Shell Oman Marketing Company SAOG

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
31 March 2017

1. Legal status and principal activities

Shell Oman Marketing Company SAOG (the company) is registered in the Sultanate of Oman as a public joint stock company and is primarily engaged in the marketing and distribution of petroleum products and blending of lubricants. The company has its primary listing on the Muscat Securities Market.

The accounts of the Company are consolidated in the financial statements of Royal Dutch Shell plc (the ultimate parent company), a company incorporated in the United Kingdom.

2. Summary of significant accounting policies

The principal accounting policies are summarised below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

a) The financial statements are prepared on the historical cost basis and in accordance with International Financial 'Reporting Standards (IFRS). These also comply with the Rules and Guidelines on Disclosure by Issuers of Securities and 'Insider Trading, with the Rules for Disclosure and Proforma issued by the Capital Market Authority and with the Commercial Companies Law of 1974, as amended.

b) The preparation of financial statements in conformity with IFRS 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.2 Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable and is recognised when the significant risks and rewards of ownership have been transferred to the buyer, it is probable that future economic benefits will flow to the entity, the amount of revenue and associated costs can be measured reliably, and there is no continuing management involvement with the goods. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

2.3 Directors' remuneration

The Directors' remuneration is governed as set out in the Memorandum of Association of the company, the Commercial Companies Law of 1974, as amended and the regulations issued by the Capital Market Authority.

The Annual General Meeting shall determine and approve the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders and provided that such fees shall not exceed RO 200,000. The sitting fees for each director shall not exceed RO 10,000 in one year.

2.4 End of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the company's employees at the statement of financial position date, having regard to the requirements of the Oman Labour Law 2003, as amended. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the statement of financial position date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 are recognised as an expense in the income statement of comprehensive income as incurred.

2.5 Foreign Currency

Items included in the company's financial statements are measured using Rial Omani which is the currency of the Sultanate of Oman, being the economic environment in which the company operates (the functional currency). The financial statements are prepared in Rial Omani, rounded to the nearest thousand.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement comprehensive income.

2.6 Finance costs and income

Finance costs comprise interest cost on borrowings. Finance income comprises interest received or receivable on funds invested. Interest income is recognised in the statement of comprehensive income as it accrues taking into account the effective yield on the asset. Interest expense is recognised in the statement of comprehensive income as it accrues using the effective interest rate method.

2.7 Income tax

Income tax is calculated as per the fiscal regulations of the Sultanate of Oman.

Income tax on the profit for the year comprises current tax and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the statement of financial position date, and any adjustment to income taxes payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. The carrying amount of Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

2.8 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the costs of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

The cost or valuation of property, plant and equipment is written down to residual value in equal instalments over the estimated useful lives of the assets. The estimated useful lives are:

	Years
Buildings	6 - 25
Plant and equipment	3 - 7
Motor vehicles	3

Work-in-progress is stated at cost. When the underlying assets is available for use in its intended condition and location, Work-in-progress is transferred to the appropriate property, plant and equipment category and depreciated in accordance with depreciation policy of the company.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

2.9 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer who manages the company on a day-to-day basis, as per the directives given by the board of directors that makes strategic decisions.

2.10 Intangible assets

Intangible assets are stated at cost, net of amortisation and impairment losses. Subsequent expenditure on intangible assets is capitalised only when it is probable that the associated future economic benefits will flow to the company and the cost can be measured reliably. All other expenditure is expensed as incurred.

Intangible assets with finite lives are amortised from the date they are available for use. Amortisation is charged to the statement of comprehensive income on a straight-line basis over the useful life of the intangible asset.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in 'the ordinary course of business, less the estimated cost of completion and estimated cost necessary to make the sale.

The cost of inventories is determined using the first-in-first-out method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Provision is made where necessary for obsolete, slow moving and defective items, based on management's assessment.

2.12 Financial assets

The company classifies its financial assets into loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The company’s loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (notes 2.13 and 2.14).

2.13 Trade and other receivables

Trade and other receivables are stated at their fair value. Trade debtors are initially recognised at fair value and subsequently are stated at amortised cost using the effective interest rate method less impairment losses. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income within 'selling and distribution expenses'.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances and short term deposits with an original maturity of three months or less.

2.15 Impairment

Financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets, objective evidence of impairment could include:

- significant Financial difficulty of the counterparty;
- default or delinquency in payments; or
- it becomes probable that the borrower will enter bankruptcy or financial reorganisation.

Certain categories of financial assets, such as trade receivables that are not individually significant, but which are past due, are assessed for impairment on a collective basis.

Objective evidence of impairment for a portfolio of receivables could include the company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of a provision account.

When a trade receivable is considered uncollectible, it is directly written off after appropriate approvals. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

Non-financial assets

The carrying amounts of the company's non-financial assets other than inventories and deferred tax asset are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.16 Provisions

A provision is recognised in the statement of financial position when the company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provision for environment remediation, resulting from past operations or events, is recognised in the period in which an obligation to a third party arises and the amount can be reliably estimated. Measurement of liabilities is based on current legal requirements and existing technology.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Where some or all of the economic benefits required to settle a provision are expected to be recovered from third parties, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.17 Dividends

Dividends are recognised as a liability in the period in which the dividends are approved by the company's shareholders.

