PETCO TRADING (UK) LIMITED
(Registered No. 06695912)

DIRECTORS' REPORT, STRATEGIC REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Registered address
1 Blake Mews
Kew Gardens
Richmond upon Thames
Surrey, TW9 3GA
United Kingdom

Registered No. 06695912

PETCO TRADING (UK) LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors have pleasure in submitting their report and the Audited Financial Statements of PETCO Trading (UK) Limited ("the Company") for the year ended 31 December 2019.

PRINCIPAL PLACE OF BUSINESS

The Company is a private limited company incorporated and domiciled in the United Kingdom and has its principal place of business at One New Ludgate, 9th Floor, 60 Ludgate Hill, London, EC4M 7AW, United Kingdom.

PRINCIPAL ACTIVITIES

The principal activities of the Company in the course of the financial year expanded and consist of marketing of crude oil, fuel oil blending and trading in crude oil and petroleum products.

HOLDING COMPANY

The holding company is PETRONAS Trading Corporation Sdn. Bhd. ("PETCO"), a company incorporated and domiciled in Malaysia.

The ultimate holding company is Petroliam Nasional Berhad ("PETRONAS"), a company incorporated and domiciled in Malaysia.

DIVIDENDS

No dividend was paid during the financial year and the Directors do not recommend any dividend to be paid for the financial year under review.

RESERVES AND PROVISIONS

There were no material movements to or from reserves and provisions during the year other than as disclosed in the financial statements.

POLITICAL CONTRIBUTIONS

The Company made no political donations or incurred any political expenditure during the financial year.

GOING CONCERN

The Directors believe that the Company has considered all available information about the future in its assessment of its ability to continue as a going concern, for at least the next 12 months from the date of signing, which includes the following:

- The Company has accumulated consistent wealth and growth over the years in operation.
- The Company has developed robust strategies and initiatives, translated into its approved business plan for the next financial years. Together with its cashflow forecast, the Company is confident that it will generate sustainable business for the foreseeable future.
- The Company has sufficient and easy access to financial resources.
- The Company has term contracts with reputable, creditworthy customers and reliable suppliers across different regions.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

GOING CONCERN (CONTINUED)

- The Company is not aware of any events or conditions that may cast significant doubt about the going concern assumption.
- The Company does not intend to liquidate or cease trading.
- The Company assessed the potential impact of Brexit, the details of which are in the Strategic Report on pages 6 to 10.
- The Company assessed the potential impact of COVID-19 and low oil price environment in subsequent periods and prepared revised budget to stress test going concern status of the Company. The details of the assessment are in the Strategic Report on pages 6 to 10 and in Note 1.6 to the financial statements.

Accordingly, the financial statements have been prepared on a going concern basis.

DIRECTORS OF THE COMPANY

Directors who served during the financial year until the date of this report are:

Shamsul Bahari bin Salleh
Ahmad Hakimi bin Muhammad Radzi
Emry bin Mohd Tamrin
Samed Erensoy (appointed on 28 June 2019)
Mohamed Fasluddeen bin Abdul Hadi (appointed on 28 June 2019)

DIRECTORS' INTERESTS

The Directors in office at the end of the year who have interests and deemed interests in the shares of the Company and of its related corporations other than wholly-owned subsidiaries (including the interests of the spouses and/or children of the Directors who themselves are not Directors of the Company) as recorded in the Register if Directors'are as follows:

Number of shares in PETRONAS Chemicals Group Berhad

Name	Balance at 1.1.2019	Bought	Sold	Balance at 31.12.2019
Directors				
Shamsul Bahari bin Salleh	2,000	-	-	2,000
Mohamed Fasluddeen bin Abdul Hadi	6,000	-	-	6,000

None of the other Directors holding office at 31 December 2019 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of remuneration received or due and receivable by Directors as shown in note 17 of the financial statements), by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

ISSUE OF SHARES

There were no changes in the issued and paid up capital of the Company during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

ENGAGING WITH STAKEHOLDERS

The directors regularly and actively engaged with the Company's employees, customers, suppliers, shareholders, and other relevant stakeholders to understand relevant stakeholder views. This is to ensure that all decision making is sufficiently informed and is supportive of directors' duties under Section 172 of Companies Act 2006. Further details on how Company's relationships with stakeholders shapes and influences strategic consideration around issues material to them can be found in the Strategic Report on pages 6 to 10.

Employees

The Company regards its employees as its most valued asset and puts great emphasis on the wellbeing and morale of the employees. Regular engagement with employees helps the Company understand the areas of importance with regards to the working environment and Company culture. Directors conduct regular face to face engagement sessions with employees to inform them on the latest developments and to hear employees' concerns and suggestions.

The Company rolled out the PETRONAS MyPassport website and the PETRONAS Dot application during the year. Through these, employees can access articles by leaders in PETRONAS and Company information, manage performance and appraisal matters, and can give and receive feedback and recognition to and from colleagues.

Customers and suppliers

The Company and relevant directors proactively and continuously engage with its customers and suppliers through both face to face meetings and digital platforms. Business trips to office locations of key customers and suppliers ensure loyalty and expansion of the Company's business relationships. Directors also regularly participate in industry events such as International Petroleum Week in London, the Asia Pacific Petroleum Conference in Singapore, the Abu Dhabi International Exhibition & Conference, among others, to meet new customers and suppliers and foster new business relationships.

Shareholders

The Company regularly engages with its shareholder, PETRONAS Trading Corporation Sdn Bhd., with representation at the shareholder's board of directors meetings, providing regular updates on business performance, strategies and plans for future years, as well as participating in other regular meetings and workshops at the PETRONAS Group headquarters in Kuala Lumpur.

Other stakeholders

The Company also regularly engages with its bankers, government agencies and service providers to provide them with the required regulatory information to comply with laws and regulations. The Company has actively participated in the surveys conducted by the Office of National Statistics during the year.

Registered No. 06695912

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

OTHER STATUTORY INFORMATION

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain:

i) that necessary actions had been taken in relation to the writing off of bad debts and the provisioning of doubtful debt and satisfied themselves that there are no bad debts to be written off and no provision that need to be made for doubtful debts, and

ii) that any current assets which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Company, had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

i) that would render it necessary to write off any bad debts or provide for any doubtful debts, or

ii) that would render the value attributed to the current assets in the financial statements of the Company misleading, or

iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate, or

iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Company misleading.

At this date of report, there does not exist:

i) any charge on the assets of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

ii) any contingent liability in respect of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Company for the financial year ended 31 December 2019 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

The Strategic Report on pages 6 to 10 contains a description of the Company's exposure to principal risks, as well as an outline of its future developments.

In respect of the directors or past directors of the Company, the amount of:

i) fees and other benefits paid to or receivable by them from the company or its subsidiary companies as remuneration for their services to the company or its subsidiary companies; and

ii) the estimated money value of any other benefits received or receivable by them otherwise than in cash from the company or from any of its subsidiaries; and

Registered No. 06695912

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

OTHER STATUTORY INFORMATION (CONTINUED)

iii) the total of the amount paid to or receivable by any third party in respect of the services provided to the company or any of its subsidiary companies by any director or past director of the company.

are disclosed in Note 17.

DISCLOSURE OF INFORMATION TO AUDITOR

The Directors who held office at the date of approval of this Directors' Report confirm that, so far that they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

....

SHAMSUL BAHARI BIN SALLEH
CHAIRMAN

Registered address:
1 Blake Mews, Kew Gardens
Richmond upon Thames
Surrey, TW9 3GA
United Kingdom

Date: 8 June 2020

Registered No. 06695912

PETCO TRADING (UK) LIMITED

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors have pleasure in submitting their strategic report on the Company for the year ended 31 December 2019.

BUSINESS REVIEW

The Company's financial performance during the year was as follows:

	2019	2018	%
	'000 barrels	'000 barrels	Change
Sales volume	49,366	48,525	2

	2019	2018	%
	USD'000	USD'000	Change
Revenue	2,015,520	2,066,452	(2)
Gross profit	22,206	8,296	168
Profit for the year	14,218	3,857	269

	31.12.2019	31.12.2018	%
	USD'000	USD'000	Change
Total assets	567,526	334,578	70
Total equity	42,373	28,155	50

Current assets as % of current liabilities	1.08:1	1.09:1
Average number of employees	18	17

The Company reached new heights in 2019, recording its highest gross margin historically at USD22.21 million, a significant increase from prior year's gross margin of USD8.30 million. This was mainly contributed by the Company's new business activity to produce IMO 2020 compliant 0.5% fuel oil starting in August 2019 in Malta, alongside the focused execution of PTUK's focal role in sourcing to system refineries.

