ENERGISING THE FUTURE

Shell Pakistan Limited
Quarterly Report March 2019

COMPANY INFORMATION

BOARD OF DIRECTORS	Rafi H. Basheer (Chairman) Haroon Rashid Farrokh K. Captain Parvez Ghias Waqar Siddiqui Nasser N.S. Jaffer Naz Khan Klaas Mantel Badaruddin F. Vellani Faisal Waheed Madiha Khalid
CHIEF EXECUTIVE	Haroon Rashid
AUDIT COMMITTEE	Naz Khan (Chairperson) Rafi H. Basheer Badaruddin F. Vellani
HUMAN RESOURCE & REMUNERATION COMMITTEE	Parvez Ghias (Chairman) Farrokh K. Captain Klaas Mantel Haroon Rashid
COMPANY SECRETARY	Lalarukh Hussain-Shaikh
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

DIRECTOR'S REPORT

FOR THE QUARTER ENDED MARCH 31, 2019

Dear Shareholders,

The Directors of your Company are pleased to present the unaudited condensed interim financial statements for the quarter ended March 31, 2019. The oil industry felt the impact of some of the macro-economic challenges being faced by the Country as both the fuels and lubricants market shrunk in volume. However, your Company was able to maintain and improve its market share. Although the Pak Rupee remained relatively stable during the quarter, the volatility in the international oil prices had an impact on earnings. The profit for the period ended March 31, 2019 after providing for administrative, marketing and distribution expenses, financial and other charges amounts to:

	Rupees in Million
Profit before taxation	515
Taxation	(258)
Profit for the period	257
	Rupees
Earnings per share – basic and diluted	2.40

Appropriations and movement in reserves have been disclosed in the condensed interim Statement of Changes in Equity on page 8 of these condensed interim financial statements.

Being one of the leading Oil Marketing Company's (OMC) in Pakistan in terms of compliance with Health, Safety, Security and Environment (HSSE) standards, your company continues with its focus on ensuring safe operations across the business and has made extensive investments towards extension of its existing, best in class logistics capability having brought in, since July 2017, 194 new fuel delivery vehicle trucks which are fully compliant with the standards imposed by the Oil and Gas Regulatory Authority (OGRA). This will enable us to continue to be at the forefront in the industry in terms of safety and compliance standards.

Your company also continues to play an industry leading role in the engagement with the industry regulator, OGRA, to ensure implementation of the required safety standards across the rest of the industry players. We welcome OGRA's initiative and drive to ensure compliance to transport safety standards for the benefit of all Pakistani consumers and the environment and look forward to a level playing field within the industry.

Lubricants

The Lubricants business continues to be a strong pillar of your company's overall business performance leveraging our market leadership position in driving strong volume growth across all focus segments. The significant shrinkage in the Industry caused the volumes to decline in the quarter, however, the business maintained its market share. Emphasis remains on continuing to increase premium penetration, indirect channel excellence, consumer promotions in Advance (MCO brand) and Helix (PCMO brand) while optimizing overall costs. During this quarter your company, based on consumer demand, introduced 20 litre pail for our trucker segment with competitive offers.

Retail

Your Company remains focused on making life's journeys better for our customers providing the best retail forecourt experience in Pakistan with customer centricity at the heart of everything we do, supported by continued expansion and increased availability of "Shell V-Power" our most advanced motor fuel. The quarter saw significant slow down in the fuels demand causing the overall Industry to decline, however, your company was able to improve its overall market share during the period. We remain focused on our journey of expanding our network with integrated retail offers developed through smart partnering on key sites to drive safe Retail operations for the benefit of our retailers and customers.

Social Investment

Shell continues to invest in the communities where we live and operate. Shell Tameer organized mentoring circles for 14 women led start-ups at SOS Technical Training Institute on International Women's Day; who graduated from Shell Tameer's 'Build the Future' grant programme in the year 2018. Participants received mentoring in the education, health, IT, fashion and clothing sectors, to help them with business expansion through networking and expert advice from mentors in their relevant fields.

Receivables & financing costs

The finances of your Company continue to be affected by the heavy burden resulting from overdue receivables from the Government of Pakistan and the increase in State Bank of Pakistan (SBP) policy rate. The State Bank of Pakistan announced its Monetary policy during the period and increased the policy rate by 50 bps to 10.75%. As at March 31, 2019, total outstanding receivables stand at Rs. 5,331 million. The Company's management continues its efforts of proactive and regular engagement with relevant Government authorities for the recovery of receivables to ensure we enhance shareholder returns, drive for efficient business, and ensure our ability to continue to invest in growth opportunities in Pakistan.

Going forward

The management remains committed to maintaining sharp focus on improving the financial performance of your Company, with a baseline of driving towards attaining Goal Zero in its safety performance.

Challenges at the macro-economic level continue to be a significant exposure especially from the continued volatility on the Pak Rupee. The Company does recognize challenges ahead, not least arising from currency devaluation, economic uncertainty and continued delays in receivables from the Government as well as changing market, regulatory and competitive dynamics. Your Board of Directors continue to play an active and effective role in driving the company towards achieving the objectives; meetings were well-attended, and the board was involved both in setting the direction for the company and also in reviewing its performance.

