

Company No.

3926	U
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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT AND STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2014

Company No.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT AND STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2014

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors hereby submit their annual report to the members together with the audited financial statements of the Company for the financial year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activities of the Company consist of refining and manufacturing of petroleum products. There has been no significant change in these activities during the financial year.

FINANCIAL RESULTS

The results of the operations of the Company for the financial year were as follows:

	RM'000
Loss for the financial year	<u>(1,188,768)</u>

DIVIDENDS

Since the end of the previous financial year, the Directors do not recommend the payment of any dividend for the financial year ended 31 December 2014.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS

The Directors who have held office during the period since the date of the last report are as follows:

Iain John Lo
Dato' Seri Talaat bin Husain
Datuk Seri Saw Choo Boon
Datuk Zainun Aishah binti Ahmad
Lau Nai Pek
Datuk Yau Ah Lan @ Fara Yvonne
Arnel Lamco Santos
Amir Hamzah Bin Abu Bakar
Michael John Carey

(appointed on 6 February 2015)

In accordance with Articles 81(2) of the Company's Articles of Association, Mr Michael John Carey retires by rotation at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

In accordance with Article 81(3) of the Company's Articles of Association, Dato' Seri Talaat bin Husain and Mr Iain John Lo, retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects 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 except for awards of shares under the Performance Share Plan ("PSP") granted by Royal Dutch Shell plc to eligible senior executives including certain Directors of the Company.

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than benefits disclosed as Directors' remuneration in Note 13 to 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.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS (CONTINUED)

Long-term incentives

Following the unification of Shell Transport and Trading Company plc and Royal Dutch Petroleum Company (N.V. Koninklijke Nederlandsche Petroleum Maatschappij) in 2005, the share option grants were discontinued and in its place, an amended Long Term Incentive Plan was introduced. The purpose of the changes was to ensure a closer link between the remuneration of Directors and executives and the performance of the Royal Dutch Shell plc relative to its peers.

Long-Term Incentive Plan ("LTIP")

Under the LTIP, performance shares are awarded conditionally once a year as shown below.

TSR Rank	Performance shares received
1 st	2 x award
2 nd	1.5 x award
3 rd	0.8 x award
4 th or 5 th	Nil

Awards will have a face value between zero and two times base award. Awards are subject to performance over a period of at least three years.

The actual number of shares that Directors received in 2014 is based on the TSR performance of Royal Dutch Shell plc over the period from year 2011 to 2013. The face value of the conditional performance share award is the number of shares as referred to in Directors' Long-term Incentive Interest below multiplied by the share price at the time of the award.

DIRECTORS' LONG-TERM INCENTIVE INTEREST

The tables below show the PSP and the share options interest of the Directors who held office at the end of the financial year. Following the unification, the options that were made with respect to N.V. Koninklijke Nederlandsche Petroleum Maatschappij and Shell Transport and Trading Company plc shares, have been converted into Royal Dutch Shell plc share entitlements at the appropriate conversion rates. Other than consequential changes, the terms and conditions applicable to these options have generally not been altered as a result of this conversion.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS (CONTINUED)

DIRECTORS' LONG-TERM INCENTIVE INTEREST (CONTINUED)

(a) Interest in options over shares of Royal Dutch Shell plc

	Interest in options over shares in Royal Dutch Shell plc				
	Balance as at 1 January 2014/since date of appointment	Options granted	Options exercised	Options expired	Balance as at 31 December 2014
Lau Nai Pek	11,600	0	(11,600)	0	0

(b) Direct interest in shares of Royal Dutch Shell plc

(i) LTIP Awards

	Class of Shares	Awards as at 1 January 2014/since date of appointment	Awards granted in 2014	Awards cancelled /lapsed in 2014	Awards as at 31 December 2014	Awards vested in 2014 *
Iain John Lo	¹ RDSA	30,925	12,650	(8,500)	35,075	8,111
Lau Nai Pek	¹ RDSA	1,360	0	(1,360)	0	961
Amir Hamzah bin Abu Bakar	¹ RDSA	6,315	2,875	(1,840)	7,350	1,756
Arnel Santos	¹ RDSA	8,000	8,500		16,500	11,543

* A face value of 95% of the LTIP awards granted in 2011 was vested during the financial year.

¹ RDSA - Royal Dutch Shell plc Class A shares

² RDSB - Royal Dutch Shell plc Class B shares

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS (CONTINUED)

DIRECTORS' LONG-TERM INCENTIVE INTEREST (CONTINUED)

(b) Direct interest in shares of Royal Dutch Shell plc (continued)

(ii) Direct interest in vested shares of **PSP and ***GESPP

	Class of Shares	Balance as at 1 January 2014/ since date of appointment	Shares added to vested share account in 2014	Dividend share	Shares sold/transferred in 2014	Balance as at 31 December 2014
Iain John Lo	¹ RDSA ² RDSB	26,964 97	8,111 0	485 0	(29,361) (97)	6,199 0
Datuk Seri Saw Choo Boon	¹ RDSA ² RDSB	21,810 23	0 0	0 2	(21,810) 0	0 25
Lau Nai Pek	¹ RDSA	3,938	961	241	0	5,140
Amir Hamzah bin Abu Bakar	¹ RDSA	2,208	1,756	27	(3,988)	3

** PSP is Performance Share Plan

*** GESPP is the Global Employee Share Purchase Plan available to all employees to subscribe for shares in Royal Dutch Shell plc

According to the register of Directors' shareholdings, none of the other Directors in office at the end of the financial year held any interest in shares in and debentures of the Company or its related corporations.

¹ RDSA - Royal Dutch Shell plc Class A shares

² RDSB - Royal Dutch Shell plc Class B shares

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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DIRECTORS' REPORT (CONTINUED)

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the financial statements were made out, the Directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets, other than debts, which were unlikely to realise 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:

- (a) which would render the amounts written-off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.

No contingent or other liability 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 when they fall due.

At the date of this report, there does not exist:

- (a) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Company which has arisen since the end of the financial year.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company, which would render any amount stated in the financial statements misleading.

In the opinion of the Directors:

- (a) the results of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature except as disclosed in the note to the financial statement in Note 3; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

ULTIMATE HOLDING COMPANY

The Directors regard Royal Dutch Shell plc, a company incorporated in England and Wales, as the Company's ultimate holding company.

SIGNIFICANT SUBSEQUENT EVENTS

Subsequent to the financial year, the following significant events occurred:

(i) Structured review

As disclosed in Note 33 to the financial statements, and as announced on 9 January 2015 to Bursa Malaysia, the Board has completed the structured review of Shell Refining Company's resilience in the current poor margin environment as announced in September 2014. The Board has concluded that refining margins are expected to remain depressed due to overcapacity in the global refining industry. Given the poor margin environment, the Board is proactively investigating long-term options in the best interest of the Company. These will include, but are not limited to, the potential sale of the assets, or conversion of operations to a storage terminal and/or other viable options. The focus near-term is to secure and sustain the safe and reliable operation of the Refinery while long-term options are being pursued. Once the final option has been selected, the Company will seek the necessary approval from shareholders in compliance with regulatory requirements. Further details on the selected option shall be disclosed and announced to Bursa Malaysia in due course.

(ii) Extension of term loan

The Company had successfully extended the maturity date of its long term loan of RM450 million which will be due on 15 June 2015 to 31 December 2015 as disclosed in Note 17 to the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 31 March 2015.

AMIR HAMZAH BIN ABU BAKAR
MANAGING DIRECTOR

IAIN JOHN LO
CHAIRMAN

Company No.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Amir Hamzah Bin Abu Bakar and Iain John Lo, being the Directors of Shell Refining Company (Federation of Malaya) Berhad, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 11 to 56 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the state of affairs of the Company as at 31 December 2014 and of the results and cash flows for the financial year ended on that date.

The supplementary information set out in Note 35 on page 56 have been prepared in accordance with the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board of Directors in accordance with their resolution dated 31 March 2015.

AMIR HAMZAH BIN ABU BAKAR
MANAGING DIRECTOR

IAIN JOHN LO
CHAIRMAN

STATUTORY DECLARATION
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Michael John Carey, the Director primarily responsible for the financial management of Shell Refining Company (Federation of Malaya) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 11 to 56 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

MICHAEL JOHN CAREY
DIRECTOR

Subscribed and solemnly declared by the above named Michael John Carey at Kuala Lumpur in Malaysia on 31 March 2015, before me.

COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)
(Company No. 3926-U)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Shell Refining Company (Federation of Malaya) Berhad, on pages 11 to 55 which comprise the statement of financial position as at 31 December 2014 of the Company, and the statements of comprehensive income, changes in equity and cash flows of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 34.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 3926-U)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2014 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 35 on page 56 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SUBATHRA A/P GANESAN
(No. 3020/08/16(J))
Chartered Accountant

Kuala Lumpur
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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	<u>Note</u>	<u>2014</u> RM'000	<u>2013</u> RM'000 Restated
Revenue	6	14,262,773	14,696,086
Purchases		(14,571,039)	(14,519,448)
		<u>(308,266)</u>	<u>176,638</u>
Other income	7	14,440	13,653
Manufacturing expenses		(191,576)	(188,198)
Administrative expenses		(53,917)	(43,384)
Depreciation and amortisation		(151,435)	(146,700)
Other expenses		(3,148)	(2,261)
Finance cost	8	(68,693)	(33,084)
Impairment	9	(460,878)	0
Loss before taxation	9	<u>(1,223,473)</u>	<u>(223,336)</u>
Taxation	10	<u>34,705</u>	<u>67,353</u>
Loss for the financial year/ Total comprehensive expense for the financial year		<u><u>(1,188,768)</u></u>	<u><u>(155,983)</u></u>
Loss per RM1 unit of share (sen) - basic	12	<u><u>(396)</u></u>	<u><u>(52)</u></u>

The notes set out on pages 17 to 56 form an integral part of these financial statements.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	<u>Note</u>	<u>2014</u> RM'000	<u>2013</u> RM'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,104,821	1,667,822
Prepaid lease payments	15	1,864	1,885
Long-term receivables	16	0	287
Derivative financial assets	17	118,565	75,331
		<u>1,225,250</u>	<u>1,745,325</u>
CURRENT ASSETS			
Inventories	18	801,183	1,386,826
Trade receivables	19	26,971	68,649
Other receivables and prepayments	20	1,404	743
Tax recoverable		4,376	4,378
Amounts receivable from related companies	21		
- Trade		737,976	1,226,301
- Non-trade		5,193	5,930
Bank balances	22	8,737	41,009
		<u>1,585,840</u>	<u>2,733,836</u>
TOTAL ASSETS		<u><u>2,811,090</u></u>	<u><u>4,479,161</u></u>
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	23	300,000	300,000
PSP from RDS*		1,306	1,237
Retained earnings		23,378	1,212,146
		<u>324,684</u>	<u>1,513,383</u>
CURRENT LIABILITIES			
Trade and other payables	25	75,558	89,949
Amounts payable to related companies	21		
- Trade		634,937	1,060,288
- Non-trade		17,636	41,203
Borrowings	17	919,115	503,513
		<u>1,647,246</u>	<u>1,694,953</u>
NET CURRENT (LIABILITIES)/ ASSETS		<u><u>(61,406)</u></u>	<u><u>1,038,883</u></u>

*Performance share plan from Royal Dutch Shell plc

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014 (CONTINUED)

	<u>Note</u>	<u>2014</u> RM'000	<u>2013</u> RM'000
NON-CURRENT LIABILITIES			
Borrowings	17	839,160	1,236,120
Deferred tax liabilities	26	0	34,705
		<u>839,160</u>	<u>1,270,825</u>
TOTAL EQUITY AND LIABILITIES		<u>2,811,090</u>	<u>4,479,161</u>

The notes set out on pages 17 to 56 form an integral part of these financial statements.

SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	Note	Issued and fully paid ordinary		Non- distributable PSP reserve RM'000	Distributable Retained earnings RM'000	Total RM'000
		Number of shares '000	Nominal value RM'000			
At 1 January 2014		300,000	300,000	1,237	1,212,146	1,513,383
Total comprehensive expense for the financial year		0	0	0	(1,188,768)	(1,188,768)
PSP from RDS	24					
- re-charge by parent		0	0	(1,144)	0	(1,144)
- charge during the year		0	0	1,213	0	1,213
At 31 December 2014		<u>300,000</u>	<u>300,000</u>	<u>1,306</u>	<u>23,378</u>	<u>324,684</u>
At 1 January 2013		300,000	300,000	1,996	1,402,749	1,704,745
Total comprehensive expense for the financial year		0	0	0	(155,983)	(155,983)
PSP from RDS	24					
- re-charge by parent		0	0	(719)	(870)	(1,589)
- charge during the year		0	0	(40)	0	(40)
Dividends for the financial year ended:						
- 31 December 2012	11	0	0	0	(33,750)	(33,750)
At 31 December 2013		<u>300,000</u>	<u>300,000</u>	<u>1,237</u>	<u>1,212,146</u>	<u>1,513,383</u>

The notes set out on pages 17 to 56 form an integral part of these financial statements.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	<u>Note</u>	<u>2014</u> RM'000	<u>2013</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(1,223,473)	(223,336)
Adjustments for:			
Property, plant and equipment			
- depreciation		151,435	146,700
- write-off		134	0
- impairment		460,878	0
Interest expense		58,755	42,546
Interest income		(92)	(271)
Net foreign exchange loss - unrealised		50,652	60,384
Fair value gain on derivative financial instruments		(43,236)	(61,798)
Allowance/(reversal) of inventories write-down to net realisable value		80,167	(2,955)
(Reversal)/allowance for doubtful debts		(891)	1,307
Amortisation of prepaid lease payments		21	21
PSP from RDS		1,213	40
		<u>(464,437)</u>	<u>(37,362)</u>
Changes in working capital:			
Inventories		505,476	(250,331)
Trade and other receivables		41,574	(45,463)
Trade and other payables		(8,921)	(8,832)
Related companies		41,760	89,684
		<u>115,452</u>	<u>(252,304)</u>
Cash generated from/(used in) operations		115,452	(252,304)
Interest received		92	271
		<u>115,544</u>	<u>(252,033)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Property, plant and equipment			
- additions		(54,827)	(164,899)
		<u>(54,827)</u>	<u>(164,899)</u>
Net cash flows used in investing activities		(54,827)	(164,899)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(35,730)	0
Proceeds from borrowings		0	502,540
Interest paid		(57,423)	(43,874)
Dividends paid		0	(33,750)
		<u>(93,153)</u>	<u>424,916</u>
Net cash flows (used in)/generated from financing activities		(93,153)	424,916

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

	<u>Note</u>	<u>2014</u> RM'000	<u>2013</u> RM'000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(32,436)	7,984
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		41,009	32,932
EFFECTS OF EXCHANGE RATE CHANGES		164	93
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	22	<u>8,737</u>	<u>41,009</u>

During the financial year ended 31 December 2014, the Company acquired property, plant and equipment with an aggregate cost of RM49,445,737 (2013: RM89,763,000). During the year, cash payments of RM54,826,737 (2013: RM164,899,000) were made for acquisitions of property, plant and equipment. The balance unpaid at the financial year end of RM13,283,000 (2013: RM18,664,000) is included in accruals for capital expenditure under Note 25.

The notes set out on pages 17 to 56 form an integral part of these financial statements.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

1 GENERAL INFORMATION

The principal activities of the Company consist of refining and manufacturing of petroleum products. There has been no significant change in these activities during the financial year.

The Directors regard Royal Dutch Shell plc, a company incorporated in England and Wales, as the Company's ultimate holding company.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of the Bursa Malaysia Securities Berhad ("Bursa Malaysia").

The address of the registered office of the Company is:

Level 8, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan

The address of the principal place of business of the Company is:

Batu 1, Jalan Pantai
71000 Port Dickson
Negeri Sembilan

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements of the Company have been prepared under the historical cost convention unless otherwise indicated in the summary of significant accounting policies.

The Directors have prepared the financial statements of the Company on a going concern basis. The Company incurred net losses during the financial year ended 31 December 2014 of RM1,189 million (2013: RM156 million) which included an impairment charge of RM461 million in 2014 (2013: RM Nil). As of that date, the Company had net current liabilities of RM61 million (2013: net current assets of RM1,039 million).

As at 31 December 2014, the outstanding borrowings amounted to RM1,758 million (2013: RM1,740 million) as disclosed in Note 17 to the financial statements, of which RM450 million is short term. Subsequent to the financial year end, the Company had successfully negotiated for an extension to the maturity date of the RM450 million term loan to 31 December 2015.

