
# ENERGISING THE FUTURE

Shell Pakistan Limited
Nine Months Report September 2019

# COMPANY INFORMATION

| | |
|---|---|
| BOARD OF DIRECTORS | Rafi H. Basheer (Chairman)<br>Haroon Rashid<br>Farrokh K. Captain<br>Parvez Ghias<br>Waqar Siddiqui<br>Nasser N.S. Jaffer<br>Naz Khan<br>Klaas Mantel<br>Badaruddin F. Vellani<br>Faisal Waheed<br>Madiha Khalid |
| CHIEF EXECUTIVE | Haroon Rashid |
| AUDIT COMMITTEE | Naz Khan (Chairperson)<br>Rafi H. Basheer<br>Badaruddin F. Vellani |
| HUMAN RESOURCE & REMUNERATION COMMITTEE | Parvez Ghias (Chairman)<br>Farrokh K. Captain<br>Klaas Mantel<br>Haroon Rashid |
| COMPANY SECRETARY | Lalarukh Hussain-Shaikh |
| REGISTERED OFFICE | Shell House<br>6, Ch. Khaliquzzaman Road<br>Karachi–75530<br>Pakistan |
| AUDITORS | EY Ford Rhodes |
| LEGAL ADVISORS | Vellani & Vellani<br>Advocates & Solicitors |
| REGISTRAR & SHARE REGISTRATION OFFICE | FAMCO Associates (Pvt) Ltd.<br>8-F, next to Hotel Faran, Nursery<br>Block-6, P.E.C.H.S.<br>Shahra-e-Faisal<br>Karachi-75400 |

# DIRECTOR'S REPORT

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

**Dear Shareholders,**

The Directors of your Company present the financial statements for the third quarter and nine months ended September 30, 2019.

Your Company continued the focus on its strategic priorities and operational excellence in the quarter and in spite of the continued macro-economic challenges in the country, successfully delivered a profit after tax of Rs. 570 million for the third quarter of 2019.

However, the overall financials for the nine months ended 30th September 2019 still present a challenging situation for the Company driven primarily by the unprecedented devaluation of the Rupee and the volatility in the international oil prices and increased minimum tax rates applicable to the Company.

Over the course of the nine months of 2019, the Pak Rupee devalued against the US dollar by 13%. Although the Pak Rupee remained stable during the quarter, its effects were felt in the overall results of the Company. Being part of an import dependent industry where a large percentage of our costs are denominated in foreign currency, this devaluation had an impact on our cost base and, in turn, on our financial performance. Furthermore, the oil industry also felt the impact of some of the macro-economic challenges being faced by the Country as the fuels market shrunk in volumes. However, your Company was able to maintain and improve its market share. The profit / loss for the period ended September 30, 2019 after providing for administrative, marketing and distribution expenses, financial and other charges amount to:

| | Rupees in Million |
|---|---|
| **Profit before taxation** | 127 |
| Taxation | (1,004) |
| **Net Loss for the period end September 30, 2019** | (877) |
| | **Rupees** |
| **Loss per share – basic and diluted** | (8.20) |

Appropriations and movement in reserves have been disclosed in the condensed interim Statement of Changes in Equity on page 9 of these condensed interim financial statements.

Your Company continues to be at the forefront of the industry in Pakistan in ensuring safe operations across the business by continuing its relentless focus on ensuring safety at all its sites and is committed to inculcating a culture of safety through ongoing engagements, drills, and workshops with staff, business partners, and industry partners; whereby playing an industry leading role in terms of safety advocacy.

## Lubricants

Lubricants continues to deliver value for Shell Pakistan's overall business. In tough economic times and a declining lubricant market, your Company has managed to maintain its market share. Emphasis remains on maintaining and further strengthening the market leadership position in the industry.

Shell Lubricants launched HX6 in July 2019, which has further enhanced your Companies synthetic motor oil range. The new lubricant HX6 will not only help Shell Pakistan keep up with the changing market dynamics and technological needs of the modern conventional and hybrid cars but also provide a premium product at affordable prices.

The management of your Company welcomes the move by the Federal Board of Revenue for abolishing the 'Extra Tax' Regime on lubricants and moving the same to Schedule 3 of the Sales Tax Act, 1990; which will enable easier and consistent documentation for all companies selling lubricants in Pakistan.

## Retail

Your Company remains focused on making life's journeys better for its consumers by delivering an unparalleled forecourt experience in Pakistan, putting the customer at the forefront of all we are doing, leveraging continued expansion of our network, together with delivering new and exciting integrated retail offers on our key sites across the country. Your Company launched the new generation Select store in Pakistan and saw strong sales and margin improvements for Convenience Retail alongside our continued enhancement of the offer on "V-Power", our most advanced motor fuel, and continuing a sharp focus was maintained on driving safe Retail operations for the benefit of our retailers and customers.

