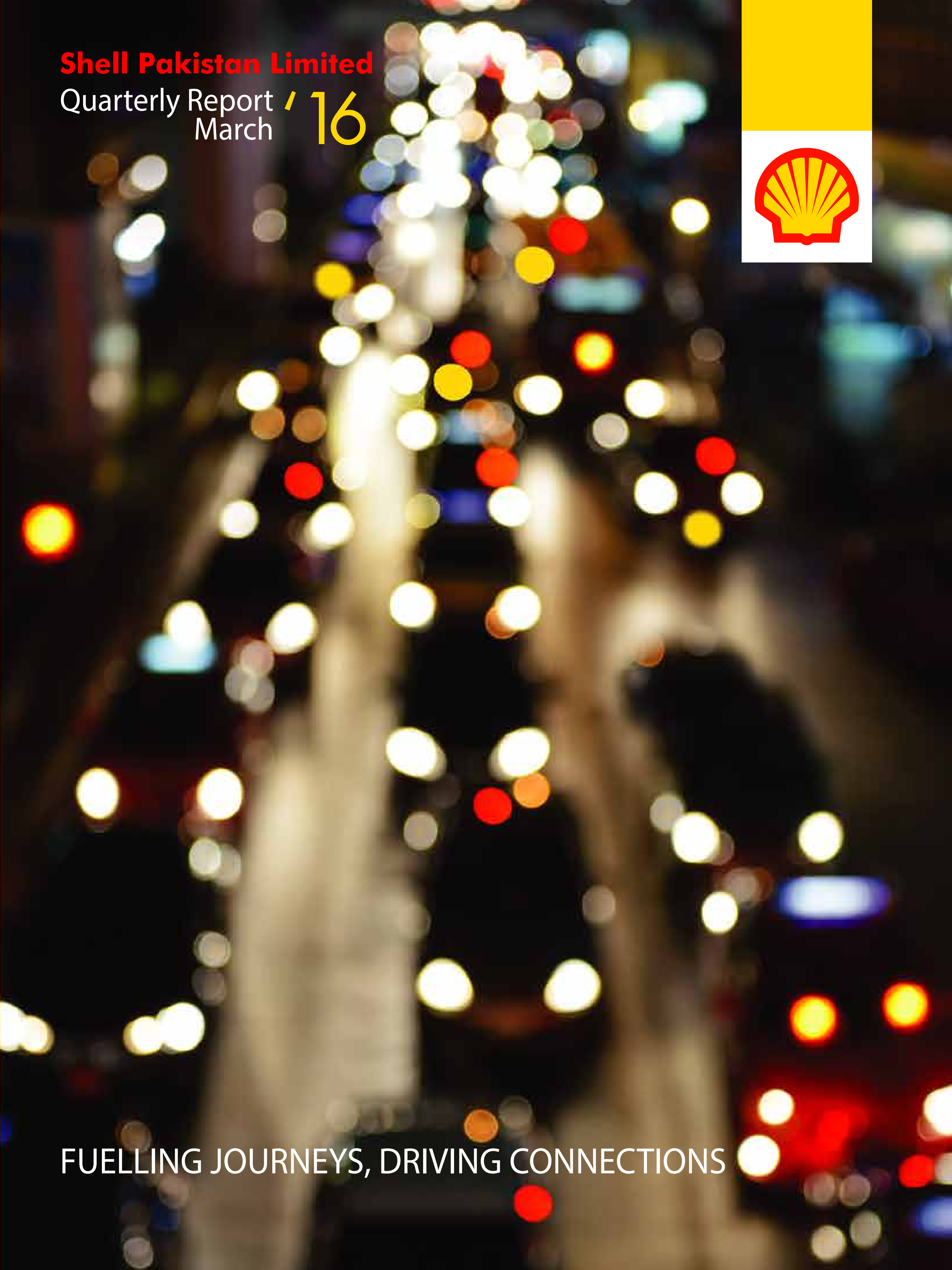

Shell Pakistan Limited

Quarterly Report March '16

FUELLING JOURNEYS, DRIVING CONNECTIONS

COMPANY **INFORMATION**

Board of Directors
Omar Sheikh — Chairman
Farrokh K Captain
Soo Lim Goh
Imran R Ibrahim
Nasser N S Jaffer
Zaffar A Khan
John King Chong Lo
Klaas Mantel
Haroon Rashid
Badaruddin F Vellani
Faisal Waheed

