JOURNEYS THAT MATTER

SHELL PAKISTAN LIMITED
QUARTERLY REPORT MARCH 2017

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

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

CHIEF EXECUTIVE'S REVIEW

AS AT MARCH 31, 2017

Our Performance

Dear Shareholders,

On behalf of the Board of Directors of Shell Pakistan Limited, I am pleased to share the results of your Company for the quarter ended March 31, 2017. Our Company delivered a profit after tax of Rs. 1,396 million in Q1 2017 which is significantly higher compared to a profit after tax of Rs. 21 million in the same period last year. These results have been made possible through a highly committed team driving aggressive business plans focused on operational excellence and sustainable growth.

Due to continued oil price volatility, your Company was constantly exposed to inventory losses driven by price volatility and compliance to regulatory requirements of maintaining strategic stock levels in the country. With Shell's global supply chain network we continue to leverage efficiencies to mitigating potential losses.

We continue to drive towards creating and sustaining a culture that builds on our commitment to business principles, safety of people and protecting the environment. Customers continue to be at the heart of everything we do as we bring our Global technology leadership for higher quality and cleaner energy solutions to Pakistan to enhance the customer experience across our network through our superior products and services.

Receivables & financing costs

The results of your Company continue to be affected by the financial burden resulting from overdue 'receivables' from the Government of Pakistan, and your Company continues to incur financing cost on bank borrowings required to fund these receivables. As at 31st March 2017, total outstanding receivables stand at Rs. 4,639 million. The Company's management is in engagement with relevant Government authorities for the recovery of receivables to ensure we enhance shareholder returns, drive for efficient business, and invest in growth opportunities in Pakistan.

Fuel margins

Despite recent moves to link main grade Motor gasoline and diesel margins based on CPI, margins continue to be amongst the lowest in the region. We continue to advocate and push for further deregulation of the downstream value chain in Pakistan to drive for more investments in the downstream sector.

Going forward

The management remains committed to maintaining focus on further improving the financial performance of your Company and driving towards credible, competitive and affordable business plans that deliver top quartile business performance. We thank our shareholders, customers and staff for their sustained support and trust in the Company, and look forward to taking this Company to newer heights.

Jawwad A. Cheema,
Chief Executive

CONDENSED INTERIM BALANCE SHEET

AS AT MARCH 31, 2017

	Note	Unaudited March 31, 2017	Audited December 31, 2016
		(Rupees '000)	
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	**9,144,864**	9,150,109
Intangible asset		**-**	-
Long-term investments	6	**3,909,835**	3,735,560
Long-term loans		**3,307**	3,091
Long-term deposits and prepayments		**161,350**	160,317
Deferred taxation – net	7	**2,205,913**	2,221,599
		15,425,269	15,270,676
Current Assets			
Stock-in-trade		**14,639,979**	10,366,172
Trade debts		**2,850,219**	2,122,335
Loans and advances		**5,088**	63,767
Short-term prepayments		**219,279**	281,246
Other receivables	8	**9,190,017**	8,417,830
Cash and bank balances		**2,921,710**	5,988,405
		29,826,292	27,239,755
TOTAL ASSETS		**45,251,561**	42,510,431
EQUITY AND LIABILITIES			
Equity			
Share capital		**1,070,125**	1,070,125
Share premium		**1,503,803**	1,503,803
General reserves		**207,002**	207,002
Unappropriated profit		**9,697,543**	8,301,460
Remeasurement of post-employment benefits - actuarial gain		**27,392**	27,392
Total equity		**12,505,865**	11,109,782
Liabilities			
Non-Current Liabilities			
Asset retirement obligation		**85,367**	83,892
Current Liabilities			
Trade and other payables	9	**30,967,709**	30,037,827
Accrued mark-up		**1,253**	623
Taxation - net		**1,691,367**	1,278,307
		32,660,329	31,316,757
		32,745,696	31,400,649
Contingencies and commitments	10		
TOTAL EQUITY AND LIABILITIES		**45,251,561**	42,510,431

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

Jawwad A. Cheema
Chairman and Chief Executive

Badaruddin F. Vellani
Director

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE QUARTER ENDED MARCH 31, 2017