Global economic growth remained sluggish for most of 2019, primarily due to the ongoing trade tensions between the two largest economies, USA and China. Despite strong levels in consumer spending and persistent interest rate cuts the USA imposed throughout 2019, a decline in global trade prevented any potential uplift in economic growth. Global economic growth for 2019 was at 2.9%, down from 3.5% from the January 2019 forecast. This helped support prices, along with the continued tension in the Middle East, adding to the bullish sentiment. However, the sluggish global economic growth and the USA's efforts to continue ramping up the shale production did weigh on oil prices throughout the year. The build up to International Maritime Organisation ("IMO 2020"), changed trading strategies and the sanctions imposed on China Ocean Shipping (Group) Company ("COSCO") in October 2019 – elevating freight prices to record levels, created challenging market conditions for many players at the back end of 2019.

Despite the challenging market conditions, PTUK succeeded to achieve its higher gross margin to date, mostly contributed by the fuel oil blending activities. In the build up to IMO 2020, demand for marine fuel oil was expected to surge as the year progressed, which helped to improve the groups margin for the year.

BUSINESS REVIEW (CONTINUED)

The Company continues to implement its core strategy in sourcing of crude oil for the Engen refinery in South Africa, supplying a diverse range of crude slates to the refinery as well as competitive sourcing of naphtha to system refineries.

The Company continued to achieve optimal value for PETRONAS' foreign equity crude, developing relationships with key players in the market in collaboration with PETRONAS' Upstream division. The Company also explored American markets during the year, in particular, Brazil, Argentina and Mexico to seek potential trading and marketing opportunities in the coming years.

ENGAGING WITH STAKEHOLDERS

Effective and high-quality engagement with stakeholders is vital for the success of the company. Therefore, the Company regularly engages with employees, customers, suppliers, shareholders, and other relevant stakeholders. Effective engagement with key stakeholders enables two-way dialogue, stakeholders are informed on a regular basis on Company's key activities and strategies which may potentially impact them and Company obtains valuable information from key stakeholders which helps to shape company's plans and strategies to ensure sustainability and future growth of the Company.

Senior leaders of the Company regularly participate in face to face meetings with clients, industry events and conferences. By carefully listening to the concerns of key stakeholders, the Company could successfully deliver bespoke solutions to its customers and improved the way it works with its customers, which serves as an invaluable differentiating factor in the competitive market.

Listening to the concerns of stakeholders, the Company rolled out digitalisation initiative in the year, which has significantly improved the efficiency of communication with various stakeholders.

FUTURE DEVELOPMENTS

The Company is committed to contributing a sustainable growth through directing its efforts in expanding and establishing a niche trading portfolio and trading for PETRONAS' requirements. By leveraging on its resources and human talent, the Company strives to deliver profitable business expansion.

Company's operations to date have seen little direct impact from the COVID-19 pandemic, we have focused on implementing measures to ensure the safety of our employees and contractors, the integrity of our operational facilities and to prepare the business to face potential challenges that emerge. The potential impacts are currently unknown but could include lower demand for crude oil and petroleum products. The actions implemented to mitigate the risks associated with the COVID-19 pandemic are set out on pages 9-10. The Company has a strong operational and financial capacity to withstand the challenges faced by the COVID-19 pandemic and current low oil price environment.

PRINCIPAL RISKS

It is the Company's culture to uphold good corporate governance and institutionalise distinctive risk management capability to continuously enhance its operational excellence for sustainable business.

The Company's risk management system is governed by its ultimate holding company's centralised risk management control and framework. The risk management system dynamically monitors and controls exposed risk faced by the Company. The risks are described as follows:

Registered No. 06695912

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

PRINCIPAL RISKS (CONTINUED)

Commodity price risk
The Company faces the probability of financial loss due to the volatility of commodity prices for both crude oil and petroleum products as well as financial instruments.

Credit risk
The Company has exposure to financial loss from failure of counterparties to make payments for the crude oil and petroleum products delivered.

Operational control risk
The Company is subject to operational control risk around its normal course of business activities. Deficiencies in information systems, breaches of internal controls, human errors, management failure, operational problems, fraud or geopolitical instability could lead to disruption of business, financial loss, regulatory intervention or damaged reputation.

Inventory risk
The Company is potentially exposed to physical loss of inventories and decrease in value of its inventories due to commodity price movements.

Performance risk
Performance risk is the potential exposure of the Company to financial loss arising from failure of counterparties to perform their contractual obligations.

Basis risk
This is the potential financial loss arising from different pricing terms for sale and purchase of crude oil and petroleum products.

Brexit risk
Under a deal between the UK and the EU, the UK officially left the bloc on 31 January 2020 at 11pm. The deal caters for an implementation period until 31 December 2020. The implementation period serves to artificially extend the status quo conditions of life as part of the EU by continuing to see European law applied. During the transition period, the UK and EU plan to negotiate and agree their future partnership (such as a trade deal) which will ideally be in place on the date the transition period ends. The Company does not expect to be affected by the outcomes of the negotiations as further outlined below:

- **Customers**: Company's customers are mainly non-EU and therefore this is not a key risk area for the Company.

- **Supply Chain**: The Company mainly trades outside the EU. The Company does not have any plans to become an importer and/or exporter of goods in the EU, when it transacts with customers and suppliers based in EU. Therefore, Brexit should not have a material impact on the Company's supply chain.

- **Employees**: It is expected that any EU citizens currently living and working in the UK will not be impacted by the outcome of Brexit. In addition, majority of Company's employees are non-EU citizens. Therefore, the impact of Brexit on the Company's employees would not be significant.

- **Financing**: The Company does not have any long-term loans and borrowings, and the day to day requirements are met with the use of Trade Finance short-term facilities provided by UK and Malaysia based financial institutions (see Note 10). The transfer of money is unlikely to be affected by Brexit and therefore this is not a significant issue.

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

PRINCIPAL RISKS (CONTINUED)

- **Regulations**: There are no specific regulations which could potentially have significant impact on the Company in case of Brexit.

Risk arising from COVID-19 pandemic
There is a global economic uncertainty in the markets where the Company operates, as a result of COVID-19 outbreak. Furthermore, recent global developments has caused further abnormality and large scale volatility in oil and gas markets. As the situation is fluid and rapidly evolving, the Company is actively monitoring and managing its operations to minimise any potential impact. The Company does not expect to be materially affected by these developments as outlined below:

Government protection
The UK Government has announced the below support packages to companies in the UK, which are also available to the Company:

- Coronavirus Job Retention Scheme
- Deferral of VAT and Corporation Tax Self-Assessment payments on account
- Statutory Sick Pay rebate
- Coronavirus Large Business Interruption Loan Scheme

However, the Company has not relied upon any of the above support packages as its business continues to operate normally.

Customers
The Company's customers continue to trade and have access to our products by taking or receiving products as usual at petroleum terminals and via petroleum tankers. Majority of Company's customers are PETRONAS group subsidiaries and major oil and gas players. To minimise any potential impact from lower demand, the Company has been in regular contact with main customers and closely monitoring the situation in the market and has been developing a diverse customer base in its main markets.

The Company has not faced any issues regarding its receivables due to COVID-19. Customers have been paying as per the contractual due dates. The Company manages its credit risk as per the PETRONAS Credit Risk guidelines and minimises credit risk by ensuring that all potential third-party counterparties are assessed prior to registration and entering into new contracts. Existing third-party counterparties are also subject to regular reviews, including re-appraisal and approval of granted limits. These limits are reviewed when there is a change in market environment. Before entering into any new deal with customers, the Company reviews the current credit limit. Majority of sales are with related parties, which are less subject to credit risk. Majority of the sales to third parties are usually on secured basis. Therefore, changes in market environment due to COVID-19 and low oil price will not have adverse impact on the Company in terms of credit risk.

