

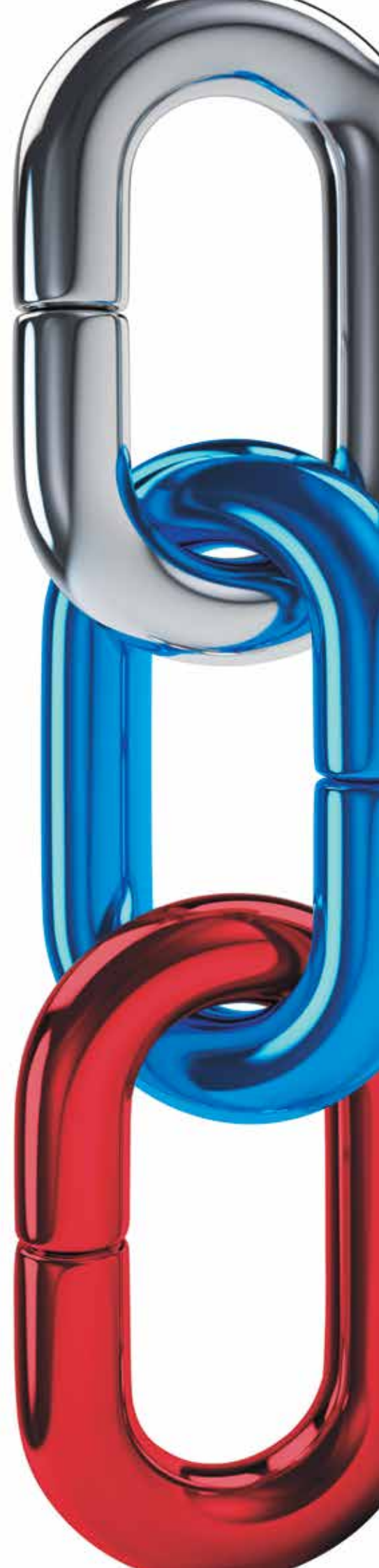
# ICON OF STRENGTH

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Chevron Lubricants Lanka PLC  
Annual Report 2017



Our Family of Brands



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You can view our Annual Report on our website

<http://www.chevron.lk>

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# ICON OF STRENGTH

For over 25 years, Chevron Lubricants Lanka PLC has been a symbol of corporate strength, serving the nation with excellence in lubricant products through an island-wide presence, state-of-the-art technology and the unmatched industry expertise that has kept us at the forefront of our competitive business.

We experienced many challenges in 2017 by way of increased raw material costs, intense competition and unusual weather patterns which affected the lubricants industry.

We're looking ahead, with resolve and determination to continue to be an icon of strength, contributing to the nation's economy, increasing exports and foreign revenue, generating employment, and empowering people and communities.



Our Family of Brands





# VISION

To be the pre-eminent marketer of lubricants in Sri Lanka differentiated by its people, partnerships and performance.

## OUR VALUES

Our company's foundation is built on our values, which distinguish us and guide our actions to deliver results. We conduct our business in a socially and environmentally responsible manner, respecting the law and universal human rights to benefit the communities where we work.

### **Diversity and inclusion**

We learn from and respect the cultures in which we operate. We have an inclusive work environment that values the uniqueness and diversity of individual talents, experiences and ideas.

### **High performance**

We are passionate about delivering results, and strive to continually improve. We hold ourselves accountable for our actions and outcomes. We apply proven processes in a fit-for-purpose manner and always look for innovative and agile solutions.

### **Integrity and trust**

We are honest with ourselves and others, and honor our commitments. We trust, respect and support each other. We earn the trust of our colleagues and partners by operating with the highest ethical standards in all we do.

### **Partnership**

We build trusting and mutually beneficial relationships by collaborating with our communities, governments, customers, suppliers and other business partners. We are most successful when our partners succeed with us.

### **Protect people and the environment**

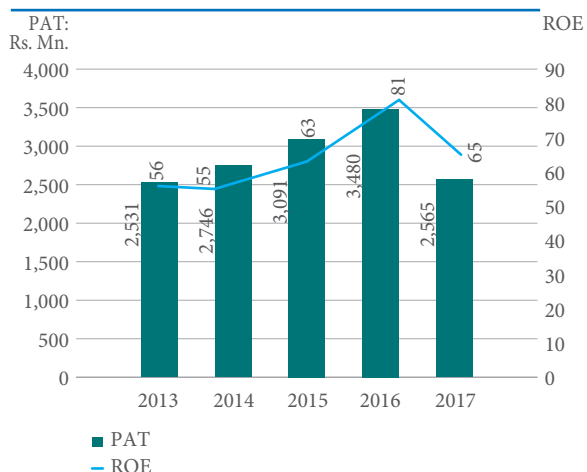
We place the highest priority on the health and safety of our workforce and protection of our assets, communities and the environment. We deliver world-class performance with a focus on preventing high-consequence incidents.

