Shell Pakistan Limited

Half Yearly Report June '16

FUELLING JOURNEYS, DRIVING CONNECTIONS

COMPANY **INFORMATION**

Board of Directors

Omar Sheikh	Chairman
Jawwad A Cheema	
Farrokh K Captain	
Soo Lim Goh	
Imran R Ibrahim	
Nasser N S Jaffer	
Zaffar A Khan	
Klaas Mantel	
Haroon Rashid	
Badaruddin F Vellani	
Faisal Waheed	

Managing Director &
Chief Executive Officer
Jawwad A Cheema

Audit Committee

Badaruddin F Vellani	Chairman
Soo Lim Goh	
Imran R Ibrahim	

Human Resource and Remuneration Committee
Klaas Mantel
Farrokh K Captain
Jawwad A Cheema

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

CHIEF EXECUTIVE'S REVIEW

For the half year ended June 30, 2016

Our performance

Following my appointment as your Company's Chief Executive Officer, I am honored to be given the opportunity of leading Shell Pakistan Limited and remain committed in leading your Company to deliver greater shareholder value.

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, 2016. The Company has built on its positive operational performance during the quarter, with a clear focus on key strategic priorities and profitable growth. Despite declining oil prices that continue to impact operational performance, your Company delivered a profit after tax of Rs 2,213 million for the half year ended June 2016, compared to a profit after tax of Rs. 534 million in the same period last year. In acknowledgement of the solid performance of the company, the Board of Directors declared a cash dividend of Rs 6 per share.

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 continues to be a major factor. With the oil prices continuing to fluctuate in 2016, your Company incurred significant inventory losses during the period under review as it continued to comply with regulatory requirements of maintaining adequate stock levels. However, we continued to leverage our global supply chain network to get the best available prices for imported products, and these efforts were successful in mitigating these losses to some extent. Additionally, the financial results of your Company continue to be affected by the financial burden resulting from overdue receivables from the Government of Pakistan.

Your Company continued a strict focus on driving operating costs down and ensuring excellence in operations. While significant investment was made in building the Brand through advertising and promotional activities, we were efficient and kept our costs in line with last year to ensure we maintain our competitive advantage. The investment in brand building was coupled with a focus on enhancing customer experience across our network, and we drove for better value propositions delivering superior portfolio offering, along with exciting new initiatives and customer offerings to achieve growth in the non-fuel retailing sector.

Receivables & financing costs

During the current period, your Company was unable to collect further refunds from the Government due to which the Company continues to incur financing cost on bank borrowings required to fund these receivables. As at 30th June 2016, total outstanding receivables stand at Rs 6,389 million. The Company's management is constantly engaged with relevant Government authorities and we continue to demand payment of the remaining amount on an expedited basis to ensure we enhance shareholder returns, drive for efficient business and invest in growth opportunities in Pakistan.

Fuel margins

Motor gasoline and diesel margins are fixed in Rupees per liter by the Government and currently the margin environment is not conducive to cover rising direct costs due to inflation, high financing costs on receivables, working capital tied up in minimum stock to be maintained, or indeed for the investments in business assets that are required to give our customers a world-class experience. In July 2016, the Government of Pakistan approved a small increase in regulated fuels margins for motor gasoline and diesel. However, comparing the unit margins in Pakistan with the available margins in the region, we continue to advocate for a further favourable revision, to bring them in line with increasing costs of doing business in Pakistan.

Going forward

The management remains committed to maintain focus on improving the financial performance of your Company. 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 Officer

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, 2016 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 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

Without qualifying our conclusion, we draw attention to:

i) Notes 10.1, 10.2 and 10.3 to the condensed interim financial information. The Company considers the amount of Rs. 1,369,560 thousand, Rs. 295,733 thousand and Rs. 343,584 thousand due from the Government of Pakistan in respect of petroleum development levy and price differential on imported purchases and high speed diesel, respectively, as current assets. The expected timing of recoverability of these receivables and its consequential impact on their classification in the balance sheet cannot be presently determined; and

ii) Note 10.4 to the condensed interim financial information. The Company considers the aggregate amount of Rs. 2,071,107 thousand, receivable from the Government of Pakistan in respect of price differential on imported motor gasoline as a good debt for reasons given in the note.

