

**SHELL OMAN MARKETING
COMPANY SAOG**

**Report and financial statements
For the year ended 31 December 2017**

Registered address:

P O Box 38
Mina Al Fahal
Postal Code 116
Sultanate of Oman

Principal place of business:

Mina Al Fahal
Muscat
Sultanate of Oman

Shell Oman Marketing Company SAOG

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 RO'000	2016 RO'000
Revenue		465,452	392,907
Cost of sales		(427,577)	(353,522)
Gross profit		37,875	39,385
Other income	5	7,058	6,787
Selling and distribution expenses		(24,306)	(22,470)
Administrative expenses		(5,188)	(5,278)
Operating profit		15,439	18,424
Interest expense		(374)	(251)
Interest income		51	35
Profit before income tax		15,116	18,208
Income tax expense	8	(2,219)	(2,186)
Profit and total comprehensive income for the year		12,897	16,022
Basic and diluted earnings per share (RO)	22	0.129	0.160
Dividend per share (RO)	23	0.085	0.106

The accompanying notes 1 to 29 form part of these financial statements.

Shell Oman Marketing Company SAOG

STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 RO'000	2016 RO'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	43,164	39,429
Intangible assets	10	444	717
Deferred tax asset	11	210	197
Total non-current assets		43,818	40,343
Current assets			
Inventories	12	15,909	10,963
Receivables and prepayments	13	40,801	34,285
Cash at bank and in hand	14	19,477	10,790
Total current assets		76,187	56,038
Total assets		120,005	96,381
EQUITY			
Share capital	15	10,000	10,000
Legal reserve	17	3,587	3,587
Retained earnings		33,002	30,705
Total equity		46,589	44,292
LIABILITIES			
Non-current liabilities			
Employee terminal benefits	18	428	601
Total non-current liabilities		428	601
Current liabilities			
Short term loan	19	18,500	6,000
Payable and accruals	20	51,801	42,948
Income tax payable	8	2,239	2,118
Provisions	21	448	422
Total current liabilities		72,988	51,488
Total liabilities		73,416	52,089
Total equity and liabilities		120,005	96,381
Net assets per share (RO)	25	0.466	0.443

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on _____ and signed on their behalf by:

SHABIB MOHAMMED AL-DARMAKI
DEPUTY CHAIRMAN

FAISAL WAHEED
DIRECTOR

The accompanying notes 1 to 29 form part of these financial statements.

Shell Oman Marketing Company SAOG

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Notes	Share capital RO'000	Legal reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2016		10,000	3,587	25,283	38,870
Profit and total comprehensive income for the year		-	-	16,022	16,022
Dividend paid	23	-	-	(10,600)	(10,600)
At 1 January 2017		10,000	3,587	30,705	44,292
Profit and total comprehensive income for the year		-	-	12,897	12,897
Dividend paid	23	-	-	(10,600)	(10,600)
At 31 December 2017		10,000	3,587	33,002	46,589

The accompanying notes 1 to 29 form part of these financial statements

Shell Oman Marketing Company SAOG

STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RO'000	2016 RO'000
OPERATING ACTIVITIES			
Profit before income tax		15,116	18,208
Adjustments for:			
Depreciation	9	4,169	3,709
Amortisation	10	273	930
Write off of intangible assets	10	-	4
Provision for employee retention scheme, net	21	26	-
Accrual for employee terminal benefits	18	77	151
Allowance / (reversal) for impairment of trade receivables, net	13	214	(209)
Interest income		(51)	(35)
Interest expense		374	251
Operating cash flows before working capital changes		20,198	23,009
Inventories		(4,946)	(492)
Receivables and prepayments		(6,730)	(4,287)
Payables and accruals		8,853	7,828
Operating cash flows after working capital changes		17,375	26,058
Employee terminal benefits paid	18	(250)	(279)
Income taxes paid	8	(2,111)	(1,749)
Net cash flows generated from operating activities		15,014	24,030
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(7,904)	(8,425)
Interest received		51	35
Net cash flows used in investing activities		(7,853)	(8,390)
FINANCING ACTIVITIES			
Dividends paid	23	(10,600)	(10,600)
Interest paid		(374)	(251)
Proceeds from short term loans		12,500	-
Net cash from (used in) financing activities		1,526	(10,851)
Net change in cash and cash equivalents		8,687	4,789
Cash and cash equivalents at beginning of the year		10,790	6,001
Cash and cash equivalents at end of the year	14	19,477	10,790

The accompanying notes 1 to 29 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 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 Basis of preparation and 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) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) and the requirements of the Commercial Companies Law of 1974 of the Sultanate of Oman, as amended and the Capital Market Authority.

