

Directors' Review

for the Quarter ended September 30, 2008

The Directors of Shell Pakistan Limited (SPL) present their review of the affairs of the Company for the quarter ended September 30, 2008. During this quarter the Company incurred a loss after tax of Rs 1,196 million as compared to a profit of Rs 533 million last year. This was primarily due to lower gross margin resulting from declining international oil prices and a corresponding write down of inventory to its net realizable value. This was coupled with high operating expenses on account of significant exchange losses of over Rs 800 million during this period.

This quarter witnessed one of the most difficult and challenging times for the Country as well as for the oil industry. We saw marked economic slowdown, worsening macro economic indicators, deteriorating law and order situation, rising inflation and an unprecedented depreciation of the Rupee; all of which impacted our growth and profitability.

During the period your Company's profitability remained under tremendous pressure on account of rising cost of doing business and increasing interest rates in the market due to a severe liquidity crunch. In this connection, it is encouraging to note that despite the difficult circumstances, the Government has made payments to us to reduce the outstandings. Nonetheless, the total public sector debt receivable by us is around Rs 10 billion and the timely settlement of these dues is paramount to sustaining the viability of this Company.



Your Company's fundamentals remain strong to deliver growth and profitability once the volatility in international oil prices and the turmoil in the economic environment settles down.

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

October 28, 2008

Zaijiji Ismail bin Abdullah
Chairman & Chief Executive

Condensed Interim Balance Sheet

as at September 30, 2008

ASSETS	Note	Unaudited September 30, 2008	Audited June 30, 2008
		(Rupees ` 000)	
Non-current assets			
Fixed Assets	4	6,884,094	6,826,848
Long-term investments		1,890,317	2,134,783
Long-term loans and advances		138,759	146,381
Long-term deposits and prepayments		197,689	201,718
Long-term debtors		98,055	134,920
		9,208,914	9,444,650
Current assets			
Stores and spares		17,094	13,328
Stock-in-trade		18,892,327	18,095,523
Trade debts		4,960,841	4,904,940
Loans and advances		49,966	47,029
Trade deposits and short-term prepayments		222,763	207,864
Other receivables		9,931,960	6,079,111
Taxation		240,277	-
Cash and bank balances		1,792,364	872,414
		36,107,592	30,220,209
Total assets		45,316,506	39,664,859
EQUITY AND LIABILITIES			
EQUITY			
Share capital		684,880	547,904
Reserves		2,096,050	2,233,026
Unappropriated profit		7,443,325	10,830,708
		10,224,255	13,611,638
LIABILITIES			
Non-current liabilities			
Deferred taxation - net		50,721	51,574
Long-term liabilities against assets subject to finance lease		2,216	2,216
Long-term loans		2,500,000	2,500,000
Asset retirement obligation		194,885	191,620
		2,747,822	2,745,410
Current liabilities			
Current maturity of liabilities against assets subject to finance lease		48,755	56,742
Short-term running finances utilised under mark-up arrangements		5,531,830	4,338,339
Short-term loans		1,000,000	1,500,000
Trade and other payables		25,495,463	16,483,008
Mark-up accrued		268,381	157,268
Taxation		-	772,454
		32,344,429	23,307,811
		35,092,251	26,053,221
Total equity and liabilities		45,316,506	39,664,859

Contingencies and Commitments

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The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

Zaiviji Ismail bin Abdullah
Chairman & Chief Executive

Badaruddin F. Vellani
Director

Condensed Interim Profit and Loss Account (Unaudited)

for the Quarter ended September 30, 2008

	2008	2007
	(Rupees `000)	
Sales	52,355,593	32,711,501
Non-fuel retail		
- Sales	25,730	35,956
- Others	4,699	4,255
Other revenue	185,820	93,414
	52,571,842	32,845,126
Less: Sales tax	6,275,022	3,884,034
Net revenue	46,296,820	28,961,092
Cost of products sold	45,515,019	26,810,403
Gross profit	781,801	2,150,689
Distribution expenses	814,963	767,308
Administrative and marketing expenses	878,862	434,664
	(912,024)	948,717
Other operating income	144,504	58,424
	(767,520)	1,007,141
Other operating expenses	902,837	142,625
Operating (loss) / profit	(1,670,357)	864,516
Finance cost	339,029	258,743
	(2,009,386)	605,773
Share of (loss) / profit of associate - net of tax	(121,351)	56,630
(Loss) / Profit before taxation	(2,130,737)	662,403
Taxation	(934,967)	129,665
(Loss) / Profit after taxation	(1,195,770)	532,738
	Rupees	Rupees
(Loss) / Earnings per share	(17.46)	7.78