# FINANCIAL HIGHLIGHTS

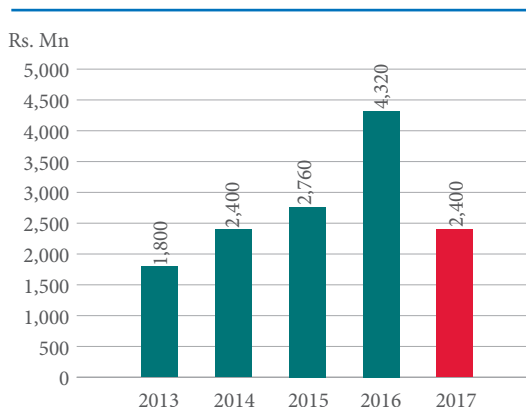


		2017 Rs. 000'	2016 Rs. 000'	%
Turnover		<b>11,052,496</b>	12,089,111	-9%
Profit Before Tax & OCI		<b>3,495,785</b>	4,702,671	-26%
Taxation		<b>930,565</b>	1,222,261	-24%
Profit After Tax		<b>2,565,220</b>	3,480,410	-26%
Shareholders Funds		<b>4,006,914</b>	3,860,623	4%
Property, Plant & Equipment		<b>2,066,551</b>	2,132,858	-3%
Gross Dividends	Rs. 000'	<b>2,400,000</b>	4,320,000	-44%
Dividend per Share	Rupees	<b>10.00</b>	18.00	-44%
Earnings per Share	Rupees	<b>10.69</b>	14.50	-26%
Dividend Payout Ratio	%	<b>94</b>	124	-30%
Price Earnings Ratio	Times	<b>11.13</b>	10.83	3%
Market Value per Share as at 31st December	Rupees	<b>119.00</b>	157.10	-24%
Return on Equity	%	<b>65</b>	81	-16%
Net Assets per Share	Rupees	<b>16.70</b>	16.09	4%
Net Income to Turnover	%	<b>23</b>	29	-6%

## Profit After Tax & ROE




## Gross Dividends



# CHAIRPERSON'S REVIEW





I am pleased to report that your Company continued its safe operations without any recordable incidents and achieved the valuable milestone of 16 years of incident-free operations during the year.

I am pleased to place before you our audited financial statements and annual report for the financial year ended 31st December 2017. Net Earnings After Tax fell by 26% to Rs. 2,565 mn, resulting in Earnings Per Share of Rs. 10.69, compared to Rs. 14.50 recorded last year. The decline in net earnings was mainly due to margin erosion as a result of increased input costs and decline in volumes due to intense competition. The Company declared and paid three interim dividends amounting to Rs.10 per share. The fourth interim dividend of Rs.2.25 per share was declared on 08th February 2018.

From a macro perspective, Sri Lanka's economy was estimated to have grown by 3.1% for the year ended 2017. The contribution from the service sector to GDP amounted to 56% for the period. Sri Lanka's Exports registered commendable growth of 10% with the realization of GSP+ benefits, while balance of payments recorded a surplus for the year. Meanwhile, vehicle population increased by 6.7%. However, 56% of the motor vehicle population comprised of motor cycles.

There were no changes in the lubricants regulatory environment, except for the increase in lubricant license fees. The Public Utility Commission of Sri Lanka still lacks the necessary legal authority to regulate the market. However, the ministry commenced a public awareness campaign during the last quarter of the year to educate customers in choosing lubricant products cautiously, without falling prey to grey market products. This complemented our own campaign to generate awareness among our customers.

Competition within the lubricants industry will further increase with the anticipated issue of licenses to new entrants. Meanwhile, the lack of an effective mechanism to control illegal operators in the industry remains. However, given the strength of our brands and access to technologically advanced products, we are optimistic that we will be able to deliver shareholder value.

I am happy to report that we continued our corporate responsibility program on road safety for yet another consecutive year. The incidence of road accidents in Sri Lanka remains alarmingly high despite concerted efforts by the government and law enforcement agencies. We believe our educational and

**RS. 10.00**  
Dividend per share

awareness campaign has had a positive impact on the safety of the road users and may have some influence towards reducing the number of accidents.