(b) Basis of measurement

The financial statements have been prepared on the historical cost.

(c) Functional currency

These financial statements are presented in Rial Omani (RO), which is the Company’s functional currency.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described 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, recovery of the consideration is probable, 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. Revenue is measured net of pricing allowances, other trade discounts or rebates.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

2 Basis of preparation and summary of significant accounting policies (continued)

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 statement of profit or loss and other comprehensive income as incurred. The Company also operates an employee retention scheme plan besides the defined contribution plan.

2.5 Foreign currency

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 of 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 profit or loss and other comprehensive income except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

2 Basis of preparation and summary of significant accounting policies (continued)

2.7 Income tax (continued)

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting 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

Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses if any. 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 expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of an item if it is probable that future economic benefits embodied within the part will flow to the Company and the cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income, as incurred.

Depreciation

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of the property, plant and equipment as follows:

	Years
Buildings	3 - 30
Plant and equipment	3 - 30
Motor vehicles	5 - 15

Work-in-progress is stated at cost less impairment. When the underlying asset 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

2 Basis of preparation and summary of significant accounting policies (continued)

2.8 Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 if any. 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 when 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 ie 5 years.

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

2 Basis of preparation and summary of significant accounting policies (continued)

2.12 Financial assets (continued)

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 if any. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

2 Basis of preparation and summary of significant accounting policies (continued)

2.15 Impairment (continued)

When a trade receivable is considered uncollectible, it is directly written off after appropriate approvals and recognised in the statement of comprehensive income within selling and distribution expenses. 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 reporting date are dealt with as a non-adjusting event after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

2 Basis of preparation and summary of significant accounting policies (continued)

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.

2.19 Interest bearing borrowings

Interest bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss over the period of borrowings on an effective interest rate basis.

Borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets is capitalised as part of the costs of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of the interest and other costs that the entity incurs in connection with the borrowing of funds.

2.20 Fair value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2.21 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

**2 Basis of preparation and summary of significant accounting policies
(continued)**

2.22 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.

Other balances representing a residual interest in the net assets of the Company are also classified as equity.

2.23 New and amended standards and interpretations to IFRS relevant to the Company

For the year ended 31 December 2017, the Company has adopted all of the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2017.

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvements Cycle - 2014-2016
- Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The adoption of those standards and interpretations has not resulted in significant changes to the Company's accounting policies and has not affected the amounts reported for the current and prior periods.

2.24 Standards issued but not yet effective

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2017:

IFRS 9 - Financial Instruments:

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Company has performed an impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018, when the Company will adopt IFRS 9. Overall, the Company expects no significant impact on its statement of financial position and equity.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

2 Basis of preparation and summary of significant accounting policies (continued)

2.24 Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers:

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is 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. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the modified retrospective approach. The Company has performed an initial assessment and concluded that the impact is not material as in majority of the Company's contracts with customers, sale of good is generally expected to be the only performance obligation and accordingly, adoption of IFRS 15 is not expected to have any significant impact on the Company's revenue and profit or loss. The Company expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

IFRS 16 Leases:

The IASB issued IFRS 16 Leases (IFRS 16), which requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). For lessors, there is little change to the existing accounting in IAS 17 Leases. The Company will perform a detailed assessment in the future to determine the extent. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date as IFRS 16. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. In 2018, the Company will continue to assess the potential effect of IFRS 16 on its financial statements.

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

3 Financial risk management (continued)

3.2 Market risk

3.2.1 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, sea freight 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. The Company has no forward exchange contracts outstanding at 31 December 2017 (2016 - nil).

