

Shell Pakistan Limited

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JOURNEYS THAT MATTER

SHELL PAKISTAN LIMITED
HALF YEAR REPORT JUNE 2017



COMPANY INFORMATION

BOARD OF DIRECTORS
Mr. Rafi H. Basheer, Chairman
Mr. Jawwad A. Cheema, Chief Executive
Mr. Farrokh K. Captain, Director
Mr. Parvez Ghias, Director
Mr. Nasser N.S. Jaffer, Director
Mr. Rahat (Moon) Hussain, Director
Ms. Naz Khan, Director
Mr. Klaas Mantel, Director
Mr. Haroon Rashid, Director
Mr. Badaruddin F. Vellani, Director
Mr. Faisal Waheed, Director

MANAGING DIRECTOR &
CHIEF EXECUTIVE
Jawwad A. Cheema

AUDIT COMMITTEE
Mr. Badaruddin F. Vellani, Chairman
Mr. Rafi H. Basheer, Member
Ms. Naz Khan, Member

HUMAN RESOURCE &
REMUNERATION COMMITTEE
Mr. Farrokh K. Captain, Chairman
Mr. Jawwad A. Cheema, Member
Mr. Parvez Ghias, Member
Mr. Klaas Mantel, Member

COMPANY SECRETARY
Andalib Alavi

REGISTERED OFFICE
Shell House
6, Ch. Khaliquzzaman Road
Karachi-75530
Pakistan

AUDITORS
EY Ford Rhodes

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

CHIEF EXECUTIVE'S REVIEW

FOR THE HALF YEAR ENDED JUNE 30, 2017



Our Performance

Dear Shareholders,

On behalf of the Board of Directors of Shell Pakistan Limited, I would like to share the results of your Company for the half year ended June 30, 2017. The Company has continued to build upon the strong performance delivered in 2016, with a clear focus on operations excellence driving strategic priorities in order to deliver profitable and sustainable growth. Your Company delivered a profit after tax of Rs. 2,338 million in the first half of the year, compared to a profit after tax of Rs. 2,212 million in the same period last year. The directors have declared an interim dividend of Rs 7/- per share.

As you must have heard, the tank lorry involved in the tragic Ahmedpur incident was leased and operated by one of the Company's hauliers and was transporting fuel from our Terminal. We are deeply saddened by the devastating tank lorry fire and your Company is working with aid agencies to support the haulier to provide immediate and on-going relief efforts to the affected, which include providing food and medical aid. Your Company is working closely with the authorities to improve the overall safety standards of fuel transport in the Industry.

Due to continued oil price volatility and compliance to regulatory requirements of maintaining strategic stock levels in the country, your Company continued to be exposed to inventory losses. With Shell's global supply chain network, we continue to drive for best available prices for imported products, and some of these efforts

have been successful in mitigating potential losses.

In your Company, we continue to drive towards creating and sustaining a culture that drives our commitment to business principles, safety of people and protecting the environment. Your Company continued a strict focus on managing costs while investing in initiatives that will drive value for the Company in the future, whilst continuing to keep our customers at the heart of everything we do.

Receivables & financing costs

The results of your Company continue to be affected by the financial burden resulting from overdue 'receivables' from the Government of Pakistan, and your Company continues to incur financing cost on bank borrowings required to fund these receivables. As at June 30, 2017, total outstanding receivables stand at Rs. 4,414 million. The Company's management is in engagement with relevant Government authorities for the recovery of 'receivables' to ensure we enhance shareholder returns, drive for efficient business, and invest in growth opportunities in Pakistan.

Fuel margins

Despite recent moves to link main grade Motor gasoline and diesel margins based on CPI, we continue to advocate for a further favorable revision based on the benchmarking of margins in Pakistan with the available margins in the region. We continue to advocate and push for further deregulation of the downstream value chain in Pakistan to drive for more investments in the downstream sector.

The Government of Pakistan made it possible for the Oil Marketing Companies to improve Main Grade motor gasoline RON specifications from 87 to 92, and the forthcoming upgradation of Diesel to EURO II specifications are positive steps towards providing Pakistani customers with better quality fuels.

Going forward

The management remains committed to maintain focus driving sustained financial performance of your Company, and we continue to drive for achieving Goal Zero in our safety performance, where the recent tragic events have renewed our determination to lead the industry towards safer operating standards for all our stakeholders and partners. We assure you that we are driving towards credible, competitive and affordable business plans that deliver top quartile business performance. We thank our shareholders, customers and staff for their sustained support and trust in the Company, and look forward to taking this Company to newer heights.

