program and overall added 60 more people to our workforce. We also ran the biggest summer internship program where 25 students worked on real business challenges and projects.

Engagement

The Shell People Survey is one of the principal tools used to measure employee engagement: the degree of affiliation and commitment to Shell. It provides valuable insights into employees' views, and it has had a consistently high response rate. Shell People Survey (SPS) results for Pakistan remained strong with an engagement score of 84%.



SOCIAL PERFORMANCE

Our Social Performance describes how we manage the impacts of our business on the communities and societies in which we operate. We support community development projects, understanding local needs and addressing social and economic issues relevant to our business. Our social investments take many forms including financial assistance, in-kind donations, volunteering and sharing of expertise.





In Pakistan, we work with communities and stakeholders on projects that address issues affecting both our fence-line communities and our businesses and over time, our programs have helped provide opportunities and improve many lives around us.

Enterprise Development - Tameer

Shell Tameer encourages a diverse business environment by developing entrepreneurial skills in young people aged 18-32. Tameer is registered as an independent trust governed by a carefully selected Board of internal and external Trustees. The program offers a number of options, including conceptual development of business ideas, training to help with enterprise skills and starting a business, networking with expert organizations, start-up finance and follow-up support to help entrepreneurs sustain their businesses.

Shell Tameer achievements till 2013

- 0.8 mn youth engaged
- Rs. 340 mn in funding through partners
- 25,000 employment opportunities generated
- 3,000 start-ups and expansions
- Rs. 178 mn turnover

Fuelling Education

Through this initiative, Shell Pakistan has partnered with The Citizens Foundation (TCF) to offer scholarships to the children of retail forecourt staff, drivers and hauliers in TCF schools nationwide. Shell Pakistan has also extended support to TCF to construct six

primary schools across Pakistan. In 2013, two schools in the flood hit areas of Battagram and Nowshera were completed and the total number of students benefitting from Shell built schools crossed 1200. Shell also offers a tertiary education scholarship program to deserving students at top Engineering and Business universities across Pakistan. So far 50 students are pursuing graduate and post graduate programs in various local universities.

Road Safety

For 30 years now, Shell Pakistan has supported and partnered with Layton Rahmatulla Benevolent Trust (LRBT) sponsoring over 10 million eye tests and procedures for drivers at clinics and LRBT hospitals across the country. In 2013, over 25,000 drivers, contractor staff and fence line communities were given free eye tests and follow up care. In 2009, Shell developed the Happy Roads program focusing on educating school-going children on the basic principles of road safety. Classroom sessions included special interactive traffic games and visits by traffic police and Shell staff. In 2013 more than 3000 students were covered bringing the total number of students benefitting from the program to 25,000.



HSSE PERFORMANCE

We believe that long-term business success depends on valuing people and the environment. Shell has global operating standards and mandatory requirements that set out how we manage risks associated with health, safety, security and the environment.

Goal Zero

Safety is a deeply held value at Shell with Goal Zero a vision. We believe in a policy of no harm to people - be it our customers, employees, retailers, contractors or suppliers. By prioritizing our Health, Safety, Security and Environmental (HSSE) performance, we achieved yet another year without Lost Time Injury (LTI).

Road Safety

With a road exposure of 42 million kms, road safety continues to be an area of focus for SPL. We continuously invest in safety trainings for our haulier staff and ensure strict compliance of safety policies and practices.

Studies show that possibility of accidents involving children is higher during school opening and closing times. To proactively address the concern, our Road Transport team initiated a structured countrywide road safety campaign for children from schools located along the roads where our Tank Lorries pass. Our team, along with National Highway and Motorway Police, conducted safety awareness sessions in more than 60 schools across the country engaging over 2000 children.

Safety Day 2013

Held on June 19, Safety Day 2013 was celebrated at Shell sites across the globe. On Safety Day all employees and contractors are encouraged to take time out for safety. Safety Day is an opportunity to share ideas and best practices to deliver continuous improvement in safety performance and to reflect on personal and collective commitment to safety.

Safety Day was observed at all of SPL locations including head office, regional offices, depots and airfields and was attended by Shell, contractors', hauliers, distributors' and retailers' staff. Our Retail team worked on a special theme on Biker Safety. To increase outreach, teams across other Businesses and Functions were engaged and together, these teams managed to pass the Biker Safety message to more than 13,000 bikers at 50 sites

nationwide. A total of 181 Shell staff with Retailers and Forecourt staff engaged with bikers to impart key safety messages.

In-Vehicle Monitoring System

Introducing new and technically innovative tools to improve our on-ground operations was an area of great focus in 2013. In line with this, Our Trade & Supply team installed IVMS (In-Vehicle Monitoring System) in all core fleet vehicles. IVMS is an integrated system designed to monitor, record, analyze and improve driver and vehicle performance. This new system will provide real time access in monitoring speed, driver identification, route compliance, harsh braking/acceleration, fuel economy, seatbelt compliance, driving and rest hours compliance. Information from the system will help promote good driving behaviors and techniques, improve safety and enhance fleet management.

Stakeholder Engagement

Sharing best practices and engaging stakeholders for collective improvement programs is a key ingredient of our operational philosophy. In line with this, our Trade & Supply team conducted a Mutual Aid Fire Drill at the Machike Terminal in collaboration with neighboring Oil Marketing Companies (PSO, CHEVRON, PARCO, APL & TPPL). Local emergency services such as Rescue 1122, Civil Defense and Motorway Police were also engaged in the exercise and an elaborate real life drill was conducted to proactively prepare all participants for actual situations. A similar Emergency Response drill was arranged at the Chaklala Terminal in collaboration with Civil Defense Pakistan, Rescue Department, Police and Bomb Disposal Squad. The drill covered scenarios of fire on tank lorry gantry and fire on tanks and helped evaluate the level of preparedness and response in case of any emergency situation.

Arrive Alive Campaign

The 'Arrive Alive' campaign was recently launched in Pakistan to enhance road safety awareness for the Downstream

Business. The program aims for drivers doing the right thing and making a personal commitment to themselves and their families by returning home safely each day. A number of sessions were conducted for staff and haulier drivers across the country.

Health

A 'Culture of Health' describes a state where Shell's people are thriving, engaged, competent and sustainably performing at their best with a deep sense of purpose. Creating this is the mission of Shell Health and is made possible by providing tools and programmes and driving the creation of a high performance environment. In 2013, Shell Health rolled out the global computer ergonomics screening tool; Ergo Quick Scan II (EQS II) in Shell Pakistan. This is an online tool that aims to ensure that the health risks associated with working with computers are managed and controlled and is an HSSE compliance requirement. Along with this, regular health assessments for Shell Staff across locations were conducted as part of the 'Be Well Program'- a global health promotion that helps employees to optimize their health.

Environment

The Shell Environment strategy focuses on complying with environmental regulations, improving day-to-day operations to use less energy and fresh water, prevent spills and releases, protect environmentally sensitive areas and reduce waste. Along with this, a key focus is to be prepared to meet future environmental challenges.

In 2013, Shell Pakistan participated in the World Environment Day in conjunction with Karachi Port Trust Authorities on June 5. The 2013 global theme for the day was to Think-Eat-Save and the event was held near the mangrove islands. Local environmental concerns were discussed to create awareness and initiate proactive action amongst stakeholders.

With our service standards and latest technologies, we revolutionized the retail forecourt experience in Pakistan and today, we meet the fuelling needs of over a million Pakistanis every day.

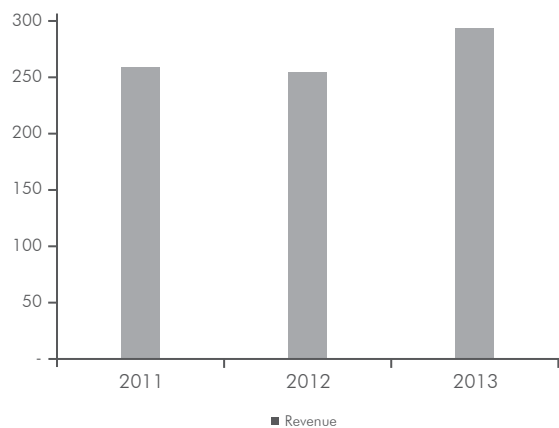
With our global expertise and expanse, think of the possibilities and energy innovations we can bring to Pakistan!



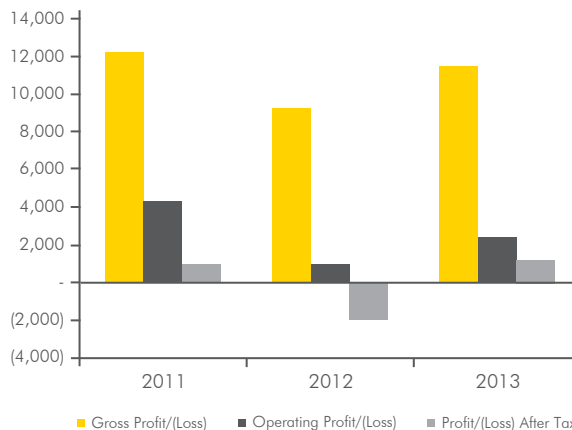
FINANCIALS

PERFORMANCE AT A GLANCE

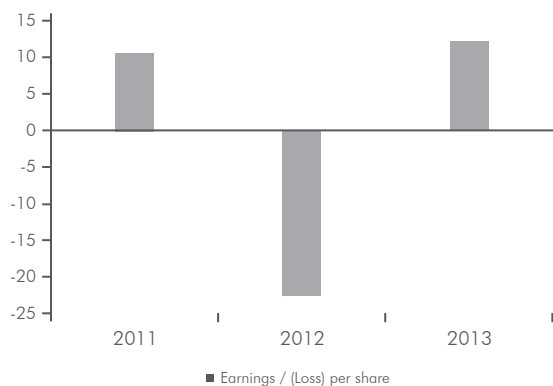
REVENUE (Rs. in billion)



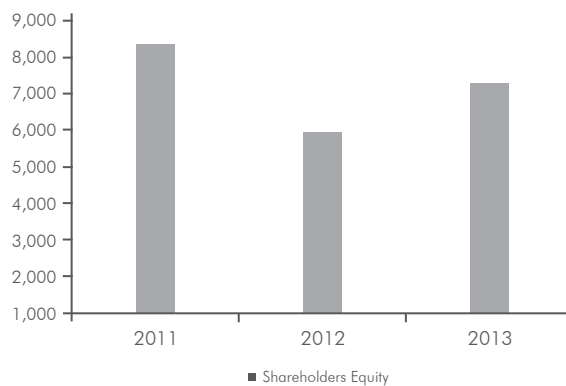
PROFITABILITY (Rs. in million)



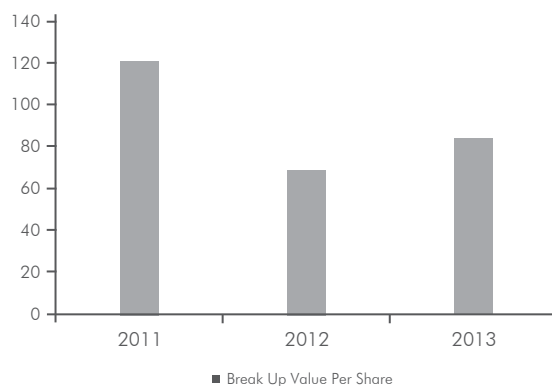
EARNINGS PER SHARE (Rs. per share)



SHAREHOLDERS EQUITY (Rs. in million)



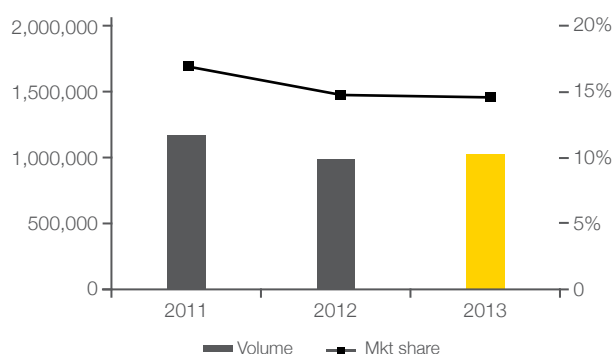
BREAK UP VALUE PER SHARE (Rs. per share)