Dividends for the year that are approved after the statement of financial position date are dealt with as a non-adjusting event after the statement of financial position date.

2.18 Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

2. 19 Leases

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

2.20 Share capital

Ordinary and multi-vote shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

3. Financial risk management

3.1 Financial risk factors

The company's activities expose it to a variety of financial risks including the effects of changes in market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company. Risk management is carried out by management under policies approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises where the value of a financial instrument changes due to changes in foreign exchange rates. The company is exposed to foreign exchange risk on sales, purchases and bank deposits that are denominated in foreign currencies. The company's net exposure to the United States Dollar (USD) resulting from USD denominated sales is offset by USD denominated purchases of base oils, additives and other items. Since the Rial Omani is currently pegged to the USD, management believe that the exchange rate fluctuation would have an insignificant impact on the profit. The company's practice is to utilise USD forward exchange contracts to hedge its exposure in respect of any significant USD denominated bank deposits.

(ii) Interest rate risk

The company's interest rate risk arises from their short term loan.

The company manages its exposure to interest rate risk by utilising only short-term financing at the rates fixed at the time of taking the finance.

Management has estimated the effect on profit for the year due to increase or decrease in interest rates to be insignificant.

(b) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from cash and cash equivalents, as well as credit exposures to customers. The company has a credit policy in place and exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The company requires bank guarantees on higher credit risk customers. The company does not require collateral in respect of all other financial assets.

Investments are made in liquid securities and only with commercial banks in Oman. Management does not expect any counter party to fail to meet its obligations.

Concentration of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the company's performance to developments affecting a particular industry or geographical location.

The company has significant concentrations of credit risk with the Government sector. **At 31 March 2017**, Government organisations in Oman accounted for **21%** of the outstanding trade accounts receivable. **At 31 March 2017** there were no other significant concentration of credit risk.

Credit risk on other financial assets, including cash and cash equivalents arises from the risk of default of the counterparty, with a maximum exposure equal to the carrying amount of these balances.

Cash and bank balances are placed on deposit with financial institutions in the Sultanate of Oman.

(c) Liquidity risk

The company limits its liquidity risk by ensuring bank facilities are available. The company's terms of sales require amounts to be paid on an average of 30 days from the date of sale. Trade payables are normally settled within 60 days of the date of purchase.

3.2 Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a commercially defensible capital structure to reduce the cost of capital.

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

3.3 Fair value estimation

The face value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate to their fair values. Financial assets consist of cash and bank balances and trade and other receivables. Financial liabilities consist of payables and accruals.

4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS 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. The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas requiring a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are set out below.

a) Impairment of trade receivable

An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At 31 March 2017, gross trade accounts receivable were RO 31,010,669 and the provision for doubtful debts was RO 551,939. Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income.

a) Depreciation

Depreciation is charged so as to write off the cost of the assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

5. Other Income

Other income consists of: Shell fuel cards income, aviation commission, rental income from filling station dealers, Convenience stores franchisee fees, and throughput and product handling fees for use of the Company's assets.

6. Intangible Assets

Intangible assets represent costs incurred in connection with the acquisition, development and implementation of an Enterprise Resources Planning system and other computer software and is amortised over a period of five years.

7. Deferred Tax Asset

Recognised deferred tax assets

Deferred tax assets recognised in the balance sheet are attributable to the following:

	Balance at 1 January 2017 Rials 000	Recognised in the income statement Rials 000	Balance at **31 March 2017** Rials 000
Provisions and Depreciation	197	40	237
	197	40	237

	Balance at 1 January 2016 Rials 000	Recognised in the income statement Rials 000	Balance at **31 December 2016** Rials 000
Provisions and Depreciation	265	(68)	197
	265	(68)	197

8. Inventories

	31 March 2017	31 March 2016	31 December 2016
	Rials 000	Rials 000	Rials 000
Finished goods			
- Petroleum products	12,647	6,492	6,984
Raw materials	3,823	2,579	3,979
	16,470	9,071	10,963

9. Receivables and prepayments

	31 March 2017	31 March 2016	31 December 2016
	Rials 000	Rials 000	Rials 000
Trade receivables	31,011	25,927	28,837
Less: allowance for impairment losses	(552)	(826)	(626)
	30,459	25,101	28,211
Receivables from related parties	3,491	1,936	3,436
Trade and related party receivables, net of impairment losses	33,950	27,037	31,647
Prepayments	1,930	1,693	2,045
Other receivables	680	788	593
	36,560	29,518	34,285

10. Cash at bank and in hand

Cash and cash equivalents comprise the following:

	31 March 2017	31 March 2016	31 December 2016
	Rials 000	Rials 000	Rials 000
Bank Balances	1,203	125	863
Deposit Accounts	17,500	2,227	9,927
	18,703	2,352	10,790

Cash balances are held with local commercial banks and earn interest at commercial rates. For the period ended 31 March 2017 the company earned interest income of approximately RO: 14,482 (31 March 2016 : RO 8,446). The company has credit facility with local and foreign commercial banks, which are unsecured and bear interest at the Central Bank of Oman's based lending rate less a discount. For the period ended 31 March 2017 the company incurred interest expense of approx. RO 56,149 (31 March 2016 : RO 48,224).

