

Shell Pakistan Limited

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Karachi - 75530
Pakistan
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JOURNEYS THAT MATTER


SHELL PAKISTAN LIMITED ANNUAL REPORT 2016



SHELL PAKISTAN

PART OF JOURNEYS OF MILLIONS ACROSS THE NATION

790+ 
sites across Pakistan to help
people reach their destinations

Supplying 
2.73 bn
litres of fuel annually

15+ 
lubricants for efficient
and smooth running

61 
aircrafts refuelled every day

10 
depots for hassle-free distribution
of fuel across the nation


800,000+
youth engaged through
Shell Tameer Entrepreneurship
Programme


67.2 mn
KMs driven to supply fuel safely


Fuelling journeys of
1,000,000+
customers every day

JOURNEYS THAT MATTER

Our products and services are part of people's journeys; a routine journey of work from home or a yearly drive with family up-North; a literal journey of flying to another country or a figurative journey towards progress and quality of life. Whoever our customers and whatever their journeys are, Shell Pakistan takes pride in being a part of them.

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GOVERNANCE & COMPLIANCE

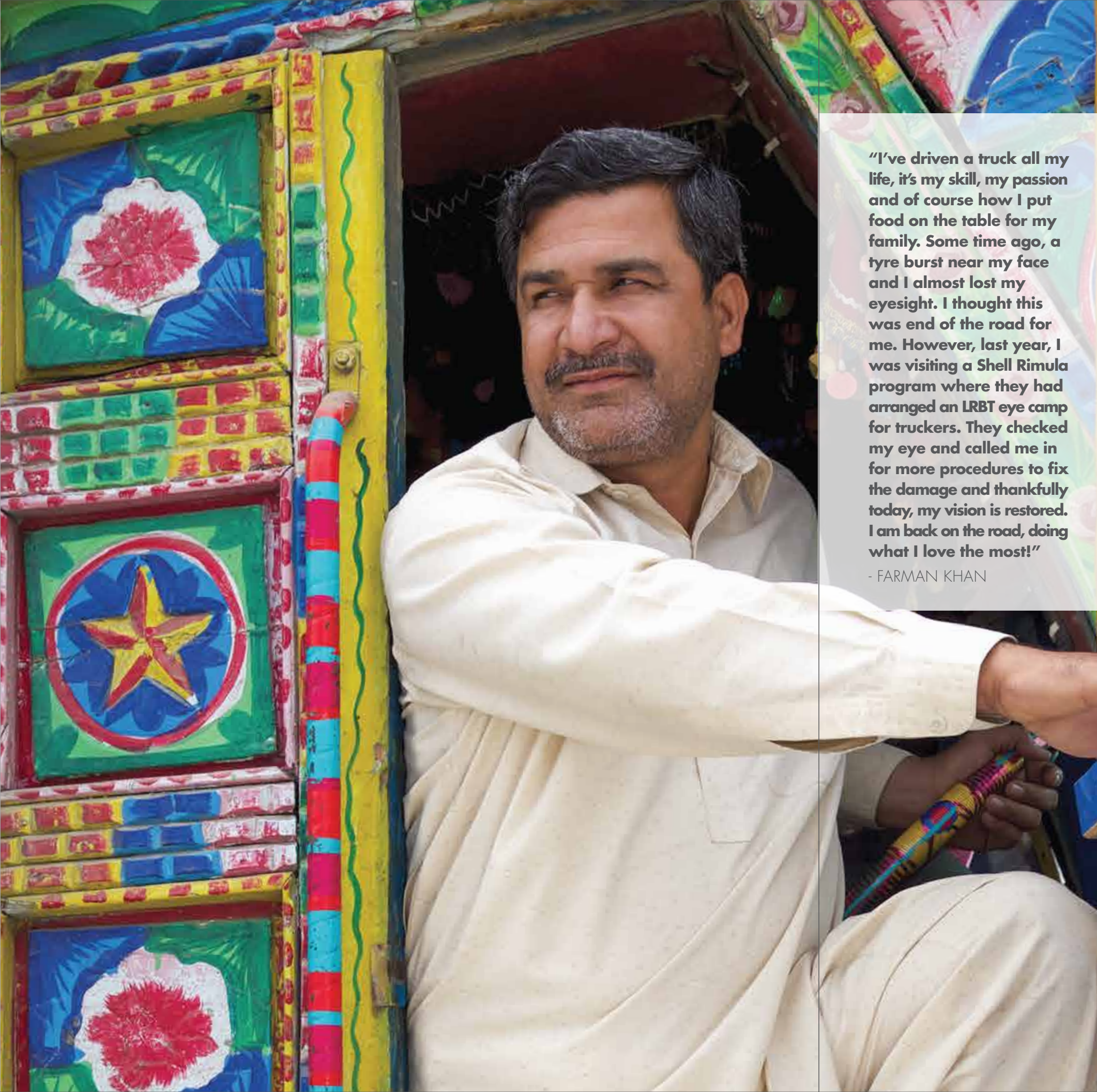
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"I've driven a truck all my life, it's my skill, my passion and of course how I put food on the table for my family. Some time ago, a tyre burst near my face and I almost lost my eyesight. I thought this was end of the road for me. However, last year, I was visiting a Shell Rimula program where they had arranged an LRBT eye camp for truckers. They checked my eye and called me in for more procedures to fix the damage and thankfully today, my vision is restored. I am back on the road, doing what I love the most!"

- FARMAN KHAN

GOVERNANCE & COMPLIANCE

REAL DESTINATIONS

Truckers spend most of their time on the road far from home trying to make a living. We understand their tough journey and recognise that less downtime on the road means more time for loved ones at home. So we formulate products for better engine care, enabling enhanced performance in difficult driving conditions. However, our care for our truckers does not end there. Good vision is pivotal for road safety and hence we set up regular eye testing camps at trucking hubs to ensure that our truckers are not only comfortable but also safe.

COMPANY INFORMATION

BOARD OF DIRECTORS
 Jawwad A. Cheema (Chairman)
 Rafi H. Basheer
 Farrokh K. Captain
 Rahat Hussain
 Imran R. Ibrahim
 Nasser N.S. Jaffer
 Zaffar A. Khan
 Klaas Mantel
 Haroon Rashid
 Badaruddin F. Vellani
 Faisal Waheed

**MANAGING DIRECTOR &
CHIEF EXECUTIVE**
 Jawwad A. Cheema

AUDIT COMMITTEE
 Badaruddin F. Vellani (Chairman)
 Rafi H. Basheer
 Imran R. Ibrahim

**HUMAN RESOURCE &
REMUNERATION COMMITTEE**
 Farrokh K. Captain (Chairman)
 Jawwad A. Cheema
 Klaas Mantel

COMPANY SECRETARY
 Andalib Alavi

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

AUDITORS
 EY Ford Rhodes

LEGAL ADVISORS
 Vellani & Vellani
 Advocates & Solicitors

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

VISION

**To be the Number One
Energy Company in Pakistan**



STATEMENT OF GENERAL BUSINESS PRINCIPLES

INTRODUCTION

Shell Pakistan Limited General Business Principles govern how Shell Pakistan Limited conducts its affairs.

The objectives of Shell Pakistan Limited are to engage efficiently, responsibly and profitably in oil, gas and other selected businesses and to participate in the search for and development of other sources of energy to meet evolving customer needs and the world's growing demand for energy.

We believe that oil and gas will be integral to the global energy needs for economic development for many decades to come. Our role is to ensure that we deliver them profitably and in environmentally and socially responsible ways.

We seek a high standard of performance, maintaining a strong long-term and growing position in the competitive environments in which we choose to operate. We aim to work closely with our customers, partners and policy-makers to advance more efficient and sustainable use of energy and natural resources.

OUR VALUES

Shell Pakistan Limited employees share a set of core values – honesty, integrity and respect for people. We also firmly believe in the fundamental importance of trust, openness, teamwork and professionalism, and pride in what we do.

SUSTAINABLE DEVELOPMENT

As part of the Business Principles, we commit to contribute to sustainable development. This requires balancing short and long term interests, integrating economic, environmental and social considerations into business decision-making.

RESPONSIBILITIES

Shell Pakistan Limited recognises five areas of responsibility. It is the duty of management to continuously assess the priorities and discharge these inseparable responsibilities on the basis of that assessment.

A. TO SHAREHOLDERS

To protect shareholders' investment, and provide a long-term return competitive with those of other leading companies in the industry.

B. TO CUSTOMERS

To win and maintain customers by developing and providing products and services which offer value in terms of price, quality, safety, environmental and commercial expertise.

C. TO EMPLOYEES

To respect the human rights of our employees and to provide them with good and safe working conditions and competitive terms and conditions of employment. To promote the development and best use of the talents of our employees, to create an inclusive work environment where every employee has an equal opportunity to develop his or her skills and talents. To encourage the involvement of employees in the planning and direction of their work and to provide them with channels to report concerns. We recognise that commercial success depends on the full commitment of all employees.

D. TO THOSE WITH WHOM WE DO BUSINESS

To seek mutually beneficial relationships with contractors, suppliers and in joint ventures and to promote the application of these Shell Pakistan Limited General Business Principles or equivalent principles in such relationships. The ability to promote these principles effectively will be an important factor in the decision to enter into or remain in such relationships.

E. TO SOCIETY

To conduct business as responsible corporate members of society, to comply with applicable laws and regulations, to support fundamental human rights in line with the legitimate role of business, and to give proper regard to health, safety, security and the environment.

PRINCIPLE 1

ECONOMIC

Long-term profitability is essential to achieving our business goals and to our continued growth. It is a measure both of efficiency and of the value that customers place on Shell Pakistan Limited products and services. It supplies the necessary corporate resources for the continuing investment that is required to develop and produce future energy supplies to meet customer needs. Without profits and a strong financial foundation, it would not be possible to fulfil our responsibilities.

PRINCIPLE 2

COMPETITION

Shell Pakistan Limited supports free enterprise. We seek to compete fairly and ethically and within the framework of applicable competition laws; we will not prevent others from competing freely with us.

PRINCIPLE 3

BUSINESS INTEGRITY

Shell Pakistan Limited insists on honesty, integrity and fairness in all aspects of our business and expects the same in our relationships with all those with whom we do business. The direct or indirect offer, payment, soliciting or acceptance of bribes in any form is unacceptable. Facilitation payments are also bribes and should not be made. Employees must avoid conflicts of interest between their private activities and their part in the conduct of Company business. Employees must also declare to their employing Company potential conflicts of interest. All business transactions on behalf of Shell Pakistan Limited must be reflected accurately and fairly in the accounts of the Company in accordance with established procedures and are subject to audit and disclosure.

PRINCIPLE 4

POLITICAL ACTIVITIES**A. OF COMPANIES**

Shell Pakistan Limited acts in a socially responsible manner within the laws of the country in which we operate in pursuit of our legitimate commercial objectives. Shell Pakistan Limited does not make payments to political parties, organisations or their representatives. Shell Pakistan Limited does not take part in party politics. However, when dealing with the government, Shell Pakistan Limited has the right and the responsibility to make our position known on matters which affect us, our employees, our customers, our shareholders or local communities in a manner which is in accordance with our values and the Business Principles.

B. OF EMPLOYEES

Where individuals wish to engage in activities in the community, including standing for election to public office, they will be given the opportunity to do so where this is appropriate in the light of local circumstance.

PRINCIPLE 5

HEALTH, SAFETY, SECURITY AND THE ENVIRONMENT

Shell Pakistan Limited has a systematic approach to health, safety, security and environmental management in order to achieve continuous performance improvement.

To this end, Shell Pakistan Limited manages these matters as critical business activities, sets standards and targets for improvement, and measures, appraises and reports performance externally.

We continually look for ways to reduce the environmental impact of our operations, products and services.

PRINCIPLE 6

LOCAL COMMUNITIES

Shell Pakistan Limited aims to be good neighbours by continuously improving the ways in which we contribute directly or indirectly to the general well-being of the communities within which we work.

We manage the social impacts of our business activities carefully and work with others to enhance the benefits to local communities, and to mitigate any negative impacts from our activities.

In addition, Shell Pakistan Limited takes a constructive interest in social matters, directly or indirectly related to our business.

PRINCIPLE 7

COMMUNICATION AND ENGAGEMENT

Shell Pakistan Limited recognises that regular dialogue and engagement with our stakeholders is essential. We are committed to reporting our performance by providing complete relevant information to legitimately interested parties, subject to any overriding considerations of business confidentiality.

In our interactions with employees, business partners and local communities, we seek to listen and respond to them honestly and responsibly.

PRINCIPLE 8

COMPLIANCE

We comply with all applicable laws and regulations of the countries in which we operate.

PRINCIPLE 9

LIVING BY OUR PRINCIPLES

Our shared core values of honesty, integrity and respect for people, underpin all the work we do and are the foundation of our Business Principles.

The Business Principles apply to all transactions, large or small, and drive the behaviour expected of every employee in Shell Pakistan Limited in the conduct of its business at all times.

We are judged by how we act. Our reputation will be upheld if we act in accordance with the law and the Business Principles. We encourage our business partners to live by them or by equivalent principles.

We encourage our employees to demonstrate leadership, accountability and teamwork, and through these behaviours, to contribute to the overall success of Shell Pakistan Limited.

It is the responsibility of management to lead by example, to ensure that all employees are aware of these principles, and behave in accordance with the spirit as well as with the letter of this statement.

The application of these principles is underpinned by a comprehensive set of assurance procedures which are designed to make sure that our employees understand the principles and confirm that they act in accordance with them.

As part of the assurance system, it is also the responsibility of management to provide employees with safe and confidential channels to raise concerns and report instances of non-compliance. In turn, it is the responsibility of Shell Pakistan Limited employees to report suspected breaches of the Business Principles to Shell Pakistan Limited.

The Business Principles have for many years been fundamental to how we conduct our business and living by them is crucial to our continued success.

CHIEF EXECUTIVE'S REVIEW

FOR THE YEAR ENDED DECEMBER 31, 2016



Dear Shareholders,

On behalf of the Board of Directors of Shell Pakistan Limited, I am pleased to share the results for the year ended December 31, 2016. It has been a strong year in terms of performance, with your Company delivering a reported profit after tax of Rs. 6,764 million (including recognition of a deferred tax asset of Rs. 2,763 million) compared to Rs. 911 million same period last year. In acknowledgment of the solid performance of the Company, the Board of Directors decided to recommend a final cash dividend of Rs. 28 per share, which is in addition to the earlier interim dividend of Rs. 6 per share.

Oil prices continued to fluctuate in 2016 and your Company was constantly exposed to inventory losses driven by the price volatility and compliance to the requirement of maintaining strategic stock cover. However, with Shell's global supply chain network we continued to drive for best available prices for imported products and achieved some success in mitigating potential losses.

Our customers continue to be at the heart of everything we do. Following the deregulation of margins for premium gasoline, your Company launched Shell V-Power, the most technologically advanced fuel in Shell's global portfolio, for the Pakistani customer. In 2016, we also introduced Shell Advance Ultra, one of our top tier lubricants for motorcycles. We are confident that we will continue to use our Global technology leadership to bring higher quality and cleaner energy solutions to Pakistan along with enhancing customer experience across our network through superior customer service and value added propositions.

Creating and sustaining a culture that focuses on our commitment to business principles, safety of people and protection of the environment is integral and in 2016 we continued our focus on this. We also drove excellence in operations while keeping costs at a manageable level as well as making significant investments in both infrastructure and brand building to maintain competitive advantage.

RECEIVABLES & FINANCING COSTS

The results of your Company continue to be affected by the financial burden resulting from overdue 'receivables' from the Government of Pakistan. During 2016, your Company did make some further recoveries of these dues; however, the Company continues to incur financing cost on bank borrowings required to fund these receivables. As at 31st December 2016, total outstanding receivables stand at Rs. 4,733 million. The Company's management is in engagement with relevant Government authorities for the recovery of 'receivables' to ensure we enhance shareholder returns, drive for efficient business, and invest in growth opportunities in Pakistan.

FUEL MARGINS

Main Grade Motor Gasoline and Diesel margins are fixed in Rupees per litre by the Government of Pakistan, and the recent initiative by the Government to revise margins based on CPI is a positive and welcome change. In line with this, there was a small increase announced in July 2016; however, comparing the margins in Pakistan with the available margins in the region, we continue to advocate for a further favourable revision. Lower margin environment has a negative impact on your Company's profitability. We continue to advocate and push for further deregulation of the downstream value chain in Pakistan to drive for more investments in the downstream sector.

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

GOING FORWARD

The management remains committed to maintain focus on further improving the financial performance of your Company, and we continue to drive for achieving Goal Zero in our safety performance. We are committed to take Shell Pakistan forward with greater ambition; delivering better returns for our investors, positively impacting the communities we operate in and playing a key role in developing Pakistan's energy future. 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
March 10, 2017

وصولیاں اور مالکاری (Financing)

حکومت پاکستان کی جانب سے واجب الادا وصولیوں کے نتیجے میں پیدا ہونے والے مالی بوجھ کے باعث آپ کی کمپنی کے نتائج متاثر رہے۔ 2016 کے دوران آپ کی کمپنی نے ان واجبات میں سے مزید کچھ بازیاب کروایا؛ تاہم، ان وصولیوں سے درکار رقم کو پورا کرنے کے لیے کمپنی مالیاتی لاگت کے لیے بینک سے قرض لیتی رہی۔ 31 دسمبر، 2016 تک مجموعی واجب الوصول واجبات 4.7 ارب روپے ہیں۔ واجبات کی بازیابی کے لیے کمپنی کی انتظامیہ متعلقہ حکام سے مسلسل رابطے میں ہے، تاکہ ہم شیئر ہولڈرز کے گوشوارے بہتر بنانے، موثر کاروبار چلانے اور پاکستان میں ترقی کے مواقع میں سرمایہ کاری کو یقینی بنا سکیں۔

فیول پر منافع

حکومت پاکستان نے مرکزی معیار کے موٹر گیسولین اور ڈیزل پر روپے میں فی لیٹر منافع معین کر دیا ہے، اور افراط زر کی شرح پر مبنی منافع پر نظر ثانی کا حالیہ فیصلہ ایک مثبت اور خوش آئند تبدیلی ہے۔ اس کے مطابق جولائی 2016 میں کچھ اضافے کا اعلان کیا گیا؛ تاہم، پاکستان کے منافعوں کا، اس خطے میں دستیاب منافع جات سے موازنے کے تناظر میں ہم مزید مثبت نظر ثانی کی حمایت کرتے ہیں۔ کم منافع کا ماحول آپ کی کمپنی کی نفع آوری پر منفی اثرات ڈالتا ہے۔ ہم پاکستان میں ایندھن کی Value Chain سے پابندیاں ہٹانے کی حمایت اور اس کے لیے دباؤ جاری رکھیں گے تاکہ ڈاؤن اسٹریم کے شعبے میں مزید سرمایہ کاری کو فروغ دیا جاسکے۔

حکومت پاکستان نے تیل کی مارکیٹنگ کی کمپنیز کے لیے یہ ممکن بنایا کہ وہ مرکزی معیار کے گیسولین (RON) کی تخصیص 87 سے 92 کر کے اسے بہتر بنا سکیں، اور اب آئندہ ڈیزل کی جگہ یوروٹو (EURO II) سے تبدیلی بھی پاکستانی صارفین کے لیے بہتر معیار کے فیولز کی جانب مثبت اقدامات ہیں۔

امکانات

انتظامیہ کی توجہ آپ کی کمپنی کی مالی کارکردگی مزید بہتر بنانے پر مرکوز رہتی ہے، اور ہم اپنی تحفظ کی کارکردگی میں گول زیرو (Goal Zero) کے حصول کے لیے کوشش جاری رکھتے ہیں۔ ہم شیل پاکستان کو عظیم نصب العین کے ساتھ آگے بڑھانے، اپنے سرمایہ کاروں کو بہتر منافع کی ادائیگی، جن علاقہ جات میں ہم کام کرتے ہیں ان پر مثبت طور پر اثر انداز ہونے اور پاکستان کی توانائی کے مستقبل کی ترقی میں اہم کردار ادا کرنے کے لیے کوشاں ہیں۔ ہم کمپنی کے لیے مسلسل معاونت اور اعتماد پر اپنے شیئر ہولڈرز، صارفین، اور عملے کے شکر گزار ہیں اور امید کرتے ہیں کہ ہم کمپنی کو مزید بلند یوں کی جانب گامزن رکھیں گے۔

جو اچیمہ

چیف ایگزیکٹو

چیف ایگزیکٹو کا تجزیہ

برائے سال آخر 31 دسمبر، 2016

معزز شیئر ہولڈرز،

شیل پاکستان لمیٹڈ کے بورڈ آف ڈائریکٹرز کی جانب سے 31 دسمبر، 2016 کو اختتام پذیر ہونے والے سال کے نتائج بتاتے ہوئے مجھے بہت خوشی ہے۔ آپ کی کمپنی کی کارکردگی کے لحاظ سے یہ ایک شاندار سال رہا، جس میں 6.764 ارب روپے کا بعد از ٹیکس منافع درج کیا گیا (جس میں 2.763 ارب روپے کے موخر ٹیکس کے اثاثے بھی شامل ہیں)، جبکہ گذشتہ برس کی اسی مدت میں یہ 0.911 ارب روپے تھا۔ کمپنی کی اس بہترین کارکردگی کے اعتراف میں بورڈ آف ڈائریکٹرز نے 28 روپے فی حصہ (Rs.28 per share) کی رقم کے حتمی تقسیم (Final Dividend) کے فیصلے کی سفارش کی ہے، جو اس سے پہلے کے عارضی تقسیم کے 6 روپے فی حصہ کے علاوہ ہے۔ 2016 میں تیل کی قیمتوں میں اتار چڑھاؤ جاری رہا اور آپ کی کمپنی کو ان حالات، اور حکومت کی طے شدہ تیل کے ذخائر کی سطح پر برقرار رکھنے کی بنا پر نقصانات کا سامنا کرنا پڑا۔ تاہم، شیل کی عالمی فراہمی کے نیٹ ورک کو استعمال کرتے ہوئے ہم نے درآمدی مصنوعات کی بہترین دستیاب قیمتوں کے لیے اپنی کوشش جاری رکھی اور ان مضر نقصانات کے ازالے میں کچھ کامیابیاں حاصل کیں۔

ہماری ہر کاوش کا محور ہمارے صارفین ہیں۔ اعلیٰ معیار کے پیٹرول کی قیمتوں سے پابندیاں ہٹانے کے نتیجے میں آپ کی کمپنی نے پاکستانی صارفین کے لیے شیل وی۔ پاور متعارف کروایا، جو تکنیکی اعتبار سے شیل کے عالمی پورٹ فولیو کا سب سے زیادہ جدید فیول ہے۔ 2016 میں ہم نے شیل ایڈوانس الٹرا بھی متعارف کروایا، جو موٹر سائیکلوں کے لیے ہمارا اعلیٰ درجے کا لبریکنٹ ہے۔ ہم پر اعتماد ہیں کہ ہم پاکستان میں بہتر معیار کی صاف تر مصنوعات لانے کے ساتھ ساتھ اپنے پورے نیٹ ورک میں اعلیٰ صارفین خدمات و قدر اضافی منصوبوں کے ذریعے صارفین کے مثبت تجربات میں اضافے کے لیے اپنی عالمی تکنیکی مہارت کا استعمال جاری رکھیں گے۔

کاروباری اصولوں کی پابندی، لوگوں کی حفاظت، ماحول کے تحفظ پر مرکوز کلچر کا قیام لازمی ہے اور 2016 میں بھی یہی اصول ہمارے لیے مشعل راہ رہے۔ اخراجات کو قابل انتظام سطح پر رکھنے کے ساتھ ساتھ مسابقتی برتری برقرار رکھنے کے لیے انفراسٹرکچر اور Brand Building دونوں ہی میں نمایاں سرمایہ کاری کرتے ہوئے ہم نے آپریشنز میں اپنی فضیلت (Excellence) کو بڑھایا۔

BOARD OF DIRECTORS



JAWWAD A. CHEEMA

Jawwad Cheema is the Chairman of the Board of Directors and Managing Director of Shell Pakistan Limited. Jawwad is also the Vice President for Royal Dutch Shell Business Operations globally including custodian of Shell Group's strategy for seven off-shored business operations. He joined Shell in 1997 in Pakistan and worked in the Retail Business for almost eight years in various specialisations before moving to global roles outside Pakistan.