Other matter

The condensed interim financial information of the Company for the six months ended 30 June 2015 and the annual financial statements for the year ended 31 December 2015 were reviewed and audited by another firm of Chartered Accountants, whose review report dated 26 August 2015 and audit report dated 28 March 2016 expressed an unqualified conclusion and opinion thereon. However, their aforementioned reports included emphasis of matter paragraphs highlighting matters relating to status of recovery of overdue receivables from the Government of Pakistan, as disclosed in note 10.1, 10.2, 10.3 and 10.4 to the condensed interim financial information, relating to petroleum development levy and price differential claims on imported purchases, high speed diesel and imported motor gasoline respectively.

Chartered Accountants
Review Engagement Partner: Riaz A. Rehman Chamdia
Date: 19 August 2016
Place: Karachi

CONDENSED INTERIM BALANCE SHEET

As at June 30, 2016

	Note	Unaudited June 30, 2016	Audited December 31, 2015
		(Rupees '000)	
ASSETS			
Non-current Assets			
Property, plant and equipment	5	**8,488,705**	8,089,022
Long-term investments	6	**3,710,686**	3,436,508
Long-term loans	7	**5,198**	5,712
Long-term deposits and prepayments	8	**160,967**	167,416
		12,365,556	11,698,658
Current assets			
Stock-in-trade		**12,528,360**	13,281,189
Trade debts		**1,998,760**	1,600,632
Loans and advances	9	**161,334**	67,716
Short-term prepayments		**240,825**	584,063
Other receivables	10	**10,560,859**	8,598,668
Cash and bank balances	11	**1,725,418**	2,103,517
		27,215,556	26,235,785
TOTAL ASSETS		**39,581,112**	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		**4,391,460**	3,248,749
Remeasurement of post employment benefits - Actuarial loss		**(48,857)**	(48,857)
Total Equity		**7,123,533**	5,980,822
Liabilities			
Non-current Liabilities			
Asset retirement obligation		**117,708**	117,861
Deferred taxation - net	12	**504,788**	347,605
Current liabilities			
Trade and other payables	13	**30,491,026**	29,030,718
Accrued mark-up		**801**	10,476
Short term borrowings - secured		**905,000**	2,025,448
Taxation		**438,256**	421,513
		31,835,083	31,488,155
Total Liabilities		**32,457,579**	31,953,621
Contingencies and commitments	14		
TOTAL EQUITY AND LIABILITIES		**39,581,112**	37,934,443

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.

Jawwad A Cheema
Chief Executive Officer

Badaruddin F Vellani
Director

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the half year ended June 30, 2016

	Note	Half year ended June 30, 2016	Half year ended June 30, 2015	Quarter ended June 30, 2016	Quarter ended June 30, 2015
		(Rupees '000)			
Sales		**117,435,141**	135,043,958	60,766,772	75,825,275
Other revenue		**492,094**	334,463	252,298	193,581
		117,927,235	135,378,421	61,019,070	76,018,856
Sales tax		**(27,864,281)**	(24,733,292)	(13,631,883)	(13,549,088)
Net revenue		**90,062,954**	110,645,129	47,387,187	62,469,768
Cost of products sold		**(83,476,972)**	(104,816,422)	(42,779,764)	(57,975,337)
Gross profit		**6,585,982**	5,828,707	4,607,423	4,494,431
Distribution and marketing expenses		**(2,298,188)**	(2,172,786)	(1,183,603)	(1,100,087)
Administrative expenses		**(1,880,874)**	(2,066,592)	(915,674)	(995,129)
		2,406,920	1,589,329	2,508,146	2,399,215
Other expenses	15	**(204,753)**	(494,802)	(203,550)	(363,544)
		2,202,167	1,094,527	2,304,596	2,035,671
Other income	16	**422,948**	128,966	268,047	87,589
Operating profit		**2,625,115**	1,223,493	2,572,643	2,123,260
Finance costs		**(91,417)**	(144,693)	(61,143)	(73,828)
		2,533,698	1,078,800	2,511,500	2,049,432
Share of profit of associate - net of tax	6	**274,178**	266,889	135,653	156,688
Profit before taxation		**2,807,876**	1,345,689	2,647,153	2,206,120
Taxation	17	**(595,043)**	(811,613)	(455,581)	(918,969)
Profit for the period		**2,212,833**	534,076	2,191,572	1,287,151
Other comprehensive income		**-**	-	-	-
Total comprehensive income for the period		**2,212,833**	534,076	2,191,572	1,287,151
		(Rupees)			
Earnings per share (basic and diluted)		**20.68**	4.99	20.48	12.03

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.