Managing Director & Chief Executive Officer
Omar Sheikh

Audit Committee
Badaruddin F Vellani — Chairman
Soo Lim Goh
Imran R Ibrahim

Human Resource and Remuneration Committee
Klaas Mantel
Farrokh K Captain
Omar Sheikh

Company Secretary
Tariq Saeed

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

Auditors
Ernst & Young Ford Rhodes Sidat Hyder

Legal Advisors
Vellani & Vellani
Advocates & Solicitors

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

CHAIRMAN'S REVIEW

For the quarter ended March 31, 2016

Our performance

On behalf of the Board of Directors of Shell Pakistan Limited, I would like to share the results of your Company for the quarter ended March 31, 2016. The Company has continued to make progress on improving its operational performance during the quarter, registering profitable delivery in all our chosen focus segments. Downward oil price movements continued to impact our otherwise robust operational performance, resulting in a net profit after tax of Rs 21 million for the quarter, compared to a net loss of Rs 753 million in first quarter of 2015.

In an import dependent market with fixed margins for motor gasoline and diesel, the extent of inventory losses due to decline in international oil prices is rather large. With the oil prices taking a further plunge in the first three months of 2016, your Company incurred significant inventory losses during the quarter, although this impact was mitigated to some extent through optimizing our global supply chain network to get the best available prices for imported products. We also continued to maintain adequate stocks of fuels as per legal requirements along with ensuring a steady supply of fuel to our customers.

The Company continued with its focus on enhanced customer value propositions and superior portfolio offering. Advertising and promotional spend of Rs 91 million, along with exciting new initiatives in non-fuel retailing have set up a springboard for a successful 2016. However, the financial performance of

your Company continues to be affected by low regulated fuel margins, continued significant impact of the turnover tax mechanism and financial burden resulting from overdue receivables from the Government.

Receivables & financing costs

During the current period, the Company was not able to collect further refunds from the Government with an implication that it continued to incur financing cost on bank borrowings required to fund these receivables. As at 31st March 2016, the Company is still owed Rs 4,019 million as receivables. The Company's management is continuously engaged with relevant Government authorities to pay the remaining amount on an expedited basis to ensure business continuity and growth.

Fuel margins

Petrol and diesel margins in Pakistan are regulated and fixed in Rupees per liter. Currently, these margins are not at a level sufficient to cover steadily rising direct costs of operations and the high cost of financing required for investment in stocks and business assets. Currently regulated margins for motor gasoline and diesel still remain the lowest in the region and we continue to advocate for a further favorable revision of these margins to bring them in line with increasing costs of doing business.

Turnover tax

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

Going forward

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

Omar Sheikh,
Chairman & Chief Executive

CONDENSED INTERIM BALANCE SHEET

As at March 31, 2016

	Note	(Unaudited) March 31, 2016	(Audited) December 31, 2015
		--------------(Rupees '000)--------------	
ASSETS			
Non-Current Assets			
Property, plant & equipment	5	**8,185,388**	8,089,022
Long term investments	6	**3,575,033**	3,436,508
Long term loans and advances		**2,921**	5,712
Long term deposits and prepayments		**162,549**	167,416
		11,925,891	11,698,658
Current Assets			
Stock-in-trade		**9,018,703**	13,281,189
Trade debts		**2,719,850**	1,600,632
Loans and advances		**83,730**	67,716
Short term prepayments		**573,350**	584,063
Other receivables	8	**8,168,285**	8,598,668
Cash and bank balances		**3,867,792**	2,103,517
		24,431,710	26,235,785
TOTAL ASSETS		**36,357,601**	37,934,443
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		**3,221,152**	3,248,749
Remeasurement of post employment benefits - Actuarial (loss) /gain		**-**	(48,857)
Total equity		**6,002,082**	5,980,822
Liabilities			
Non-Current Liabilities			
Asset retirement obligation		**117,065**	117,861
Deferred taxation - net	7	**345,157**	347,605
Current Liabilities			
Trade and other payables	9	**29,370,225**	29,030,718
Accrued mark-up		**2,476**	10,476
Short term borrowings- Secured		**145,850**	2,025,448
Taxation		**374,746**	421,513
		29,893,297	31,488,155
Total Liabilities		**30,355,519**	31,953,621
Contingencies and commitments	10		
TOTAL EQUITY AND LIABILITIES		**36,357,601**	37,934,443