The Directors have considered in preparing the cash flow forecast for the next 12 months, the available credit facilities for operations and committed funding of RM450 million beyond the maturity date, and are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (CONTINUED)

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. As at 31 December 2014, the areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(a) Standards, amendments to published standards and interpretations that are effective

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Company's financial year beginning on or after 1 January 2014 are as follows:

- Amendments to MFRS 132 'Offsetting Financial Assets and Financial Liabilities'

There is no significant impact on the financial results and position of the Company upon adoption of the above new standards, amendments to published standards and interpretation.

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective

The Company will apply the new standards, amendments to standards and interpretations in the following period:

(i) Financial year beginning on/after 1 January 2017

MFRS 15 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (CONTINUED)

- (b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

- (ii) Financial year beginning on/after 1 January 2018

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with a irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

There is now a new expected credit losses model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The adoption of the above will not result in any significant change to the Company's results and financial position. The Company is in the process of assessing the full impact of the adoption of MFRS 15 and MFRS 9 on the financial statements of the Company in the year of initial application.

2.2 REVENUE RECOGNITION

- (a) Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities.

Revenue is recognised upon delivery of products and acceptance by customers of refined and partially refined oil products and feedstocks, net of government taxes.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 REVENUE RECOGNITION (CONTINUED)

(b) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(c) Other income

Other income comprises mainly of operating and transport fees charged to related companies.

2.3 PURCHASES

Purchases reflect all costs related to acquisition of inventories, the effects of the changes therein (cost of inventories), including foreign exchange gains and losses, supplies used for conversion into finished products and inventories write-down.

2.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (refer to accounting policy Note 2.13 on borrowing costs).

All other property, plant and equipment are stated at historical costs less accumulated depreciation and accumulated impairment losses.

Freehold land is not depreciated as it has an infinite life.

All property, plant and equipment are depreciated on a straight line basis to allocate the cost, or the revalued amounts to their residual values, over their estimated useful lives at the following annual rates:

Land improvements and buildings	2.5% - 5.0%
Plant, machinery and equipment	9.0% - 33.3%
Motor vehicles	20%

During the financial year, the Company revised the estimated useful lives of the refinery to the shorter of 11 years, or the remaining useful lives of the respective assets (refer to Critical accounting estimates and judgments Note 3 (ii)).

Depreciation on work-in-progress commences when the assets are ready for their intended use.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Plant, machinery and equipment comprise components of the refinery which are subject to different refurbishment cycle.

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

At the end of reporting period, the Company assesses whether there is any indication of impairment. If such indicators exist, the carrying amount of the asset is assessed and written down immediately to its recoverable amount. Refer accounting policy Note 2.6 on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in profit or loss. On disposal of revalued assets, amounts in revaluation reserve relating to those assets are transferred to retained earnings.

2.5 MAINTENANCE COSTS

Asset replacement costs incurred by the Company for major scheduled maintenance of the refinery are capitalised as part of the refinery assets and depreciated on a straight line basis over their estimated useful lives, typically the period until the next major scheduled maintenance. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

2.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there is separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in profit or loss unless it reverses an impairment loss on a revalued asset, in which case it is taken to revaluation surplus reserve.

2.7 LEASES

(a) Finance leases

Leases of property, plant and equipment where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges are included in borrowings.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 LEASES (CONTINUED)

(a) Finance leases (continued)

The interest element of the finance charge is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term. Property, plant and equipment acquired under finance lease are depreciated over the shorter of the estimated useful life of the asset and the lease term.

(b) Operating leases

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

Initial direct costs incurred by the Company in negotiating and arranging operating leases are capitalised as prepayments and recognised in profit or loss over the lease term on a straight-line basis.

2.8 INVENTORIES

Inventories are stated at the lower of cost and net realisable value.

Cost comprises direct purchase costs (including transportation, insurance and premium) and is determined using the first in, first out method. The cost of finished products includes oil, direct materials, labour and an appropriate proportion of fixed and variable manufacturing overheads.

Net realisable value is the estimate of selling price in the ordinary course of business, less the cost of completion and selling expenses.

2.9 TRADE RECEIVABLES

Trade receivables are amounts due from customers for oil products sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment.

2.10 CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash, bank balances, deposits with licensed banks, other short-term and highly liquid investments with original maturities of three months or less.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 SHARE CAPITAL

(a) Classification

Ordinary shares are classified as equity.

(b) Dividends to shareholders of the Company

Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

2.12 TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.13 BORROWINGS AND BORROWING COSTS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the fair value (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method, except for borrowing costs incurred for construction of any qualifying asset.

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

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

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NOTES TO THE FINANCIAL STATEMENTS
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax is recognised, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

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

2.15 EMPLOYEE BENEFITS

(a) Short-term employee benefits

The Company recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Wages, salaries, paid annual leave, sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 EMPLOYEE BENEFITS (CONTINUED)

(b) Post-employment benefits

The Company's post-employment benefit scheme comprises only of the defined contribution plan.

Contributions to the Employees' Provident Fund, which is a defined contribution plan, are charged to profit or loss when incurred. Once the contributions have been paid, the Company has no further payment obligations.

(i) Long-term employee benefits

The Company provides death in service and long-term disability benefits to its employees. The benefit is on a lump sum basis based on a multiplier of the last drawn average annual salary of the employee and is not dependent on the employee's length of service. Accordingly, it is charged to profit or loss when incurred.

2.16 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company does not recognise contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past event whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

2.17 PROVISIONS

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 GOVERNMENT GRANTS

Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Company will comply with all attached conditions.

Government grants relating to costs are recognised in profit or loss over the period necessary to match the related costs for which the grants are intended to compensate.

Government grants relating to the purchase of assets are deducted in arriving at the carrying amount of the assets. The grants are recognised in profit or loss over the life of a depreciable asset by way of a reduced depreciation charge.

2.19 FOREIGN CURRENCIES

The basis of accounting for foreign currency transactions is as follows:

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in profit or loss within 'finance cost'. Foreign exchange gains and losses that are relating to acquisition of inventories are presented in profit and loss within 'purchases'. All other foreign exchange gains and losses are under 'other expenses'.

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NOTES TO THE FINANCIAL STATEMENTS
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2.20 FINANCIAL ASSETS

(a) Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables, amounts due from related companies and cash and cash equivalents in the statement of financial position.

(b) Recognition and initial measurement

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

(c) Subsequent measurement – gains and losses

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables financial assets are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividend income are recognised in profit or loss in the period in which the changes arise.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 FINANCIAL ASSETS (CONTINUED)

(d) Subsequent measurement – impairment of financial assets

Assets carried at amortised cost

The Company assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the customers;
- A breach of contract, such as a default or delinquency in interest or principal payments; or
- It becomes probable that the customers will enter bankruptcy or other financial reorganization.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If loans and receivables have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

(e) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.22 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives that do not qualify for hedge accounting are classified as held for trading and accounted for in accordance with the accounting policy set out in Note 2.20.

2.23 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.24 SHARE BASED PAYMENTS

Royal Dutch Shell plc ("RDS"), the Company's ultimate holding company operates a number of equity settled, share-based compensation plan for the employees of RDS and its subsidiaries.

Employee services received in exchange for the grant of the share options are recognised as an expense in the profit or loss over the vesting period of the grant, with a corresponding increase in equity as a contribution from RDS.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in the assumptions about the number of options that are expected to vest. At the end of reporting date, the ultimate holding company revises its estimates of the number of share options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity as an employees' share option scheme reserve.

Where RDS recharges the Company for the equity instruments granted, the recharge is treated as an adjustment to the equity contribution from RDS.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of property, plant and equipment within the next financial year, are outlined below:

(i) Property, plant and equipment

The Company reviews the recoverable amount of its property plant and equipment for impairment triggers whenever events or changes in circumstances indicate that the carrying amount may not be recoverable based on its accounting policy stated in Note 2.6. The Company's results of operations in any given period are principally driven by the demand for and price of petroleum products relative to the supply and cost of crude oil.

During the year, with the declining trend in refining margins and the announcement by the relevant regulatory bodies of its intention to implement the Euro 4m and 5 compliant fuel by 2018 and 2020 respectively, a review of the outlook of margins was performed. Accordingly the Company performed an impairment assessment in accordance with the accounting policy stated in Note 2.6. The recoverable amount of the refinery, being defined as a cash-generating unit, was determined at RM1,054 million based on its value-in-use and an impairment loss of RM461 million was recognised in the profit or loss as disclosed in statement of comprehensive income.