3.2.2 Interest rate risk

The Company's interest rate risk arises from its term loans. The company manages its exposure to interest rate risk by (a) utilising short-term financing at rates fixed at the time of obtaining the finance and (b) for long term loans, a combination of the lending bank's fixed margin plus the Government of Oman's 28-day T-bill rate.

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

3.2.3 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 December 2017, Government organisations in Oman accounted for 20% (2016 - 17%) of the outstanding trade accounts receivable. At 31 December 2017, there were no other significant concentrations 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 reputed financial institutions in the Sultanate of Oman.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

3 Financial risk management (continued)

3.3 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.

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December 2017, based on contractual payment dates and current market interest rates.

2017	Up to one year RO'000	Total RO'000
Short term loan	18,558	18,558
Payables and accruals	51,801	51,801
Total	70,359	70,359
	<hr/>	<hr/>
	Up to one Year RO'000	Total RO'000
2016		
Short term loan	6,138	6,138
Payables and accruals	42,948	42,948
	<hr/>	<hr/>
Total	49,086	49,086
	<hr/>	<hr/>

3.4 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. Capital comprises share capital, legal reserve and retained earnings.

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.

3.5 Fair value estimation

The nominal 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

4 Critical accounting estimates and judgements

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.

Impairment of trade receivables

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 the reporting date, gross trade accounts receivable were RO 35,428 thousand (2016 - RO 28,837 thousand) and the allowance for impaired debts was RO 840 thousand (2016 - RO 626 thousand). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income.

Useful lives of property, plant and equipment

The Company's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. 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.

Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

6 Segmental information

Management has determined the Company's operating segments based on the reports reviewed by the Chief Executive Officer that are used to make strategic decisions.

The Chief Executive Officer identifies operating segments based on a business perspective. The reportable operating segments derive their revenue primarily from the sale of refined petroleum products. Retail sales amounting to RO 386.4 million (2016: RO 331.1 million) represent the most significant component of revenue for the company and no other segments are significant.

7 Employee costs

Employee costs included in selling and distribution and administrative expenses comprise:

	2017	2016
	RO'000	RO'000
Salaries, wages and bonus	4,873	4,951
Allowances and other benefits	2,649	2,572
	<u>7,522</u>	<u>7,523</u>

8 Income tax

	2017	2016
	RO'000	RO'000
Income tax expense comprises of the following:		
<i>Current taxation charge:</i>		
Current tax expense	2,232	2,118
<i>Deferred taxation:</i>		
Deferred tax for the year (note 11)	(13)	68
	<u>2,219</u>	<u>2,186</u>

The Company is liable to income tax in accordance with the income tax law of the Sultanate of Oman at the enacted tax rate of 15% on taxable income. For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes relating to both income and expense items. After giving effect to these adjustments, the average effective tax rate is estimated to be 14.68% (2016: 12.01%).

Tax provision movement is as follows:

	2017	2016
	RO'000	RO'000
At 1 January	2,118	1,749
Income tax expense for the year	2,232	2,118
Paid during the year	(2,111)	(1,749)
	<u>2,239</u>	<u>2,118</u>
At 31 December	<u>2,239</u>	<u>2,118</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

8 Income tax (continued)

The following is a reconciliation of income taxes calculated on accounting profits at the applicable tax rate with the income tax expense for the year:

	2017	2016
	RO'000	RO'000
Accounting profit before tax	<u>15,116</u>	<u>18,208</u>
Tax on accounting profit before tax at 15% (2016: 12%)	2,267	2,185
Add tax effect of:		
Non-deductible expenses	<u>(48)</u>	<u>1</u>
Tax charge for the year	<u>2,219</u>	<u>2,186</u>

The Company's tax assessments for the years 2013 to 2016 have not yet been assessed by Oman taxation authorities. The Board of Directors consider that the amount of additional taxes, if any, that may become payable on finalisation of assessment of the open tax years would not be significant to the Company's financial position at 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