Jawwad A. Cheema,
Chief Executive

AUDITORS' REPORT TO THE MEMBERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim balance sheet of **Shell Pakistan Limited** (the Company) as at **June 30, 2017** and the related condensed interim statement of comprehensive income, condensed interim statement of cash flows and condensed interim statement of changes in equity and notes to the accounts for the six-months period then ended (here-in-after referred to as the "condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Emphasis of matter

We draw attention to the contents of notes 9.1, 9.2, 9.3 and 9.4 to the condensed interim financial statements in respect of receivable against petroleum development levy and price differential claims due from the Government of Pakistan. Our conclusion is not qualified in this respect.

CONDENSED INTERIM BALANCE SHEET

AS AT JUNE 30, 2017

	Note	Unaudited June 30, 2017	Audited December 31, 2016
------(Rupees '000)-----			
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	9,325,394	9,150,109
Long-term investments	6	4,098,397	3,735,560
Long-term loans		4,396	3,091
Long-term deposits and prepayments		165,667	160,317
Deferred taxation - net	7	2,173,567	2,221,599
		<u>15,767,421</u>	<u>15,270,676</u>
Current Assets			
Stock-in-trade	8	14,873,324	10,366,172
Trade debts		2,496,718	2,122,335
Loans and advances		106,796	63,767
Short-term prepayments		278,483	281,246
Other receivables	9	9,111,831	8,417,830
Cash and bank balances		1,468,216	5,988,405
		<u>28,335,368</u>	<u>27,239,755</u>
TOTAL ASSETS		<u><u>44,102,789</u></u>	<u><u>42,510,431</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital		1,070,125	1,070,125
Share premium		1,503,803	1,503,803
General reserves		207,002	207,002
Unappropriated profit		7,643,479	8,301,460
Remeasurement of post employment benefits - Actuarial gain		27,392	27,392
		<u>10,451,801</u>	<u>11,109,782</u>
Liabilities			
Non-Current Liabilities			
Asset retirement obligation		86,841	83,892
Current Liabilities			
Trade and other payables	10	29,878,668	30,037,827
Accrued mark-up		618	623
Short term borrowings - secured		1,580,000	-
Taxation - net		2,104,861	1,278,307
		<u>33,564,147</u>	<u>31,316,757</u>
		<u>33,650,988</u>	<u>31,400,649</u>
Contingencies and commitments	11		
TOTAL EQUITY AND LIABILITIES		<u><u>44,102,789</u></u>	<u><u>42,510,431</u></u>

The annexed notes 1 to 19 form an integral part of these condensed interim financial statements.

Jawwad A. Cheema
Chief Executive

Faisal Waheed
Chief Financial Officer

Badaruddin F. Vellani
Director

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

	Note	Half year ended		Quarter ended	
		June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
------(Rupees '000)-----					
Sales		117,370,923	117,435,141	59,437,813	60,766,772
Other revenue		538,643	492,094	289,411	252,298
		117,909,566	117,927,235	59,727,224	61,019,070
Sales tax		(21,865,374)	(27,864,281)	(12,607,391)	(13,631,883)
Net revenue		96,044,192	90,062,954	47,119,833	47,387,187
Cost of products sold		(88,311,492)	(83,476,972)	(43,515,433)	(42,779,764)
Gross profit		7,732,700	6,585,982	3,604,400	4,607,423
Distribution and marketing expenses		(2,669,955)	(2,298,188)	(1,372,470)	(1,183,603)
Administrative expenses		(1,937,171)	(1,880,874)	(997,359)	(915,674)
		3,125,574	2,406,920	1,234,571	2,508,146
Other expenses		(369,282)	(204,753)	(160,701)	(203,550)
		2,756,292	2,202,167	1,073,870	2,304,596
Other income		295,227	422,948	205,045	268,047
Operating profit		3,051,519	2,625,115	1,278,915	2,572,643
Finance costs		(93,795)	(91,417)	(43,145)	(61,143)
		2,957,724	2,533,698	1,235,770	2,511,500
Share of profit of associate - net of tax	6	362,837	274,178	188,562	135,653
Profit before taxation		3,320,561	2,807,876	1,424,332	2,647,153
Taxation	12	(982,197)	(595,043)	(482,051)	(455,581)
Profit for the period		2,338,364	2,212,833	942,281	2,191,572
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		2,338,364	2,212,833	942,281	2,191,572
------(Rupees)-----					
Earnings per share (basic and diluted)		21.85	20.68	8.81	20.48

The annexed notes 1 to 19 form an integral part of these condensed interim financial statements.