Jawwad has held several senior leadership roles within the Shell Group and prior to this, he was the Consultancy Manager in the Downstream Strategy & Consultancy team, Customer Experience Manager managing Global Operational Excellence for Retail and Retail General Manager in Indonesia managing Retail's entry into this new market.

Jawwad holds a post-graduate degree in Political Science and an MBA from the UK.



RAFI H. BASHEER

Rafi Basheer is a Chartered Accountant and a finance professional. After completing his accountancy training in London, Rafi worked for two years with PricewaterhouseCoopers in Dubai as Assistant Manager in Audit before joining Shell Pakistan in January 2000. At Shell, he has held a variety of roles locally and overseas, ranging from Retail Finance Manager Shell Pakistan, Mergers and Acquisitions Finance for Shell Downstream Asia/Pacific, Global Governance, Asia Pacific regional Finance Manager, Finance Director for Shell Pakistan Limited, and most recently Global Finance Manager for Shell's Bitumen and Sulphur businesses. He is currently based in Singapore in the role of Global Planning & Appraisal Manager for Shell's Retail, Lubricants, Aviation and Specialties businesses.



FARROKH K. CAPTAIN

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

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



RAHAT HUSSAIN

Rahat Hussain is responsible for Shell's Upstream Commercial activities in the Middle East, North Africa and South Asia based in Dubai. He has extensive experience in the oil and gas sector during a career spanning 30 years with Royal Dutch Shell Group of Companies. His expertise ranges from Upstream exploration and production ventures, through midstream JV operations, to end customer marketing. Prior to his current role in Dubai, Rahat was responsible for Shell's LNG business in Qatar. He has worked in the Netherlands, USA, Oman, UK, Brunei and Pakistan, where he was the Commercial Manager for Shell's Upstream business. He is also a member of Shell's Global Commercial Leadership Team. He is also a Director of the Qatargas4 LNG Venture.

Rahat was born in Pakistan and moved with his family to the UK at an early age. He completed his education as a chartered Mechanical Engineer at the University of Manchester and has since participated in executive education programs at IMD and Harvard.



IMRAN R. IBRAHIM

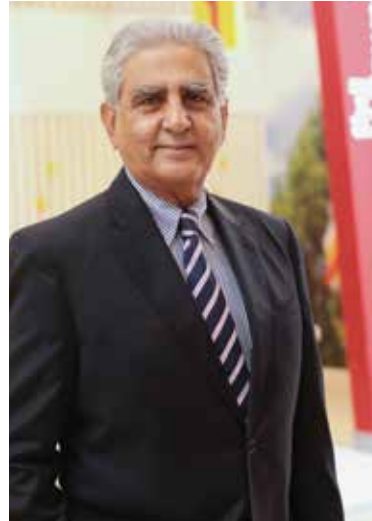
Imran Ibrahim is a graduate from Government College, Lahore, and pursued post graduate studies at the Institute of Business Administration in Karachi. He is an entrepreneur with 43 years of experience in diverse areas of business such as distribution of products for various multinationals as well as cotton ginning and edible oil extraction.

**NASSER N. S. JAFFER**

Nasser Jaffer holds an Associated Science Diploma Programme in Agriculture from University of California. He is the Chairman of Jaffer Group of Companies. He was Director of Jaffer Brothers (Private) Ltd. from 1969 to 2003, responsible for the chemical and pesticides businesses, as well as the fertilizer and machinery business from time to time.

In 2003 he took over as Chairman and CEO of the company to manage the overall business to ensure growth, profitability and business satisfactory results to the stakeholders.

He is on the boards of other business, philanthropic, social and health associations such as The Kidney Centre and Honorary Secretary Modern Club and Modern Society. He also held office as the Honorary Consul of the Philippines until 2010.

**ZAFFAR A. KHAN**

Zaffar Khan graduated as a Mechanical Engineer in 1967 from Peshawar University and soon thereafter joined Esso/Exxon Chemical which following an employee led buyout became Engro Chemical in Pakistan.

He retired from the Company in 2004 after serving for 35 years, the last 6 of which as President and CEO. During the early years of his career he served Exxon Chemical for 10 years in Hong Kong, Singapore and USA in the petrochemical business. His career with Exxon/Engro spanned all major corporate functions i.e. marketing, manufacturing, finance & corporate services.

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

**KLAAS MANTEL**

Klaas joined Shell in the Netherlands in 1995 in the Retail business after completing his Masters in Economics degree at the University of Amsterdam and studying in the USA and Japan. His international Shell career started in the Shell Retail business in the Netherlands and included assignments as Global Promotions Manager & Global Diesel Marketing Manager at Shell International in London, eBusiness Manager for Asia Pacific based in Singapore and Regional Retail Marketing Manager for Africa based in South Africa.

From 2009 to 2011 Klaas was General Manager for the Shell South Africa retail business, with sales of 2.7 bn liters and \$270 mn Convenience Retail sales through a network of approximately 700 service stations and 400 Company-owned Convenience stores.

Klaas was also a member of the Shell South Africa Country Coordination Team that coordinates various Group activities in the country, including reputation and brand management, employment and diversity strategies and government relations and other stakeholder management activities.

In his current role as General Manager Global Convenience Retail & Lubricants he travels extensively across the Shell network of over 44,000 service stations in approx. 70 countries to drive performance, innovation, operational excellence and partnership development.

**HAROON RASHID**

Haroon Rashid is the General Manager Lubricants for Shell Pakistan Limited. He joined Shell Pakistan in 1995 and has had a variety of roles and experiences in several countries. From 1995 to 2000 he worked in the Retail business in Pakistan.

In 2001 he took time to complete an MBA from INSEAD after which he rejoined Shell as a Consultant in the Downstream Management Consultancy, London. In 2005 he became the Downstream Competitor Intelligence Manager, also in London, before moving to Singapore in 2008 as the Global Marketing Manager for Aviation. He was the Fuels Supply Chain General Manager for Shell Pakistan from 2011-2016.

**BADARUDDIN F. VELLANI**

Badaruddin Vellani is an Honours Graduate in Chemical Engineering from the Loughborough University of Technology and is also a Barrister at Law from the Middle Temple (London). He was called to the Bar in 1982 and commenced legal practice in Karachi immediately thereafter.

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

**FAISAL WAHEED**

Faisal Waheed is Chief Financial Officer and Finance Director at Shell Pakistan Limited. He is a graduate of the Institute of Business Administration, Karachi and an Associate member of Chartered Institute of Management Accountants, UK and Association of Corporate Treasurers, UK.

Faisal joined Shell in 2013 with an external experience of over 15 years. During this period he worked in various finance roles with Unilever in Pakistan and UK, and later with Engro Corporation where he last served as Chief Financial Officer of one of its subsidiaries.

He also serves on the boards of Pakistan Refinery Limited, Pak Arab Pipeline Company Limited and Shell Oman Marketing Limited.

REPORT OF THE DIRECTORS

The Directors of your Company are pleased to present their Annual Report together with audited financial statements for the year ended December 31, 2016.

The profit for the year ended December 31, 2016 after providing for administrative, marketing and distribution expenses, financial and other charges amounts to:

	(Rupees in million)
Profit before taxation	5,705
Taxation	1,059
Profit after taxation	<u>6,764</u>
	Rupees
Earnings per share	<u>63.22</u>

Appropriations and movement in reserves have been disclosed in the Statement of Changes in Equity on page 59 of the Annual Report.

At its meeting held on March 10, 2017, the Board of Directors of the Company has proposed cash dividend for the year ended December 31, 2016 of Rs. 28 per share (280%) in addition to the interim dividend of Rs. 6 per share (60%). The approval of the members for the dividend will be obtained at the Annual General Meeting to be held on April 20, 2017. The dividend amounting to Rs. 2,996,345 thousand has not been recognised as a liability in these financial statements.

The Directors confirm that:

1. The financial statements, prepared by the management of the Company, present its state of affairs fairly, the result of its operations, cash flows and changes in equity.
2. Proper books of account of the Company have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements except for changes resulting on initial application of standards, amendments or interpretations to existing standards, as stated in note 2.3.1 to the financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departures, if any, has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Company's ability to continue as a going concern.
7. There has been no material departure from the best practices of Code of Corporate

Governance, as detailed in the listing regulations.

8. Key operating and financial data for the last seven years in summarised form is disclosed on page 52. The significant deviations in operating results of the Company from last year have been discussed in the Chief Executive's Review on page 12.
9. A reasonable indication of future prospects is discussed in the Chief Executive's Review on page 12.
10. A statement as to the value of investments of provident, gratuity and pension funds on the basis of un-audited financial statements for the year ended December 31, 2016 is included in note 30.4 to the financial statements.
11. The number of Board and Committees' meetings held during the year and attendance by each Director is disclosed on pages 106.
12. Mr. Imran R. Ibrahim, Mr. Nasser N.S. Jaffer, Mr. Badaruddin F. Vellani, Mr. Haroon Rashid and Mr. Faisal Waheed have already obtained directors' training certification from the Pakistan Institute of Corporate Governance (PICG), while Mr. Zaffar A. Khan and Mr. Farrokh Captain are exempted. The Company shall comply with the requirement of the Code to ensure that by 30th June 2018, at least half of the directors are duly certified.
13. The pattern of shareholding and additional information regarding pattern of shareholding is disclosed on page 108. The Company is a subsidiary of Shell Petroleum Company Limited, London (immediate holding company) which is a subsidiary of Royal Dutch Shell Plc. (ultimate holding company) incorporated in the United Kingdom.
14. The auditors have drawn attention to the contents of note 13.1, 13.2, 13.3 and 13.4 to the financial statements in respect of receivable against petroleum development levy and price differential claims due from the Government of Pakistan.

The details of the above are further explained in the relevant notes to the financial statements.
15. The Board has recommended M/S EY Ford Rhodes to be retained as external auditors of the Company for the year ending December 31, 2017.
16. Trading in shares of the Company during the year by the Directors, CEO, CFO, Company Secretary, Head of Internal Audit, other employees and their spouses and minor children are summarized on page 110.
17. Details of the Corporate Social Responsibility and other activities undertaken by the Company during the financial year are disclosed on pages 44 to 47.

On behalf of the Board of Directors.

Jawwad A. Cheema
Chief Executive
Karachi: March 10, 2017

5. اندرونی کنٹرول کا نظام (System of Internal Control) اپنے طور پر بے نقص ہے اور اس پر مستعدی سے عمل درآمد کروایا گیا اور اس کی نگرانی کی گئی ہے۔
6. کمپنی کے آنے والے دنوں میں کاروبار کرنے کی صلاحیت پر کوئی شبہ نہیں ہے۔
7. کارپوریٹ گورننس (Corporate Governance) کے ضوابط پر مکمل عمل کیا گیا ہے، جو اس کی فہرست میں تفصیل سے درج ہیں۔
8. گزشتہ سات سال کے اہم امور (Operations) اور مالیاتی معلومات کا خلاصہ صفحہ نمبر 52 پر ظاہر کیا گیا ہے۔ پچھلے سال کمپنی کے امور کے نتائج میں کیے گئے اہم انحراف پر بحث چیف ایگزیکٹو کے تجزیے، صفحہ نمبر 12 میں کی گئی ہے۔
9. مستقبل کے امکانات کی مناسب نشاندہی (Reasonable Indication) پر چیف ایگزیکٹو کے تجزیے، صفحہ نمبر 12 میں بحث کی گئی۔
10. 31 دسمبر 2016 کو ختم ہونے والے سال کے لیے بغیر آڈٹ شدہ مالی گوشواروں کے مطابق پروویڈنٹ، گریجویٹ اور پنشن فنڈز کی رقم پر سرمایہ کاری کا بیان مالیاتی دستاویزات کے نوٹ 30.4 میں شامل کیا گیا ہے۔
11. سال بھر کے دوران منعقد ہونے والی بورڈ اور کمیٹیوں کے اجلاس اور ان میں ہر ڈائریکٹر کی شرکت کی تعداد صفحہ 106 پر درج کی گئی ہے۔
12. جناب عمران ابراہیم، جناب ناصر جعفر، جناب بدرالدین ویلانی، جناب ہارون رشید اور جناب فیصل وحید پہلے ہی پاکستان انسٹیٹیوٹ آف کارپوریٹ گورننس (PICG) سے ڈائریکٹرز ٹریننگ سرٹیفیکیشن حاصل کر چکے ہیں۔ جبکہ جناب ظفر خان اور جناب فرخ کیمپٹن اس سے مستثنیٰ ہیں۔ کمپنی ضابطے کی پابندی کرتے ہوئے 30 جون 2018 تک نصف ڈائریکٹرز کی سرٹیفیکیشن کو یقینی بنائے گی۔
13. حصص یافتگی (Shareholding) کا بیژن اور حصص یافتگی کے طریقہ کار سے متعلق اضافی معلومات صفحہ 108 پر ظاہر کی گئی ہیں۔ یہ کمپنی شیل بیٹروولیم کمپنی لمیٹڈ، لندن (Immediate Holding Company) کا ذیلی ادارہ ہے جو کہ رائل ڈچ شیل (Ultimate Holding Company) کا ایک ذیلی ادارہ ہے جو برطانیہ میں قائم کی گئی تھی۔
14. محاسبین (Auditors) بیٹروولیم کی ترقی پر عائد شدہ اخراجات کے واجبات اور حکومت پاکستان کی جانب سے عائد قیمتوں کے فرق کے دعووں کے لحاظ سے مالی گوشواروں کے نوٹ 13.1، 13.2، 13.3، اور 13.4 کے متون کی طرف توجہ دلائی۔ مذکورہ بالا متن کی مزید تفصیلات کی وضاحت مالی گوشواروں کے متعلقہ نوٹ میں موجود ہے۔
15. بورڈ نے دسمبر 2017 کو ختم ہونے والے مالی سال کے لیے M/S EY Ford Rhodes کی بطور بیرونی محاسب (External Auditors) برقرار رہنے کی سفارش کی ہے۔
16. ڈائریکٹرز، سی ای او، سی ایف او، کمپنی کے سیکریٹری، انٹرنل آڈٹ کی سربراہ، اور دیگر ملازمین اور ان کے ذمہ دارین، اور نااہل بچوں کی سال کے دوران کمپنی کے حصص (شیرز) میں تجارت کا خلاصہ صفحہ 110 پر درج کیا گیا ہے۔
17. مالی سال کے دوران کمپنی کی اختیار کردہ کارپوریٹ سماجی ذمہ داری اور دیگر سرگرمیاں صفحہ نمبر 44 تا 47 پر درج کی گئی ہیں۔

منجانب بورڈ

جو ادھیہ

چیئرمین اور چیف ایگزیکٹو

کراچی: 10 مارچ 2017

شیل پاکستان لمیٹڈ

ڈائریکٹرز کی رپورٹ

آپ کی کمپنی کے ڈائریکٹرز 31 دسمبر، 2016 کو ختم ہونے والے سال کی اپنی سالانہ رپورٹ اور آڈٹ شدہ مالیاتی گوشوارے پیش کرتے ہوئے خوشی محسوس کرتے ہیں۔

انتظامی امور مارکیٹنگ اور تقسیم کاری کے اخراجات، مالیاتی اور دیگر واجبات کی ادائیگی کے بعد 31 دسمبر، 2016 کو ختم ہونے والے سال کا منافع:

(روپے، ملین میں)	منافع، قبل از ٹیکس
5,705	ٹیکس
1,059	منافع بعد از ٹیکس
<u>6,764</u>	
روپے	آمدنی فی حصہ دار
<u>63.22</u>	

سالانہ رپورٹ کے صفحہ نمبر 59 پر معدلت (equity) میں تبدیلیوں کے بیان کی ذیل میں ذخائر کی تبدیلی کارروائی (movement) اور تصریحات ظاہر کیے جا چکے ہیں۔

10 مارچ 2017 کو منعقد ہونے والی مجلس مشاورت (meeting) میں کمپنی کے بورڈ آف ڈائریکٹرز 31 دسمبر 2016 کو ختم ہونے والے سال کے لیے 28 روپے فی حصہ (280 فیصد) کے حتمی تقسیم (dividend) کی تجویز دے چکے ہیں جو 6 روپے فی حصہ (60 فیصد) کے عارضی تقسیم کے علاوہ ہے۔ 20 اپریل 2017 کو منعقد ہونے والے سالانہ عام اجلاس میں اراکین سے اس تقسیم کے لیے اجازت حاصل کی جائے گی۔ ان مالیاتی گوشواروں میں تقسیم کی رقم 2,996,345 ہزار روپے کو بطور واجبات شامل نہیں کیا گیا ہے۔

ڈائریکٹرز تصدیق کرتے ہیں کہ:

1. کمپنی کی انتظامیہ کی طرف سے تیار کیے گئے مالی گوشوارے واضح طور پر اس کے معاملات، اس کے امور کے نتائج، رقم کا بہاؤ اور معدلت (equity) میں تبدیلیوں کو شفاف طور پر پیش کرتے ہیں۔
2. کمپنی کے تمام مالیاتی کھاتے باقاعدہ رکھے گئے ہیں۔
3. مالیاتی گوشواروں کی تیاری میں ہمیشہ مناسب حسابی طریقہ کار کا اطلاق کیا گیا ہے، ماسوائے مالیاتی دستاویزات کے نوٹ 2.3.1 میں بیان کی گئی ان تبدیلیوں کے جو معیارات کے ابتدائی اطلاق اور پہلے سے موجود معیارات میں کی گئی ترمیم اور تصریحات کے نتیجے میں عمل میں آئیں۔ حسابی تخمینے مناسب اور محتاط فیصلوں کی بنیاد پر کیے گئے ہیں۔
4. بین الاقوامی مالیاتی رپورٹنگ کے معیارات (International Financial Reporting Standards) کو، جیسا کہ ان کا پاکستان میں اطلاق ہے، ان مالیاتی دستاویزات کی تیاری میں ان پر عمل کیا گیا ہے اور اگرچہ ترک بھی کیے گئے ہیں تو ان کو ظاہر کیا گیا ہے۔

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Forty-Eighth Annual General Meeting of Shell Pakistan Limited will be held on Thursday, April 20, 2017 at 10:00 a.m. at Movenpick Hotel, Karachi to transact the following business:

ORDINARY BUSINESS

1. To receive, consider, adopt and approve the Report of Directors and Auditors together with the Audited Accounts for the year ended December 31, 2016.
2. To approve the payment of final dividend of Rs. 28.00 per share (280%) for the year ended December 31, 2016.
3. To appoint Auditors for the financial year January 1 to December 31, 2017 and to fix their remuneration.