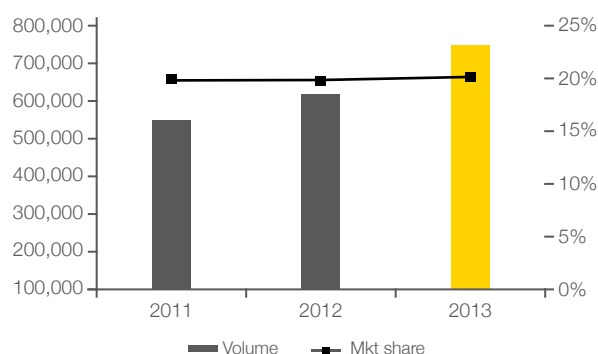
OPERATING AND FINANCIAL HIGHLIGHTS

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

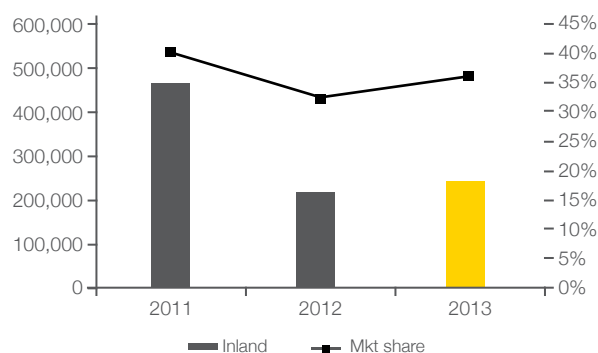
HIGH SPEED DIESEL



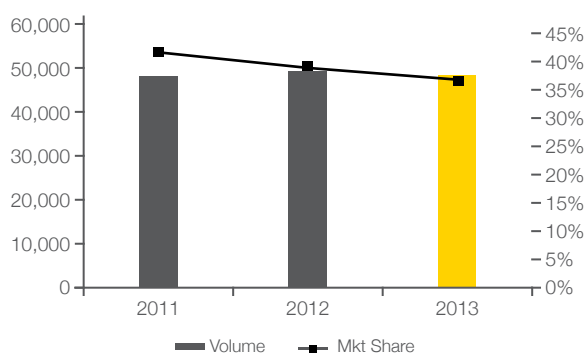
MOTOR GASOLINE



JET FUELS



LUBRICANTS



		2013	2012
Sales volume	Tonnes	2,185,137	1,953,824
Sales revenue	Rs. / mn	287,992	244,317
Profit before taxation	Rs. / mn	2,424	5
Profit / (loss) after taxation	Rs. / mn	1,061	(1,935)
New capital expenditure	Rs. / mn	733	616
Shareholders' equity	Rs. / mn	7,223	5,878
Earnings / (loss) per share - basic and diluted	Rs. / mn	12.40	(22.60)

OPERATING AND FINANCIAL HIGHLIGHTS

		----- Year ended December 31 -----						Jul - Dec	Year ended June 30
		2013	2012	2011	2010	2009	2008	2008	2008
Share capital	Rs. / mn	856	856	685	685	685	685	685	548
Reserves	Rs. / mn	6,367	5,022	7,592	7,215	7,586	5,571	5,571	13,064
Shareholders' equity	Rs. / mn	7,223	5,878	8,277	7,900	8,271	6,256	6,256	13,612
Break up value per share	Rs.	84	69	121	115	121	91	91	199
Dividend per share	Rs.	4	-	-	10	26	-	-	40
Bonus	Ratio	1:4	-	1:4	-	-	-	-	1:4
Profit / (loss) before tax	Rs. / mn	2,424	5	2,833	3,044	3,910	(3,048)	(8,420)	7,723
Profit / (loss) after tax	Rs. / mn	1,061	(1,935)	906	1,616	2,563	(1,726)	(5,164)	5,137
Earnings / (loss) per share	Rs.	12.4	(22.6)	10.6	18.9	29.9	(20.2)	(60.3)	60.0

Working capital

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

Performance

Profit / (loss) after tax as % of average shareholders' equity	%	16.2	(27.3)	11.2	20.0	35.3	(20.3)	(52.0)	44.5
Cost of sales as a % of sales	%	82.6	83.3	83.5	82.8	80.8	85.1	91.4	79.1
Profit / (loss) before tax as % of sales	%	0.8	0.0	1.1	1.4	2.2	(1.7)	(8.8)	4.9
Profit / (loss) after tax as % of sales	%	0.4	(0.8)	0.4	0.7	1.5	(0.9)	(5.4)	3.3
Total debt ratio	Times	0.9	2.0	1.9	1.3	1.0	2.6	2.6	0.6

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Shell Pakistan Limited as at December 31, 2013 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, 2013 and of the total comprehensive income, 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. 2,295,879 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. 2,071,107 thousand, receivable from the Government of Pakistan in respect of price differential on imported motor gasoline as a good debt for reasons given in the note. The ultimate outcome of the matter cannot presently be determined.

Chartered Accountants
Karachi
Date: March 25, 2014

Engagement Partner: **Imtiaz A H Laliwala**

BALANCE SHEET

As at December 31, 2013

	Note	2013	2012 (Restated)	2011 (Restated)
(Rupees '000)				
ASSETS				
Non-current assets				
Property, plant and equipment	4	6,226,651	6,330,565	6,652,020
Intangible assets	5	558,350	931,867	1,321,105
Long-term investments	6	3,070,286	2,989,350	2,749,610
Long-term loans and advances	7	43,143	98,853	93,914
Long-term deposits and prepayments	8	197,155	199,951	194,242
Long-term debtors	9	-	1,216	3,732
Deferred taxation - net	10	632,636	737,557	1,373,843
		10,728,221	11,289,359	12,388,466
Current assets				
Stores		14,845	14,845	15,143
Stock-in-trade	11	17,818,412	17,353,514	17,847,222
Trade debts	12	2,259,170	2,006,553	2,488,910
Loans and advances	13	131,412	81,061	66,532
Short-term prepayments		190,840	210,334	271,133
Other receivables	14	8,594,635	10,665,171	14,645,183
Cash and bank balances	15	858,390	3,388,485	1,438,447
		29,867,704	33,719,963	36,772,570
TOTAL ASSETS		40,595,925	45,009,322	49,161,036
EQUITY AND LIABILITIES				
Equity				
Share capital	16	856,100	856,100	684,880
Reserves		1,924,830	1,924,830	2,096,050
Unappropriated profit		4,603,450	3,542,289	5,477,191
Remeasurement of post employment benefits - Actuarial (loss) / gain		(161,854)	(445,081)	18,716
Total equity		7,222,526	5,878,138	8,276,837
Liabilities				
Non-current liability				
Asset retirement obligation	17	334,091	339,596	189,351
Current liabilities				
Trade and other payables	18	26,526,642	26,228,552	24,478,342
Accrued mark-up / interest	19	16,737	52,449	217,645
Short-term borrowings - secured	20	6,158,020	12,170,000	15,745,032
Taxation		337,909	340,587	253,829
		33,039,308	38,791,588	40,694,848
Total liabilities		33,373,399	39,131,184	40,884,199
Contingencies and commitments	21			
TOTAL EQUITY AND LIABILITIES		40,595,925	45,009,322	49,161,036

The annexed notes 1 to 42 form an integral part of these financial statements.

Omar Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2013

	Note	2013	2012 (Restated)
		(Rupees '000)	
Sales	22	287,991,922	244,316,875
Other revenue		721,652	717,704
		288,713,574	245,034,579
Sales tax		(39,499,583)	(32,233,969)
Net revenue		249,213,991	212,800,610
Cost of products sold	23	(237,837,485)	(203,521,445)
Gross profit		11,376,506	9,279,165
Distribution and marketing expenses	24	(3,368,284)	(3,229,142)
Administrative expenses	25	(4,138,929)	(4,171,129)
		3,869,293	1,878,894
Other operating expenses	26	(1,767,474)	(1,330,649)
		2,101,819	548,245
Other income	27	300,037	370,530
Operating profit		2,401,856	918,775
Finance costs	28	(532,151)	(1,634,318)
		1,869,705	(715,543)
Share of profit of associate - net of tax	6	554,788	720,199
Profit before taxation		2,424,493	4,656
Taxation	29	(1,363,332)	(1,939,558)
Profit / (loss) for the year		1,061,161	(1,934,902)
Other comprehensive income / (loss) for the year			
Items that will not be reclassified to profit or loss			
- Remeasurement of retirement benefit obligation due to implementation of IAS 19 (Revised) - net of tax		283,227	(463,797)
Total comprehensive income / (loss) for the year		1,344,388	(2,398,699)
		(Rupees)	
Earnings / (loss) per share	30	12.40	(22.60)

The annexed notes 1 to 42 form an integral part of these financial statements.

Omar Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2013

	Share Capital	Capital reserves- share premium	General revenue reserves	Unappropriated profit	Remeasurement of post employment benefits - Actuarial (loss) / gain	Total
	(Rupees '000)					
Balance as at January 1, 2012						
- as previously reported	684,880	1,889,048	207,002	5,477,191	-	8,258,121
Effect of change in accounting policy due to application of IAS - 19 (Revised) Note 2.1.4 (a), net of tax	-	-	-	-	18,716	18,716
Balance as at January 1, 2012 (Restated)	684,880	1,889,048	207,002	5,477,191	18,716	8,276,837
Bonus shares issued during the year in the ratio of 1 share for every 4 shares held	171,220	(171,220)	-	-	-	-
Loss for the year ended December 31, 2012 - (Restated)	-	-	-	(1,934,902)	-	(1,934,902)
Other comprehensive loss for the year ended December 31, 2012 - (Restated)	-	-	-	-	(463,797)	(463,797)
Balance as at December 31, 2012 (Restated)	856,100	1,717,828	207,002	3,542,289	(445,081)	5,878,138
Profit for the year ended December 31, 2013	-	-	-	1,061,161	-	1,061,161
Other comprehensive income for the year ended December 31, 2013	-	-	-	-	283,227	283,227
Balance as at December 31, 2013	856,100	1,717,828	207,002	4,603,450	(161,854)	7,222,526

The annexed notes 1 to 42 form an integral part of these financial statements.

Omar Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

	Note	2013	2012
		(Rupees '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35	5,468,085	8,338,680
Finance costs paid		(353,671)	(1,592,605)
Income tax paid		(1,564,209)	(1,146,256)
Long-term loans and advances		55,710	(4,939)
Long-term deposits and prepayments		2,796	(5,709)
Mark-up / interest received on short-term deposits		58,472	17,412
Long-term debtors		1,795	14,799
Net cash generated from operating activities		3,668,978	5,621,382
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(733,110)	(615,789)
Proceeds from disposal of operating assets		72,219	39,189
Dividend received from associate		473,852	480,459
Net cash used in investing activities		(187,039)	(96,141)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(54)	(171)
Net increase in cash and cash equivalents		3,481,885	5,525,070
Cash and cash equivalents at beginning of the year		(8,781,515)	(14,306,585)
Cash and cash equivalents at end of the year	36	(5,299,630)	(8,781,515)

The annexed notes 1 to 42 form an integral part of these financial statements.