	Note	**March 31, 2017**	March 31, 2016
		----------- (Rupees '000) -----------	
Sales		**57,933,110**	56,668,370
Other revenue		**249,232**	239,796
		58,182,342	56,908,166
Sales tax		**(9,257,983)**	(14,232,400)
Net revenue		**48,924,359**	42,675,766
Cost of products sold		**(44,796,059)**	(40,697,208)
Gross profit		**4,128,300**	1,978,558
Distribution and marketing expenses		**(1,297,485)**	(1,114,585)
Administrative expenses		**(939,812)**	(965,199)
Other expenses		**(208,581)**	(13,406)
Other income		**90,182**	167,103
Operating profit		**1,772,604**	52,471
Finance costs		**(50,650)**	(30,275)
		1,721,954	22,196
Share of profit of associate - net of tax	6	**174,275**	138,525
Profit before taxation		**1,896,229**	160,721
Taxation	11	**(500,146)**	(139,461)
Profit for the period		**1,396,083**	21,260
Other comprehensive income		**-**	-
Total comprehensive income for the period		**1,396,083**	21,260
		----------- (Rupees) -----------	
Earnings per share		**13.05**	0.20

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

Jawwad A. Cheema
Chairman and Chief Executive

Badaruddin F. Vellani
Director

CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE QUARTER ENDED MARCH 31, 2017

	Note	March 31, 2017	March 31, 2016
		----------- (Rupees '000)	-----------
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	12	**(2,808,943)**	4,068,502
Finance costs paid		**(5,723)**	(7,777)
Income tax paid		**(71,400)**	(188,677)
Long-term loans		**(216)**	2,791
Long-term deposits and prepayments		**(1,033)**	4,867
Interest received on short term deposits		**32,645**	46,924
Net cash generated from operating activities		**(2,854,670)**	3,926,630
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(209,832)**	(289,933)
Proceeds from disposal of operating assets		**-**	8,937
Net cash used in investing activities		**(209,832)**	(280,996)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(2,193)**	(1,760)
Net (decrease) / increase in cash and cash equivalents		**(3,066,695)**	3,643,874
Cash and cash equivalents at the beginning of the period		**5,988,405**	78,069
Cash and cash equivalents at the end of the period		**2,921,710**	3,721,943

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

Jawwad A. Cheema
Chairman and Chief Executive

Badaruddin F. Vellani
Director

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE QUARTER ENDED MARCH 31, 2017

	Share capital	Capital reserve: Share premium	Revenue reserve: General reserve	Revenue reserve: Unappropriated profit	Revenue reserve: Actuarial (loss) / gain on post-employment benefits	Total
	----------	----------	----------	(Rupees '000)	----------	----------
Balance as at January 1, 2016	1,070,125	1,503,803	207,002	3,248,749	(48,857)	5,980,822
Total comprehensive income for the quarter ended March 31, 2016	-	-	-	21,260	-	21,260
Balance as at March 31, 2016 (Unaudited)	1,070,125	1,503,803	207,002	3,270,009	(48,857)	6,002,082
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)
Total comprehensive income for the nine months ended December 31, 2016	-	-	-	6,743,647	76,249	6,819,896
Balance as at December 31, 2016 (Audited)	1,070,125	1,503,803	207,002	8,301,460	27,392	11,109,782
Total comprehensive income for the quarter ended March 31, 2017	-	-	-	1,396,083	-	1,396,083
Balance as at March 31, 2017 (Unaudited)	1,070,125	1,503,803	207,002	9,697,543	27,392	12,505,865

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

Jawwad A. Cheema
Chairman and Chief Executive

Badaruddin F. Vellani
Director

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

FOR THE QUARTER ENDED MARCH 31, 2017

1. THE COMPANY AND ITS OPERATIONS

1.1 Shell Pakistan Limited (the Company) is a limited liability Company incorporated in Pakistan and is listed on Pakistan Stock Exchange Limited. The Company is a subsidiary of Shell Petroleum Company Limited, United Kingdom (immediate parent) which is a subsidiary of Royal Dutch Shell Plc. (ultimate parent). The registered office of the Company is located at Shell House, 6, Ch. Khaliquzzaman Road, Karachi-75530, Pakistan.