I am pleased to report that your Company continued its safe operations without any recordable incidents and achieved the valuable milestone of 16 years of incident-free operations during the year.

I take this opportunity to thank my predecessor, Mr. Farrukh Saeed, for his contribution and foresight during his tenure at the Company. I also thank Mr. Richard Brown, who resigned his directorship in October 2017, for his valued contribution to the Board. I would also like to welcome Mr. Teek Hong Kee who joined the Board as Director during 2017.

I wish to thank my fellow directors for their support and guidance as well as the management team for their commitment. My gratitude goes out to all our stakeholders for their continued support.



**Rochna Kaul**  
Chairperson

# MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER'S REVIEW



## Company Performance

2017 was a challenging year for Chevron Lubricants Sri Lanka PLC. The Company recorded a Net Profit After Tax of Rs. 2,565 mn for the year, which was a 26% decline compared to the robust performance posted last year in which the Company capitalized on favourable input costs. Both volumes and revenues dropped by 10% and 9%, respectively. The decline in volumes was primarily a result of the decline in sales in the domestic retail market, while we recorded healthy growth stemming from exports to Bangladesh.

The steep rise in base oil cost, compounded by the depreciation of the LKR against the USD and the gradual increase in commodity prices, caused significant inflationary pressure on costs during the year. Distribution costs increased substantially compared to last year, particularly due to the increase in the lubricants license fee from 0.5% of domestic sales (subject to a cap of Rs.10 mn) to 0.75% of domestic sales (with no cap), resulting in a lubricant license fee of Rs.74 mn, compared to Rs.10 mn last year.

To counter the mounting cost pressure, the Company increased prices; however, this strategy was not effective in the retail market, as consumer disposable income was compressed by the rise in inflation. Further, adverse weather conditions due to prolonged droughts and floods affecting several districts disrupted the regular momentum of economic activities during the year, which also curtailed lubricant consumption. The rise in consumer inflation and disruption of economic activities due to inclement weather may have also resulted in longer oil drain intervals than usual amongst a segment of consumers.

In response to intense price competition, the Company deployed tactical measures to re-gain volumes in order to sustain and grow share in the industry. Although we did achieve volume gains during the latter part of the year, it was at the expense of lower margins. Drum sales are particularly vulnerable to intense price competition and unfair trade practices. The Company maintained volumes in the industrial segment, despite losing two important tenders based on price points.

# RS. 2.56 BN

## Profit After Tax

We did, however, offset some of the challenges with a few noteworthy successes. For example, we entered into a toll blending arrangement with YAMAHA to blend and supply YAMAHA genuine oil under the YAMALUBE brand to be sold via the local YAMAHA distributor in Sri Lanka. We also entered into an agreement with Abans Auto to blend and supply motor cycle oils co-branded with Havoline. Among other wins, we entered into a contract for supplying oils to power plants.

The oil mart channel continues to make a significant contribution in our channel strategy. Therefore, we decided to augment the brand image of oil marts by rebranding them to include "Approved by Caltex" signage to clearly distinguish the Company's oil marts from other brands that try to emulate us.

We maintained our focus on our export markets, recording a growth in volumes in Bangladesh, while sustaining our performance in the Maldives amidst macro-economic challenges affecting the market. The "one-liter-free engine oil" consumer promotion launched in Bangladesh was well received by the retail market. We are committed to growing the contribution of export earnings to our revenues and will pursue astute sales and marketing strategies to expand our share of those markets.

## Tackling Challenges

I am heartened to note that many of the industry challenges of the past are now being addressed by the authorities concerned, which bodes well for the industry. The Minister of Petroleum Resources Development and the Public Utilities Commission of Sri Lanka have shown a willingness to curb illegal imports of lubricants, initiating several meetings with customs officers,



# MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER'S REVIEW

The narrow duty gap between finished goods and raw materials continues to pose a challenge to the Company and the industry.

Sri Lanka Police, the Consumers Affairs Authority and legal counsel to find solutions to address this serious issue. We remain hopeful that these efforts will fuel stronger action against illegal activities taking place in the industry.

As the market leader, we took the initiative to launch an educational campaign for all lubricant customers, cautioning them against unknowingly purchasing inferior or illegal products, which can result in damaged vehicle engines. In turn, the respective Ministry too has embarked on a public awareness campaign, cautioning the public against illegal products.