By Order of the Board

ANDALIB ALAVI
Secretary

Karachi: March 10, 2017

Shell House
6, Ch. Khaliqzaman Road
Karachi-75530

NOTES:

(i) The register of members will remain closed from April 6 to April 20, 2017 (both days inclusive). Transfers received in order at the office of our Share Registrars, FAMCO Associates (Pvt) Ltd., 8-F, next to Hotel Faran, Nursery, Block-6, P.E.C.H.S., Shakra-e-Faisal, Karachi-75400 by the close of business on April 5, 2016 will be in time for the purpose of payment of dividend.

(ii) A member entitled to attend and vote at the meeting shall be entitled to appoint another person, as his/her proxy to attend, demand or join in demanding a poll, speak and vote instead of him/her, and a proxy so appointed shall have such rights, as respects attending, speaking and voting at the meeting as are available to a member. Proxies in order to be effective must be received at the registered office of the Company not later than 48 hours before the meeting. A proxy need not be a member of the Company.

(iii) Members are requested to notify any change in their addresses immediately to our Share Registrars, FAMCO Associates (Pvt) Ltd., 8-F, next to Hotel Faran, Nursery, Block-6, P.E.C.H.S., Shakra-e-Faisal, Karachi-75400.

(iv) Members or their proxies are required to present their original CNIC or Passport along with the Participant's I.D. and Account Number(s) at the time of attending the Annual General Meeting in order to authenticate their identity.

(v) A form of Proxy is enclosed with the Notice of Meeting being sent to the members.

(vi) Members are advised that as per the orders of the SECP inter alia vide SRO No. 831(1)/2012 dated July 5, 2012 and SRO No. 19(1)/2014 dated January 10, 2014, CNIC number of the concerned member is mandatorily required to be mentioned on Dividend Warrants, Members Register and other Statutory Returns. Members are therefore requested to submit a copy of their CNIC (if not already provided) to our Share Registrars at the earliest. In case of non-receipt of the copies of valid CNICs of the Members, the Company may be constrained, under section 251(2)(a) of the Companies Ordinance 1984, to withhold dispatch of Dividend Warrants to such Members.

(vii) Deduction of Income Tax from Dividend under Section 150 of the Income Tax Ordinance, 2001:

(a) Pursuant to the provisions of the Finance Act 2016 effective July 1, 2016, the rate of deduction of income tax from dividend payments has been revised as follows:

1. Rate of tax deduction for filers of income tax return - 12.5%
2. Rate of tax deduction for non-filers of income tax return - 20%

Shareholders whose names are not entered into the Active Tax-payers List (ATL) available on the website of FBR, despite the fact that they are filers, are advised to immediately make sure that their names are entered in ATL, otherwise tax on their cash dividend will be deducted @ 20% instead of 12.5%.

(b) Withholding Tax exemption from the dividend income, shall only be allowed if copy of valid tax exemption certificate is made available to our Share Registrars by the first day of Book Closure.

(c) Further, according to clarification received from Federal Board of Revenue (FBR), with-holding tax will be determined separately on 'Filer/Non-Filer' status of principal shareholder as well as joint-holder(s) based on their shareholding proportions.

In this regard all shareholders who hold shares jointly are requested to provide shareholding proportions of principal shareholder and joint-holder(s) in respect of shares held by them (if not already provided) to our Share Registrars, in writing as follows:

COMPANY NAME	FOLIO/ CDS ACCOUNT #	TOTAL SHARES	PRINCIPAL SHAREHOLDER		JOINT SHAREHOLDER	
			NAME AND CNIC #	SHAREHOLDING PROPORTION (NO. OF SHARES)	NAME AND CNIC #	SHAREHOLDING PROPORTION (NO. OF SHARES)

The required information must reach our Share Registrars within 10 days of this notice; otherwise it will be assumed that the shares are equally held by the principal shareholder and joint-holder(s).

(d) For the query/information, the members may contact the Company and/or the Share Registrars, FAMCO Associates (Pvt) Ltd., 8-F, next to Hotel Faran, Nursery, Block-6, P.E.C.H.S., Shakra-e-Faisal, Karachi-75400.

(e) The Corporate shareholders having CDC accounts are required to have their National Tax Number (NTN) updated with their respective participants, whereas corporate physical shareholders should send a copy of their NTN certificate to the Company or FAMCO Associates (Pvt) Ltd. The shareholders while sending NTN or NTN certificates, as the case may be, must quote the company name and their respective folio numbers.

(viii) In pursuance of the directions given by the Securities and Exchange Commission of Pakistan (SECP) vide Circular No.18 of 2012 dated June 05, 2012, it is to inform you that under Section 250 of the Companies Ordinance, 1984 a shareholder may, if so desired, direct the Company to pay dividend through his/her/its bank account.

Further, transferee of shares may exercise the option for dividend mandate by using the revised "Form of Transfer Deed". The revised Form of Transfer Deed will enable the transferees to receive cash dividend directly in their bank accounts, if such transferee provides particulars of the bank account which he/she/it desires to be used for credit of cash dividend.

Shareholders who hold shares in physical form may submit the required Dividend Mandate Form to our Share Registrars, while those shareholders who hold shares in Central Depository Company may submit the Dividend Mandate Form to their Participant/Investor Account Services.

(ix) Members holding in aggregate 10% or more shareholding residing at a geographical location other than Karachi, may participate in the meeting through video conference by submitting their application to the Company Secretary at least 10 days prior to the date of the meeting. The Company will arrange video conference facility in the requested city subject to availability of such facility in that city. The Company will intimate members regarding venue of the video conference facility at least 5 days before the date of the general meeting along with complete information necessary to enable them to access such facility.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

SHELL PAKISTAN LIMITED FOR THE YEAR ENDED DECEMBER 31, 2016

The Company has applied the principles contained in the Code in the following manner:

- The Company encourages representation of independent directors, non-executive directors as well as directors representing minority interests on its Board of Directors. As at December 31, 2016 the Board comprised of the following directors:

Category	Name
Independent Directors	Mr. Zaffar A. Khan Mr. Badaruddin F. Vellani
Executive Directors	Mr. Jawwad A. Cheema Mr. Faisal Waheed Mr. Haroon Rashid
Non Executive Directors	Mr. Rafi H. Basheer Mr. Farrokh K. Captain Mr. Imran R. Ibrahim Mr. Nasser N. S. Jaffer Mr. Klaas Mantel Mr. Omar Yaqoob Sheikh (effective January 1, 2017 Mr. Sheikh has been replaced by Mr. Rahat Hussain)

The independent directors meet the criteria of independence under clause i (b) of the Code. Three of the six non-executive directors namely Mr. Rafi H. Basheer, Mr. Omar Yaqoob Sheikh, Mr. Klaas Mantel as well as Mr. Rahat Hussain (director effective January 1, 2017) occupy executive positions in other Shell Group Companies.

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in Regulation No. 5.19.24 of the Pakistan Stock Exchange Limited (formerly Karachi Stock Exchange in which the Lahore and Islamabad stock exchanges have merged) for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

- The directors have confirmed that none of them is serving as a director of more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).
- All the resident directors of the Company are registered as taxpayers and none of them have defaulted in payment of any loan to a Banking Company, a Development Financial Institution or a Non-Banking Financial Institution or being a Broker of a stock exchange, has been declared as a defaulter by that stock exchange.
- Two casual vacancies occurred on the Board during the year on account of the resignations of Mr. John King Chong Lo and Mr. Soo Lim Goh. Both vacancies were immediately filled up by the Board with the appointment of Mr. Jawwad Cheema and Mr. Rafi Basheer respectively. In addition, Mr. Omar Yaqoob Sheikh was relocated to an overseas position and Mr. Jawwad Cheema was appointed Chief Executive of the Company effective August 1, 2016.
- The Company has prepared a "Code of Conduct" defining acceptable and unacceptable behaviors to promote integrity for the Board, senior management and other employees, and has ensured that appropriate steps have been taken to disseminate it through the Company along with its supporting policies and procedures. The Code of Conduct is available on the website of the Company: www.shell.com.pk
- The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
- All the powers of the Board have been duly exercised and decisions on material transactions, including appointment, determination of remuneration and terms and conditions of employment of the CEO, other executive directors and the meeting fees payable to non-executive directors have been taken by the Board.
- All the meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with the agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- Mr. Imran R. Ibrahim, Mr. Nasser N.S. Jaffer, Mr. Badaruddin F. Vellani, Mr. Haroon Rashid and Mr. Faisal Waheed have already obtained directors' training certification from the Pakistan Institute of Corporate Governance (PICG), while Mr. Zaffar A. Khan and Mr. Farrokh K. Captain are exempted. The Company shall comply with the requirement of the Code to ensure that by June 30, 2018, at least half of the directors are duly certified.
- There has been no change in the position of the Chief Financial Officer. Ms. Sonia Piracha has been appointed Head of Internal Audit effective October 1, 2016 in place of Mr. Raza Hemani and effective February 1, 2017, Mr. Andalib Alavi has been appointed Company Secretary in place of Mr. Tariq Saeed, in both cases with the approval of the Board, including approval of their remuneration and terms and conditions of appointment.

- The Directors' Report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
- The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
- The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
- The Company has complied with all the corporate and financial reporting requirements of the Code.
- The Board has formed an Audit Committee comprising two non-executive directors and one independent director. The Chairman of the Committee is an independent director.
- The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
- The Board has formed a Human Resource and Remuneration Committee comprising of three members of whom two are non-executive directors and one is an executive director. The Chairman of the Committee is a non-executive director. The terms of reference of the Committee have been formulated and advised to the Committee for compliance.
- The Board has outsourced the internal audit function to BDO Ebrahim & Co. who are considered to be suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.
- The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
- The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
- The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchanges.
- Material/price sensitive information has been disseminated among all market participants at once through the Pakistan Unified Corporate Action Reporting System of the stock exchanges.

- The Company has complied with the requirements relating to maintenance of register of persons having access to inside information by a designated senior management officer in a timely manner and maintained proper record including basis for inclusion or exclusion of names of persons from the said list.
- We confirm that all other material principles enshrined in the Code have been complied with except that annual evaluation of Board was not carried out during the year.

On behalf of the Board of Directors

Jawwad A. Cheema
Chief Executive
March 10, 2017

REVIEW REPORT

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

We have reviewed the enclosed Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Shell Pakistan Limited (the Company) for the year ended 31 December 2016 to comply with the requirements of Rule Book of Pakistan Stock Exchange Limited Chapter 5, Clause 5.19.24 (b) of the Code, where the Company is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Company's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors' for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.


Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code, as applicable to the Company for the year ended 31 December 2016.

Further, we draw attention to instance of non-compliance with the requirements of the Code as reflected in the last section to the Statement which explains the status of annual evaluation of the Board of Directors. Our conclusion is not qualified in respect of this matter.

CHARTERED ACCOUNTANTS

Place: Karachi

Date: March 10, 2017



“For as long as I can remember, my car has been the one constant in my life. From college to my first job, it’s been around. It’s an older vehicle now but it’s still ‘my ride’ and I don’t feel like letting go of it. When Shell launched V-Power in Pakistan, I was really excited because I knew that it would help my car run better and be around for longer.”

- SYED M. AYAZ

OUR PERFORMANCE BUILDING BONDS

People share a special bond with their car. Shell understands that connection and makes it stronger by providing quality fuels that enhance engine performance. Fuels like Shell V-Power keep engines safe from gunk and corrosion thereby reducing the wear and tear of your car so that it goes further with you.

SHELL RETAIL

Shell's retail network in Pakistan spans over 790 sites which provide the highest quality products and services to our customers. In addition to offering a variety of fuels like Shell V-Power, Super Unleaded and Diesel, as well as advanced, high-quality lubricants, our retail forecourts also offer an array of non-fuel retailing facilities for the convenience of our customers.



MAKING HISTORY AT THE GLOBAL STAGE

Each year, the annual Smiling Stars event honors and awards winners from across the globe in eleven categories related to our Retail business. In 2016, Shell Pakistan made history by bringing home four of the eleven awards, the highest number of awards won by any country. Our Service Champion Aslam Khoso beat 500,000 people from across the globe by winning the "Global Forecourt Champion of the Year" award for extending excellent customer service despite his speech and hearing impairment. Additionally Jani Filling Station in Mianwali swept the award of the "Global Retail Site of the Year" beating 17,895 retail sites, while Shell employees brought home the coveted "Global Territory Manager (TM) of the Year" and "Global District Manager (DM) of the Year" awards respectively, beating a pool of 588 TMs and 115 DMs globally.

BEYOND FUELS – OUR ECOSYSTEM

In August 2016, Askari Filling Station opened its doors for customers with a wide array of choices, by inaugurating a Shell Select convenience store that houses several popular brands like Cold Stone Creamery, Pie-in-the-Sky, Meat One and Green-O. These choices come in addition to other conveniences that the site offers such as ATMs, quality fuels, a world-class Shell Helix Oil-Change facility as well as a McDonald's outlet, making this site a true one-stop shop for our customers. This is the first of many more to follow across the country.

BRINGING THE BEST OF OUR GLOBAL FUELS PORTFOLIO TO PAKISTAN

Shell has over 100 years of experience in developing fuels with scientists and specialists working on fuels innovation across the globe. It is this experience that has made the Shell brand synonymous with passion and expertise in developing high quality and technologically advanced fuels for the benefit of consumers and their vehicles. In 2016, we brought Shell's premium fuel Shell V-Power to Pakistan, making it the 70th market to launch this technologically advanced product in the world. By the end of 2016, numerous retail sites across Karachi, Lahore and Islamabad were offering customers the choice of fueling their vehicles with the best fuel that Shell's global fuel portfolio offers.

IMPROVING OUR SITES' STANDARDS

Our quest to offer superior on-site experience for our customers resulted in investments throughout the year. As a result of these investments, we upgraded the visual identity of 50 of our sites, installed 41 new generation lube bays and 26 biker lube change pods. In addition to this, we also commissioned 15 new sites in our retail network to improve customer convenience and accessibility.

ENHANCING SERVICE STANDARDS THROUGH SITE STAFF TRAININGS

Service Champions play a pivotal role in delivering Shell's customer promise day-in and day-out in keeping our customers happy. In 2016, we launched a one-of-a-kind training programme to develop and empower them. This training programme provides Service Champions with technical know-how and soft skills, while also rewarding them through benefits in the form of cash rewards and free health and medical insurance, to encourage and motivate them to continue their hard work on every site for every customer visit every day.

SHELL LUBRICANTS

Being the number one Lubricants supplier globally for the tenth year, we strive continuously to increase customer satisfaction by putting our customers first and making operations more effective. We continue investing for growth, leveraging our technology, brand and marketing excellence to increase the value for our customers by developing products that are at the cutting edge of technology.



RIMULA REAL DESTINATIONS

Shell uses cutting edge technology that creates superior products designed for the vehicle and our road infrastructure requirement. This year we celebrated our truckers and farmers who are at the heart of our economy and spend day and night to enable our country to grow and prosper. We recognise their hardships as their journey is not easy, Shell Rimula is their hard working partner that helps make the journey easier and smoother no matter how long or tough it is.

Reaching out to our consumers, soliciting feedback, engaging them on ways to improve their yield resulted in delivering the highest volume to Rimula customers since 2010.

ADVANCE - ENJOY EVERY RIDE

The motorcycle industry of Pakistan is continuing to be the fastest growing especially in semi urban and rural areas. Our consumers are more involved in their purchases and prefer to choose their oil brand themselves. We launched an exciting campaign for these biker enthusiasts with Shell Advance our 100% synthetic premium motorcycle oil. It was based on real consumer insights and encapsulated the special relationship between bikers and their set of wheels; it is more than just a form of transportation and is reflective of the life and experience of its rider.

KEY ACCOUNT PLAN - PROJECT H

One of our distribution channels is Independent Workshops (IWS), the fastest emerging channel in Pakistan. This year we launched a program to increase our customer awareness, reach and product penetration by branding over 50+ IWS out of 250 selected across Pakistan. This resulted in improving our brand visibility and growing our market share by four times in this segment.



SHELL AVIATION

Shell Aviation is a global supplier of aviation fuels, lubricants and technical services, serving customers across all aviation segments. Over more than 100 years, it has built a reputation for being a trusted partner providing world-class safety and operations and supply security, with a presence at around 900 airports in 40 countries refueling a plane every 12 seconds.



SHELL AVIATION IN PAKISTAN

Shell Aviation's heritage in Pakistan dates back to 1932, when Burmah Shell had the privilege of refuelling the inaugural flight of the first air mail service in the Indo-Pakistan subcontinent. It has since established itself as an important player in Pakistan's aviation industry, providing jet fuel and aircraft refueling services at five of its key airports, including Islamabad and Karachi, as well as aviation gasoline to the military and flying schools. The business also offers high quality AeroShell lubricants portfolio, including turbine engine oils, piston engine oils, fluids and greases in Pakistan. Underpinning Shell Aviation's success in Pakistan are the global expertise and local experience that we offer: Industry stakeholders and customers benefit from best practices and continued innovation in fuel safety and operations, while having direct access to a team of sales, supply and operations specialists who are dedicated to serving the local market.

2016 HIGHLIGHTS

In 2016, we continued performing well, being the second largest jet fuel supplier, supplying around 20 domestic and international airlines. With relentless focus on safety, Shell Aviation maintained a strong track record of no significant safety incidents at any of our airport sites.

As part of its commitment to continuous improvement and collaboration, Shell Aviation continues to partner with Pakistan Civil Aviation Authority to organise a series of workshops on "Ramp Safety" for airlines, ground handling agencies, and various other ramp officials at various airports across the country where we operate.



HSSE PERFORMANCE

At Shell, we aim to help meet the energy needs of society in ways that are economically, environmentally and socially responsible. To manage the impact of our operations and projects on the environment and society we have a comprehensive set of business principles and rigorous standards covering Health, Safety, Security and Environment (HSSE).

HSSE IN PAKISTAN

In line with its journey towards Goal Zero, Shell Pakistan Limited continued its strong focus on HSSE performance. We understand building a safety culture requires preparedness and constant vigilance, so we continually seek new ways to improve our performance. In 2016 Shell Pakistan invested more than 4400 hours in basic HSSE training for its staff across all locations on three key risk areas: Journey Management, Tank Lorry Decantation and Hazard Identification.



SAFETY DAY 2016

We continually reinforce our safety culture through events such as our annual global Safety Day. This provides activities where employees and contractors gain a better understanding of safety risks and identify ways to minimise them. This year Safety Day 2016 was held on 12 April where all our employees spent a week engaging service champions across all our Retail Stations in Pakistan on a refresher training of Tank Lorry Decantation to reinforce safe behaviours at our sites. On the day, all Shell Pakistan employees shared learnings and best practices from past incidents to advocate safety leadership and knowledge at all levels of the organisation.

ROAD SAFETY

The nature of our business exposes the environment and individuals to volatile substances which require careful handling. Road Transport of hydrocarbons forms the backbone of the oil distribution business in Pakistan. Shell Pakistan's annual road exposure of over 67 million kilometers necessitates the need for us to ensure road safety to protect communities and maintain Goal-Zero.

With increasing vehicle population annually and limited corresponding increase in the road capacity, the issues of road safety are further compounding. To manage this high exposure, we relentlessly pursue road safety initiatives – such as improving drivers' behaviour, defensive driving training, journey management and in-vehicle monitoring.

EMERGENCY RESPONSE MEGA DRILL

Shell prioritises the safety of the people it works with and the space in which it operates. We continuously work towards building a robust safety culture. In our efforts to equip our partners in maintaining agile emergency response, Mega Emergency Response Drills were organised for our staff and Hauliers in collaboration with Rescue 1122 and National Highway and Motorways Police authorities in Pakistan. The drills covered emergency management through a variety of incident scenarios that enabled hands on training on firefighting, hazardous material handling, rescue, first aid, etc. The scenarios simulated activities ranging from Tank Lorry Roll Over to Injury, First Aid for Medical Emergencies and from Fire Fighting to Product Retrieval.

SHELL HEALTH

We work towards building a 'Culture of Health' where people are thriving, engaged, competent and sustainably performing at their best. This year our wellness programmes included sessions on healthy lifestyle modifications and smoking cessation by renowned medical professionals of Pakistan and an annual health screening of employees to ensure their health and fitness.

OUR PEOPLE

To be the most competitive and innovative energy company, our people are central to the delivery of our strategy and driving progress. We believe that by crafting a collaborative culture, we encourage human ingenuity and creativity allowing people to achieve their professional career goals. We find that ideas accelerate when people with different capabilities get together and create dynamic synergy at work. To gain from this, we create an environment that values differences and enables people to work together to deliver our strategy.



DIVERSITY & INCLUSION AT SHELL

A diverse workforce and an inclusive work environment are vital to our success, leading to greater innovation and better solutions. Striving to attract and retain people from all walks of life is good business. Diversity is a driver of new ideas and gives us new perspectives. Inclusion strengthens teamwork, enhances decision making and boosts resilience. We are committed to promoting a diverse workforce that reflects the world in which we operate and an inclusive culture where all our people can excel.

