Registration number: 00342234

Sabah Shell Petroleum Company Limited

Annual Report

and

Financial Statements

For the year ended 31 December 2018

Sabah Shell Petroleum Company Limited

Contents

Sabah Shell Petroleum Company Limited

Strategic report for the year ended 31 December 2018

The Directors present their strategic report on Sabah Shell Petroleum Company Limited (also referred to as the 'Company') for the year ended 31 December 2018.

The Company is one of the entities within the "Shell Group". In this context the term "Shell Group" and "Companies of the Shell Group" or "Group companies" means companies where Royal Dutch Shell plc, either directly or indirectly, is exposed to, or has rights to, variable returns from its involvement with the Company and has the ability to affect those returns through its power over the Company. Companies in which Group companies have significant influence but not control are classified as "Associated companies". Royal Dutch Shell plc, a company incorporated in England and Wales, is known as the "Parent Company" of the Shell Group. In this Report "Shell", "Shell Group" and "Royal Dutch Shell" are sometimes used for convenience where references are made to Royal Dutch Shell and its subsidiaries in general. These expressions are also used where no useful purpose is served by identifying the particular company or companies.

Business review

The principal activities of the Company are exploration, development and production of crude oil and gas in Malaysia. The Company will continue with these activities for forceable future.

The Company is currently the Operator of the SB G, SB J, ND 6, ND 7, Block 3G and Block N Production Sharing Contract ("PSC"). The sale of the North Sabah ("NS") Enhanced Oil Recovery ("EOR") PSC was completed on 31 March 2018.

The Company continuously seeks to improve operating performance, with an emphasis on health, safety, security, environment, asset performance and operating expenses.

Major milestones/events during the year were as follows:

- Malikai : The first 2 water injections were achieved in May 2018. The final project scope was the successful tie in of KMU 1 / MLK 103 exploration keeper well in July 2018. This completes all the MLK Phase 1 wells, with full production thereafter in October 2018. The Malikai Phase 2 project achieved Decision Gate 2 ("DG2"). Malikai Phase 2 is primarily an infill drilling project, drilled from the Tender Leg Platform ("TLP") with no new major facility modifications.

- Gumusut Kakap ("GK"): GK Phase 2 has progressed well into the Execution Phase. The rig was mobilized in 2018 with spud on 28 December 2018. The project scope comprises of 2 water injectors, 2 oil producer scope and subsea hardware being tied back to the main GK Floating Production System ("FPS"). Upon successful drilling, the major subsea offshore installation and tie-in work will synergize with the FPS Turnaround scheduled in 2019.

- Siakap North Petai ("SNP") Phase 2 Milestone Review ("MR") 3 was endorsed by PETRONAS MPM in November 2018. In order to maximize the success of Phase 2, learnings from Phase 1 and GK Phase 2 will be adopted for the well functionalities/design and drilling strategy, to mitigate risks of compartmentalization and drilling through depleted reservoirs.

- Block J Exploration: The Gemilang-1 well drilled in December 2018 with hydrocarbon encountered and the working team is currently assessing the volumes available. Other near-field exploration opportunities (NFE) around Petai, Malikai and Gumusut continues.

Operational highlights during the year are as follows:

GK

- In 2018, production was 146.9 kboe/d compared to 152kboe/d in 2017. The lower production rate was due to earlier gas breakthrough leading to an increase of Gas to Oil Ratio (GOR) causing wells and surface constraints to be reached (i.e. gas compression system constraint at 300mmscf/d).

SNP

- In 2018, production was 20.2 kboe/d compared to 14 kboe/d in 2017.

Malikai

- In 2018, production delivered from Malikai was 61.0 kboe/d compared to 14 kboe/d in 2017 as production was ramping up as it achieved FOD on 11 December 2016, while in 2018 it is operating at full production.
- 2018 marked the first ever full facility GK-MLK-KBB-SOGT shutdown with Sabah Oil Gas Terminal ("SOGT") being the driver for the shutdown requirement in August of the year. This heavily involved planning, coordination and communication to ensure smooth execution of the pit-stop procedures with no incidents.

Financial highlights for the year are as follows:

The Company reported a profit after tax for the financial year of Malaysian Ringgits (RM) 1,133million (2017: RM739 million).

The main factors contributing to the profit are:

- Increase in turnover by RM 356 million mainly driven by higher price coupled with increased production from Malikai field.
- Decrease in cost of sales by RM308 million mainly due to decrease in depreciation for Malikai field in line with the increase in reserves.
- Increase in other income by RM63 million mainly from Gain on Divestment of NS EOR PSC in 2018 of RM499 million partially offset by a reduction in the decommissioning and site restoration provision by RM 454 million, reversed through the income statement, in comparison to 2017 of RM 456 million due to a significant reduction in contingency cost for wells which is released to the profit and loss.
- The above are offset by an increase in tax expenses by RM197 million due to higher operating profit, increase in exploration expenses by RM56 million and an increase in the comparative hurt of RM 110 million from 2017 currency translation arising from revaluation of the intercompany loans and finance lease liabilities.

Principal risks and uncertainties

The Shell Group has a single risk based control framework - The Shell Control Framework - to identify and manage risks. The Shell Control Framework applies to all wholly owned Shell companies and to those ventures and other companies in which Royal Dutch Shell has directly or indirectly a controlling interest. From the perspective of the Company, the principal risks and uncertainties affecting the Company are considered to be those that affect the Shell Group. Accordingly, the principal risks and uncertainties of the Shell Group, which are discussed on pages 15 to 20 of Royal Dutch Shell's Annual Report and Form 20-F for the year ended 31 December 2018 (the "Group Report"), include those of the Company. The Group Report does not form part of this report.

Key Performance Indicators

Companies of the Shell Group comprise the Upstream businesses of Exploration and Production, Integrated Gas and New Energies, and the Downstream businesses of Oil Products and Chemicals. The Company's key performance indicators, that give an understanding of the development, performance and position of the business, are aligned with those of the Shell Group. The development, performance and position of the various businesses is discussed on pages 29 to 61 of the Group Report and the key performance indicators through which the Group's performance is measured are as set out on pages 27 to 28 of the Group Report.

Approved by the Board on 04 SEP 2019 and signed on its behalf by:

Mohammad Hilmi bin Yusof
Authorised signatory for
Sabah Shell Petroleum Company Limited
Director

Sabah Shell Petroleum Company Limited

Directors' report for the year ended 31 December 2018

The Directors present their report and the financial statements for the year ended 31 December 2018.