The narrow duty gap between finished goods and raw materials continues to pose a challenge to the Company and the industry. We have communicated to the relevant authorities the adverse impact to local blenders as a result of the narrow duty gap at present.

On the regulatory front, PUCSL continues to operate without required legal authority to enforce the existing laws. The Ministry of Petroleum Resource Development currently oversees the industry.

## **Sustainable Approach to Human and Social Capital**

Our team is at the forefront of our success, and we continue to invest in their professional growth by way of training and development along with staff retention strategies. As a result, key management positions remained unchanged during the year. Our structured human resource management systems have helped the company sustain its industry leading position.

Employee safety remains a top priority at the Company, and during the year we sustained the progress made in recent years by celebrating a 100% safety record, which reflects our disciplined operations. It gives me immense pride to reiterate that we completed 16 years of incident-free operations, without a single day away from work due to injury in the workplace.

While financial performance is most certainly a definitive measure of success, we believe what matters as much is our performance as stewards of the communities in which we operate. The Company regularly demonstrates its concern for the well-being of the society at large by undertaking focused social initiatives.

Enhancing road safety has remained a key focus area. We carried out several impactful campaigns and activities, as detailed in the corporate social responsibility report on page 36 of this annual report. We believe we have created greater awareness about the importance of road safety – a result of the various initiatives undertaken by us in partnership with the Sri Lanka Traffic Police. The problem of road safety needs serious attention and we are committed to invest in public service initiatives to raise awareness and save lives.

## **Outlook**

Sri Lanka's lubricant industry is mature and competitive with thirteen players and three blending plants operating with excess capacity. The Government may issue additional licenses during the year, which will further change the competitive landscape.

While the Company has access to latest product innovations and a robust channel strategy, our ability to command the right price and influence customers to purchase packed products rather than loose sales will largely determine our future profitability. Sustained growth in the export markets will also be crucial for our success, and we will be deploying resources to meet that objective. Unfortunately, the tax advantage enjoyed by the Company on exports profits will end with the implementation of the new Income Tax Act.

### **Appreciation**

I would particularly like to extend a warm welcome to the new Chairperson of our Board, Rochna Kaul, to whom the entire team pledges its fullest cooperation.

I would like to express my gratitude to the outgoing Chairman, Farrukh Saeed, for guiding us through what has been a highly successful seven-year period during which we set new benchmarks under his practical and productive leadership. I personally thank him on behalf of the management and the entire team at Chevron Lubricants Lanka.

Last, but not the least, I am grateful to our shareholders and employees for placing their trust in the Company.



**Deshamanya Dr. Kishu Gomes**  
*Managing Director/  
Chief Executive Officer*

# BOARD OF DIRECTORS



## 1 Rochna Kaul Chairperson

Rochna Kaul is General Manager of Chevron Lubricants Asia Pakistan region and is based in Singapore. She is responsible for the sales and marketing of finished lubricants and coolants in Southeast Asia markets and Pakistan. Prior to assuming this position in August 2017, Kaul served as General Manager Southern Africa Products where she was responsible for working 800+ retail service stations as well as B2B commercial channels.

Kaul has 13 years of experience at Chevron. Throughout her Chevron career, she has held positions with increasing responsibility in marketing and sales. Kaul has worked across Asia, the Americas and Southern Africa. She is also actively involved in Chevron's Women's Network.

Kaul started her career in Singapore as Commercial Marketing Manager. She has an undergraduate degree in Economics and a MBA from the Asian Institute of Management



## 2 Deshamanya Dr. Kishu Gomes Managing Director / Chief Executive Officer

Mr. Kishu Gomes was appointed to the Board in 2000. A Fellow member of the Chartered Institute of Marketing, UK, he holds an MBA from the University of Leicester, UK.

He joined Caltex in 1997 and rose steadily to become the first Sri Lankan Managing Director / CEO of Caltex Lubricants Lanka Limited and Caltex Ceylon Limited in 2001.

He was a Past President of the American Chamber of Commerce and held the position of Senior Vice-Chairman of the Chartered Institute of Marketing, UK local branch.

Amongst many awards won by Kishu are the 2 Inaugural Awards; Marketer of the Year awarded in 2001 and Best Young Director of the Year Award in 2003. He was also winner of the prestigious TOYP Award; Most Outstanding Young Persons in Sri Lanka in 2003 for Business Leadership and won the Pinnacle Award as the best Business Leader in the large category in Sri Lanka in 2004 from Chartered Institute of Management Accountants, UK, Sri Lanka branch. He was a Vice Patron of the Institute of Automotive Engineers, Sri Lanka. Kishu was a past President of Lanka Business Coalition on HIV and AIDS and sits on the Board of Sri-Lanka AIDS Foundation too.