In September 2014, Shell Women's Network for Pakistan (SWN-P) was established as one of the first professional networks for women in the country. In 2016, SWN-P launched a Mentorship Program that aims to nurture leadership and provide support for the professional development of female talent in Shell. Throughout the year, SWN-P conducted various networking events, collaborative dialogues, capability building sessions and leadership workshops to inspire women to attain their full potential. SPL continues to rank amongst the top ten "Female Friendly Workplaces" in Pakistan.

PEOPLE DEVELOPMENT & EMPLOYEE ENGAGEMENT

Shell is committed to creating and maintaining a high performance culture. To enable our people, we focus on developing and supporting our employees through intensive engagement, while rewarding their contributions. Throughout their career with Shell we set clear, focused goals that make a difference to operational performance, their professional development and our bottom line. As part of developing people through International Assignments, Shell Pakistan exported talent for seven roles in various Shell countries in 2016. A Leader of Teams Programme was conducted to upskill 35 Line Managers in SPL with the aim of developing them to engage their teams effectively. Shell Pakistan also maintained an attrition rate of 5%, well below the average market attrition rate.

BUILDING THE TALENT PIPELINE

Shell Pakistan strives to develop strong and diverse talent pipelines through effective and efficient recruitment strategies for experienced professionals and graduates alike. Our people are recruited, developed and retained according to our People Strategy to support our long-term business strategy.

In 2016, our search for remarkable students and graduates spanned 25 universities across Pakistan, with on-campus drives in seven leading universities. Seven graduates (six females) were recruited from a pool of 10,000+ applicants on technical and commercial roles. Furthermore, 25 Internees were inducted as part of the Summer Internship Program to gain experience on business challenges and projects. Recruiting with focus on improved gender balance remained a key feature of 2016 as 70% of our mid-senior management recruits were females.

SOCIAL PERFORMANCE

To be sustainable over the long-term, Shell needs to provide competitive returns for shareholders and contribute positively to society. Social Performance supports the realisation of this purpose by helping communities benefit from our development work.



Shell Pakistan's Social Investment programmes are part of the Social Performance discipline. Through these programmes Shell invests in communities over the long run and enables them to partake in benefits related to economic development.

ENTERPRISE GENERATION THROUGH SHELL TAMEER

Shell LiveWIRE is a Royal Dutch Shell Social Investment Programme, which enables young people to start their own business and create employment. Launched in Pakistan in 2003 with the local name "Tameer", the programme has reached out to 0.8 million young people (18- 35 years) and engaged 12,000 young entrepreneurs through enterprise trainings resulting in over 1,000 start-ups and business expansions. To learn more about Shell Tameer, visit www.shelltameer.com.

GLOBALLY ACCLAIMED SHELL TAMEER ALUMNI

Sanwal Muneer from Capture Mobility, a Tameer Awards winner in 2014, was amongst the six outstanding energy entrepreneurs from around the world to be showcased at the Shell Make the Future Festival held in London in June 2016.

Sanwal's unique concept of capturing motion from fast moving cars along highways and converting it into clean renewable energy has received global acclaim. His idea was first implemented on the Dundee Highway on the east coast of Scotland and there was no looking back from there. He is now working on various projects across the globe. He is also an ambassador for Shell's new global Make the Future Campaign - being one of the global bright energy ideas.

DoctHERS, another Shell Tameer alumni, was honoured at the inaugural Global Goals Awards curated by UN children's agency UNICEF in New York in September 2016. DoctHERS is an initiative which uses online technology to connect trained junior female doctors with rural women via telemedicine. This enterprise helps provide access to healthcare to rural women and at the same time generates employment opportunities for trained female doctors.

BUILD THE FUTURE CAMPAIGN

In 2014, Shell Tameer ran a 'Build the Future' campaign to generate funds to provide seed capital for students from SOS Technical Training Institute and The Hunar Foundation (THF) to start up their own businesses. In continuation of this programme, 101 students from SOS technical Training Institute and The Hunar Foundation (THF) were trained through 12 Build the Future workshops this year. 85 Business plans were developed for a diverse group of skilled entrepreneurs. 58 entrepreneurs successfully qualified to receive overall grants worth PKR 1.75 million.

VALUE CHAIN INTEGRATION

Shell Tameer trained and helped establish motorcycle and auto mechanic entrepreneurs aligned with Shell's value chain. By providing training on entrepreneurship skills, safety and technical lubricants oil change modules and seed capital in terms of inventory and tools, 13 motorcycle and auto mechanics were facilitated to set up their own oil change facilities in Karachi.



AWAAZ PROGRAMME

Shell Pakistan, re-introduced the Awaaz programme in partnership with the Network of Organisations Working with People with Disabilities, Pakistan (NOWPDP). The vision of the reinvigorated programme is to provide sustained equal employment opportunities to persons with disabilities at Shell forecourts.

This year 16 persons with disabilities were hired as service champions at 11 retail sites. To help these recruits fit into their new environment, sensitisation trainings were arranged for their new team members at these 11 sites. These people play a critical role in creating that inclusive space for these new recruits.

SHELL ECO-MARATHON

At Shell, we are constantly finding innovative ways to address energy challenges, particularly in the area of mobility. Shell Eco-marathon is a student innovation competition that challenges students from universities across the world to design, build and race the most energy efficient cars. Held in Asia, America and Europe, every year, students come together in a unique four-day event to showcase, test and drive their cars on real city streets.

Shell Eco-marathon Asia, held between Mar 3- 7, 2016 in Manila welcomed students from 17 countries across Asia Pacific, Middle East and Australia. Four teams from the leading engineering universities of Pakistan participated and were part of a captivating educational experience. Results were measured on who can drive the furthest on the equivalent of 1 kWh or 1 litre of fuel. Ghulam Ishaq Khan Institute of Engineering Sciences and Technology (GIKI) came in 7th in Urban Concept Gasoline category with a mileage of 57.2 KM/L.

ACCESS TO HEALTH CARE FOR RETAIL SERVICE CHAMPIONS

Shell partnered with Naya Jeevan Health Quest to offer free medical insurance coverage to more than 4,000 Retail service champions as part of Retail's frontline reward and recognition programme. In addition to health and life insurance, the partnership is providing value added services such as 24/7 medical helpline, health insurance orientation, medical screenings and preventive medical workshops for service champions to improve awareness around health care.

EYE CAMPS FOR TRUCK DRIVERS

Under the Social Investment theme of Road Safety, Shell Pakistan in partnership with the Layton Rahmatulla Benevolent Trust (LRBT) conducts eye testing activities as a part of its outreach programme. This year, during Ramzan, Shell offered free eye-checkups at 13 retail stations alongside major trucking routes across the country. In addition to this, Shell Pakistan also collaborated with our transport partner Rasch (Pvt) Ltd to conduct an eye testing camp at Pipri for its employees, drivers and community members. In 2016 a total of 965 people were treated for eye ailments without any cost to the patients.



OLD STONE
ICE CREAMERY

pic in the sky

JUST
BAKED

BISCUITS & SAVOURIES

SELECTING
has never been sweeter

"Life has become so fast-paced and there are just not enough hours in a day. Managing a house, raising kids while pursuing a career is tough. So I'm always looking for ways to manage my time better and that's where my weekly pit stop to Shell Askari comes in. The kids get their McDonalds while I pick up my groceries, fuel my car and draw some cash - all in one go! It's just so convenient"

- GHAZAL SAJID

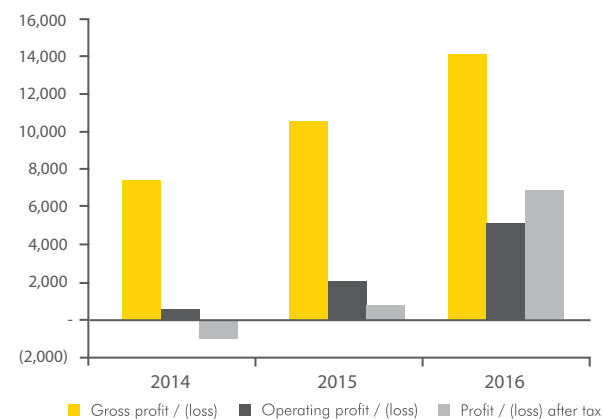
FINANCIALS REVOLUTIONISING EXPERIENCE

With changing customer needs, Shell has introduced forecourts of the future that not only provide fuelling options but also cater to non-fuels retailing needs. Committed to enhancing convenience, Shell customers can now expect services and offerings such as Shell Helix 1 Lane, Shell Select, restaurants, ATMs, pharmacies, bakeries, fresh meat and much more. For thousands of customers across Pakistan, Shell forecourts are now not just fuelling stations but a one-stop solution to all their routine needs.

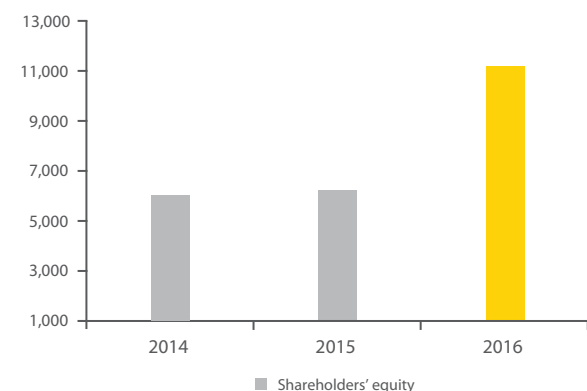
PERFORMANCE AT A GLANCE

Year ended December 31, 2016

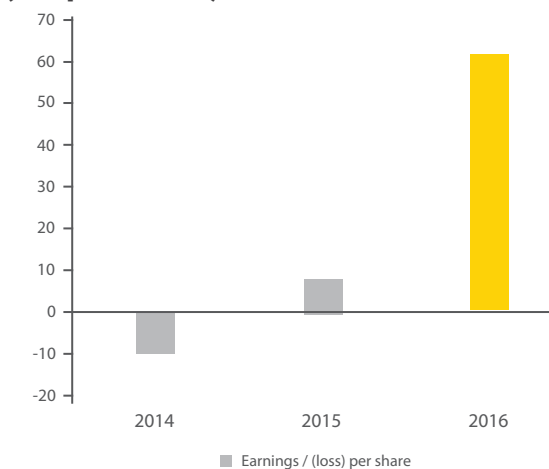
PROFITABILITY (Rs. in million)



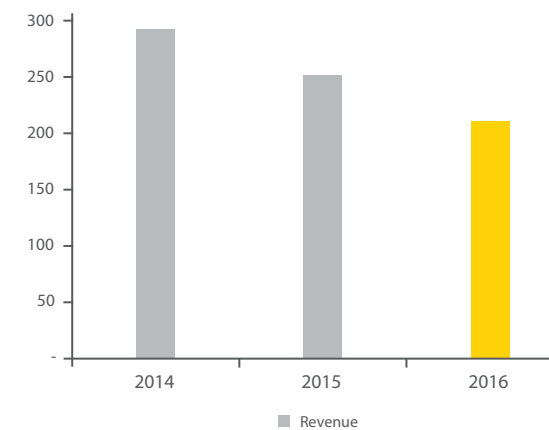
SHAREHOLDERS EQUITY (Rs. in million)



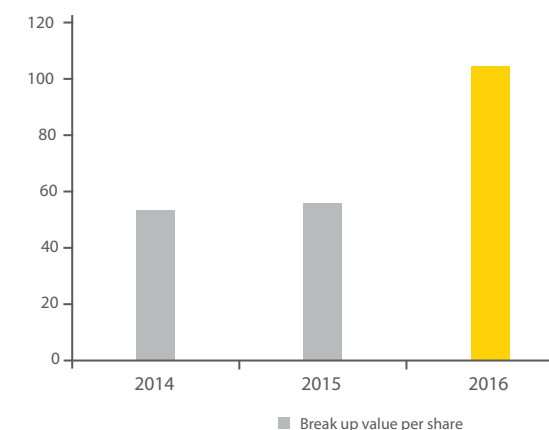
EARNINGS / (LOSS) PER SHARE (Rs. per share)



REVENUE (Rs. in billion)



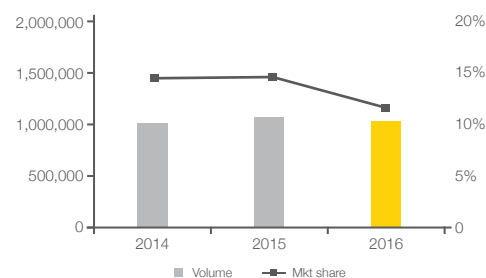
BREAK UP VALUE PER SHARE (Rs.)



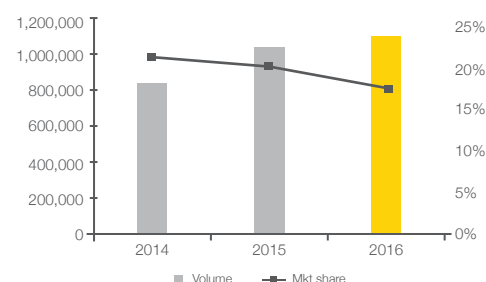
OPERATING AND FINANCIAL HIGHLIGHTS

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

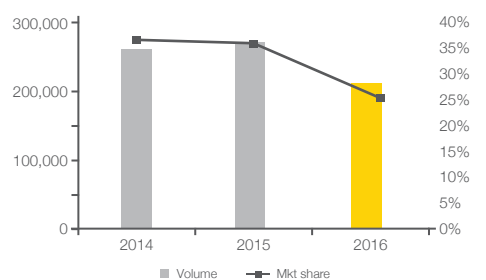
HIGH SPEED DIESEL



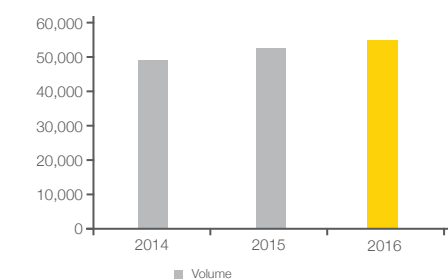
MOTOR GASOLINE VOLUME



JET A-1 VOLUME



LUBRICANTS



		2016	2015
Sales volume	Tonnes	2,526,602	2,547,818
Sales revenue	Rs. mn	214,853	248,571
Profit before taxation	Rs. mn	5,706	2,345
Profit after taxation	Rs. mn	6,764	911
New capital expenditure	Rs. mn	1,880	1,730
Shareholders' equity	Rs. mn	11,110	5,981
Earnings per share - basic and diluted	Rs.	63.22	8.51

		Year ended December 31						
		2016	2015	2014	2013	2012	2011	2010
Share capital	Rs. mn	1,070	1,070	1,070	856	856	685	685
Reserves	Rs. mn	10,040	4,911	4,825	6,367	5,022	7,592	7,215
Shareholders' equity	Rs. mn	11,110	5,981	5,895	7,223	5,878	8,277	7,900
Break up value	Rs.	104	56	55	84	69	121	115
Dividend per share	Rs.	34	10	8	4	-	-	10
Bonus	Ratio	-	-	-	1:4	-	1:4	-
Profit before tax	Rs. mn	5,705	2,345	546	2,424	5	2,833	3,910
Profit / (loss) after tax	Rs. mn	6,764	911	(1,067)	1,061	(1,935)	906	1,616
Earnings / (loss) per share of Rs. 10	Rs.	63.22	8.51	(9.97)	12.39	(22.60)	10.60	18.90

Working capital

Current assets to current liabilities	Times	0.9	0.8	0.9	0.9	0.9	0.9	0.8
Number of Days stock	Days	28	26	23	27	32	27	23
Number of days trade debts	Days	4	2	3	3	3	4	3

Performance

Profit / (loss) after tax as % of average shareholders' equity	%	79.2	15.3	(16.3)	16.2	(27.3)	11.2	20.0
Cost of Sales as a % of sales	%	72.0	75.0	83.5	82.6	83.3	83.5	82.8
Profit / (loss) before tax as %age of sales	%	2.7	0.9	0.2	0.8	0.0	1.1	1.4
Profit / (loss) after tax as %age of sales	%	3.1	0.4	(0.4)	0.4	(0.8)	0.4	0.7
Total debt ratio %	Times	-	0.3	0.6	0.9	2.1	1.9	1.3

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Shell Pakistan Limited (the Company) as at 31 December 2016 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
 - i) the balance sheet and profit and loss account, together with the notes thereon, have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for changes as stated in note 2.3 to the financial statements with which we concur;
 - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, gives the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of the profit, its cash flows and changes in equity for the year then ended; and

- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Emphasis of matter

We draw attention to the contents of notes 13.1, 13.2, 13.3 and 13.4 to the financial statements in respect of receivable against petroleum development levy and price differential claims due from the Government of Pakistan. Our opinion is not qualified in respect of this matter.

Other matter

The financial statements of the Company for the year ended 31 December 2015 were audited by another firm of Chartered Accountants, whose audit report dated 28 March 2016 expressed an unqualified opinion thereon. However, their audit report included emphasis of matter paragraphs highlighting matters as disclosed in note 13.1, 13.2, 13.3 and 13.4 to the financial statements.

Chartered Accountants
Audit Engagement Partner: Riaz A. Rehman Chamdia
Date: March 10, 2017
Place: Karachi

BALANCE SHEET

AS AT DECEMBER 31, 2016

	Note	2016	2015
		(Rupees '000)	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	9,150,109	8,089,022
Intangible asset	5	-	-
Long-term investments	6	3,735,560	3,436,508
Long-term loans	7	3,091	5,712
Long-term deposits and prepayments	8	160,317	167,416
Deferred taxation – net	9	2,221,599	-
		15,270,676	11,698,658
Current Assets			
Stock-in-trade	10	10,366,172	13,281,189
Trade debts	11	2,122,335	1,600,632
Loans and advances	12	63,767	67,716
Short-term prepayments		281,246	584,063
Other receivables	13	8,417,830	8,598,668
Cash and bank balances	14	5,988,405	2,103,517
		27,239,755	26,235,785
TOTAL ASSETS		42,510,431	37,934,443
EQUITY AND LIABILITIES			
Equity			
Share capital	15	1,070,125	1,070,125
Share premium		1,503,803	1,503,803
General reserves		207,002	207,002
Unappropriated profit		8,301,460	3,248,749
Remeasurement of post-employment benefits - actuarial gain / (loss)		27,392	(48,857)
Total equity		11,109,782	5,980,822
Liabilities			
Non-Current Liabilities			
Asset retirement obligation	16	83,892	117,861
Deferred taxation – net	9	-	347,605
		83,892	465,466
Current Liabilities			
Trade and other payables	17	30,037,827	29,030,718
Accrued mark-up	18	623	10,476
Short term borrowings - secured	19	-	2,025,448
Taxation - net		1,278,307	421,513
		31,316,757	31,488,155
		31,400,649	31,953,621
Contingencies and commitments	20		
TOTAL EQUITY AND LIABILITIES		42,510,431	37,934,443

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

Jawwad A. Cheema
Chairman and Chief Executive

Badaruddin F. Vellani
Director

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016	2015
		(Rupees '000)	
Sales	21	214,852,746	248,570,957
Other revenue		1,049,709	824,840
		215,902,455	249,395,797
Sales tax		(48,260,853)	(52,267,446)
Net revenue		167,641,602	197,128,351
Cost of products sold	22	(153,638,427)	(186,533,476)
Gross profit		14,003,175	10,594,875
Distribution and marketing expenses	23	(5,441,546)	(4,965,781)
Administrative expenses	24	(3,585,894)	(2,995,215)
Other expenses	25	(584,902)	(993,187)
Other income	26	767,045	419,318
Operating profit		5,157,878	2,060,010
Finance costs	27	(203,896)	(299,146)
		4,953,982	1,760,864
Share of profit of associate - net of tax	6	751,840	583,961
Profit before taxation		5,705,822	2,344,825
Taxation	28	(1,059,085)	(1,433,855)
Profit for the year		6,764,907	910,970
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial gain on post-employment benefits		76,249	30,886
Total comprehensive income for the year		6,841,156	941,856
		(Rupees)	
Earnings per share – basic and diluted	29	63.22	8.51

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

Jawwad A. Cheema
Chairman and Chief Executive

Badaruddin F. Vellani
Director

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016	2015
		(Rupees '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	33	8,979,545	5,417,956
Finance costs paid		(21,241)	(80,706)
Income tax paid		(653,326)	(817,235)
Long-term loans and advances		2,621	14,928
Long-term deposits and prepayments		7,099	18,606
Interest received on short term deposits		188,030	77,482
Net cash generated from operating activities		8,502,728	4,631,031
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(1,880,006)	(1,730,448)
Proceeds from disposal of operating assets		11,396	55,788
Dividend received from associate		452,788	423,569
Net cash used in investing activities		(1,415,822)	(1,251,091)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(1,176,570)	(831,742)
Net increase in cash and cash equivalents		5,910,336	2,548,198
Cash and cash equivalents at the beginning of the year		78,069	(2,470,129)
Cash and cash equivalents at the end of the year	34	5,988,405	78,069

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

Jawwad A. Cheema
Chairman and Chief Executive

Badaruddin F. Vellani
Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2016

	Share capital	Capital reserve	Revenue reserve		Total	
		Share premium	General reserve	Unappropriated profit		Actuarial (loss) / gain on post-employment benefits
(Rupees '000)						
Balance as at January 1, 2015	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)
Profit for the year	-	-	-	910,970	-	910,970
Other comprehensive income for the year	-	-	-	-	30,886	30,886
Total comprehensive income for the year	-	-	-	910,970	30,886	941,856
Balance as at December 31, 2015	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)
Interim dividend for the year ended December 31, 2016 at the rate of Rs.6/- per share	-	-	-	(642,074)	-	(642,074)
Profit for the year	-	-	-	6,764,907	-	6,764,907
Other comprehensive income for the year	-	-	-	-	76,249	76,249
Total comprehensive income for the year	-	-	-	6,764,907	76,249	6,841,156
Balance as at December 31, 2016	1,070,125	1,503,803	207,002	8,301,460	27,392	11,109,782

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

Jawwad A. Cheema
Chairman and Chief Executive

Badaruddin F. Vellani
Director

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 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. The Company is a subsidiary of Shell Petroleum Company Limited, United Kingdom (immediate parent) which is a subsidiary of Royal Dutch Shell Plc. (ultimate parent). The registered office of the Company is located at Shell House, 6, Ch. Khaliqzaman Road, Karachi-75530, Pakistan.