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

2. BASIS OF PREPARATION

2.1 This condensed interim financial information of the Company for the quarter ended March 31, 2017 is unaudited and has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 – 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In case where the requirements differ, the provisions of or directives issued under the Ordinance have been followed.

2.2 This condensed interim financial information is being submitted to the shareholders in accordance with section 245 of the Ordinance and should be read in conjunction with the audited annual financial statements of the Company for the year ended December 31, 2016.

3. ACCOUNTING POLICIES

3.1 The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of audited annual financial statements of the Company for the year ended December 31, 2016.

3.2 There are certain new International Financial Reporting Standards (standards), amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2017. These are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations and are, therefore, not disclosed in this condensed interim financial information.

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

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

FOR THE QUARTER ENDED MARCH 31, 2017

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 The preparation of this condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. However, actual results may differ from these estimates.

4.2 During the preparation of this condensed interim financial information, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the audited annual financial statements for the year ended December 31, 2016.

	Note	Unaudited March 31, 2017	Audited December 31, 2016
		------------(Rupees '000)------------	
5. PROPERTY, PLANT AND EQUIPMENT			
Operating assets - at net book value	5.1 & 5.2	**8,013,707**	7,724,172
Provision for impairment		**(362,607)**	(365,010)
		7,651,100	7,359,162
Capital work-in-progress	5.3	**1,493,764**	1,790,947
		9,144,864	9,150,109

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

	Unaudited March 31, 2017	Audited December 31, 2016
	------------(Rupees '000)------------	
Owned assets		
Leasehold land	**57,585**	51,726
Buildings on freehold land	**1,553**	-
Buildings on leasehold land	**34,803**	49,513
Tanks and pipelines	**30,852**	270,792
Plant and machinery	**109,276**	242,358
Dispensing pumps	**104,476**	83,992
Air conditioning plant,lifts and computer auxiliaries	**302**	3,011
Rolling stock and vehicles	**2,158**	16,857
Electrical, mechanical and fire fighting equipments	**17,993**	353,758
Furniture, office equipment and other assets	**148,018**	180,000
	507,016	1,252,007

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE QUARTER ENDED MARCH 31, 2017

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

	Cost	Accumulated depreciation	Net book value
	--------(Rupees '000)--------		
March 31, 2017 (unaudited)			
Owned assets			
Building on leasehold land	**464**	**464**	**-**
Rolling stocks and vehicles	**40,917**	**40,917**	**-**
Tanks and pipelines	**115**	**109**	**6**
Plant and Machinery	**1,100**	**1,100**	**-**
Air Conditioning & Computer auxiliaries	**2,062**	**2,032**	**30**
Electrical, mechanical and fire fighting equipments	**4,239**	**4,239**	**-**
Furniture,office equipment and other assets	**2,652**	**2,366**	**286**
	51,549	**51,227**	**322**
December 31, 2016 (audited)	**185,101**	**114,462**	**70,639**

5.2.1 For details of the assets disposed / written off during the year ended December 31, 2016, please refer to the audited annual financial statements for the same year.

	Unaudited March 31, 2017	Audited December 31, 2016
5.3 Capital work-in-progress	----(Rupees '000)----	
Buildings on leasehold land	**1,015,164**	1,104,306
Tanks and pipelines	**232,879**	268,308
Plant and machinery	**166,158**	302,647
Electrical, mechanical and fire fighting equipments	**70,659**	80,163
Furniture, office equipment and other assets	**8,904**	35,523
	1,493,764	1,790,947

6. LONG TERM INVESTMENTS

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

	Unaudited March 31, 2017	Audited December 31, 2016
	----(Rupees '000)----	
Balance at the beginning of the period / year	**3,730,560**	3,431,508
Share of profit	**252,062**	1,087,381
Share of taxation	**(77,787)**	(335,541)
	174,275	751,840
Dividend received	**-**	(452,788)
Balance at the end of the period / year	**3,904,835**	3,730,560

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

FOR THE QUARTER ENDED MARCH 31, 2017

7. DEFERRED TAXATION	Note	Unaudited March 31, 2017	Audited December 31, 2016
		(Rupees '000)	
This is composed of the following:			
Taxable temporary differences arising in respect of:			
- accelerated tax depreciation		**(883,619)**	(892,178)
- investment in associate		**(254,728)**	(229,994)
		(1,138,347)	(1,122,172)
Deductible temporary differences arising in respect of:			
- other provisions		**581,260**	580,771
- minimum tax carried forward	7.1	**2,763,000**	2,763,000
		3,344,260	3,343,771
		2,205,913	2,221,599

7.1 In view of the order of the High Court of Sindh, as fully explained in note 10.1.2.1 to the condensed interim financial information, 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.