Your Company is focused on driving towards credible, competitive and affordable business plans that deliver top quartile business performance, 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 are also confident that your Company is well placed to capture the expected continued growth in the Pakistani fuels market.

The Directors confirm that:

1. The Board constitutes of 11 members, including the Chief Executive, who is a deemed director. The Board composition comprises of two female and nine male members which is as follows:

   Female Members:

   Ms. Naz Khan
   Ms. Madiha Khalid

   Male Members:

   Mr. Rafi H. Basheer
   Mr. Farrokh K. Captain
   Mr. Parvez Ghias
   Mr. Waqar Siddiqui
   Mr. Haroon Rashid
   Mr. Nasser N. S. Jaffer
   Mr. Klaas Mantel
   Mr. Badaruddin F. Vellani
   Mr. Faisal Waheed

2. A casual vacancy occurred during the period upon resignation of Mr. Rahat Hussain as an elected Director. The casual vacancy was immediately filled by the Board and Mr. Waqar Siddiqui was co-opted as a director of the Company.

3. The Board has formed committees comprising of members given below:

A. Audit Committee

a. Ms. Naz Khan (Chairperson)
b. Mr. Badaruddin F. Vellani
c. Mr. Rafi H. Basheer

B. Human Resource & Remuneration Committee

a. Mr. Parvez Ghias (Chairman)
b. Mr. Farrokh K. Captain
c. Mr. Haroon Rashid
d. Mr. Klaas Mantel

4. The condensed interim 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.

5. Proper books of account of the Company have been maintained.

6. Appropriate accounting policies have been consistently applied in preparation of these condensed interim financial statements except for changes resulting on initial application of standards, amendments or interpretations to existing standards, as stated in note 3 to these condensed interim financial statements. Accounting estimates are based on reasonable and prudent judgment.

7. International Financial Reporting Standards, as applicable in Pakistan for interim reporting, have been followed in preparation of these condensed interim financial statements and departures, if any, has been adequately disclosed.

8. The system of internal control is sound in design and has been effectively implemented and monitored.

9. There are no significant doubts upon the Company's ability to continue as a going concern.

10. There has been no material departure from the best practices of Code of Corporate Governance, as detailed in the listing regulations.

11. The Board and Audit Committee met once during the quarter.

12. The non-executive/independent directors, other than those occupying executive positions in other Shell Group Companies are paid a fee to attend meetings of the board and its committees.

13. A formal self-evaluation of the Board and its committees' performance was carried out in 2018, facilitated by KPMG Taseer Hadi & Co. – Chartered Accountants.

14. Mr. Rafi H. Basheer, Mr. Parvez Ghias, Mr. Nasser N.S. Jaffer, Ms. Naz Khan, 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. Farrokh Captain is exempted. The Company shall comply with the requirements of the Code of Corporate Governance 2017 to ensure that the required number of directors are duly certified.

15. 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.

16. The figures in the condensed interim financial statements for the quarter ended March 31, 2019 and March 31, 2018 are unaudited.

17. The Board, on the recommendation of the Board Audit Committee, has recommended M/S EY Ford Rhodes to be retained as external auditors of the Company for the year ended December 31, 2019.

18. There has been no trade in shares of the company by Directors, CEO, CFO, Company Secretary, Head of Internal Audit, other employees and their spouses and minor children.

We thank our shareholders, customers, staff and all other stakeholders for their dedication, sustained support and trust in the Company as we continue our journey in becoming the number one energy company in Pakistan.

On behalf of the Board of Directors

Rafi H. Basheer Chairman	Haroon Rashid Chief Executive

Karachi: April 23, 2019

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2019

	Note	Unaudited March 31, 2019	Audited December 31, 2018
		-------------(Rupees '000)---------------	
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	**15,680,779**	11,767,843
Intangible assets	6	**13,921**	14,709
Long-term investments	7	**4,652,057**	4,436,561
Long-term loans	8	**21,660**	25,076
Long-term deposits and prepayments		**765,879**	883,177
Deferred taxation	9	**80,440**	178,456
		21,214,736	17,305,822
Current Assets			
Stock-in-trade	10	**20,993,519**	14,884,111
Trade debts		**3,885,766**	3,264,207
Loans and advances	11	**107,446**	109,668
Short-term deposits and prepayments		**846,645**	782,165
Other receivables	12	**8,913,080**	10,797,182
Cash and bank balances		**3,950,802**	1,973,413
		38,697,258	31,810,746
TOTAL ASSETS		**59,911,994**	49,116,568
EQUITY AND LIABILITIES			
Equity			
Share capital		**1,070,125**	1,070,125
Share premium		**1,503,803**	1,503,803
General reserves		**207,002**	207,002
Unappropriated profit		**4,325,344**	4,068,450
Remeasurement of post-employment benefits – actuarial loss		**(496,058)**	(496,058)
Total equity		**6,610,216**	6,353,322
Liabilities			
Non-Current Liabilities			
Asset retirement obligation		**132,940**	130,983
Long-term lease liability		**3,312,309**	-
Current Liabilities			
Trade and other payables	13	**40,387,677**	33,766,676
Unclaimed dividend		**142,960**	142,960
Unpaid dividend		**190,081**	190,081
Accrued mark-up		**16,390**	3,110
Short term borrowings - secured		**8,540,000**	8,052,978
Taxation - net		**579,421**	476,458
		49,856,529	42,632,263
		53,301,778	42,763,246
Contingencies and commitments	14		
TOTAL EQUITY AND LIABILITIES		**59,911,994**	49,116,568

The annexed notes from 1 to 21 form an integral part of these condensed interim financial statements.