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

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

Condensed Interim Cash Flow Statement (Unaudited)

for the Quarter ended September 30, 2008

	Note	2008	2007
		(Rupees ` 000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	6	2,256,764	(3,009,563)
Mark-up on short-term finances and short-term loans paid		(188,602)	(185,042)
Taxes paid		(78,616)	(201,702)
Long-term loans and advances (net)		7,622	(886)
Long-term deposits and prepayments (net)		4,029	(3,111)
Mark-up received on short-term deposits		11,180	2,600
Long-term debtors (net)		36,864	-
Net cash generated from / (used in) operating activities		2,049,241	(3,397,704)
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(246,880)	(258,216)
Proceeds from sale of property, plant and equipment		16,604	26,745
Dividend received from associate		123,114	93,001
Net cash used in investing activities		(107,162)	(138,470)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(1,707,633)	(11,304)
Repayment of liability under finance lease		(7,987)	1,685
Net cash used in financing activities		(1,715,620)	(9,619)
Net increase / (decrease) in cash and cash equivalents		226,459	(3,545,793)
Cash and cash equivalents at July 1		(4,965,925)	(6,721,306)
Cash and cash equivalents at September 30		(4,739,466)	(10,267,099)

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

Condensed Interim Statement of Changes in Equity (Unaudited)

for the Quarter ended September 30, 2008

	Issued, subscribed and paid-up capital	Reserve for issue of bonus shares	Capital reserves- share premium	General revenue reserves	Unappro- priated profit	Total
	----- (Rupees '000) -----					
Balance as at June 30, 2007	547,904	–	2,026,024	207,002	6,679,841	9,460,771
Final dividend for the year ended June 30, 2007 declared subsequent to the year end	–	–	–	–	(438,323)	(438,323)
Profit after taxation for the quarter ended September 30, 2007	–	–	–	–	532,738	532,738
Balance as at September 30, 2007	<u>547,904</u>	<u>–</u>	<u>2,026,024</u>	<u>207,002</u>	<u>6,774,256</u>	<u>9,555,186</u>
Balance as at June 30, 2008	547,904	–	2,026,024	207,002	10,830,708	13,611,638
Final dividend for the year ended June 30, 2008 declared subsequent to the year end	–	–	–	–	(2,191,613)	(2,191,613)
Transfer to reserve for issue of bonus shares in respect of stock dividend for the year ended June 30, 2008 declared subsequent to the year end	–	136,976	(136,976)	–	–	–
Issue of Bonus shares	136,976	(136,976)	–	–	–	–
(Loss) after taxation for the quarter ended September 30, 2008	–	–	–	–	(1,195,770)	(1,195,770)
Balance as at September 30, 2008	<u>684,880</u>	<u>–</u>	<u>1,889,048</u>	<u>207,002</u>	<u>7,443,325</u>	<u>10,224,255</u>

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

Notes to the Condensed Interim Financial Statements (Unaudited)

for the Quarter ended September 30, 2008

1. THE COMPANY AND ITS OPERATIONS

The Company is a limited liability company incorporated in Pakistan and is listed on the Karachi and Lahore Stock Exchanges. The address of its registered office is Shell House, 6, Ch. Khaliqzaman Road, Karachi - 75530, Pakistan. The Company markets petroleum products and compressed natural gas. It also blends and markets various kinds of lubricating oils.

2. STATEMENT OF COMPLIANCE

These condensed interim financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Financial Reporting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence. The disclosures made in these condensed interim financial statements have, however, been limited based on the requirements of the International Accounting Standard 34, Interim Financial Reporting. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended June 30, 2008.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual published financial statements of the Company for the year ended June 30, 2008.

4. ADDITIONS AND DELETIONS TO FIXED ASSETS

	2008	2007
	(Rupees '000)	
Property, plant and equipment - owned		
Additions	177,575	284,237
Deletions (cost)	45,930	37,984
Property, plant and equipment - leased		
Additions	58,104	8,773
Deletions (cost)	27,554	30,580

5. CONTINGENCIES AND COMMITMENTS

5.1 Contingencies

a) 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.

Shell Pakistan Limited (the Company) and several others challenged the levy in constitutional petitions before the High Court of Sindh. These petitions were dismissed by the High Court as, during their pendency, the nature of the levy was changed by the Government of Sindh. The Company and others therefore filled civil suits in the High Court of Sindh challenging the amending Ordinance. However, these suits were also dismissed by the High Court in October 2003. The Company and other plaintiffs had preferred appeals against this judgment.