Jawwad A Cheema
Chief Executive Officer

Badaruddin F Vellani
Director

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the half year ended June 30, 2016

		Capital reserve	Revenue reserve			
	Share capital	Share premium	General reserve	Unappro-priated profit	Remeasurement of post employment benefits obligation - Actuarial (loss) / gain	Total
	----------	----------	----------(Rupees '000)	----------	----------	----------
Balance as at December 31, 2014 (Audited)	1,070,125	1,503,803	207,002	3,193,878	(79,743)	5,895,065
Final dividend for the year ended December 31, 2014 at the rate of Rs. 8 per share	-	-	-	(856,099)	-	(856,099)
Total comprehensive income for the half year ended June 30, 2015	-	-	-	534,076	-	534,076
Balance as at June 30, 2015 (Unaudited)	1,070,125	1,503,803	207,002	2,871,855	(79,743)	5,573,042
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)	1,070,125	1,503,803	207,002	4,391,460	(48,857)	7,123,533

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.

Jawwad A Cheema
Chief Executive Officer

Badaruddin F Vellani
Director

CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the half year ended June 30, 2016

	Note	Half year ended June 30, 2016	June 30, 2015
		-------------(Rupees '000)------------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	18	**2,889,435**	3,647,278
Finance costs paid		**(12,926)**	(49,281)
Income tax paid		**(421,117)**	(629,065)
Long-term loans and advances		**3,987**	9,749
Long-term deposits and prepayments		**6,449**	9,272
Net cash generated from operating activities		**2,465,828**	2,987,953
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(756,555)**	(474,795)
Proceeds from disposal of operating assets		**9,485**	45,848
Mark-up / interest received on short term deposits		**107,737**	33,723
Net cash used in investing activities		**(639,333)**	(395,224)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(1,084,146)**	(888,162)
Net increase in cash and cash equivalents		**742,349**	1,704,567
Cash and cash equivalents at beginning of the year		**78,069**	(2,470,129)
Cash and cash equivalents at end of the period		**820,418**	(765,562)
Cash and cash equivalents comprise of:			
Cash and bank balances		**1,725,418**	1,784,616
Short term borrowings - secured		**(905,000)**	(2,550,178)
		820,418	(765,562)

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.

Jawwad A Cheema
Chief Executive Officer

Badaruddin F Vellani
Director

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 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 in 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 has 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. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed. These condensed interim financial statements of the Company for the half year ended June 30, 2016 are unaudited but subject to limited scope review by the statutory auditors as required by the Code of Corporate Governance.

2.2 The figures of the condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarters ended June 30, 2016 and 2015 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, 2016. 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, 2015.

2.3 This condensed interim financial information is being submitted to the shareholders as required by the Listing Regulations of Pakistan Stock Exchange and Section 245 of the Companies Ordinance, 1984.

3. ACCOUNTING POLICIES

3.1 The accounting policies and the methods of computation used in the preparation of this condensed interim financial information are the same as those applied in the preparation of the financial statements for the year ended December 31, 2015 except as disclosed below:

New / Revised Standards, Interpretations and Amendments

The Company has adopted the following accounting standards and the amendments and interpretation of IFRSs which became effective for the current year:

IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements
IFRS 12 – Disclosure of Interests in Other Entities
IFRS 13 – Fair Value Measurement
IAS 27 – Equity Method in Separate Financial Statements
IAS 28 – Investments in Associates and Joint Ventures

The adoption of the above accounting standards did not have any effect on the 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 information.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2016

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 JUDGEMENTS

4.1 The preparation of this condensed interim financial information is 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.

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.