The Directors' report and audited financial statements of the Company have been prepared in accordance with the Companies Act 2006.

Dividends

No dividends were paid during the year (2017: RM nil).

Future Outlook

No significant change in the business of the Company has taken place during the year or is expected in the immediately foreseeable future.

Directors of the Company

The Directors, who held office during the year, and to the date of this report (except as noted) were as follows:

Mohammad Hilmi bin Yusof (appointed 15 July 2018)

Simon George Durkin

Prithipal Singh Jinnil Singh (appointed 1 April 2018)

Jill Chieng Hui Chiun

Ian Sui Ling @ Po Aun Lim (resigned 1 April 2018)

Michiel Paul Rudolf Brouwer (resigned 15 July 2018)

Financial risk management

The Company's Directors are required to follow the requirements of Shell Group risk management policies, which include specific guidelines on the management of market, credit and liquidity risk, and advice on the use of financial instruments to manage them. Shell Group risk management policies can be found in the Group Report (see pages 103 to 104 and note 19).

Branches outside of United Kingdom

The Company operates a branch in Malaysia.

Statement of Directors' responsibilities

The Directors acknowledge their responsibilities for preparing the Strategic report, Directors' report and the Company's financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the auditor

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Approved by the Board on 04 SEP 2019 and signed on its behalf by:

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Mohammad Hilmi bin Yusof
Director

Independent Auditor's report to the Member of Sabah Shell Petroleum Company Limited

Opinion

We have audited the financial statements of Sabah Shell Petroleum Company Limited (the "Company") for the year ended 31 December 2018, which comprise the Profit and loss account, Balance sheet, Statement of changes in equity, and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's report to the Member of Sabah Shell Petroleum Company Limited (continued)

Other information

The other information comprises the information included in the annual report set out on pages 1 to 6, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and the Directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Independent Auditor's report to the Member of Sabah Shell Petroleum Company Limited (continued)

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP
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Clarke Cooper (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen

Date: 9 September 2019

Sabah Shell Petroleum Company Limited

Profit and loss account for the year ended 31 December 2018

	Note	Continuing operations 2018 RM 000	Discontinued operations 2018 RM 000	Total 2018 RM 000	Continuing operations 2017 RM 000	Discontinued operations 2017 RM 000	Total 2017 RM 000
Turnover	5	2,423,410	40,309	2,463,719	1,848,780	258,993	2,107,773
Cost of sales		(1,114,968)	1,817	(1,113,151)	(1,318,293)	(102,609)	(1,420,902)
GROSS PROFIT		1,308,442	42,126	1,350,568	530,487	156,384	686,871
Exploration expenses		(104,754)	-	(104,754)	(49,014)	-	(49,014)
Other income /(expense)	6	483,990	8,552	492,542	(26,387)	456,356	429,969
OPERATING PROFIT	9	1,687,678	50,678	1,738,356	455,086	612,740	1,067,826
PROFIT BEFORE INTEREST AND TAXATION		1,687,678	50,678	1,738,356	455,086	612,740	1,067,826
Interest receivable and similar income	7	21,844	-	21,844	8,888	-	8,888
Interest payable and similar charges	8	(167,595)	(5,200)	(172,795)	(44,424)	(35,779)	(80,203)
PROFIT BEFORE TAXATION		1,541,927	45,478	1,587,405	419,550	576,961	996,511
Tax on profit	12	(457,948)	3,278	(454,670)	(203,004)	(54,525)	(257,529)
PROFIT FOR THE YEAR		1,083,979	48,756	1,132,735	216,546	522,436	738,982

The profit for the current year and for the prior year are equal to the total comprehensive income and accordingly a statement of comprehensive income has not been presented.

Sabah Shell Petroleum Company Limited

(Registration number: 00342234)
Balance sheet as at 31 December 2018

	Note	2018 RM 000	Restated* 2017 RM 000
Fixed assets			
Tangible assets	13	2,141,801	2,959,750
Deferred tax	12	85,810	-
Derivatives	4	56,450	-
		2,284,061	**2,959,750**
Current assets			
Stock	14	2,970	7,440
Debtors	15	1,627,793	1,559,119
Cash and cash equivalents	19	1,315,533	649,471
Derivatives	4	10,339	74,041
Asset held for sale	16	-	302,101
		2,956,635	**2,592,172**
Creditors: Amounts falling due within one year	**17**	**(921,624)**	**(1,606,925)**
Liabilities associated with assets held for sale	16	-	(713,780)
Net current assets		**2,035,011**	**271,467**
Total assets less current liabilities		**4,319,072**	**3,231,217**
Creditors: Amounts falling due after more than one year	**18**	**(1,810,039)**	**(1,849,418)**
Deferred tax	**12**	**-**	**(87,094)**
Provisions	**22**	**(530,749)**	**(483,664)**
Net assets		**1,978,284**	**811,041**
Equity			
Called up share capital	23	1,125,421	1,125,421
Profit and loss account		852,863	(314,380)
Total equity		**1,978,284**	**811,041**

*Refer note 3 on prior period adjustments.

The financial statements on pages 10 to 47 were authorised for issue by the Board of Directors on 0 4 SEP 2019 and signed on its behalf by:

Hilmi Y

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Mohammad Hilmi bin Yusof
Director

Sabah Shell Petroleum Company Limited

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital RM 000	Profit and loss account RM 000	Total RM 000
Balance as at 01 January 2017	**1,125,421**	**(1,053,575)**	**71,846**
Profit for the year	-	738,982	738,982
Total comprehensive income for the year	**-**	**738,982**	**738,982**
Share based payments - notional	-	213	213
Balance as at 31 December 2017	**1,125,421**	**(314,380)**	**811,041**
Balance as at 01 January 2018	**1,125,421**	**(314,380)**	**811,041**
IFRS 15 Restatement (refer note 1)	-	35,432	35,432
IFRS 9 Restatement (refer note 1)	-	(678)	(678)
Adjusted balance as at 01 January 2018	**1,125,421**	**(279,626)**	**845,795**
Profit for the year	-	1,132,735	1,132,735
Total comprehensive income for the year	**-**	**1,167,489**	**1,167,489**
Share based payments - notional	-	(246)	(246)
Balance as at 31 December 2018	**1,125,421**	**852,863**	**1,978,284**

General information

The Company is a private company limited by share capital incorporated in England and Wales.

The address of its registered office is: Shell Centre, London, SE1 7NA, United Kingdom.