Naz Khan	**Haroon Rashid**	**Faisal Waheed**
Director	Chief Executive	Chief Financial Officer

CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

FOR THE QUARTER ENDED MARCH 31, 2019

	Note	Unaudited March 31, 2019	Unaudited March 31, 2018
		----------- (Rupees '000) -----------	
Sales		**53,283,294**	49,288,567
Other revenue		**236,835**	204,164
		53,520,129	49,492,731
Sales tax		**(7,939,819)**	(7,875,769)
Net revenue		**45,580,310**	41,616,962
Cost of products sold		**(42,460,043)**	(37,159,706)
Gross profit		**3,120,267**	4,457,256
Distribution and marketing expenses		**(1,606,267)**	(1,317,449)
Administrative expenses		**(764,246)**	(781,697)
Other expenses		**(400,000)**	(796,162)
Other income		**279,818**	104,240
Operating profit		**629,572**	1,666,188
Finance costs		**(330,508)**	(46,706)
		299,064	1,619,482
Share of profit of associate - net of tax	7	**215,496**	273,932
Profit before taxation		**514,560**	1,893,414
Taxation	15	**(257,666)**	(537,450)
Profit for the period		**256,894**	1,355,964
Other comprehensive income			
Total comprehensive income for the period		**256,894**	1,355,964
		-------------- (Rupees) --------------	
Earnings per share – basic and diluted		**2.40**	12.67

The annexed notes from 1 to 21 form an integral part of these condensed interim financial statements.

Naz Khan	**Haroon Rashid**	**Faisal Waheed**
Director	Chief Executive	Chief Financial Officer

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE QUARTER ENDED MARCH 31, 2019

		Capital reserve	Revenue reserve			
	Share capital	Share premium	General reserve	Unappropriated profit	Acturial (loss) / gain on post-employment benefits	Total
	(Rupees '000)					
Balance as at December 31, 2017 (Audited)	1,070,125	1,503,803	207,002	7,738,731	(321,601)	10,198,060
Total comprehensive income for the quarter ended March 31,2018	-	-	-	1,355,964	-	1,355,964
Balance as at March 31, 2018 (Unaudited)	1,070,125	1,503,803	207,002	9,094,695	(321,601)	11,554,024
Balance as at December 31, 2018 (Audited)	1,070,125	1,503,803	207,002	4,068,450	(496,058)	6,353,322
Total comprehensive income for the quarter ended March 31, 2019	-	-	-	256,894	-	256,894
Balance as at March 31, 2019 (Unaudited)	1,070,125	1,503,803	207,002	4,325,344	(496,058)	6,610,216

The annexed notes from 1 to 21 form an integral part of these condensed interim financial statements.

Naz Khan
Director

Haroon Rashid
Chief Executive

Faisal Waheed
Chief Financial Officer

CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE QUARTER ENDED MARCH 31, 2019

	Note	Unaudited March 31, 2019	Unaudited March 31, 2018
		----------- (Rupees '000) -----------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	17	**2,427,336**	445,477
Finance costs paid		**(226,897)**	(12,978)
Income tax paid		**(56,687)**	(64,092)
Long-term loans		**3,416**	(13,296)
Long-term deposits and prepayments		**(61,520)**	24,663
Interest received on short-term deposits / saving accounts		**8,651**	22,113
Net cash generated from operating activities		**2,094,299**	401,887
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(513,018)**	(163,336)
Net cash used in investing activities		**(513,018)**	(163,336)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**-**	(3,779)
Operating lease payments		**(90,914)**	-
Net increase in cash and cash equivalents		**1,490,367**	234,772
Cash and cash equivalents at the beginning of the year		**(6,079,565)**	2,196,864
Cash and cash equivalents at the end of the period		**(4,589,198)**	2,431,636

The annexed notes from 1 to 21 form an integral part of these condensed interim financial statements.

Naz Khan	**Haroon Rashid**	**Faisal Waheed**
Director	Chief Executive	Chief Financial Officer

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE QUARTER ENDED MARCH 31, 2019

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.

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 These condensed interim financial statements of the Company for the quarter ended March 31, 2019 have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting which comprise of International Accounting Standards (IAS) 34 – 'Interim Financial Reporting' issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017 (the Act) and provisions of and directives issued under the Act. Where the provisions of and directives issued under the Act differ with the requirements of IAS 34, the provisions of or directives issued under the Act have been followed.

2.2 These condensed interim financial statements of the Company for the quarter ended March 31, 2019 are unaudited.

2.3 These condensed interim financial statements do not include all the information and disclosures as required in the annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2018.