Jawwad A. Cheema
Chief Executive

Faisal Waheed
Chief Financial Officer

Badaruddin F. Vellani
Director

CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

	Half year ended	
	June 30, 2017	June 30, 2016
Note	------(Rupees '000)-----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	13 (2,150,997)	2,889,435
Finance costs paid	(7,744)	(12,926)
Income tax paid	(107,611)	(421,117)
Long-term loans	(1,305)	3,987
Long-term deposits and prepayments	(5,350)	6,449
Net cash (used in) / generated from operating activities	(2,273,007)	2,465,828
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed capital expenditure	(587,929)	(756,555)
Proceeds from disposal of operating assets	-	9,485
Mark-up / interest received on short term deposits	85,784	107,737
Net cash used in investing activities	(502,145)	(639,333)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(3,325,037)	(1,084,146)
Net (decrease) / increase in cash and cash equivalents	(6,100,189)	742,349
Cash and cash equivalents at beginning of the period	5,988,405	78,069
Cash and cash equivalents at end of the period	(111,784)	820,418
Cash and cash equivalents comprise of:		
Cash and bank balances	1,468,216	1,725,418
Short term borrowings - secured	(1,580,000)	(905,000)
	(111,784)	820,418

The annexed notes 1 to 19 form an integral part of these condensed interim financial statements.

Jawwad A. Cheema
Chief Executive

Faisal Waheed
Chief Financial Officer

Badaruddin F. Vellani
Director

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

	Share capital	Capital reserve	Revenue reserves			Total
		Share premium	General reserves	Unappropriated profit	Remeasurement of post employment benefits obligation - Actuarial (loss) / gain	
------(Rupees '000)-----						
Balance as at December 31, 2015 (Audited)	1,070,125	1,503,803	207,002	3,248,749	(48,857)	5,980,822
Final dividend for the year ended December 31, 2015 at the rate of Rs. 10/- per share	-	-	-	(1,070,122)	-	(1,070,122)
Total comprehensive income for the half year ended June 30, 2016	-	-	-	2,212,833	-	2,212,833
Balance as at June 30, 2016 (Unaudited)	<u>1,070,125</u>	<u>1,503,803</u>	<u>207,002</u>	<u>4,391,460</u>	<u>(48,857)</u>	<u>7,123,533</u>
Balance as at December 31, 2016 (Audited)	1,070,125	1,503,803	207,002	8,301,460	27,392	11,109,782
Final dividend for the year ended December 31, 2016 at the rate of Rs. 28/- per share	-	-	-	(2,996,345)	-	(2,996,345)
Total comprehensive income for the half year ended June 30, 2017	-	-	-	2,338,364	-	2,338,364
Balance as at June 30, 2017 (Unaudited)	<u>1,070,125</u>	<u>1,503,803</u>	<u>207,002</u>	<u>7,643,479</u>	<u>27,392</u>	<u>10,451,801</u>

The annexed notes 1 to 19 form an integral part of these condensed interim financial statements.

Jawwad A. Cheema
Chief Executive

Faisal Waheed
Chief Financial Officer

Badaruddin F. Vellani
Director

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

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 Pakistan Stock Exchange Limited. 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. BASIS OF PREPARATION

2.1 During the period, the Companies Act, 2017 (the Act) has been promulgated, however, Securities and Exchange Commission of Pakistan (SECP) vide its press release issued on July 20, 2017 clarified Commission's decision communicated through circular 17 of 2017 dated July 20, 2017 that the companies whose financial year, including quarterly and other interim period closes on or before June 30, 2017, shall prepare their financial statements in accordance with the provisions of Companies Ordinance, 1984 (Repealed). Accordingly, these condensed interim financial statements have been prepared in accordance with the requirements of the International Accounting Standard 34 – "Interim Financial Reporting" and provisions of and directives issued under the Companies Ordinance, 1984 (Repealed). In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 (Repealed) have been followed. The condensed interim financial statements of the Company for the half year ended June 30, 2017 are unaudited but subject to limited scope review by the statutory auditors as required by the Act and the Code of Corporate Governance.