Supply chain
The Company's suppliers continue to operate and have no restrictions in delivering products purchased by the Company as usual at petroleum terminals and via petroleum tankers. The Company has a diverse base of suppliers and majority of supplies are generated from other PETRONAS group subsidiaries, whose ability to supply have not been significantly impacted by COVID-19. Therefore, there is a minimal potential risk of supply chain disruption for the Company arising from current market conditions. In addition, there has been no disruption to Company's trading operations from the service providers such as freight/shipping, inspection, and other relevant services. The Company's fuel oil blending activities in offshore Malta has been operating normally without any disruption.

Registered No. 06695912

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

PRINCIPAL RISKS (CONTINUED)

Employees
The Company's employees have been working from home since 13 March 2020. All employees can work from home without any restrictions or interruptions and have been delivering their duties without any issues or delays. The Company can continue for an undefined period of time with employees working remotely. The business does not have a reduced workforce and school closures have not impacted the employees' deliverables.

Financing
The Company's ability to obtain financing has not been impacted by COVID-19. The Company's banks confirmed their readiness to support the Company with its financing needs as per the existing facilities. The Company does not have any long-term borrowings and only borrows short-term trade loans to finance the purchase of blending components for fuel oil blending activities. The Company buys the needed components only after sales commitments are confirmed, which minimise the exposure from the liquidity risk.

Industry risk factor
The commodity prices have reduced significantly as a result of lower demand from COVID-19 and surplus production by oil producing countries, also resulting in a lack of storage for surplus crude oil and petroleum products. However, the Company's trading volumes and profits have not been adversely impacted by these falling prices and the Company does not have any issues storing its products.

The Company continues to monitor the political and economic events and forecasts to manage any potential impacts to its business including its employees.

Information on financial instruments and financial risk factors is explained in Note 18 on page 39.

Approved by the Board of Directors and signed on its behalf in accordance with a resolution of the Directors:

....

SHAMSUL BAHARI BIN SALLEH
CHAIRMAN

Registered address:
1 Blake Mews, Kew Gardens
Richmond upon Thames
Surrey, TW9 3GA
United Kingdom

Date: 8 June 2020

Registered No. 06695912

PETCO TRADING (UK) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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 then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PETCO TRADING (UK) LIMITED

We have audited the financial statements of PETCO Trading (UK) Limited ("the company") for the year ended 31 December 2019 which comprise the Statement of Financial Position, the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and related notes, including the significant accounting policies in Note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PETCO TRADING (UK) LIMITED (CONTINUED)

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 11, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PETCO TRADING (UK) LIMITED (CONTINUED)

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, 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 members 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 members, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard De La Rue (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

8 June 2020

Registered No. 06695912

PETCO TRADING (UK) LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	31.12.2019 USD'000	31.12.2018 USD'000
ASSETS			
Property, plant and equipment	3	2	-
Deferred tax assets	4	70	860
TOTAL NON-CURRENT ASSETS		72	860
Trade and other inventories	5	287,776	-
Trade and other receivables	6	269,744	305,478
Tax receivable		-	1,198
Cash and cash equivalents	7	9,934	27,042
TOTAL CURRENT ASSETS		567,454	333,718
TOTAL ASSETS		567,526	334,578
EQUITY			
Share capital	8	146	146
Retained earnings		42,227	28,009
TOTAL EQUITY		42,373	28,155
LIABILITIES			
Trade and other payables	9	332,440	301,838
Borrowings	10	192,013	
Derivative liabilities	11	312	4,585
Tax payable		388	
TOTAL CURRENT LIABILITIES		525,153	306,423
TOTAL LIABILITIES		525,153	306,423
TOTAL EQUITY AND LIABILITIES		567,526	334,578

The financial statements were approved by the Board of Directors on 4 June 2020 and signed on its behalf by:

SHAMSUL BAHARI BIN SALLEH
CHAIRMAN

The notes set out on pages 19 to 49 are an integral part of these financial statements.

Registered No. 06695912

PETCO TRADING (UK) LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 USD'000	2018 USD'000
Revenue	12	2,015,520	2,066,452
Cost of revenue		(1,993,314)	(2,058,156)
Gross profit		22,206	8,296
Administration expenses		(6,196)	(5,663)
Other expenses		(609)	(615)
Operating profit	13	15,401	2,018
Finance income		439	330
Profit before taxation		15,840	2,348
Tax expense/(income)	16	(1,622)	1,509
Profit for the year		14,218	3,857
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		14,218	3,857

The notes set out on pages 19 to 49 are an integral part of these financial statements.

Registered No. 06695912

PETCO TRADING (UK) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Non-Distributable	*Distributable*	
	Share capital USD'000	**Retained earnings USD'000**	**Total equity USD'000**
Balance at 1 January 2019	146	28,009	28,155
Profit for the year	-	14,218	14,218
Balance at 31 December 2019	146	42,227	42,373
Balance at 1 January 2018	146	44,152	44,298
Profit for the year	-	3,857	3,857
Dividends	-	(20,000)	(20,000)
Balance at 31 December 2018	146	28,009	28,155

The notes set out on pages 19 to 49 are an integral part of these financial statements.

Registered No. 06695912

PETCO TRADING (UK) LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 USD'000	2018 USD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		15,840	2,348
Adjustments for:			
Depreciation		2	7
Net impairment loss on receivables	13	(111)	169
Interest income		(439)	(330)
Interest expense		667	467
Unrealised (gain)/loss on foreign exchange	13	(198)	339
Unrealised loss on derivatives	13	312	4,585
Operating Profit before changes in working capital:		16,073	7,585
Decrease/(increase) in receivables	6	31,298	(65,095)
Increase/(decrease) in payables	9	30,602	63,442
Increase in inventories		(287,776)	-
Cash (used in)/generated from operations		(209,803)	5,932
Taxation paid		(1,220)	(1,850)
Tax refund received		2,130	1,525
Interest paid		(667)	(467)
Net cash (used in)/generated from operating activities		(209,560)	5,140
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase property, plant and equipment		-	(5)
Interest income from deposits		439	330
Dividends paid		-	(20,000)
Net cash generated from/(used in) investing activities		439	(19,675)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdown of trade loans		341,327	233,000
Repayment of trade loans		(149,314)	(233,000)
Net cash generated from financing activities		192,013	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(17,108)	(14,535)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		27,042	41,577
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	7	9,934	27,042

The notes set out on pages 19 to 49 are an integral part of these financial statements.

PETCO TRADING (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019

1. BASIS OF PREPARATION

1.1 Reporting entity

PETCO Trading (UK) Limited is domiciled in the United Kingdom. The Company's registered office at 1 Blake Mews, Kew Gardens, Richmond upon Thames, Surrey, TW9 3GA, United Kingdom. The Company is primarily involved in marketing of crude oil, fuel oil blending and trading in crude oil and petroleum products.

1.2 Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and the Companies Act 2006.

As of 1 January 2019, the Company had adopted new IFRS, amendments to IFRS and IFRIC Interpretation (collectively referred to as "pronouncements") that have been issued by the International Accounting Standard Board ("IASB") as described fully in Note 19.

The adoption of these pronouncements does not have any material impact to the financial statements of the Company.

IASB has also issued new and revised pronouncements which are not yet effective for the Company and therefore, have not been adopted for in these financial statements. These pronouncements including their impact on the financial statements in the period of initial application are set out in Note 20.

The financial statements were approved and authorised for issue by the Board of Directors on 4 June 2020.

1.3 Basis of measurement

The financial statements of the Company have been prepared on historical cost basis except that, as disclosed in the accounting policies below, certain items are measured at fair value.

1.4 Functional and presentation currency

The financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The Company's financial statements are presented in United States Dollar (USD), which is also the Company's functional currency.

1.5 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgements, 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.

1. BASIS OF PREPARATION (CONTINUED)

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 in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 2.5: Inventories, Note 11: Derivative Liabilities and Note 18: Financial Instruments. The key estimates made for financial instruments involves the determination of the expected credit loss. The key estimate made for derivatives is the determination of the fair value of the derivative liabilities. All fair values for derivatives are level 1 in the hierarchy. The key estimate made for the inventories is the estimation of the net realisable value of the inventories.