Omar Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

1. THE COMPANY AND ITS OPERATIONS

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

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

2. 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 an Interpretation to an existing Standard

a) Standards, amendments to published standards and interpretations that are effective in 2013 and are relevant to the Company

The following standard and amendments to published standards are mandatory for the financial year beginning January 1, 2013:

- IAS 19, 'Employee Benefits' was revised in June 2011. The revised standard (i) requires past service cost to be recognized immediately in the profit or loss; (ii) replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year; and (iii) introduced a new term 'remeasurements' which is made up of actuarial gains and losses, the difference between actual investment returns and the return implied by the net interest cost. The revised standard eliminates the corridor approach and requires to recognize all remeasurement gains or losses / actuarial gains or losses in the Other Comprehensive Income (OCI) immediately as they occur. In accordance with the transitional provisions as set out in IAS 19 (Revised), the Company has applied the revised standard retrospectively and, consequently earliest periods presented in the balance sheet, statement of comprehensive income and the statement of changes in equity have been restated. The impact of retrospective application of IAS 19 (Revised) is as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

	Other receivables	Trade and other payables	Other Comprehensive Income - Remeasurement of post employment benefits - Actuarial loss, net of tax	Unappropriated profit	Deferred Taxation - net
	(Rupees '000)				
Balance as at January 1, 2012, as previously reported	14,633,255	24,495,103	-	(5,477,191)	1,383,816
Reclassification of staff retirement benefit schemes as at December 31, 2011	11,928	11,928	-	-	-
Restatement - recognition of remeasurement (gain) / loss in OCI	-	(28,689)	(18,716)	-	(9,973)
Balance as at January 1, 2012 - restated	<u>14,645,183</u>	<u>24,478,342</u>	<u>(18,716)</u>	<u>(5,477,191)</u>	<u>1,373,843</u>
Balance as at December 31, 2012, as previously reported	10,685,776	25,817,640	-	(3,394,660)	579,060
Reclassification during the year - note 40.3	-	(24,432)	-	-	-
Reclassification of staff retirement benefit schemes as at December 31, 2012	(20,605)	(20,605)	-	-	-
Restatement - recognition of remeasurement (gain) / loss in OCI For the year ended December 31, - 2011 - 2012	- - -	(28,689) 484,638 455,949	(18,716) 463,797 445,081	- (147,629) (147,629)	(9,973) 168,470 158,497
Balance as at December 31, 2012 - restated	<u>10,665,171</u>	<u>26,228,552</u>	<u>445,081</u>	<u>(3,542,289)</u>	<u>737,557</u>

- IAS 1 (Amendment) 'Financial statement presentation'. 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 the disclosures in 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 1 (Amendment) 'Financial statement presentation'. The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet as required by IAS 8, 'Accounting policies, changes in accounting estimates and errors'. When an entity produces an additional balance sheet as required by IAS 8, the balance sheet should be as at the date of the beginning of the preceding period, i.e. the opening position. No notes are required to support this balance sheet.
- IAS 16 (Amendment) 'Property, plant and equipment'. The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than stores, spares and loose tools when they meet the definition of property, plant and equipment. The Company's accounting policy is already in line with the requirement of this amendment.
- IAS 32 (Amendment) 'Financial instruments: Presentation'. 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 recognized in the profit and loss account, and income tax related to the costs of equity transactions is to be recognized in equity. The Company's current accounting treatment is already in line with this amendment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

b) Standards, amendments to published standards and interpretations effective in 2013 but are not relevant

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2013 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 January 1, 2013 and have not been early adopted by the Company:

- IFRS 9 'Financial instruments' (effective for periods beginning on or after January 1, 2015). This standard is yet to be notified by the SECP. 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. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, in case the fair value option is taken for financial liabilities, the part of a fair value change due to entity's own credit risk is recorded in other comprehensive income rather than the profit or loss account, unless this creates an accounting mismatch. The Company is yet to assess the full impact of the standard. The Company will also consider the impact of the remaining phases of IFRS when completed by the IASB, however, the initial indications are that it may not affect the Company's financial statements significantly.
- IFRS 12 'Disclosure of interests in other entities'. This standard is yet to be notified by the SECP. 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 the standard.
- IFRS 13 'Fair value measurement'. This standard is yet to be notified by the SECP. The 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 on 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 the standard.
- IAS 19 (Amendment) regarding defined benefit plans (effective for periods beginning on or after July 1, 2014). These amendments apply to contribution from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Company is yet to assess the full impact of the amendment.
- 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 date. It is unlikely that the amendment will have any significant impact on the Company's financial statements.
- IAS 36 (Amendment) 'Impairment of assets' (effective for periods beginning on or after January 1, 2014). The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment will only affect disclosures in the Company's financial statements in the event of any impairment.

Amendment to following standard as a result of annual improvements to International Financial Reporting Standards 2012, issued by IASB:

- IFRS 13 (Amendment), 'Fair value measurement'. IFRS 13 is yet to be notified by the SECP. The amendment is part of annual improvements to IFRS 2012, issued by IASB. When IFRS 13 was published, it led to a concern that entities no longer had the ability to measure short-term receivables and payables at invoice amounts where the impact of not

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

discounting is immaterial. The amendment clarifies that it does not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases.

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 recognized 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 recognized in the profit or loss in the statement of comprehensive income as and when incurred.

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 recognized 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 amortization and accumulated impairment losses, if any.

Costs associated with maintaining computer software programs are recognized 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 recognized 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 recognized 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 amortized 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 recognized at cost in accordance with the requirements of IAS 28, 'Investments in Associates'.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

The Company's share of an associate's post acquisition profits or losses is recognized in the profit or loss in the statement of comprehensive income, and its share in the post acquisition movement of other comprehensive income is recognized 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 recognize 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.

Unrealized 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. 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 recognized 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 recognized on the trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognized 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 recognized at fair value and transaction costs are expensed to the profit or loss in the statement of comprehensive income. Financial assets are derecognized 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 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 amortized cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognized in the profit or loss in the statement of comprehensive income within 'other income / expenses' in the period in which they arise. Dividend income from financial assets at 'fair value through profit or loss' is recognized in the profit or loss in the statement of comprehensive income as part of 'other income' when the Company's right to receive dividend is established. Gains or losses on sale of investments at 'fair value through profit or loss' are recognized 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 recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized 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 recognized in the profit or loss in the statement of comprehensive income as part of 'other income'. Dividend on available-for-sale equity instruments is recognized in the profit or loss in the statement of comprehensive income as part of 'other income' when the Company's right to receive dividend 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 recognized in equity is removed from equity and recognized in the profit or loss in the statement of comprehensive income. Impairment losses recognized 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 recognized at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognized 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 recognized 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 net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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 recognized in the profit or loss in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

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 recognized 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 recognized in the profit or loss in the statement of comprehensive income.

2.8 Trade debts and other receivables

Trade debts and other receivables are recognized initially at invoice value, which approximates fair value, and subsequently measured at amortized 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 utilized under mark-up arrangements.

2.10 Share capital

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

2.11 Provisions

Provisions are recognized 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.

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 recognized (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 recognized 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 recognized initially at fair value and subsequently measured at amortized 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

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. As explained in note 2.1.4(a), upon application of IAS 19 (Revised) 'Employee Benefits' actuarial gains or losses (re-measurements) are immediately recognized in 'Other Comprehensive Income' as they occur. Previously actuarial gains or losses exceeding 10% of the greater of the present value of the defined benefit obligation and fair value of plan assets were being recognized in the profit or loss in the statement of comprehensive income over the expected average remaining working lives of employees participating in the plan.

During the year, the Company set up a new defined contribution pension fund, effective January 1, 2013, for its management staff. Members of the existing defined benefit pension and gratuity schemes were given the option to join the new defined contribution fund in return for voluntarily relinquishing membership of the existing schemes. The bifurcation of funds is based on actuarial valuations as of January 1, 2013.

ii) Approved defined contributory provident fund

Approved defined 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.

iii) Approved defined contributory pension fund

Approved defined contributory pension fund for all management employees opting for transfer from defined benefit pension and gratuity fund to defined contributory pension fund. Equal monthly contributions are made both by the company and the employee at the rate of 10.5% of basic salary and charged to profit or loss in the statement of comprehensive income.

iv) 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. As explained in note 2.1.4(a), upon application of IAS 19 (Revised) 'Employee Benefits' actuarial gains or losses (re-measurements) are immediately recognized in 'Other Comprehensive Income' as they occur. Previously actuarial gains or losses exceeding 10% of the greater of the present value of the defined benefit obligation were being recognized in the profit or loss in the statement of comprehensive income over the expected average remaining working lives of 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

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 recognized 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 recognized 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 utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax liabilities are recognized 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 realized 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 recognized in the profit or loss in the statement of comprehensive income.

2.17 Revenue recognition

Revenue is recognized 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 recognized on an accrual basis.
- Dividend income is recognized 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 recognized 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

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 / amortization, useful lives and residual values used in the calculation of depreciation / amortization 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 realizability of deferred tax assets.

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.

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.

4. PROPERTY, PLANT AND EQUIPMENT

	2013	2012
	(Rupees '000)	
Operating assets, at net book value - note 4.1		
- Operating assets	5,958,422	6,138,864
- Provision for impairment - note 4.8	(462,357)	(374,213)
	5,496,065	5,764,651
Capital work-in-progress - note 4.7	730,586	565,914
	<u>6,226,651</u>	<u>6,330,565</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

4.1 Operating assets

	Owned assets											Total					
	Freehold land	Leasehold land	Buildings on freehold land	Buildings on leasehold land	Tanks and pipelines	Plants and machinery	Air conditioning plant	Lifts	Dispensing pumps	Rolling stock and vehicles	Electrical, mechanical and fire fighting equipments		Furniture, office equipment and other assets	Computer auxiliaries	Main frame		
At January 01, 2013																	
Cost	97,009	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	97,009	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		
Year ended December 31, 2013																	
Opening net book value	97,009	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		
Additions	-	14,243	8,191	-	203,997	41,701	-	2,283	30,447	70,071	37,764	126,482	28,996	-	564,175		
Disposals / write offs - notes 4.4 and 4.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost	-	-	-	120,982	41,095	896	-	-	116,900	72,270	69,162	90,155	19,729	-	531,189		
Accumulated depreciation	-	-	-	(74,534)	(19,515)	(282)	-	-	(106,948)	(62,076)	(41,982)	(82,375)	(19,669)	-	(407,381)		
Depreciation charge for the year - note 4.2	-	-	-	46,448	21,580	614	-	-	9,952	10,194	27,180	7,780	60	-	123,808		
Impairment for the year - note 4.8	-	4,074	3,037	172,482	85,447	30,559	-	585	48,581	35,013	140,855	79,688	20,488	-	620,809		
Closing net book value	97,009	22,821	120,871	1,618,071	1,205,051	418,172	108	7,404	140,543	98,277	1,308,606	420,293	36,330	2,509	5,496,065		
At December 31, 2013																	
Cost	97,009	87,766	183,530	3,473,871	2,260,858	702,047	29,587	10,216	795,287	472,016	2,786,693	1,252,523	168,274	38,393	12,358,070		
Accumulated depreciation and impairment	-	64,945	62,659	1,855,800	1,055,807	283,875	29,479	2,812	654,744	373,739	1,478,087	832,230	131,944	35,884	6,862,005		
Net book value	97,009	22,821	120,871	1,618,071	1,205,051	418,172	108	7,404	140,543	98,277	1,308,606	420,293	36,330	2,509	5,496,065		
At January 01, 2012																	
Cost	97,009	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	97,009	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	97,009	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost	-	-	-	81,150	25,030	19,038	-	-	38,670	91,398	46,491	37,059	7,863	-	346,699		
Accumulated depreciation	-	-	-	(44,168)	(11,944)	(16,624)	-	-	(32,531)	(76,116)	(28,947)	(31,515)	(7,863)	-	(249,708)		
Depreciation charge for the year - note 4.2	-	-	-	36,982	13,086	2,414	-	-	6,139	15,282	17,544	5,544	-	-	96,991		
Impairment for the year - note 4.8	-	3,560	3,027	177,647	69,698	31,431	-	273	69,080	83,999	140,461	96,551	14,922	-	690,649		
Closing net book value	97,009	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 December 31, 2012																	
Cost	97,009	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	97,009	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		
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	-	25		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

4.2 The depreciation charge for the year has been allocated as follows:

	2013	2012
	(Rupees '000)	
Cost of products sold - note 23	32,222	28,784
Administrative expenses - note 25	588,587	661,865
	620,809	690,649

4.3 The Company's assets include tanks, dispensing pumps and electrical equipments having a cost of Rs. 2,794,488 thousand (2012: Rs. 2,635,876 thousand) which have been installed at dealer sites. Although the Companies Ordinance, 1984 under the Fourth Schedule requires the disclosure of assets owned by the Company but not in its possession, the same has not been reproduced here due to the significant number of dealers and assets involved.