The recoverable amount was determined using the value in use method being the higher of fair value less cost. Cash flow projections for a period of 11 years were used which represents the estimated useful life of the refinery.

The following key assumptions were made in determination of the recoverable amount:

Assumptions		
Refinery margins per barrel	A low of \$2.68 to a high of \$9.14.	Based on business plan and inputs obtained from independent experts
Availability of export markets for the output of the refinery	Asia and Africa markets	Market research
Pre-tax Discount rate	11%	Management estimate

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(i) Property, plant and equipment (continued)

Sensitivity analysis:

The key estimation uncertainty over the assumptions used by management in the value-in-use cash flows is the refining margins and the availability of export markets due to the impact of transportation costs to the refinery margins. The sensitivity of these assumptions to the recoverable amount and impairment loss is as follows:

		Recoverable amount (RM million)	Impairment loss (RM million)
Refinery margin	5% increase over the period from 2015 – 2025	1,303	212
Refinery margin	5% decrease over the period from 2015 – 2025	828	687
Refinery margin	22% decrease over the period from 2015 – 2025	Nil	Full Impairment of RM1,515
Availability of export markets	Change in accelerated timing by a year earlier	994	521

It is reasonably possible that the estimate of expected future cash flows may change in the near term resulting in the need to adjust the resulting cash flow projections to support the recoverable amount of the refinery. The cash flow forecast is dependent on the achievability of the refinery margins and assumptions and the corresponding sensitivities as indicated above.

Refinery margins are subject to cyclical fluctuations resulting from an over-supply and supply tightness in various global and regional markets. Fluctuations in the short term may result in significant changes in monthly/quarterly profit and loss resulting in significant loss or profits.

(ii) Change in accounting estimates over estimated useful life of refinery

The Board has reviewed the remaining useful lives of the refinery. As described in the accounting policy stated in note 2.4, the depreciation of the refinery's assets is revised to the shorter of 11 years, or the remaining useful lives of respective assets as a result of a review performed over the future margin outlook of the Company. The impact of the change in estimate on the Company's comprehensive expense is an additional depreciation charge of RM1.9 million for the year ended 31 December 2014.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks; market risk (including foreign currency exchange risk and interest rate risk), credit risk, liquidity and cash flow risk, capital risk and refining margin risk. The Company's overall financial risk management objective is to ensure the Company creates value for its shareholders. The Company focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. Financial risk management is carried out through risk reviews, assurance plans, internal control systems, insurance programmes and adherence to the Company's Treasury Policy and Procedures.

The Company may enter into foreign exchange forward contracts to manage the exposure to foreign currency risks in receivables and payables. In addition, financial instruments such as trade receivables, trade payables and long-term borrowings arise directly from the Company's operations. Straightforward derivative financial instruments are utilised by the Company to manage the exposure to foreign currency and interest rate risks. The Company does not enter into derivative financial instruments for trading purposes.

(a) Market risk

(i) Foreign currency exchange risk

The objectives of the Company's currency risk management policies are to allow the Company to effectively manage exposures that may arise from operating and financing activities.

The Company is exposed to currency risk as a result of the foreign currency transactions entered into in currencies other than its functional currency. Financial instruments affected by foreign currency exchange risk include intercompany balances, receivables and payables, deposit and bank balances, bank borrowings and derivative financial instruments.

The Company may enter into foreign exchange swaps and forward contracts to limit its exposure on foreign currency receivables and payables and on cash flows generated from anticipated transactions denominated in foreign currencies.

In 2011, the Company obtained a 5-year USD term loan facility to finance a capital expenditure project as disclosed in Note 17 to the financial statements. The loan has been fully drawn down in 2012. At the same time, the Company entered into cross currency interest rate swaps to hedge its foreign currency borrowings in order to minimise its exposures to movements in foreign currency positions.

The following analysis illustrates the sensitivity to changes in market variables, being the USD to Ringgit Malaysia exchange rate, on the financial instruments:

	Impact on (loss) after tax, equity and net assets	
	<u>2014</u>	<u>2013</u>
	RM'000	RM'000
10 percent increase in USD	(109,409)	(136,671)
10 percent decrease in USD	109,409	136,671
	<u> </u>	<u> </u>

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NOTES TO THE FINANCIAL STATEMENTS
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4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Market risk (continued)

(ii) Interest rate risk

The Company finances its operations through a mixture of retained earnings and bank borrowings. The Company's interest rate risk arises from borrowings and is managed in compliance with the treasury policy of the Company.

The Company analyses its cash flow interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging.

Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for borrowings and deposits that represent the major interest-bearing positions.

	Impact on (loss) after tax, equity and net assets	
	<u>2014</u>	<u>2013</u>
	RM'000	RM'000
1% (100 basis points) increase in interest rate	(13,187)	(13,047)
1% (100 basis points) decrease in interest rate	<u>13,187</u>	<u>13,047</u>

(b) Credit risk

Credit risk arises from cash and cash equivalents, as well as credit exposures to third party receivables and related companies, including outstanding receivables. The Company seeks to invest cash assets safely and profitably. Deposits are placed only with financial institutions with strong long-term credit ratings based on independent rating agencies.

Credit risk on customers arises when sales are made on deferred credit terms. It seeks to control credit risk by setting counterparty limits and ensuring that sales of products are made only to approve customers with an appropriate credit history. It is the Company's policy to monitor the financial standing of the customers on an ongoing basis to ensure that the Company is exposed to a minimal credit risk. The maximum credit exposure associated with financial assets is equal to the carrying amount.

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4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Credit risk (continued)

The credit quality of financial assets that are neither past due nor impaired as at the end of reporting date can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

	<u>2014</u> RM'000	<u>2013</u> RM'000
<u>Derivative financial assets</u>		
Counterparties with external credit rating		
-AAA	118,565	75,331
	<u> </u>	<u> </u>
<u>Trade receivables</u>		
Counterparties without external credit rating		
- Group B	24,723	68,649
	<u> </u>	<u> </u>
Total unimpaired trade receivables	<u>24,723</u>	<u>68,649</u>
<u>Cash at bank</u>		
Counterparties with external credit rating		
-AAA	8,737	41,009
	<u> </u>	<u> </u>
<u>Amounts receivable from related companies</u>		
Counterparties without external credit rating		
- Group B	740,825	1,227,545
	<u> </u>	<u> </u>

- Group A – new customers (less than 12 months)
- Group B – existing customer including related parties (more than 12 months) with no defaults in the past

None of the financial assets that are fully performing have been renegotiated in the current financial year.

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4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Credit risk (continued)

The Company generally has no significant concentration of credit risk other than as set out below:

- (i) 90% (2013: 83%) of the Company's total trade receivables at the reporting date were receivable from major customers within the oil & gas industry in Malaysia. The Directors are of the view that such credit risk is minimal in view of the strength of the customers' financial position.
- (ii) 91% (2013: 84%) of the Company's total intercompany receivables at the reporting date was receivable from Shell Malaysia Trading Sendirian Berhad and Shell Timur Sendirian Berhad. The Directors are of the view that the exposure to credit risk is minimal in view of the stability of the fellow subsidiaries' financial position. Sales to the above mentioned related companies constitute 89% (2013: 82%) of the Company's revenue.
- (iii) majority of the Company's deposits, bank and cash balances were placed with major financial institutions in Malaysia. The Directors are of the view that the possibility of non-performance by these financial institutions is remote on the basis of their financial strength.

(c) Liquidity and cash flow risks

The Company ensures that cash is available to meet working capital and other financing requirements, and that cash flows are managed efficiently as described in further detail in Note 2.1. This is done through cash forecasts to achieve optimal cash management planning. The Company sets a minimum level of cash to be held on a daily basis and on a planned level for the next 12 months, in order to meet both firm commitments and forecast obligations. In addition, the Company maintains an adequate amount of short term credit facilities and committed funding.