## Social Investment

In your Company, we continue to invest in the communities where we live and operate, through programs that enable it to share with communities the benefits that economic development brings. Shell Tameer program continued with its mission of upskilling young entrepreneurs to sustain their own businesses and create employment in the country through focused training programs. As part of its Social Investment initiative, your Company has developed a Road safety book and is working in partnership with the Care Foundation on implementing road safety behaviors as part of its school curriculum for the upcoming academic year for grade VI and VII.

## Receivables, financing costs & taxation

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 SBP announced its Monetary Policy during the period and continued its upward trend by increasing the policy rate by 100 bps to 13.25% in July 2019. As at September 30, 2019, total outstanding receivables stand at Rs. 5,331 million. Your 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.

During the year, the Government of Pakistan through the Finance Act 2019 increased the minimum tax rate applicable to Oil Marketing Companies by 0.25%. Due to the minimum tax regime, the Company pays Corporate Tax irrespective of the level of profits earned in the period, which unfairly erodes its operating profit with no increase in the regulated margins. This minimum tax on turnover mechanism is punitive in nature for our industry and results in our effective tax rate being well in excess of the standard 29% corporate rate of income tax. We continue our discussions with tax authorities to bring the oil and gas sector in line with allowances and lower rates that are extended to other similarly regulated sectors in Pakistan. We are hopeful for a change in the taxation regime and look forward to early action by the authorities to resolve this major issue.

## 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 your Company towards achieving the objectives; and the board was involved 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 Pakistan's 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 is as follows:

   **Female Members:**
   1. Ms. Naz Khan – Independent Director
   2. Ms. Madiha Khalid – Executive Director

   **Male Members:**
   1. Mr. Rafi H. Basheer – Non-executive Director
   2. Mr. Farrokh K. Captain – Non-executive Director
   3. Mr. Parvez Ghias – Independent Director
   4. Mr. Waqar Siddiqui – Non-executive Director
   5. Mr. Haroon Rashid – Executive Director
   6. Mr. Nasser N. S. Jaffer – Non-executive Director
   7. Mr. Klaas Mantel – Non-executive Director
   8. Mr. Badaruddin F. Vellani – Non-executive Director
   9. Mr. Faisal Waheed – Executive Director

2. 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

3. 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.

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

5. 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.

6. 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, have been adequately disclosed.

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

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

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

10. The Board and Audit Committee met thrice during the nine months.

11. 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.

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

13. 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 continue to comply with the requirements of the Code of Corporate Governance 2017 to ensure that the required number of directors are duly certified.

14. 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.

15. The Board, on the recommendation of the Board Audit Committee, recommended M/S EY Ford Rhodes to be retained as external auditors of the Company for the year ended December 31, 2019; which was approved by the Shareholders in the Annual General Meeting held on April 23, 2019.

16. Details of trades in shares of the Company by Directors, CEO, CFO, Company Secretary, Head of Internal Audit, other employees and their spouses and minor children are reported on page 23.

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 of the Board

**Haroon Rashid**
Chief Executive

Karachi: October 22, 2019

# CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

## AS AT SEPTEMBER 30, 2019

| | Note | Unaudited September 30, 2019 | Audited December 31, 2018 |
|---|---|---|---|
| | | ------------- (Rupees '000) | --------------- |
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Fixed assets | | | |
| Property, plant and equipment | 5 | **16,881,364** | 11,767,843 |
| Intangible asset | 6 | **12,345** | 14,709 |
| | | **16,893,709** | 11,782,552 |
| Long-term investments | 7 | **5,092,701** | 4,436,561 |
| Long-term loans and advances | 8 | **47,544** | 25,076 |
| Long-term deposits and prepayments | | **605,485** | 883,177 |
| Deferred taxation – net | | **359,459** | 178,456 |
| | | **22,998,898** | 17,305,822 |
| **Current Assets** | | | |
| Stock-in-trade | 9 | **19,927,801** | 14,884,111 |
| Trade debts | 3.1 | **4,304,013** | 3,264,207 |
| Loans and advances | 10 | **135,029** | 109,668 |
| Short-term prepayments | | **943,560** | 782,165 |
| Other receivables | 3.1/11 | **8,715,732** | 10,797,182 |
| Cash and bank balances | | **2,115,273** | 1,973,413 |
| | | **36,141,408** | 31,810,746 |
| **TOTAL ASSETS** | | **59,140,306** | 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 | | **2,745,252** | 4,068,450 |
| Remeasurement of post-employment benefits - actuarial loss | | **(496,058)** | (496,058) |
| **Total equity** | | **5,030,124** | 6,353,322 |
| **Liabilities** | | | |
| **Non-Current Liabilities** | | | |
| Asset retirement obligation | | **136,853** | 130,983 |
| Long-term lease liabilities | | **3,397,022** | - |
| | | **3,533,875** | 130,983 |
| **Current Liabilities** | | | |
| Trade and other payables | 12 | **43,057,421** | 33,766,676 |
| Unclaimed dividend | | **167,875** | 142,960 |
| Unpaid dividend | | **156,846** | 190,081 |
| Accrued mark-up | | **124,993** | 3,110 |
| Short term borrowings – secured | | **6,514,410** | 8,052,978 |
| Taxation – net | | **554,762** | 476,458 |
| | | **50,576,307** | 42,632,263 |
| | | **54,110,182** | 42,763,246 |
| **Contingencies and commitments** | 13 | | |
| **TOTAL EQUITY AND LIABILITIES** | | **59,140,306** | 49,116,568 |