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives have been followed.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention, except for recognition of certain staff retirement benefits at present value and certain financial assets and financial liabilities at fair value.

2.3 New and amended standards

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as described below:

2.3.1 New Standards, Interpretations and Amendments

The Company has adopted the following amendments in the standards which became effective for the current year:

IFRS 10,12 and IAS 27	— Consolidated Financial Statements, Disclosure of Interests in Other Entities and Separate Financial Statements – Investment Entities: Applying the Consolidation Exception (Amendment)
IFRS 11	— Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation (Amendment)

IAS 1	— Presentation of Financial Statements - Disclosure Initiative (Amendment)
IAS 16 and IAS 38	— Property, Plant and Equipment and Intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)
IAS 16 and IAS 41	— Property, Plant and Equipment and Agriculture - Agriculture: Bearer Plants (Amendment)
IAS 27	— Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment)

2.3.2 Improvements to Accounting Standards Issued by the IASB in September 2014

IFRS 5	— Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal
IFRS 7	— Financial Instruments: Disclosures - Servicing contracts
IFRS 7	— Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements
IAS 19	— Employee Benefits - Discount rate: regional market issue
IAS 34	— Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'

The adoption of the above amendments and improvements to accounting standards did not have any material effect on these financial statements.

2.3.3 Standards not yet effective

The following amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standards or Interpretations	Effective date (annual periods beginning on or after)
IFRS 2 — Share-based Payments – Classification and Measurement of Share-based Payments Transactions (Amendments)	01 January 2018
IFRS 10 and IAS 28 — Consolidated Financial Statements and Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IAS 7 — Financial Instruments: Disclosures - Disclosure Initiative - (Amendment)	01 January 2017
IAS 12 — Income Taxes – Recognition of Deferred Tax Assets for Unrealized losses (Amendments)	01 January 2017

Standards or Interpretations		Effective date (annual periods beginning on or after)
IFRS 4	— Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – (Amendments)	01 January 2018
IAS 40	— Investment Property: Transfers of Investment Property (Amendments)	01 January 2018
IFRIC 22	— Foreign Currency Transactions and Advance Consideration	01 January 2018

The above amendments and interpretations are not expected to have any material effect on the Company's financial statements in the year of initial application.

In addition to the above amendments and improvements to various accounting standards have also been issued by the IASB in December 2016. Such improvements are generally effective for accounting periods beginning on or after 01 January 2017. The Company expects that such improvements to the standards will not have any impact on the Company's financial statements in the period of initial application.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard	IASB effective date (annual periods beginning on or after)
IFRS 9	— Financial Instruments: Classification and Measurement 01 January 2018
IFRS 14	— Regulatory Deferral Accounts 01 January 2016
IFRS 15	— Revenue from Contracts with Customers 01 January 2018
IFRS 16	— Leases 01 January 2019

2.4 Significant accounting judgments and estimates

The preparation of the Company's financial statements requires management to make judgments and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the accounting policies, management has made the following judgments and estimates which are significant to the financial statements:

- Determination of useful lives of property, plant and equipment (note 3.1 and 4.1);
- Review of impairment against non-financial assets (note 3.3 and 4.7);
- Review of net realizable value of stock-in-trade for diminution in the carrying values and review of stock-in-trade for obsolescence (note 3.6 and 10);

- Provision for doubtful debts and other receivables (note 3.7, 11 and 13);
- Review of asset retirement obligation (note 3.9 and 16);
- Estimates of receivable and payables in respect of retirement and other service benefits (note 3.12 and 30);
- Provision for current and deferred taxation (note 3.13, 9 and 28); and
- Determination of contingent liabilities (note 3.18 and 20)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Property, plant and equipment

These are carried at cost less accumulated depreciation and accumulated impairment losses, if any, except freehold land and capital work-in-progress, which are stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to specific assets as and when these are available for use.

Subsequent costs are not recognized as assets unless it is probable that future economic benefits associated with these costs will flow to the Company and the cost can be measured reliably. Maintenance and normal repairs are charged to profit and loss account as and when incurred.

Depreciation is charged to profit and loss account using the straight-line method whereby the cost of an operating asset less its estimated residual value is written off over its estimated useful life at rates given in note 4.1 to the financial statements. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on additions is charged from the month in which an asset is available for use while no depreciation is charged for the month in which an asset is disposed-off.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of an asset is recognized in the profit and loss account in the period of disposal.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3.2 Intangible assets – Computer software

These are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Amortization on additions is charged from the month in which an intangible asset is available for use while no amortization is charged for the month in which an intangible asset is disposed-off.

The gain or loss on disposal or retirement of an intangible asset represented by the difference between the sale proceeds and the carrying amount is recognized in the profit and loss account in the period of disposal.

An intangible asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

3.3 Impairment of non-financial assets

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. An impairment loss is recognized for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Impairment losses are recognized in the profit and loss account.

3.4 Investment in associates

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost and adjusted thereafter for the post acquisition share of profits of the associate and dividends received.

The cumulative post acquisition movements are adjusted against the carrying value of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize future losses, unless it has incurred obligations or made payments on behalf of the associate.

The investment in associate's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Unrealized gains on transactions between the Company and its associate are eliminated to the extent of the Company's interest in the associate.

3.5 Financial instruments

Financial assets and financial liabilities

Financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provision of the instrument. Financial assets are de-recognized when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of ownership of the asset. Financial liabilities are de-recognized when obligation is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognized in the profit and loss account of the current period.

Offsetting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements only when the Company has a legally enforceable right to set off and the Company intends to either settle on a net basis, or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements.

3.6 Stock-in-trade

Stock-in-trade is valued at the lower of cost, calculated on a first-in first-out basis, and net realizable value. Cost comprises invoice value, charges like customs duties and similar levies and other direct costs but excludes borrowing cost. Cost for bonded stock of finished goods comprises invoice value and costs incurred to date.

Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessary to make the sale.

Stock-in-transit is valued at cost comprising invoice value plus other charges incurred thereon. Provision is made for obsolete and slow moving stock-in-trade based on management's best estimate and is recognized in the profit and loss account.

3.7 Trade debts and other receivables

These are recognized and carried at original invoice amount, being the fair value, less an allowance for any uncollectible amounts, if any. An estimate for doubtful debts is made when collection is no longer probable. Bad debts are written-off when identified.

Exchange gains and losses arising on translation in respect of trade debts and other receivables in foreign currency are added to the carrying amount of the respective receivables.

3.8 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash in hand, balances with banks net of short-term borrowings.

3.9 Provisions

Provisions are recognized in the balance sheet where the Company has a legal or constructive obligation as a result of past event, it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

Provision for asset retirement obligation is based on current requirements, technology and price levels and the present value is calculated using amounts discounted over the useful economic life of the assets. The liability is recognized (together with a corresponding amount as part of the related property, plant and equipment) once an obligation crystallizes in the period when a reasonable estimate can be made. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the provision are incorporated on a prospective basis.

3.10 Operating leases

Payments made under operating leases are recognized as an expense in the profit and loss account on a straight-line basis over the period of the lease.

3.11 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Exchange gains and losses arising on translation in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

3.12 Retirement and other service benefits

3.12.1 Retirement benefits

Except for certain expatriates for whom benefits are provided by membership of their respective Shell retirement benefit funds, staff retirement benefits include:

i) Approved funded gratuity and pension schemes

The Company operates approved funded gratuity schemes for management and unionized staff and contributory pension scheme for management and non-contributory pension scheme for unionized staff. Contributions are made to these schemes on the basis of actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. Actuarial gains or losses (re-measurements) are immediately recognized in 'Other Comprehensive Income' as these arise.

ii) Approved defined contributory provident funds

The Company operates approved defined contributory provident funds for all employees. Equal monthly contributions are made both by the Company and the employee at the rate of 4.5% of basic salary for management employees and 10% of basic salary and cost of living allowances for non-management employees. The amount contributed is charged in the profit and loss account.

iii) Approved defined contributory pension fund

The Company introduced an approved defined contributory pension fund during 2013 for management employees who opted for transfer from defined benefit pension and gratuity fund to defined contributory pension fund and for all new employees joining thereafter. The Company contributes at the rate of 10.5% of basic salary of the employee which is charged to profit and loss account.

iv) Un-funded post-retirement medical benefits

The Company offers un-funded post-retirement medical benefits for all management staff. Annual provision is made for the scheme on the basis of actuarial recommendations. The actuarial valuation is carried out annually using the Projected Unit Credit Method. Actuarial gains or losses (re-measurements) are immediately recognized in 'Other Comprehensive Income' as these arise.

Retirement benefits are payable to staff on completion of prescribed qualifying periods of service under these schemes.

3.12.2 Employees' compensated absences

The Company accounts for the liability in respect of employees' compensated absences in the year in which these are earned. Provision to cover the obligation under the scheme is made based on the current leave entitlements of employees and by using the current salary levels of employees.

3.13 Taxation

3.13.1 Current

The charge for current taxation is based on taxable income at the current rates of taxation in accordance with Income Tax Ordinance, 2001.

3.13.2 Deferred

Deferred tax is recognized using the balance sheet liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts appearing in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

As the provision for taxation has been made partially under the normal basis and partially under the final tax regime, therefore, the deferred tax liability has been recognized on a proportionate basis in accordance with TR 27 issued by the Institute of Chartered Accountants of Pakistan.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited in the profit and loss account.

3.14 Foreign currencies

Transactions in foreign currencies are accounted for in Pakistan Rupees at the rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Rupees at the rates of exchange which approximate those prevailing at the balance sheet date. Exchange differences are recognized in the profit and loss account.

3.15 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of consideration received or receivable on the following basis:

- Sales are recorded when significant risks and rewards of ownership of goods have passed to customers which coincides with dispatch of goods to customers.
- Other revenue (including license fee) is recognized on accrual basis.
- Profit from bank accounts and return on investments is recognized on a time proportionate basis.
- Interest on short-term deposits and shell card income is recognized on accrual basis.
- Dividend income is recognized when the Company's right to receive the dividend is established.

3.16 Operating segments

For management purposes, the activities of the Company are organized into one reportable operating segment i.e. marketing of petroleum products including lubricating oils. The Company operates in the said reportable operating segment based on the nature of the products, risks and returns, organizational and management structure, and internal financial reporting systems. Accordingly, the figures reported in the financial statements are related to the Company's only reportable segment.

3.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed out in the period they occur. Borrowing costs consist of interest and other cost that an entity incurs in connection with the borrowing of funds.

3.18 Contingent liabilities

Contingent liability is disclosed when:

- there is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or
- there is a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

3.19 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is the Company's functional and presentation currency.

3.20 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognized in the financial statements in the period in which these are approved.

	Note	2016	2015
(Rupees '000)			
4. PROPERTY, PLANT AND EQUIPMENT			
Operating assets – at net book value		7,724,172	7,304,355
Provision for impairment	4.7	(365,010)	(378,281)
	4.1	7,359,162	6,926,074
Capital work-in-progress	4.6	1,790,947	1,162,948
		9,150,109	8,089,022

4.1 Operating assets

	Freehold land	Leasehold land	Buildings on freehold land	Buildings on leasehold land	Tanks and pipelines	Plant and machinery	Air conditioning plant	Lifts	Dispensing pumps	Rolling stock and vehicles	Electrical, mechanical and fire fighting equipments	Furniture, office equipment and other assets	Computer auxiliaries	Main frame	Total
As at January 01, 2016															
Cost	97,009	257,506	188,247	3,388,089	2,340,461	1,431,490	34,664	10,946	1,042,745	571,609	2,863,298	1,987,191	171,042	38,393	14,422,690
Accumulated depreciation and impairment	-	73,814	68,743	2,081,672	1,144,427	349,767	34,182	3,926	599,209	419,471	1,619,445	909,034	157,042	35,884	7,496,616
Net book value	97,009	183,692	119,504	1,306,417	1,196,034	1,081,723	482	7,020	443,536	152,138	1,243,853	1,078,157	14,000	2,509	6,926,074
Year ended December 31, 2016															
Opening net book value	97,009	183,692	119,504	1,306,417	1,196,034	1,081,723	482	7,020	443,536	152,138	1,243,853	1,078,157	14,000	2,509	6,926,074
Additions	-	51,726	-	49,513	270,792	242,358	2,795	216	83,992	16,857	353,758	180,000	-	-	1,252,007
Less: Disposals / write offs / revision of cost as retirement obligation	-	(893)	-	(41,777)	(52,096)	(4,119)	-	-	(58,936)	-	(7,327)	(16,024)	-	-	(185,101)
Accumulated depreciation	-	(24)	-	(30,614)	(6,658)	(824)	-	-	(56,751)	-	(3,929)	(3,760)	-	-	(70,639)
Less: Depreciation charge for the year	-	11,258	3,135	156,655	95,863	78,601	2,473	548	60,629	49,641	159,691	141,105	1,952	-	761,551
Impairment reversal for the year	-	624	-	1,437	1,797	3,643	-	-	765	-	4,987	18	-	-	13,271
Closing net book value	97,009	223,915	116,369	1,189,549	1,327,322	1,245,828	804	6,688	465,479	119,354	1,438,978	1,113,310	12,048	2,509	7,359,162
As at December 31, 2016															
Cost	97,009	308,339	188,247	3,395,825	2,559,157	1,669,729	37,459	11,162	1,067,801	588,466	3,203,800	2,151,167	171,042	38,393	15,489,596
Accumulated depreciation and impairment	-	84,424	71,878	2,205,276	1,231,835	423,901	36,655	4,474	602,322	469,112	1,766,822	1,037,857	158,994	35,884	8,130,434
Net book value	97,009	223,915	116,369	1,189,549	1,327,322	1,245,828	804	6,688	465,479	119,354	1,438,978	1,113,310	12,048	2,509	7,359,162
As at January 01, 2015															
Cost	97,009	119,952	183,530	3,436,801	2,311,867	839,883	32,283	10,216	900,269	561,737	2,853,773	1,365,350	168,274	38,393	12,919,337
Accumulated depreciation and impairment	-	69,977	65,696	2,001,930	1,085,331	323,159	31,795	3,397	659,321	396,335	1,602,858	891,498	150,575	35,884	7,317,756
Net book value	97,009	49,975	117,834	1,434,871	1,226,536	516,724	488	6,819	240,948	165,402	1,250,915	473,852	17,699	2,509	5,601,581
Year ended December 31, 2015															
Opening net book value	97,009	49,975	117,834	1,434,871	1,226,536	516,724	488	6,819	240,948	165,402	1,250,915	473,852	17,699	2,509	5,601,581
Additions	-	137,637	4,717	59,563	62,593	608,359	2,609	730	231,548	37,243	73,329	763,389	2,768	-	2,004,485
Less: Disposals / write offs / revision of asset retirement obligation	-	(83)	-	(108,275)	(33,999)	(16,752)	(228)	-	(109,072)	(27,371)	(63,804)	(141,548)	-	-	(501,132)
Accumulated depreciation	-	83	-	(62,683)	(20,161)	(3,244)	(72)	-	(102,931)	(27,038)	(36,608)	(140,372)	-	-	(397,050)
Less: Depreciation charge for the year	-	3,837	3,047	159,390	88,785	54,468	2,459	529	48,661	50,174	68,808	173,361	6,467	-	659,986
Impairment reversal for the year	-	-	-	16,965	15,851	14,352	-	-	5,842	-	15,613	15,453	-	-	84,076
Closing net book value	97,009	183,692	119,504	1,306,417	1,196,034	1,081,723	482	7,020	443,536	152,138	1,243,853	1,078,157	14,000	2,509	6,926,074
As at December 31, 2015															
Cost	97,009	257,506	188,247	3,388,089	2,340,461	1,431,490	34,664	10,946	1,042,745	571,609	2,863,298	1,987,191	171,042	38,393	14,422,690
Accumulated depreciation and impairment	-	73,814	68,743	2,081,672	1,144,427	349,767	34,182	3,926	599,209	419,471	1,619,445	909,034	157,042	35,884	7,496,616
Net book value	97,009	183,692	119,504	1,306,417	1,196,034	1,081,723	482	7,020	443,536	152,138	1,243,853	1,078,157	14,000	2,509	6,926,074
Depreciation rate % per annum	-	5	2.50	5	3 to 4	3 to 10	6.67	5	6.67 and 20	5 to 20	5 to 10	5 to 20	20 to 25	25	25

	Note	2016	2015
(Rupees '000)			
4.2	Depreciation charge for the year has been allocated as follows:		
	Cost of products sold	22.1 87,522	70,412
	Distribution and marketing expenses	23 588,593	498,986
	Administrative expenses	24 85,436	90,588
		761,551	659,986

4.3 The Company's assets include tanks, dispensing pumps and electrical equipment having a cost of Rs. 3,222,182 thousand (2015: Rs. 3,420,092 thousand) which have been installed at dealer sites. Although the Fourth Schedule of the Companies Ordinance, 1984 requires the disclosure of particulars of assets owned by the Company but not in its possession, the same has not been reproduced here due to the significant number of dealers and assets involved.

4.4 The details of operating assets disposed / written-off, excluding asset retirement obligation, during the year are as follows:

	Cost	Accumulated depreciation	Net book value	Sales proceeds	Gain / (loss)	Mode of disposal	Particulars of buyers
(Rupees '000)							
Buildings on leasehold land	41,777	30,614	11,163	1,450	(9,713)	Negotiation	Note 4.5
Leasehold land	893	24	869	15	(854)	Negotiation	Note 4.5
Tanks and pipelines	13,176	6,658	6,518	539	(5,979)	Negotiation	Note 4.5
Dispensing pumps	58,936	56,751	2,185	7,381	5,196	Negotiation	Note 4.5
Plant and Machinery	4,119	824	3,295	-	(3,295)	Negotiation	Note 4.5
Electrical, mechanical and fire-fighting equipment	11,256	7,327	3,929	830	(3,099)	Negotiation	Note 4.5
Furniture, office equipment and other assets	16,024	12,264	3,760	1,181	(2,579)	Negotiation	Note 4.5

4.5 These represent disposals to various retail site dealers. Due to the significant number of dealers involved, particulars of the disposal above Rs. 50,000 as required by the Fourth Schedule of the Companies Ordinance, 1984 have not been disclosed here.

	2016	2015
(Rupees '000)		
4.6 Capital work-in-progress		
Buildings on leasehold land	1,104,306	395,285
Tanks and pipelines	268,308	305,544
Plant and machinery	302,647	88,901
Dispensing pumps	-	2,200
Rolling stocks and vehicles	-	5,205
Electrical, mechanical and fire-fighting equipment	80,163	362,656
Furniture, office equipment and other assets	35,523	3,157
	1,790,947	1,162,948

4.7 Provision for impairment

In previous years, based on a review for impairment on its operating assets, the Company identified that carrying values of certain operating assets exceeded their estimated recoverable amounts. Accordingly, provision for impairment was recognized there against. The assets included CNG assets and assets installed at the retail sites under an approved divestment plan.

During the year, the Company reassessed its operating assets for impairment and based on the revised projected cash flows, the Company established that no further charge or reversal of impairment is required on CNG assets. However, the reassessment of assets installed at the retail sites under an approved divestment plan resulted in reversal of impairment of Rs. 13,271 thousand which has been recorded in 'other income' in the profit and loss account. Management has determined the recoverable amount by assessing the fair value less cost of disposal of the underlying assets which is based on the historical experience of the net recovery proceeds on similar nature of assets. The valuation is considered to be Level 3 in the fair value hierarchy due to unobservable inputs used in the valuation. The movement of provision for impairment is as follows:

	2016	2015
(Rupees '000)		
Balance at beginning of the year	378,281	462,357
Reversals during the year	(13,271)	(84,076)
Balance at end of the year	365,010	378,281

5. INTANGIBLE ASSET - Computer software

This represents cost of Rs. 1,912,571 thousand incurred by the Company in respect of implementation and deployment of its Enterprise Resource Planning (ERP) system as part of its business process transformation and streamline project. The Company's ERP was fully amortized during the year ended 31 December 2015, however, it is still in active use.