5. PROPERTY, PLANT AND EQUIPMENT	**Note**	**Unaudited June 30, 2016**	**Audited December 31, 2015**
		----------(Rupees '000)	**-----------**
Operating assets - at net book value	5.1 & 5.2	**7,789,640**	7,304,355
Provision for impairment		**(370,234)**	(378,281)
		7,419,406	6,926,074
Capital Work in Progress	5.3	**1,069,299**	1,162,948
		8,488,705	8,089,022

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

	Unaudited June 30, 2016	**Audited December 31, 2015**
	----------(Rupees '000)	**-----------**
Owned assets		
Leasehold land	**38,162**	137,637
Buildings on freehold and leasehold land	**40,352**	64,280
Tanks and pipelines	**135,962**	62,593
Plant and machinery	**147,102**	608,359
Air conditioning plant, lifts and computer auxiliaries	**726**	6,107
Dispensing pumps	**82,219**	251,548
Rolling stock and vehicles	**16,450**	37,243
Electrical, mechanical and fire fighting equipment	**315,668**	73,329
Furniture, office equipment and other assets	**106,566**	763,389
	883,207	2,004,485

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2016

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

	Cost	Accumulated depreciation	Net book value
	(Rupees '000)		
June 30, 2016 (unaudited)			
Building on leasehold land	16,506	10,921	5,585
Dispensing pumps	49,434	48,197	1,237
Electrical, mechanical and fire fighting equipment	8,942	5,851	3,091
Furniture, office equipment and other assets	19,449	14,111	5,338
	94,331	79,080	15,251
December 31, 2015 (Audited)	501,132	397,050	104,082

	Unaudited June 30, 2016	Audited December 31, 2015
	(Rupees '000)	
5.3 Capital work-in-progress		
Buildings on leasehold land	**795,465**	395,285
Tanks and pipelines	**143,255**	305,544
Plant and machinery	**88,163**	88,901
Rolling stocks & vehicles	**-**	5,205
Electrical, mechanical and fire-fighting equipment	**32,290**	362,656
Furniture, office equipment and other assets	**10,126**	3,157
Dispensing pumps	**-**	2,200
	1,069,299	1,162,948

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, 2016	Audited December 31, 2015
	(Rupees '000)	
Balance at the beginning of the period / year	**3,431,508**	3,271,116
Share of profit before taxation	**425,171**	832,027
Share of taxation	**(150,993)**	(248,066)
	274,178	583,961
Dividend received	**-**	(423,569)
Balance at the end of the period / year	**3,705,686**	3,431,508

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2016

7. LONG-TERM LOANS

Includes loans due from executives and employees amounting to Rs. 2,220 thousand and Rs. 2,978 thousand (December 31, 2015: Rs. 3,696 thousand and Rs. 2,016 thousand), respectively.

Interest is charged on loans given for housing and purchase of motor cars at 1% per annum.

8. LONG-TERM DEPOSITS AND PREPAYMENTS

Includes interest free deposits.

9. LOANS AND ADVANCES

Includes loans and advances due from executives and employees amounting to Rs. 159,622 thousand and Rs. 1,712 thousand (December 31, 2015: Rs. 22,115 thousand and Rs. 45,601 thousand), respectively.

Interest is charged on loans given for housing and purchase of motor cars at 1% per annum. Advances are interest free.

10. OTHER RECEIVABLES	**Note**	**Unaudited June 30, 2016**	**Audited December 31, 2015**
		-----------(Rupees '000) -----------	
Petroleum development levy and other duties	10.1	**1,382,676**	1,381,970
Price differential claims			
- on imported purchases	10.2	**295,733**	295,733
- on high speed diesel (HSD)	10.3	**343,584**	343,584
- on imported motor gasoline	10.4	**2,071,107**	2,071,107
Regulatory duty receivable	10.5	**118,404**	118,404
Sales tax refundable	10.6	**1,843,138**	168,324
Receivable under inland freight equalisation mechanism		**957,348**	971,734
Receivable from related parties	10.7	**371,692**	305,236
Service cost receivable from associate company - PAPCO		**9,834**	11,136
Staff retirement benefit schemes		**467,135**	250,814
Receivable from Oil Marketing Companies		**1,798,916**	1,862,207
Taxes recoverable	10.8	**968,073**	968,073
Others		**156,444**	73,571
		10,784,084	8,821,893
Provision for impairment		**(223,225)**	(223,225)
		10,560,859	8,598,668

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2016

10.1 Includes petroleum development levy amounting to Rs. 1,369,560 thousand (December 31, 2015: Rs. 1,364,069 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, a refund cheque against which was received in 2014. During last year, 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 the current period, 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. 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.