1 Accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework, which involves the application of International Financial Reporting Standards ('IFRS') with a reduced level of disclosure. The financial statements have been prepared under the historical cost convention, except for certain items measured at fair value, and in accordance with the Companies Act 2006.

As applied to the Company, there are no material differences between EU endorsed IFRS and IFRS as issued by the International Accounting Standards Board.

The accounting policies have been consistently applied.

New standards applied

The Company applied IFRS 9 and IFRS 15 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its 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. The Company adopted IFRS 15 using the modified retrospective approach, with no restatement of comparative information and differences being recorded in opening retained earnings at 1 January 2018.

1 Accounting policies (continued)

The impact on the Company's balance sheet (increase/(decrease)):

	31 December 2017 RM 000	Adjustments RM 000	1 January 2018 RM 000
Current liabilities			
Deferred income	15,029	(15,029)	-
Liabilities directly associated with the assets held for sale	26,086	(26,086)	-
Total current liabilities	41,115	(41,115)	-
Non-current liabilities			
Deferred tax liabilities	87,094	(5,683)	81,411
Equity			
Retained earnings	(314,380)	35,432	(278,948)
	(186,171)	(11,366)	(197,537)

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018.

The Company has applied IFRS 9 using the modified retrospective approach with no restatement of comparative information and differences being recorded in opening retained earnings at 1 January 2018.

The effect of adopting IFRS 9 is, as follows:

a) Classification and measurement

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Company's financial liabilities.

1 Accounting policies (continued)

The only impact on the measurement of financial assets under IFRS 9 is the change to the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss.

Set out below is the reconciliation of the closing impairment allowances in accordance with IAS 39 to the opening loss allowances determined in accordance with IFRS 9:

	Allowance for impairment under IAS 39 as at 31 December 2017 RM 000	Remeasurement RM 000	1 January 2018 RM 000
Non-current financial assets			
Other debtors	2,658	678	3,336
	2,658	678	3,336

Impact of changes in accounting policies on retained earnings

The impact on the Company's retained earnings as at 1 January 2018 is as follows:

	2018 RM 000
Closing retained earnings 31 December 2017	(314,380)
Increase in provision for expected credit losses	(678)
Opening retained earnings 1 January 2018	(315,058)

Upon the adoption of IFRS 9, the Company was required to recognise ECLs which under the forward looking model increased the provision for expected losses upwards by RM678,000, and increased the opening retained losses as at 01 January 2018.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Sabah Shell Petroleum Company Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

The following exemptions from the disclosure requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined);
- IFRS 7, 'Financial Instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  (i) paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements';
  (ii) paragraph 73(e) of IAS 16 'Property, plant and equipment';
  (iii) paragraph 118(e) of IAS 38 'Intangible assets' (reconciliation between the carrying amount at the beginning and end of the period);
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  (i) 10(d), (statement of cash flows);
  (ii) 10(f) (a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
  (iii) 16 (statement of compliance with all IFRS);
  (iv) 38A (requirement to present a minimum of two statements for each of the primary financial statements, including cash flow statements and related notes);
  (v) 38B-D (additional comparative information);
  (vi) 40A-D (requirements for a third balance sheet);
  (vii) 111 (cash flow statement information); and
  (viii) 134-136 (capital management disclosures)
- The following paragraphs of IFRS 15, 'Revenue from Contracts with Customers';
  (i) the requirements of the second sentence of paragraph 110 (qualitative and quantitative information about contracts with customers, significant judgements, changes in judgements in applying this standard to those contracts, and assets recognised from the costs to obtain or fulfil a contract);
  (ii) paragraph 113(a) (revenue recognised from contracts with customers);
  (iii) paragraphs 114 and 115 (disaggregation of revenue);
  (iv) paragraph 118 (changes in contract asset and liability);
  (v) paragraphs 119(a) to (c) and 120 to 127 (performance obligations); and
  (vi) paragraph 129 (practical expedients);
- IAS 7, 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 and 18A of IAS 24, 'Related party disclosures' (key management compensation);
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a group.

1 Accounting policies (continued)

Consolidation

The immediate parent company is The Shell Petroleum Company Limited.

The ultimate parent company and controlling party is Royal Dutch Shell plc, which is incorporated in England and Wales. Royal Dutch Shell plc is the parent undertaking of the smallest and largest group to consolidate these accounts.

The consolidated accounts of Royal Dutch Shell plc are available from:

Royal Dutch Shell plc
Tel: +31 888 800 844
email: order@shell.com
Registered office: Shell Centre, London, SEI 7NA

Taxation

Tax is recognised in profit or loss, except that tax attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income or directly in equity.

Current tax

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date for tax payable to Malaysian tax authorities, or for group relief to surrender to or to be received from other Group undertakings, and for which payment may be requested.

1 Accounting policies (continued)

Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised when, on the basis of the most recent available evidence, it is regarded as probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Amounts relating to deferred tax are undiscounted.

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Malaysian Ringgits (RM), which is also the Company's functional currency.

(ii) Transaction and balances

Income and expense items denominated in foreign currencies are translated into RM at the rate ruling on their transaction date.

Monetary assets and liabilities recorded in foreign currencies have been expressed in RM at the rates of exchange ruling at the year end. Differences on translation are included in the profit and loss account. Non-monetary assets and liabilities denominated in a foreign currency are translated using exchange rates at the date of the transaction. No subsequent translations are made once this has occurred.

1 Accounting policies (continued)

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. A review for the potential impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of a fixed asset may not be recoverable. If assets are determined to be impaired, the carrying amounts of those assets are written down to their recoverable amount, which is the higher of fair value less costs to sell and value in use. Value in use in determined as the amount of estimated risk-adjusted discounted future cash flows. For this purpose, assets are grouped into cash-generating units based on separately identifiable and largely independent cash inflows. Any impairments are recorded in the profit and loss account

If, after an impairment loss has been recognised, the recoverable amount of a fixed asset increases because of a change in economic conditions or in the expected use of the asset, the resulting reversal of the impairment loss is recognised in the current year to the extent that it increases the carrying amount of the fixed asset up to the amount it would have been had the original impairment not occurred.

Depreciation and impairment are not normally charged on assets under construction or on freehold land. In the case of these assets, an impairment review would only be undertaken if, and only if, there was a change in circumstances indicating that the carrying amount of the asset may not be recoverable.