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

Omar Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the quarter ended March 31, 2016

	Note	March 31, 2016	March 31, 2015
		-------------(Rupees '000)-------------	
Sales		**56,668,370**	59,218,683
Other revenue		**239,796**	140,882
		56,908,166	59,359,565
Sales tax		**(14,232,400)**	(11,184,204)
Net revenue		**42,675,766**	48,175,361
Cost of products sold		**(40,697,208)**	(46,841,085)
Gross profit		**1,978,558**	1,334,276
Distribution and marketing expenses		**(1,114,585)**	(1,072,699)
Administrative expenses		**(965,199)**	(1,071,463)
		(101,226)	(809,886)
Other operating expenses		**(13,406)**	(131,258)
		(114,632)	(941,144)
Other income		**167,103**	41,377
Operating profit		**52,471**	(899,767)
Finance costs		**(30,275)**	(70,865)
		22,196	(970,632)
Share of profit of associate - net of tax	6	**138,525**	110,201
Profit before taxation		**160,721**	(860,431)
Taxation	11	**(139,461)**	107,356
Profit / (loss) for the period		**21,260**	(753,075)
Other comprehensive income		**-**	-
Total comprehensive income / (loss) for the quarter		**21,260**	(753,075)
		-------------------(Rupees)---------------	
Earnings / (loss) per share		**0.20**	(7.04)

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

Omar Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the quarter ended March 31, 2016

		Capital reserve	Revenue reserve			
	Share capital	Share premium	General reserve	Unappropriated profit	Remeasurement of post employment benefits obligation - Actuarial (loss) / gain	Total
	(Rupees '000)					
Balance as at January 1, 2015	1,070,125	1,503,803	207,002	3,193,878	(79,743)	5,895,065
Profit for the year	-	-	-	910,970	-	910,970
Other comprehensive income for the year	-	-	-	-	30,886	30,886
Transactions with owners						
Final dividend for the year ended December 31, 2014 at the rate of Rs. 8 per share	-	-	-	(856,099)	-	(856,099)
Balance as at December 31, 2015	1,070,125	1,503,803	207,002	3,248,749	(48,857)	5,980,822
Profit for the quarter	-	-	-	21,260	-	21,260
Other comprehensive income for the quarter	-	-	-	-	-	-
Balance as at March 31, 2016	1,070,125	1,503,803	207,002	3,270,008	(48,857)	6,002,082

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

Omar Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the quarter ended March 31, 2016

	Note	March 31, 2016	March 31, 2015
		--------------(Rupees '000)----------------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	12	**4,068,502**	(950,403)
Finance costs paid		**(7,777)**	(31,053)
Income tax paid		**(188,677)**	(213,672)
Long-term loans and advances		**2,791**	5,477
Long-term deposits and prepayments		**4,867**	4,297
Mark-up / interest received on short-term deposits		**46,924**	18,633
Net cash generated from operating activities		**3,926,630**	(1,166,721)
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(289,933)**	(300,787)
Proceeds from disposal of operating assets		**8,937**	3,013
Net cash used in investing activities		**(280,996)**	(297,774)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(1,760)**	-
Net increase in cash and cash equivalents		**3,643,874**	(1,464,495)
Cash and cash equivalents at beginning of the year		**78,069**	(2,470,129)
Cash and cash equivalents at end of the period		**3,721,943**	(3,934,624)

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

Omar Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the quarter ended March 31, 2016

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 (formerly Karachi Stock Exchange into which Lahore and Islamabad stock exchanges have merged). The Company is a subsidiary of Shell Petroleum Company Limited, United Kingdom (immediate parent) which is a subsidiary of Royal Dutch Shell Plc. (ultimate parent). The registered office of the Company is located at Shell House, 6, Ch. Khaliquzzaman Road, Karachi-75530, Pakistan.