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	24,665	19,721	4,944	1,579	(3,365)	Negotiation	Note 4.5
Tanks and pipelines	16,011	7,323	8,688	5,545	(3,143)	Negotiation	Note 4.5
Dispensing pumps	13,341	8,023	5,318	5,006	(312)	Negotiation	Note 4.5
Electrical, mechanical and fire fighting equipment	18,894	9,307	9,587	6,135	(3,452)	Negotiation	Note 4.5
Rolling stock and vehicles	1,269	1,132	137	508	371		Faisal Aleem
	1,269	824	445	698	253		Fida-E-Hassan Zaidi
	1,389	1,339	50	556	506		Habib Haider
	1,269	1,200	69	508	439		Ifrikhar Ali Khan
	1,319	1,200	119	528	409		Ifrikhar Aslam
	1,289	537	752	1,350	598		Junaid A. Khan
	1,269	1,153	116	587	471		Khwaja Junaid Masleh
	1,389	1,313	76	556	480		Maujadaduddin
	539	162	377	581	204	By Company	Asif Mehmood
	539	162	377	586	209	policy to	Mehmood Hussain
	1,617	485	1,132	1,723	591	existing /	Mohammad Yameen
	12,397	8,678	3,719	8,268	4,549	separating	Syed Riaz Ahmed
	3,234	2,264	970	3,482	2,512	executives	Zulfiqar Ahmed Khan
	1,239	1,043	196	496	300		Mudassir Mahmood
	1,389	1,313	76	556	480		Mujtaba Hussain
	1,269	1,176	93	508	415		Naeem Khan
	1,289	752	537	671	134		Salman Asif
	1,269	1,129	140	508	368		Shuja Khan
	1,389	1,313	76	556	480		Sohail Riaz
	1,269	1,200	69	508	439		Syed Muhammad Haris
	1,859	1,659	200	744	544		Tauseef Ul Islam

4.5 These represent disposals to various retail site dealers. Although the Companies Ordinance, 1984 under the Fourth Schedule requires the disclosure of particulars of disposals above Rs. 50,000, the same has not been reproduced here due to the significant number of dealers and assets involved.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

4.6 Disposals / write offs of fixed assets include assets written off having a cost of Rs. 318,957 thousand (2012: Rs. 263,857 thousand) and a net book value of Rs. 77,606 thousand (2012: Rs. 71,338 thousand). Although the Companies Ordinance, 1984 under the Fourth Schedule requires the disclosure of particulars of write offs, the same has not been reproduced here due to the significant number of assets involved.

4.7 Capital work-in-progress	2013	2012
	(Rupees '000)	
Buildings on leasehold land	450,253	336,837
Tanks and pipelines	1,486	58,707
Plant and machinery	239,387	144,366
Electrical, mechanical and fire fighting equipments	35,479	25,450
Furniture, office equipment and other assets	3,532	554
Rolling stocks & vehicles	449	-
	730,586	565,914

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. 88,144 thousand (2012: Rs. 291,642 thousand) has been recognized in Other Operating Expenses (note 26), as summarized below:

	2013	2012
	(Rupees '000)	
Balance at the beginning of the year	374,213	82,571
Provision made during the year		
- CNG assets - note 4.8.1	144,015	200,000
- Other than CNG assets - note 4.8.2	53,823	91,642
	197,838	291,642
Amount reversed during the year	(109,694)	-
	88,144	291,642
Balance at the end of the year	462,357	374,213

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

5. INTANGIBLE ASSETS – Computer software	2013 <u>(Rupees '000)</u>	2012 <u>(Rupees '000)</u>
As at January 1		
Cost	1,933,497	1,933,497
Accumulated amortization	<u>(1,001,630)</u>	<u>(612,392)</u>
Net book value	<u>931,867</u>	<u>1,321,105</u>
Year ended December 31		
Opening net book value	931,867	1,321,105
Write offs:		
- Cost	20,926	-
- Accumulated amortization	<u>(20,926)</u>	<u>-</u>
	-	-
Amortization charge - notes 5.1 and 25	<u>(373,517)</u>	<u>(389,238)</u>
Closing net book value	<u>558,350</u>	<u>931,867</u>
As at December 31		
Cost	1,912,571	1,933,497
Accumulated amortization	<u>(1,354,221)</u>	<u>(1,001,630)</u>
Net book value	<u>558,350</u>	<u>931,867</u>

5.1 The cost is being amortized over a period of 5 years. The remaining amortization period of computer software is 2 years.

6. LONG-TERM INVESTMENTS	2013		2012	
	Percentage Holding	Amount (Rupees '000)	Percentage Holding	Amount (Rupees '000)
Investment in associate - unquoted				
Pak-Arab Pipeline Company Limited (PAPCO)				
18,720,000 (2012: 18,720,000)				
ordinary shares of Rs. 100 each - note 6.1	26	3,065,286	26	2,984,350
Others - held as available-for-sale - at cost				
Arabian Sea Country Club Limited 500,000				
(2012: 500,000) ordinary shares of				
Rs. 10 each	5	5,000	5	5,000
		<u>3,070,286</u>		<u>2,989,350</u>

6.1 Movement of investment in associate	2013 <u>(Rupees '000)</u>	2012 <u>(Rupees '000)</u>
Balance at the beginning of the year	2,984,350	2,744,610
Share of profit	845,897	1,107,750
Share of taxation	<u>(291,109)</u>	<u>(387,551)</u>
	554,788	720,199
Dividend received	<u>(473,852)</u>	<u>(480,459)</u>
Balance at the end of the year	<u>3,065,286</u>	<u>2,984,350</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

Pak-Arab Pipeline Company Limited (PAPCO), incorporated in Pakistan, commenced its commercial operations in March 2005 as a joint venture between Pak-Arab Refinery Limited (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, 2013, whereas revenues and total comprehensive income for the year is based on audited financial statements for the years ended June 30, 2013 and June 30, 2012 and unaudited financial information for the half years ended December 31, 2013, December 31, 2012 and December 31, 2011.

	2013	2012
	(Rupees '000)	
Total assets	<u>20,576,965</u>	<u>21,872,802</u>
Total liabilities	<u>8,799,809</u>	<u>10,394,533</u>
Revenues	<u>5,846,902</u>	<u>6,988,903</u>
Total comprehensive income	<u>2,133,798</u>	<u>2,769,993</u>

Share of contingent liabilities based on the latest financial statements of PAPCO for the six months ended December 31, 2013 amounts to Rs. 18,328 thousand (December 31, 2012: Rs. 17,187 thousand).

7. LONG-TERM LOANS AND ADVANCES - Considered good

	2013	2012
	(Rupees '000)	
Due from Directors - notes 7.1, 7.2 and 7.3	-	1,282
Receivable within one year - note 13	-	(1,282)
	-	-
Due from Executives - notes 7.1, 7.2 and 7.3	81,854	160,160
Receivable within one year - note 13	(46,055)	(65,176)
	35,799	94,984
Due from Employees - note 7.2	14,254	9,428
Receivable within one year - note 13	(6,910)	(5,559)
	7,344	3,869
	<u>43,143</u>	<u>98,853</u>

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

	2013		2012	
	Directors	Executives	Directors	Executives
	(Rupees '000)			
Balance at the beginning of the year	1,282	160,160	2,681	129,725
Disbursements	-	4,877	-	125,945
Repayments	(1,282)	(83,183)	(1,399)	(95,510)
Balance at the end of the year	<u>-</u>	<u>81,854</u>	<u>1,282</u>	<u>160,160</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

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 (2012: Nil), Rs. 1,166 thousand (2012: Rs. 2,565 thousand) and Rs. 145,369 thousand (2012: Rs. 252,193 thousand) respectively. The loans to Directors represent key management personnel loans outstanding at year end.

8. LONG-TERM DEPOSITS AND PREPAYMENTS

	2013	2012
	(Rupees '000)	
Deposits	124,195	111,293
Prepayments	72,960	88,658
	<u>197,155</u>	<u>199,951</u>

9. LONG-TERM DEBTORS

Long-term debtors - notes 9.1 and 12	<u>-</u>	<u>1,216</u>
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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. These have been fully recovered during the year.

10. DEFERRED TAXATION

	2013	2012
	(Rupees '000)	
		(Restated)
This is composed of the following:		
Taxable temporary difference arising in respect of:		
- accelerated tax depreciation	(842,889)	(959,427)
- investment in associate	(119,329)	(111,235)
Deductible temporary difference arising in respect of:		
- short-term provisions	636,498	625,765
- carry forward tax losses - note 10.1	958,356	1,182,454
	<u>632,636</u>	<u>737,557</u>

10.1 Deferred income tax asset is recognized for tax losses available for carry-forward, but only for portion for which the realization of the related tax benefit is probable through future taxable profits. The aggregate unutilized tax losses as at December 31, 2013 amount to Rs. 4,865,464 thousand (2012: Rs. 6,845,699 thousand), inclusive of business loss of Rs. 3,050,913 thousand. Of the aforementioned aggregate of unutilized losses, the management has recognized a deferred income tax asset on losses amounting to Rs. 2,818,695 thousand (2012: Rs. 3,378,440 thousand), based on recent projections of future taxable profits of the Company. Tax losses in respect of business are available for utilization against future taxable profits till December 31, 2014. The management reviews realizability of deferred tax asset on half yearly basis.

10.2 The Company has not recognized deferred tax asset on minimum tax available for carry forward, as explained in note 29.1.

10.3 As at December 31, 2013, deferred tax asset / liability on deductible / taxable temporary differences has been recognized at the rate of 34% being the rate substantively enacted at the balance sheet date and is expected to apply to the periods when the asset is realized or the liability is settled.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

11. STOCK-IN-TRADE	2013 <u>(Rupees '000)</u>	2012 <u>(Rupees '000)</u>
Raw and packing materials	1,560,300	1,391,642
Provision for impairment - note 11.5	<u>(19,500)</u>	<u>(19,500)</u>
	1,540,800	1,372,142
Finished products		
- in hand and in pipeline system - notes 11.1, 11.3 and 11.4	10,964,410	9,735,549
- in White Oil Pipeline - notes 11.2 and 11.3	5,362,573	6,274,034
	16,326,983	16,009,583
Provision for impairment - note 11.5	<u>(49,371)</u>	<u>(28,211)</u>
	16,277,612	15,981,372
	17,818,412	17,353,514

11.1 Includes stock-in-transit amounting to Rs. 248,685 thousand (2012: Rs. 19,014 thousand).

11.2 Stock in White Oil Pipeline includes High Speed Diesel amounting to Rs. 3,542,715 thousand (2012: Rs. 4,448,875 thousand) which has been maintained as line fill necessary for the pipeline to operate.

11.3 Finished goods include bonded stock amounting to Rs. 1,225,558 thousand (2012: Rs. 829,197 thousand).

11.4 The above balance includes items costing Rs. 118,891 thousand (2012: Rs. 74,775 thousand) which have been valued at their net realizable value amounting to Rs. 116,142 thousand (2012: Rs. 74,301 thousand).

11.5 The movement in the provision for expired / obsolete stock is as follows:

	2013 <u>(Rupees '000)</u>	2012 <u>(Rupees '000)</u>
Balance at the beginning of the year	47,711	26,605
Provision made during the year	68,871	47,711
Amounts reversed / utilised during the year	<u>(47,711)</u>	<u>(26,605)</u>
Balance at the end of the year	68,871	47,711

12. TRADE DEBTS

Considered good

- Secured - note 12.1
- Unsecured

522,902	350,215
1,736,268	1,657,554
2,259,170	2,007,769

Considered doubtful
Trade debts - gross

633,566	633,102
2,892,736	2,640,871

Provision for impairment - note 12.3 and 12.5
Trade debts - net

<u>(633,566)</u>	<u>(633,102)</u>
2,259,170	2,007,769

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

The above trade debts are classified as follows:

	2013		
	Long-term (note 9)	Short-term	Total
	(Rupees '000)		
Trade debts - gross	-	2,892,736	2,892,736
Provision for impairment - note 12.3	-	(633,566)	(633,566)
	-	2,259,170	2,259,170

	2012		
	Long-term (note 9)	Short-term	Total
	(Rupees '000)		
Trade debts - gross	1,795	2,639,076	2,640,871
Provision for impairment - note 12.3	(579)	(632,523)	(633,102)
	1,216	2,006,553	2,007,769

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

12.2 Amount due from related parties, included in trade debts, are as follows:

	Past due				2013	2012
	Neither past due nor impaired	Upto 1 month	1 to 6 month	More than 6 month		
	(Rupees '000)					
Unilever Pakistan Limited	25,230	131	-	-	25,361	14,431
Unilever Pakistan Foods Limited	3,345	-	-	-	3,345	-
Novartis Pharma (Pakistan) Limited	231	-	-	-	231	215
Wyeth Pakistan Limited	-	-	-	91	91	91
Roche Pakistan Limited	41	-	-	-	41	57
The American Business Council	28	-	-	-	28	29
	28,875	131	-	91	29,097	14,823
Less : Provision for impairment					(91)	(91)
Net receivable from related parties					29,006	14,732

Based on past experience, past track record and recoveries, the Company believes that the above past due trade debts do not require any provision for impairment except as provided in these financial statements.