Depreciation is charged so as to write off the cost of assets on a straight line basis, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation rate
Support equipment and facilities	10% - 25%

The cost of licences is carried forward either until a licence is relinquished or the associated costs written off, or until production of oil or gas starts, when the cost is depleted on a unit-of-production basis related to total proved reserves.

Platforms and infield pipelines are depleted from the date field production commences on a unit-of-production basis over the proved developed reserves of the field concerned. Successful exploration, appraisal, production and injection wells are depleted on a unit-of-production basis over the proved developed reserves of the field concerned.

Changes in estimates are accounted for prospectively over the remaining reserves of the field.

1 Accounting policies (continued)

Exploration, appraisal and development costs

Exploration and appraisal costs are accounted for under the successful efforts method.

Exploration costs are charged to income when incurred, except that exploratory drilling costs are included in tangible fixed assets, pending determination of proved reserves. Exploration wells that are more than 12 months old are expensed unless (a) (i) they are in an area requiring major capital expenditure before production can begin and (ii) they have found commercially producible quantities of reserves and (iii) they are subject to further exploratory or appraisal activity in that either drilling of additional exploratory wells is under way or firmly planned for the near future, or (b) proved reserves are booked within 12 months following the completion of exploratory drilling.

Decommissioning and restoration costs

The Company follows the requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The total estimated cost of decommissioning and restoration, discounted to its net present value, is provided for and also recognised as a cost of each field and capitalised within tangible fixed assets. The capitalised cost is amortised over the life of the field on a unit-of-production basis for offshore facilities. The unwinding of the discount in the net present value of the total expected cost is treated as an interest expense. Changes in estimates result in an equal and opposite movement in the provision and the associated asset. If a decrease in the provision exceeds the asset's carrying amount, the excess is recognised in the profit and loss account. Changes in estimates of assets are depreciated prospectively over the remaining reserves of the field or the remaining life of the onshore terminal or pipeline as appropriate.

Cash and cash equivalents

Cash and cash equivalents comprise deposits with a group company as they are considered an integral part of cash management, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1 Accounting policies (continued)

Financial instruments

Financial assets

Financial assets are classified at initial recognition and subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification of financial assets is determined by the contractual cash flows and where applicable the business model for managing the financial assets.

A financial asset is measured at amortised cost if the objective of the business model is to hold the financial asset in order to collect contractual cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest. Financial assets at amortised cost are initially recognised at fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently the financial asset is measured using the effective interest method less any impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. All equity instruments and other debt instruments are recognised at fair value. For equity instruments, on initial recognition, an irrevocable election (on an instrument-by-instrument basis) can be made to designate these as at FVOCI (without recycling to profit and loss) instead of FVTPL. Dividends received on equity instruments are recognised as other income in profit or loss when the right of payment has been established, except when the company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income.

Impairment of financial assets

The impairment requirements for expected credit losses are applied to financial assets measured at amortised cost, financial assets measured at FVOCI and financial guarantees contracts to which IFRS 9 is applied and that are not accounted for at FVTPL and lease receivables under IFRS 15 that give rise to a conditional right to consideration. If the credit risk on the financial asset has increased significantly since initial recognition, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses. In other instances, the loss allowance for the financial asset is measured at an amount equal to the twelve month expected credit losses (ECLs). Changes in loss allowances are recognised in profit and loss. For trade debtors that do not contain a significant financing component, the simplified approach is applied recognising expected lifetime credit losses from initial recognition.

Financial liabilities

Financial liabilities are measured at amortised cost, unless they are required to be measured at FVTPL, such as instruments held for trading, or the Company has opted to measure them at FVTPL. Debt and trade creditors are recognised initially at fair value based on amounts exchanged, net of transaction costs, and subsequently at amortised cost. Interest expense on debt is accounted for using the effective interest method and is recognised in income.

1 Accounting policies (continued)

Derivative contracts

Derivative contracts are held at fair value. Gains or losses arising from changes in fair value are recognised in the profit and loss account within interest income or expenses in the period in which they arise.

Stock

Stocks are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Provision is made for obsolete, slow moving and defective stocks to write stocks down to their net realisable value, wherever necessary.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Underlift and overlift of oil

Underlift and overlift of crude oil is valued at market prices. The resulting impact is recognised within cost of sales in the profit and loss account.

1 Accounting policies (continued)

Turnover

Recognition

Turnover from contracts with customers is recognised over time, or at a point in time, when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

For contracts that contain separate performance obligations the transaction price is allocated to those separate performance obligations by reference to their relative standalone selling prices. Turnover is recognised as the performance obligations are fulfilled.

Sale of goods

Turnover from sales of oil and natural gas is recognised at the price at which the Company is expected to be entitled to, after deducting sales taxes, excise duties and similar levies, and when the control of the products have been transferred, which is when the customer has the ability to direct the use of the products and obtain substantially all of the remaining benefits from the products. Turnover from sales of oil and natural gas generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism. For turnover resulting from arrangements that do not meet the revenue from contract with customer criteria, turnover is classified as from other sources.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised as non-current assets of the Company at the lower of their fair value at the date of commencement of the lease and at the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance costs in the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

1 Accounting policies (continued)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value at a rate intended to reflect the time value of money where the effect of time value of money is material.

Defined contribution plan

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, contributions are paid to publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as an employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Netting off policy

Balances with other companies of the Shell Group are stated gross, unless both of the following conditions are met:

- Currently there is a legally enforceable right to set off the recognised amounts; and
- There is intent either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Share based payments

The fair value of share-based compensation for performance share plans is estimated using a Monte Carlo pricing model.

The fair value of the performance share plans is recognised in the profit and loss account from the date of grant over the vesting period, with a corresponding increase recognised directly in equity. At each subsequent balance sheet date, the Company revises its estimate of the number of awards that are expected to vest (in relation to non-market based performance conditions) and recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity.

The market value of vested schemes is subsequently invoiced to employing entities in the year of delivery. This is treated as a distribution and is deducted from equity.

1 Accounting policies (continued)

Joint arrangements

The Company's exploration, development and production activities are generally conducted in joint arrangements with other companies. The Company recognises its assets and liabilities relating to its interests in joint operations, including its share of assets held jointly and liabilities incurred jointly with other parties. [Investments in joint ventures and associates are accounted for using the equity method, under which the investment is initially recognised at cost and subsequently adjusted for the Shell share of the post acquisition income less dividends received.