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

2. BASIS OF PREPARATION

2.1 This condensed interim financial information of the Company for the quarter ended March 31, 2016 is unaudited and has been prepared in accordance with the requirements the International Accounting Standard 34 – 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In case where the requirements differ, the provisions of or directives issued under the Ordinance have been followed.

2.2 This condensed interim financial information is being submitted to the shareholders in accordance with section 245 of the Ordinance and should be read in conjunction with the audited annual financial statements of the Company for the year ended December 31, 2015.

3. ACCOUNTING POLICIES

3.1 The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of audited annual financial statements of the Company for the year ended December 31, 2015.

3.2 There are certain new International Financial Reporting Standards (standards), amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2016. These are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations and are, therefore, not disclosed in this condensed interim financial information.

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.

4. ACCOUNTING ESTIMATES AND JUDGMENTS

4.1 The preparation of this condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its 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.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the quarter ended March 31, 2016

4.2 During the preparation of this condensed interim financial information, 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, 2015.

	Unaudited March 31, 2016	Audited December 31, 2015
5. PROPERTY, PLANT AND EQUIPMENT	----------(Rupees '000)----------	
Operating assets, at net book value - notes 5.1 and 5.2		
- Operating assets	**7,492,763**	7,304,355
- Provision for impairment	**(372,296)**	(378,281)
	7,120,467	6,926,074
Capital work-in-progress - note 5.3	**1,064,921**	1,162,948
	8,185,388	8,089,022

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

	Unaudited March 31, 2016	Audited December 31, 2015
	----------(Rupees '000)----------	
Owned assets		
Leasehold land	**81,332**	137,637
Buildings on freehold land	**-**	4,717
Buildings on leasehold land	**726**	59,563
Tanks and pipelines	**112,687**	62,593
Plant and machinery	**57,390**	608,359
Dispensing pumps	**-**	251,548
AC, Lifts and computer auxiliaries	**118,602**	6,107
Rolling stock and vehicles	**4,242**	37,243
Electrical, mechanical and fire fighting equipments	**12,684**	73,329
Furniture, office equipment and other assets	**297**	763,389
	387,960	2,004,485

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the quarter ended March 31, 2016

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

	Cost	Accumulated depreciation	Net book value
	----------------(Rupees '000)	-------------------	
March 31, 2016 (unaudited)			
Owned assets			
Building on leasehold land	47	47	-
Dispensing pumps	81,208	68,803	12,405
Electrical, mechanical and fire fighting equipment	24	24	-
Furniture,office equipment and other assets	2,816	2,816	-
	84,095	71,690	12,405
December 31, 2015 (Audited)	501,132	397,050	104,082

5.2.1 For details of the assets disposed/written off during the year ended December 31, 2015, please refer to the audited annual financial statements for the same year.

	Unaudited March 31, 2016	Audited December 31, 2015
	-----------(Rupees '000)	----------
5.3 Capital work-in-progress		
Buildings on leasehold land	**492,948**	395,285
Tanks and pipelines	**203,724**	305,544
Plant and machinery	**110,703**	88,901
Electrical, mechanical and fire fighting equipments	**257,546**	362,656
Furniture, office equipment and other assets	**-**	3,157
Rolling stocks & vehicles	**-**	5,205
Dispensing pumps	**-**	2,200
	1,064,921	1,162,948

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the quarter ended March 31, 2016

6. LONG-TERM INVESTMENTS

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

	Unaudited March 31, 2016	Audited December 31, 2015
	-----------(Rupees '000)----------	
Balance at the beginning of the period / year	**3,431,508**	3,271,116
Share of profit	**224,310**	832,027
Share of taxation	**(85,785)**	(248,066)
	138,525	583,961
Dividend received	**-**	(423,569)
Balance at the end of the period / year	**3,570,033**	3,431,508

7. DEFERRED TAXATION

This is composed of the following:

	Unaudited March 31, 2016	Audited December 31, 2015
Taxable temporary differences arising in respect of:		
- accelerated tax depreciation	**(899,837)**	(880,325)
- investment in associate	**(212,254)**	(194,938)
Deductible temporary differences arising in respect of:		
- short-term provisions	**661,831**	648,876
- carry forward tax losses - note 7.1	**105,103**	78,782
	(345,157)	(347,605)

7.1 Deferred income tax asset is recognized for tax losses available for carry-forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The aggregate unutilized tax losses as at March 31, 2016 amount to Rs. 339,042 thousand (December 31, 2015: Rs. 254,137 thousand).