2.2 The figures of the condensed interim statement of comprehensive income for the quarters ended June 30, 2017 and 2016 have not been reviewed by the external auditors of the Company as they have reviewed the cumulative figures for the half year ended June 30, 2017. These condensed interim financial statements do not include all the information and disclosures as required in the annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2016.

2.3 These condensed interim financial statements are being submitted to the shareholders as required by the Listing Regulations of Pakistan Stock Exchange and Section 245 of the Companies Ordinance, 1984 (Repealed).

3. ACCOUNTING POLICIES

3.1 The accounting policies and the methods of computation used in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the financial statements for the year ended December 31, 2016, except for certain amendments which did not have any effect on these condensed interim financial statements.

3.2 The Company follows the practice of conducting actuarial valuation annually at the year end. Hence, the impact of re-measurement of post-employment benefit plans has not been incorporated in the condensed interim financial statements.

3.3 Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

- 4.1 The preparation of these condensed interim financial statements is in conformity with the approved accounting standards which 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. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. However, actual results may differ from these estimates.
- 4.2 During the preparation of these condensed interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the audited annual financial statements for the year ended December 31, 2016.

5. PROPERTY, PLANT AND EQUIPMENT	Note	Unaudited June 30, 2017	Audited December 31, 2016
		------(Rupees '000) -----	
Operating assets - at net book value	5.1 & 5.2	8,541,044	7,724,172
Provision for impairment		(361,164)	(365,010)
		8,179,880	7,359,162
Capital work-in-progress	5.3	1,145,514	1,790,947
		9,325,394	9,150,109

- 5.1 Additions to operating assets, including transfers from capital work-in-progress, during the period / year were as follows:

	Unaudited June 30, 2017	Audited December 31, 2016
		------(Rupees '000) -----
Leasehold land	91,313	51,726
Buildings on freehold	1,638	-
Buildings on leasehold land	88,935	49,513
Tanks and pipelines	88,355	270,792
Plant and machinery	195,691	242,358
Air conditioning plant	1,165	2,795
Lifts	8,515	216
Dispensing pumps	180,777	83,992
Rolling stock and vehicles	27,527	16,857
Electrical, mechanical and firefighting equipment	21,213	353,758
Furniture, office equipment and other assets	528,232	180,000
	1,233,361	1,252,007

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

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

	Cost	Accumulated depreciation	Net book value
	------(Rupees '000)-----		
June 30, 2017 (Unaudited)			
Building on leasehold land	1,559	1,555	4
Tanks and pipelines	7,120	6,758	362
Plant and machinery	47,523	47,447	76
Air conditioning plant and computer auxiliaries	13,570	13,136	434
Rolling stock and vehicles	42,449	42,449	-
Electrical, mechanical and fire fighting equipment	30,903	28,276	2,627
Furniture office equipment and other assets	5,287	4,958	329
	148,411	144,579	3,832
December 31, 2016 (Audited)			
	185,101	114,462	70,639

5.3 **Capital work-in-progress**

	Unaudited June 30, 2017	Audited December 31, 2016
	------(Rupees '000)-----	
Buildings on leasehold land	690,549	1,104,306
Tanks and pipelines	181,857	268,308
Plant and machinery	201,351	302,647
Electrical, mechanical and fire-fighting equipment	64,130	80,163
Furniture, office equipment and other assets	7,627	35,523
	1,145,514	1,790,947

6. LONG-TERM INVESTMENTS

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

	Unaudited June 30, 2017	Audited December 31, 2016
	------(Rupees '000)-----	
Balance at the beginning of the period / year	3,730,560	3,431,508
Share of profit before taxation	565,955	1,087,381
Share of taxation	(203,118)	(335,541)
	362,837	751,840
Dividend received	-	(452,788)
Balance at the end of the period / year	4,093,397	3,730,560