2.4 These condensed interim financial statements are being submitted to the shareholders as required by section 237 of the Act.

3. ACCOUNTING POLICIES

3.1 The accounting policies and the methods of computation used in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual audited financial statements for the year ended December 31, 2018, except as disclosed below:

New / Revised Standards, Interpretations and Amendments

IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IAS 19	Plan Amendment, Curtailment or Settlement (Amendments)
IAS 28	Long-term Interests in Associates and Joint Ventures (Amendments)
IFRIC 23	Uncertainty over income tax treatments

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 'Revenue from Contracts with Customers' supersedes IAS 11 'Construction Contracts', IAS 18 'Revenue' and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard provides a single model of accounting for revenue arising from contracts with customers based on the identification and satisfaction of performance obligations, and revenue from contracts with customers that is distinguished from other resources. The Company adopted IFRS 15 using the modified retrospective method.

The Company is engaged in the procurement, storage and marketing of petroleum and related products. It also blends and markets various kinds of lubricating oils. The Company has assessed that significant performance obligations in contracts with customers is based on transfer of control of related goods and is discharged at that point of time. The transfer of goods takes place upon delivery of goods to customers. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

Based on the above, the Company considers that its existing accounting policies are substantially in compliance with the requirements of IFRS 15.

IFRS 16 - Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard also sets out the principles for the recognition, measurement, presentation and disclosure of leases. Under the new standard, distinction between operating and finance leases has been removed and all lease contracts, with limited exceptions, will be recognized in statement of financial position by way of right-of-use assets along with their corresponding lease liabilities.

The Company adopted IFRS 16 with effect from January 1, 2019 using the modified retrospective method. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application with no restatement of comparative information. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 at the date of initial application. The Company also elected to use the recognition exemption for lease contracts that, at the date of initial application, have a lease term of 12 months or less (short-term leases) and do not contain a purchase option, and lease contracts for which the underlying asset is of low value (low-value leases).

The right-of-use assets were recognized based on the amount equal to lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The Company did not have any sub-lease or finance leases as on January 1, 2019.

Based on the above, as on January 1, 2019, the Company;

- recognized a right-of-use asset amounting to Rs. 3,244,436 thousand presented under Property, plant and equipment;
- recognized lease liability of Rs. 3,333,084 thousand disclosed separately in the condensed interim statement of financial position; and
- reclassified prepayments of Rs. 88,648 thousand relating to previous leases as right-of-use asset.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

	Rupees in 000's
Undiscounted operating lease commitments as at December 31, 2018	**5,217,504**
Impact of discounting	1,294,663
Exemptions	
- Short-term leases	12,507
- Low-value leases	135,468
Leases not yet commenced at January 1, 2019	263,409
Other reconciling items	178,373
Total lease liability at January 1, 2019	**3,333,084**
Weighted average incremental borrowing rate as at January 1, 2019	**5%**

3.2 Standards to become effective during the year

IFRS 9 - Financial Instruments

In July 2014, the IASB issued the complete version of IFRS 9 Financial Instruments and replaced IAS 39 Financial Instruments: Recognition and Measurement which is effective for annual periods beginning on or after January 01, 2018, however, Securities & Exchange Commission of Pakistan (SECP) vide S.R.O 1007(I)/2017 dated October 04, 2017 had notified the adoption of IFRS 9 for annual periods beginning on or after July 01, 2018. During the period, SECP via S.R.O 229 (I)/2019 dated February 14, 2019 has made IFRS 9 applicable from the reporting period/year ending on or after June 30, 2019 with earlier application permitted.

This standard addresses the classification, measurement and recognition of financial assets and financial liabilities and replaces the related guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss (P&L). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with irrevocable option at the inception to present changes in fair value in OCI, not recycling. There is now a new expected credit loss model that replaces the incurred loss impairment model of IAS 39. For financial liabilities, there are no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designated at fair value through profit or loss.

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

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

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.2 During the preparation of these condensed interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the audited annual financial statements for the year ended December 31, 2018.

	Note	Unaudited March 31, 2019	Audited December 31, 2018
		---------- (Rupees '000)	----------
5. PROPERTY, PLANT AND EQUIPMENT			
Operating assets – at net book value		**9,901,100**	9,659,775
Provision for impairment		**(357,548)**	(359,289)
		9,543,552	9,300,486
Right-of-use asset – at cost	5.2	**3,740,857**	-
Accumulated depreciation		**(85,226)**	-
		3,655,631	-
Capital work-in-progress	5.3	**2,481,596**	2,467,357
		15,680,779	11,767,843

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

	Unaudited Quarter ended March 31, 2019	Unaudited Quarter ended March 31, 2018
	----------(Rupees '000)	----------
Leasehold land	**14,944**	57,417
Buildings on freehold land	**81**	-
Buildings on leasehold land	**51,392**	6,132
Tanks and pipelines	**33,501**	48,344
Plant and machinery	**37,415**	22,195
Lifts	**2,356**	2,304
Dispensing pumps	**40,854**	3,060
Rolling stock and vehicles	**2,259**	101
Computer auxiliaries	**121**	-
Electrical, mechanical and firefighting equipment	**261,407**	-
Furniture, office equipment and other assets	**52,216**	20,411
	496,546	159,964