12.3 Provision for impairment

	2013	2012
	(Rupees '000)	
Balance at the beginning of the year	633,102	671,251
Provision made during the year - note 26	8,661	73,191
Amounts reversed during the year - note 27	(7,495)	(84,721)
Amounts written off / reclassified during the year	(702)	(26,619)
Balance at the end of the year	633,566	633,102

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

12.4 As at December 31, 2013, trade receivables aggregating to Rs. 393,239 thousand (2012: Rs. 162,009 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:

	2013 ————— (Rupees '000)	2012 —————
Upto 1 month	279,678	47,171
1 to 6 months	92,367	27,935
More than 6 months	21,194	86,903
	<u>393,239</u>	<u>162,009</u>

12.5 As at December 31, 2013, trade receivables of Rs. 633,566 thousand (2012: Rs. 633,102 thousand) were impaired and provided for. The ageing of these receivables is as follows:

	2013 ————— (Rupees '000)	2012 —————
Upto 6 months	8,098	3,750
More than 6 months	625,468	629,352
	<u>633,566</u>	<u>633,102</u>

13. LOANS AND ADVANCES - Considered good

Current portion of long-term loans due from - note 7		
- Directors	-	1,282
- Executives	46,055	65,176
- Employees	6,910	5,559
	<u>52,965</u>	<u>72,017</u>
Advances to employees	78,447	9,044
	<u>131,412</u>	<u>81,061</u>

14. OTHER RECEIVABLES

	2013 ————— (Rupees '000)	2012 (Restated) —————
Petroleum development levy and other duties - note 14.1	2,305,669	2,306,044
Price differential claims		
- on imported purchases - note 14.2	295,733	295,733
- on high speed diesel (HSD) - note 14.3	343,584	343,584
- on imported motor gasoline - note 14.4	2,071,107	1,961,211
Sales tax refundable - note 14.5	1,655,379	4,737,218
Inland freight equalisation mechanism	352,909	127,243
Service cost receivable from related parties - note 14.6	74,632	89,270
Service cost receivable from associated company - PAPCO	12,083	7,935
Staff retirement benefit schemes	751,489	335,181
Taxes recoverable - note 14.7 and 21.1.2	949,742	646,629
Others	5,533	37,794
	<u>8,817,860</u>	<u>10,887,842</u>
Provision for impairment	(223,225)	(222,671)
	<u>8,594,635</u>	<u>10,665,171</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

- 14.1** This includes petroleum development levy recoverable amounting to Rs. 2,295,879 thousand (2012: Rs. 2,296,433 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 thereof. The GoP sought certain information which has been duly provided by the Company. The FBR through the Large Taxpayer Unit (LTU) has completed the verification exercise for claims amounting to Rs. 604,939 thousand which have been forwarded to the Ministry of Finance for processing. The remaining claims are under verification. The Company is confident of 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 which was based on rates notified by GoP to subsidize petroleum prices by restricting the increase in prices in order to reduce the burden of rising oil prices on the end consumers.
- 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 Ministry of Petroleum and Natural Resources (MoPNR) with a proposal for pricing mechanism whereby end consumer price of motor gasoline was proposed to be fixed at weighted average of ex-refinery (import parity) price and landed cost of imported product. Despite no response from the MoPNR, the Company along with another oil marketing company continued to import motor gasoline on behalf of the industry being confident that price differential on motor gasoline, will be settled as per previous practice i.e. based on the differential between ex-refinery and import cost at the time of filing of cargo with Customs, as imports were being made on MoPNR instructions.

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

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

The Company, during the year, has also approached MoPNR through letter dated May 20, 2013 requesting an early settlement of the claim amounting to Rs. 109,896 thousand in respect of this import. On June 6, 2013, MoPNR requested that an audited claim be submitted to allow further consideration and resolution of the matter. The Company has accordingly submitted audit report thereafter in support thereof and being confident of recovering this amount in full has recognized the claim as receivable in these financial statements.

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

- 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. 2,469,495 thousand in respect of these claims.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

14.6	Amounts due from related parties, included in other receivables, are as follows:	2013	2012
		—————	—————
		(Rupees '000)	
	Shell Nigeria Exploration and Production Company Limited	1,529	-
	Shell Aviation Limited	1,173	-
	Euroshell International BV	1,784	-
	Shell International Petroleum Company Limited	29,896	11,065
	Shell International Limited	-	4,021
	Shell Development & Offshore Pakistan BV	-	800
	Shell Markets (Middle East) Limited	-	10,358
	Shell Eastern Petroleum (Pte) Limited	-	1,826
	Shell Polska Limited	-	353
	Shell China Limited	-	11,813
	Shell Malaysia Trading SDN	126	12,126
	Superkad Services SDN BHD	10,042	9,268
	Shell EP International Limited	3,202	4,538
	Others	26,880	23,102
		74,632	89,270

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

14.8 As at December 31, 2013, receivables aggregating to Rs. 2,710,424 thousand (2012: Rs. 2,600,528 thousand) were past due but not impaired. These relate to receivable from Government of Pakistan.

15.	CASH AND BANK BALANCES	2013	2012
		—————	—————
		(Rupees '000)	
	Balances with banks	803,941	2,098,022
	- current account	40,212	1,277,705
	- savings account - note 15.1	844,153	3,375,727
	Cash in hand	14,237	12,758
		858,390	3,388,485

15.1 Balances with banks carry interest at the rate of 7% (2012: 6%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

16. SHARE CAPITAL

16.1 Authorised capital

2013	2012		2013	2012
(Number of shares)			(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

2013			2012				2013	2012
Issued for cash	Issued as bonus share	Total	Issued for cash	Issued as bonus share	Total		(Rupees '000)	
(Number of shares)								
23,481,000	-	23,481,000	23,481,000	-	23,481,000	Fully paid in cash	234,810	234,810
-	62,128,865	62,128,865	-	62,128,865	62,128,865	Issued as fully paid bonus shares	621,290	621,290
<u>23,481,000</u>	<u>62,128,865</u>	<u>85,609,865</u>	<u>23,481,000</u>	<u>62,128,865</u>	<u>85,609,865</u>		<u>856,100</u>	<u>856,100</u>

16.3 The Shell Petroleum Company Limited, United Kingdom (immediate parent), a subsidiary of Royal Dutch Shell Plc. (ultimate parent), held 65,154,962 (2012: 65,154,962) ordinary shares of Rs. 10 each at December 31, 2013.

17. ASSET RETIREMENT OBLIGATION

	2013	2012
	(Rupees '000)	
Balance at the beginning of the year	339,596	189,351
Obligation recognised in respect of:		
- change in estimate - note 17.1	(4,263)	123,791
- additions	-	18,247
	(4,263)	142,038
Reversal of liability - note 27	(20,596)	(2,825)
Accretion expense - note 28	19,354	11,032
	(1,242)	8,207
Balance at the end of the year	334,091	<u>339,596</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

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	2013	2012 (Restated)
	(Rupees '000)	
Creditors - note 18.1	20,990,907	18,997,173
Oil marketing companies	7,607	7,607
Accrued liabilities	3,061,333	3,981,959
Excise and customs duties and development surcharge	18,508	51,416
Dealers' and customers' security deposits - note 18.2	546,018	529,372
Advances received from customers	1,334,588	1,723,140
Provision for post retirement medical benefits - note 31.2.2	79,840	77,544
Staff retirement benefit schemes	-	404,081
Workers' welfare fund	307,743	265,463
Workers' profits participation fund - note 18.3	24,518	1,940
Unclaimed dividends	107,347	107,401
Other liabilities - note 18.4	48,233	81,456
	<u>26,526,642</u>	<u>26,228,552</u>

18.1 This includes amounts due to the following related parties:	2013	2012
	(Rupees '000)	
Pakistan Refinery Limited	1,191,646	1,846,150
Shell International Petroleum Company Limited	8,724,489	5,487,008
Shell International Trading Middle East	735,881	1,128,008
Shell Lubricants Supply Company	366,323	491,964
Shell International BV	372,813	298,344
Shell Information Technology	757,844	452,150
Shell Eastern Trading (Pte) Limited	53,024	169,708
Shell Deutschland Oil GmbH	8,619	7,955
Shell Business Service Centre	330,894	198,885
Shell Shared Services (Asia) BV	339,811	203,046
Shell & Turcas Petrol A.S.	10,736	9,371
Shell People Services Asia SDN BHD	41,088	27,363
Shell Aviation Limited	928,350	1,625,283
Euroshell cards BV	44,278	53,985
Shell Brands International AG	239,933	-
SBSC Glasgow	238,322	-
Other related parties	107,532	47,346
	<u>14,491,583</u>	<u>12,046,566</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

18.3 Workers' profits participation fund	2013	2012
	(Rupees '000)	
Balance at the beginning of the year	1,940	11,441
Allocation for the year - note 26	100,630	-
	102,570	11,441
Amount paid during the year	(78,052)	(9,501)
Balance at the end of the year	24,518	1,940

18.4 Other liabilities include Rs. 35,316 thousand (2012: Rs. 80,056 thousand) in respect of termination benefits payable to employees under a staff redundancy plan finalized 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	2013	2012
	(Rupees '000)	
Mark-up / interest accrued on:		
- short-term running finances utilized under mark-up arrangements	16,247	44,225
- short-term loans	490	8,224
	16,737	52,449

20. SHORT-TERM BORROWINGS - Secured

Running finances utilized under mark-up arrangements - note 20.1	4,448,020	-
Loans - note 20.2	1,710,000	12,170,000
	6,158,020	12,170,000

20.1 The facilities for short-term running finances available from various banks aggregate to Rs. 38,405,000 thousand (2012: Rs 38,405,000 thousand). The rates of mark-up range from Re. 0.2641 to Re. 0.2918 per Rs. 1,000 per day (2012: Re. 0.2726 to Re. 0.3255 per Rs. 1,000 per day). These arrangements are secured by hypothecation of the Company's present and future stock-in-trade, trade debts and other receivables.

20.2 As at December 31, 2013, the amount represents loan obtained from MCB Bank Limited and carries mark-up at 10.46% (2012: 9.55% to 9.70%) per annum. The loan, secured by hypothecation of the Company's stock-in-trade, trade debts and other receivables, was repaid on January 2, 2014.

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. On July 1, 2013, Sindh Assembly has amended the Sindh Finance Act, 1994 through legislation of Sindh Finance Act, 2013 according to which infrastructure fee will range from 0.90% to 0.95% of total value of goods as assessed by the Customs Authorities plus one paisa per kilometer against various slabs of net weight of goods.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

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, 2013 at Rs. 52,993 thousand (2012: Rs. 42,493 thousand). However, the eventual obligation on account of the aggregate fee, if any, cannot be ascertained presently because of uncertainty in relation to the extent of its application to the Company. For these reasons and based on legal advice obtained, no provision has been made in these financial statements against the levy as the management expects a favourable outcome.

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. In 2012, both CIR (Appeals) and ATIR have decided the case against the Company. The Company in response to this order of ATIR has filed an appeal before High Court of Sindh which is pending hearing.

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

21.1.2.2 In 2012, the Company received a demand from tax authorities in respect of tax year 2004 amounting to Rs. 161,057 thousand. The demand principally arose due to addition made by assessing officer in respect of allocation of common expenses, disallowance of software cost claimed as revenue expenditure and credit disallowed in respect of income derived from Azad Kashmir. The Company in response to the order deposited an amount of Rs. 29,106 thousand and filed a rectification application and an appeal with CIR (Appeals). The tax officer rectified the order allowing Azad Kashmir tax credit and partial relief on amortization of software cost reducing the tax demand to Rs. 109,895 thousand after taking into consideration Rs. 29,106 thousand already deposited on this account. Thereafter, the Company made a payment of

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Rs. 100,000 thousand under protest against the rectified order and filed another rectification application and appeal before CIR (Appeals). The tax officer provided further relief in the revised rectified order on account of software cost which resulted in a net tax refund of Rs.733 thousand after taking into consideration the payments already made in this regard. The revised rectified order still contains certain mistakes for which the Company has filed another rectification application which is still pending.

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

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

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 including penalty through several orders. In 2012 and 2013, the tax authorities also conducted sales tax and federal excise duty audit for period July 2009 to December 2009 and January 2011 and December 2011 and raised additional sales tax and federal excise duty demands amounting to Rs. 1,093,370 thousand and Rs. 2,902,486 thousand including penalty, respectively.

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

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

The sales tax appeal for the period January 2011 to December 2011 has been decided by the CIR (Appeals). The CIR (Appeals) in his order has set-aside all matters involved in appeal and has directed the tax authorities to re-examine the same in line with his directives. The Company filed an appeal on the matter before the ATIR, which in its order issued subsequent to the balance sheet date, has maintained the stance taken by CIR (Appeals). The Company in response to the order of ATIR, filed a reference application with High Court of Sindh, which through an ad-interim order has restrained tax authority from passing an order.