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NOTES TO THE FINANCIAL STATEMENTS
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4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity and cash flow risks (continued)

The table below summarises the maturity brackets of undiscounted cash flows contractually payable under financial liabilities as at reporting date:

	Within 1 year RM'000	Between 1 to 3 years RM'000	Total RM'000
<u>At 31 December 2014</u>			
Trade and other payables excluding statutory liabilities	73,668	0	73,668
Amounts due to related companies	652,573	0	652,573
Short term borrowings	469,115	0	469,115
Term loan	467,773	845,495	1,313,268
Cross currency interest rate swaps (Outflow)	(23,295)	(717,799)	(741,094)
Cross currency interest rate swaps Inflow	9,744	851,398	861,142
	<u> </u>	<u> </u>	<u> </u>
<u>At 31 December 2013</u>			
Trade and other payables excluding statutory liabilities	86,334	0	86,334
Amounts due to related companies	1,101,491	0	1,101,491
Short term borrowings	503,513	0	503,513
Term loan	36,075	1,221,460	1,257,535
Cross currency interest rate swaps (Outflow)	(19,737)	(723,324)	(743,061)
Cross currency interest rate swaps Inflow	8,324	809,853	818,177
	<u> </u>	<u> </u>	<u> </u>

(d) Capital risk management

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern;
- to maximise returns for shareholders; and
- to maintain an optimal capital structure which minimises the cost of capital while maintaining sufficient liquidity.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt (total borrowings) divided by total capital. The capital structure of the Company consists of borrowings and total equity:

	<u>2014</u> RM'000	<u>2013</u> RM'000
Net debt/Total borrowings	1,758,275	1,739,633
Total equity	324,684	1,513,383
	<u> </u>	<u> </u>
Total capital	2,082,959	3,253,016
	<u> </u>	<u> </u>
Gearing ratio	84%	53%
	<u> </u>	<u> </u>

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5 FAIR VALUE MEASUREMENTS

(a) Financial instruments carried at amortised cost:

The carrying amounts of financial assets and liabilities of the Company approximated their fair values as at 31 December 2014.

(b) Financial Instruments carried at fair value:

The Company measures fair value using the following fair value hierarchy that reflects the significance of the input used in making the measurements:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Company's policy is to recognise transfer into and transfers out of fair value hierarchy as of the date of the event or changes in circumstances that caused the transfer.

The following table presents the Company's assets and liabilities for recurring fair value measurements recognised through profit or loss:

	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>At 31 December 2014</u>				
Derivatives - Cross currency interest rate swaps	0	118,565	0	118,565
<u>At 31 December 2013</u>				
Derivatives - Cross currency interest rate swaps	0	75,331	0	75,331

The valuation technique used to derive the Level 2 fair value is as disclosed in Note 17.2. During the year, there were no transfers between Level 1 & Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement.

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6 REVENUE

	<u>2014</u> RM'000	<u>2013</u> RM'000
Sale of oil products:		
- refined	14,259,287	14,693,340
- crude oil	3,486	2,746
	<u>14,262,773</u>	<u>14,696,086</u>

7 OTHER INCOME

	<u>2014</u> RM'000	<u>2013</u> RM'000
Operating and transport fees	14,348	13,382
Interest income	92	271
	<u>14,440</u>	<u>13,653</u>

8 FINANCE COST

	<u>2014</u> RM'000	<u>2013</u> RM'000
Interest expense:		
- term loan	(24,930)	(23,758)
- short-term borrowings	(19,513)	(9,106)
- cross-currency interest rate swap ('CCIRS')	(14,312)	(10,939)
Total interest expense	<u>(58,755)</u>	<u>(43,803)</u>
Foreign exchange loss on term loan:		
- unrealised	(53,040)	(52,199)
Fair value gain on derivative financial instruments	43,236	61,798
Others	(134)	(137)
	<u>(68,693)</u>	<u>(34,341)</u>
Less: Amounts capitalised in property, plant and equipment	0	1,257
	<u>(68,693)</u>	<u>(33,084)</u>

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9	LOSS BEFORE TAXATION	<u>2014</u> RM'000	<u>2013</u> RM'000
	The loss before taxation (exclude Notes 7 to 8) is arrived at after charging/(crediting):		
	Auditors' remuneration:		
	- statutory audit fees	308	220
	- audit-related fees	18	18
	Cost of inventories	14,158,807	13,826,673
	Staff cost:		
	- salaries, bonus and allowances	52,421	51,119
	- defined contribution plan	8,498	7,525
	- other employee benefits	6,186	5,382
	- share based payments	1,213	(40)
	Allowance for inventories write down/(back) to net realisable value (included in purchases)	80,167	(2,955)
	Foreign exchange losses/(gains)		
	- realised	17,026	41,387
	- unrealised	(2,224)	8,278
	Depreciation	151,435	146,700
	Amortisation of prepaid lease payments	21	21
	Impairment of property, plant and equipment	460,878	0
	Included in other expenses:		
	Write off of Property, plant and equipment (Reversal)/allowance for doubtful debts	134 (891)	0 1307
		<u> </u>	<u> </u>
10	TAXATION	<u>2014</u> RM'000	<u>2013</u> RM'000
	Current tax		
	- (under) accruals in prior years	0	(3)
	Deferred taxation (Note 26)		
	- origination and reversal of temporary differences (Note 26)	34,705	67,356
		<u>34,705</u>	<u>67,353</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

10 TAXATION (CONTINUED)

The numerical reconciliation between the effective tax rate and the applicable statutory tax rate is as follows:

	<u>2014</u> %	<u>2013</u> %
Applicable tax rate	25	25
Tax effects in respect of:		
- expenses not deductible for tax purposes	(1)	(1)
- previously unrecognised temporary differences	0	3
- under accruals in prior year's current tax	0	3
- tax losses and deductible temporary differences for which no deferred tax asset was recognised	(21)	0
Effective tax rate	<u>3</u>	<u>30</u>

11 DIVIDENDS

	<u>2014</u> Gross dividends per share Sen	<u>2014</u> Amount of dividends, net of tax at 25% RM'000	<u>2013</u> Gross dividends per share Sen	<u>2013</u> Amount of dividends, net of tax at 25% RM'000
Interim dividends paid in respect of the financial year ended - 31 December 2012	0	0	15	33,750
Dividends recognised as distribution to owners of the Company	<u>0</u>	<u>0</u>	<u>15</u>	<u>33,750</u>

The Directors do not recommend the payment of any dividend for the current financial year.

12 LOSS PER UNIT OF SHARE

Basic loss per unit of share of the Company is calculated by dividing the loss for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	<u>2014</u>	<u>2013</u>
Loss for the financial year (RM'000)	(1,188,768)	(155,983)
Weighted average number of ordinary shares in issue ('000)	300,000	300,000
Basic loss per RM1 unit of share (sen)	<u>(396)</u>	<u>(52)</u>

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13 DIRECTORS' REMUNERATION

	<u>2014</u> RM'000	<u>2013</u> RM'000
Fees	465	387
Salaries, bonus and allowances	1,009	1,041
Defined contribution plan	136	158
Share based payment	291	359
	<u>1,901</u>	<u>1,945</u>

The estimated monetary value of benefits provided to Directors during the year by way of usage of the Company's assets and the provision of accommodation and other benefits amounted to RM3,125 (2013: RM12,500).

14 PROPERTY, PLANT AND EQUIPMENT

<u>2014</u>	<u>Freehold land</u> RM'000	<u>Land improvements</u> RM'000	<u>Buildings</u> RM'000	<u>Plant, machinery, equipment and motor vehicles</u> RM'000	<u>Work-in- progress</u> RM'000	<u>Total</u> RM'000
<u>Cost or deemed cost</u>						
At 1 January	50,598	15,654	109,242	3,300,642	55,939	3,532,075
Additions	0	0	0	0	49,446	49,446
Write-off	0	0	0	(3,428)	0	(3,428)
Capitalisation	0	0	0	38,809	(38,809)	0
At 31 December	<u>50,598</u>	<u>15,654</u>	<u>109,242</u>	<u>3,336,023</u>	<u>66,576</u>	<u>3,578,093</u>
<u>Accumulated depreciation</u>						
At 1 January	0	13,157	54,211	1,796,885	0	1,864,253
Charge for the financial year	0	339	2,487	148,609	0	151,435
Write-off	0	0	0	(3,294)	0	(3,294)
At 31 December	<u>0</u>	<u>13,496</u>	<u>56,698</u>	<u>1,942,200</u>	<u>0</u>	<u>2,012,394</u>
<u>Accumulated impairment losses</u>						
At 1 January	0	0	0	0	0	0
Charge for the financial year	0	0	0	460,878	0	460,878
At 31 December	<u>0</u>	<u>0</u>	<u>0</u>	<u>460,878</u>	<u>0</u>	<u>460,878</u>
<u>Net book value</u>						
At 31 December	<u>50,598</u>	<u>2,158</u>	<u>52,544</u>	<u>932,945</u>	<u>66,576</u>	<u>1,104,821</u>

Included within work-in-progress is RM Nil (2013: RM1,257,020) of finance cost capitalised.