5.2 The right-of-use assets comprise of land leased by the Company for its operations.

5.3 Capital work-in-progress

	Unaudited March 31, 2019	Audited December 31, 2018
	----------(Rupees '000)	----------
Buildings on leasehold land	**1,638,456**	1,527,069
Tanks and pipelines	**85,275**	104,834
Plant and machinery	**626,926**	722,009
Electrical, mechanical and fire-fighting equipment	**71,276**	71,258
Furniture, office equipment and other assets	**13,008**	12,800
Rolling stock and vehicles	**46,655**	29,387
	2,481,596	2,467,357

6. INTANGIBLE ASSET

	Cost			Accumulated amortization			Net book value	
	Opening	Additions	Closing	Opening	For the Year/ period	Closing	As at	Amorti- sation rate
Computer softwares	----------	----------	----------	(Rupees '000)	----------	----------	----------	per annum
March 31, 2019	**1,928,331**	**-**	**1,928,331**	**1,913,622**	**788**	**1,914,410**	**13,921**	**20%**
December 31, 2018	**1,912,571**	**15,760**	**1,928,331**	**1,912,571**	**1,051**	**1,913,622**	**14,709**	

Includes intangible assets at a 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.

7. LONG-TERM INVESTMENTS

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

	Unaudited March 31, 2019	Audited December 31, 2018
	---------(Rupees '000) ---------	
Balance at the beginning of the period / year	**4,431,561**	4,046,815
Share of profit before taxation	**314,596**	1,399,141
Share of taxation	**(99,100)**	(425,066)
	215,496	974,075
Dividend received	**-**	(589,329)
Balance at the end of the period / year	**4,647,057**	4,431,561

8. LONG-TERM LOANS

Includes amount due from loan to executive director amounting to Rs.1,798 thousand (December 31, 2018: Rs. 2,989)

9. DEFERRED TAXATION

	Note	Unaudited March 31, 2019	Audited December 31, 2018
		---------(Rupees '000) ---------	
Taxable temporary difference arising in respect of:			
- accelerated tax depreciation		**(976,113)**	(1,008,069)
- investment in associate		**(442,585)**	(383,934)
		(1,418,698)	(1,392,003)
Deductible temporary difference arising in respect of:			
- provisions		**602,879**	674,200
- minimum tax carry forward	9.1	**896,259**	896,259
		1,499,138	1,570,459
		80,440	178,456

9.1 In view of the order of the High Court of Sindh, as fully explained in note 14.1.2.1 to these condensed interim financial statements for the quarter ended March 31, 2019, the Company has not recognized deferred tax asset on minimum tax carry forward amounting to Rs. 1,793,560 thousand.

10. STOCK-IN-TRADE

	Note	Unaudited March 31, 2019	Audited December 31, 2018
		---------(Rupees '000) ---------	
Raw and packing materials		**1,468,578**	1,607,620
Provision for obsolete and slow-moving stock	10.1	**(34,060)**	(38,838)
		1,434,518	1,568,782
Finished products		**19,688,816**	13,449,198
Provision for obsolete and slow-moving stock	10.1	**(129,815)**	(133,869)
		19,559,001	13,315,329
		20,993,519	14,884,111

10.1 Provision for obsolete and slow-moving stock is as follows:

	Unaudited March 31, 2019	Audited December 31, 2018
	--------- (Rupees '000) ---------	
Balance at beginning of the year	**172,707**	101,183
Provision made during the period	**52,198**	153,207
Reversals during the period	**(61,030)**	(81,683)
	(8,832)	71,524
Balance at end of the period	**163,875**	172,707

11. LOANS AND ADVANCES

Includes amount due from loans to executive Directors amounting to Rs. 4,768 thousand (December 31, 2018: Rs. 4,768 thousand)

12. OTHER RECEIVABLES

	Note	Unaudited March 31, 2019	Audited December 31, 2018
		--------- (Rupees '000) ---------	
Petroleum development levy and other duties	12.1	**1,380,029**	1,380,029
Price differential claims			
- on imported purchases	12.2	**295,733**	295,733
- on high speed diesel (HSD)	12.3	**343,584**	343,584
- on imported motor gasoline	12.4	**1,961,211**	1,961,211
Customs duty receivable	12.5	**44,413**	44,413
Sales tax refundable	12.6	**1,097,653**	2,907,560
Inland freight equalization mechanism		**189,513**	467,207
Receivable from related parties	12.7	**672,958**	463,869
Service cost receivable from PAPCO – an associated company		**11,369**	14,500
Workers' profits participation fund		**-**	15,185
Receivable from Oil Marketing Companies		**2,074,263**	1,983,481
Taxes recoverable	12.8	**1,020,214**	1,020,214
Margin held against letter of credit		**25,037**	83,646
Others		**202,328**	221,775
		9,318,305	11,202,407
Provision for impairment		**(405,225)**	(405,225)
		8,913,080	10,797,182

12.1 Includes petroleum development levy amounting to Rs. 1,369,560 thousand (2017: Rs. 1,369,560 thousand) recoverable from the Government of Pakistan (GoP) on account of export sales from June 2007. In 2011, the Company approached the GoP and Federal Board of Revenue (FBR) for settlement thereof. The GoP sought certain information which was duly provided by the Company. The FBR through the Large Taxpayers Unit (LTU) completed the verification exercise for claims amounting to Rs. 938,866 thousand, refund cheques against which were received in 2014. During 2015, verification exercise of claims amounting to Rs. 182,004 thousand was completed by the authorities, however, the payment has not been released yet. Further, during 2016, FBR through Customs station Torkham completed verification exercise of claims amounting to Rs. 851,330 thousand. However, the same has not yet been sanctioned by the FBR as of the date of statement of financial position. 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.