1.6 Going concern

The Directors believe that the Company has considered all available information about the future in its assessment of its ability to continue as a going concern, for at least the next 12 months from the date of signing, which includes the following:

- The Company has accumulated consistent wealth and growth over the years in operation. During the year company made profit of USD14,217,880 (2018: USD3,856,828). At the balance sheet date it held Net Assets of USD42,372,973 (2018: USD28,155,093), and Cash and Cash Equivalents balance of USD9,933,953 (2018: USD27,042,310). Subsequent to the year-end Company continues to be profitable and cash generating.
- Historically, the Company has generated profits in excess of its overheads and remained profitable.
- The Company has developed robust strategies and initiatives, translated into its approved business plan for the next financial years. Together with its cashflow forecast, the Company is confident that it will generate sustainable business for the foreseeable future. The Company fully hedges its positions, hence mitigating its exposure to any adverse market price movements.
- The Company has sufficient and easy access to financial resources.
- The Company has term contracts with reputable, creditworthy customers and reliable suppliers across different regions.
- The Company is not aware of any events or conditions that may cast significant doubt about the going concern assumption.
- The Company does not intend to liquidate or cease trading.
- The Company assessed the potential impact of Brexit, the details of which are in the Strategic Report on pages 6 to 10 and Directors are confident that Brexit would not impact Company's ability to continue as going concern.
- The Company assessed the potential impact of COVID-19 and low oil price environment in subsequent periods on Company's operations. The details of the assessment are in the Strategic Report on pages 6 to 10, which highlights Company's ability to continue as going concern under the current economic environment. Please see below the details of the going concern impact assessment made.

Registered No. 06695912

1. BASIS OF PREPARATION (CONTINUED)

COVID-19 and oil market downturn impact

Having reviewed the future cash flow forecasts of the Company in the light of the COVID-19 outbreak and the recent developments in the international oil markets, and in consideration of the current financial condition of the Company, the Directors have concluded that the Company will continue to have sufficient funds in order to meet its obligations as they fall due for at least the 12 months from the approval of the financial statements and thus continue to adopt the going concern basis of accounting in preparing the annual financial statements.

In reaching this conclusion, revised cash flow projections for 2020-2021 were prepared based on the actual trading results for the first four months of 2020 and revised trading outlook for the 2020-2021 and there is minimal impact from the current economic environment on Company's ability to generate profit and cash in 2020-2021. During four months of 2020 the Company remained profitable and cash generating and trading volumes were not significantly affected.

The cash flow forecasts included an assessment under a variety of severe but plausible downside scenarios that may arise as a result of the COVID-19 pandemic and oil market challenges, as follows:

1. No revenue from sourcing activities to Engen refinery during May-July 2020;
2. No third-party products trading in July-December 2020;
3. No third-party crude trading in July-December 2020;
4. No processing of Doba crude oil in Germany; and
5. Combination of above scenarios.

The base case forecast also excludes any further positive trading margin from blending operation in May-December 2020.

These cash flow projections in each severe but plausible downside scenario also suggest that company will continue to be a going concern for at least the 12 months from the date of approval of the financial statements.

Accordingly, the financial statements have been prepared on a going concern basis.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

2.1 Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated any impairment losses.

Depreciation for property, plant and equipment is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Property, plant and equipment are not depreciated until the assets are ready for their intended use.

The estimated useful lives of the other property, plant and equipment are as follows:

- Office equipment, furniture, and fittings 1 - 5 years
- Computer software and hardware 1 - 3 years

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The depreciable amount is determined after deducting residual value. The residual value, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, period and method of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the profit or loss.

2.2 Financial instruments

Recognition and initial measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

Regular way purchases or sales were recognised on the trade date i.e. the date that the Company commits to purchase or sell the financial asset.

A financial asset (unless it is a receivable without a significant financing component) or a financial liability is initially measured at fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, any directly attributable transaction costs incurred at the acquisition or issuance of the financial instrument. A trade receivable that does not contain a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

(i) Financial Assets

Financial assets are classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL), as appropriate.

The Company determines the classification of financial assets at initial recognition and are not reclassified subsequently to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss.

Subsequent measurement

Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method (Note 2.2.(iv)). Interest income and foreign exchange gains and losses are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value through other comprehensive income

Debt instruments

This category comprises debt instruments where it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The debt instruments are not designated as at fair value through profit or loss.

Equity instruments

Fair value through other comprehensive income category also comprises investment in equity that are not held for trading, and the Company irrevocably elects to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Subsequent measurement

Financial assets categorised as fair value through other comprehensive income are subsequently measured at fair value with unrealised gains and losses recognised directly in other comprehensive income and accumulated under fair value through other comprehensive income reserve in equity. For debt instruments, when the investment is derecognised or determined to be impaired, the cumulative gain or loss previously recorded in equity is reclassified to the profit or loss. For equity instruments, the gains or losses accumulated in other comprehensive income are never reclassified to profit or loss.

Financial assets at fair value through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Subsequent measurement

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in the profit or loss. The methods used to measure fair value are stated in Note 2.12.

The categories of financial liabilities at initial recognition are as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Financial liabilities

Financial liabilities at fair value through profit or loss

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), liabilities that are classified as held-for trading and financial liabilities that are specifically designated into this category upon initial recognition.

On initial recognition, the Company may irrevocably designate a financial liability that otherwise meets the requirements to be measured at amortised cost as at fair value through profit or loss:

a) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;
b) a group of financial liabilities or assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Company's key management personnel; or
c) if a contract contains one or more embedded derivatives and the host is not a financial asset in the scope of IFRS 9, where the embedded derivative significantly modifies the cash flows and separation is not prohibited.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any interest expense are recognised in the profit or loss.

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, the Company recognises the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income and remaining amount of the change in fair value in the profit or loss, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch.

Amortised cost

Subsequent to initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method (see Note 2.2. (iv)).

Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iii) Derivative financial instruments

The Company uses derivative financial instruments such as swaps and futures to manage certain exposures to fluctuations in commodity prices.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year are recognised in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In general, contracts to sell or purchase non–financial items to meet expected own use requirements are not accounted for as financial instruments. However, contracts to sell or purchase commodities that can be net settled or which contain written options are required to be recognised at fair value, with gains and losses recognised in the profit or loss.

(iv) Effective interest method

Amortised cost was computed using the effective interest method. This method used effective interest rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial instrument. Amortised cost takes into account any transaction costs and any discount or premium on settlement.

(v) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(vi) Amortised cost of financial instruments

Amortised cost is computed using the effective interest method. This method uses effective interest rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial instrument. Amortised cost takes into account any transaction costs and any discount or premium on settlement.

(vii) Derecognition of financial instruments

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or, the Company has transferred their rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement without retaining control of the asset or substantially all the risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss, except for equity investments at fair value through other comprehensive income where the gain or loss are recognised in other comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss. In the case of waiver of debt from owners, the gain is recognised in equity as capital reserve.

2.3 Impairment

(i) Financial Assets

The Company recognises loss allowances for expected credit losses ("ECL") on financial assets measured at amortised cost and contract assets.

Registered No. 06695912

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company measures loss allowances at an amount equal to lifetime ECL, except for debt securities that are determined to have low credit risk at the reporting date, other debt securities for which credit risk has not increased significantly since initial recognition and finance lease receivables, which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information, where available.

The Company assumes that the credit risk on a financial asset has increased significantly if it is past due.

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument, while 12-month ECL are the portion of ECL that result from default events that are possible within the 12 months after the reporting date.

The maximum period considered when estimating ECL is the maximum contractual period over which the Company is exposed to credit risk.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

All financial assets, except for those measured at fair value through profit or loss and equity investments measured at fair value through other comprehensive income, are subject to impairment (see Note 2.2. (i)).

(ii) Other Assets

The carrying amounts of other assets, other than inventories, deferred tax assets and non-current assets or disposal groups classifies as held for sale, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

A cash-generating unit is the smallest identifiable asset group that generates cash flows from continuing use that are largely independent from other assets and groups. An impairment loss recognised in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The recoverable amount is the greater of the asset's fair value less cost to sell and its value-in-use. In assessing 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 specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised.

2.4 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances which have an insignificant risk of changes in fair value and are used by the Company in the management of their short-term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and restricted deposits, if any.

2.5 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 costs of completion and the estimated costs necessary to make the sale.

Cost of goods in transit includes the purchase price and other cost directly attributable to the acquisition of the goods, less trade discounts, rebates and other similar items.