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14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land	Land improvements	Buildings	Plant, machinery, equipment and motor vehicles	Work-in- progress	Total
<u>2013</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Cost or deemed cost</u>						
At 1 January	50,598	15,700	109,266	2,470,432	804,495	3,450,491
Additions	0	0	0	1,498	88,265	89,763
Capitalisation	0	0	0	836,821	(836,821)	0
Write off	0	(46)	(24)	(8,109)	0	(8,179)
At 31 December	<u>50,598</u>	<u>15,654</u>	<u>109,242</u>	<u>3,300,642</u>	<u>55,939</u>	<u>3,532,075</u>
<u>Accumulated depreciation</u>						
At 1 January	0	12,864	51,744	1,661,124	0	1,725,732
Charge for the financial year	0	339	2,491	143,870	0	146,700
Write off	0	(46)	(24)	(8,109)	0	(8,179)
At 31 December	<u>0</u>	<u>13,157</u>	<u>54,211</u>	<u>1,796,885</u>	<u>0</u>	<u>1,864,253</u>
<u>Net book value</u>						
At 31 December	<u><u>50,598</u></u>	<u><u>2,497</u></u>	<u><u>55,031</u></u>	<u><u>1,503,757</u></u>	<u><u>55,939</u></u>	<u><u>1,667,822</u></u>

15 PREPAID LEASE PAYMENTS

	<u>2014</u> RM'000	<u>2013</u> RM'000
As at 1 January	1,885	1,906
Amortisation of prepaid lease payments	(21)	(21)
As at 31 December	<u><u>1,864</u></u>	<u><u>1,885</u></u>

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16 LONG-TERM RECEIVABLES

	<u>2014</u> RM'000	<u>2013</u> RM'000
Staff car loan	273	494
Less: Current portion (Note 20)	(273)	(207)
Staff car loan (Non-current portion)	<u>0</u>	<u>287</u>

Staff car loan are interest free and are repayable within 1 year (2013: 1 to 3 years). The fair value of the staff car loan is RM93,566 (2013: RM274,781). Fair value of the staff car loan is computed by discounting the future cash flows using discount rate of 3.23% per annum (2013: 3.6%).

The staff car loan does not contain impaired assets.

17 BORROWINGS/DERIVATIVE FINANCIAL ASSETS

17.1 Borrowings

	<u>2014</u> RM'000	<u>2013</u> RM'000
Term loan (unsecured):		
- current (less than 1 year)	452,375	1,043
- non-current (between 1 to 3 years)	839,160	1,236,120
	<u>1,291,535</u>	<u>1,237,163</u>
Short term borrowings:		
- current (less than 1 year)	<u>466,740</u>	<u>502,470</u>

As at 31 December 2014, the Company has in place revolving credit facilities with local banks for working capital purposes. The facilities carry interest rates at a range of COF+0.25% to COF+0.35% (Cost of Funds), and KLIBOR+0.26% (Kuala Lumpur Interbank Offer Rate).

The Company obtained a RM450 million loan for working capital financing in 2010. The term loan carries interest at rates which varies according to prevailing KLIBOR+0.30% starting from 15 June 2010. The repayment of the term loan is through twenty quarterly interest repayments and a bullet repayment of the entire principal balance which is due on 15 June 2015. Subsequent to the financial year end, the Company had successfully negotiated for an extension to the maturity date to 31 December 2015 on the same terms.

In 2011, the Company obtained a USD240 million 5-year term loan facility primarily to finance a capital expenditure project. The term loan carries interest based on LIBOR+0.75% (London Interbank Offered Rate). The loan will be maturing on 14 September 2016. The repayment of the term loan is through twenty quarterly interest payments and a bullet repayment of the entire principal balance on 14 September 2016.

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17 BORROWINGS/DERIVATIVE FINANCIAL ASSETS (CONTINUED)

17.1 Borrowings (continued)

The fair value of the non-current borrowing approximates the carrying value. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 3.74% on the RM450 million loan and 0.94% on the USD240 million loan per annum (2013: 3.50%; 1.01%).

17.2 Derivative financial instrument – Cross currency interest rate swap ('CCIRS')

	<u>2014</u> RM'000	<u>2013</u> RM'000
Derivative financial assets	118,565	75,331

The Company entered into CCIRS to hedge against the fluctuations in USD/RM exchange rate on its USD term loan. The fair values were obtained from the counterparty banks. Details are as follows:

<u>Contract Amount</u>	<u>Principal exchange rate</u>	<u>Interest rate swapped</u>	<u>Period entered</u>
USD 60 Million	USD 1 = RM 3.03	Pay ¹ KLIBOR - 0.62% Receive ² LIBOR + 0.75%	27 February 2012 to 14 September 2016
USD 60 Million	USD 1 = RM 3.03	Pay ¹ KLIBOR + 0.68% Receive ² LIBOR + 0.75%	27 February 2012 to 14 September 2016
USD 120 Million	USD 1 = RM 3.05	Pay ¹ KLIBOR - 0.56% Receive ² LIBOR + 0.75%	14 September 2011 to 14 September 2016

¹ KLIBOR - Kuala Lumpur Inter Bank Offer rate

² LIBOR - London Inter Bank Offer rate

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17 BORROWINGS/DERIVATIVE FINANCIAL ASSETS (CONTINUED)

17.2 Derivative financial instrument – Cross currency interest rate swap ('CCIRS') (continued)

The effective interest rates of the Company's term loans at the end of the reporting period ranged from 1.01% to 4.16% (2013: 0.99% to 3.53%) per annum. After executing the swap, the Company's effective interest rate at the end of the reporting period ranged from 3.18% to 3.30% per annum (2013: 2.64% to 2.76%).

<u>Financial instruments</u>	<u>Functional currency/ currency exposure</u>	<u>Applicable interest rate</u>	<u>Total carrying amount</u> RM'000	<u>Effective interest rate at end of reporting date</u> %
<u>As at 31 December 2014</u>				
Term loan	RM/RM	¹ KLIBOR + 0.30%	450,874	4.16
	RM/USD	² LIBOR + 0.75%	840,661	1.01
CCIRS	RM/USD	¹ KLIBOR - 0.56%	57,829	3.30
		¹ KLIBOR - 0.62%	30,379	3.24
		¹ KLIBOR - 0.68%	30,357	3.18
STRC	RM/RM	COF + 0.35%	250,000	3.63
	RM/RM	¹ KLIBOR - 0.26%	140,000	3.69
	RM/RM	COF + 0.35%	76,740	3.73
<u>As at 31 December 2013</u>				
Term loan	RM/RM	¹ KLIBOR + 0.30%	450,380	3.53
	RM/USD	² LIBOR + 0.75%	786,783	0.99
CCIRS	RM/USD	¹ KLIBOR - 0.56%	36,067	2.76
		¹ KLIBOR - 0.62%	19,556	2.70
		¹ KLIBOR - 0.68%	19,708	2.64
STRC	RM/RM	COF + 0.35%	250,000	3.36
	RM/RM	COF + 0.35%	102,470	3.46
	RM/RM	COF + 0.25%	150,000	3.30

18 INVENTORIES

	<u>2014</u> RM'000	<u>2013</u> RM'000
Crude oil	393,132	789,131
Less: Allowance for inventories write-down to net realisable value	(12,990)	(543)
	<u>380,142</u>	<u>788,588</u>
Petroleum products	462,282	572,613
Less: Allowance for inventories write-down to net realisable value	(67,720)	0
	<u>394,562</u>	<u>572,613</u>
Materials	26,479	25,625
	<u>801,183</u>	<u>1,386,826</u>

Included within crude oil is stock in transit as at 31 December 2014 of RM5,495,211 (2013: RM406,091,826).

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

19 TRADE RECEIVABLES

	<u>2014</u> RM'000	<u>2013</u> RM'000
Trade receivables	26,980	68,930
Less: Allowance for doubtful debts	(9)	(281)
	<u>26,971</u>	<u>68,649</u>

The credit terms range between 15 to 30 days (2013: 15 to 30 days).

As at 31 December 2014, trade receivables amounting to RM2,248,000 (2013: RM4,623,530) were past due but not impaired as management is of the view that these amount will be recoverable.