8. OTHER RECEIVABLES	Note	Unaudited March 31, 2017	Audited December 31, 2016
		(Rupees '000)	
Petroleum development levy and other duties	8.1	**1,380,029**	1,380,029
Price differential claims			
- on imported purchases	8.2	**295,733**	295,733
- on high speed diesel (HSD)	8.3	**343,584**	343,584
- on imported motor gasoline	8.4	**2,071,107**	2,071,107
Regulatory and customs duty receivable	8.5	**169,632**	169,632
Sales tax refundable	8.6	**377,874**	463,753
Inland freight equalization mechanism		**1,247,671**	1,023,957
Receivable from related parties	8.7	**797,111**	735,763
Service cost receivable from associated company – PAPCO		**8,958**	8,958
Staff retirement benefit schemes		**628,506**	420,704
Receivable from Oil Marketing Companies		**1,259,626**	867,631
Taxes recoverable	8.8	**976,009**	976,009
Others		**39,402**	66,195
		9,595,242	8,823,055
Provision for impairment		**(405,225)**	(405,225)
		9,190,017	8,417,830

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

FOR THE QUARTER ENDED MARCH 31, 2017

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

8.2 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.

8.3 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.

8.4 Represents the Company's share of price differential claims on account of import of motor gasoline by the Company, being the difference between the landed cost and ex-refinery prices announced by Oil and Gas Regulatory Authority (OGRA). In 2007, the Company as well as other oil marketing companies were asked in a meeting chaired by the Director General Oil to import motor gasoline to meet the increasing local demand. Accordingly, oil marketing companies approached the Ministry of Petroleum and Natural Resources (MoPNR) with a proposal for pricing mechanism whereby end consumer price of motor gasoline was proposed to be fixed at weighted average of ex-refinery (import parity) price and landed cost of imported product. Despite no response from the MoPNR, the Company along with another oil marketing company continued to import motor gasoline on behalf of the industry being confident that price differential on motor gasoline, will be settled as per previous practice i.e. based on the differential between ex-refinery and import cost at the time of filing of cargo with Customs, as imports were being made on MoPNR instructions.

In 2009, the Company along with other oil marketing companies approached MoPNR through letter dated July 23, 2009 requesting 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.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

FOR THE QUARTER ENDED MARCH 31, 2017

8.5 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 there against. MoPNR, in accordance with the decision of Economic Coordination Committee (ECC) dated July 8, 2015, has requested OGRA to develop a comprehensive recovery mechanism of regulatory duty based on the principle that there should be no gain or loss to OMCs.

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.

8.6 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. In 2016 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. During the period, the tax authorities completed further verification of refunds amounting to Rs. 131,665 thousand against which refund payment order has been issued. For the remaining refund claims, the Company is actively pursuing for their recovery.

8.7 Includes net receivable on account of recoveries from customers by Shell Aviation Limited on behalf of the Company.

8.8 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.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)

FOR THE QUARTER ENDED MARCH 31, 2017

9. TRADE AND OTHER PAYABLES

	Note	Unaudited March 31, 2017	Audited December 31, 2016
		------------(Rupees '000)------------	
Creditors	9.1	**21,860,453**	20,011,261
Accrued liabilities		**5,128,523**	6,349,726
Dealers' and customers' security deposits		**542,735**	520,295
Advances received from customers		**922,551**	931,460
Provision for post retirement medical benefits		**83,537**	83,537
Workers' welfare fund		**285,212**	248,588
Workers' profits participation fund		**456,385**	358,145
Withholding tax payable		**902,696**	713,580
Provision for staff redundancy plan		**104,279**	119,030
Unclaimed dividends		**676,582**	678,775
Other liabilities		**4,756**	23,430
		30,967,709	30,037,827