He counts over 30 years of experience working for US multinationals having started his career at Coke in 1984.



## 3 Anura Perera Director / Chief Financial officer

Appointed to the Board in 2002, Mr. Anura Perera holds a B. Com Honours Degree from the University of Kelaniya and Post Graduate certificates in Human Resources Management and Management from PIM Sri Lanka and University of Leicester, UK respectively. He is a Fellow member of the Institute of Chartered Accountants of Sri Lanka and a member of the Chartered Institute of Management Accountants, (UK), (ACMA/CGMA). He joined the Company in 1996 as Deputy Manager Finance and Administration and was promoted as Manager Finance and Administration in 1997 and as General Manager in 2000. He counts more than 26 years of senior managerial experience in Accounting and Finance. He also serves as Director of Chevron Ceylon Limited.



#### 4 Teek Hong Kee Non-Executive Director

Teek Hong Kee is the Regional Finance Officer of Chevron Downstream & Chemical, responsible for the finance functions of its downstream businesses in Asia Pacific, Africa & Middle East areas. His previous assignments in Chevron include General Manager of Chevron Shared Services Center in Manila, Regional Comptroller for Asia Pacific, General Manager of Decision Support & Reporting for Asia Pacific, Africa & Middle East, Strategic Planning Manager for Singapore, Trading & Supply Finance Manager for Singapore, Project Manager for system design & implementation in South East Asia and various other roles in his 30 years with Chevron. He also served as a board member in a number of its affiliates, joint ventures and trade associations.

Mr Kee has a Bachelor of Accountancy Degree and is a Certified Public Accountant.

#### 5 Harsha Amarasekera Non-Executive Director

Mr. Amarasekera, President's Counsel is a leading Lawyer in Sri Lanka having a wide practice in the Original Courts as well as in the Appellate Courts, specializing in Commercial Law, Business Law, Securities Law, Banking Law and Intellectual Property Law.

He also serves as an Independent Director in several leading listed companies in the Colombo Stock Exchange including CIC Holdings PLC (Chairman), Chemanex PLC (Chairman), Vallibel One PLC, Royal Ceramics Lanka PLC, Expo Lanka Holdings PLC, Amana Bank PLC, Vallibel Power Erathna PLC and Amaya Leisure PLC. He is also the Chairman of CIC Agri Business (Private) Limited.

#### 6 Desamanya Deva Rodrigo Non-Executive Director

Mr. Deva Rodrigo FCA, former Territory Senior Partner of PricewaterhouseCoopers, Sri Lanka and Maldives, and past Chairman of the Ceylon Chamber of Commerce has served as an Independent Non- Executive Director of Chevron Lubricants Lanka PLC since 2009.

He is also a Non-Executive Director of Taprobane Holdings PLC and Cargills Ceylon PLC.

He has held public sector appointments as a member of the Monetary Board of the Central Bank of Sri Lanka, the Administrative Reforms Committee, National Council for Administration, Presidential Commission on Trade and Tariffs, Telecom Regulatory Commission and Director of Peoples Bank.

Mr. Rodrigo qualified as a Chartered Accountant in 1972. He is a product of Ananda College, Colombo.

# MANAGEMENT TEAM



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- 1 **Kishu Gomes**  
Managing Director / Chief Executive Officer
- 2 **Anura Perera**  
Director / Chief Financial Officer
- 3 **Bertram Paul**  
General Manager Sales

- 4 **Wijitha Akmeemana**  
Manager Supply Chain
- 5 **Erande De Silva**  
Manager Finance & Planning
- 6 **Maheshni Hamangoda**  
Human Resources Manager



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7 **Sumith Hewavitharana**  
Indirect Sales Manager

8 **Hilary Fernando**  
Lead Technical Manager

9 **Thushari Weragoda**  
Laboratory & Quality Assurance Lead

10 **Upali Wijesinghe**  
Logistics Manager

11 **Thusitha De Silva**  
Direct Sales Manager

12 **Eenaz Salie**  
Marketing Manager

# MANAGEMENT DISCUSSION & ANALYSIS



The GDP was estimated to have grown by approximately 3.1% during 2017 compared to the 4.4% annual growth recorded during 2016, as per Department of Census and Statistics.