6. LONG-TERM INVESTMENTS

Note	2016	2015	2016	2015	
	% Holding		(Rupees '000)	(Rupees '000)	
Investment in associate - unquoted					
Pak-Arab Pipeline Company Limited (PAPCO) 18,720,000 (2015: 18,720,000) ordinary shares of Rs. 100/- each	6.1 / 6.2	26	26	3,730,560	3,431,508
Others - held as available-for-sale - at cost					
Arabian Sea Country Club Limited 500,000 (2015: 500,000) ordinary shares of Rs. 10/- each		5	5	5,000	5,000
			3,735,560	3,436,508	

6.1 Movement of investment in associate

	2016	2015
	(Rupees '000)	
Balance at beginning of the year	3,431,508	3,271,116
Share of profit before taxation	1,087,381	832,027
Share of taxation	(335,541)	(248,066)
	751,840	583,961
Dividend received	(452,788)	(423,569)
Balance at end of the year	<u>3,730,560</u>	<u>3,431,508</u>

PAPCO is a joint venture between Pak-Arab Refinery Limited (PARCO) and oil marketing companies to provide transportation services of petroleum products through the white oil pipeline.

6.2 Financial details / position of associate

	2016	2015
	(Rupees '000)	
Total assets	<u>22,487,720</u>	21,085,606
Total liabilities	<u>8,150,195</u>	7,898,279
Revenues	<u>5,146,154</u>	5,350,186
Total comprehensive income	<u>2,891,690</u>	2,246,005

The financial year end for PAPCO is June 30. Total assets and liabilities disclosed above are based on unaudited condensed interim financial information for the half year ended December 31, 2016, whereas revenues and total comprehensive income disclosed above is based on audited financial statements for the years ended June 30, 2016 and June 30, 2015 and unaudited financial information for the half years ended December 31, 2016, December 31, 2015 and December 31, 2014.

Share of contingent liabilities based on the latest unaudited financial information of PAPCO for the half year ended December 31, 2016 amounts to Rs. 185,296 thousand (2015: Rs. 21,496 thousand).

	Note	2016	2015
		(Rupees '000)	
7. LONG-TERM LOANS - considered good			
Due from:			
-Executives	7.1 / 7.3	22,520	24,847
-Employees		5,253	6,165
	7.2	<u>27,773</u>	31,012
Less: receivable within one year			
-Executives		21,058	21,151
-Employees	12	3,624	4,149
		<u>24,682</u>	25,300
		<u>3,091</u>	5,712

	2016	2015
	(Rupees '000)	
7.1 Reconciliation of the carrying amount of loans to executives:		
Balance at beginning of the year	24,847	40,691
Disbursements	29,457	19,395
Repayments	(31,784)	(35,239)
Balance at end of the year	<u>22,520</u>	<u>24,847</u>

7.2 Represents unsecured loans to staff for housing, purchase of motor cars / motorcycles and for other general purpose in accordance with the Company's policy and are repayable over a period of two to five years. Interest is charged on loans given for housing and purchase of motor cars at 1% per annum.

7.3 The maximum aggregate amounts due from executives at the end of any month during the year were Rs. 22,524 thousand (2015: Rs. 37,046 thousand).

	Note	2016	2015
		(Rupees '000)	
8. LONG-TERM DEPOSITS AND PREPAYMENTS			
Deposits	8.1	133,042	131,212
Prepayments		27,275	36,204
		<u>160,317</u>	<u>167,416</u>

8.1 These are carried at cost as the financial impact of carrying at amortized cost is not material.

	Note	2016	2015
		(Rupees '000)	
9. DEFERRED TAXATION			
This is composed of the following:			
Taxable temporary difference arising in respect of:			
- accelerated tax depreciation		(892,178)	(880,325)
- investment in associate		(229,994)	(194,938)
		<u>(1,122,172)</u>	<u>(1,075,263)</u>
Deductible temporary difference arising in respect of:			
- other provisions		580,771	648,876
- minimum tax carry forward	9.1	2,763,000	78,782
		<u>3,343,771</u>	<u>727,658</u>
		<u>2,221,599</u>	<u>(347,605)</u>

9.1 In view of the order of the High Court of Sindh, as fully explained in note 20.1.2.1 to the financial statements, the Company has not recognized deferred tax asset on minimum tax carry forward amounting to Rs. 2,051,898 thousand as a matter of prudence.

	Note	2016	2015
		(Rupees '000)	
10. STOCK-IN-TRADE			
Raw and packing materials	10.1 / 10.5	1,098,456	1,433,715
Provision for impairment	10.6	(57,138)	(51,445)
		1,041,318	1,382,270
Finished products			
- in hand and in pipeline system	10.1 / 10.3 / 10.4 / 10.5	6,334,553	10,069,868
- in White Oil Pipeline	10.2 / 10.4 / 10.5	3,022,795	1,886,105
		9,357,348	11,955,973
Provision for impairment	10.6	(32,494)	(57,054)
		9,324,854	11,898,919
		10,366,172	13,281,189

10.1 Includes stock-in-transit amounting to Nil (2015: Rs. 1,169,505 thousand).

10.2 Stock in White Oil Pipeline includes High Speed Diesel amounting to Rs. 1,793,393 thousand (2015: Rs. 1,563,648 thousand) which has been maintained as line fill necessary for the pipeline to operate.

10.3 Finished products include bonded stock amounting to Rs. 1,291,719 thousand (2015: Rs. 1,323,752 thousand).

10.4 Includes items costing Nil (2015: Rs. 6,039,883 thousand) which have been valued at their net realizable value of Nil (2015: Rs. 5,621,630 thousand).

10.5 Details of petroleum products and lubricants held with third parties is as follows:

	2016	2015	
		(Rupees '000)	
Petroleum products			
- PAPCO	3,022,795	1,886,105	
Lubricants			
- Union Chemical Industries	159,159	52,332	
	3,181,954	1,938,437	

10.6 Provision for impairment is as follows:

	2016	2015	
		(Rupees '000)	
Balance at beginning of the year	108,499	72,231	
Provision made during the year	38,186	88,999	
Reversals during the year	(57,053)	(52,731)	
	(18,867)	36,268	
Balance at end of the year	89,632	108,499	

	Note	2016	2015
		(Rupees '000)	
11. TRADE DEBTS			
Considered good			
- Secured	11.1 / 11.2	485,820	431,738
- Unsecured	11.2	1,636,515	1,168,894
		2,122,335	1,600,632
Considered doubtful		758,775	752,947
		2,881,110	2,353,579
Provision for impairment	11.3 / 11.4	(758,775)	(752,947)
		2,122,335	1,600,632

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

11.2 Includes due from the following related parties:

	Neither past due nor impaired	Past due			2016	2015
		Upto 1 month	1 to 6 months	More than 6 months		
(Rupees '000)						
Captain – PQ Chemical Industries	646	-	-	-	646	-
Askari Bank Limited	300	-	-	3	303	294
Engro Polymer and Chemicals Limited	44	-	-	-	44	709
Jaffer Brothers (Private) Limited	1,445	-	-	3	1,448	1,734
Novartis Pharma (Pakistan) Limited	112	-	-	-	112	214
Pakistan Refinery Limited	-	-	-	-	-	2,270
Roche Pakistan Limited	51	-	-	-	51	137
The American Business Council	-	-	-	-	-	32
Unilever Pakistan Foods Limited	369	382	1,465	-	2,216	50
Oil Companies Advisory Council	4,972	-	-	-	4,972	-
Wyeth Pakistan Limited	-	-	-	91	91	91
	7,939	382	1,465	97	9,883	5,531
Less : Provision for impairment					(95)	(95)
Net receivable from related parties					9,788	5,436

Based on past experience, past track record and recoveries, the Company believes that the above past due trade debts, do not require any provision for impairment except as provided for at December 31.

	Note	2016	2015
		(Rupees '000)	
11.3	Provision for impairment		
		752,947	631,776
	Balance at beginning of the year		
	Provision made during the year	36,662	126,202
	Reversals during the year	(30,834)	(5,031)
	25	5,828	121,171
	Balance at end of the year	758,775	752,947

11.4 As at December 31, 2016, trade debts of Rs. 758,775 thousand (2015: Rs. 752,947 thousand) were impaired and provided for. The ageing of these trade debts is as follows:

	2016	2015
	(Rupees '000)	
Upto 6 months	5,035	25,330
More than 6 months	753,740	727,617
	758,775	752,947

11.5 As at December 31, 2016, trade debts aggregating to Rs. 32,633 thousand (2015: Rs. 43,137 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no or some recent history of default, however, no losses have incurred. The ageing analysis of these trade debts is as follows:

	Note	2016	2015
		(Rupees '000)	
Upto 1 month		3,817	6,963
1 to 6 months		28,846	36,174
		32,663	43,137

12. LOANS AND ADVANCES - considered good

Current portion of long-term loans	7	24,682	25,300
Loans and advances to directors	12.1 / 12.2	3,982	964
Advances to employees		35,103	41,452
		63,767	67,716

12.1 Reconciliation of the carrying amount of loans and advances to directors

	2016	2015
	(Rupees '000)	
Balance at beginning of the year	964	-
Disbursements	6,021	2,892
Repayments	(3,003)	(1,928)
Balance at end of the year	3,982	964

12.2 The maximum aggregate amount due from directors at the end of any month during the year were Rs. 4,986 thousand (2015: Rs. 2,651 thousand).

	Note	2016	2015
		(Rupees '000)	
13. OTHER RECEIVABLES			
Petroleum development levy and other duties	13.1	1,380,029	1,381,970
Price differential claims			
- on imported purchases	13.2	295,733	295,733
- on high speed diesel (HSD)	13.3	343,584	343,584
- on imported motor gasoline	13.4	2,071,107	2,071,107
Regulatory and customs duty receivable	13.5	169,632	118,404
Sales tax refundable	13.6	463,753	168,324
Inland freight equalization mechanism		1,023,957	971,734
Receivable from related parties	13.7	735,763	305,236
Service cost receivable from associated company - PAPCO		8,958	11,136
Staff retirement benefit schemes	30.1.12	420,704	250,814
Receivable from Oil Marketing Companies		867,631	1,862,207
Taxes recoverable	13.8 / 20.1.2	976,009	968,073
Others		66,195	73,571
		8,823,055	8,821,893
Provision for impairment	13.9	(405,225)	(223,225)
		8,417,830	8,598,668

13.1 Includes petroleum development levy amounting to Rs. 1,369,560 thousand (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, refund cheques against which were received in 2014. During 2015, verification exercise of claims amounting to Rs 182,004 thousand was completed by the authorities, however, the payment has not been released yet. Further, during the current year, FBR through Customs station Torkham completed verification exercise of claims amounting to Rs. 851,330 thousand. However, the same has not yet been sanctioned by the FBR as of the balance sheet date. Furthermore, the remaining claims are under verification and the Company is confident of recovery of the amount in full on completion of the verification exercise by the FBR.

- 13.2 Represents amount receivable from GoP on account of price differential on imports and the ex-refinery price on direct and retail sales during the period 1990-2001. The Company is actively following up the matter with GoP and is confident of recovering the amount in full.
- 13.3 Represents price differential claim from GoP on local / imported purchases of HSD which was based on rates notified by GoP to subsidise petroleum prices by restricting the increase in prices in order to reduce the burden of rising oil prices on the end consumers. The Company is actively following up the matter with GoP and is confident of recovering the amount in full.
- 13.4 Represents the Company's share of price differential claims on account of import of motor gasoline by the Company, being the difference between the landed cost and ex-refinery prices announced by Oil and Gas Regulatory Authority (OGRA). In 2007, the Company as well as other oil marketing companies were asked in a meeting chaired by the Director General Oil to import motor gasoline to meet the increasing local demand. Accordingly, oil marketing companies approached the Ministry of Petroleum and Natural Resources (MoPNR) with a proposal for pricing mechanism whereby end consumer price of motor gasoline was proposed to be fixed at weighted average of ex-refinery (import parity) price and landed cost of imported product. Despite no response from the MoPNR, the Company along with another oil marketing company continued to import motor gasoline on behalf of the industry being confident that price differential on motor gasoline, will be settled as per previous practice i.e. based on the differential between ex-refinery and import cost at the time of filing of cargo with Customs, as imports were being made on MoPNR instructions.

In 2009, the Company along with other oil marketing companies approached MoPNR through letter dated July 23, 2009 requesting to expedite settlement of these claims. On October 2, 2009, MoPNR requested that an audited claim be submitted to allow further consideration and resolution of the matter. Accordingly, the Company submitted audit reports for claims till May 31, 2011 amounting to Rs. 2,411,661 thousand. Subsequently, the Company received an amount of Rs. 454,000 thousand from GoP in respect of these claims.

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

In 2013, the Company approached MoPNR through letter dated May 20, 2013 requesting to expedite settlement of the claim amounting to Rs. 109,896 thousand in respect of this import. On June 6, 2013, MoPNR requested that an audited claim be submitted to allow further consideration and resolution of the matter. Accordingly, the Company submitted audit report thereafter in respect of this claim.

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

- 13.5 This includes receivable in respect of regulatory duty imposed by the Ministry of Finance (MoF), Economic Affairs, Statistics and Revenue, GoP through S.R.O. 392(I)/2015 dated April 30, 2015 on import of crude oil, high speed diesel and motor gasoline. Under the product pricing formula, the Oil Marketing Companies (OMCs) were required to recover similar cost elements and duties from customers on sale of petroleum products through prices notified on monthly basis. Since the notification of regulatory duty was received on May 2, 2015, the impact of the regulatory duty could not be incorporated in the prices effective from May 1, 2015, which were announced on April 30, 2015. Therefore, the recovery of regulatory duty was to be made through subsequent month's prices of petroleum products. However, through SRO 603(I)/2015 dated June 30, 2015, the regulatory duty has been rescinded resulting in a receivable balance of regulatory duty from the GoP. The Company is currently engaged with the MoPNR and is actively pursuing recovery thereagainst. MoPNR, in accordance with the decision of Economic Coordination Committee (ECC) dated July 8, 2015, has requested OGRA to develop a comprehensive recovery mechanism of regulatory duty based on the principle that there should be no gain or loss to OMCs.

It further includes receivable in respect of increase in rate of customs duty effective June 25, 2016, imposed by the MoF through Finance Act 2016 dated June 24, 2016, on import of crude oil, high speed diesel and motor gasoline. Under the product pricing formula, the OMCs are required to recover similar cost elements and duties from customers on sale of petroleum products through prices notified on monthly basis. However, impact of increase in rate of customs duty was not incorporated in the price notification issued by OGRA for July 2016 which resulted in a receivable balance on customs duty to be recovered from the GoP. The Company has currently taken up this matter with OCAC to demand recovery of the aforesaid balance from the GoP and expects to receive the amount in due course.

- 13.6 Includes sales tax refundable on account of export sales pertaining to the period October 2005 to September 2006 and January 2008 to August 2011 amounting to Rs. 663,045 thousand and Rs. 1,514,091 thousand, respectively. During the year, the tax authorities completed verification exercise of refunds amounting to Rs. 531,407 thousand out of an aggregate outstanding amount of Rs. 2,177,192 thousand against which Rs. 430,772 thousand have been received. For the remaining refund claims, the Company is actively pursuing for their recovery.

- 13.7 Receivable from related parties:

	Note	2016	2015
(Rupees '000)			
Shell Aviation Limited	13.7.1	363,831	93,236
Shell International Petroleum Company Limited		286,934	131,925
Shell International Exploration And Production B.V.		598	-
Shell Business Service Centre SDN BHD		2,540	1,317
Shell International B.V.		62,271	38,107
Others		19,589	40,651
		735,763	305,236

- 13.7.1 Represents net receivable on account of recoveries from customers by Shell Aviation Limited on behalf of the Company.

- 13.8 In 2013, the Deputy Commissioner Inland Revenue (DCIR) in compliance with the directions of ATIR, completed denovo proceedings in respect of tax year 2006 and raised a demand of Rs. 425,514 thousand. The demand primarily relates to

disallowance of premium paid to Shell International Trading Middle East (SITME) on imports of high speed diesel while treating the same as payment to non-resident on which the Company failed to deduct tax under section 152 of the Income Tax Ordinance, 2001. The Company in response to the aforementioned order deposited an amount of Rs. 301,167 thousand while an amount of Rs. 111,785 thousand was adjusted against sales tax refund. In addition a rectification application was also filed for correction of certain mistakes apparent in the order which has been accepted and given effect. The Company also filed an appeal against the aforementioned order before CIR (Appeals) which in its order dated February 2, 2015 has upheld the order passed by the DCIR. The Company has filed an appeal there against before the ATIR which is pending for hearing. The Company, based on the advice of its tax consultant expects a favorable outcome of appellate levels and considers the possibility of any liability arising under the aforementioned order to be remote.

	Note	2016	2015
(Rupees '000)			
13.9	Provision for impairment		
	Balance at beginning of the year	223,225	223,225
	Provision made during the year	182,000	-
	Balance at end of the year	405,225	223,225

14 CASH AND BANK BALANCES

Cash in hand		15,854	15,558
Bank balances			
- current account		1,220,083	1,752,093
- savings account	14.1	2,552,468	335,866
- term deposit receipt	14.2	2,200,000	-
		5,972,551	2,087,959
		5,988,405	2,103,517

14.1 These carry interest rates ranging from 3.9% to 5.5% (2015: 4% to 6.5%) per annum.

14.2 This carries interest rate of 5.1% (2015: nil) per annum.

15. SHARE CAPITAL

Authorized share capital

2016	2015		2016	2015
(Number of shares)			(Rupees '000)	
150,000,000	150,000,000	Ordinary shares of Rs. 10/- each	1,500,000	1,500,000

Issued, subscribed and paid-up share capital

2016	2015		2016	2015
(Number of shares)			(Rupees '000)	
23,481,000	23,481,000	Ordinary shares of Rs. 10/- each		
		Fully paid in cash	234,810	234,810
83,531,331	83,531,331	Issued as fully paid bonus shares	835,315	835,315
107,012,331	107,012,331		1,070,125	1,070,125

15.1 The immediate parent held 81,443,702 (2015: 81,443,702) ordinary shares as at the balance sheet date.

	Note	2016	2015
(Rupees '000)			
16. ASSET RETIREMENT OBLIGATION			
Balance at beginning of the year		117,861	141,610
Reversal of liability	26	(3,130)	(8,616)
Change in estimate	16.1	(38,920)	(21,160)
Accretion expense	27	8,081	6,027
		(30,839)	(15,133)
Balance at end of the year		83,892	117,861

16.1 Change in estimate represents the effect of adjustment in discount and inflation rate used for estimating the future outflows of resources required to settle asset retirement obligation.

	Note	2016	2015
(Rupees '000)			
17. TRADE AND OTHER PAYABLES			
Creditors	17.1	20,011,261	21,156,857
Accrued liabilities		6,349,726	5,001,774
Dealers' and customers' security deposits	17.2	520,295	499,507
Advances received from customers		931,460	1,763,309
Provision for post-retirement medical benefits	30.2.2	83,537	84,197
Workers' welfare fund		248,588	153,229
Workers' profits participation fund	17.3	358,145	115,958
Unclaimed dividends		678,775	143,147
Withholding tax payable		713,580	38,863
Provision for staff redundancy plan	17.4	119,030	73,318
Other liabilities		23,430	559
		30,037,827	29,030,718

17.1 Includes amounts due to the following related parties:

	2016	2015
(Rupees '000)		
Shell International Trading Middle East	4,087,867	4,280,031
Shell International Petroleum Company Limited	5,420,989	9,042,482
Pakistan Refinery Limited	1,410,326	794,609
Shell Lubricants Supply Company	726,792	451,511
Shell International B.V.	429,180	371,264
Shell Information Technology	458,182	320,796
Shell Eastern Trading (Pte) Limited	81,082	52,538
Shell Deutschland Oil GmbH	6,984	9,087
Shell Business Service Centre SDN BHD	587,212	509,699
Shell Hong Kong Limited	16,454	2,755
Shell Shared Services (Asia) B.V.	530,321	464,502
Shell & Turcas Petrol A.S.	12,316	19,334
Shell People Services Asia SDN BHD	50,773	47,625
Euroshell cards B.V.	91,540	44,054
Shell Brands International AG	-	255,894
SBSC Glasgow	346,178	341,028
Other related parties	164,786	131,007
	14,420,982	17,138,216

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

Note	2016	2015
	(Rupees '000)	

17.3 Workers' profits participation fund

Balance at beginning of the year		48,245
Allocation for the year	25	94,713
		<u>142,958</u>
Amount paid during the year		(27,000)
Balance at end of the year		<u>115,958</u>

17.4 Represents termination benefits payable to employees under a staff redundancy plan finalized during 2009.

Note	2016	2015
	(Rupees '000)	

18. ACCRUED MARK-UP

Short-term running finances utilized under mark-up arrangements		10,336
Short-term loans		140
		<u>10,476</u>

19. SHORT-TERM BORROWINGS - secured

Running finances utilized under mark-up arrangements	19.1	-	1,235,448
Short term loans		-	790,000
		<u>-</u>	<u>2,025,448</u>

19.1 The facilities for short term running finances available from various banks aggregate to Rs. 20,000,000 thousand (2015: Rs. 23,600,000 thousand). The facilities carry markup ranging from Re 0.1575 to Re. 0.1781 (2015: Re 0.1787 to Re 0.2057) per Rs. 1000 per day. These facilities are secured by hypothecation of the Company's present and future stock in trade, trade debts and other receivables. These facilities have a maturity till September 2017.

20. CONTINGENCIES AND COMMITMENTS

20.1 Contingencies

20.1.1 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, estimates the accumulated levy up to December 31, 2016 at Rs. 93,493 thousand (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 these financial statements against the levy as the management expects a favorable outcome.