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

		Unaudited June 30, 2017	Audited December 31, 2016
	Note	------(Rupees '000) -----	
7. DEFERRED TAXATION - net			
This comprises of the following:			
Taxable temporary differences arising in respect of:			
- accelerated tax depreciation		(890,615)	(892,178)
- investment in associate		(277,675)	(229,994)
		(1,168,290)	(1,122,172)
Deductible temporary differences arising in respect of:			
- provisions		578,857	580,771
- minimum tax carry forward	7.1	2,763,000	2,763,000
		3,341,857	3,343,771
		2,173,567	2,221,599
7.1	In view of the order of the High Court of Sindh, as fully explained in note 20.1.2.1 to the annual audited financial statements for the year ended 31 December 2016, the Company has not recognized deferred tax asset on minimum tax carry forward amounting to Rs. 2,051,898 (2016: Rs. 2,051,898) thousand as a matter of prudence.		
8. STOCK-IN-TRADE			
Raw and packing materials			
Provision for impairment	8.1	1,759,711 (53,090) 1,706,621	1,098,456 (57,138) 1,041,318
Finished products			
Provision for impairment	8.1	13,200,941 (34,238) 13,166,703	9,357,348 (32,494) 9,324,854
		14,873,324	10,366,172
8.1	Provision for impairment is as follows:		
Balance at the beginning of the period / year		89,632	108,499
Provision made during the period / year		67,828	38,186
Reversals during the period / year		(70,132)	(57,053)
		(2,304)	(18,867)
Balance at end of the period / year		87,328	89,632

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

9. OTHER RECEIVABLES	Note	Unaudited June 30, 2017 ------(Rupees '000) -----	Audited December 31, 2016
Petroleum development levy and other duties	9.1	1,380,029	1,380,029
Price differential claims			
- on imported purchases	9.2	295,733	295,733
- on high speed diesel (HSD)	9.3	343,584	343,584
- on imported motor gasoline	9.4	2,071,107	2,071,107
Regulatory duty receivable	9.5	169,632	169,632
Sales tax refundable	9.6	152,976	463,753
Receivable under inland freight equalisation mechanism		1,333,770	1,023,957
Receivable from related parties	9.7	563,413	735,763
Service cost receivable from associate company - PAPCO		24,365	8,958
Staff retirement benefit schemes		671,298	420,704
Receivable from Oil Marketing Companies		1,424,384	867,631
Taxes recoverable	9.8	976,009	976,009
Others		110,756	66,195
		9,517,056	8,823,055
Provision for impairment		(405,225)	(405,225)
		9,111,831	8,417,830

9.1 Includes petroleum development levy amounting to Rs. 1,369,560 thousand (2016: Rs. 1,369,560 thousand) recoverable from the Government of Pakistan (GoP) on account of export sales from June 2007. In 2011, the Company approached the GoP and Federal Board of Revenue (FBR) for settlement thereof. The GoP sought certain information which was duly provided by the Company. The FBR through the Large Taxpayers Unit (LTU) completed the verification exercise for claims amounting to Rs 938,866 thousand, refund cheques against which were received in 2014. During 2015, verification exercise of claims amounting to Rs. 182,004 thousand was completed by the authorities, however, the payment has not been released yet. Further, during 2016, FBR through Customs station Torkham completed verification exercise of claims amounting to Rs. 851,330 thousand. However, the same has not yet been sanctioned by the FBR as of the balance sheet date. Furthermore, the remaining claims are under verification and the Company is confident of recovery of the amount in full on completion of the verification exercise by the FBR.

9.2 Represents amount receivable from GoP on account of price differential on imports and the ex-refinery price on direct and retail sales during the period 1990-2001. The Company is actively following up the matter with GoP and is confident of recovering the amount in full.

9.3 Represents price differential claim from GoP on local / imported purchases of HSD which was based on rates notified by GoP to subsidise petroleum prices by restricting the increase in prices in order to reduce the burden of rising oil prices on the end consumers. The Company is actively following up the matter with GoP and is confident of recovering the amount in full.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