The annexed notes 1 to 23 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 COMPREHENSIVE INCOME (UNAUDITED)

## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

| | Note | Nine months ended | | Quarter ended | |
|---|---|---|---|---|---|
| | | September 30, 2019 | September 30, 2018 | September 30, 2019 | September 30, 2018 |
| | | ------------------------------- (Rupees '000) | | | ------------------------------- |
| Sales | | **171,713,929** | 159,441,070 | **54,869,022** | 53,007,014 |
| Other revenue | | **599,205** | 659,933 | **162,395** | 211,889 |
| | | **172,313,134** | 160,101,003 | **55,031,417** | 53,218,903 |
| Sales tax | | **(25,676,502)** | (24,035,864) | **(9,540,009)** | (7,059,299) |
| Net revenue | | **146,636,632** | 136,065,139 | **45,491,408** | 46,159,604 |
| Cost of products sold | | **(134,695,594)** | (124,357,811) | **(41,967,012)** | (42,737,996) |
| **Gross profit** | | **11,941,038** | 11,707,328 | **3,527,396** | 3,421,608 |
| Distribution and marketing expenses | | **(5,203,968)** | (4,419,311) | **(1,755,110)** | (1,578,452) |
| Administrative expenses | | **(3,835,610)** | (3,315,519) | **(1,475,533)** | (1,303,406) |
| | | **2,901,460** | 3,972,498 | **293,753** | 539,750 |
| Other expenses | 14 | **(2,776,205)** | (2,210,234) | **(8,520)** | (312,376) |
| | | **125,255** | 1,762,264 | **285,233** | 227,374 |
| Other income | | **462,188** | 332,930 | **561,399** | 63,956 |
| **Operating profit** | | **587,443** | 2,095,194 | **846,632** | 291,330 |
| Finance costs | 15 | **(1,116,704)** | (196,967) | **(389,858)** | (103,718) |
| | | **(529,261)** | 1,898,227 | **456,774** | 187,612 |
| Share of profit of associate - net of tax | 7 | **656,140** | 732,067 | **196,046** | 244,843 |
| **Profit before taxation** | | **126,879** | 2,630,294 | **652,820** | 432,455 |
| Taxation | 16 | **(1,004,393)** | (692,725) | **(82,876)** | (98,262) |
| **Net (loss) / profit for the period** | | **(877,514)** | 1,937,569 | **569,944** | 334,193 |
| Other comprehensive income | | **-** | - | **-** | - |
| **Total comprehensive (loss) / profit for the period** | | **(877,514)** | 1,937,569 | **569,944** | 334,193 |
| **(Loss) / Earnings per share - basic and diluted (Rupees)** | | **(8.20)** | 18.11 | **5.32** | 3.12 |

The annexed notes 1 to 23 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 NINE MONTHS ENDED SEPTEMBER 30, 2019

| | Note | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|---|---|---|---|
| | | -------------- (Rupees '000) | ------------ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 17 | **5,622,591** | 2,045,762 |
| Finance costs paid | | **(611,244)** | (84,478) |
| Income tax paid | | **(926,089)** | (176,016) |
| Long-term loans and advances | | **(22,468)** | (35,855) |
| Long-term deposits and prepayments | | **96,673** | (169,041) |
| Interest received on short-term deposits | | **26,309** | 77,252 |
| **Net cash generated from operating activities** | | **4,185,772** | 1,657,624 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Fixed capital expenditure | | **(1,891,743)** | (1,644,635) |
| Proceeds from disposal of property, plant and equipment | | **500** | 106 |
| **Net cash used in investing activities** | | **(1,891,243)** | (1,644,529) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Payment of lease liabilities | | **(605,781)** | - |
| Dividends paid | | **(8,320)** | (1,704,622) |
| **Net cash used in financing activities** | | **(614,101)** | (1,704,622) |
| **Net (decrease) / increase in cash and cash equivalents** | | **1,680,428** | (1,691,527) |
| Cash and cash equivalents at the beginning of the period | | **(6,079,565)** | 2,196,864 |
| **Cash and cash equivalents at the end of the period** | | **(4,399,137)** | 505,337 |
| **Cash and cash equivalents comprise of:** | | | |
| Cash and bank balances | | **2,115,273** | 2,284,337 |
| Short term borrowings – secured | | **(6,514,410)** | (1,779,000) |
| | | **(4,399,137)** | 505,337 |