12.2 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.

12.3 Represents price differential claim receivable 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.

12.4 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 (OMCs) were asked in a meeting chaired by the Director General Oil to import motor gasoline to meet the increasing local demand. Accordingly, OMCs 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 other OMCs 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 OMCs 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 on account of these claims.

In 2012, to meet the increasing local demand, OMCs again resorted to import motor gasoline on the instruction of MoPNR. The Company again along with OMCs 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 the above 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 in respect of this claim.

In 2017, claims aggregating to Rs. 71,844 thousand were adjusted through the IFEM mechanism as per the directive of MoPNR stated above. In 2018, further claims amounting to Rs. 38,052 thousand were adjusted through the IFEM mechanism.

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

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

12.6 Includes sales tax refundable on account of export sales pertaining to period October 2005 to September 2006 and January 2008 to August 2011 amounting to Rs. 663,045 thousand and Rs. 642,996 thousand respectively. In 2017, the tax authorities completed verification of refunds amounting to Rs. 440,378 thousand which have been received. In 2018, the tax authorities completed further verification of refunds amounting to Rs. 75,389 thousand against which Refund Payment Orders (RPO) have been issued. For the remaining refund claims, the Company is actively pursuing for their recovery.

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

12.8 In 2013, the Deputy Commissioner Inland Revenue (DCIR) in compliance with the directions of Appellate Tribunal Inland Revenue (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.

13. TRADE AND OTHER PAYABLES

	Note	Unaudited March 31, 2019	Audited December 31, 2018
		--------- (Rupees '000) ---------	
Creditors	13.1	**29,985,603**	21,754,296
Accrued liabilities	13.2	**8,809,270**	9,876,108
Short term lease liability		**194,933**	-
Security deposits		**373,997**	368,726
Advances received from customers		**104,925**	990,872
Provision for post-retirement medical benefits		**97,987**	97,987
Staff retirement benefit schemes		**130,806**	96,902
Workers' Welfare Fund		**326,402**	323,088
Workers' Profits Participation Fund		**729**	-
Provision for staff redundancy plan		**71,371**	154,837
Other liabilities		**291,654**	103,860
		40,387,677	33,766,676

13.1 Includes amounts due to associated companies aggregating to Rs. 23,833,193 thousand (December 31, 2018: Rs. 16,884,205 thousand).

13.2 Includes Rs. 2,499,278 thousand (December 31, 2018: Rs. 3,394,065 thousand) accrued in respect of associated companies.

14. CONTINGENCIES AND COMMITMENTS

14.1 Contingencies

14.1.1 Infrastructure fee

The Sindh Finance Act, 1994, prescribed the imposition of an infrastructure fee at the rate of 0.5% of the C&F value of all goods entering or leaving the province of Sindh via sea or air. Subsequently, 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 (the High Court). 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 Honorable Supreme Court of Pakistan (the Supreme Court).

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, 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.

In 2017, Sindh Assembly passed the Sindh Development and Maintenance of Infrastructure Cess Act, 2017 (the SDMI Act) with retrospective effect from July 01, 1994. Through this SDMI Act, the range of infrastructure fee was increased to 1.10% to 1.15% on the value of goods against various slabs of net weight as assessed by the Custom Authorities plus one paisa per kilometer. The SDMI Act replaced the infrastructure cess levied under the Sindh Finance Act, 1994 and subsequent amendments thereof. To comply with the earlier interim order of the High Court granted against the cess as levied through the Sindh Finance Act 1994 and its amendments, the Company continues to pay 50% of the cess amount involved and furnishes bank guarantee for the balance amount.

In 2018, the Company filed a writ petition before the High Court of Sindh to challenge the levy of cess under the SDMI Act, against which a stay order has been granted.

Subsequent to the stay granted by the Court, the Company has reviewed its position and without acknowledging it as a debt, estimates the accumulated levy up to March 31, 2019 at Rs. 135,493 thousand (December 31, 2018: Rs. 129,493 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.

Management, based on the opinion of its legal advisor, is confident of a favorable outcome and accordingly no provision has been made in these financial statements against the levy.

14.1.2 Taxation

14.1.2.1 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 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 opinion of its 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 its appeal to the High Court of Sindh. Therefore, the Company has continued to consider the adjustment made against the demand and the deposit of Rs. 120,000 thousand as recoverable and the same is included in 'Other receivables'.

14.1.2.2 In 2012, the Company received a demand 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 07, 2015 confirmed the decision of the CIR Appeals on the issue of allocation of expenses.