2 Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements 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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic life of tangible fixed assets

Depreciation of tangible fixed assets is calculated using management's assessment of the useful economic lives of the underlying assets. Upon purchase or construction of an asset, useful economic life is assessed by reference to a number of underlying assumptions, including the economic lives of other similar assets. As the economic benefit of the assets is consumed over the course of its life, revisions to the useful life of the asset may be made upon assessment of changes in the operating environment or the condition of the asset itself.

2 Critical accounting judgements and key sources of estimation uncertainty (continued)

Estimation of proved oil and gas reserves

Unit-of-production depreciation, depletion and amortisation charges are principally measured based on management's estimates of proved developed oil and gas reserves. Also, exploration drilling costs are capitalised pending the results of further exploration or appraisal activity, which may take several years to complete and before any related proved reserves can be booked.

Proved reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of proved reserves are inherently imprecise, require the application of judgement and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans.

Changes to estimates of proved developed reserves affect prospectively the amounts of depreciation, depletion and amortisation charged and, consequently, the carrying amounts of exploration and production assets. It is expected, however, that in the normal course of business the diversity of the asset portfolio will limit the effect of such revisions. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalised exploration drilling costs being recognised in income in that period.

Impairment of tangible fixed assets

For the purposes of determining whether impairment of tangible fixed assets and intangible fixed assets has occurred, and the extent of any impairment or its reversal, the key assumptions management uses in estimating risk-adjusted future cash flows for value-in-use measures are future oil and gas prices and expected production volumes to the local circumstances and environment. These assumptions and the judgements of management that are based on them are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates.

Future price assumptions tend to be stable because management does not consider short-term increases or decreases in prices as being indicative of long-term levels, but they are nonetheless subject to change. Expected production volumes, which comprise proved reserves and unproved volumes, are used for impairment testing because management believes this to be the most appropriate indicator of expected future cash flows. As discussed in "Estimation of proved oil and gas reserves", reserves estimates are inherently imprecise. Furthermore, projections about unproved volumes are based on information that is necessarily less robust than that available for mature reservoirs. Due to the nature and geographical spread of the business activity in which those assets are used, it is typically not practicable to estimate the likelihood or extent of impairments under different sets of assumptions. The discount rate applied is reviewed annually.

Changes in assumptions could affect the carrying amounts of assets, and impairment charges and reversals will affect income.

2 Critical accounting judgements and key sources of estimation uncertainty (continued)

Stock provision

In the course of management's assessment of the recoverability of stock balances, assumptions are made over the expected economic benefit to be derived from stock assets. These include, but are not limited to, future oil and gas prices; exchange rates and other economic indices. Provisions are made where management do not believe that the book value of the stock will be recovered through sale or use, the value of which will change in line with the underlying economic indicators that influence the market for such goods.

Provision for expected credit losses of trade debtors

The Company computes probability of default rates for third party trade debtors based on historical loss experience adjusted for current and forward looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. For intra-group trade debtors, the Company uses an internal credit rating to determine the probability of default. Internal credit ratings are based on methodologies adopted by independent credit rating agencies.

Decommissioning and restoration provisions

Provisions are recognised for the future decommissioning and restoration of hydrocarbon production facilities and pipelines at the end of their economic lives. The estimated cost is recognised in income over the life of the proved developed reserves on a unit-of-production basis or on a straight-line basis, as applicable. Changes in the estimates of costs to be incurred, proved developed reserves, or in the rate of production will therefore impact income, generally over the remaining economic life of the related assets.

Estimates of the amounts of provisions recognised are based on current legal and constructive requirements, technology and price levels. Because actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes. The discount rate applied is reviewed annually.

Fair value of financial assets and liabilities

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

3 Prior period adjustments

The prior year figures have been restated to correct the classifications of receivables and payables balances between the Company and another group Company.

	Balance as at 31 December 2017	Restatement as at 2017	Restated balance as at 31 December 2017
	RM000	RM000	RM000
Statement of financial position			
Debtors: amounts due within one year			
Amounts owed by Group undertakings:			
Fellow subsidiary undertakings	1,172,119	2,904	1,175,023
Other debtors	310,733	50,023	360,756
Creditors: amounts falling due within one year			
Amounts owed to Group undertakings:			
Fellow subsidiary undertakings	(968,040)	213,551	(754,489)
Accrued expenses	(211,231)	(381,924)	(593,155)
Other creditors	(117,726)	115,447	(2,279)

Further, there has been a reclassification adjustment in Provisions to correct for a disclosure error in prior year figures. A provision of RM 6,802,000 has been re-classified from 'Facilities abandonment and site restoration' to 'Others' to more accurately reflect the nature of the balance.

	Balance as at 31 December 2017	Restatement as at 2017	Restated balance as at 31 December 2017
	RM000	RM000	RM000
Provisions			
Facilities abandonment and site restoration	(388,956)	6,802	(382,154)
Others	(94,708)	(6,802)	(101,510)

4 Financial instruments

The Company has the following financial assets measured at fair value through profit or loss:

	2018 RM 000	2017 RM 000
Derivative financial assets	66,789	74,041

The Branch's derivative assets at the reporting date consist of contingent consideration due from SEA Hibiscus Sdn Bhd ("SEAH") subject to long dated crude oil price market conditions reaching certain threshold over years of 2018-2020. In prior year, the Branch have entered into cross currency interest rate swap ("CCIRS") to hedge against the fluctuations in the USD/RM exchange rate on their USD term loans.

Derivative financial assets as at 31 December 2018 of RM66,789,000 includes RM56,450,000 classified as non-current assets and RM10,339,000 as current assets.

5 Turnover

The analysis of the Company's turnover for the year from operations is as follows:

	2018 RM 000	2017 RM 000
Sale of crude oil and natural gas	2,463,719	2,107,773

All of the Company's turnover, profit before tax and net assets are derived from its principal activities and originate in Malaysia.