The annexed notes 1 to 23 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 CHANGES IN EQUITY (UNAUDITED)

## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

| | | Capital reserve | Revenue reserve | | | |
|---|---|---|---|---|---|---|
| | Share capital | Share premium | General reserve | Unappro-priated profit | Acturial loss 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 |
| Final dividend for the year ended December 31, 2017 at the rate of Rs.17/- per share | - | - | - | (1,819,210) | - | (1,819,210) |
| Interim dividend for the six months ended June 30, 2018 at the rate of Rs. 7/- per share | - | - | - | (749,086) | - | (749,086) |
| Total comprehensive income for nine months ended September 30, 2018 | - | - | - | 1,937,569 | - | 1,937,569 |
| **Balance as at September 30, 2018 (Unaudited)** | 1,070,125 | 1,503,803 | 207,002 | 7,108,004 | (321,601) | 9,567,333 |
| **Balance as at December 31, 2018 (Audited)** | 1,070,125 | 1,503,803 | 207,002 | 4,068,450 | (496,058) | 6,353,322 |
| Adjustment on initial application of IFRS 9 – net of tax (note 3.1) | - | - | - | (445,684) | - | (445,684) |
| **Balance as at January 01, 2019 (Adjusted)** | **1,070,125** | **1,503,803** | **207,002** | **3,622,766** | **(496,058)** | **5,907,638** |
| Total comprehensive loss for nine months ended September 30, 2019 | - | - | - | (877,514) | - | (877,514) |
| **Balance as at September 30, 2019 (Unaudited)** | **1,070,125** | **1,503,803** | **207,002** | **2,745,252** | **(496,058)** | **5,030,124** |

The annexed notes 1 to 23 form an integral part of these condensed interim financial statements.

**Naz Khan**
Director

**Haroon Rashid**
Chief Executive

**Faisal Waheed**
Chief Financial Officer

# NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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-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** These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed.

These condensed interim financial statements of the Company for the nine months ended September 30, 2019 are unaudited.

**2.2** 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.

**2.3** These condensed interim financial statements are being submitted to the shareholders as required by section 237 of the Companies Act, 2017 and Pakistan Stock Exchange Regulations.

**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 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers |
| IFRS 16 | Leases |
| IFRS 9 | Prepayment Features with Negative Compensation – (Amendments) |
| IFRS 3 | Business Combinations: Previously held interests in a joint operation |
| IFRS 11 | Joint Arrangements: Previously held interests in a joint operation |
| IAS 12 | Income Taxes: Income tax consequences of payments on financial instruments classified as equity |

IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement (Amendments)
IAS 23 Borrowing Costs - Borrowing costs eligible for capitalization
IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures (Amendments)
IFRIC 23 Uncertainty over income tax treatments

The Company applied IFRS 9, IFRS 15 and IFRS 16 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. Several other amendments and interpretations apply for the first time in 2019, but do not have any material impact on the condensed interim financial statements of the Company.

**IFRS 9 - Financial Instruments**

"IFRS 9 'Financial Instruments' replaced IAS 39 'Financial Instruments: Recognition and Measurement'. The 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 measurement model and establishes the measurement categories of financial asset: amortized cost, fair value through other comprehensive income (FVTOCI) and fair value through profit and loss (FVTPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. IFRS 9 also introduces the expected credit loss (ECL) model that replaces the incurred loss impairment model under IAS 39. ECL is a probability-weighted estimate of credit loss over the expected life of the financial asset. For financial assets, a credit loss is the present value of the difference between the contractual cash flows due to the Company and the cash flows that the Company expects to receive. Since ECL model considers the amount and timing of payments, a credit loss arises even if the Company expects to be paid in full but later than when contractually due.

In accordance with S.R.O 229/(I)/2019 dated February 14, 2019 issued by Securities & Exchange Commission of Pakistan (SECP), the Company adopted IFRS 9 with effect from January 01, 2019. In accordance with the transition requirements of IFRS 9, comparative information will not be restated and transitional adjustments will be accounted through retained earnings as at January 01, 2019, the date of initial application. The application of the ECL model resulted in recognition of a loss allowance in trade receivables and other receivables (on account of long outstanding receivables from the government) which is as follows:

| | Trade receivables | Other receivables | Total |
|---|---|---|---|
| | ---------------------- | (Rupees '000) | ---------------------- |
| - Decrease in retained earnings as at January 01, 2019 – net of tax | 48,191 | 397,493 | **445,684** |
| - Reversal during the period | 13,202 | 23,102 | **36,304** |

**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, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 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. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company elected the modified retrospective method of adoption with the date of initial application of January 01, 2019. 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.