11. Share Capital

The Company's authorised, issued and fully paid-up share capital consists of 100,000,000 shares of Rial 0.1 each as follows:

	31 March 2017	31 March 2016	31 December 2016
	Rials 000	Rials 000	Rials 000
5,000,000 multi-vote shares of Rial 0.1 each	500	500	500
95,000,000 Ordinary shares of Rial 0.1 each	9,500	9,500	9,500
	10,000	10,000	10,000

12. Legal reserve

Article 106 of the Commercial Companies Law of 1974 requires that 10% of a company's net profit be transferred to a non-distributable legal reserve until the amount of legal reserve becomes equal to at least one-third of the company's issued share capital. Since the amount of legal reserve exceeded one-third of the company's share capital on formation, no further transfers have been made during the year. This reserve is not available for distribution.

13. Employee terminal benefits

	31 March 2017 Rials 000	31 March 2016 Rials 000	31 December 2016 Rials 000
At 1 January	601	729	729
Increase for the year	29	68	151
Paid during the year	(104)	-	(279)
	526	797	601

14. Payables and accruals

	31 March 2017 Rials 000	31 March 2016 Rials 000	31 December 2016 Rials 000
Trade accounts payable	41,865	28,823	36,192
Accrued expenses	2,593	2,220	4,477
Amounts due to related parties	1,175	271	1,346
Other payables	379	224	933
	46,012	31,538	42,948

15. Bank borrowings

a) The Company obtained a long term loan from an Omani Commercial bank on 28 December, 2014. The unsecured facility is RO 6 million and is repayable fully on 27 December, 2017. This loan is classified as a Short Term Loan as at 31 March, 2017, the comparative for the same quarter last year is part of Long Term Loan.

b) In addition the Company also has Rial Omani denominated unsecured loans from Omani commercial banks of RO 10.4 million as at 31 March 2017.

16. Provisions

a) Environmental provision

	31 March 2017 Rials 000	31 March 2016 Rials 000	31 December 2016 Rials 000
Balance as at 1 January	200	200	200
Provided during the year	-	-	-
Utilised / (reversed)	-	(0)	-
	200	200	200

The company provides for environmental costs based on environmental contamination assessments made on its delivery and storage sites. The entire provision is expected to be used during the next two financial years.

b) Provision for Employees' Benefit

	31 March 2017 Rials 000	31 March 2016 Rials 000	31 December 2016 Rials 000
Balance as at 1 January	222	222	222
Provided during the year	34	31	139
Utilised / reversals	(2)	-	(139)
	254	253	222

The Company has an Employees' Benefit Scheme designed to enhance the benefit to certain employees in previous years. The associated provision has been created by charging the year's Income Statement and is expected to be utilised after three years in accordance with the scheme.

17. Unpaid Dividend

At the Annual General Meeting held on March 27, 2017, the shareholders declared a dividend of RO 0.106 per share, totalling to RO10.6 million. This dividend was paid fully in April, 2017

18. Income tax

The Company is liable to income tax in accordance with the income tax law of the Sultanate of Oman at the enacted rate 'of 15% (2016 - 12%) on the profits adjusted for taxation purposes. The following is a reconciliation of income taxes 'calculated at the applicable tax rate with the income tax expense.

	31 March 2017 Rials 000	31 March 2016 Rials 000	31 December 2016 Rials 000
Profit before income tax: ordinary activities	3,578	4,657	18,208
Income tax at the rates mentioned above	430	556	2,185
Others	100	77	1
Current tax expense	530	633	2,186

The Company's tax assessments for the years 2013 to 2016 have not yet been assessed by the Oman Tax Authorities.

19. Related Party Transactions

The company has entered into transactions with subsidiaries of the ultimate parent and entities over which certain directors are able to exercise significant influence. Terms of these transactions are approved by the Board of Directors and Shareholders.

Transactions with related parties at normal commercial terms were as follows

	31 March 2017 Rials 000	31 March 2016 Rials 000	31 December 2016 Rials 000
Revenues	8,770	6,913	28,941
Purchase of goods & services	2,840	6,732	10,920
Service and trade mark license fee	498	395	1,778

20. Commitments and Contingent Liabilities

Capital Commitments

At 31 March 2017, the Company has future capital expenditure commitments of approximately RO 1,309,708 (31 March 2016: RO 1,147,274).

21. Comparative Information

The corresponding figures for the previous year have been reclassified in order to conform to the presentation for the current year. Such reclassifications do not affect previously reported profit or shareholders' equity.