20.1.2 Taxation

20.1.2.1 In 2011, the Company received a demand order from the 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 under protest 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 filed an appeal before the 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 of Pakistan 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'.

- 20.1.2.2 In 2012, the Company received a demand order from the 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 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 filed an appeal before the High Court of Sindh which is pending for hearing.

The Company filed a reference before the High Court of Sindh against the ATIR order. Simultaneously, a miscellaneous application was filed before ATIR to review its earlier judgement. The ATIR vide order dated December 22, 2016 re-visited its decision and agreed that the judgement of the Supreme Court of Pakistan in respect of civil petition no. 1306 of 2014 had been overlooked. However, it also gave directions to rehear the department's contentions and re-fix the hearing.

The Company, based on the advice of its tax consultant expects a favorable 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'.

- 20.1.2.3 In 2015, the tax authorities after finalizing 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, unutilized 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 unutilized tax losses for previous years thereby reducing the demand to Rs. 250,144 thousand. The revised rectified order still contained 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 favor of the Company, whereas disallowance of bad debts written off was confirmed. The Company and the department both have filed appeals against CIR Appeals decision.

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

- 20.1.2.4 During the year, the tax authorities after finalizing 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, unutilized 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 CIR Appeals vide appellate order dated August 31, 2016 has given favorable decision on most of the issues except for bad debts written off and legal issues against which appeal before the ATIR has been filed by the Company.

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

20.1.3 Sales tax and federal excise duty (FED)

- 20.1.3.1 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 to 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 favor of the Company by the ATIR whereas appeals for July 2008 to June 2009 and July 2009 to December 2009 were decided in favor 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 2015, 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 finalizing 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 favorable outcome on these matters and accordingly no provision has been made in this respect in these financial statements.

20.1.3.2 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 received show cause notices from Model Customs Collectorates Faisalabad, Lahore and Multan 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 will not be required to pay the tax on deregulated products / exports retrospectively since directive of FBR was available at that time and is confident that revised notification in this respect will be issued by FBR if considered necessary. Furthermore, in the event the Company is required to make a payment in this respect, it is Company's contention that it will be able to claim the amount paid as input tax except for default surcharge, which cannot be computed at this stage. Accordingly, no provision has been made in this respect in these financial statements.

20.1.4 Others

The amount of other claims against the Company not acknowledged as debt as at December 31, 2016 aggregate to approximately Rs. 2,908,139 thousand (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 GoP.

20.2 Commitments

20.2.1 Capital expenditure contracted for but not incurred as at December 31, 2016 amounted to approximately Rs. 578,500 thousand (2015: Rs. 242,599 thousand).

20.2.2 Commitments for rentals of assets under operating lease agreements as at December 31, 2016 amounted to Rs. 2,699,019 thousand (2015: Rs. 2,562,699 thousand) payable as follows:

	2016	2015
	(Rupees '000)	
Not later than one year	182,624	170,322
Later than one year and not later than five years	724,696	644,171
Later than five years	1,791,699	1,748,206
	2,699,019	2,562,699

20.2.3 Post-dated cheques have been deposited with the Collector of Customs Port Qasim and Karachi Port Trust in accordance with the Customs' Act, 1969 as an indemnity to adequately discharge the liability for the duties and taxes leviable on imports, as required under the Finance Act, 2005. As at December 31, 2016, the value of these cheques amounted to Rs. 6,724,040 thousand (2015: Rs. 9,426,870 thousand). The maturity dates of these cheques extend to December 07, 2017.

20.2.4 Letters of credit and bank guarantees outstanding at December 31, 2016 amount to Rs. 1,130,365 thousand (2015: Rs. 4,570,213 thousand).

21. SALES

	2016	2015
	(Rupees '000)	
Gross sales, inclusive of sales tax		
- Local	215,013,736	248,002,044
- Export	1,210,425	1,776,474
	216,224,161	249,778,518
Less: Trade discounts and rebates	1,371,415	1,207,561
	214,852,746	248,570,957

21.1 As described in note 1 to these financial statements the Company markets petroleum products and compressed natural gas. It also blends and markets various kinds of lubricating oils. Revenues (inclusive of sales tax) from external customers for products of the Company are as follows:

	2016	2015
	(Rupees '000)	
Motor Gasoline	92,578,974	103,318,250
High Speed Diesel	87,341,951	104,747,720
Jet Fuels	11,603,797	18,306,228
Lubricants	18,663,481	17,717,644
Others	4,664,543	4,481,115
	214,852,746	248,570,957

22. COST OF PRODUCTS SOLD

	Note	2016	2015
		(Rupees '000)	
Opening stock of raw and packing materials		1,382,270	1,145,398
Raw and packing materials purchased		5,933,939	7,491,357
Manufacturing expenses	22.1	486,114	811,011
Closing stock of raw and packing materials	10	(1,041,318)	(1,382,270)
Cost of products manufactured		6,761,005	8,065,496
Opening stock of finished products		11,898,919	11,940,887
Finished products purchased		110,974,179	145,827,075
Duties, levies and freight	22.2	33,329,178	32,598,937
Closing stock of finished products	10	(9,324,854)	(11,898,919)
Finished products consumed		146,877,422	178,467,980
		153,638,427	186,533,476

22.1 Includes depreciation charge of Rs. 87,522 thousand (2015: Rs. 70,412 thousand) and charge in respect of staff retirement benefits amounting to Rs. 6,845 thousand (2015: Rs. 5,892 thousand).

	Note	2016	2015
		(Rupees '000)	
22.2 Duties, levies and freight			
Petroleum development levy		23,895,156	23,847,629
Customs and excise duty		2,716,565	1,647,241
Inland freight equalization margin		6,347,602	6,783,737
Freight on non-equalized products		228,490	128,564
Others		141,365	191,766
		33,329,178	32,598,937

23. DISTRIBUTION AND MARKETING EXPENSES

Salaries, wages and benefits	23.1	1,538,347	1,374,275
Staff training		9,706	25,308
Stores and spares		20,035	28,178
Fuel and power		68,393	68,214
Rent, taxes and utilities		524,425	469,311
Repairs and maintenance		526,282	466,429
Depreciation	4.2	588,593	498,986
Insurance		32,762	8,596
Travelling		214,363	237,584
Advertising and publicity		758,228	668,257
Legal and professional charges		177,271	222,917
Communication and stationery		29,410	35,479
Computer expenses		140,824	51,965
Storage and other charges		168,434	194,839
Others		85,580	68,866
		4,882,653	4,419,204
Handling and storage charges recovered		(98,019)	(47,389)
Secondary transportation expenses		656,912	593,966
		5,441,546	4,965,781

23.1 Salaries, wages and benefits include charge of Rs. 114,995 thousand (2015: Rs. 88,749 thousand) in respect of staff retirement benefits

	Note	2016	2015
		(Rupees '000)	
24. ADMINISTRATIVE EXPENSES			
Salaries, wages and benefits	24.1	433,353	440,538
Staff training		4,975	32,645
Stores and materials		2,352	2,892
Fuel and power		34,548	34,250
Rent, taxes and utilities		21,102	49,255
Repairs and maintenance		47,285	17,579
Insurance		3,510	29,680
Travelling		55,645	69,962
Advertising and publicity		9,177	31,086
Technical service fee		1,659,727	1,064,898
Trade-marks and manifestations license fee		283,712	320,869
Legal and professional charges		444,369	178,218
Communication and stationery		352,113	312,602
Computer expenses		152,640	143,101
Depreciation	4.2	85,436	90,588
Amortization		-	185,706
		3,589,944	3,003,869
Costs recovered under Service Level Agreement from related parties		(4,050)	(8,654)
		3,585,894	2,995,215

24.1 Salaries, wages and benefits include charge of Rs. 32,394 thousand (2015: Rs. 28,449 thousand) in respect of staff retirement benefits.

	Note	2016	2015
		(Rupees '000)	
25. OTHER EXPENSES			
Workers' profits participation fund	17.3	260,735	94,713
Workers' welfare fund		95,359	38,689
Exchange loss		-	655,725
Provision for impairment of trade debts – net	11.3	5,828	121,171
Trade debts written off		280	-
Provision for impairment of other receivables	13.9	182,000	-
Other receivables written off		330	-
Write off of operating assets		27,017	74,375
Auditors' remuneration	25.1	5,518	5,710
Donations	25.2	7,835	2,804
		584,902	993,187

25.1 Auditors' remuneration

Fee for audit, half yearly review and review of compliance with code of corporate governance		3,800	3,800
Audit of retirement benefit funds		725	810
Special certifications and sundry advisory services		465	465
Out of pocket expenses		528	635
		5,518	5,710

25.2 Interest of the Directors or their spouses in the donations made during the year is as follows

Name of Donee and address	Names of interested Directors and nature of interest	Note	2016	2015
			(Rupees '000)	
The Kidney Centre Post Graduate Training Institute (172/R, Rafiqi Shaheed Road, Karachi)	Mr. Omar Sheikh - Member Board of Governors		500	500
Shell LiveWIRE Trust (Shell House, 6 Ch. Khaliqzaman Road, Karachi)	Mr. Omar Sheikh - Chairman Board of Trustees		2,000	2,000
The Layton Rahmatulla Benevolent Trust (37-C, Phase II, Sunset Lane No. 4, DHA, Karachi)	Mr. Omar Sheikh - Trustee M. Farrokh K. Captain - Trustee		830	245

26. OTHER INCOME

Income from financial assets

Interest on short-term deposits		188,030	77,482
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Income from non-financial assets

Gain on disposal of operating assets		6,694	26,081
Reversal of impairment on operating assets	4.7	13,271	84,076
Reversal of asset retirement obligation	16	3,130	8,616
Shell card income		70,625	64,645
Exchange gain		304,063	-
Liabilities no longer payable written back		-	37,866
Others		181,232	120,552
		<u>579,015</u>	<u>341,836</u>
		<u>767,045</u>	<u>419,318</u>

27. FINANCE COSTS

Bank charges		184,426	212,001
Accretion expense	16	8,081	6,027
Mark-up on short-term borrowings		11,389	81,118
		<u>203,896</u>	<u>299,146</u>

28. TAXATION

Current			
- for the year		1,454,327	860,378
- for prior year		55,792	-
		<u>1,510,119</u>	<u>860,378</u>
Deferred		(2,569,204)	573,477
		<u>(1,059,085)</u>	<u>1,433,855</u>

28.1 Return of income tax has been filed up to and including tax year 2016.

	2016	2015
	(Rupees '000)	
28.2 Relationship between tax expense and accounting profit		
Accounting profit before taxation	5,705,822	2,344,825
Tax at the applicable tax rate of 31% (2015: 32%)	1,768,805	750,344
Tax effect of income under final tax regime	(46,103)	(20,894)
Tax impact on account of lower tax rate on share of profit of associate	(176,472)	(133,921)
Prior year charge	55,792	-
Minimum turnover tax	-	750,989
Recognition of deferred tax asset on minimum tax carry forward - net	(2,684,218)	-
Impact of change in tax rate	71,664	29,479
Tax effect of rebates	(95,391)	-
Others	46,838	57,858
Tax expense for the year	<u>(1,059,085)</u>	<u>1,433,855</u>

29. EARNINGS PER SHARE - basic and diluted

Profit for the year	6,764,907	910,970
	(Number of shares)	
Weighted average number of ordinary shares	107,012,331	107,012,331
	(Rupees)	
Earnings per share	63.22	8.51

29.1 There is no dilutive effect on the basic earnings per share of the Company.

30. EMPLOYEE BENEFITS

30.1 Pension and Gratuity

As mentioned in note 3.12 to the financial statements, the Company operates staff retirement benefit schemes for all its employees. These include 4 defined benefit gratuity and pension schemes and 1 defined contribution pension fund. Contributions are made to the defined benefit schemes on the basis of actuarial recommendations. The latest actuarial valuation was carried out as at December 31, 2016.

30.1.1 Actuarial assumptions

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

	2016	2015
	% per annum	
- Expected rate of increase in future salaries	7.50	8.25
- Discount rate	8.50	9.25
- Expected rate of increase in pensions	2.75	3.45
- Expected rate of return on plan assets	8.50	9.25
- Medical cost trend	2.75	3.45

30.1.2 Balance sheet reconciliation

	2016					2015				
	Management		Non-Management		Total	Management		Non-Management		Total
	Pension	Gratuity	Pension	Gratuity		Pension	Gratuity	Pension	Gratuity	
			(Rupees '000)				(Rupees '000)			
Fair value of plan assets - note 30.1.3	1,881,131	47,910	21,013	125,231	2,075,285	2,104,835	(286,784)	17,993	129,534	1,965,578
Present value of defined benefit obligation - note 30.1.4	(1,419,044)	(91,453)	-	(131,118)	(1,641,615)	(1,394,479)	(99,055)	-	(135,840)	(1,629,374)
Asset / (liability) in respect of staff retirement benefit schemes	462,087	(43,543)	21,013	(5,887)	433,670	710,356	(385,839)	17,993	(6,306)	336,204

30.1.3 Movement in the fair value of plan assets

	2016					2015				
	Management		Non-Management		Total	Management		Non-Management		Total
	Pension	Gratuity	Pension	Gratuity		Pension	Gratuity	Pension	Gratuity	
			(Rupees '000)				(Rupees '000)			
Fair value of plan assets at the beginning of the year	2,104,835	(286,784)	17,993	129,534	1,965,578	1,931,402	(264,588)	15,982	125,658	1,808,454
Expected return on plan assets	171,042	(11,128)	1,664	10,830	172,408	207,657	(30,731)	1,758	13,288	191,972
Contribution by the Company	19,358	4,836	-	-	24,194	30,213	7,556	-	-	37,769
Contribution by the employees	3,376	-	-	-	3,376	3,571	-	-	-	3,571
Benefits paid during the year	(148,920)	(57,150)	-	(24,902)	(230,972)	(121,000)	(37,116)	-	(9,719)	(167,835)
Interfund transfer	(385,274)	385,274	-	-	-	-	-	-	-	-
Remeasurement of plan assets	116,714	12,862	1,356	9,769	140,701	52,992	38,095	253	307	91,647
Fair value of plan assets at the end of the year	1,881,131	47,910	21,013	125,231	2,075,285	2,104,835	(286,784)	17,993	129,534	1,965,578

30.1.4 Movement in the present value of defined benefit obligations

	2016					2015				
	Management		Non-Management		Total	Management		Non-Management		Total
	Pension	Gratuity	Pension	Gratuity		Pension	Gratuity	Pension	Gratuity	
			(Rupees '000)				(Rupees '000)			
Present value of obligation at the beginning of the year	1,394,479	99,055	-	135,840	1,629,374	1,334,115	95,588	-	103,788	1,533,491
Current service cost	28,267	6,039	-	4,229	38,535	26,104	5,679	-	3,092	34,875
Past service cost	-	-	-	-	-	-	-	-	10,157	10,157
Interest cost	122,102	6,520	-	11,413	140,035	140,098	8,473	-	10,882	159,453
Benefits paid during the year	(148,920)	(57,150)	-	(24,902)	(230,972)	(121,000)	(37,116)	-	(9,719)	(167,835)
Remeasurement on obligation	23,116	36,989	-	4,538	64,643	15,162	26,431	-	17,640	59,233
Curtailements loss / (gain)	-	-	-	-	-	-	-	-	-	-
Inter fund transfer	-	-	-	-	-	-	-	-	-	-
Present value of obligation at the end of the year	1,419,044	91,453	-	131,118	1,641,615	1,394,479	99,055	-	135,840	1,629,374

30.1.5 Amount recognized in profit and loss

	2016					2015				
	Management		Non-Management		Total	Management		Non-Management		Total
	Pension	Gratuity	Pension	Gratuity		Pension	Gratuity	Pension	Gratuity	
			(Rupees '000)				(Rupees '000)			
Current service cost	28,267	6,039	-	4,229	38,535	26,104	5,679	-	3,092	34,875
Past service cost	-	-	-	-	-	-	-	-	10,157	10,157
Interest cost	122,102	6,520	-	11,413	140,035	140,098	8,473	-	10,882	159,453
Expected return on plan assets	(171,042)	11,128	(1,664)	(10,830)	(172,408)	(207,657)	30,731	(1,758)	(13,288)	(191,972)
Curtailements loss / (gain)	-	-	-	-	-	-	-	-	-	-
Employee contributions	(3,376)	-	-	-	(3,376)	(3,571)	-	-	-	(3,571)
(Reversal) / expense for the year	(24,049)	23,687	(1,664)	4,812	2,786	(45,026)	44,883	(1,758)	10,843	8,942

30.1.6 Remeasurement recognized in other comprehensive income

	2016					2015				
	Management		Non-Management		Total	Management		Non-Management		Total
	Pension	Gratuity	Pension	Gratuity		Pension	Gratuity	Pension	Gratuity	
			(Rupees '000)				(Rupees '000)			
Loss / (gain) from changes in demographic assumptions	-	-	-	-	-	-	-	-	-	-
Loss / (gain) from changes in financial assumptions	-	-	-	-	-	-	-	-	-	-
Experience loss / (gain)	23,116	36,989	-	4,538	64,643	15,162	26,431	-	17,640	59,233
Remeasurement of defined benefit obligation	23,116	36,989	-	4,538	64,643	15,162	26,431	-	17,640	59,233
Gain / (loss) due to remeasurement of investment return	116,714	12,862	1,356	9,769	140,701	(52,992)	(38,095)	(253)	(307)	(91,647)
	(93,598)	24,127	(1,356)	(5,231)	(76,058)	(37,830)	(11,664)	(253)	17,333	(32,414)

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

	2016					2015				
	Management		Non-Management		Total	Management		Non-Management		Total
	Pension	Gratuity	Pension	Gratuity		Pension	Gratuity	Pension	Gratuity	
			(Rupees '000)				(Rupees '000)			
Balance at the beginning of year	710,356	(385,839)	17,993	(6,306)	336,204	597,287	(360,176)	15,982	21,870	274,963
Net reversal / (charge) for the year	117,647	(47,814)	3,020	419	73,272	82,856	(33,219)	2,011	(28,176)	23,472
Contributions by the Company	19,358	4,836	-	-	24,194	30,213	7,556	-	-	37,769
Inter-fund transfers	(385,274)	385,274	-	-	-	-	-	-	-	-
Asset / (liability) in respect of staff retirement benefit schemes	462,087	(43,543)	21,013	(5,887)	433,670	710,356	(385,839)	17,993	(6,306)	336,204
Current account balance with funds	(24,707)	(46,496)	49	(1,202)	(72,356)	(20,760)	2,892	(9)	-	(17,877)
	437,380	(90,039)	21,062	(7,089)	361,314	689,596	(382,947)	17,984	(6,306)	318,327

30.1.8 Plan assets comprised the following:

	2016					2015				
	Management		Non-Management		Total	Management		Non-Management		Total
	Pension	Gratuity	Pension	Gratuity		Pension	Gratuity	Pension	Gratuity	
			(Rupees '000)				(Rupees '000)			
PIB's, TFC's etc.	1,551,765	350,744	20,133	130,610	2,053,252	1,780,641	51,323	17,517	128,288	1,977,769
Bank deposits	15,412	2,479	953	1,109	19,953	17,689	1,478	491	2,544	22,202
Inter-fund dues	323,847	(323,847)	-	-	-	323,847	(323,847)	-	-	-
Benefits due	(12,055)	(22,647)	(24)	(7,690)	(42,416)	(15,557)	(7,531)	(24)	(1,298)	(24,410)
Due to DC Pension Fund	(22,545)	(5,315)	-	-	(27,860)	(22,545)	(5,315)	-	-	(27,860)
Due to Shell Pakistan Limited	24,707	46,496	(49)	1,202	72,356	20,760	(2,892)	9	-	17,877
	1,881,131	47,910	21,013	125,231	2,075,285	2,104,835	(286,784)	17,993	129,534	1,965,578

30.1.9 Expected contributions to the above schemes for the year ending December 31, 2017 is Rs. 4,728 thousand.

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

	Increase of 1%	Decrease of 1%
	(Rupees '000)	
- Effect of change in discount rate	(144,099)	170,714
- Effect of change in salaries	53,857	(48,693)
- Effect of change in pension	107,699	(94,700)

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

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

	2016	2015
	(Rupees '000)	
Total balance receivable in respect of defined benefit schemes	361,314	318,327
Total balance receivable / (payable) in respect of defined contribution schemes	59,390	(67,513)
	<u>420,704</u>	<u>250,814</u>

30.2 Post-retirement medical benefits

The Company also provides post-retirement medical benefits to its management staff. Actuarial valuation of the scheme is carried out annually. The amount recognized in the balance sheet is based on a valuation carried out as at the balance sheet date and is as follows:

30.2.1 Actuarial assumptions

	Note	2016	2015
		% per annum	
The following significant assumptions were used in the valuation of this scheme:			
- Discount rate		8.50	9.25
- Medical cost trend rate		2.75	3.45

30.2.2 Amount recognized in the balance sheet

	Note	2016	2015
		(Rupees '000)	
Present value of defined benefit obligation	30.2.3	83,537	84,197
Fair value of plan assets		-	-
Liability recognized at end of the year		<u>83,537</u>	<u>84,197</u>

30.2.3 Movement in the present value of defined benefit obligation

Present value of obligation at beginning of the year	84,197	80,479
Current service cost	1,411	1,211
Interest cost	7,361	8,442
Benefits paid during the year	(9,240)	(7,463)
Remeasurement on obligation	(192)	1,528
Present value of obligation at end of the year	<u>83,537</u>	<u>84,197</u>

30.2.4 Movement in the liability recognized in the balance sheet

	Note	2016	2015
		(Rupees '000)	
Balance at beginning of the year		84,197	80,479
Charge for the year	30.2.5 /	8,580	11,181
Payments during the year	30.2.6	(9,240)	(7,463)
Balance at end of the year		<u>83,537</u>	<u>84,197</u>

30.2.5 Amount recognized in profit and loss

	2016	2015
	(Rupees '000)	
Current service cost	1,411	1,211
Interest cost	7,361	8,442
	<u>8,772</u>	<u>9,653</u>

30.2.6 Remeasurement recognized in other comprehensive income

Experience loss / (gain)	(192)	1,528
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30.2.7 The effect of a 1% movement in the assumed medical cost trend rate is as follows:

	Increase of 1%	Decrease of 1%
	(Rupees '000)	
- Effect on the aggregate of the current service cost and interest cost for the year	9,676	(8,072)

30.3 Five-year data on surplus / (deficit) of the plans

The following table shows the total pension, gratuity and post-retirement medical benefit obligation and the total pension and gratuity plan assets at the end of each year.