Based on the above assessment, 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 standard sets out the principles for the recognition, measurement, presentation and disclosure of leases under IFRS 16, 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 01, 2019 using the modified retrospective method. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application with no restatement of comparative information. The Company elected to use the transition practical expedient option 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 effect of adoption of IFRS 16 as at January 01, 2019 (increase/(decrease)) is as follows:

| | (Rupees '000) |
|---|---|
| **Assets** | |
| Property, plant and equipment | 2,504,084 |
| Prepayments | 88,648 |
| **Total Assets** | **2,592,732** |
| | |
| **Liabilities** | |
| Lease liability | 2,592,732 |
| **Total Liabilities** | **2,592,732** |

The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised 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 lease as on January 01, 2019.

The lease liabilities as at January 01, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

| | Rupees in '000's |
|---|---|
| **Operating lease commitments as at December 31, 2018** | **5,217,504** |
| Impact of discounting | (2,298,424) |
| Exemptions | |
| - Short-term leases | (12,507) |
| - Low-value leases | (135,468) |
| Other reconciling items | (178,373) |
| **Total lease liability at January 01, 2019** | **2,592,732** |
| | |
| **Weighted average incremental borrowing rate as at January 01, 2019** | **10%** |

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

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

## 4. ACCOUNTING ESTIMATES AND JUDGEMENTS

**4.1** The preparation of 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, except as disclosed otherwise.

| **5. PROPERTY, PLANT AND EQUIPMENT** | **Note** | **Unaudited September 30, 2019** | **Audited December 31, 2018** |
|---|---|---|---|
| | | **-----------(Rupees '000) -----------** | |
| Operating assets - at net book value | 5.1 & 5.2 | **10,188,555** | 9,659,775 |
| Provision for impairment | | **(357,223)** | (359,289) |
| | | **9,831,332** | 9,300,486 |
| Right of use assets | 5.3 | **4,417,028** | - |
| Accumulated depreciation | | **(405,004)** | - |
| | | **4,012,024** | - |
| Capital work-in-progress | 5.4 | **3,038,008** | 2,467,357 |
| | | **16,881,364** | 11,767,843 |

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

| | **Unaudited Nine months ended September 30, 2019** | **Unaudited Nine months ended September 30, 2018** |
|---|---|---|
| | **-----------(Rupees '000) -----------** | |
| Leasehold land | **75,645** | 87,910 |
| Buildings on freehold land | **3,019** | 2,323 |
| Buildings on leasehold land | **227,350** | 24,713 |
| Tanks and pipelines | **105,711** | 309,668 |
| Plant and machinery | **84,748** | 74,501 |
| Air conditioning plant | **469** | 146 |
| Lifts | **10,664** | 6,786 |
| Dispensing pumps | **147,460** | 70,701 |
| Computer auxiliaries | **1,984** | - |
| Rolling stock and vehicles | **77,240** | 11,066 |
| Electrical, mechanical and firefighting equipment | **369,637** | 190,638 |
| Furniture, office equipment and other assets | **217,165** | 310,532 |
| | **1,321,092** | 1,088,984 |

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

| | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| | (Rupees '000) | | |
| **September 30, 2019 (Unaudited)** | | | |
| Tanks and pipelines | **12,541** | **12,541** | **-** |
| Electrical, mechanical and firefighting equipment | **9,755** | **8,822** | **933** |
| Plant and machinery | **3,124** | **3,083** | **41** |
| Rolling stock and vehicles | **1,376** | **1,376** | **-** |
| | **26,796** | **25,822** | **974** |
| **September 30, 2018 (Unaudited)** | | | |
| Building on leasehold land | 457 | 457 | - |
| Tanks and pipelines | 270 | 220 | 50 |
| Air conditioning & computer auxiliaries | 65 | 65 | - |
| Rolling stock and vehicles | 2,966 | 2,836 | 130 |
| Electrical, mechanical and firefighting equipment | 2,603 | 2,603 | - |
| Furniture, office equipment and other assets | 139 | 139 | - |
| | 6,500 | 6,320 | 180 |

**5.3** The right-of-use assets comprise of lands acquired on lease by the Company for its operations.

| | | Unaudited September 30, 2019 | Audited December 31, 2018 |
|---|---|---|---|
| **5.4 Capital work-in-progress** | **Note** | (Rupees '000) | |
| Buildings on leasehold land | | **1,886,954** | 1,527,069 |
| Tanks and pipelines | | **91,800** | 104,834 |
| Plant and machinery | | **939,073** | 722,009 |
| Electrical, mechanical and fire-fighting equipment | | **116,214** | 71,258 |
| Furniture, office equipment and other assets | | **3,685** | 12,800 |
| Rolling stock and vehicles | | **282** | 29,387 |
| | 5.4.1 | **3,038,008** | 2,467,357 |

**5.4.1** Additions to capital work-in-progress during the period amounted to Rs. 1,891,743 thousand (September 30, 2018: Rs. 1,633,659 thousand).