9 Property, plant and equipment

	Buildings RO'000	Plant and equipment RO'000	Motor vehicles RO'000	Capital work-in- progress RO'000	Total RO'000
Cost					
1 January 2016	6,957	59,541	637	9,089	76,224
Acquisitions	390	183	52	7,800	8,425
Transfers	3,762	4,224	-	(8,033)	(47)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
1 January 2017	11,109	63,948	689	8,856	84,602
Acquisitions	379	299	-	7,226	7,904
Disposals	-	(338)	-	-	(338)
Transfers	2,764	3,891	-	(6,655)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2017	14,252	67,800	689	9,427	92,168
Depreciation					
1 January 2016	1,654	39,201	609	-	41,464
Charge for the year	749	2,931	29	-	3,709
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
1 January 2017	2,403	42,132	638	-	45,173
Charge for the year	928	3,202	39	-	4,169
Relating to disposals	-	(338)	-	-	(338)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2017	3,331	44,996	677	-	49,004
Net book value					
31 December 2017	10,921	22,804	12	9,427	43,164
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
31 December 2016	8,706	21,816	51	8,856	39,429
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Company's depots, buildings and lubricant blending plant are constructed on land leased from the Ministry of Oil and Gas based on a lease agreement dated 1 November 2009.

During the year, no transfers were made to intangible assets (2016: RO 47 thousand).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

10 Intangible assets

	2017	2016
	RO'000	RO'000
Cost		
At 1 January	5,467	5,424
Write offs	-	(4)
Transfer	-	47
	<hr/>	<hr/>
At 31 December	5,467	5,467
	<hr/> <hr/>	<hr/> <hr/>
Amortisation		
At 1 January	4,750	3,820
Charge for the year	273	930
	<hr/>	<hr/>
At 31 December	5,023	4,750
	<hr/> <hr/>	<hr/> <hr/>
Carrying amount		
At 31 December	444	717
	<hr/> <hr/>	<hr/> <hr/>

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.

11 Deferred tax asset

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 15% (2016: 12%).

The deferred tax asset recognised in the statement of financial position is attributable to the following:

	At	Charge /	At
	1 January	(credit) for	31 December
	RO'000	the year	RO'000
	RO'000	RO'000	RO'000
Provision and depreciation – 2017	197	13	210
	<hr/>	<hr/>	<hr/>
Provision and depreciation - 2016	265	(68)	197
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

12 Inventories

	2017	2016
	RO '000	RO '000
Petroleum products	11,677	6,984
Raw materials	4,457	4,129
	16,134	11,113
Provision for slow moving inventories	(225)	(150)
	15,909	10,963

Movement in the provision for slow moving inventories is as follows:

	2017	2016
	RO '000	RO '000
At 1 January	150	296
Provision / reversal for the year	75	(146)
	225	150

13 Receivables and prepayments

	2017	2016
	RO '000	RO '000
Trade receivables	35,428	28,837
Less: allowance for impairment losses	(840)	(626)
	34,588	28,211
Receivables from related parties (note 24)	3,904	3,436
	38,492	31,647
Trade and related party receivables, net of impairment losses	38,492	31,647
Prepayments	1,982	2,045
Other receivables	327	593
	40,801	34,285

As at 31 December 2017, trade receivables of RO 840 thousand (2016 - RO 626 thousand) were impaired and provided against. Movements in the allowance for impairment losses were as follows:

	2017	2016
	RO '000	RO '000
At 1 January	626	835
Provision for the year	214	(209)
	840	626

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

13 Receivables and prepayments (continued)

As at 31 December, the ageing of unimpaired trade receivables is as follows:

	<i>Total</i> RO'000	<i>Unapplied credit</i> RO'000	<i>Neither past due nor impaired</i> RO'000	<i>Past due but not impaired</i>			
				<i>< 30 days</i> RO'000	<i>31 - 60 days</i> RO'000	<i>61 - 90 days</i> RO'000	<i>>91 days</i> RO'000
2017	34,588	(138)	25,775	1,711	2,769	852	3,619
2016	28,211	(61)	23,553	557	1,349	404	2,409

The amounts are considered to be due within 3 to 45 days from the date of invoice for all customers and the vast majority are unsecured. Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable.

The other classes within receivables and prepayments do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

14 Cash at bank and in hand

	2017 RO'000	2016 RO'000
Bank balances	1,851	863
Deposit accounts	17,626	9,927
	19,477	10,790

Included in deposit accounts are call deposits of RO 12,516 thousand (2016 - RO 7,727 thousand) denominated in Rial Omani and RO 5,110 thousand (2016 - RO 2,200 thousand) denominated in US Dollars, with commercial banks in Oman. These are short term in nature and carry interest at commercial rates.