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the quarter ended March 31, 2016

	Unaudited March 31, 2016	Audited December 31, 2015
	----------(Rupees '000)----------	
8. OTHER RECEIVABLES		
Petroleum development levy, sales tax and other duties (net) - note 8.1	**1,190,802**	1,550,294
Price differential claims		
- on imported purchases - note 8.2	**295,733**	295,733
- on high speed diesel (HSD) - note 8.3	**343,584**	343,584
- on imported motor gasoline - note 8.4	**2,071,107**	2,071,107
Regulatory duty receivable - note 8.5	**118,404**	118,404
Receivable under inland freight equalisation mechanism	**1,027,385**	971,734
Receivable from related parties - note 8.6	**275,627**	305,236
Service cost receivable from associate company - PAPCO	**15,430**	11,136
Staff retirement benefit schemes	**218,824**	250,814
Receivable from Oil Marketing Companies	**1,782,375**	1,862,207
Taxes recoverable - note 8.7	**968,073**	968,073
Others	**84,166**	73,571
	8,391,510	8,821,893
Less:		
Provision for impairment	**(223,225)**	(223,225)
	8,168,285	8,598,668

8.1 Includes petroleum development levy amounting to Rs. 1,364,775 thousand (2015: Rs. 1,364,069 thousand) recoverable from the Government of Pakistan (GoP) on account of export sales. 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 Large Taxpayers Unit (LTU) completed the verification exercise for claims amounting to Rs 938,866 thousand, a refund cheque against which was received last year. During 2015, verification exercise of further claims amounting to Rs 182,004 thousand was completed by the authorities. 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 FBR.

Further, this also includes sales tax refundable on account of export sales against which the Company has filed claims with FBR and is actively pursuing for its recovery.

8.2 Represents receivable from the GoP on account of price differential on imports and the ex-refinery price on direct and retail sales during the period 1990-2001.

8.3 Represents price differential claim from the GoP on local / imported purchases of HSD which was based on rates notified by the 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.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the quarter ended March 31, 2016

8.4 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 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 accordingly submitted audit reports thereafter 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.

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.

Further in 2013, the Company 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 accordingly submitted an audit report thereafter in respect of this claim.

The Company along with industry and Oil Companies Advisory Council (OCAC) continues to follow up this matter with MoPNR and is confident of recovering the amounts in full.

8.5 This represents receivable in respect of regulatory duty imposed by the Ministry of Finance, Economic Affairs, Statistics and Revenue, GoP through SRO 392(I)/2015 dated April 30, 2015 on import of crude oil, high speed diesel and motor gasoline. Under the product pricing formula, the 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. The Company is currently engaged with the MoPNR and is actively pursuing recovery there against. 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.

8.6 This represents net receivable on account of recoveries from customers by Shell Aviation Limited on behalf of the Company.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the quarter ended March 31, 2016

8.7 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 to be heard. 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.

9. TRADE AND OTHER PAYABLES

	Unaudited March 31, 2016	Audited December 31, 2015
	----------(Rupees '000)-----------	
Creditors - note 9.1	**21,973,814**	21,156,857
Accrued liabilities	**5,126,364**	5,001,774
Dealers' and customers' security deposits	**514,874**	499,507
Advances received from customers	**1,232,667**	1,763,309
Provision for post retirement medical benefits	**84,197**	84,197
Workers' welfare fund	**153,687**	153,229
Workers' profits participation fund	**117,165**	115,958
Unclaimed dividends	**141,387**	143,147
Other liabilities	**26,070**	112,740
	29,370,225	29,030,718