9.1 This includes amounts due to related parties aggregating to Rs. 17,496,559 thousand (December 31, 2016: Rs. 14,420,982 thousand). Particulars of the amounts due are as follows:

	Unaudited March 31, 2017	Audited December 31, 2016
	------------(Rupees '000)------------	
Affiliates of Parent company	**16,183,008**	13,010,656
Pakistan Refinery Limited	**1,313,551**	1,410,326
	17,496,559	14,420,982

10. CONTINGENCIES AND COMMITMENTS

10.1 Contingencies

10.1.1 Infrastructure fee

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

The Company and several others challenged the levy in constitutional petitions before the High Court of Sindh. These petitions were dismissed as, during their pendency, the nature of the levy was changed by the Government of Sindh through an Ordinance. The Company and others therefore filed civil suits in the High Court of Sindh challenging the amended Ordinance. However, these suits were also dismissed in October 2003. All the plaintiffs preferred intra-court appeals against the dismissal. The intra-court appeals were decided by the High Court in September 2008 wherein it was held that the levy is valid and collectable only from December 12, 2006 onwards and not prior to this date. Being aggrieved by

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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 up to 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 March 31, 2017 at Rs. 93,493 thousand (December 31, 2016: Rs. 93,493 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 condensed interim financial information against the levy as the management expects a favorable outcome.

10.1.2 Taxation

10.1.2.1 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'.

10.1.2.2 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

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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 judgment. The ATIR vide order dated December 22, 2016 re-visited its decision and agreed that the judgment 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'.

10.1.2.3 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 condensed interim financial information.

10.1.2.4 In 2016, 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 date 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 condensed interim financial information.

10.1.3 Sales tax and federal excise duty (FED)

10.1.3.1 In 2011, the tax authorities after conducting sales tax and FED audit for the period July 2008 to June 2009 and post refund audit for the period September and October 2008 raised sales tax and FED demands amounting to Rs. 1,843,529 thousand including penalty through several orders. In 2012 and 2013, the tax authorities also conducted sales tax and FED audit for period July 2009 to December 2009 and January 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

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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 condensed interim financial information.

10.1.3.2 In 2012, the Company received an order from Model Customs Collectorate, Hyderabad raising sales tax demand of Rs. 46,838 thousand, on imported goods, without specifying the basis of computation by levying further sales tax @ 2% representing minimum value addition under Sub-section 5 of Section 3 read with Section 7A of the Sales Tax Act, 1990 and Chapter X of the Sales Tax Special Procedure Rules, 2007. Further, the Company 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 condensed interim financial information.

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10.1.4 Others

The amount of other claims against the Company not acknowledged as debt as at March 31, 2017 aggregate to approximately Rs. 2,908,219 thousand (December 31, 2016: Rs. 2,908,139 thousand). This includes claims by refineries, amounting to Rs. 1,094,149 thousand (December 31, 2016: Rs. 1,094,149 thousand) in respect of delayed payment charges. The Company does not acknowledge the claim for late payment charges as the delayed payment to refineries arose due to the liquidity crisis faced by oil marketing companies over the past few years caused by non-settlement of price differential claims by the Government of Pakistan.

10.2 Commitments

10.2.1 Capital expenditure contracted for but not incurred as at March 31, 2017 amounted to approximately Rs. 66,828 thousand (December 31, 2016: Rs. 578,500 thousand).

10.2.2 Commitments for rentals of assets under operating lease agreements as at March 31, 2017 amounted to Rs. 2,653,365 thousand (December 31, 2016: Rs. 2,699,019 thousand) payable as follows:

	Unaudited March 31, 2017	Audited December 31, 2016
	-----------(Rupees '000)	**-------------**
Not later than one year	**182,206**	182,624
Later than one year and not later than five years	**724,287**	724,696
Later than five years	**1,746,872**	1,791,699
	2,653,365	2,699,019

10.2.3 Post-dated cheques have been deposited with the Collector of Customs Port Qasim and Karachi Port Trust in accordance with the Customs' Act, 1969 as an indemnity to adequately discharge the liability for the duties and taxes leviable on imports, as required under the Finance Act, 2005. As at March 31, 2017, the value of these cheques amounted to Rs. 10,514,580 thousand (December 31, 2016: Rs. 6,724,040 thousand). The maturity dates of these cheques extend to October 1, 2017.