Cost of inventories includes costs of bringing the inventories to their present location and condition, less trade discounts and rebates; and is determined on the first-in, first-out basis.

2.6 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future net cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the accretion in the provision due to the passage of time is recognised as finance cost.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Company, are not recognised in the financial statements but are disclosed as contingent liabilities unless the possibility of an outflow of economic resources is considered remote.

In particular, information about provisions that have the most significant effect on the amount recognised in the financial statements is described in Note 18.

2.7 Employee benefits

(i) Short term benefits

Wages and salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii)Defined contribution plans

The Company makes contributions to defined contribution pension schemes. Such contributions are recognised as an expense in the profit or loss as incurred.

2.8 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

(i) Current tax
Current tax expense is the expected tax payable on the taxable income for the year, using the statutory tax rates at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax
Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unabsorbed capital allowances, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unabsorbed capital allowances, unused tax losses and unused tax credits can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities where they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. Deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that future taxable profit will be available against which the related tax benefit can be realised.

2.9 Foreign currency transactions

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are translated to the functional currency at rates of exchange ruling on the transaction dates.

Monetary assets and liabilities denominated in foreign currencies at the reporting date have been retranslated to the functional currency at rates ruling on the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies, which are measured at fair value, are retranslated to the functional currency at the foreign exchange rates ruling at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

Gains and losses on exchange arising from retranslation are recognised in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Revenue

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when or as it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset. Details of the revenue recognition policies are disclosed in Note 12.

2.11 Finance income and financing costs

The Company's finance income and finance costs comprise:
- interest income earned on cash and bank balances and short-term deposit placements; and
- interest expense and other costs incurred in connection with borrowings.

Interest income and interest expense are recognised as and when earned/incurred in the statement of profit or loss.

2.12 Fair value measurements

Fair value of an asset or a liability, except for lease transactions, is determined as 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 measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

(i) Financial instruments

The fair value of financial instruments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business at the end of reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

For non-financial asset, the fair value measurement 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.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1 – Quoted pries (unadjusted) in active markets for identifiable assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable input).

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer. The Company recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

Registered No. 06695912

3. PROPERTY, PLANT AND EQUIPMENT

2019	As at 1.1.2019 USD'000	Additions USD'000	As at 31.12.2019 USD'000
At cost:			
Office equipment, furniture & fittings	-	4	4
Computer software and hardware	22	-	22
	22	4	26

2019	As at 1.1.2019 USD'000	Charge for the year USD'000	Additions USD'000	As at 31.12.2019 USD'000
Accumulated Depreciation:				
Office equipment, furniture & fittings	-	2	-	2
Computer software and hardware	22	-	-	22
	22	2	-	24

2018	As at 1.1.2018 USD'000	Disposals USD'000	As at 31.12.2018 USD'000
At cost:			
Office equipment, furniture & fittings	16	(16)	-
Computer software and hardware	22	-	22
	38	(16)	22

2018	As at 1.1.2018 USD'000	Charge for the year USD'000	Disposals USD'000	As at 31.12.2018 USD'000
Accumulated Depreciation:				
Office equipment, furniture & fittings	16	-	(16)	-
Computer software and hardware	15	7	-	22
	31	7	(16)	22

	As at 1.1.2019 USD'000	As at 31.12.2019 USD'000
Carrying amount:		
Office equipment, furniture & fittings	-	2
Computer software and hardware	-	-
	-	2

Registered No. 06695912

4. DEFERRED TAX

The components and movements of deferred tax assets and liabilities during the year are as follows:

	As at 1.1.2019 USD'000	Charged to profit or loss USD'000	As at 31.12.2019 USD'000
Deferred tax assets			
Unrealised derivatives losses	860	(790)	70
	860	(790)	70

	As at 1.1.2018 USD'000	Credited to profit or loss USD'000	As at 31.12.2018 USD'000
Deferred tax assets			
Unrealised derivatives loss	-	860	860
	-	860	860

5. INVENTORIES

	31.12.2019 USD'000	31.12.2018 USD'000
Raw materials	165,460	-
Finished goods	122,316	-
	287,776	-

6. TRADE AND OTHER RECEIVABLES

	31.12.2019 USD'000	31.12.2018 USD'000
Trade receivables due from related parties	85,192	139,070
Other trade receivables	184,435	166,362
Other receivables due from related parties	30	33
Other receivables	87	13
	269,744	305,478

Total amount of trade receivables balances is USD 269,627 (2018: USD 305,432). Information about the Company's exposure to credit and market risk, and impairment losses for trade receivables is included in Note 18.

7. CASH AND CASH EQUIVALENTS

	Note	31.12.2019 USD'000	31.12.2018 USD'000
Cash and cash equivalents	18	9,934	27,042

Included in cash and bank balances of the Company are interests bearing balances amounting to USD 9,933,953 (2018: USD 27,023,011).

8. SHARE CAPITAL

	Number of shares		Amount	
	31.12.2019	31.12.2018	31.12.2019 USD	31.12.2018 USD
Authorised:				
Ordinary shares of GBP 1 each	100,000	100,000	146,475	146,475
Redeemable preference shares of GBP 1 each	200,000	200,000	285,370	285,370
Issued and fully paid:				
Ordinary shares of GBP 1 each	100,000	100,000	146,475	146,475

Ordinary shares

Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Redeemable preference shares

The right to rank, as regards to dividends and return on capital, in priority to the ordinary shares. At the option of the Company, all or part of the redeemable preference shares can be redeemed at a premium at any time upon giving notice in writing to the redeemable preference shareholders. These holders do not have voting rights, except for matters affecting the rights and interest of preference shareholders.

Dividends

No dividend was paid during the financial year. No dividends have been proposed or declared in respect of current financial year.

9. TRADE AND OTHER PAYABLES

	31.12.2019 USD'000	31.12.2018 USD'000
Trade payables	291,204	294,665
Other payables	524	595
Amount due to ultimate holding company	473	87
Amount due to related companies	40,239	6,491
	332,440	301,838

Amount due to ultimate holding company, holding company and related companies arose in the normal course of business.

Registered No. 06695912

10. BORROWINGS

	31.12.2019 USD'000	31.12.2018 USD'000
Current		
Unsecured		
Term loans	182,013	-
Revolving credits	10,000	
	192,013	-

Term and debt repayment schedule

	Year of Maturity	Face Value 31.12.2019 USD'000	Carrying amount 31.12.2019 USD'000
Unsecured			
Unsecured loan 1	2020	26,403	26,403
Unsecured loan 2	2020	13,635	13,635
Unsecured loan 3	2020	29,429	29,429
Unsecured loan 4	2020	14,117	14,117
Unsecured loan 5	2020	14,540	14,540
Unsecured loan 6	2020	7,789	7,789
Unsecured loan 7	2020	6,266	6,266
Unsecured loan 8	2020	16,044	16,044
Unsecured loan 9	2020	39,814	39,814
Unsecured loan 10	2020	13,976	13,976
Revolving credits	2020	10,000	10,000
		192,013	**192,013**

Unsecured term loans

Unsecured term loans were borrowed from Standard Chartered Bank, London to finance the fuel oil blending activities. The currency of these loans is USD and the outstanding loan amount as at 31 December 2019 is USD192,013,393 (2018: nil). The above loans bear interest at LIBOR + 0.35% per annum.

Unsecured revolving credits

The unsecured revolving credit is obtained by the Company from JP Morgan, Malaysia was also to finance the fuel oil blending activities and bear interest at 2.19% per annum (2018: nil).

11. DERIVATIVE LIABILITIES

	Note	31.12.2019 USD'000	31.12.2018 USD'000
Derivative Liabilities			
Derivatives			
Commodity swaps and futures	18	(312)	(4,585)

Derivative assets are usually set off against the derivative liabilities (see Note 18) as contractual arrangements include the right to offset and settlement is intended to occur on a net basis or simultaneously. There are derivative assets and derivative liabilities at the end of the current financial year amounting to USD312,290 (2018: USD4,584,540).

11. DERIVATIVE LIABILITIES (CONTINUED)

In the normal course of business, the Company enters into derivative financial instruments to manage its normal business exposures in relation to commodity prices, consistent with risk management policies and objectives. The fair value of crude oil and petroleum products swaps and futures is based on the fair value difference between forward market price at the date of measurement and the contracted price. As the swaps and futures are held for less than one year, there is no impact of discounting.