Ageing of trade receivable balances as at the reporting date that are past due but not impaired and impaired receivables are as follows:

	<u>Less than</u> <u>30 days</u> RM'000	<u>Between 30</u> <u>to 180 days</u> RM'000	<u>Over 180</u> <u>days</u> RM'000	<u>Total</u> RM'000
<u>As at 31 December 2014</u>				
Past due but not impaired	211	1,349	688	2,248
Impaired	0	0	9	9
	<u>0</u>	<u>1,349</u>	<u>697</u>	<u>2,257</u>
<u>As at 31 December 2013</u>				
Past due but not impaired	2,969	1,489	166	4,624
Impaired	0	0	281	281
	<u>2,969</u>	<u>1,489</u>	<u>447</u>	<u>4,905</u>

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NOTES TO THE FINANCIAL STATEMENTS
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19 TRADE RECEIVABLES (CONTINUED)

The carrying amounts of trade receivables at the end of reporting date approximated their fair values due to the short-term maturities of the instruments.

As of 31 December 2014 trade receivables of RM8,696 (2013: RM281,291) was impaired. The individually impaired receivables mainly relate to contentious balances and customer facing financial distress. The impaired receivables are overdue for more than a year.

Movement on the allowance for impairment of trade receivables is as follows:

	<u>2014</u> RM'000	<u>2013</u> RM'000
As at 1 January	281	298
Reversal of doubtful debts	(272)	(298)
Receivables provided during the year	0	281
	<hr/>	<hr/>
As at 31 December	<u>9</u>	<u>281</u>

Amounts charged to allowance account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company does not hold any collateral as security.

20 OTHER RECEIVABLES AND PREPAYMENTS

	<u>2014</u> RM'000	<u>2013</u> RM'000
Other receivables	653	270
Staff car loan (Note 16)	273	207
Prepayments	478	266
	<hr/>	<hr/>
	<u>1,404</u>	<u>743</u>

The carrying amounts of financial assets (excluding prepayments) at the end of reporting date approximated their fair values. The other receivables and staff car loan do not contain impaired assets.

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NOTES TO THE FINANCIAL STATEMENTS
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21 AMOUNTS RECEIVABLE FROM/(PAYABLE TO) RELATED COMPANIES

As at 31 December 2014, the amounts receivable from related companies of RM2,344,260 (2013: RM4,685,660) were past due but not impaired. The Directors are of the view that such credit risk is minimal in view of the stability of the fellow subsidiaries' financial position. Ageing analysis of these amounts receivable from related companies is as follows:

	Less than <u>30 days</u> RM'000	Between 30 <u>to 180 days</u> RM'000	Over 180 <u>days</u> RM'000	Total RM'000
Past due but not impaired				
- 31 December 2014	16	589	1,739	2,344
- 31 December 2013	1,244	437	3,005	4,686
	<u>1,260</u>	<u>1,026</u>	<u>4,744</u>	<u>6,010</u>

The fair values of related party balances approximate the carrying value as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the weighted average borrowing rate of 2.97% per annum (2013: 1.96%). The discount rate equals to KLIBOR plus appropriate credit rating.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company does not hold any collateral as security.

As of 31 December 2014 receivables from related companies of RM407,714 (2013: RM1,026,265) was impaired. The individually impaired receivables mainly relate to long-outstanding balances with related host companies.

Movement on the allowance for impairment of amounts receivables from related Companies is as follows:

	<u>2014</u> RM'000	<u>2013</u> RM'000
As at 1 January	1,026	0
Reversal of doubtful debts	(619)	0
Receivables provided during the year	0	1,026
As at 31 December	<u>407</u>	<u>1,026</u>

Amounts charged to allowance account are generally written off, when there is no expectation of recovering additional cash.

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NOTES TO THE FINANCIAL STATEMENTS
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22	CASH AND CASH EQUIVALENTS	<u>2014</u> RM'000	<u>2013</u> RM'000
	Bank balances	8,737	41,009

Bank balances are deposits held at call with banks and earned no interest.

23	SHARE CAPITAL	<u>2014</u> RM'000	<u>2013</u> RM'000
	<u>At 1 January/ At 31 December</u> Authorised 300,000,000 units of ordinary shares of RM1 each	<u>300,000</u>	<u>300,000</u>
	<u>At 1 January/ At 31 December</u> Issued and fully paid 300,000,000 units of ordinary shares of RM1 each	<u>300,000</u>	<u>300,000</u>

24	PSP FROM RDS		
	Performance share plans ("PSP") are awarded to eligible employees based on their sustained performance and forms part of their remuneration package. Nominated employees are awarded a conditional notional number of Royal Dutch Shell plc ("RDS") shares. A number of real shares may be transferred to them depending on the outcomes of prescribed performance conditions over a three-year period beginning on January 1 of the award year.		

The purchases of shares are originally funded by RDS, which is then recovered from those entities in which the services were provided. These are effectively remuneration costs which should be treated the same as any other remuneration cost.

25	TRADE AND OTHER PAYABLES	<u>2014</u> RM'000	<u>2013</u> RM'000
	Trade payables	22,213	30,662
	Sundry accruals	26,492	25,058
	Accruals for consumables and services	13,570	15,565
	Accruals for capital expenditure	13,283	18,664
		<u>75,558</u>	<u>89,949</u>

The Company's trade payables are unsecured. The credit terms for trade payables range from 30 to 45 days (2013: 30 to 45 days).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

26 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position.

	<u>2014</u> RM'000	<u>2013</u> RM'000
Deferred tax liabilities		
- To be settled within 12 months	0	(210)
- To be settled after more than 12 months	0	(34,495)
	<u>0</u>	<u>(34,705)</u>

The gross movement on the deferred income tax account is as follows:

	<u>2014</u> RM'000	<u>2013</u> RM'000
As at 1 January	(34,705)	(102,061)
Credited/(charged) to profit or loss (Note 10):		
- property, plant and equipment	75,812	37,462
- allowance for doubtful debts	(68)	(5)
- allowance for inventories write-down	19,235	(738)
- unused tax losses	(51,580)	21,630
- unused reinvestment allowance	(8,698)	8,698
- performance share plan	4	309
	<u>34,705</u>	<u>67,356</u>
As at 31 December	<u>0</u>	<u>(34,705)</u>
Deferred tax liabilities (before offsetting):		
- property, plant and equipment	(19,686)	(95,498)
Offsetting	19,686	60,793
As at 31 December (after offsetting)	<u>0</u>	<u>(34,705)</u>
Deferred tax assets (before offsetting):		
- allowance for doubtful debts	2	70
- allowance for inventories write down	19,370	136
- unused tax losses	0	51,580
- unused reinvestment allowance	0	8,698
- performance share plan	314	309
	<u>19,686</u>	<u>60,793</u>
Offsetting	(19,686)	(60,793)
As at 31 December (after offsetting)	<u>0</u>	<u>0</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

26 DEFERRED TAXATION (CONTINUED)

Deferred tax assets have not been recognised in respect of the following items (stated at gross amounts) as at 31 December 2014:

	RM'000
Tax losses carried forward	706,491
Capital allowances carried forward	297,419
Unabsorbed reinvestment allowance	35,043
	<u> </u>

The benefits of unutilised tax losses, capital allowances, and reinvestment allowances can be carried forward indefinitely and will be obtained when the Company derives future assessable income of a nature and of an amount sufficient for these carried forward tax losses, capital allowances, other temporary differences and reinvestment allowance to be utilised respectively.

27 SIGNIFICANT RELATED PARTIES TRANSACTIONS

The related party transactions of the Company comprise mainly transactions between the Company and its related companies. Related party transactions also include transactions with entities that are controlled, significantly influenced directly or indirectly by the Directors, key management personnel of the Company or their close family members.

In the normal course of business, the Company undertakes a variety of transactions with fellow subsidiaries whose common ultimate holding company is Royal Dutch Shell plc. The Directors regard Shell Overseas Holdings Limited as the Company's immediate holding company.