10.2.4 Letters of credit and bank guarantees outstanding as at March 31, 2017 amount to Rs. 621,249 thousand (December 31, 2016: Rs. 1,130,365 thousand).

	Unaudited Quarter ended	
	March 31 2017	March 31 2016
11 TAXATION	**-----------(Rupees '000)**	**-------------**
Current	**484,460**	141,909
Deferred	**15,686**	(2,448)
	500,146	139,461

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		Unaudited Quarter ended	
		March 31, 2017	March 31, 2016
12	**CASH GENERATED FROM OPERATIONS**	-----------(Rupees '000)------------	
	Profit before taxation	**1,896,229**	160,721
	Adjustment for non-cash charges and other items:		
	Depreciation charge	**217,158**	187,147
	Accretion expense in respect of asset retirement obligation	**1,475**	1,159
	Reversal of liability in respect of asset retirement obligation	**-**	(1,955)
	Reversal of Provision for impairment of stock-in-trade	**(6,280)**	(9,203)
	Provision/(Reversal) for impairment of trade debts	**13,552**	(12,203)
	Reversal of Provision for impairment of operating assets	**(2,403)**	(5,985)
	Write off of operating assets	**322**	10,395
	(Gain) / Loss on disposal of operating assets	**-**	(6,925)
	Share of profit of associate	**(174,275)**	(138,525)
	Mark-up/Interest on short-term deposits	**(32,645)**	(46,924)
	Mark-up/Interest on running finances and loans	**6,353**	(223)
	Working capital changes - note 12.1	**(4,728,429)**	3,931,023
		(2,808,943)	4,068,502
12.1	**Working capital changes**		
	Decrease / (increase) in current assets		
	Stock-in-trade	**(4,267,527)**	4,271,689
	Trade debts	**(741,436)**	(1,107,015)
	Loans and advances	**58,679**	(16,014)
	Short-term prepayments	**61,967**	10,713
	Other receivables	**(772,187)**	430,383
		(5,660,504)	3,589,756
	Increase in current liability		
	Trade and other payables	**932,075**	341,267
		(4,728,429)	3,931,023

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13. RELATED PARTY TRANSACTIONS

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

Nature of relationship	Nature of transactions	Unaudited Quarter ended March 31, 2017	Unaudited Quarter ended March 31, 2016
		------------(Rupees '000)------------	
Associate			
Pak-Arab Pipeline Company Limited	Pipeline charges	**143,847**	114,127
	Others	**10,784**	4,132
Staff retirement benefit / contribution funds			
Pension Funds	Contribution	**-**	7,205
DC Pension Funds	Contribution	**30,312**	27,555
Gratuity Funds	Contribution	**-**	1,800
Provident Funds	Contribution	**16,701**	15,488
Key management personnel	Salaries and other short term employee benefits - note 13.1	**27,026**	26,408
	Post employment benefits	**1,256**	1,561
Other related parties	Purchases	**28,965,269**	23,457,050
	Sales	**11,534**	978,052
	Collection for sales made in Pakistan to customers of the parent company and its associates	**1,729,021**	512,108
	Technical service fee charged - note 13.2	**453,684**	400,000
	Trademarks and manifestations license fee charged - note 13.3	**88,828**	64,136
	Computer expenses charged (Global Infrastructure Desktop charges) - note 13.3	**44,261**	31,205
	Expenses recovered from related parties	**50,823**	23,329
	Other expenses charged by related parties	**195,106**	257,381

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

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

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

14. CORRESPONDING FIGURES

14.1 In order to comply with the requirements of International Accounting Standard 34 – 'Interim Financial Reporting', corresponding figures in the condensed interim balance sheet comprise of balances as per the audited annual financial statements of the Company for the year ended December 31, 2016 and the corresponding figures in the condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows comprise of balances of comparable period as per the condensed interim financial information of the Company for the three months ended March 31, 2016.

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

15. DATE OF AUTHORISATION

This condensed interim financial information was authorized for issue on April 20, 2017 by the Board of Directors of the Company.

Jawwad A. Cheema
Chairman and Chief Executive

Badaruddin F. Vellani
Director