9.1 This includes amounts due to related parties aggregating to Rs. 19,750,007 thousand (December 31, 2015: Rs. 17,138,216 thousand). Particulars of the amounts due are as follows:

	Unaudited March 31, 2016	Audited December 31, 2015
	----------(Rupees '000)-----------	
Affiliates of Parent company	**17,488,772**	16,212,600
Pakistan Refinery Limited	**1,106,767**	794,609
Other related parties	**1,154,468**	131,007
	19,750,007	17,138,216

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the quarter ended March 31, 2016

10. CONTINGENCIES AND COMMITMENTS

10.1 Contingencies

10.1.1 Infrastructure fee

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

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 / securities 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 March 31, 2016 at Rs. 84,493 thousand (December 31, 2015: Rs. 75,493 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 the condensed interim financial information against the levy as the management expects a favourable outcome.

10.1.2 Taxation

10.1.2.1 In 2011, the Company received a demand from tax authorities in respect of tax year 2008 amounting to Rs. 735,109 thousand. The demand principally arose due to addition made by assessing officer in respect of allocation of common expenses and taxing the reversal of provision for impairment in trade and other receivables. Further, assessing officer had also disallowed the credit for minimum tax amounting

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For the quarter ended March 31, 2016

to Rs. 482,685 thousand paid in earlier year and set-off against tax liability for the tax year 2008. The Company thereafter filed an application against the order for rectification of certain mistakes apparent from the record. The tax officer rectified the order accepting the Company's contention and reduced the demand to Rs. 527,150 thousand. The Company in response to the demand deposited an amount of Rs. 120,000 thousand and filed an appeal with the Commissioner Inland Revenue (CIR) (Appeals) and thereafter with Appellate Tribunal Inland Revenue (ATIR). The remaining demand has been adjusted by the taxation authorities from sales tax refundable. In 2012, both CIR (Appeals) and ATIR have decided the case against the Company. The Company in response to this order of ATIR has filed an appeal before High Court of Sindh which is pending hearing.

In 2013, the High Court of Sindh, in respect of another Company, overturned the interpretation of the Appellate Tribunal on Sec 113 (2) (c) of the Income Tax Ordinance, 2001 and decided that the minimum tax could not be carried forward where there was 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 of Sindh. 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'.

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

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

In 2013, CIR (Appeals) upheld the basis used by tax officer in respect of allocation of expenses and had directed the tax authorities to work out correct figures, in order to determine the allocation ratio. The CIR (Appeals) in respect of disallowance of software cost had directed tax authorities to give consequential effect to the subsequent years. The Company filed an appeal against the CIR (Appeals) order before the ATIR which through an order dated December 7, 2015 confirmed the decision of the CIR (Appeals) on the issue of allocation of expenses. The Company in response to this order of ATIR has filed an appeal before High Court of Sindh which is pending hearing.

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

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For the quarter ended March 31, 2016

10.1.2.3 In 2015, the tax authorities after finalising the income tax audit for the tax year 2011 raised a demand of Rs. 1,694,921 thousand. The demand principally arose due to the disallowance of premium paid to SITME on imports, disallowance of technical service fee and other associated company payments for alleged non-withholding of tax and allocation of expenses. Additionally, unutilised tax losses of previous years were not adjusted in computing the tax liability. The Company in response to order filed a rectification application and an appeal with the CIR (Appeals). The tax officer rectified the order allowing the unutilised tax losses for previous years thereby reducing the demand to Rs. 250,144 thousand. The revised rectified order still contains certain mistakes for which the Company filed another rectification application with the authorities which was rejected by the authorities. However, on the Company's appeal, CIR (Appeals) vide appellate order dated September 9, 2015 has decided most of the issues including disallowance of premium paid to SITME and technical service fee in favour of the Company, whereas disallowance of bad debts written off was confirmed. The Company and the department both have filed appeals against CIR (Appeals)'s decision.

The Company based on the merits of the aforementioned matter and as per the advice of its tax consultants expects a favourable outcome on these matters and accordingly no provision in this respect has been made in the condensed interim financial information.