	2016	2015	2014	2013	2012
	(Rupees '000)				
Present value of defined benefit obligation	1,725,152	1,713,571	1,613,970	1,395,551	2,687,875
Fair value of plan assets	(2,075,285)	(1,965,578)	(1,808,453)	(1,531,540)	(2,206,250)
Surplus / (Deficit)	<u>350,133</u>	<u>252,007</u>	<u>194,483</u>	<u>135,989</u>	<u>(481,625)</u>

30.4 The value of investments made by the staff retirement funds operated by the Company as per their last audited financial statements as at December 31, 2015 and unaudited financial statements as at December 31, 2016 are as follows:

	2016	2015
	(Rupees '000)	
Shell Pakistan Management Staff Provident Fund	1,039,145	916,059
Shell Pakistan Staff Provident Fund	3,715	6,291
Shell Pakistan Labour Provident Fund	200,917	200,360
Shell Pakistan Management Staff Gratuity Fund	342,019	49,957
Shell Pakistan Labour and Clerical Staff Gratuity Fund	127,717	124,414
Shell Pakistan Management Staff Pension Fund	1,522,782	1,734,631
Shell Pakistan Staff Pension Fund	19,628	17,045
Shell Pakistan DC Pension Fund	1,476,971	1,260,823
	4,732,894	4,309,580

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

	2016	2015
	(Rupees '000)	
in respect of:		
- pension and gratuity scheme	2,784	8,942
- defined contribution funds	142,678	104,495
- post-retirement medical benefit scheme	8,772	9,653
	154,234	123,090

31. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2016			2015		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	(Rupees '000)					
Short-term benefits						
Director's fee	-	3,750	-	-	2,800	-
Managerial remuneration (including bonus)	45,456	34,512	1,279,933	34,031	45,301	1,236,470
Housing:						
- Rent	7,644	-	-	5,763	-	-
- Utilities	266	-	20,287	270	495	16,174
Medical expenses	125	2,130	29,117	80	2,333	27,101
	53,491	40,392	1,329,337	40,144	50,929	1,279,745
Post-employment benefits						
Company's contribution to pension, gratuity and provident fund	2,571	3,581	130,977	2,580	3,203	124,129
	56,062	43,973	1,460,314	42,724	54,132	1,403,874
Number of persons including those who worked part of the year	2	13	390	1	12	376

31.1 As at December 31, 2016, the total number of Directors were 13 (2015: 12), excluding Chief Executive.

31.2 Includes Rs. 62,763 thousand (2015: Rs. 68,230 thousand) in respect of Performance Share Plan.

31.3 In addition, the Chief Executive, Executive Directors and some of the Executives were also provided with free use of Company maintained cars and are entitled to certain benefits from Shell Group. The Chief Executive has also been provided with the Company furnished accommodation.

32. RELATED PARTY TRANSACTIONS

The related parties of the Company comprise of ultimate and immediate parents, associated undertakings, entities with common directorships, employees' retirement funds, directors and key management personnel. Transactions with related parties other than those disclosed elsewhere in the financial statements are as follows:

Nature of relationship	Nature of transactions	2016	2015
		(Rupees '000)	
Immediate parent	Dividend paid	814,437	651,550
Associate	Pipeline charges	642,377	724,893
	Others	13,393	18,240
Employees' retirement funds			
	Pension Funds	19,358	30,213
	Defined Contribution Pension Fund	114,184	101,564
	Gratuity Funds	4,835	7,556
	Provident Funds	61,758	56,234
Key management personnel	Salaries and other short term employee benefits	90,133	88,273
	Post-employment benefits	6,152	5,783
Directors	Dividend paid	13,453	6,727
Other related parties	Purchases	101,056,315	120,285,017
	Sales	1,023,132	5,709,109
	Collection for sales made in Pakistan from customers of the parent company and its associates	3,607,040	3,911,903
	Technical service fee charged - note 32.1	1,659,727	1,064,898
	Trade-marks and manifestations license fee charged - note 32.2	283,712	320,869
	Computer expenses charged (Global Infrastructure Desktop charges) - note 32.2	120,324	142,425
	Expenses recovered from related parties	144,591	196,414
	Other expenses charged by related parties - note 32.3	953,317	511,397
	Donations	3,330	2,745
	Legal charges	66	214

- 32.1 Technical services include advice and assistance to the Company in its operations. The fee for these services has been determined on the basis of an agreement between the Company and a related Shell Group company based on an agreed methodology.
- 32.2 Trademarks and manifestations license fee and Global Infrastructure Desktop charges are based on the agreements entered into by the Company with Shell Group companies.
- 32.3 These includes charges amounting to Rs. 323,127 thousand (2015: Rs. 149,668 thousand) in respect of services obtained from Shell Shared Business Service Centre companies under agreements entered into with them by the Company.
- 32.4 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. The Company considers its Chief Executive and Executive Directors to be key management personnel. Particulars of transactions entered into with key management personnel are as per their terms of employment as are disclosed in notes 7, 12 and 31 to these financial statements.
- 32.5 Amounts recoverable from / payable to related parties have been disclosed in relevant notes to these financial statements.

33. CASH GENERATED FROM OPERATIONS

	Note	2016	2015
(Rupees '000)			
Profit before taxation		5,705,822	2,344,825
Adjustment for non-cash charges and other items:			
Depreciation and amortization charge		761,551	845,692
Accretion expense in respect of asset retirement obligation		8,081	6,027
Reversal of liability in respect of asset retirement obligation		(3,130)	(8,616)
(Reversal of) / provision for impairment of stock-in-trade - net		(18,867)	36,268
Provision for impairment of trade debts		5,828	121,171
Trade debts written off		280	-
Provision for impairment of other receivables		182,000	-
Other receivables written off		330	-
Reversal of provision for impairment of operating assets		(13,271)	(84,076)
Write off of operating assets		27,017	74,375
Gain on disposal of operating assets		(6,694)	(26,081)
Share of profit of associate		(751,840)	(583,961)
Interest on short-term deposits		(188,030)	(77,482)
Mark-up on short-term borrowings		11,389	81,118
Working capital changes	33.1	3,259,079	2,688,696
		8,979,545	5,417,956

33.1 Working capital changes

	Note	2016	2015
(Rupees '000)			
Decrease / (increase) in current assets			
Stock-in-trade		2,933,884	(231,172)
Trade debts		(527,811)	269,578
Loans and advances		3,950	2,511
Short term prepayments		302,817	(331,433)
Other receivables		74,565	2,462,273
		2,787,405	2,171,757
Increase in current liabilities			
Trade and other payables		471,674	516,939
		3,259,079	2,688,696

34. CASH AND CASH EQUIVALENTS

Cash and bank balances	14	5,988,405	2,103,517
Short-term borrowings	19	-	(2,025,448)
		5,988,405	78,069

35. PROVIDENT FUND RELATED DISCLOSURES

The following information is based on the latest audited financial statements of the fund as at December 31, 2015 and unaudited financial statements as at December 31, 2016:

	2016	2015
(Rupees '000)		
Size of the fund - total assets	1,319,839	1,244,026
Fair value of investments	1,258,734	1,149,296
Cost of investments	1,089,341	1,102,522
Percentage of investment made	83%	89%

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

	2016		2015	
	Investments (Rupees '000)	Percentage of investment made	Investments (Rupees '000)	Percentage of investment made
Treasury Bills	68,098	6	54,315	5
Pakistan Investment Bonds	615,294	49	541,022	47
Regular Income Certificates	417,700	33	417,700	36
Equity investments	142,685	11	109,674	10
Saving bank accounts	14,957	1	26,585	2
	1,258,734	100	1,149,296	100

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

35.3 An amount of Rs. 62,625 thousand (2015: Rs. 56,234 thousand) has been contributed during the year to the provident fund.

36. FINANCIAL ASSETS AND LIABILITIES

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

	2016						Total
	Interest / Mark-up bearing			Non-Interest / Mark-up bearing			
	Maturity upto one year	Maturity after one year	Subtotal	Maturity upto one year	Maturity after one year	Subtotal	
	(Rupees '000)						
Financial assets							
Available-for-sale							
Investments	-	-	-	-	5,000	5,000	5,000
Loans and receivables							
Loans	6,068	3,625	9,693	18,884	3,178	22,062	31,755
Deposits	-	-	-	-	133,042	133,042	133,042
Trade debts	-	-	-	2,122,336	-	2,122,336	2,122,336
Other receivables	-	-	-	1,678,547	-	1,678,547	1,678,547
Cash and bank balances	4,752,468	-	4,752,468	1,235,937	-	1,235,937	5,988,405
	4,758,536	3,625	4,762,161	5,055,704	141,220	5,196,924	9,959,085
Financial liabilities							
Financial liabilities at amortised cost							
Trade and other payables	-	-	-	27,742,975	-	27,742,975	27,742,975
Accrued mark-up	-	-	-	623	-	623	623
	-	-	-	27,743,598	-	27,743,598	27,743,598
	2015						
	Interest / Mark-up bearing			Non-Interest / Mark-up bearing			
	Maturity upto one year	Maturity after one year	Subtotal	Maturity upto one year	Maturity after one year	Subtotal	Total
	(Rupees '000)						
Financial assets							
Available-for-sale							
Investments	-	-	-	-	5,000	5,000	5,000
Loans and receivables							
Loans	14,379	4,101	18,480	11,885	1,611	13,496	31,976
Deposits	-	-	-	-	131,212	131,212	131,212
Trade debts	-	-	-	1,600,632	-	1,600,632	1,600,632
Other receivables	-	-	-	2,252,150	-	2,252,150	2,252,150
Cash and bank balances	335,866	-	335,866	1,767,651	-	1,767,651	2,103,517
	350,245	4,101	354,346	5,632,318	137,823	5,770,141	6,124,487
Financial liabilities							
Financial liabilities at amortised cost							
Trade and other payables	-	-	-	26,770,406	-	26,770,406	26,770,406
Accrued mark-up	-	-	-	10,476	-	10,476	10,476
Short-term borrowings	2,025,448	-	2,025,448	-	-	-	2,025,448
	2,025,448	-	2,025,448	26,780,882	-	26,780,882	28,806,330

The effective interest / mark-up rates for the monetary financial assets and liabilities are mentioned in the respective notes to the financial statements.

36.2 Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks namely credit risk, foreign exchange risk, interest rate risk and liquidity risk. The Company finances its operations through equity, borrowings and management of working capital with a view of maintaining an appropriate mix between various sources of finance to minimize risk and provide maximum return to shareholders.

36.2.1 Credit risk

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

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including trade receivables and committed transactions. The maximum credit risk is equal to the carrying amount of financial assets. Out of the financial assets aggregating Rs. 9,963,818 thousand (2015: Rs. 6,124,487 thousand) the financial assets subject to credit risk amount to Rs. 9,942,964 thousand (2015: Rs. 6,103,929 thousand). For banks and financial institutions, only independently rated parties with reasonably high credit rating are accepted. For trade receivables, internal risk assessment process determines the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilization of credit limits is regularly monitored.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry. The most significant financial assets exposed to credit risk are trade debts and other receivables of the Company. The utilization of credit limits is regularly monitored.

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

	2016	2015
	(Rupees '000)	
Loans	31,755	31,976
Deposits	133,042	131,212
Trade debts	2,089,672	1,557,495
Other receivables	1,678,547	2,252,150
Bank balances	5,972,551	2,087,959
	9,905,567	6,060,792

The credit quality of receivables can be assessed with reference to their historical performance with no or some defaults in recent history, however, no losses. The credit quality of Company's bank balances can be assessed with reference to external credit ratings as follows:

Bank	Rating agency	Rating	
		Short-term	Long-term
National Bank of Pakistan	PACRA	A1+	AAA
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA
United Bank Limited	JCR-VIS	A-1+	AAA
Habib Bank Limited	JCR-VIS	A-1+	AAA
Askari Bank Limited	JCR-VIS	A-1+	AA
Faysal Bank Limited	PACRA	A1+	AA
Bank Alfalah Limited	PACRA	A1+	AA
MCB Bank Limited	PACRA	A1+	AAA
Allied Bank Limited	PACRA	A1+	AA+
Citibank N.A.	Moody's	P-1	A1
Deutsche Bank AG	Moody's	P-2	Baa2
The Bank of Tokyo-Mitsubishi-Ufj, Limited	Standard & Poor's	A-1	A+
Industrial and Commercial Bank of China	Moody's	P-1	A1

36.2.2 Market risk

Market risk is the risk that the value of the financial instruments may fluctuate as a result of changes in market interest rates, foreign exchange rates or the equity prices due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency risk arises mainly where payables exist due to imports of goods and transactions with foreign related parties as well as trade receivables from foreign related parties. The Company primarily has foreign currency exposures in US Dollar (USD), Great Britain Pounds (GBP) and Euro (EUR).

As at December 31, 2016, had the exchange rates of USD, GBP and EUR appreciated or depreciated against the currency with all other variables held constant, the change in post-tax profit / loss would have been as follows:

Currency	Profit / Loss	2016		2015	
		%	Rs. '000	%	Rs. '000
USD	lower / higher	5%	419,249	5%	464,158
GBP	lower / higher	5%	9,912	5%	64,269
EUR	lower / higher	5%	13,775	5%	11,129

ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from short-term loans and running finance facilities. Loans and running finance obtained at variable rates expose the Company to cash flow interest rate risk.

The Company analyses its interest rate exposure on a regular basis by monitoring existing facilities against prevailing market interest rates and taking into account various other financing options available.

At December 31, 2016, had interest rates on Company's borrowings been 1% higher / lower with all other variables held constant, post-tax profit for the year would have been lower / higher by Nil (2015: Rs. 13,773 thousand) as a result of no variable rate borrowings outstanding as at the balance sheet date.

iii) Price risk

Price risk represents the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting all similar financial instruments traded in the market. The Company is not exposed to equity securities price risk as currently the Company has no investments in listed securities.

36.2.3 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulties in raising funds to meet commitments associated with financial instruments.

Through its treasury function, the Company continually monitors its liquidity position and ensures availability of funds by maintaining flexibility in funding by keeping committed credit lines available.

The maturity profile of the Company's liabilities based on contractual maturities is disclosed in note 36.1 to these financial statements.

36.3 Capital risk management

The Company's prime objective when managing capital is to safeguard its ability to continue as a going concern, maintain healthy capital ratios, strong credit rating and optimal capital structure in order to ensure ample availability of finance for its existing and potential investment projects, to maximize shareholder value and reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balances. Total capital is calculated as equity as shown in the balance sheet plus net debt.

During the year, the Company's strategy was to minimize leveraged gearing. The Company finances its expansion projects through equity, borrowings and management of its working capital with a view to maintaining an appropriate mix between various sources of finance to minimize risk. As of the balance sheet date, the Company was fully financed through equity.

37. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The different levels of fair valuation method have been defined as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data.

The carrying values of all assets and liabilities reflected in these financial statements approximate their fair values.

There were no changes in the valuation techniques during the year.

38. OPERATING SEGMENTS

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

All the sales of the Company relate to petroleum products including lubricating oils.

Total sales of the Company relating to customers in Pakistan were 99.44% during the year ended December 31, 2016 (December 31, 2015: 99.29%).

All non-current assets of the Company as at December 31, 2016 and 2015 are located in Pakistan.

Sales to twenty major customers of the Company are around 15% during the year ended December 31, 2016 (December 31, 2015: 15%).

39. NUMBER OF EMPLOYEES

	Number of employees as at		Average number of employees	
	2016	2015	2016	2015
Management employees	383	378	378	370
Non - management employees	42	47	44	50
	425	425	422	420

40. DATE OF AUTHORIZATION

These financial statements were authorized for issue on March 10, 2017 by the Board of Directors of the Company.

41. SUBSEQUENT EVENT

The Board of Directors in its meeting held on March 10, 2017 has proposed a cash dividend of Rs. 28/- per share for the year ended December 31, 2016 for approval of the members at the Annual General Meeting to be held on April 20, 2017.

These financial statements do not include the effect of the proposed cash dividend which will be accounted for in the financial statements for the year ending December 31, 2017.

42. GENERAL

42.1 For better presentation certain prior year's figures have been reclassified consequent to certain changes in the current year's presentation.

42.2 Figures have been rounded off to the nearest thousand, unless otherwise stated.

ATTENDANCE OF THE BOARD AND COMMITTEE MEETINGS HELD DURING THE YEAR

For the year ended December 31, 2016

Board of Directors

During the year, six meetings of the Board of Directors were held and the attendance of each director is given below:

Name of Director	Total No. of meetings	No. of meetings attended
Omar Sheikh	6	6
Jawwad A. Cheema	3	3
Farrokh K. Captain	6	6
Soo Lim Goh*	5	4
Rafi H. Basheer	0	0
Imran R. Ibrahim	6	6
Nasser N.S. Jaffer	6	5
Zaffar A. Khan	6	5
John King Chong Lo*	2	2
Haroon Rashid	6	6
Badaruddin F. Vellani	6	6
Faisal Waheed	6	6

*Mr. John King Chong Lo resigned and was replaced by Jawwad Cheema effective 5th May, 2016.

*Mr. Soo Lim Goh resigned and replaced by Mr. Rafi H. Basheer effective 21st October, 2016.

Board Audit Committee

During the year, five meetings of the Board Audit Committee were held and the attendance of each director is given below:

Name of Director	Total No. of meetings	No. of meetings attended
Imran R. Ibrahim	5	5
Soo Lim Goh	5	4
Badaruddin F. Vellani	5	5
Rafi H. Basheer	0	0

ATTENDANCE OF THE BOARD AND COMMITTEE MEETINGS HELD DURING THE YEAR

For the year ended December 31, 2016

Human Resource and Remuneration Committee

During the year, one meeting of Human Resource and Remuneration Committee was held and the attendance of each director is given below:

Name of Director	Total number of meetings	No. of meetings attended
Jawwad A. Cheema	1	1
Farrokh K. Captain	1	1
Klaas Mantel	1	1

PATTERN OF SHAREHOLDING

as at December 31, 2016

Trade in shares by Directors, *Executives, their spouses and minor children during the year 2016

Name	Category	Date of Transaction	Price per Share (Rs.)	No. of Shares Purchased
Tariq Saeed	Company Secretary	06-04-2016	263.50	100
Tariq Saeed	Company Secretary	22-11-2016	472.43	200
Badrul Hassan	Executive	06-10-2016	480.00	1,100

*Executive means Chief Executive, Chief Financial Officer, Head of Internal Audit, Company Secretary and other employees of the Company who are drawing an annual basic salary of Rs. 500,000 or more.

FORM OF PROXY

The Secretary
Shell Pakistan Limited
Shell House
6, Ch. Khaliqzaman Road
P.O. Box No. 3901
Karachi - 75530

I/We _____
of _____ in the district of _____

being a member of Shell Pakistan Limited and holder of _____
_____ Ordinary Shares as per Share Register Folio

(No. of Shares)

No. _____ and/or CDC Participant I.D. No. _____

and Sub Account No. _____ hereby appoint _____

of _____ in the district of _____

or failing him/her _____ of _____

as my/our proxy to vote for me/us and on my/our behalf at the Forty-Eighth Annual General Meeting of the Company to be held on April 20, 2017 at 10:00 a.m. at the Movenpick Hotel, Karachi and at any adjournment thereof.

Signed this _____ day of _____ 2017.

Signature

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

WITNESSES:

1. Signature

Name _____

Address _____

CNIC or

Passport No. _____

2. Signature

Name _____

Address _____

CNIC or

Passport No. _____

Notes:

1. A member entitled to attend and vote at the meeting may appoint another person, as his/her proxy to attend, demand or join in demanding a poll, speak and vote instead of him/her and a proxy so appointed shall have such rights, as respects attending, speaking and voting at the meeting as are available to a member.
2. Proxies in order to be effective must be received at the registered office of the Company not later than 48 hours before the meeting.
3. A Proxy need not be a member of the Company.
4. Shareholders and their proxies must attach an attested photocopy of their CNIC or Passport with this Proxy Form. A Proxy shall be required to produce his/her original CNIC or passport at the venue of the meeting for authentication of his/her identity.