The High Court of Sindh passed judgment on these appeals on 15-09-2008 whereby it has been held that the levy was not valid up to 28-12-2006 but thereafter, on account of an amendment in the Sindh Finance (Amendment) Ordinance 2006, it had become a valid levy and is payable by the Appellants.

The Company is now in the process of filling an appeal against the said judgment before the Honorable Supreme Court of Pakistan.

The accumulated levy up to September 30, 2008 comes to Rs 1,097.897 million (June 30, 2008: Rs 988.031 million). No provision has been made in these financial statements against the levy as SPL management expects a favourable outcome.

Notes to the Condensed Interim Financial Statements (Unaudited)

for the Quarter ended September 30, 2008

b) PARCO pipeline fill

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

The Company maintains that its liability is limited only to the extent of Rs 78.164 million (June 30 2008: Rs 78.164 million) which has been fully paid in March 2007.

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

c) Others

The aggregate amount of other claims against the Company not acknowledged as debt as at September 30, 2008 amounted to approximately Rs 1,290.756 million (June 30, 2008: Rs 848.115 million). This includes claims by refineries, amounting to Rs 372.740 million (June 30, 2008: Rs 355.613 million) in respect of delayed payment charges.

5.2 Commitments

- a) Capital expenditure contracted for but not incurred as at September 30, 2008 amounted to approximately Rs 1,101.375 million (June 30, 2008: Rs 828.745 million).
- b) Commitments for rentals of assets under operating lease agreements as at September 30, 2008 amounted to Rs 2,438.385 million (June 30, 2008: Rs 2,463.357 million) payable as follows:

	September 30, 2008	June 30, 2008
	(Rupees '000)	
Not later than one year	124,725	119,608
Later than one year and not later than five years	463,965	465,367
Later than five years	1,849,695	1,878,382
	2,438,385	2,463,357
	2008	2007
	(Rupees '000)	

6. CASH GENERATED FROM OPERATIONS

(Loss) / Profit before taxation		(2,130,737)	662,403
Adjustment for non-cash charges and other items:			
Depreciation / amortisation expenses charged to the profit and loss account		168,762	154,480
(Profit) / loss on disposal of property, plant & equipment		7,534	(18,117)
Share of loss / (profit) of associates		121,351	(56,630)
Mark-up on short-term deposits		(17,223)	(5,384)
Mark-up expense on short-term running finances and loans		299,715	238,003
Working capital changes	6.1	3,807,362	(3,984,318)
		2,256,764	(3,009,563)

Notes to the Condensed Interim Financial Statements (Unaudited)

for the Quarter ended September 30, 2008

	2008	2007
	(Rupees '000)	
6.1 Working capital changes		
(Increase) / Decrease in current assets		
Stores and spares	(3,775)	1,943
Stock-in-trade (net)	(796,804)	(1,346,998)
Trade debts	(55,901)	(92,163)
Loans and advances (net)	(2,937)	(962)
Trade deposits and short-term prepayments (net)	(14,898)	(49,053)
Other receivables (net)	(3,846,798)	(1,718,014)
	<u>(4,721,113)</u>	<u>(3,205,247)</u>
(Decrease) / increase in current liabilities		
Trade and others payables (excluding unclaimed dividends)	8,528,475	(779,071)
	<u>3,807,362</u>	<u>(3,984,318)</u>

7. RELATED PARTY TRANSACTIONS

	Parent company		Other related parties	
	2008	2007	2008	2007
	(Rupees '000)			
(i) Purchases	-	-	32,638,639	14,668,468
(ii) Sales	-	-	647,359	1,170,197
(iii) Other Items				
- Technical service fee charged	400,326	131,005	-	-
- Trade marks and manifestations licence fee charged	-	-	40,145	39,375
- Computer expenses charged (Global Infrastructure Desktop charges)	-	-	34,304	17,209
- Expenses recovered from Related Parties	38,206	39,898	13,423	11,704
- Other expenses charged by Related Parties	-	-	39,823	10,720
- Key Management Personnel remuneration	-	-	7,954	7,865
- PAPCO pipeline transportation charges	-	-	283,504	243,784

8. CORRESPONDING FIGURES

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

9. GENERAL

Figures have been rounded off to the nearest thousand.

10. DATE OF AUTHORISATION

These condensed interim financial statements were authorised for issue on October 28, 2008 by the Board of Directors of the Company.

Zaiviji Ismail bin Abdullah
Chairman & Chief Executive

Badaruddin F. Vellani
Director