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

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

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

21.1.4 Others

The amount of other claims against the Company not acknowledged as debt as at December 31, 2013 aggregate to approximately Rs. 2,385,953 thousand (2012: Rs. 2,755,792 thousand). This includes claims by refineries, amounting to Rs. 1,093,733 thousand (2012: Rs. 1,090,529 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, 2013 amounted to approximately Rs. 340,555 thousand (2012: Rs. 229,567 thousand).

21.2.2 Commitments for rentals of assets under operating lease agreements as at December 31, 2013 amounted to Rs. 2,843,019 thousand (2012: Rs. 2,652,712 thousand) payable as follows:

	2013	2012
	(Rupees '000)	
Not later than one year	164,621	150,685
Later than one year and not later than five years	639,735	607,538
Later than five years	2,038,663	1,894,489
	<u>2,843,019</u>	<u>2,652,712</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, 2013, the value of these cheques amounted to Rs. 5,603,246 thousand (2012: Rs. 4,070,188 thousand). The maturity dates of these cheques extend to June 28, 2014 (2012: June 18, 2013).

21.2.4 Letters of credit and bank guarantees outstanding at December 31, 2013 amount to Rs. 3,907,215 thousand (2012: Rs. 4,689,651 thousand).

22. SALES (INCLUSIVE OF SALES TAX)

	2013	2012
	(Rupees '000)	
Gross sales		
- Local	287,888,127	245,479,000
- Export	1,301,337	2,323
	<u>289,189,464</u>	245,481,323
Less: Trade discounts and rebates	1,197,542	1,164,448
	<u>287,991,922</u>	<u>244,316,875</u>

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23. COST OF PRODUCTS SOLD	2013	2012
	(Rupees '000)	
Opening stock of raw and packing materials	1,372,142	864,352
Raw and packing materials purchased	7,894,009	7,644,615
Closing stock of raw and packing materials - note 11	<u>(1,540,800)</u>	<u>(1,372,142)</u>
Raw and packing materials consumed	7,725,351	7,136,825
Manufacturing expenses	<u>272,221</u>	276,158
Cost of products manufactured	7,997,572	7,412,983
Opening stock of finished products	15,981,372	16,982,870
Finished products purchased	206,367,033	173,532,289
Duties and levies - note 23.1	23,769,120	21,574,675
Closing stock of finished products - note 11	<u>(16,277,612)</u>	<u>(15,981,372)</u>
	<u>237,837,485</u>	<u>203,521,445</u>
23.1 Duties and levies		
Petroleum development levy	17,547,843	15,018,168
Customs and excise duty	380,940	1,122,238
Inland freight equalization margin	5,431,556	4,551,237
Freight on non-equalized products	170,537	368,730
Others	238,244	514,302
	<u>23,769,120</u>	<u>21,574,675</u>
24. DISTRIBUTION AND MARKETING EXPENSES		
Salaries, wages and benefits - note 24.1	861,588	1,099,304
Staff training	17,575	1,409
Stores and materials	12,111	27,923
Fuel and power	76,400	54,238
Rent, taxes and utilities	381,880	423,651
Repairs and maintenance	409,793	288,943
Insurance	8,768	17,942
Travelling	182,810	207,255
Advertising and publicity	412,214	289,473
Legal and professional charges	115,530	41,857
Communication and stationery	38,116	68,460
Computer expenses	85,165	53,191
Storage and other charges	169,615	140,899
Others	46,860	1,357
	<u>2,818,425</u>	<u>2,715,902</u>
Handling and storage charges recovered	<u>(40,129)</u>	<u>(49,827)</u>
Secondary transportation expenses	589,988	563,067
	<u>3,368,284</u>	<u>3,229,142</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

24.1 Salaries, wages and benefits include charge of Rs. 106,047 thousand and curtailment gain of Rs. 195,323 thousand (2012: charge of Rs. 92,155 thousand and curtailment loss of Rs. 2,476 thousand) in respect of staff retirement benefits.

25. ADMINISTRATIVE EXPENSES

	2013	2012
	(Rupees '000)	
Salaries, wages and benefits - note 25.1	374,627	532,084
Staff training	44,755	13,555
Stores and materials	5,930	2,794
Fuel and power	6,499	21,216
Rent, taxes and utilities	22,798	10,348
Repairs and maintenance	32,408	29,185
Insurance	38,042	36,974
Travelling	42,858	31,166
Advertising and publicity	14,215	3,839
Technical service fee	1,484,300	1,287,454
Trade marks and manifestations license fee	281,392	279,292
Legal and professional charges	350,395	434,391
Communication and stationery	380,298	425,373
Computer expenses	110,308	26,736
Depreciation - note 4.2	588,587	661,865
Amortization - note 5	373,517	389,238
	4,150,929	4,185,510
Costs recovered under Service Level Agreement from related parties	(12,000)	(14,381)
	4,138,929	4,171,129

25.1 Salaries, wages and benefits include charge of Rs. 46,110 thousand and curtailment gain of Rs. 84,928 thousand (2012: charge of Rs. 44,604 thousand and curtailment loss of Rs. 1,199 thousand) in respect of staff retirement benefits.

26. OTHER OPERATING EXPENSES

	2013	2012
	(Rupees '000)	
Workers' profits participation fund - note 18.3	100,630	-
Workers' welfare fund	42,280	-
Exchange loss	1,414,008	877,075
Provision for impairment of trade debts - note 12.3	8,661	73,191
Trade debts written off directly	22,298	-
Provision for impairment of operating assets - note 4.8	88,144	291,642
Write off of operating assets - note 4.6	77,606	71,338
Auditors' remuneration - note 26.1	4,454	3,993
Donations - note 26.2	9,393	13,410
	1,767,474	1,330,649

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

26.1 Auditor's remuneration	2013	2012
	(Rupees '000)	
Audit fee	3,360	3,200
Fee for substantiating Inland Freight Equalization Margin	125	63
Audit of retirement benefit funds	455	310
Special certifications and sundry advisory services	125	125
Out of pocket expenses	389	295
	<u>4,454</u>	<u>3,993</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	2013	2012
		(Rupees '000)	
Shell LiveWIRE Trust (Shell House, 6 Ch. Khaliqzaman Road, Karachi)	Omar Sheikh - Chairman Board of Trustees Rafi H Basheer - Trustee (2012: Omar Sheikh / Sarim Sheikh - Chairman Board of Trustees Rafi H Basheer - Trustee)	2,000	2,000
The Layton Rahmatulla Benevolent Trust (37-C, Phase II, Sunset Lane No. 4, DHA, Karachi)	Farrokh K Captain - Trustee (2012: Farrokh K Captain - Trustee)	2,000	2,000
The Kidney Centre Post Graduate Training Institute (172/R, Rafiqi Shaheed Road, Karachi)	Omar Sheikh - Member, Board of Governors Nasser N S Jaffer - Member, Board of Governors (2012: Omar Sheikh - Member, Board of Governors Nasser N S Jaffer - Member, Board of Governors)	1,000	1,000

27. OTHER INCOME

Income from financial assets

Reversal of provision for impairment of trade debts - note 12.3	7,495	84,721
Mark-up / interest on short-term deposits	58,472	18,791

Income from non-financial assets

Gain on disposal of operating assets	26,017	13,536
Reversal of asset retirement obligation - note 17	20,596	2,825
Liabilities no longer payable written back	88,876	91,909
Shell card income	64,350	51,857
Sundries	34,231	106,891
	<u>300,037</u>	<u>370,530</u>

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28. FINANCE COSTS

	2013	2012
	(Rupees '000)	
Bank charges	194,838	195,877
Accretion expense - note 17	19,354	11,032
Mark-up / interest on short-term borrowings	317,959	1,427,409
	<u>532,151</u>	<u>1,634,318</u>

29. TAXATION

	2013	2012
	(Rupees '000)	
		(Restated)
Current		
- for the year		
- final tax	95,029	103,730
- minimum turnover tax - note 29.1	1,116,016	980,833
- for prior years	47,366	197,868
	<u>1,258,411</u>	<u>1,282,431</u>
Deferred	104,921	657,127
	<u>1,363,332</u>	<u>1,939,558</u>

29.1 This represents minimum tax @ 0.5% of taxable turnover. Minimum tax is adjustable against the tax liability of succeeding five years. The Company however, on prudence, has not recognized the related deferred tax asset in view of unutilized tax losses available for set off against future taxable income, as explained in note 10.2. As at December 31, 2013, minimum tax which is available for adjustment against the future tax liability and not recognized as tax asset aggregates to Rs. 4,067,710 thousand (2012: Rs. 2,951,694 thousand).

29.2 Relationship between tax expense and accounting profit

	2013	2012
	(Rupees '000)	
		(Restated)
Accounting profit before taxation	<u>2,424,493</u>	<u>4,656</u>
Tax rate	34%	35%
Tax on accounting profit	824,328	1,630
Tax effect of income under final tax regime	(48,269)	(19,013)
Tax impact on account of lower tax rate on share of profit of associate	(141,243)	(204,024)
Prior years charge	47,366	197,868
Minimum tax	1,116,016	980,833
(Recognition) / Reversal of deferred tax asset - net	(477,677)	950,851
Impact of change in tax rate	24,251	-
Others	18,560	31,413
Tax expense for the year	<u>1,363,332</u>	<u>1,939,558</u>

NOTES TO THE FINANCIAL STATEMENTS

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30. EARNINGS / (LOSS) PER SHARE

30.1 Basic / Diluted	2013	2012 (Restated)
	(Rupees '000)	
Profit / (Loss) after taxation attributable to ordinary shareholders	<u>1,061,161</u>	<u>(1,934,902)</u>
	No. of Shares	
Weighted average number of ordinary shares in issue during the year	<u>85,609,865</u>	<u>85,609,865</u>
	Rupees (Restated)	
Earnings / (Loss) per share	<u>12.40</u>	<u>(22.60)</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, 2013.

During the year, the Company set up a new defined contribution pension fund, effective January 1, 2013, for its management staff. Members of the existing defined benefit pension and gratuity schemes were given the option to join the new defined contribution fund in return for voluntarily relinquishing membership of the existing schemes. The bifurcation of funds is based on actuarial valuations as of January 1, 2013.

31.1.1 Actuarial assumptions

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

	2013	2012
	% per annum	
- Expected rate of increase in future salaries	10.00	11.25
- Discount rate	13.00	11.50
- Expected rate of return on plan assets	13.00	11.50

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31.1.2 Balance sheet reconciliation

	2013					2012 (Restated)				
	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	1,657,252	(244,796)	13,306	105,778	1,531,540	2,275,470	(170,966)	12,162	89,584	2,206,250
Present value of defined benefit obligation - note 31.1.4	(1,169,806)	(73,013)	-	(72,892)	(1,315,711)	(2,156,804)	(372,508)	-	(81,019)	(2,610,331)
Asset / (liability) in respect of staff retirement benefit schemes	487,446	(317,809)	13,306	32,886	215,829	118,666	(543,474)	12,162	8,565	(404,081)

31.1.3 Movement in the fair value of plan assets

	2013					2012 (Restated)				
	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	2,275,470	(170,966)	12,162	89,584	2,206,250	2,083,112	(132,408)	11,701	83,158	2,045,563
Expected return on plan assets	182,394	(37,362)	1,399	9,943	156,374	251,274	(20,530)	1,287	10,199	242,230
Contribution by the Company	81,627	20,393	-	-	102,020	103,613	25,790	-	-	129,403
Contribution by the employees	9,613	-	-	-	9,613	12,282	-	-	-	12,282
Benefits paid during the year	(99,131)	(18,943)	-	(7,334)	(125,408)	(93,592)	(105,392)	-	(3,228)	(202,212)
Interfund transfer	(760,105)	(80,576)	-	1,086	(839,595)	-	-	-	-	-
Remeasurement of plan assets	(32,616)	42,658	(255)	12,499	22,286	(81,219)	61,574	(826)	(545)	(21,016)
Fair value of plan assets at the end of the year	1,657,252	(244,796)	13,306	105,778	1,531,540	2,275,470	(170,966)	12,162	89,584	2,206,250