12. REVENUE

Revenue Streams

The Company generates revenue primarily from marketing of crude oil, fuel oil blending and trading in crude oil and petroleum products. The Company has following main revenue streams:

- **Trading in crude oil and petroleum products ("Trading")**
  Sale of crude oil and petroleum products to related companies and/or third parties. The Company acts as a principal in these transactions, therefore full sales revenue is recognised on Company's financial statements for these transactions.

- **Fuel oil blending ("Blending")**
  Sale of 0.5% low sulphur fuel oil, produced by blending of various components with Dar blend crude oil, to related companies and/or third parties. Company acts as a principal in these transactions, therefore full sales revenue is recognised on Company's financial statements for these transactions. This is a new revenue stream for the Company, with the sales commenced in September 2019.

- **Spot sourcing of crude oil ("Spot Sourcing")**
  Supply of spot crude oil cargoes from West Africa and Middle East to Engen Petroleum Limited ("EPL") in South Africa under the Crude Oil Sale Agreement ("COSA") with EPL. The Company acts as a principal in these transactions, therefore full sales revenue is recognised on Company's financial statements for these transactions.

- **Term sourcing of crude oil ("Term Sourcing")**
  Supply of Arab Light crude oil cargoes from Saudi Arabia under the term contract with the designated supplier to EPL. The Company acts as an agent in these transactions, therefore only fixed sourcing fee (not the full sales revenue) is recognised on Company's financial statements for these transactions.

- **Marketing of crude oil ("Marketing")**
  The Company acts as a marketing agent for PETRONAS Chad Marketing Inc. for the sale of Doba crude oil. The Company acts as an agent in these transactions, therefore only fixed sourcing fee (not the full sales revenue) is recognised on Company's financial statements for these transactions.

	2019 USD'000	2018 USD'000
Revenue from contracts with customers	2,015,520	2,066,452
Total revenue	2,015,520	2,066,452

12. REVENUE (CONTINUED)

Disaggregation of revenue from contracts with customers

In the following table, revenue is disaggregated by primary geographical markets, major products/services lines and timing of revenue recognition:

	2019	2018
	USD'000	USD'000
Primary geographical markets		
- Africa	1,169,000	1,073,940
- Asia	593,155	488,366
- North America	29,688	319,138
- Europe	223,677	185,008
	2,015,520	2,066,452

	2019	2018
	USD'000	USD'000
Major products/services lines		
- Spot sourcing	1,101,743	1,015,288
- Trading	694,960	1,049,451
- Blending	217,005	0
- Term sourcing	1,507	1,340
- Marketing	305	373
	2,015,520	2,066,452

	2019	2018
	USD'000	USD'000
Timing of revenue recognition		
- Products transferred at a point in time	2,015,520	2,066,452

Contract balances

The following table provides information about receivables, payables to customers, contracts assets and contracts liabilities from contracts with customers:

	31.12.2019	31.12.2018
	USD'000	USD'000
Receivables	269,744	305,478
Payables to customers	-	(5,720)
	269,744	299,758

Nature of goods and services

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises the revenue at a time when it transfers the control over a good or service to a customer. This revenue recognition criteria applies to all revenue streams of the Company. Control over a product or service is passed to a customer according to the contract terms (based on Incoterms):

12. REVENUE (CONTINUED)

Incoterms	Timing of recognition or method used to recognise revenue	Significant payment terms
▪ FOB ▪ CFR ▪ CIF	Revenue is recognised when the Company delivers the crude oil or petroleum product on board the vessel nominated by the customer at loading port specified in the contract	Standard payment term for the crude oil and products supplied shall be made within 30 days of the Bill of Lading date, unless the contract stipulates different payment terms.
▪ DES ▪ DAP	Revenue is recognised when the Company delivers the crude oil or petroleum products at a destination point specified in the contract	Standard payment term for the crude oil and products supplied shall be made within 5 to 10 days of the Notice of Readiness date at a destination point, unless the contract stipulates different payment terms.

There are no variable elements in consideration, obligation for returns or refunds nor warranty in the provision of goods and services by the Company.

13. OPERATING PROFIT

Included in operating profit are the following charges and credits:

	Note	2019 USD'000	2018 USD'000
Auditor's remuneration	14	130	116
Depreciation of property, plant and equipment		2	7
Rental:			
- office		143	66
- equipment		34	30
Staff costs	15	3,666	3,414
Net loss on realised derivative		4,121	3,968
Net loss on unrealised derivative		312	4,585
Net loss/(gain) on realised foreign exchange		133	(197)
Property, plant and equipment expensed off		6	5
and credits:			
Impairment (gains)/losses on trade and other receivables		(111)	169
Net (gain) / loss on unrealised foreign exchange		(198)	339

14. AUDITOR'S REMUNERATION

	2019 USD'000	2018 USD'000
Audit of these financial statements	120	105
Amounts receivable by the company's auditor and its associates in respect of taxation compliance services	10	11
	130	116

15. STAFF NUMBERS AND COSTS

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

	Number of employees 2019	2018
Marketing and trading	6	6
Logistics	4	5
Finance, risk and administration	8	6
	18	17

The aggregate payroll costs of these persons were as follows:

	2019 USD'000	2018 USD'000
Wages and salaries	2,819	2,710
Social security costs	318	277
Defined contributions	202	184
Training	109	80
Other benefits	218	163
	3,666	3,414

16. TAX EXPENSE

	2019 USD'000	2018 USD'000
Current tax expense		
United Kingdom corporation tax charge for the current year	2,200	1,368
Effect of group relief in prior year	(1,368)	(2,017)
	832	(649)
Deferred tax expense		
Origination and reversal of temporary differences	790	(860)
Total tax expense/(income)	1,622	(1,509)

Corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profit or loss for the year.

The Company utilised USD7,325,079 (2018: USD10,213,788) worth of tax losses surrendered by LNG Investments Europe Limited against its prior year taxable profit.

The Finance Act 2015 (substantively enacted on 26 October 2015) announced a corporate tax rate reduction to 19% (effective from 1 April 2017). Finance Act 2016, which was substantively enacted 6 September 2016, contains provision to further reduce the UK corporation tax to 17% (effective from 1 April 2020).

The tax expense for the year is lower (2018: lower) than that arising from applying the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

Registered No. 06695912

16. TAX EXPENSE (CONTINUED)

	2019 USD'000	2018 USD'000
Profit before taxation	15,840	2,348
Tax charge on profit before tax at the standard rate	3,010	447
Non-deductible expenses, net of non-assessable income	(20)	61
Effect of group relief in prior year	(1,368)	(2,017)
Tax expense/(income)	1,622	(1,509)

17. RELATED PARTIES DISCLOSURES

Significant transactions with related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly and an entity that provides key management personnel services to the Company. The key management personnel include all the Directors of the Company, and certain members of senior management of the Company.

Key management personnel compensation

	2019 USD'000	2018 USD'000
Emolument	652	507
	652	507

Directors of the Company (other than the CEO) do not receive nor become entitled to receive any emolument or benefit from the Company. Therefore, the disclosure above also represents the emolument paid to the highest paid director.

In addition to the transactions detailed elsewhere in the financial statements, the Company had the following transactions with related parties during the financial year:

17. RELATED PARTIES DISCLOSURES (CONTINUED)

	2019 Transaction Value USD'000	2019 Balance Outstanding USD'000	2018 Transaction Value USD'000	2018 Balance Outstanding USD'000
Ultimate holding company:				
Administrative expenses	(611)	(243)	(326)	57
Selling and distribution costs	(230)	(229)	(71)	-
Related companies				
Sales of crude oil and petroleum products*	1,632,934	85,192	1,702,604	133,376
Purchase of crude oil and petroleum products	(197,191)	(38,974)	(344,392)	-
Selling and distribution cost recoverable	291	(313)	1,732	(26)
Marketing fees received	305	-	373	-
Administrative expenses	(1,487)	(922)	(1,475)	(769)
Office facilities expenses	-	-	(13)	-

The Directors of the Company are of the opinion that the above transactions have been entered into in the normal course of business and were on an arm's length basis. The above has been stated at contracted amount.

* The transaction values represent the gross transactions as required by IAS 24.