Bank balances and deposit accounts are placed with reputed financial institutions. Hence management believes that the credit risk with respect to these balances is minimal.

15 Share capital

The Company's authorised, issued and fully paid-up share capital consists of 100,000,000 shares of 100 baisa each (2016 - 100,000,000 shares of 100 baisa each) as follows:

	2017 RO'000	2016 RO'000
5,000,000 Multi-vote shares of 100 baisa each	500	500
95,000,000 Ordinary shares of 100 baisa each	9,500	9,500
	10,000	10,000

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

15 Share capital (continued)

In accordance with Article 6 of the Company's Articles of Association, the holder of each multi-vote share is entitled to two votes at the annual general meetings of the Company. A company controlled by the ultimate parent holds all the multi-vote shares.

16 Significant shareholders

At 31 December, shareholders owning more than 5% of the Company's share capital are as follows:

	Number of shares		% of holding	
	2017	2016	2017	2016
<i>Multi-vote shares</i>				
Shell Overseas Investments BV	5,000,000	5,000,000	5%	5%
<i>Ordinary shares</i>				
BV Dordtsche Petroleum Maatschappij	20,000,000	20,000,000	20%	20%
Shell Overseas Investments BV	15,000,000	15,000,000	15%	15%
Civil Service Employees Pension Fund	9,720,814	9,720,814	9.7%	9.7%
Shell Petroleum NV	8,800,000	8,800,000	8.8%	8.8%
MOD Pension Fund	8,247,648	8,247,648	8.2%	8.2%

17 Legal reserve

Article 106 of the Commercial Companies Law of 1974, as amended 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 has exceeded one-third of the Company's share capital, no further transfers have been made during the year. This reserve is not available for distribution.

18 Employee terminal benefits

	2017	2016
	RO'000	RO'000
At 1 January	601	729
Charge for the year	77	151
Paid during the year	(250)	(279)
	<hr/>	<hr/>
At 31 December	428	601
	<hr/> <hr/>	<hr/> <hr/>

19 Bank Borrowings

- (a) The Company obtained a long-term loan (the facility) from an Omani commercial bank on 28 December 2014. The unsecured facility limit is RO 6 million and carries an annual interest rate of 1.55% + weighted average discount rate of Government of Oman's 28 days T Bills. The loan is repaid in full on 27 December 2017.
- (b) The carrying amount of the Company's short term loan is denominated in Rial Omani. The short term loan is unsecured, carries interest at a commercial rate. The Company has adequate facilities with local banks to repay / rollover the loan to meet its ongoing business requirements. Interest will be paid based on the maturity date.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

20 Payables and accruals

	2017	2016
	RO'000	RO'000
Trade payable	44,443	36,192
Accrued expenses	4,565	4,477
Other payables	790	933
Payable to related parties (note 24)	2,003	1,346
	51,801	42,948

21 Provisions

	2017	2016
	RO'000	RO'000
Environmental provision (a)	200	200
Provision for employee retention scheme (b)	248	222
	448	422

(a) Environmental provision

	2017	2016
	RO'000	RO'000
At 1 January and 31 December	200	200

The Company provides for environmental costs based on environmental contamination assessments made on its delivery and storage sites.

(b) Provision for employee retention scheme

	2017	2016
	RO'000	RO'000
At 1 January	222	222
Provided during the year	157	139
Less: utilised during the year	(131)	(139)
At 31 December	248	222

The Company has an employee retention scheme designed to enhance benefits to certain employees. The associated provision has been created by charging to the statement of profit or loss and other comprehensive income and is expected to be utilised after three years of employment in accordance with the scheme.

(c) Decommissioning costs

The Company has a decommissioning obligation upon termination of the lease at a leased site. The management's estimate of the decommissioning costs is not material to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

22 Basic and diluted earnings per share

The calculation of basic and diluted earnings per share at 31 December 2017 is based on profit for the year attributable to ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the year ended 31 December 2017 as follows:

	2017	2016
	RO'000	RO'000
Profit for the year	12,897	16,022
Weighted average number of shares outstanding as of 31 December ('000)	100,000	100,000
Basic earnings per share	0.129	0.160

No figure for diluted earnings per share has been presented as the Company has not issued any instruments which would have an impact on earnings per share when exercised.