- 9.4 Represents the Company's share of price differential claims on account of import of motor gasoline by the Company, being the difference between the 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 the 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, the Company along with other oil marketing companies approached MoPNR through letter dated July 23, 2009 requesting to expedite 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. Accordingly, the Company accordingly submitted audit reports for claims till May 31, 2011 amounting to Rs. 2,411,661 thousand. Subsequently, the Company received an amount of Rs. 454,000 thousand from GoP in respect of these claims.
- In 2012, to meet the increasing local demand, oil marketing companies again 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.
- In 2013, the Company approached MoPNR through letter dated May 20, 2013 requesting to expedite 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. Accordingly, the Company submitted audit report thereafter in respect of this claim.
- The Company along with other oil marketing companies and Oil Companies Advisory Council (OCAC) continues to follow up this matter with MoPNR and is confident of recovering the amounts in full.
- 9.5 This includes receivable in respect of regulatory duty imposed by the Ministry of Finance (MoF), Economic Affairs, Statistics and Revenue, GoP through S.R.O. 392(I)/2015 dated April 30, 2015 on import of crude oil, high speed diesel and motor gasoline. Under the product pricing formula, the Oil Marketing Companies (OMCs) were required to recover similar cost elements and duties from customers on sale of petroleum products through prices notified on monthly basis. Since the notification of regulatory duty was received on May 2, 2015, the impact of the regulatory duty could not be incorporated in the prices effective from May 1, 2015, which were announced on April 30, 2015. Therefore, the recovery of regulatory duty was to be made through subsequent month's prices of petroleum products. However, through SRO 603(I)/2015 dated June 30, 2015, the regulatory duty has been rescinded resulting in a receivable balance of regulatory duty from the GoP. The Company is currently engaged with the MoPNR and is actively pursuing recovery thereagainst. MoPNR, in accordance with the decision of Economic Coordination Committee (ECC) dated July 8, 2015, has requested OGRA to develop a comprehensive recovery mechanism of regulatory duty based on the principle that there should be no gain or loss to OMCs.
- It further includes receivable in respect of increase in rate of customs duty effective June 25, 2016, imposed by the MoF through Finance Act 2016 dated June 24, 2016, on import of crude oil, high speed diesel and motor gasoline. Under the product pricing formula, the OMCs are required to recover similar cost elements and duties from customers on sale of petroleum products through prices notified on monthly basis. However, impact of increase in rate of customs duty was not incorporated in the price notification issued by OGRA for July 2016 which resulted in a receivable balance on customs duty to be recovered from the GoP. The Company has taken up this matter with OCAC to demand recovery of the aforesaid balance from the GoP and expects to receive the amount in due course.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

- 9.6 Includes sales tax refundable on account of export sales pertaining to the period October 2005 to September 2006 and January 2008 to August 2011 amounting to Rs. 663,045 thousand and Rs. 1,514,091 thousand, respectively, aggregating outstanding amount of Rs. 2,177,192 thousand. During 2016, the tax authorities completed verification exercise of refunds amounting to Rs. 531,407 thousand against which Rs. 430,772 thousand have been received. During the period, the tax authorities completed further verification of refunds amounting to Rs. 440,378 thousand against which refund payment orders have been issued. For the remaining refund claims amounting to Rs. 1,205,407 thousand, the Company is actively pursuing for their recovery.
- 9.7 Includes net receivable on account of recoveries from customers by Shell Aviation Limited on behalf of the Company.
- 9.8 In 2013, the Deputy Commissioner Inland Revenue (DCIR) in compliance with the directions of ATIR, completed denovo proceedings in respect of tax year 2006 and raised a demand of Rs. 425,514 thousand. The demand primarily relates to disallowance of premium paid to Shell International Trading Middle East (SITME) on imports of high speed diesel while treating the same as payment to non-resident on which the Company failed to deduct tax under section 152 of the Income Tax Ordinance, 2001. The Company in response to the aforementioned order deposited an amount of Rs. 301,167 thousand while an amount of Rs. 111,785 thousand was adjusted against sales tax refund. 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 also filed an appeal against the aforementioned order before CIR (Appeals) which in its order dated February 2, 2015 has upheld the order passed by the DCIR. The Company has filed an appeal there against before the ATIR which is pending for hearing. The Company, based on the advice of its tax consultant expects a favorable outcome of appellate levels and considers the possibility of any liability arising under the aforementioned order to be remote.

10. TRADE AND OTHER PAYABLES	Note	Unaudited June 30, 2017	Audited December 31, 2016
		------(Rupees '000) -----	
Creditors	10.1	20,378,758	20,011,261
Accrued liabilities		5,406,324	6,349,726
Dealers' and customers' security deposits		320,619	520,295
Advances received from customers		1,909,314	931,460
Provision for post-retirement medical benefits		83,537	83,537
Workers' welfare fund		306,683	248,588
Workers' profits participation fund		251,368	358,145
Unclaimed dividends		350,083	678,775
Withholding tax payable		714,070	713,580
Provision for staff redundancy plan		104,279	119,030
Other liabilities		53,633	23,430
		<u>29,878,668</u>	<u>30,037,827</u>