31.1.4 Movement in the present value of defined benefit obligations

	2013					2012 (Restated)				
	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	2,156,804	372,508	-	81,019	2,610,331	1,624,845	303,367	-	71,026	1,999,238
Current service cost	33,323	9,425	-	2,886	45,634	66,303	29,487	(100)	3,471	99,161
Interest cost	143,673	11,564	-	8,958	164,195	211,085	28,431	-	9,030	248,546
Benefits paid during the year	(99,131)	(18,943)	-	(7,334)	(125,408)	(93,592)	(105,392)	-	(3,228)	(202,212)
Remeasurement on obligation	(206,953)	(38,519)	-	(13,723)	(259,195)	336,480	124,623	100	720	461,923
Curtailements loss / (gain)	(225,717)	(54,534)	-	-	(280,251)	11,683	(8,008)	-	-	3,675
Interfund transfer	(632,193)	(208,488)	-	1,086	(839,595)	-	-	-	-	-
Present value of obligation at the end of the year	1,169,806	73,013	-	72,892	1,315,711	2,156,804	372,508	-	81,019	2,610,331

31.1.5 Amount recognised in the profit and loss

	2013					2012 (Restated)				
	Management		Non-Management		Total	Management		Non-Management		Total
	Pension	Gratuity	Pension	Gratuity		Pension	Gratuity	Pension	Gratuity	
	(Rupees '000)					(Rupees '000)				
Current service cost	33,323	9,425	-	2,886	45,634	66,303	29,487	(100)	3,471	99,161
Interest cost	143,673	11,564	-	8,958	164,195	211,085	28,431	-	9,030	248,546
Expected return on plan assets	(182,394)	37,362	(1,399)	(9,943)	(156,374)	(251,274)	20,530	(1,287)	(10,199)	(242,230)
Curtailements loss / (gain)	(225,717)	(54,534)	-	-	(280,251)	11,683	(8,008)	-	-	3,675
Employee contributions	(9,613)	-	-	-	(9,613)	(12,282)	-	-	-	(12,282)
(Reversal) / expense for the year	(240,728)	3,817	(1,399)	1,901	(236,409)	25,515	70,440	(1,387)	2,302	96,870

31.1.6 Remeasurement recognized in other comprehensive income

	2013					2012 (Restated)				
	Management		Non-Management		Total	Management		Non-Management		Total
	Pension	Gratuity	Pension	Gratuity		Pension	Gratuity	Pension	Gratuity	
	(Rupees '000)					(Rupees '000)				
Loss / (gain) from changes in demographic assumptions	30,556	(6,371)	-	67	24,252	(95,707)	8,793	100	(693)	(87,507)
Loss / (gain) from changes in financial assumptions	(159,850)	(18,941)	-	(10,416)	(189,207)	276,708	56,813	-	7,903	341,424
Experience loss / (gain)	(77,659)	(13,207)	-	(3,374)	(94,240)	155,479	59,017	-	(6,490)	208,006
Remeasurement of defined benefit obligation	(206,953)	(38,519)	-	(13,723)	(259,195)	336,480	124,623	100	720	461,923
(Loss) / gain due to remeasurement of investment return	(32,616)	42,658	(255)	12,499	22,286	(81,219)	61,574	(826)	(545)	(21,016)
	(174,337)	(81,177)	255	(26,222)	(281,481)	417,699	63,049	926	1,265	482,939

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31.1.7 Movement in the asset / (liability) recognized in the balance sheet

	2013					2012 (Restated)				
	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	118,666	(543,474)	12,162	8,565	(404,081)	458,267	(435,775)	11,701	12,132	46,325
Net reversal / (charge) for the year	415,065	77,360	1,144	24,321	517,890	(443,214)	(133,489)	461	(3,567)	(579,809)
Contributions by the Company	81,627	20,393	-	-	102,020	103,613	25,790	-	-	129,403
Inter-fund transfers	(127,912)	127,912	-	-	-	-	-	-	-	-
Asset / (liability) in respect of staff retirement benefit schemes	487,446	(317,809)	13,306	32,886	215,829	118,666	(543,474)	12,162	8,565	(404,081)
Current account balance with funds	212,427	279,990	-	4,275	496,692	116,790	223,602	-	1,525	341,917
	699,873	(37,819)	13,306	37,161	712,521	235,456	(319,872)	12,162	10,090	(62,164)

31.1.8 Plan assets comprised of the following:

	2013					2012 (Restated)				
	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.	1,906,129	50,046	13,219	112,571	2,081,965	2,035,959	98,922	10,008	91,769	2,236,658
Bank deposits	7,898	1,727	87	2,324	12,036	358,706	2,126	2,154	407	363,393
Inter-fund dues	(43,368)	(14,228)	-	-	(57,596)	-	-	-	-	-
Benefits due	(980)	(2,351)	-	(4,842)	(8,173)	(2,405)	(48,412)	-	(1,067)	(51,884)
Due to Shell Pakistan Limited	(212,427)	(279,990)	-	(4,275)	(496,692)	(116,790)	(223,602)	-	(1,525)	(341,917)
	1,657,252	(244,796)	13,306	105,778	1,531,540	2,275,470	(170,966)	12,162	89,584	2,206,250

31.1.9 During the year, the Company allowed members of the Management Staff Pension and Gratuity scheme to opt for the new defined contributory pension scheme. In this response, out of a total of 418 members, 341 members opted for the plan and obligation of Rs. 839,595 thousand was transferred to the defined contributory pension fund and surplus reserves of Rs. 280,251 thousand were released.

31.1.10 Expected contribution to the above schemes for the year ending December 31, 2014 is Nil.

31.1.11 The effect of a 1% movement in the cost trend rate in staff retirement benefits scheme is as follows:

	Increase of 1% (Rupees '000)	Decrease of 1% (Rupees '000)
Additional expense		
- Effect of change in discount rate	(114,783)	135,377
- Effect of change in salaries	41,208	(36,902)
- Effect of change in pension	87,002	76,776

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

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

	2013	2012 (Restated)
	(Rupees '000)	
Total balance receivable in respect of defined benefit schemes	712,521	(62,164)
Total balance (payable) / receivable in respect of defined contribution schemes	38,968	(6,736)
	<u>751,489</u>	<u>(68,900)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

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 recognized in the balance sheet is based on a valuation carried out as at the balance sheet date and is as follows:

31.2.1 Actuarial assumptions

2013	2012
———— (% per annum) ————	

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

- Discount rate	13.00	11.50
- Medical cost trend rate	7.00	6.25

31.2.2 Amount recognised in the balance sheet

2013	2012
———— (Rupees '000) ————	
(Restated)	

Present value of defined benefit obligation - note 31.2.3	79,840	77,544
Fair value of plan assets	-	-
Liability recognised at the end of the year	<u>79,840</u>	<u>77,544</u>

31.2.3 Movement in the present value of defined benefit obligation

Present value of obligation at the beginning of the year	77,544	71,122
Current service cost	1,383	1,740
Interest cost	8,577	10,323
Benefits paid during the year	(5,918)	(7,340)
Remeasurement on obligation	(1,746)	1,699
Present value of obligation at the end of the year	<u>79,840</u>	<u>77,544</u>

31.2.4 Movement in the liability recognised in the balance sheet

Balance at the beginning of the year	77,544	71,122
Charge for the year - note 31.2.5 and 31.2.6	8,214	13,762
Payments during the year	(5,918)	(7,340)
Balance at the end of the year	<u>79,840</u>	<u>77,544</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

31.2.5 Amount recognized in profit and loss

	2013	2012 (Restated)
	(Rupees '000)	
Current service cost	1,383	1,740
Interest cost	8,577	10,323
	<u>9,960</u>	<u>12,063</u>

31.2.6 Remeasurement recognized in other comprehensive income

Loss / (gain) from changes in demographic assumptions	-	(2,709)
Loss / (gain) from changes in financial assumptions	343	-
Experience loss / (gain)	(2,089)	4,408
	<u>(1,746)</u>	<u>1,699</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%
	(Rupees '000)	
Additional expense		
- Effect on the aggregate of the current service cost and interest cost for the year	9,094	(7,612)

31.3 Five year data on surplus / deficit of the plans

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 similarly, it shows the total pension and gratuity plan assets at the end of each year.

	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009
	(Rupees '000)				
Present value of defined benefit obligation	1,395,551	2,687,875	2,070,360	2,071,454	1,957,677
Fair value of plan assets (deficit) / surplus	<u>(1,531,540)</u>	<u>(2,206,250)</u>	<u>(2,045,563)</u>	<u>(1,878,118)</u>	<u>(1,777,661)</u>
	<u>135,989</u>	<u>(481,625)</u>	<u>(24,797)</u>	<u>(193,336)</u>	<u>(180,016)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

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
	<u>2,782,116</u>	<u>2,590,431</u>

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

	2013	2012
	(Rupees '000)	
- in respect of pension and gratuity scheme	(236,409)	96,870
- in respect of defined contribution funds	98,355	31,501
- in respect of post retirement medical benefit scheme	9,960	12,063
	<u>(128,094)</u>	<u>140,434</u>

32. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2013			2012		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	(Rupees '000)					
Short-term employee benefits						
Director's fee	-	1,277	-	-	1,614	-
Managerial remuneration (including bonus) - note 32.2	27,163	57,312	953,521	25,206	61,154	978,247
Housing:						
- Rent	4,981	-	-	2,753	-	-
- Utilities	347	693	26,208	327	654	29,921
- Other items	72	144	4,884	72	144	6,696
Medical expenses	86	514	25,395	67	353	21,254
	<u>32,649</u>	<u>59,940</u>	<u>1,010,008</u>	<u>28,425</u>	<u>63,919</u>	<u>1,036,118</u>
Post-employment benefits						
Company's contribution to pension, gratuity and provident fund	3,299	4,329	146,972	2,319	4,383	127,020
	<u>35,948</u>	<u>64,269</u>	<u>1,156,980</u>	<u>30,744</u>	<u>68,302</u>	<u>1,163,138</u>
Number of persons including those who worked part of the year	<u>1</u>	<u>11</u>	<u>363</u>	<u>2</u>	<u>11</u>	<u>389</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

- 32.1** As at December 31, 2013 and 2012, the total number of Directors was 10, excluding Chief Executive Officer.
- 32.2** This includes Rs. 127,140 thousand (2012: Rs. 156,511 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.

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	2013	2012
		(Rupees '000)	
Associate			
Pak-Arab Pipeline Company Limited	Pipeline charges	456,384	495,248
	Others	8,963	6,731
	Dividend received	426,467	480,459
Staff retirement benefit / contribution funds			
Pension Funds Defined Contribution Pension Funds	Contribution	81,627	103,613
	Contribution	81,564	-
Gratuity Funds	Contribution	20,393	25,790
Provident Funds	Contribution	45,751	39,622
Key management personnel			
	Salaries and other short term employee benefits	91,311	90,731
	Post-employment benefits	7,628	6,702
Director's fee			
	Fee for attending meetings	1,277	1,614
Other related parties			
	Purchases	69,762,814	57,382,762
	Sales	28,475	31,004
	Collection for sales made in Pakistan to customers of the parent company and its associates	5,158,486	1,870,272
	Technical service fee charged - note 33.1	1,484,300	1,287,454
	Trade marks and manifestations license fee charged - note 33.2	281,392	279,292
	Computer expenses charged (Global Infrastructure Desktop charges) - note 33.2	173,326	171,614
	Expenses recovered from related parties	142,704	168,488
	Other expenses charged by related parties - note 33.3	755,969	678,318
	Donations	5,000	5,000
	Legal charges	491	72

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

- 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.
- 33.3** These include charges amounting to Rs. 317,408 thousand (2012: Rs. 316,762 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 actual. 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	2013	2012
	(Rupees '000)	
Motor Gasoline	102,460,414	76,671,154
High Speed Diesel	133,088,207	123,482,387
Jet Fuels	27,217,099	22,771,101
Lubricants	15,975,013	14,947,069
Others	9,251,189	6,445,164
	<u>287,991,922</u>	<u>244,316,875</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