## Economic Overview

The economic climate during the year was characterized by relatively sluggish consumer demand and weak business sentiment. The Government's fiscal policy measures during 2017 were consistent with its intent to manage the widening fiscal deficit. The impact of the increase in indirect tax through the revision of VAT since November 2016 took full effect during the year in review, which partly contributed toward the rise in inflation and a decline in consumer disposable income, while the rise in certain key commodity prices infused further cost inflation. Economic activities and progression were also hampered by adverse weather conditions due to severe droughts and floods.

The GDP was estimated to have grown by approximately 3.1% during 2017 compared to the 4.4% annual growth recorded during 2016, as per Department of Census and Statistics. The Industrial sector and Service sector primarily accounted for the growth estimated during the period, whilst the agricultural sector declined due to the adverse weather conditions that prevailed, particularly during agricultural seasons. Amongst the key sub-segments which indicated growth during the period, construction, mining, manufacturing of the industrial sector; wholesale and retail trade activities, financial services and transportation of the service sector were prominent contributors.

The Annual average inflation was estimated at 7.7% (4.0% in 2016), whilst core inflation declined to 4.9% (5.9% in 2016) based on the National Consumer Price Index (2013=100) compiled by the Department of Census and Statistics.

Based on the Central Bank of Sri Lanka, the external sector recorded a balance of payments surplus during 2017, although the current account continued to be compressed by the widening trade deficit in the imports skewed economy.

Growth in export earnings primarily stemmed from industrial exports and agricultural exports. Textile and garment exports recorded a growth in both traditional and non-traditional markets. Garment exports particularly to the European Union

grew following the restoration of the GSP+ facility from May 2017. Rubber products and petroleum products in the form of tyres, bunker and aviation fuel respectively contributed towards the growth in industrial exports during the year. Growth in agricultural exports stemmed mainly from tea, spices and sea food. Import expenditure escalated during the period as expenditure on intermediate goods and consumer goods increased. The growth in intermediate goods were driven by refined petroleum fuel imports due to higher prices, gold imports and base metals due to higher importation of iron and steel. The increase in consumer goods stemmed from the food and beverage sector which was influenced by rice and dairy product imports. However, positive strides were made in curtailing import expenditure on both investment goods, and non-food consumer goods owing to the decline in vehicle imports vis-à-vis the higher import tariffs that prevailed.

As per Central Bank of Sri Lanka, workers' remittances declined due to geo-political uncertainties and continuation of subdued economic performance in major remittance generating destinations. However, inflows were strengthened through a growth in earnings from tourism as tourist arrivals surpassed 2.1 million during the year.

The financial flows were augmented through a higher proportion of foreign direct investments to the country, inflows recorded in foreign investments in the Colombo Stock Exchange and government securities market. The government managed to secure a higher proportion of loans through terms loans and the extended fund facility (EFF) from the IMF during the period compared to 2016.

As per Central Bank of Sri Lanka the LKR depreciated by 2% during 2017, whilst the gross official reserves were estimated at USD 8.0 billion and total foreign assets estimated at USD 10.4 billion as at year end 2017 which equated 4.6 and 6.0 months of imports respectively.



## Lubricant Industry

The structure of the lubricant industry remained unchanged during the year with 13 players, which included three companies that blend lubricants locally. The industry recorded a 11% volume growth during 2016 as per statistics released by the Public Utilities Commission of Sri Lanka (PUCSL). The following factors affected the lubricants volumes during the year in review.

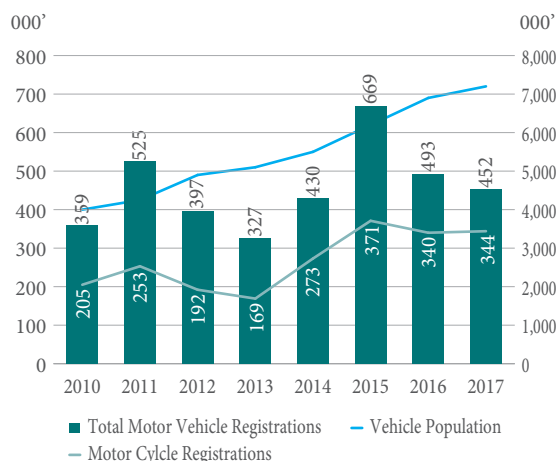
The lubricant-intensive thermal power contribution to the national energy grid remained at a high proportion as a substitute to hydro power, due to adverse weather conditions that prevailed and low rainfall in the hydro catchment areas during most part of the year. As a result, the Government was also compelled to activate certain emergency power projects. Meanwhile, we believe demand for lubricants may have strengthened through growth realized in the manufacturing sector of the economy. The construction sector of the economy was estimated to have grown compared to the parallel period in 2016, although the growth was skewed towards less lubricant intensive construction activities.