- 10.1 Includes amounts due to related parties aggregating to Rs. 15,784,974 thousand (December 31, 2016: Rs. 14,420,982 thousand). Particulars of the amounts due are as follows:

	Unaudited June 30, 2017	Audited December 31, 2016
		------(Rupees '000) -----
Affiliates of Parent company	15,093,586	13,010,656
Pakistan Refinery Limited	691,388	1,410,326
	<u>15,784,974</u>	<u>14,420,982</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

11. CONTINGENCIES AND COMMITMENTS

11.1 Contingencies

There is no material change in the status of contingencies from what is disclosed in note 20.1 to the annual audited financial statements for the year ended 31 December 2016 except for the contingencies described in note 20.1.4 of that financial statements which has been updated as follows:

The amount of other claims against the Company not acknowledged as debt as at June 30, 2017 aggregate to approximately Rs. 2,907,499 thousand (December 31, 2016: Rs. 2,908,139 thousand). This includes claims by refineries, amounting to Rs. 1,094,149 thousand (December 31, 2016: Rs. 1,094,149 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.

11.2 Commitments

11.2.1 Capital expenditure contracted for but not incurred as at June 30, 2017 amounted to approximately Rs. 229,200 thousand (December 31, 2016: Rs. 578,500 thousand).

11.2.2 Commitments for rentals of assets under operating lease agreements as at June 30, 2017 amounted to Rs. 2,607,968 thousand (December 31, 2016: Rs. 2,699,019 thousand) payable as follows:

	Unaudited June 30, 2017	Audited December 31, 2016
	------(Rupees '000) -----	
Not later than one year	182,103	182,624
Later than one year but not later than five years	724,103	724,696
Later than five years	1,701,762	1,791,699
	<u>2,607,968</u>	<u>2,699,019</u>

11.2.3 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 June 30, 2017, the value of these cheques amounted to Rs. 12,830,761 thousand (December 31, 2016: Rs. 6,724,040 thousand). The maturity dates of these cheques extend to October 1, 2017.

11.2.4 Letters of credit and bank guarantees outstanding as at June 30, 2017 amount to Rs. 12,152,091 thousand (December 31, 2016: Rs. 1,130,365 thousand).

		Unaudited			
		Half Year ended		Quarter ended	
		June 30, 2017	June 30 2016	June 30, 2017	June 30 2016
12. TAXATION	Note	------(Rupees '000) -----			
Current					
- for the period	12.1	760,786	366,787	276,326	224,878
- for prior period		173,379	71,073	173,379	71,073
		934,165	437,860	449,705	295,951
Deferred		48,032	157,183	32,346	159,630
		982,197	595,043	482,051	455,581

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

12.1 The current tax charge for the period includes the higher of Corporate Tax, Alternative Corporate Tax and Minimum Tax amounting to Rs. 752,871 thousand (June 30, 2016: Rs. 345,516 thousand) and tax on account of income subject to final tax regime (FTR) amounting to Rs. 7,915 thousand (June 30, 2016: Rs. 21,271 thousand).

12.2 The income tax return for the tax year 2016 has been filed.

	Unaudited Half year ended	
Note	June 30, 2017	June 30, 2016
	------(Rupees '000)-----	
13. CASH GENERATED FROM OPERATIONS		
Profit before taxation	3,320,561	2,807,876
Adjustment for non-cash charges and other items:		
Depreciation and amortization	412,658	382,670
Accretion expense in respect of asset retirement obligation	2,949	2,313
Reversal of liability in respect of asset retirement obligation	-	(2,466)
(Reversal of) / Provision for impairment of stock-in-trade – net	(2,304)	1,683
(Reversal of) / Provision for impairment of trade Debts	(1,618)	3,902
Reversal of impairment of operating assets	(3,846)	(8,047)
Liability no longer payable written back	-	(61,273)
Write off of operating assets	3,832	11,185
Gain on disposal of operating assets	-	(5,420)
Share of profit of associate	(362,837)	(274,178)
Mark-up / interest on short-term deposits	(85,784)	(107,737)
Mark-up / interest on short-term running finance	7,739	3,251
Working capital changes	(5,442,347)	135,676
13.1	(2,150,997)	2,889,435