## 6. INTANGIBLE ASSET

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 September 30, 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 | **987,295** | 1,399,141 |
| Share of taxation | **(331,155)** | (425,066) |
| | **656,140** | 974,075 |
| Dividend received | **-** | (589,329) |
| Balance at the end of the period / year | **5,087,701** | 4,431,561 |

## 8. LONG-TERM LOANS

Includes amount due from loans to executive directors amounting to Rs. 9,558 thousand (December 31, 2018: Rs. 2,989 thousand).

| | Note | Unaudited September 30, 2019 | Audited December 31, 2018 |
|---|---|---|---|
| | | -------------(Rupees '000) | ------------- |
| **9. STOCK-IN-TRADE** | | | |
| Raw and packing materials | | **1,995,071** | 1,607,620 |
| Provision for obsolete and slow moving stock | 9.2 | **(38,057)** | (38,838) |
| | | **1,957,014** | 1,568,782 |
| Finished products | 9.1 | **18,089,799** | 13,449,198 |
| Provision for obsolete and slow moving stock | 9.2 | **(119,012)** | (133,869) |
| | | **17,970,787** | 13,315,329 |
| | | **19,927,801** | 14,884,111 |

**9.1** Includes items costing Rs. Nil (December 31, 2018: Rs. 12,386,627 thousand) which have been valued at their net realizable value of Rs. Nil (December 31, 2018: Rs. 11,589,554 thousand).

| **9.2 Provision for impairment is as follows:** | Unaudited September 30, 2019 | Audited December 31, 2018 |
|---|---|---|
| | -------------(Rupees '000) | ------------- |
| Balance at the beginning of the period / year | **172,707** | 101,183 |
| Provision made during the period / year | **49,805** | 153,207 |
| Reversals during the period / year | **(65,443)** | (81,683) |
| | **(15,638)** | 71,524 |
| Balance at end of the period / year | **157,069** | 172,707 |

## 10. LOANS AND ADVANCES

Includes amount due from loan to executive directors amounting to Rs. 10,673 thousand (December 31, 2018: Rs. 4,768 thousand).

|  | Note | Unaudited September 30, 2019 | Audited December 31, 2018 |
|---|---|---|---|
|  |  | -------------(Rupees '000) ------------- |  |
| **11. OTHER RECEIVABLES** |  |  |  |
| Petroleum development levy and other duties | 11.1 | **1,380,029** | 1,380,029 |
| Price differential claims |  |  |  |
| - on imported purchases | 11.2 | **295,733** | 295,733 |
| - on high speed diesel (HSD) | 11.3 | **343,584** | 343,584 |
| - on imported motor gasoline | 11.4 | **1,961,211** | 1,961,211 |
| Customs duty receivable | 11.5 | **44,413** | 44,413 |
| Sales tax refundable | 11.6 | **578,483** | 2,907,560 |
| Inland freight equalisation mechanism |  | **360,720** | 467,207 |
| Receivable from related parties | 11.7 | **780,957** | 463,869 |
| Service cost receivable from PAPCO – an associated company |  | **11,152** | 14,500 |
| Workers' profits participation fund |  | **15,185** | 15,185 |
| Receivable from Oil Marketing Companies |  | **2,240,533** | 1,983,481 |
| Taxes recoverable | 11.8 | **1,020,214** | 1,020,214 |
| Margin held against letter of credit |  | **93,511** | 83,646 |
| Others |  | **521,673** | 221,775 |
|  |  | **9,647,398** | 11,202,407 |
| Provision for impairment | 3.1 | **(931,666)** | (405,225) |
|  |  | **8,715,732** | 10,797,182 |

**11.1** Includes petroleum development levy amounting to Rs. 1,369,560 thousand (December 31, 2018: 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 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.

**11.2** 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.

**11.3** 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.

**11.4** 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 02, 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, 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 this import. On June 06, 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.

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.

**11.5** Represents 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.

**11.6** 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. For the remaining refund claims, the Company is actively pursuing for their recovery.

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

**11.8** 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 at appellate levels and considers the possibility of any liability arising under the aforementioned order to be remote.

| 12. TRADE AND OTHER PAYABLES | Note | Unaudited September 30, 2019 | Audited December 31, 2018 |
|---|---|---|---|
| | | -----------(Rupees '000) | ----------- |
| Creditors | 12.1 | **30,330,001** | 21,754,296 |
| Accrued liabilities | 12.2 | **10,485,106** | 9,876,108 |
| Current portion of lease liability | | **187,681** | - |
| Security deposits | | **412,219** | 368,726 |
| Advances received from customers (contract liabilities) | | **996,349** | 990,872 |
| Provision for post-retirement medical benefits | | **97,987** | 97,987 |
| Staff retirement benefit schemes | | **98,115** | 96,902 |
| Workers' welfare fund | | **323,088** | 323,088 |
| Provision for staff redundancy plan | | **86,383** | 154,837 |
| Other liabilities | | **40,492** | 103,860 |
| | | **43,057,421** | 33,766,676 |

**12.1** Includes amounts due to associated companies aggregating to Rs. 23,793,885 thousand (December 31, 2018: Rs. 16,884,205 thousand).