In addition to related party balances mentioned elsewhere in the financial statements, set out below is significant related party transactions, which were carried out on terms and conditions negotiated amongst the related parties:

	<u>2014</u>	<u>2013</u>
	RM'000	RM'000
(a) Income:		
(i) Sale of refined products to:		
- Shell Malaysia Trading Sendirian Berhad	11,228,285	11,174,392
- Shell International Eastern Trading Company	530,532	830,261
- Shell Timur Sendirian Berhad	1,485,178	1,684,212
- Shell Eastern Chemicals Pte Limited	364,856	368,173
	<u> </u>	<u> </u>
(ii) Tariff revenue on the use of properties/facilities:		
- Shell Malaysia Trading Sendirian Berhad	14,166	12,906
	<u> </u>	<u> </u>
(b) Expenses:		
(i) Purchase of crude and products from:		
- Shell International Eastern Trading Company	(13,851,885)	(13,093,113)
- Sarawak Shell Berhad	0	(1,111,541)
- Sabah Shell Petroleum Company Limited	0	(314,326)
- Shell Eastern Trading Pte Limited	(226,191)	(283,533)
- Shell Lubricants Supply Company	(47,726)	(70,938)
	<u> </u>	<u> </u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

27 SIGNIFICANT RELATED PARTIES TRANSACTIONS (CONTINUED)

	<u>2014</u> RM'000	<u>2013</u> RM'000
(ii) Central management and administrative expenses:		
- Shell Global Solutions International B.V.	(1,384)	(8,937)
- Shell Global Solutions (Malaysia) Sendirian Berhad	(1,113)	(12,923)
- Shell International Petroleum Company Limited	(28,088)	(33,711)
	<u> </u>	<u> </u>
(c) Dividends paid:		
- Shell Overseas Holdings Limited	0	17,213
	<u> </u>	<u> </u>
(d) Outstanding balances:		
<u>Receivables</u>		
- Shell Malaysia Trading Sendirian Berhad	628,622	1,005,999
- Shell Timur Sendirian Berhad	49,157	147,516
- Shell International Eastern Trading Company	46,393	40,853
	<u> </u>	<u> </u>
<u>Payables</u>		
- Shell International Eastern Trading Company	(597,686)	(1,029,863)
- Shell Eastern Trading Pte Limited	(30,413)	(28,502)
- Shell International Petroleum Company Limited	(7,418)	(6,822)
	<u> </u>	<u> </u>
(e) Capital commitments as at 31 December 2014 include unsecured commitment for purchase of catalysts amounting to RM1,103,707 (2013:RM Nil) with Criterion Marketing Asia Pacific Pte. Ltd. (wholly owned subsidiary of Royal Dutch Shell plc).		

Key management personnel are the persons who have authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. Key management personnel of the Company include the Board of Directors (disclosed in Note 13) and senior management personnel of the Company.

	<u>2014</u> RM'000	<u>2013</u> RM'000
Compensation for key management personnel:		
- salaries, bonus and allowances	5,111	5,262
- fees	465	387
- defined contribution plan	1,019	1,070
- benefits in kind	377	554
- shared based payments	514	806
	<u> </u>	<u> </u>

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NOTES TO THE FINANCIAL STATEMENTS
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28 CONTINGENT LIABILITIES

The Company is a member of an oil spill fund, namely the International Oil Pollution Compensation ("IOPC") 1992 Fund. The purpose of the Fund is to help compensate parties that suffer financial loss as a result of oil spill from tankers. The members make contributions to the Funds depending on specific global oil spill incidents, which give rise to payments of compensation by the Funds. The contingent liability is unsecured, and as at the date of this report, there are no material claims outstanding.

29 CAPITAL COMMITMENTS

Approved capital expenditure for property, plant and equipment not provided for in the financial statements are as follows:

	<u>2014</u> RM'000	<u>2013</u> RM'000
Approved and contracted for	6,604	23,207
Approved but not contracted for	64,611	56,947
	<u> </u>	<u> </u>

30 SEGMENTAL INFORMATION

Segmental reporting is not separately presented as the Company is principally engaged in the oil and gas industry namely refining and manufacturing of petroleum products in Malaysia, which are substantially within a single business segment. The Company operates primarily in Malaysia. Accordingly, no segmental information is considered necessary for analysis by industry segments or by geographical segment.

Additionally, the chief operating decision-maker also reviews the EBITDA margin of the Company. EBITDA margin is defined as earnings before interest, tax, depreciation and amortisation which amounted to a loss of RM1,013.36 million (2013: loss of RM34.36 million).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

31 FINANCIAL INSTRUMENTS BY CATEGORY

	<u>2014</u> RM'000	<u>2013</u> RM'000
<u>Financial assets as per statement of financial position</u>		
<u>Loans and receivables</u>		
Long-term receivables	0	287
Trade and other receivables excluding prepayments	27,897	69,126
Amounts receivable from related companies	743,169	1,232,231
Cash and cash equivalents	8,737	41,009
	<u>779,803</u>	<u>1,342,653</u>
<u>Assets at fair value through profit or loss</u>		
Derivative financial asset	<u>118,565</u>	<u>75,331</u>
<u>Financial liabilities as per statement of financial position</u>		
<u>Other financial liabilities at amortised cost</u>		
Trade and other payables excluding statutory liabilities	73,668	86,334
Amounts payable to related companies	652,573	1,101,491
Borrowings	1,758,275	1,739,633
	<u>2,484,516</u>	<u>2,927,458</u>

32 COMPARATIVES

Certain comparatives for the financial year ended 31 December 2013 were reclassified to better reflect the underlying nature and classification of these transactions. The effects of these transfers are as follows:

	<u>As previously stated</u> RM'000	<u>Reclassifications</u> RM'000	<u>As restated</u> RM'000
<u>Statement of Financial Position as at 31 December 2013:</u>			
Derivative financial assets	86,867	(11,536)	75,331
Derivative financial liabilities	(11,536)	11,536	0
	<u> </u>	<u> </u>	<u> </u>

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NOTES TO THE FINANCIAL STATEMENTS
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32 COMPARATIVES (CONTINUED)

	As previously <u>stated</u> RM'000	<u>Reclassifications</u> RM'000	<u>As restated</u> RM'000
<u>Statement of Comprehensive Income</u>			
<u>for the year ended 31 December 2013:</u>			
Cost of sales	(14,798,226)	14,798,226	0
Other operating (losses)/gains	(58,381)	56,120	(2,261)
Purchases	0	(14,519,448)	(14,519,448)
Manufacturing expenses	0	(188,198)	(188,198)
Depreciation, depletion and amortisation	0	(146,700)	(146,700)
	<u> </u>	<u> </u>	<u> </u>

Foreign exchange gain or losses arising from translation differences are directly related to trade payables of the Company.

Based on this principle, foreign exchange differences relating to trading activities, e.g. arising from the purchase of raw materials such as crude or products are best disclosed as part of purchases.

The Directors are of the opinion that these reclassifications accurately reflect the nature of the relevant transactions. The Company's prior year results are not affected by these reclassifications.

33 SIGNIFICANT SUBSEQUENT EVENTS

Subsequent to the financial year, the following significant events occurred:

(i) Structured review

As announced on 9 January 2015 to Bursa Malaysia, the Board has completed the structured review of Shell Refining Company's resilience in the current poor margin environment as announced in September 2014. The Board has concluded that refining margins are expected to remain depressed due to overcapacity in the global refining industry. Given the poor margin environment, the Board is proactively investigating long-term options in the best interest of the Company. These will include, but are not limited to, the potential sale of the assets, or conversion of operations to a storage terminal and/or other viable options. The focus near-term is to secure and sustain the safe and reliable operation of the Refinery while long-term options are being pursued. Once the final option has been selected, the Company will seek the necessary approval from shareholders in compliance with regulatory requirements. Further details on the selected option shall be disclosed and announced to Bursa Malaysia in due course.

(ii) Extension of term loan

The Company had successfully extended the maturity date of its long term loan of RM450 million which will be due on 15 June 2015 to 31 December 2015 as disclosed in Note 17 to the financial statements.

34 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 31 March 2015.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

35 SUPPLEMENTARY INFORMATION DISCLOSED PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS

The following analysis of realised and unrealised profits or losses at the legal entity level is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Total retained earnings of Shell Refining Company (Federation of Malaya) Berhad:

	<u>2014</u> RM'000	<u>2013</u> RM'000
Realised	96,958	1,253,595
Unrealised	(73,580)	(41,449)
Retained earnings as at 31 December	<u>23,378</u>	<u>1,212,146</u>

The unrealised losses disclosed above are charges relating to the recognition of deferred tax liabilities, fair value gain on derivative financial instruments and unrealised foreign exchange losses.

The disclosure of realised and unrealised profits above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be used for any other purpose.