23 Dividends paid and proposed

Dividends paid

During the year, dividends of RO 0.106 (2016 - RO 0.106) per share totalling to RO 10,600,000 relating to 2016 were declared and paid (2016 - RO 10,600,000 relating to 2015 were declared and paid).

Proposed dividend

The Board of Directors at their meeting dated 25 January 2018, have proposed a dividend of RO 8,500,000 for the year ended 31 December 2017 (2016 – RO 10,600,000).

Dividend per share

The calculation of dividend per share is based on proposed final dividend totalling RO 8,500,000 (2016 - RO 10,600,000) and 100,000,000 shares (2016 -100,000,000 shares) and is subject to approval at the Annual General Meeting.

24 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.

- (i) The transactions with related parties included in the statement of comprehensive income were as follows:

	2017	2016
	RO '000	RO '000
Sale of goods	33,310	28,941
Purchase of goods and services	10,471	10,920
Service and trademark licence fees	2,091	1,778

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

24 Related party transactions (continued)

Revenue from related party sales in the amount of approximately RO 33 million (2016 - RO 29 million) were to companies controlled by the Shell Group and relate to sales of lubricants and aviation fuel. Other related party sales relate to sales to entities that are controlled by the directors of the Company. Related party purchases were from companies controlled by the Shell Group and were primarily for supply of base oils and additives used for lubricant blending.

During the year, none (2016 - two) of the Company's directors were employees of the company.

During the year ten (2016 - ten) non-executive directors earned an aggregate amount of RO 156,800 (2016 - RO 125,000) in respect of meeting fees and director's remuneration.

(ii) Compensation of key management personnel

The remuneration of key management during the year were as follows:

	2017	2016
	RO'000	RO'000
Short-term benefits	676	597
Employees' end of service benefits	24	42
	700	639

(iii) Amounts due from and due to related parties are disclosed in notes 13 and 20 respectively.

(iv) Outstanding balances at the year-end arise in the normal course of business. No provision for impairment has been made for 2017 and 2016 in respect of amounts due from related parties.

25 Net assets per share

The calculation of net assets per share is based on net assets at 31 December 2017 in the amount of RO 46,589 thousand (2016 - RO 44,292 thousand) and 100,000,000 shares (2016 - 100,000,000 shares).

26 Financial instruments

The accounting policies for financial instruments have been applied to the line items below :

	2017	2016
	RO'000	RO'000
Assets as per statement of financial position		
Trade and other receivables (excluding prepayments)	38,819	32,240
Cash at bank and in hand	19,477	10,790
	58,296	43,030

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

26 Financial instruments (continued)

The accounting policies for financial instruments have been applied to the line items below :

	2017	2016
	RO'000	RO'000
Liabilities measured at amortized costs		
Payables and accruals	51,801	42,948
Short term loan	18,500	6,000
	70,301	48,948

27 Contingent liabilities

a) Guarantees

At 31 December 2017, the Company has issued guarantees arising in the ordinary course of business, from which it is anticipated that no material liabilities will arise, amounting to RO 1,540,025 (2016 RO 1,950,186) in respect of contract performance.

b) The Company is subject to litigations in the normal course of business. The Company based on independent legal advice does not believe that outcome of these court cases will have material impact on the Company's income or financial position.

28 Commitments

(a) The Company leases land on which their depots, office and bulk storage facilities are constructed under non-cancellable operating lease agreements. The lease terms are typically between three and ten years. Certain lease agreements are renewable at the end of the lease period at market rate. One land lease is valid for the duration of the Company.

At 31 December, future minimum lease commitments under non-cancellable operating leases and other rentals are as under:

	2017	2016
	RO '000	RO '000
Not later than one year	698	747
Later than one year and not later than five years	2,111	2,439
More than five years	1,254	2,054
	4,063	5,240

(b) At 31 December 2017, the Company has future capital expenditure commitments amounting to RO 213 thousand (2016- RO 587 thousand).

29 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.