	Unaudited Half year ended	
Note	June 30, 2017	June 30, 2016
	------(Rupees '000)-----	
13.1 Working capital changes		
(Increase) / decrease in current assets		
Stock-in-trade	(4,504,848)	751,145
Trade debts	(372,765)	(402,030)
Loans and advances	(43,029)	(97,091)
Short-term prepayments	2,763	343,238
Other receivables	(694,001)	(1,962,191)
	(5,611,880)	(1,366,929)
Increase in current liabilities		
Trade and other payables	169,533	1,502,605
	(5,442,347)	135,676

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

14. RELATED PARTY TRANSACTIONS

The related parties of the Company comprise parent, ultimate parent, associate, employee retirement benefit plans, key management personnel, directors and other related parties. Transactions with related parties essentially entail sale and purchase of goods and services and expenses charged between these parties. Transactions with related parties are as follows:

Nature of relationship	Nature of transactions	Note	Unaudited Half year ended	
			June 30, 2017	June 30, 2016
			------(Rupees '000) -----	
Holding Company	Dividend Paid		2,769,086	814,437
Associate				
Pak-Arab Pipeline Company Limited	Pipeline charges Others		308,188 17,581	335,284 6,566
Staff retirement benefit / contribution funds				
Pension funds Defined contribution	Contribution		-	14,391
Pension funds	Contribution		60,342	55,929
Gratuity funds	Contribution		-	3,595
Provident funds	Contribution		32,319	30,744
Key management Personnel				
	Salaries and other short term employee benefits	14.1	42,710	38,084
	Post-employment benefits		2,552	3,173
Directors				
	Fee for attending meetings		2,750	1,900
	Dividend paid		23,544	-
Other related parties				
	Purchases		57,917,380	54,832,030
	Sales		22,317	988,189
	Collection for sales made in Pakistan to customers of the parent and its associates		2,353,527	1,554,883
	Technical service fee charged	14.2	663,096	645,000
	Trademarks and manifestations license fee charged	14.3	168,606	136,962
	Computer expenses charged (Global Infrastructure Desktop charges)	14.3	28,263	80,299
	Expenses recovered from related parties	14.4	70,086	67,587
	Other expenses charged by related parties	14.4	250,895	453,287
	Bank charges		2,767	-
	Return on deposits		6,699	-

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

- 14.1 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. The Company considers its Chief Executive and Executive Directors to be key management personnel.
- 14.2 Technical services include advice and assistance to the Company in its operations. The fee for these services has been determined on the basis of agreements between the Company and a related Shell Group company based on an agreed methodology.
- 14.3 Trademarks and manifestations license fee and Global Infrastructure Desktop charges are based on the agreements entered into by the Company with Shell Group companies.
- 14.4 Expenses recovered from / charged by related parties are based on actuals.

15. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of financial risks. These condensed interim financial statements do not include all financial risk management information and disclosures which are required in the annual audited financial statements and should be read in conjunction with the annual audited financial statements of the Company as at 31 December 2016. There has been no change in any risk management policies since the year end.

16. FAIR VALUES OF ASSETS AND LIABILITIES

All assets and liabilities of the Company are carried at amortised cost. The carrying value of all financial and non-financial assets and liabilities measured at other than amortised cost in these condensed interim financial statements approximate their fair values.

17. OPERATING SEGMENTS

These condensed interim financial statements have been prepared on the basis of a single reportable segment.

All the sales of the Company relate to petroleum products.

Total sales of the Company relating to customers in Pakistan were 99.8% during the half year ended June 30, 2017 (June 30, 2016: 99.3%).

All non-current assets of the Company as at June 30, 2017 and 2016 are located in Pakistan.

Sales to twenty major customers of the Company are around 25% during the half year ended June 30, 2017 (June 30, 2016: 21%).

18. SUBSEQUENT EVENT

The Board of Directors has proposed and approved an interim cash dividend of Rs. 7/- per share for the half year ended June 30, 2017, in its meeting held on August 16, 2017.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

19. GENERAL

- 19.1 In order to comply with the requirements of International Accounting Standard 34 – ‘Interim Financial Reporting’, corresponding figures in the condensed interim balance sheet comprise of balances as per the audited annual financial statements of the Company for the year ended December 31, 2016 and the corresponding figures in the condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows comprise of balances of comparable period as per the condensed interim financial statements of the Company for the half year ended June 30, 2016.
- 19.2 These condensed interim financial statements were authorized for issue on August 16, 2017 by the Board of Directors of the Company.

Jawwad A. Cheema
Chief Executive

Faisal Waheed
Chief Financial Officer

Badaruddin F. Vellani
Director