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 ATIR vide order dated February 27, 2019 has declared the above proceedings initiated by the tax department as time barred. An application for issuance of appeal effect order has been filed before the department which is expected to be received shortly. The payment made against the demand considered recoverable is included in 'Other Receivables'.

14.1.2.3 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 ATIR vide its judgement dated April 6, 2017 disposed off both the appeals maintaining the issue of allocation of expenses while setting aside the issue of premium paid to SITME on imports and loss on disposal of fixed assets. A reference application against the said judgment has been filed by the company before the High Court.

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 statements.

14.1.2.4 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 dated August 31, 2016 has given a 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 statements.

14.1.2.5 In 2017, the tax authorities after finalizing the income tax audit for the tax year 2015 raised a demand of Rs. 5,126 thousand. The demand principally arose due to the allocation of expenses and disallowance of tax loss on disposal of fixed assets. The Company in response to the order has filed an appeal with the CIR Appeals and has also obtained stay from the High Court of Sindh on the demand raised. The CIR Appeals issued an appellate order dated January 3, 2018, deleting the demand created due to allocation of Cost of sales to FTR income, however, the CIR(A) maintained the levy of Super Tax and WWF. The appeal before 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 statements.

14.1.3 Sales tax and federal excise duty (FED)

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

14.1.3.2 In 2012, the Company received an order from Model Customs Collectorate, Hyderabad raising sales tax demand of Rs. 46,838 thousand, on imported goods, without specifying the basis of computation by levying further sales tax @ 2% representing minimum value addition under Sub-section 5 of Section 3 read with Section 7A of the Sales Tax Act, 1990 and Chapter X of the Sales Tax Special Procedure Rules, 2007. Further, the Company received show cause notices from Model Customs Collectorates Faisalabad, Lahore and Multan with a potential aggregate 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 statements.

14.1.3.3 In 2018, the Company received a show cause notice vide letter no. PRA/18/0251 from Additional Commissioner Punjab Revenue Authority (PRA) against taxable services received by the Company for the period from July 2015 to June 2016 attracting provincial sales tax as per Punjab Sales Tax on Services Act, 2012 (the Services Act) based on the audited financial statements of the Company for the year ended December 31, 2015 and 2016. The Company in response to the above referred notice, contended that the provisions of the Services Act became effective from July 1, 2016 and that the notice was issued without requiring information and ascertaining the facts. However, the Additional Commissioner, PRA raised a demand order dated July 23, 2018 amounting to Rs. 813,520 thousand including penalty of Rs. 38,739 thousand. On September 24, 2018, the Company filed an appeal before the Commissioner (Appeals), PRA against the aforesaid order which is pending for hearing. Further, the Company obtained a stay order from Lahore High Court against the recovery of the impugned demand 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 statements.

14.1.3.4 In 2018, the Company received a show cause notice from Deputy Commissioner Inland Revenue (DCIR), Federal Board of Revenue, against discrepancy in Annexure-J of the sales tax returns for the period from November 2016 to February 2018. The Company in response to the above notice, contended that the DCIR is neither empowered nor has the jurisdiction to issue show cause notice. Further, a reconciliation was provided to reconcile the discrepancies in the sales tax returns filed by the Company during the aforesaid period. The Company further contended that the discrepancies did not result in loss of revenue for the tax department as the sales tax was discharged on correct sales reported in Annexure-C of the sales tax return for the aforesaid period. However, the DCIR issued an order dated October 15, 2018 raising a demand amounting to Rs. 2,077,912 thousand including penalty of Rs. 384,229 thousand and default surcharge of Rs. 233,611 thousand. On October 25, 2018, the Company filed an appeal before the Commissioner (Appeals), Inland Revenue against the aforesaid order which is pending for hearing. Further, the Company obtained a stay order from the High Court of Sindh against the recovery of the impugned demand 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 statements.

14.1.4 Others

The amount of other claims against the Company not acknowledged as debt as at March 31, 2019 aggregate to approximately Rs. 3,138,908 thousand (December 31, 2018: Rs. 3,138,848 thousand). This includes claims by refineries, amounting to Rs. 1,094,149 thousand (December 31, 2018: Rs. 1,094,149 thousand) in respect of delayed payment charges. The Company does not acknowledge the claim for late payment charges as the delayed payment to refineries arose due to the liquidity crisis faced by oil marketing companies over the past few years caused by non-settlement of price differential claims by the Government of Pakistan.

14.2 Commitments

14.2.1 Capital expenditure contracted for but not incurred as at March 31, 2019 amounted to approximately Rs. 1,055,676 thousand (December 31, 2018: Rs. 1,330,785 thousand).

14.2.2 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, 2019, the value of these cheques amounted to Rs. 12,505,799 thousand (December 31, 2018: Rs. 8,422,015 thousand). The maturity dates of these cheques extend to September 29, 2019.

14.2.3 Letters of credit and bank guarantees outstanding at March 31, 2019 amount to Rs. 13,395,091 thousand (December 31, 2018: Rs. 6,241,134 thousand).