10.2 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 with the GoP and is confident of recovering the amount in full.

10.3 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 with the GoP and is confident of recovering the amount in full.

10.4 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. The Company accordingly submitted audit reports thereafter 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.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2016

Further 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. The Company accordingly submitted an audit report thereafter in respect of this claim.

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

10.5 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, the said amount could not be recovered as the regulatory duty was rescinded through SRO 603(I)/2015 dated June 30, 2015 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.

10.6 Include 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 against which the Company has filed claims with FBR and is actively pursuing for their recovery.

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

10.8 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 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.

11. CASH AND BANK BALANCES

Bank balances with saving accounts are placed under interest arrangements. The Company has conventional banking relationships with all the banks having Islamic window operations.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2016

12. DEFERRED TAXATION - net	**Note**	**Unaudited June 30, 2016**	**Audited December 31, 2015**
		-----------(Rupees '000) -----------	
This comprises of the following:			
Taxable temporary differences arising in respect of:			
- accelerated tax depreciation		**918,602**	880,325
- investment in associate		**229,211**	194,938
		1,147,813	1,075,263
Deductible temporary differences arising in respect of:			
- provisions		**(643,025)**	(648,876)
- carry forward tax losses	12.1	**-**	(78,782)
		(643,025)	(727,658)
		504,788	347,605

12.1 As of the balance sheet date, deferred tax asset amounting to Rs. 4,565,763 thousand (December 31, 2015: Rs. 4,814,898 thousand) has not been recognized as a matter of prudence and on account of uncertainty around recoupability.

13. TRADE AND OTHER PAYABLES	**Note**	**Unaudited June 30, 2016**	**Audited December 31, 2015**
		-----------(Rupees '000) -----------	
Creditors	13.1	**23,042,510**	21,156,857
Accrued liabilities		**4,820,177**	5,001,774
Dealers' and customers' security deposits		**511,991**	499,507
Advances received from customers		**1,298,745**	1,763,309
Provision for post-retirement medical benefits		**84,197**	84,197
Workers' welfare fund		**204,937**	153,229
Workers' profits participation fund		**252,032**	115,958
Unclaimed dividends		**129,123**	143,147
Other liabilities		**147,314**	112,740
		30,491,026	29,030,718

13.1 Includes amounts due to related parties aggregating to Rs. 19,128,633 thousand (December 31, 2015: Rs. 17,138,216 thousand). Particulars of the amounts due are as follows:

	Unaudited June 30, 2016	**Audited December 31, 2015**
	-----------(Rupees '000) -----------	
Affiliates of Parent company	**17,682,499**	16,212,600
Pakistan Refinery Limited	**1,305,946**	794,609
Other related parties	**140,188**	131,007
	19,128,633	17,138,216

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2016

14. CONTINGENCIES AND COMMITMENTS

14.1 Contingencies

14.1.1 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 / security furnished for consignments cleared upto December 27, 2006 are to be returned and for period thereafter guarantees or securities furnished for consignments cleared are to be encashed to the extent of 50% and the remaining balance is to be retained till the disposal of petitions. For future clearances, the Company is required to clear the goods on paying 50% of the fee amount involved and furnishing a guarantee / security for the balance amount.

Subsequent to the orders of the court, the Company has reviewed its position and without acknowledging it as a debt now estimates the accumulated levy up to June 30, 2016 at Rs. 87,493 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.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2016

14.1.2 Taxation

14.1.2.1 In 2011, the Company received a demand from tax authorities in respect of tax year 2008 amounting to Rs. 735,109 thousand. The demand principally arose due to addition made by assessing officer in respect of allocation of common expenses and taxing the reversal of provision for impairment in trade and other receivables. Further, assessing officer had also disallowed the credit for minimum tax amounting to Rs. 482,685 thousand paid in earlier year and set-off against tax liability for the tax year 2008. The Company thereafter filed an application against the order for rectification of certain mistakes apparent from the record. The tax officer rectified the order accepting the Company's contention and reduced the demand to Rs. 527,150 thousand. The Company in response to the demand deposited an amount of Rs. 120,000 thousand and filed an appeal with the Commissioner Inland Revenue (CIR) (Appeals) and thereafter with Appellate Tribunal Inland Revenue (ATIR). The remaining demand has been adjusted by the taxation authorities from sales tax refundable. In 2012, both CIR (Appeals) and ATIR have decided the case against the Company. The Company in response to this order of ATIR has filed an appeal before High Court of Sindh which is pending for 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'.