**12.2** Includes Rs. 4,099,799 thousand (December 31, 2018: Rs. 3,417,391 thousand) accrued in respect of associated companies.

## 13. CONTINGENCIES AND COMMITMENTS

### 13.1 Contingencies

There is no material change in the status of contingencies from what is disclosed in note 21.1 to the annual audited financial statements for the year ended December 31, 2018 except for the contingencies disclosed in notes 21.1.1, 21.1.2.2, 21.1.3.1 and 21.1.4 of that financial statements which have been updated as follows:

### 13.1.1 Infrastructure fee

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 September 30, 2019 at Rs. 141,493 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.

### 13.1.2 Taxation

During the period, the ATIR vide order dated February 27, 2019 has decided the case in favor of the Company by declaring the proceedings as void ab-initio, illegal and not sustainable due to time limitation. Further, an appeal effect order dated April 05, 2019 giving effect to this ATIR order has been passed by the tax department, thereby confirming the refund of Rs. 130,000 thousand.

### 13.1.3 Sales tax and federal excise duty (FED)

During the period, Assistant Commissioner – Inland Revenue (ACIR) whilst finalizing sales tax audit for financial year ended 2014 passed an order dated February 20, 2019, raising a demand aggregating to Rs. 5,397,701 thousand primarily disallowing input tax adjustment on zero rated supplies of Jet Fuel to international flights and levy of FED on trademarks and manifestation fee and group fee. The Company filed a rectification application before the ACIR for correction of some apparent errors in the aforesaid order. The ACIR passed a rectified order reducing the aforesaid demand to Rs. 2,979,494 thousand. The Company being aggrieved, filed an appeal with the Commissioner Inland Revenue (CIR), where the hearing is pending adjudication. However, the CIR has granted stay against the recovery of the rectified order. Further, the Company simultaneously obtained stay order from the Sindh High Court.

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

During the period, the Assistant Commissioner – Inland Revenue (ACIR) whilst finalizing the sales tax audit for financial year ended 2012 passed an order dated June 30, 2019, raising a demand aggregating to Rs. 4,531,352 thousand primarily disallowing input tax adjustment on zero rated supplies of Jet Fuel to international flights and levy of FED on group fee. The Company being aggrieved, filed an appeal with the Commissioner Inland Revenue (CIR). The CIR passed an order dated September 18, 2019 deciding the matter of zero-rating of Jet fuels in favour of the Company, whilst maintaining the disallowance of levy of FED on group fee. The company is in the process of filing an appeal with the Tribunal on the latter case.

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

**13.1.4 Others**

The amount of other claims against the Company not acknowledged as debt as at September 30, 2019 aggregate to approximately Rs. 2,965,677 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.

**13.2 Commitments**

**13.2.1** Capital expenditure contracted for but not incurred as at September 30, 2019 amounted to approximately Rs. 1,115,510 thousand (December 31, 2018: Rs. 1,330,785 thousand).

**13.2.2** 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 September 30, 2019, the value of these cheques amounted to Rs. 11,745,999 thousand (December 31, 2018: Rs. 8,422,015 thousand). The maturity dates of these cheques extend to March 27, 2020.

**13.2.3** Letters of credit and bank guarantees outstanding as at September 30, 2019 amount to Rs. 12,448,059 thousand (December 31, 2018: Rs. 6,241,134 thousand).

## 14. OTHER EXPENSES

Includes exchange loss amounting to Rs. 2,766,275 thousand (September 30, 2018: Rs. 2,136,378 thousand).

## 15. FINANCE COSTS

Includes mark-up on short term borrowings amounting to Rs. 733,127 thousand (September 30, 2018: Rs. 84,985 thousand) and interest on lease liabilities amounting to Rs. 246,934 thousand (September 30, 2018: Rs. Nil).

| | **Unaudited** | | | |
|---|---|---|---|---|
| | **Nine months ended** | | **Quarter ended** | |
| | **September 30, 2019** | **September 30, 2018** | **September 30, 2019** | **September 30, 2018** |
| **16. TAXATION** | **(Rupees '000)** | | | |
| Current | | | | |
| - for the period | **953,546** | 609,176 | **290,191** | 41,395 |
| - for prior period | **50,847** | - | **50,847** | - |
| | **1,004,393** | 609,176 | **341,038** | 41,395 |
| Deferred | **-** | 83,549 | **(258,162)** | 56,867 |
| | **1,004,393** | 692,725 | **82,876** | 98,262 |