35. CASH GENERATED FROM OPERATIONS	2013	2012
	(Rupees '000)	
Profit before taxation	2,424,493	4,656
Adjustment for non-cash charges and other items:		
Depreciation and amortization charge	994,326	1,079,887
Accretion expense in respect of asset retirement obligation - note 28	19,354	11,032
Reversal of liability in respect of asset retirement obligation - note 27	(20,596)	(2,825)
Provision for impairment of stock-in-trade - note 11.5	68,871	47,711
Reversal of provision for impairment of stock-in-trade - note 11.5	(47,711)	(26,605)
Provision for impairment of trade debts - note 26	8,661	73,191
Trade debts written off directly - note 26	22,298	-
Reversal of provision for impairment of trade debts - note 27	(7,495)	(84,721)
Provision for impairment of other receivables	554	16,665
Provision for impairment of operating assets - note 26	88,144	291,642
Write off of operating assets - note 26	77,606	71,338
Gain on disposal of operating assets - note 27	(26,017)	(13,536)
Share of profit of associate - note 6.1	(554,788)	(720,199)
Mark-up / interest on short-term deposits - note 27	(58,472)	(18,791)
Mark-up / interest on short-term borrowings - note 28	317,959	1,427,409
Working capital changes - note 35.1	2,160,898	6,181,826
	5,468,085	8,338,680
35.1 Working capital changes		
Decrease / (increase) in current assets		
Stores	-	298
Stock-in-trade	(486,058)	472,602
Trade debts	(276,652)	481,603
Loans and advances	(50,351)	(14,529)
Trade deposits and short-term prepayments	19,494	60,799
Other receivables	2,656,321	3,915,309
	1,862,754	4,916,082
Increase in current liability		
Trade and other payables	298,144	1,265,744
	2,160,898	6,181,826
36. CASH AND CASH EQUIVALENTS		
Cash and bank balances - note 15	858,390	3,388,485
Short-term borrowings - note 20	(6,158,020)	(12,170,000)
	(5,299,630)	(8,781,515)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

37. PROVIDENT FUND RELATED DISCLOSURES

The following information is based on un-audited financial statements of the fund as at December 31, 2013:

	2013	2012
	————— (Rupees '000) —————	
Size of the fund - Total assets	975,814	789,476
Fair value of investments	922,920	734,659
Percentage of investment made	95%	93%

37.1 The cost of the above investment amounted to Rs. 922,791 thousand (2012: Rs. 726,024 thousand).

37.2 The break-up of fair value of investment is as follows:

	2013	2012	2013	2012
	————— (Percentage) —————		————— (Rupees '000) —————	
Treasury Bills	97%	22%	898,087	161,535
Special Savings Certificate	0%	12%	-	90,000
Government Securities	2%	62%	18,229	452,790
Term Finance Securities	1%	4%	6,604	30,334
	100%	100%	922,920	734,659

37.3 The investments out of provident fund have been made in accordance with the provisions of Section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

37.4 An amount of Rs. 45,751 thousand (2012: Rs. 39,622 thousand) has been charged during the year in respect of contribution to the provident fund.

NOTES TO THE FINANCIAL STATEMENTS

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38. FINANCIAL ASSETS AND LIABILITIES

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

	2013						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	52,009	41,765	93,774	956	1,378	2,334	96,108
Deposits	-	-	-	-	124,195	124,195	124,195
Trade debts	-	-	-	2,259,170	-	2,259,170	2,259,170
Other receivables	-	-	-	3,059,443	-	3,059,443	3,059,443
Cash and bank balances	40,212	-	40,212	818,178	-	818,178	858,390
	92,221	41,765	133,986	6,137,747	130,573	6,268,320	6,402,306
Financial liabilities							
Financial liabilities at amortised cost							
Trade and other payables	-	-	-	24,761,445	-	24,761,445	24,761,445
Accrued mark-up	-	-	-	16,737	-	16,737	16,737
Short-term borrowings	6,158,020	-	6,158,020	-	-	-	6,158,020
	6,158,020	-	6,158,020	24,778,182	-	24,778,182	30,936,202
On balance sheet gap	(6,065,799)	41,765	(6,024,034)	(18,640,435)	130,573	(18,509,862)	(24,533,896)
	2012						
	Interest / Mark-up bearing			Non-Interest / Mark-up bearing			
	Maturity upto one year	Maturity after one year	Subtotal	Maturity upto one year	Maturity after one year	Subtotal	Total
	(Rupees '000)						
Financial assets							
Available-for-sale							
Investments	-	-	-	-	5,000	5,000	5,000
Loans and receivables							
Loans	71,064	97,181	1,68,245	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
	1,348,769	97,181	1,445,950	6,884,918	119,181	7,004,099	8,450,049
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
	12,170,000	-	12,170,000	23,781,849	-	23,781,849	35,951,849
On balance sheet gap	(10,821,231)	97,181	(10,724,050)	(16,896,931)	119,181	(16,777,750)	(27,501,800)

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

38.2 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 minimize risk and provide maximum return to shareholders.

38.2.1 Credit risk

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

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 Rs. 6,402,306 thousand (2012: Rs. 8,450,049 thousand) the financial assets subject to credit risk amount to Rs. 6,383,069 thousand (2012: Rs. 8,432,291 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 utilization 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 utilization of credit limits is regularly monitored.

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

	2013	2012
	(Rupees '000)	
Loans	96,108	170,870
Deposits	124,195	111,293
Trade debts	1,865,931	1,845,760
Other receivables	349,019	166,014
Bank balances	858,390	3,388,485
	<u>3,293,643</u>	<u>5,682,422</u>

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:

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Bank	Rating agency	Rating	
		Short-term	Long-term
National Bank of Pakistan	JCR-VIS	A-1+	AAA
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA
United Bank Limited	JCR-VIS	A-1+	AA+
Habib Bank Limited	JCR-VIS	A-1+	AAA
Askari Bank Limited	PACRA	A1+	AA
Faysal Bank Limited	PACRA	A1+	AA
Bank Alfalah Limited	PACRA	A1+	AA
MCB Bank Limited	PACRA	A1+	AAA
Allied Bank Limited	PACRA	A1+	AA+
Citibank N.A.	Moody's	P-2	A3
Deutsche Bank AG	S&P	A-1	A
Bank of Tokyo Mitsubishi UFJ Limited Pakistan	S&P	A-1	A+
HSBC Bank Middle East Limited	Moody's	P-1	A2

38.2.2 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, 2013, 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	2013		2012	
		%	Rs. '000	%	Rs. '000
USD	lower / higher	10%	769,855	10%	486,723
GBP	lower / higher	10%	122,103	10%	102,417
EUR	lower / higher	10%	33,309	10%	26,373

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.

NOTES TO THE FINANCIAL STATEMENTS

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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, 2013, 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. 40,643 thousand (2012: Rs. 79,105 thousand) mainly as a result of higher / lower interest exposure on variable rate borrowings.

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.

38.2.3 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 38.1 to these financial statements.

38.3 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.

	2013	2012
	(Rupees '000)	
Total borrowings - note 20	6,158,020	12,170,000
Cash and bank balances - note 15	<u>(858,390)</u>	<u>(3,388,485)</u>
Net debt	5,299,630	8,781,515
Total equity	<u>7,222,526</u>	5,878,138
Total capital	<u>12,522,156</u>	<u>14,659,653</u>
Gearing ratio	42.32%	59.90%

38.4 Fair value of financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

39. NUMBER OF EMPLOYEES

	Number of employees as at		Average Number of employees	
	2013	2012	2013	2012
Management employees	371	368	371	378
Non - management employees	53	56	55	56
	<u>424</u>	<u>424</u>	<u>426</u>	<u>434</u>

40. CORRESPONDING FIGURES

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

40.2 The Company has applied IAS 19 (Revised) retrospectively and corresponding figures have been restated as detailed in note 2.1.4 (a).

40.3 During the year, for better presentation, provision for impairment of stock-in-trade amounting to Rs. 24,432 thousand has been reclassified from 'trade and other payables' as reported in financial statements for the year ended December 31, 2012 to 'stock-in-trade'.

The effect of other rearrangements and reclassifications are not material.

41. POST BALANCE SHEET EVENT

The Board of Directors in its meeting held on March 11, 2014 has proposed a cash dividend of Rs. 4 per share and bonus shares in the ratio of 1:4 (one share for every four shares held) for the year ended December 31, 2013 for approval of the members at the Annual General Meeting to be held on April 23, 2014. The said bonus shares shall not be entitled for dividend declared for the year ended December 31, 2013.

These financial statements do not include the effect of the proposed cash dividend and bonus shares which will be accounted for in the financial statements for the year ending December 31, 2014.

42. DATE OF AUTHORIZATION

These financial statements were authorized for issue on March 11, 2014 by the Board of Directors of the Company.

Omar 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, 2013

Board of Directors

During the year, four 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
Omar Sheikh	4	4
Rafi H Basheer **	3	3
Farrokh K Captain	4	4
Chong Keng Cheen	4	3
Rahat Hussain	4	3
Imran R Ibrahim	4	4
Nasser N S Jaffer	4	4
Zaffar A Khan	4	4
Michael Noll	4	3
Haroon Rashid	4	4
Badaruddin F Vellani	4	3
Faisal Waheed	1	1

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

**Rafi H Basheer resigned from the office of director and Faisal Waheed was appointed in his place with effect from August 23, 2013.

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
Imran R Ibrahim	4	4
Michael Noll	4	3
Badaruddin F Vellani	4	3
Zaffar Ahmed Khan**	1	1

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

**Zaffar A Khan chaired the meeting in the absence of Badaruddin F Vellani.

ATTENDANCE OF THE BOARD AND COMMITTEES' MEETINGS HELD DURING THE YEAR

For the year ended December 31, 2013

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
Chong Keng Cheen	1	-
Farrokh K Captain	1	1
Omar Sheikh	1	1

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

PATTERN OF SHAREHOLDING

as at December 31, 2013

Number of Shareholders	Shareholding			Total Number of Shares Held
	From		To	
1,537	1	-	100	58,712
2,005	101	-	500	632,019
864	501	-	1,000	667,391
1,381	1,001	-	5,000	3,014,919
235	5,001	-	10,000	1,726,706
79	10,001	-	15,000	981,076
44	15,001	-	20,000	786,842
27	20,001	-	25,000	616,970
10	25,001	-	30,000	288,174
14	30,001	-	35,000	452,543
8	35,001	-	40,000	293,962
6	40,001	-	45,000	253,842
9	45,001	-	50,000	432,225
1	50,001	-	55,000	50,156
2	55,001	-	60,000	113,448
3	60,001	-	65,000	187,750
4	65,001	-	70,000	270,462
2	70,001	-	75,000	145,878
2	75,001	-	80,000	158,800
2	95,001	-	100,000	200,000
2	100,001	-	105,000	201,719
1	120,001	-	125,000	125,000
2	130,001	-	135,000	267,812
1	145,001	-	150,000	150,000
1	150,001	-	155,000	151,121
1	170,001	-	175,000	175,000
1	190,001	-	195,000	190,700
1	195,001	-	200,000	200,000
1	215,001	-	220,000	220,000
1	265,001	-	270,000	268,112
1	360,001	-	365,000	364,400
1	425,001	-	430,000	429,507
1	430,001	-	435,000	432,518
1	585,001	-	590,000	587,093
1	700,001	-	705,000	705,000
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
6,256				85,609,865

PATTERN OF SHAREHOLDING

as at December 31, 2013

Shareholders' Category	Number of Shareholders	Number of Share Held	Percentage
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	3,961	0.00
CDC-Trustee AKD Opportunity Fund	1	42,100	0.05
CDC-Trustee KSE Meezan Index Fund	1	30,278	0.04
CDC-Trustee Nafa Islamic Multi Asset Fund	1	16,500	0.02
CDC-Trustee Nafa Multi Asset Fund	1	14,000	0.02
CDC-Trustee Nafa Stock Fund	1	36,000	0.04
Golden Arrow Selected Stocks Fund Limited	1	190,700	0.22
TRI STAR Mutual Fund Ltd.	1	127	0.00
Directors			
Farrokh K Captain	1	587,269	0.69
Imran R Ibrahim	1	56,355	0.07
Nasser N S Jaffer	1	100	0.00
Zaffar A Khan	1	6,445	0.01
Badaruddin F Vellani	1	156	0.00
Director's spouse			
Samina Ibrahim w/o 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	1,474,862	1.72
General Public			
a. Local	6,112	12,014,640	14.03
b. Foreign	4	11,688	0.01
Others			
	94	2,132,146	2.49
	6,256	85,609,865	100.00

Shareholders holding five percent or more voting rights

The Shell Petroleum Company Limited, London	1	65,154,962
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FORM OF PROXY

The Secretary
Shell Pakistan Limited
Shell House
6, Ch. Khaliqzaman 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/her _____ of _____
as my/our proxy to vote for me/us and on my/our behalf at the Forty-Fifth Annual General Meeting of the Company to be held on April
23, 2014 at 10:30 a.m. at the Movenpick Hotel Karachi (formerly Sheraton Hotel Karachi) and at any adjournment thereof.

Signed this _____ day of _____ 2014.

WITNESSES:

1. Signature

Name _____

Address _____

CNIC or

Passport No. _____

2. Signature

Name _____

Address _____

CNIC or

Passport No. _____

Signature

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

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. Khaiquzzaman Road

Karachi - 75530

Pakistan

www.shell.com.pk