14.1.2.2 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 for hearing.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2016

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'.

14.1.2.3 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.

14.1.2.4 During the period, the tax authorities after finalising the income tax audit for the tax year 2010 raised a demand of Rs. 2,212,170 thousand. The demand principally arose due to the disallowance of premium paid to SITME on imports, disallowance on account of allocation of expenses & disallowance of technical service fee due to non-withholding of tax. Additionally, unutilised tax losses of previous years have not been adjusted in computing the tax liability. The Company in response to order has filed a rectification application and an appeal with the CIR (Appeals).

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.

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

14.1.3.1 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.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2016

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 last 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.

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.

14.1.3.2 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.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2016

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.

14.1.4 Others

The amount of other claims against the Company not acknowledged as debt as at June 30, 2016 aggregate to approximately Rs. 2,907,479 thousand (December 31, 2015: Rs. 3,152,249 thousand). This includes claims by refineries, amounting to Rs. 1,094,329 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.

14.2 **Commitments**

14.2.1 Capital expenditure contracted for but not incurred as at June 30, 2016 amounted to approximately Rs. 210,677 thousand (December 31, 2015: Rs. 242,599 thousand).

14.2.2 Commitments for rentals of assets under operating lease agreements as at June 30, 2016 amounted to Rs. 2,790,648 thousand (December 31, 2015: Rs. 2,562,699 thousand) payable as follows:

	Unaudited	
	Half year ended	
	June 30, 2016	June 30, 2015
	(Rupees '000)	
Not later than one year	**182,669**	170,322
Later than one year but not later than five years	**724,797**	644,171
Later than five years	**1,883,151**	1,748,206
	2,790,617	2,562,699

15. OTHER EXPENSES

Includes exchange loss - net amounting to Nil (June 30, 2015: 229,282 thousand) arising on revaluation of foreign currency financial assets and liabilities and on transactions in foreign currencies.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2016

	Note	Unaudited Half year ended June 30, 2016	June 30, 2015
		-----------(Rupees '000)	-----------
16. OTHER INCOME			
Income from financial assets			
Mark-up / interest on short-term deposits	16.1	**107,737**	33,723
Income from non-financial assets			
Gain on disposal of operating assets		**5,420**	33,503
Reversal of impairment on operating assets		**8,047**	28,246
Liability no longer payable written back		**61,273**	-
Reversal of asset retirement obligation		**2,466**	141
Shell card income		**32,819**	17,416
Exchange gain – net	16.2	**148,103**	-
Commission – net		**36,132**	7,006
Non-oil income		**17,175**	5,174
Throughput revenues		**3,515**	248
Income from director services		**261**	3,509
		422,948	128,966

16.1 Includes interest on savings accounts amounting to Rs. 41,000 thousand (June 30, 2015: Rs.19,930 thousand).

16.2 Represents exchange gain - net arising on revaluation of foreign currency financial assets and liabilities and on transactions in foreign currencies.

	Note	Unaudited Half Year ended June 30, 2016	June 30 2015	Quarter ended June 30, 2016	June 30 2015
17. TAXATION		--------------------------(Rupees '000)			--------------------------
Current					
- for the period	17.1	**366,787**	444,528	**224,878**	240,632
- for prior period		**71,073**	-	**71,073**	-
		437,860	444,528	**295,951**	240,632
Deferred		**157,183**	367,085	**159,630**	678,337
		595,043	811,613	**455,581**	918,969

17.1 The current tax charge for the period includes the higher of Corporate Tax, Alternative Corporate Tax and Minimum Tax amounting to Rs. 345,516 thousand (June 30, 2015: Rs. 422,070 thousand) and tax on account of income subject to final tax regime (FTR) amounting to Rs. 21,271 thousand (June 30, 2015: Rs. 22,458 thousand).