We believe several factors impeded growth in the industry during the year in review. The growth in registration of motor vehicles declined during 2017 to 7%, compared to the 8% recorded during the previous year. The higher import tariffs that prevailed on motor vehicles and the firmly controlled loan-to-value (LTV) ratio by the Government to curtail credit expansion as a measure to curb the widening trade deficit deterred vehicle imports to the country. The depreciation of the LKR against major currencies continued to impede price sensitive consumers investing in motor vehicles. Amongst some of the factors that stifled vehicles usage during the year, the decline in disposable income due to increase in indirect taxes and the rise in consumer inflation were prominent.

Based on the statistics of the Department of Motor Traffic in Sri Lanka, the registration of motor cycles continued to dominate with 76% of the composition of new motor vehicle registrations (69% in 2016), followed by motor cars of 9% (9% in 2016) and three wheelers 5% (11% in 2016). The overall vehicle population increased to 7.21 million from 6.76 million recorded in 2016.

**RS. 11.05 BN**  
Turnover

## Total Motor Vehicle Registrations



(Source: Department of Motor Traffic of Sri Lanka)

Demand for lubricants from the agriculture and fisheries sectors were disrupted by adverse weather patterns. The torrential rains and floods during May and droughts that persisted during most of the year curtailed primary sectoral activities in many provinces.

The gradual migration in consumer demand from lower-tier lubricants to higher-tier lubricants to reap the technological product benefits continued during the year. This results in the functional benefit of longer oil drain intervals, but consequentially compresses lubricant volumes in the industry due to less frequent oil fills.

## Sales

2017 proved to be a challenging year due to a decline in consumer demand and consumption, compounded by intense competition, which adversely affected volumes and market share, particularly in the Indirect Channel. However, we retained our position in the direct channel and grew export volumes especially in the Bangladesh market. Sales to the original equipment manufacturers (OEM) sector reflected healthy year-on-year growth through the acquisition of a major account. We entered into a toll blending arrangement with YAMAHA to blend and supply YAMAHA genuine oil under the YAMALUBE brand to be sold via the local YAMAHA distributor in Sri Lanka.

## Indirect Channel (Retail Channel)

Extreme weather conditions continued to adversely affect sales performance in 2017. The severe drought dented demand for lubricants from the agricultural areas, while rains in the second quarter of the year inundated parts of the country, which curtailed regular economic activities.

# MANAGEMENT DISCUSSION & ANALYSIS

Sales volumes reached record levels during the first quarter supported by an aggressive trade discount campaign. However, our price increase strategy during the second quarter to counter mounting cost inflation was not successful in the retail market and resulted in a decline in volumes. Our efforts to boost retail volumes during the latter half of the year through increased discounts was successful, although this led to compressed margins.

During the first half of the year we launched a Consumer Promotion on Automotive and Motorcycle Oils, which offered consumers the chance to win 10 motorcycles and an SUV. During the latter half of the year we brought back the “one-liter free consumer promotion” on packs of Diesel Engine oil, which once again was extremely well received by consumers and the trade.

Product adulteration and fraudulent sales of counterfeit oil increased in intensity during the year. In response, we diverted resources to collect Caltex-branded oil samples to be tested against our stringent specifications. We also communicated the adverse consequences of non-compliance to traders. In a bid to create awareness among consumers regarding the implications of this serious issue, we launched a communication campaign using both print and electronic media along the lines of investigative journalism, which generated significant chatter from consumers, especially on social media.

In pursuance of our strategy to expand our exclusive channels to offer consumers the trust and reliability of purchasing genuine Caltex Oils, we added on a sizable number of “Caltex Oil Marts” and “Caltex Star Care” Service Stations to our network during the year. We also rolled out a new brand identity for our network of exclusive lubricant selling outlets, identifying them as “Approved Caltex Oil Marts” in order to differentiate them from non-exclusive outlets.

We conducted a series of customer education programmes for various customer segments to raise product awareness and reinforce our position as a technology leader in the industry.