| **17. CASH GENERATED FROM OPERATIONS** | **Note** | **Unaudited September 30, 2019** | **Unaudited September 30, 2018** |
|---|---|---|---|
| | | **-----------(Rupees '000) -----------** | |
| Profit before taxation | | **126,879** | 2,630,294 |
| Adjustment for non-cash charges and other items: | | | |
| Depreciation & Amortization charge | | **1,198,706** | 697,134 |
| Accretion expense in respect of asset retirement obligation | | **5,870** | 5,758 |
| Reversal of liability in respect of asset retirement obligation | | **-** | (13,262) |
| (Reversal) / provision of impairment of stock-in-trade – net | | **(15,638)** | 53,930 |
| Reversal of provision for impairment of trade debts | | **(103,878)** | 4,478 |
| Reversal of provision for impairment of other receivables | | **(32,484)** | - |
| Trade debts written off | | **318** | 39 |
| Reversal of provision for impairment of operating assets | | **(2,066)** | (3,514) |
| Write off of operating assets | | **916** | 180 |
| Gain on disposal of operating assets | | **(442)** | (106) |
| Share of profit of associate – net of tax | | **(656,140)** | (732,067) |
| Interest on short-term deposits | | **(26,309)** | (77,252) |
| Mark-up on short term borrowings | | **733,127** | 84,985 |
| Interest on lease liability | | **246,934** | - |
| Working capital changes | 17.1 | **4,146,798** | (604,835) |
| | | **5,622,591** | 2,045,762 |

**17.1 Working capital changes**

| | | |
|---|---|---|
| **(Increase) / decrease in current assets** | | |
| Stock-in-trade | **(5,028,052)** | (7,918,940) |
| Trade debts | **(1,004,008)** | (611,226) |
| Loans and advances | **(25,361)** | (37,604) |
| Short-term prepayments | **(503,851)** | (338,851) |
| Other receivables | **1,555,009** | (5,923,366) |
| | **(5,006,263)** | (14,829,987) |
| **Increase in current liabilities** | | |
| Trade and other payables | **9,153,061** | 14,225,152 |
| | **4,146,798** | (604,835) |

## 18. 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, 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 Nine months ended | |
|---|---|---|---|---|
| **Nature of relationship** | **Nature of transactions** | **Note** | **September 30, 2019** | **September 30, 2018** |
| | | | ---------- (Rupees '000) ---------- | |
| **Holding Company** | Dividend paid | | **-** | 1,384,543 |
| **Associate** | | | | |
| Pak-Arab Pipeline Company Limited | Pipeline charges | | **180,250** | 157,036 |
| | Others | | **9,077** | 9,388 |
| **Staff retirement benefit / contribution funds** | | | | |
| Pension funds | Contribution | | **132,860** | 97,303 |
| Gratuity funds | Contribution | | **6,343** | 1,804 |
| Provident funds | Contribution | | **54,119** | 50,563 |
| **Key management Personnel** | Salaries and other short term employee benefits | 18.1 | **57,367** | 68,314 |
| | Post-employment benefits | | **5,684** | 3,851 |
| | Loan to Executive Director | | **16,352** | 5,000 |
| **Directors** | Fee for attending meetings | | **3,396** | 2,334 |
| | Dividend paid | | **-** | 12,488 |
| **Other related parties** | Purchases | | **76,244,391** | 80,975,126 |
| | Sales | | **161,843** | - |
| | Collection for sales made in Pakistan to customers of the parent and its associates | | **2,206,839** | 2,724,547 |
| | Technical service fee charged | 18.2 | **1,828,093** | 1,409,349 |
| | Trademarks and manifestations license fee charged | | **303,316** | 344,891 |
| | Computer expenses charged (Global Infrastructure Desktop charges) | 18.3 | **156,221** | 105,421 |
| | Expenses recovered from related parties | | **229,223** | 120,194 |
| | Other expenses charged by related parties | 18.4 | **778,655** | 511,698 |
| | Donations | | **655** | - |
| | Legal charges | | **4,856** | 582 |
| | Commission income - net | | **8,054** | 7,434 |

**18.1** 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, 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.

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

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

**18.4** These includes services obtained from Shell Shared Business Service Centre companies under agreements entered into with them by the Company.

## 19. 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.

## 20. 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.

## 21. OPERATING SEGMENTS

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

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

Total sales of the Company relating to customers in Pakistan were 100% during the period ended September 30, 2019 (September 30, 2018: 100%).

All non-current assets of the Company as at September 30, 2019 and 2018 are located in Pakistan.

Sales to twenty major customers of the Company are around 11% during the period ended September 30, 2019 (September 30, 2018: 13%).

## 22. GENERAL

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

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

## 23. DATE OF AUTHORIZATION

These condensed interim financial statements were authorized for issue on October 22, 2019 by the Board of Directors of the Company.

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

# Trade in Shares of the Company by Director / Executives

The details of Electronic (CDC shares) are as follows:

| Name | Designation | Date of transaction | Number of Shares | Ave. rate per share | Nature of transaction |
|---|---|---|---|---|---|
| Usman Khalid | Executive | 01-04-2019 | 100 | Rs. 266/50 | Bought |
| Wajahatullah Khan | Executive | 20-06-2019 | 200 | Rs. 199/24 | Bought |

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