17.2 The income tax return for the tax year 2015 (financial year ended 31 December 2014) has been filed.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2016

	Note	Unaudited Half year ended June 30, 2016	Unaudited Half year ended June 30, 2015
		-----------(Rupees '000) -----------	
18. CASH GENERATED FROM OPERATIONS			
Profit before taxation		**2,807,876**	1,345,689
Adjustment for non-cash charges and other items:			
Depreciation and amortization		**382,670**	509,906
Accretion expense in respect of asset retirement obligation		**2,313**	2,924
Reversal of liability in respect of asset retirement obligation		**(2,466)**	-
Provision for impairment of stock-in-trade		**1,683**	31,653
Provision for impairment of trade debts		**3,902**	126,248
Reversal of impairment of operating assets		**(8,047)**	(28,246)
Liability no longer payable written back		**(61,273)**	-
Write off of operating assets		**11,185**	56,187
Gain on disposal of operating assets		**(5,420)**	(33,503)
Share of profit of associate		**(274,178)**	(266,889)
Mark-up / interest on short-term deposits		**(107,737)**	(33,723)
Mark-up / interest on short-term running finance		**3,251**	43,323
Working capital changes	18.1	**135,676**	1,893,709
		2,889,435	3,647,278

18.1 **Working capital changes**

Decrease / (increase) in current assets		
Stock-in-trade	**751,145**	(1,636,212)
Trade debts	**(402,030)**	(1,860,958)
Loans and advances	**(97,091)**	(19,169)
Short-term prepayments	**343,238**	7,834
Other receivables	**(1,962,191)**	(1,173,540)
	(1,366,929)	(4,682,045)
Increase in current liabilities		
Trade and other payables	**1,502,605**	6,575,754
	135,676	1,893,709

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2016

19. RELATED PARTY TRANSACTIONS

The related parties of the Company comprise parent, ultimate parent, other related parties, employee retirement benefit plans, directors and key management personnel. 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:

			Unaudited Half year ended	
Nature of relationship	**Nature of transactions**	**Note**	**June 30, 2016**	**June 30, 2015**
			------(Rupees '000) ------	
Holding Company	Dividend Paid		**814,437**	651,550
Associate				
Pak-Arab Pipeline Company Limited	Pipeline charges		**335,284**	333,049
	Others		**6,566**	7,332
Staff retirement benefit / contribution funds				
Pension funds	Contribution		**14,391**	15,290
Defined contribution Pension funds	Contribution		**55,929**	50,995
Gratuity funds	Contribution		**3,595**	3,820
Provident funds	Contribution		**30,744**	27,499
Key management personnel	Salaries and other short term employee benefits	19.1	**38,084**	36,853
	Post-employment benefits		**3,173**	2,865
Directors	Fee for attending meetings		**1,900**	1,400
Other related parties	Purchases		**54,832,030**	61,103,123
	Sales		**988,189**	2,965,531
	Collection for sales made in Pakistan to customers of the parent and its associates		**1,554,883**	2,196,918
	Technical service fee charged	19.2	**645,000**	765,882
	Trademarks and manifestations license fee charged	19.3	**136,962**	153,596
	Computer expenses charged (Global Infrastructure Desktop charges)	19.3	**80,299**	46,026
	Expenses recovered from related parties	19.4	**67,587**	105,525
	Other expenses charged by related parties	19.4	**453,287**	303,412

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

For the half year ended June 30, 2016

19.1 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.

19.2 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.

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

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

20. OPERATING SEGMENTS

This condensed interim financial information has 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 99.3% during the half year ended June 30, 2016 (June 30, 2015: 99.8%).

All non-current assets of the Company as at June 30, 2016 and 2015 are located in Pakistan.

Sales to twenty major customers of the Company are around 21% during the half year ended June 30, 2016 (June 30, 2015: 21%).

21. CORRESPONDING FIGURES

21.1 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 half year ended June 30, 2015.

21.2 Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of better presentation, the effects of which are not material.

22. DATE OF AUTHORISATION

This condensed interim financial information was authorized for issue on August 19, 2016 by the Board of Directors of the Company.

Jawwad A Cheema
Chief Executive Officer

Badaruddin F Vellani
Director

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