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

10.1.3.1 In 2011, the tax authorities after conducting sales tax and FED audit for the period July 2008 to June 2009 and post refund audit for the period September and October 2008 raised sales tax and FED 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 FED audit for period July 2009 to December 2009 and January 2011 and December 2011 and raised additional sales tax and FED 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 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 of Sindh. The appeals for September and October 2008 were decided in favour of the Company by the ATIR whereas appeals for July 2008 to June 2009 and July 2009 to December 2009 were 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 remanded back the matter to the tax authorities for fresh adjudication. During the year, the ATIR also decided the appeal filed by the tax authorities for the period July 2009 to December 2009 wherein all issues involved in the appeal were once again remanded back to the authorities for fresh examination.

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the quarter ended March 31, 2016

In 2014, the tax authorities issued a notice proposing to levy sales tax on the value of supply of jet fuel to various airlines during the period July 2012 to June 2013 thereby proposing to raise tax demand of Rs. 2,558,997 thousand. The Company filed an application with the High Court of Sindh, which passed an ad-interim order restraining the tax authorities from passing an order.

In 2015, the tax authorities whilst finalising sales tax audit for the period January 2012 to December 2012 issued a show cause notice inter alia proposing to levy sales tax on the value of supply of jet fuel during the period January 2012 to June 2012, thereby proposing to raise a demand of Rs. 1,046,760 thousand. Further, FED amounting to Rs. 186,201 thousand in respect of trade mark and manifestation fee and group fee is also being demanded. The Company filed an application with the High Court of Sindh, which passed an order restraining the tax authorities from passing an order.

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

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

The FBR has issued directives restricting collectorates from any recovery actions and has also issued a notification dated February 10, 2012 confirming that value addition sales tax was not to be charged on POL products whose prices are regulated under special pricing arrangement by the GoP or regulatory authority working under the GoP. Further, Model Customs Adjudication quashed the show cause notices of Faisalabad, Lahore and Multan Collectorates based on the notification. The Company is also of the view that OMCs cannot be required to pay the tax on unregulated products / exports retrospectively since clarification of FBR was available 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 the condensed interim financial information.

10.1.4 **Others**

The amount of other claims against the Company not acknowledged as debt as at March 31, 2016 aggregate to approximately Rs. 3,354,138 thousand (December 31, 2015: Rs. 3,152,249 thousand). This includes claims by refineries, amounting to Rs. 1,094,149 thousand (December 31, 2015: 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.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the quarter ended March 31, 2016

10.2 **Commitments**

10.2.1 Capital expenditure contracted for but not incurred as at March 31, 2016 amounted to approximately Rs. 265,166 thousand (December 31, 2015: Rs. 242,599 thousand).

10.2.2 Commitments for rentals of assets under operating lease agreements as at March 31, 2016 amounted to Rs. 2,826,616 thousand (December 31, 2015: Rs. 2,562,699 thousand) payable as follows:

	Unaudited March 31, 2016	**Audited December 31, 2015**
	------------(Rupees '000)	**----------**
Not later than one year	**182,533**	170,322
Later than one year and not later than five years	**715,595**	644,171
Later than five years	**1,928,488**	1,748,206
	2,826,616	2,562,699

10.2.3 Post-dated cheques have been deposited with the Collector of Customs Port Qasim and Karachi Port Trust in accordance with the Customs' Act, 1969 as an indemnity to adequately discharge the liability for the duties and taxes leviable on imports, as required under the Finance Act, 2005. As at March 31, 2016, the value of these cheques amounted to Rs. 8,140,168 thousand (December 31, 2015: Rs. 9,426,870 thousand). The maturity dates of these cheques extend to November 10, 2016 (2015: July 07, 2016).

10.2.4 Letters of credit and bank guarantees outstanding as at March 31, 2016 amount to Rs. 3,919,361 thousand (December 31, 2015: Rs. 4,570,213 thousand).