6 Other income/ (expense)

	2018 RM 000	2017 RM 000
Gain on divestment	498,607	-
Reversal of decommissioning and site restoration provision	2,437	456,932
Feasibility expenses	(18,659)	(7,163)
Net foreign exchange gain/(loss)	4,113	(17,671)
Other operating gain/(loss)	6,044	(2,129)
	492,542	**429,969**

7 Interest receivable and similar income

	2018 RM 000	2017 RM 000
Interest from Group undertakings:		
Fellow subsidiary undertakings	21,844	8,888

8 Interest payable and similar charges

	2018 RM 000	2017 RM 000
Interest on borrowings	47,610	55,081
(Gain)/loss on currency translation - financial items	(675)	(184,537)
Unwinding of discount on long term provisions	21,392	49,393
Losses on derivative financial instruments	17,185	46,418
Interest on finance lease	87,283	113,848
	172,795	**80,203**

9 Operating profit

Arrived at after charging/(crediting):

	2018 RM 000	2017 RM 000
Operating lease rental charged:		
Hire of plant and machinery	1,025	2,636
Other operating lease expense - property	1,742	4,962
Depreciation:		
Tangible assets	751,469	914,679
Assets held under finance leases	96,132	111,550
Write off of exploration wells	93,385	-
Provision for liabilities and charges	11,922	6,455
Write back of inventories to net realisable value	(776)	(157)
(Reversal)/allowance for impairment of receivables	(743)	(954)

10 Staff costs

The aggregate payroll costs were as follows:

	2018 RM 000	2017 RM 000
Wages and salaries	105,971	141,699
Pension costs (note 21)	17,217	19,821
	123,188	**161,520**

The average number of persons employed by the Company (including Directors) during the year, analysed by category was as follows:

	2018 No.	2017 No.
Oil and gas exploration	540	813

11 Auditor's remuneration

	2018 RM	2017 RM
Audit of the financial statements	**145,000**	**71,000**

The auditor's remuneration of RM 145,000 (2017: RM 71,000) in respect of the statutory audit was borne by the company for both the current and preceding years.

Fees paid to the Company's auditor and its associates for non-audit services to the Company itself are not disclosed in the individual accounts of the Company because the Royal Dutch Shell plc consolidated accounts are required to disclose such fees on a consolidated basis.

12 Tax on profit

Tax charge in the profit and loss account

The tax charge for the year of RM454,670,000 (2017: RM257,529,000) falling within the scope of the Malaysian tax legislation is made up as follows:

	2018 RM 000	2017 RM 000
Current taxation		
Malaysian tax expense on results for the year	647,250	366,170
Adjustments in respect of prior periods	(13,993)	2,952
Total current tax charge	**633,257**	**369,122**
Deferred taxation		
Arising from origination and reversal of temporary differences	(183,546)	(141,496)
Arising from adjustment in respect of prior periods	4,959	29,903
Total deferred tax credit	**(178,587)**	**(111,593)**
Tax charge in the profit and loss account	**454,670**	**257,529**

12 Tax on profit (continued)

Reconciliation of total tax charge

The tax assessed for the year differs from the statutory rate of Malaysian tax 38.00% (2017: 38.00%).

The differences are reconciled below:

	2018 RM 000	2017 RM 000
Profit before tax	**(1,587,405)**	**(996,511)**
Tax on profit/(loss) calculated at statutory rate (2018: 38.00%) (2017: 38.00%)	603,214	378,674
Effects of:		
Income exempt from taxation	(189,470)	(18,524)
Expenses not deductible	17,814	6,656
Adjustments in respect of prior periods	(20,647)	2,952
Deferred tax expense/ (credit) from unrecognised tax loss or credit	41,858	(140,888)
Unrecognised temporary difference from a prior period	4,959	29,903
Reconciliation between accounting profit and tax expense (income)	(3,058)	(1,244)
Total tax charge	**454,670**	**257,529**

12 Tax on profit (continued)

Deferred tax assets/(liabilities) as at:

Deferred tax movement during the year:

	At 1 January 2018 RM 000	Recognised in profit and loss RM 000	Recognised in equity RM 000	At 31 December 2018 RM 000
Amortisation	(215,112)	197,113	-	(17,999)
Provisions	39,141	(8,186)	-	30,955
Foreign exchange differences on foreign operations	82,924	(3,071)	-	79,853
Tax losses carried forward	1,481	(1,233)	-	248
Other items (refer note 1)	4,472	(6,036)	(5,683)	(7,247)
Net tax assets/(liabilities)	**(87,094)**	**178,587**	**(5,683)**	**85,810**

Deferred tax movement during the prior year:

	At 1 January 2017 RM 000	Recognised in profit and loss RM 000	At 31 December 2017 RM 000
Amortisation	(367,858)	152,746	(215,112)
Provisions	35,973	3,168	39,141
Foreign exchange differences on foreign operations	128,021	(45,097)	82,924
Tax losses carried forward	1,501	(20)	1,481
Other items	3,676	796	4,472
Net tax assets/(liabilities)	**(198,687)**	**111,593**	**(87,094)**

13 Tangible assets

	Exploration drilling RM 000	Support equipment and facilities RM 000	Production wells, related equipment and facilities RM 000	Rights and concessions RM 000	Inventories RM 000	Total RM 000
Cost or valuation						
Balance at 1 January 2018	76,501	4,731	5,018,377	14,189	2,788	5,116,586
Additions	24,811	275	46,641	13,427	-	85,154
Write off	(93,385)	(13)	-	-	-	(93,398)
Other movements*	-	-	47,704	-	(575)	47,129
Balance at 31 December 2018	**7,927**	**4,993**	**5,112,722**	**27,616**	**2,213**	**5,155,471**
Accumulated Depreciation						
Balance at 1 January 2018	-	(985)	(2,155,851)	-	-	(2,156,836)
Charge for the year	-	(399)	(847,202)	-	-	(847,601)
Written off	-	-	(9,233)	-	-	(9,233)
Balance at 31 December 2018	**-**	**(1,384)**	**(3,012,286)**	**-**	**-**	**(3,013,670)**
Net book amount						
At 31 December 2018	**7,927**	**3,609**	**2,100,436**	**27,616**	**2,213**	**2,141,801**
At 31 December 2017	**76,501**	**3,746**	**2,862,526**	**14,189**	**2,788**	**2,959,750**

13 Tangible assets (continued)

* Included in other movements is addition to abandonment and site restoration provision of RM 42,160,000

Exploration drilling relates to intangible cost of RM7,927,000 (2017: RM76,501,000).

Production wells, related equipment and facilities assets net book value RM2,100,436,000 (2017: RM2,862,526,000) includes assets under construction RM177,012,000 (2017: RM197,327,000), completed assets RM1,329,055,000 (2017: RM1,987,259,000) and assets held on finance lease of RM594,369,000 (2017: RM677,940,000).

During the year, other movements for stock of materials of RM575,000 (2017: RM317,000) consists of stock of materials consumed in operations of RM1,351,000 (2017: RM474,000) and provision of inventories written back of RM776,000 (2017: RM157,000). Inventory are valued at weighted average cost and net of allowance for obsolescence of RM617,000 (2017: RM1,393,000).