		Unaudited Quarter ended	
		March 31, 2019	March 31, 2018
		(Rupees '000)	
15.	**TAXATION**		
	Current		
	- for the year	**159,650**	492,926
	- for prior year	**-**	-
		159,650	492,926
	Deferred	**98,016**	44,524
		257,666	537,450

15.1 The return of income for the tax year 2018 has been filed by the Company. The said return, as per the provisions of Section 120 of the Income Tax Ordinance, 2001 has been deemed to be an assessment order passed by the Commissioner of Inland Revenue.

16. RELATED PARTY TRANSACTIONS

The related parties of the Company comprise of ultimate and immediate parent and its subsidiaries, associates and other companies with common directorship with significant influence on other companies, its associates, employees' retirement funds, directors and key management personnel. Transactions with related parties other than those disclosed elsewhere in the financial statements are as follows:

		Unaudited Quarter ended	
Nature of relationship	**Nature of transactions**	**March 31, 2019**	**March 31, 2018**
		(Rupees '000)	
Associate	Pipeline charges	**44,846**	58,754
	Others	**6,415**	3,851
Employees' retirement funds			
Defined Contribution Pension Fund	Contribution	**36,978**	32,233
Gratuity Funds	Contribution	**579**	-
Provident Funds	Contribution	**20,022**	16,670
Key management Personnel	Salaries and other short term employee benefits	**29,042**	39,079
	Post-employment benefits	**1,857**	1,359
Directors	Fee for attending meetings	**1,073**	1,094
Other related parties	Purchases	**26,753,795**	22,956,835
	Sales	**16,157**	23,213
	Collection for sales made in Pakistan from customers of the parent company and its associates	**593,691**	1,230,714
	Technical service fee charged – note 16.1	**589,052**	337,559
	Trade-marks and manifestations license fee charged	**109,908**	98,716
	Computer expenses charged (Global Infrastructure Desktop charges) – note 16.2	**121,688**	12,265
	Expenses recovered from related Parties	**139,060**	7,255
	Other expenses charged by related Parties - note 16.3	**118,143**	113,406
	Donations	**-**	2,000
	Commission income - net	**1,408**	5,543

16.1 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.

16.2 Global Infrastructure Desktop charges are based on the agreement entered into by the Company with Shell Group Company.

16.3 These includes charges net of reversals amounting to Rs. 94,726 thousand (March 31,2018: Rs. 81,286 thousand) in respect of services obtained from Shell Shared Business Service Centre companies under agreements entered into with them by the Company.

16.4 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, Company Secretary, Executive Directors and Chief Financial Officer to be key management personnel. Key management personnel remuneration corresponding figures have been revised in light with the new definition of key management personnel under directive issued by the SECP.

		Note	**Unaudited Quarter ended March 31, 2019**	**March 31, 2018**
			--------- (Rupees '000) ---------	
17.	**CASH GENERATED FROM OPERATIONS**			
	Profit before taxation		**514,560**	1,893,414
	Adjustment for non-cash charges and other items:			
	Depreciation charge		**341,233**	229,932
	Accretion expense in respect of asset retirement obligation		**1,956**	1,755
	Reversal of liability in respect of asset retirement obligation		**-**	(13,262)
	(Reversal)/Provision for impairment of stock-in-trade - net		**(8,832)**	10,631
	Reversal of provision for doubtful debts - net		**(78,511)**	(2,557)
	Reversal of provision for impairment of operating assets		**(1,741)**	(11,312)
	Write off of operating assets		**-**	50
	Share of profit of associate		**(215,496)**	(273,932)
	Interest on short-term deposits / savings accounts		**(8,651)**	(22,113)
	Mark-up on short-term borrowings		**240,177**	13,276
	Finance charge on lease liability		**43,020**	-
	Working capital changes	17.1	**1,599,621**	(1,380,405)
			2,427,336	445,477
17.1	**Working capital changes**			
	(Increase) / Decrease in current assets			
	Stock-in-trade		**(6,100,576)**	(2,941,372)
	Trade debts		**(543,048)**	(81,894)
	Loans and advances		**2,222**	11,861
	Short-term deposits and prepayments		**(25,270)**	(198,192)
	Other receivables		**1,884,102**	(205,982)
			(4,782,570)	(3,415,579)
	Increase in current liabilities			
	Trade and other payables		**6,382,191**	2,035,174
			1,599,621	(1,380,405)

18. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of financial risks. These condensed interim financial statements do not include all financial risk management information and disclosures which are required in the annual audited financial statements and should be read in conjunction with the annual audited financial statements of the Company as at December 31, 2018. There has been no change in any risk management policies since the year end.

19. FAIR VALUES OF ASSETS AND LIABILITIES

The carrying values of all financial assets and liabilities are estimated to approximate their fair values. There were no transfers amongst levels during the period.

20. GENERAL

20.1 Corresponding figures have been rearranged and reclassified, wherever considered necessary, for the purposes of comparison and to reflect the substance of the transactions.

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

21. DATE OF AUTHORIZATION

These condensed interim financial statements were authorized for issue on April 23, 2019 by the Board of Directors of the Company.

Naz Khan
Director

Haroon Rashid
Chief Executive

Faisal Waheed
Chief Financial Officer

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