	Unaudited Quarter ended	
	March 31, 2016	**March 31, 2015**
	------------(Rupees '000)	**----------**
11. TAXATION		
Current - note 11.1	**141,909**	203,896
Deferred	**(2,448)**	(311,252)
	139,461	(107,356)

11.1 This includes minimum tax @ 0.5% of taxable turnover amounting to Rs. 137,549 thousand (March 31, 2015: Rs. 191,819 thousand). Minimum tax is adjustable against the tax liability of succeeding five years. The Company however, on prudence, has not recognised the related deferred tax asset in view of unutilised tax losses and uncertainty around recoupability. As at March 31, 2016 minimum tax which is available for adjustment against the future tax liability and not recognised as tax asset aggregates to Rs. 4,952,447 thousand (December 31, 2015: Rs. 4,814,898 thousand).

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the quarter ended March 31, 2016

	Unaudited Quarter ended March 31, 2016	Unaudited Quarter ended March 31, 2015
	-----------(Rupees '000)----------	
12. CASH GENERATED FROM OPERATIONS		
Profit / (Loss) before taxation	**160,721**	(860,431)
Adjustment for non-cash charges and other items:		
Depreciation and amortisation charge	**187,147**	257,454
Accretion expense in respect of asset retirement obligation	**1,159**	1,533
Reversal of liability in respect of asset retirement obligation	**(1,955)**	-
Provision and reversal of Provision for impairment of stock-in-trade	**(9,203)**	-
Provision for impairment of trade debts	**12,203**	-
Reversal of provision for impairment of trade debts	**-**	(20)
Reversal of Provision for impairment of operating assets	**(5,985)**	-
Write off of operating assets	**10,395**	3,113
(Gain) / Loss on disposal of operating assets	**(6,925)**	3,956
Share of profit of associate	**(138,525)**	(110,201)
Mark-up / Interest on short-term deposits and running finances, short term loans and long term loans	**(47,147)**	9,229
Working capital changes - note 12.1	**3,906,617**	(255,036)
	4,068,502	(950,403)

12.1 **Working capital changes**

Decrease / (increase) in current assets		
Stock-in-trade	**4,271,689**	(643,707)
Trade debts	**(1,131,421)**	213,835
Loans and advances	**(16,014)**	(17,686)
Short-term prepayments	**10,713**	79,447
Other receivables	**430,383**	(790,511)
	3,565,350	(1,158,622)
Increase in current liability		
Trade and other payables	**341,267**	903,586
	3,906,617	(255,036)

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the quarter ended March 31, 2016

13. RELATED PARTY TRANSACTIONS

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

Nature of relationship	Nature of transactions	Unaudited Quarter ended March 31, 2016	Unaudited Quarter ended March 31, 2015
		----------(Rupees '000)----------	
Associate			
Pak-Arab Pipeline Company Limited	Pipeline charges	**114,127**	112,111
	Others	**4,132**	4,820
Staff retirement benefit / contribution funds			
Pension Funds	Contribution	**7,205**	7,714
DC Pension Funds	Contribution	**27,555**	25,184
Gratuity Funds	Contribution	**1,800**	1,927
Provident Funds	Contribution	**15,488**	13,276
Key management personnel	Salaries and other short term employee benefits - note 13.1	**26,408**	26,560
	Post employment benefits	**1,561**	1,405
	Directors' fee	**700**	700
Other related parties	Purchases	**23,457,050**	26,048,437
	Sales	**978,052**	1,383,282
	Collection for sales made in Pakistan to customers of the parent company and its associates	**512,108**	1,161,427
	Technical service fee charged - note 13.2	**400,000**	381,479
	Trade marks and manifestations license fee charged - note 13.3	**64,136**	52,813
	Computer expenses charged (Global Infrastructure Desktop charges) - note 13.3	**31,205**	36,375
	Expenses recovered from related parties - note 13.4	**23,329**	54,020
	Other expenses charged by related parties - note 13.4	**257,381**	163,976

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the quarter ended March 31, 2016

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

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

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

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

14. CORRESPONDING FIGURES

14.1 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, 2015 and the corresponding figures in the condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows comprise of balances of comparable period as per the condensed interim financial information of the Company for the three months ended March 31, 2015.

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

15. DATE OF AUTHORISATION

This condensed interim financial information was authorized for issue on April 21, 2016 by the Board of Directors of the Company.

Omar Sheikh
Chairman & Chief Executive

Badaruddin F Vellani
Director

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