14 Stock

	2018 RM 000	2017 RM 000
Stock of Crude oil	2,970	7,440

15 Trade and other debtors

Debtors: amounts due within one year

	2018 RM 000	Restated* 2017 RM 000
Trade debtors	178	196
Amounts owed by Group undertakings:		
Fellow subsidiary undertakings	1,238,263	1,175,023
Prepayments and accrued income	8,039	19,232
Other debtors	324,200	360,756
Tax receivable	47,457	3,912
	1,618,137	**1,559,119**

Other debtors of RM9,656,000 fall due after more than one year. Debtors are stated after provisions for impairment of RM2,593,000 (2017: RM2,658,000).

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

*Refer note 3 on prior period adjustments.

Debtors: amounts due after one year

	2018 RM 000	2017 RM 000
Other debtors	9,656	-
	9,656	-

Other debtors include deferred consideration which is the amount receivable from SEAH due to North Sabah PSC divestment. This amount is to be received 24 months after the completion of the divestment on 31 March 2018.

15 Trade and other debtors (continued)

The impairment allowance for financial assets as at 31 December 2018 is as follows:

	2018 RM 000	2017 RM 000
At amortised cost		
Trade receivables	179	196
Other debtors	326,792	310,733
	326,971	**310,929**

2018	Gross carrying amount RM 000	ECL allowance RM 000	Carrying amount RM 000
Trade receivables	179	1	178
Other debtors	326,792	2,592	324,200
	326,971	**2,593**	**324,378**

2017	Gross carrying amount RM 000	ECL allowance RM 000	Carrying amount RM 000
Trade receivables	196	-	196
Other debtors	310,733	-	310,733
	310,929	**-**	**310,929**

The impairment provision required under IFRS 9 was calculated using 12 month ECLs. No assets were assessed as credit impaired.

The Company has recorded all financial assets at amortised cost.

16 Assets held for sale

On 12 October 2016, the Company announced the decision of its Directors to sell the interest of North Sabah EOR PSC. Sales and Purchase Agreement ("SPA") was signed with SEAH (an indirect wholly-owned subsidiary of Hibiscus Petroleum Berhad) on the same date for a purchase consideration of USD 25,000,000 (excluding post completion adjustments and reimbursements to Shell). The sale was completed on 31 March 2018 and resulted in a gain on divestment of RM498,607,000.

The carrying values of the assets and liabilities held for sale as at 31 December were as follows:

	2018 RM 000	2017 RM 000
Tangible assets	-	90,928
Debtors	-	211,173
Total assets classified as held for sale	**-**	**302,101**
Provision for liabilities and charges and payables	-	(713,780)
Net liabilities of disposal group	**-**	**(411,679)**

17 Creditors: amounts falling due within one year

	2018 RM 000	Restated* 2017 RM 000
Amounts owed to Group undertakings		
Fellow subsidiary undertakings	246,900	754,489
Finance lease liabilities (note 20)	103,360	104,958
Tax liability	233,421	137,015
Accrued expenses	326,177	593,155
Other liabilities	-	15,029
Other creditors	11,766	2,279
	921,624	**1,606,925**

*Refer note 3 on prior period adjustments.

18 Creditors: amounts falling due after more than one year

	2018 RM 000	2017 RM 000
Amounts owed to Group undertaking		
Fellow subsidiary undertakings	661,680	647,760
Finance lease liabilities (note 20)	1,148,359	1,201,658
	1,810,039	**1,849,418**

The term loan which is denominated in US Dollars are granted by a related company and is to finance capital expenditure projects. The term loan is unsecured and bear interest at a fixed margin of 4.02% (2017: 3.55% to 4.02%) above the London Interbank Offer Rate ("LIBOR"). The interest rate which was effective for the year was 5.81% per annum (2017: 5.19% per annum).

The term loan is to be settled by 1 (2017: 2) repayment on August 2021.

19 Cash and cash equivalents

	2018 RM 000	2017 RM 000
Short-term deposits	1,315,533	649,471

The short-term deposits are held on Company's behalf by Shell Malaysia Limited and are repayable on demand. These amount to RM850,217,000 (2017: RM459,383,000) in RM and RM465,316,000 (2017: RM190,088,000) in USD. These funds are centrally managed by the central Treasury function of RDS. The interest rate that was effective as at end of the reporting date was 3.10% (2017: 2.85%) per annum for RM and 2.17% (2017: 1.37%) for US Dollars.

20 Obligations under finance leases

Finance leases

The future minimum lease payments for finance leases and the present value of minimum finance lease payments at reporting date, by payment date are as follow:

2018	Minimum lease payments RM 000	Interest RM 000	Present value RM 000
Within one year	185,377	(82,017)	103,360
In two to five years	642,395	(249,005)	393,390
In over five years	923,837	(168,868)	754,969
	1,751,609	**(499,890)**	**1,251,719**

2017	Minimum lease payments RM 000	Interest RM 000	Present value RM 000
Within one year	190,884	(85,926)	104,958
In two to five years	647,691	(269,583)	378,108
In over five years	1,040,691	(217,141)	823,550
	1,879,266	**(572,650)**	**1,306,616**

20 Obligations under finance leases (continued)

Gumusut-Kakap:
The Branch and Gumusut-Kakap Semi-Floating Production System (Labuan) Limited ("GKL") entered into the Semi-FPS Lease Agreement on 9 November 2012. Negotiations with GKL led to an amendment to the contract to reflect Conditional Handover Completion on 3 June 2013 (when the Semi-FPS successfully sailed away). This signified the custody handover of the Semi-FPS from GKL to the Branch resulting in capitalisation of finance lease. Finance charge amounting to RM76,398,000 (2017: RM100,475,000) that are directly attributable to the construction of the Semi-FPS has been expensed off. Capitalisation of the finance charge ceased, upon first oil date and commencement of commercial production in October 2014.
In view with the verdict of adjudication proceedings under the Malaysia Construction Industry Payment and Adjudication Act ("CIPAA") 2012 which was concluded in August 2017 in favour, the Branch has recorded a reclassification of trade and other payables to finance lease liabilities in 2017. Information on the adjudication proceeding is disclosed in Note 30.