18. FINANCIAL INSTRUMENTS

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(i) Fair value through profit or loss ("FVTPL")
  - Mandatorily required by IFRS9
  - Designated upon initial recognition ("DUIR")

(ii) Amortised Cost ("AC")

18. FINANCIAL INSTRUMENTS (CONTINUED)

31.12.2019	Note	AC USD'000	FVTPL DUIR USD'000	Total Carrying Amount USD'000
Financial Assets				
Trade and other receivables*		269,659	-	269,659
Cash and cash equivalents	7	9,934	-	9,934
		279,593	-	279,593
Financial Liabilities				
Trade and other payables*		332,440	-	332,440
Derivative liabilities	11	-	312	312
		332,440	312	332,752

31.12.2018	Note	L&R / L&B USD'000	FVTPL HFT USD'000	Total Carrying Amount USD'000
Financial Assets				
Trade and other receivables*		305,465	-	305,465
Cash and cash equivalents	7	27,042	-	27,042
		332,507	-	332,507
Financial Liabilities				
Trade and other payables*		301,838	-	301,838
Derivative liabilities		-	4,585	4,585
		301,838	4,585	306,423

* These balances exclude non-financial instruments balances.

Financial risk management

The Company is exposed to various risks that are particular to its core business, which consists of marketing of crude oil and trading in crude oil and petroleum products. These risks, which arise in the normal course of the Company's business, comprise credit risk, liquidity risk and market risks relating to interest rates, foreign currency exchange rates and commodity prices.

The PETRONAS Group has policies and guidelines in place that set the foundation for a consistent approach towards establishing an effective financial risk management across the PETRONAS Group.

Risk taking activities are undertaken within acceptable level of risk or risk appetite, whereby the risk appetite level reflects business considerations and capacity to assume such risks. The risk appetite is established at Board level, where relevant, based on defined methodology and translated into operational thresholds.

18. FINANCIAL INSTRUMENTS (CONTINUED)

The Company's goal in risk management is to ensure that the management understands, measures and monitors the various risks that arise in connection with their operations. Policies and guidelines have been developed to identify, analyse, appraise and monitor the dynamic risks facing the Company. Based on this assessment, the Company adopts appropriate measures to mitigate these risks in accordance with the Company's view of the balance between risk and reward.

Credit Risk

Credit risk is the potential exposure of the Company to losses in the event of non-performance by counterparties. The Company's exposures to credit risk arise principally from customer receivables. Credit risks are controlled by individual subsidiaries in line with the PETRONAS' policies and guidelines.

i) Receivables

Risk management objectives, policies and processes for managing the risk

The Company minimises credit risk by ensuring that all potential third-party counterparties are assessed prior to registration and entering into new contracts. Existing third-party counterparties are also subject to regular reviews, including re-appraisal and approval of granted limits. The creditworthiness of counterparties is assessed based on analysis of all available quantitative and qualitative data regarding business risks and financial standing, together with the review of any relevant third party and market information. Reports are prepared and presented to the management that cover the Company's overall credit exposure against limits and securities, exposure by segment and overall quality of the portfolio.

Depending on the types of transactions and creditworthiness of the counterparty, the Company further mitigates and limits risks related to credit by requiring collateral or other credit enhancements such as cash deposits, letter of credit and bank guarantees.

As at 31 December 2019, the Company had USD97,079,865 receivables (2018: USD57,312,114) secured by parent company guarantee and/or letter of credit.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Company.

At each reporting date, the Company assesses whether any of the trade receivables and contract assets are credit impaired.

The gross carrying amounts of credit impaired trade receivables are written off (either partially or full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables and contract assets that are written off could still be subject to enforcement activities.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from trade receivables and contract assets are represented by the carrying amounts in the statement of financial position.

18. FINANCIAL INSTRUMENTS (CONTINUED)

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the customer;
- a breach of contract such as a default;
- it is probable that the customer will enter bankruptcy or other financial reorganisation;

Concentration of credit risk

The exposure of credit risk for trade receivables at the reporting date by product is as follows:

	31.12.2019 USD'000	**31.12.2018 USD'000**
Crude Oil	164,100	305,432
Petroleum Products	105,527	-
	269,627	305,432

Recognition and measurement of impairment loss

In managing credit risk of trade receivables, the Company manages its debtors and takes appropriate actions (including but not limited to legal actions) to recover long overdue balances. The Company performs credit rating assessment of all its counterparties in order to measure ECL of trade receivables for all segments using the PETRONAS Credit Risk Rating System. This credit rating assessment considers quantitative assessment using the counterparties' financial statements or a qualitative assessment of the counterparties, which includes but is not limited to their reputation, competitive position, industry and geopolitical outlook.

In determining the ECL, the probability of default assigned to each counterparty is based on their individual credit rating. This probability of default is derived by benchmarking against available third party and market information, which also incorporates forward looking information. Loss given default is the assumption of the proportion of financial asset that cannot be recovered by conversion of collateral to cash or by legal process, and is assessed based on the Company's historical experience.

The following table provides information about the exposure to credit risk and ECLs trade receivables as at 31 December 2019 which are grouped together as they are expected to have similar risk nature.

18. FINANCIAL INSTRUMENTS (CONTINUED)

2019

Credit Risk Rating	**Note**	**Gross carrying amount**	**Loss allowance**	**Net balance**
		USD'000	**USD'000**	**USD'000**
Low risk rating		58,111	(35)	58,076
Medium risk rating		118,879	-	118,879
High risk rating		66,910	(23)	66,887
Others*		25,785	-	25,785
		269,685	(58)	269,627
Representing:				
Trade receivables	6	269,685	(58)	269,627
		269,685	(58)	269,627

2018

Credit Risk Rating	**Note**	**Gross carrying amount**	**Loss allowance**	**Net balance**
		USD'000	**USD'000**	**USD'000**
Low risk rating		63,028	(3)	63,025
Medium risk rating		236,181	(163)	236,018
High risk rating		281	(2)	279
Others*		6,110	-	6,110
		305,600	(168)	305,432
Representing:				
Trade receivables	6	305,600	(168)	305,432
		305,600	(168)	305,432

* No ECL was provided on receivables from Clearing House due to the nature of the receivable.

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is equal to the carrying amount. Included within "medium risk rating" category is the amounts receivable from related companies amounting to USD85,192,304 (2018: USD139,070,084), for which the Company did not provide any loss allowance. Expected credit losses are not provided for receivables from related parties if they are not past due. The remaining receivables of USD33,686,763 within "medium risk rating" category was fully secured by letter of credit, hence the Company did not provide any loss allowance.

The ageing of trade receivables as at the reporting date is as follows:

	Note	**31.12.2019**	**31.12.2018**
		USD'000	**USD'000**
Current	6	269,627	305,432

There are trade receivables where the Company has not recognised any loss allowance as the trade receivables are secured by collateral and/or other credit enhancements such as letter of credit and bank guarantees.

18. FINANCIAL INSTRUMENTS (CONTINUED)

The movements in the allowance for impairment losses of trade receivables during the year/period are as follows. Comparative amounts for 2018 represent the allowance account for impairment losses under IAS 39.

Lifetime ECL	**31.12.2019**	**31.12.2018**
	USD '000	**USD '000**
Opening balance under IFRS 9	169	-
(Reversal)/impairment recognised	(111)	169
Impairment written off	-	-
Closing balance	58	169

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk arises principally from its trade and other payables, and borrowings. In managing its liquidity risk, the Company maintains sufficient cash and liquid marketable assets. The Company's current credit rating enables it to access banking facilities in excess of current and future requirements of the Company.

During the year ended 31 December 2019, the Company drew loans of USD341,327,456 during Financial Year 2019 (2018: USD233,000,000). The Company repaid USD149,314,063 of loans during the period. Remaining amount of loans as at 31 December 2019 was USD192,013,393.

The Company's borrowing powers are not limited by its Articles of Association.

Maturity analysis

The Company's financial liabilities comprise term loans, trade and other payables and derivative liabilities which are due within a year.

Market risk

Market risk is the risk or uncertainty arising from changes in market prices and their impact on the performance of the business.

The market price changes that the Company is exposed to include interest rates, foreign currency exchange rates, commodity price, equity prices and other indices that could adversely affect the value of the Company's financial assets, liabilities or expected future cash flows.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

As at 31 December 2019, the Company did not have significant interest rate exposure as the interest-bearing financial assets consist mainly of short-term fund placements (2018: nil).

18. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign exchange risk

The Company is exposed to varying levels of foreign exchange risk when they enter into transactions that are not denominated in the respective companies' functional currencies and when foreign currency monetary assets and liabilities are translated at the reporting date. The main underlying economic currency of the Company's cash flow is USD.

The Company's foreign exchange management policy is to minimise economic and significant transactional exposures arising from currency movements. The company coordinates the handling of foreign exchange risks typically by matching receipts and payments for the same currency. Residual net positions are actively managed and monitored against prescribed policies and control procedures.

The Company's exposure to foreign currency risk is primarily from Pound Sterling (GBP).

The Company's significant exposure to foreign currency risk, based on carrying amounts as at the reporting date is as follows:

	Denominated in GBP			
	31.12.2019		**31.12.2018**	
	GBP'000	**USD'000**	**GBP'000**	**USD'000**
Other receivables	-	-	947	1,202
Other payables	(186)	(251)	-	-
Cash and cash equivalents	591	776	692	878
Net exposure	405	525	1,639	2,080

Currency risk sensitivity analysis

Sensitivity analysis for a given market variable provided in this note, discloses the effect on profit or loss and equity as at 31 December 2019 assuming that a reasonably possible change in the relevant market variable had occurred at 31 December 2019 and been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity to the next annual reporting date.

Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for equity and commodity prices and foreign exchange rates. Reasonably possible changes in interest rates are based on management judgement and historical experience.

The sensitivity analysis is hypothetical and should not be considered to be predictive of future performance because the Company's actual exposure to market prices is constantly changing with changes in the Company's portfolio of among others, commodity, debt and foreign currency contracts. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a given market variable is calculated independently of any change in another assumption and mitigating actions that would be taken by the Company.

In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities.

Registered No. 06695912

18. FINANCIAL INSTRUMENTS (CONTINUED)

The following table demonstrates the indicative pre-tax effects on the profit or loss and equity of applying reasonably foreseeable market movements in the following currency exchange rates:

	Appreciation in foreign currency rate	Effect on profit or loss
	%	USD'000
31.12.2019		
GBP	10	53
31.12.2018		
GBP	10	208

This analysis assumes all other variables, in particular interest rates, remain constant. A depreciation in foreign currency rate above would have had equal but opposite effect, on the basis that all other variables remain constant.

Commodity price risk

The Company is exposed to changes in crude oil and petroleum products prices which may affect the value of the Company's assets, liabilities or expected future cash flows. To mitigate these exposures from a business perspective, the Company enters into various financial instruments. In effecting these transactions, the Company operates within policies and procedures designed to ensure risks are minimised. All financial instruments positions are marked-to-market by independent risk management department and reported to management for performance monitoring and risk management purposes on a daily basis.

Since the Company undertakes hedging using commodity derivatives for the majority of its transactions, a change in commodity price is not likely to result in a significant impact on the Company's profit or loss and equity.

Fair value information

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, and trade and other payables. The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables reasonably approximate their fair values due to the relatively short-term nature of these financial instruments.

The following table analyses financial instruments carried at fair value by valuation method.

	Financial instruments carried at fair value			
31.12.2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	USD'000	**USD'000**	**USD'000**	**USD'000**
Financial Liabilities:				
Commodity swaps and futures	312	-	-	312

	Financial instruments carried at fair value			
31.12.2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	USD'000	**USD'000**	**USD'000**	**USD'000**
Financial Liabilities:				
Commodity swaps and futures	4,585	-	-	4,585

Registered No. 06695912

18. FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of commodity swap and futures is based on the fair value difference between market price at the date of measurement and the contracted price.

There has been no transfers between Level 1 and Level 2 fair values during the financial year (2018: No transfer in either direction).

Income/(expense), net gains and (losses) arising from financial instruments

2019	Interest income/ (expense) USD'000	Others[1] USD'000	Total USD'000
Derivatives[2]			
- Realised hedging			
(i) gain	-	71,199	71,199
(ii) loss	-	(75,320)	(75,320)
- Unrealised hedging			
(i) gain	-	1,915	1,915
(ii) loss	-	(2,227)	(2,227)
Financial assets at amortised cost	439	2,351*	2,790
Financial liabilities at amortised cost	(667)*	(2,214)*	(2,881)
Total	(228)	(4,296)	(4,524)
2018			
Derivatives			
- Realised hedging			
(i) gain	-	48,524	48,524
(ii) loss	-	(52,492)	(52,492)
- Unrealised hedging			
(i) gain	-	-	-
(ii) loss	-	(4,585)	(4,585)
Loans and receivables	330	(33)*	297
Financial liabilities at amortised cost	(467)*	31*	(436)
Total	(137)	(8,555)	(8,692)

[1] Others relates to gains and losses arising from financial instruments other than interest income, interest expense and impairment loss such as realised and unrealised foreign exchange gains or losses and fair value gains or losses.

[2] Derivatives gains and losses are included within Cost of Revenue on the face of Statement of Profit or Loss and Other Comprehensive Income.

* These amounts are included within Other Income/(Expenses) on the face of Statement of Profit or Loss and Other Comprehensive Income. The remaining amounts in this category relates realised/unrealised foreign exchange losses and gains.

Registered No. 06695912

19. ADOPTION OF NEW AND REVISED PRONOUNCEMENT

As of 1 January 2019, the Company adopted IFRS 16 *Leases*.

The principal changes in accounting policies and their effects are set out below:

i. IFRS 16 *Leases*

On transition to IFRS 16, the Company reassessed all contracts to determine whether the contracts are, or contain a lease at the date of initial application.

Where the Company are a lessee, the Company applied the requirements of IFRS 16 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of retained earnings at 1 January 2019. At 1 January 2019, for leases that were classified as operating lease under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at 1 January 2019.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating lease under IAS 117:

- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term as at 1 January 2019;
- applied the exemption not to recognise low value assets with a value of USD5,000 or less;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease; and
- adjusted the right-of-use assets by the amount of provision for onerous contract under IAS 37 immediately before the date of initial application, as an alternative to an impairment review.

The initial application of the abovementioned pronouncement do not have any material impact to the financial statements of the Company.

20. PRONOUNCEMENTS YET IN EFFECT

The following standards pronouncements that have been issued by the IASB will become effective in future financial reporting periods and have not been adopted by the Company in these financial statements:

Effective for annual periods beginning on or after 1 January 2020
Amendments to IAS 1 *Presentation of Financial Statements (Definition of Material)*
Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)*
Amendments to *References to the Conceptual Framework* in IFRS Standards
Amendment to *IFRS 3 Business Combinations (Definition of business)*
Amendments to *IFRS 7, IFRS 9 and IAS 39 (Addressing issues affecting financial reporting in the period leading up to IBOR reform)*

The Company is expected to apply the abovementioned pronouncements beginning from the respective dates the pronouncements become effective. The initial application of the abovementioned pronouncements is not expected to have any material impact to the financial statements of the Company.

21. SUBSEQUENT EVENTS

Subsequent to 31 December 2019, the Company fully repaid unsecured short-term loans amounting to USD192,013,383 outstanding from FY2019 to Standard Chartered Bank, London. The Company further borrowed unsecured short-term loans of USD220,495,518 from Standard Chartered Bank, London to finance fuel oil blending activities and USD121,225,900 of these loans were fully repaid as at 30th April 2020.

There is a global economic uncertainty in the markets where the Company operates, as a result of COVID-19 outbreak. Furthermore, recent global developments have caused further abnormality and large-scale volatility in oil and gas markets. As the situation is fluid and rapidly evolving, the Company is actively monitoring and managing its operations to minimise any potential impact.

22. HOLDING COMPANY AND ULTIMATE HOLDING COMPANY

The holding company is PETRONAS Trading Corporation Sdn. Bhd. ("PETCO"), a company incorporated and domiciled in Malaysia.

The ultimate holding company is Petroliam Nasional Berhad ("PETRONAS"), a company incorporated and domiciled in Malaysia.

The holding and ultimate holding companies' registered offices are at Tower 1, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia.

PETRONAS' consolidated financial statements are available to be viewed online or downloaded from www.petronas.com.my.