Siakap North Petai:
The Siakap North Petai ('SNP') unit development took final investment decision on 28 January 2012 and commenced production on 28 February 2014. The development philosophy of SNP is to leverage on existing facilities as much as possible by evacuation to the existing Floating Production Storage and Offloading ('FPSO') in Kikeh under Block K PSC. Kikeh operator, Murphy Oil Corporation is the charterer of the FPSO for Kikeh FPSO Lease Agreement.
The FPSO needed to be modified to process, meter, store and export the SNP production. For the modification work to take place, a supplementary agreement to the main FPSO charter agreement was put in place between Murphy and FPSO owner, Malaysia Deepwater Floating Terminal Labuan. According to the agreement, FPSO owner will incur the modification cost and SNP unit will pay back the modification cost in the form of fixed hire rate. Finance charge amounting to RM10,885,000 (2017: RM13,373,000) that are directly attributable to the modification of the FPSO has been expensed

20 Obligations under finance leases (continued)

Operating leases

At 31 December, the Company had future minimum lease payment under operating leases as follows:

	2018 RM 000	2017 RM 000
Within one year	61,253	69,919
In two to five years	75,956	131,444
In over five years	2,413	8,178
	139,622	**209,541**

21 Pension and other schemes

The Company's current post-employment benefit scheme comprise only the defined contribution plan.

Contributions to the Employee's Provident Fund, which is a defined contribution plan, are charged to the Profit and Loss account when incurred. Once the contributions are paid, the Company has no further payment obligations.

As at the year end there were no contributions outstanding (2017: RM Nil). The contributions during the year amounted to RM 17,217,000 (2017: RM19,821,000).

22 Provisions

	Restated* Facilities abandonment and site restoration RM 000	Restated* Others RM 000	Total RM 000
Balance as at 1 January 2018	(382,154)	(101,510)	(483,664)
Increase in existing provisions	(42,160)	(48,195)	(90,355)
Write back of provisions	-	36,273	36,273
Provisions used	-	23,189	23,189
Increase due to passage of time or unwinding of discount	(16,192)	-	(16,192)
Balance as at 31 December 2018	**(440,506)**	**(90,243)**	**(530,749)**

Provision for others includes RM52,663,000 (2017: RM63,081,000) for PETRONAS and joint venture disallowed costs and RM37,580,000 (2017: RM38,429,000) for redundancy cost and compensated absences. Under the terms of the PSCs and JOAs, certain expenditure may not be recoverable and a provision has been recognised based on past trend on disallowed costs. The disallowed costs for the joint venture will be utilised upon finalisation by PETRONAS and the joint venture partners.

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed at least annually and engineering estimates and reports are updated periodically. Provision is made for the estimated cost of decommissioning at the balance sheet date, to the extent that current circumstances indicate that the Company will ultimately bear this cost. Payments are currently not anticipated until ranging between 2030 to 2037.

*Refer note 3 on prior period adjustments.

23 Called up share capital

Allotted, called up and fully paid shares

	No.	2018 RM 000	No.	2017 RM 000
Issued share capital of £1 each	229,215,835	1,125,421	229,215,835	1,125,421

24 Directors' emoluments

The Directors' emoluments for the year were as follows:

	2018 RM 000	2017 RM 000
Emoluments	1,559	1,565

In respect of the highest paid Director:

	2018 RM 000	2017 RM 000
Emoluments	689	1,324
Defined contribution retirement plan	109	241
	798	**1,565**

The estimated monetary value of benefits-in-kind paid to Officer of the Branch amounted to RM306,000 (2017: RM337,000).

25 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was 146,985,000.00 (2017 - RM32,925,000).

26 Share-based payments

Conditional awards of Royal Dutch Shell plc shares are made under an amended long-term incentive plan (the 'Performance Share Plan') when making awards to employees who are not Executive Directors of Royal Dutch Shell plc. The actual amount of shares that may vest, ranging from 0-200% of the conditional awards, depends on the measurement of the prescribed performance conditions over a three-year period beginning on 1 January of the award year. For the awards granted in 2015 and 2016, half the award is linked to the relative performance compared to four of its main competitors in Total Shareholder Return ('TSR') measure, earnings per share, cash flow from operations and return on actual capital employed over the measurement period. The other half of the award is linked to the Shell scorecard results.

For awards granted in 2018, 37.5% of the award is linked to the relative performance compared to four of its competitors in TSR, cash flow from operations and return on actual capital employed and 12.5% to a free cash flow factor relative to internal operating plans over the remeasurement period. The other half of the award is linked to the Shell scorecard results.

The weighted average market price for exercises in 2018 was $31.14 (2017: $26.37) for Royal Dutch Shell plc ClassA shares, $31.42(2017: $27.51) for Royal Dutch Shell plc Class B shares, and $63.09 (2017:$52.69) for Royal Dutch Shell plc ClassA ADRs.

For the performance shares which were outstanding as at 31 December 2018, the weighted average exercise price is $ nil (2017:$ nil) and the weighted average remaining contractual life is 1.04 years (2017:1.12years).

The profit and loss charge/(credit) for the year 2018 is RM (246,000) (2017: RM213,000).

27 Significant event

The following events are relevant to the Branch, as the Branch, holds participating interest in the Gumusut Kakap field under the Block J Production Sharing Contract (PSC).

Arbitration

On 28 February 2017, Gumusut-Kakap Semi-Floating Production System (L) Limited a wholly-owned subsidiary of MISC Berhad, served a Statement of Claim against Sabah Shell Petroleum Company Limited for its claim amounting to USD448 million. Embedded within claim are components where GKL are also pursuing claims through adjudication proceedings under the Malaysian Construction Industry Payment and Adjudication Act ("CIPAA") 2012.

On 30 May 2017, SSPC served its Statement of Defence and Counterclaim on GKL. In its defence and counterclaim, SSPC asserts that claims, recited in its Statement of Claim, to be without basis in addition to pursuing claims for, among others, USD583 million. GKL and SSPC exchanged pleadings in the arbitration in Aug, Nov and Dec 2017. The arbitration hearing was completed in Q1 2019 and the award of the arbitral tribunal is pending.

Adjudication

On 10 February 2017, a decision was delivered by the adjudicator in relation to the adjudication proceedings between SSPC and GKL. The adjudicator awarded USD255 million to GKL following the adjudication proceedings. The adjudication decision is an interim measure pending final resolution of all claims by SSPC against GKL in arbitration proceedings.

On 19 June 2017, GKL submitted its second Adjudication Claim for USD11 million, which resulted in a decision in favour of GKL in August 2017.

Others

GKL's challenge to the USD20 million bank guarantee that SSPC called on in November 2016 was dismissed by the High Court in February 2017. GKL's subsequent appeal was dismissed by the Court of Appeal in June 2018.