## **Direct Channel (Commercial and Industrial Channel)**

We recorded a strong sales performance in the industrial channel during the first nine months, with volume growth stemming from the construction, power generation, armed forces and government transport sectors. However, we experienced a decline in volumes during the fourth quarter due to the loss of two significant key government tenders based on tender price points. Volumes from general industrial and rubber processing sector were relatively flat, which resulted in limiting the overall channel volume performance, parallel to last year.

Additional emergency power projects came on line during the year after a lapse of many years. Power plants with 60 engines in total were installed at four sites contributing power to the national grid. We were selected as the preferred lubricant supplier for these projects with all 60 engines using premium Chevron branded lubricants.

We introduced our top-of-the-range diesel engine lubrication oil, “Delo 400 MGX”, which meets the advanced API CJ-4 specification, to the market during 2017, and this product further reinforced our leadership position for critical machinery in the construction industry as well in the container port operations.

As in previous years, our team of technical experts and sales engineers extended a range of value added services to direct channel customers including product testing, technical training and lubricant optimization packages in keeping with Chevron’s proposition of Reliability-Based-Lubrication.

## **Exports**

### **Bangladesh**

Bangladesh continued its successful performance with strong year-on-year growth in 2017. The strategy in the indirect channel to penetrate markets beyond the capital city Dhaka and commercial hub Chittagong proved successful, while setting up a network of sub-distributors with responsibility for demarcated territories. A series of trade and consumer promotions covering Automotive and Motor Cycle Oils in the indirect channel also helped grow volumes via increased penetration and availability.

The growth trajectory evidenced in previous years in the industrial sector slowed down in 2017 due to a change in the mix of power generation with less contribution from the lubricant-intensive heavy fuel fired medium speed engines and gas engines. However, the introduction of “HDAX 9200,” a new product offered to the Bangladesh market in 2017 in the range of premium gas engines oils, providing additional engine protection and longer running hours, has been well received by power generation customers. The product is being leveraged to drive penetration into new power generation accounts in Bangladesh. The new product was showcased to existing and prospective customers via a series of technical seminars conducted by technical experts from Chevron’s Asia Pacific Region during the year.

### **Maldives**

Sales volumes during 2017 remained flat compared to 2016, which incidentally was the highest volume recorded for Maldives. The performance is creditable considering the multiple challenges faced during the year including intense competition from new entrants and lack of access to certain government

accounts due to directives to exclusively purchase lubricants from state entities.

Our largest customer segment of resort power generation which contributes 70% to overall volumes, continued to grow while there was a marginal drop in construction sector volumes mainly due to maturing of certain key construction projects of our customers. Both distributors in Maldives extended their penetration into resorts while growing share of wallet despite attempts by OEM Agents of power generation engines in resorts to tie down users to OEM branded genuine oils or lubricants affiliated with OEMs. Reliable supplies and value-added services such as the Caltex Lube Watch oil testing service has helped reinforce Chevron as the preferred supplier to resorts especially those owned and operated by Sri Lankan hotel chains in the Maldives for their generators after the warranty period.

The collaborative approach between the two distributors through whom we operate in the Maldives continued to help optimize the use of their resources and to divert focus on capturing competitor accounts. This has also helped to further strengthen existing customer relationships and to better support existing customers.

## Marketing Activities

### Consumer promotions

7-Seater SUV and 10 Motor bikes were awarded in the largest lubricant sector promotion

In a bid to differentiate the consumer promotions run in the lubricant industry, we launched “Caltex Star Drive – Car and Bike Chase” promotion targeting the domestic retail market. The objectives of the “Caltex Star Drive – Car and Bike Chase” were to induce trial and penetration by converting users to Caltex brand while also converting loose oil consumers to packs.



The grand prize winners of “Caltex Star Drive – Car & Bike Chase” with officials of Chevron Lubricants Lanka PLC

The campaign intended to reward loyal customers with the chance to win a brand-new Honda BR-V 7-seater Compact SUV or one of ten new Bajaj Discover 125cc motorcycles plus a year’s worth of engine oil. Consumers who purchased a Caltex promotional pack during the promotional period from February to August 2017 from lubricant retailers and Caltex channel partners were eligible to enter the draw by following the text instructions via a specially designed scratch card. The winning entries were selected electronically, under the supervision of the Department of Revenue – Western Provincial Council.

The consumer promotion was supported with strong ATL and BTL advertising in Sinhala and Tamil languages. The ATL campaign was mainly on radio and television, supported by new media such as e-flyers, facebook, YouTube advertising and google ad words. The campaign was also strongly backed by BTL activities such as trade awareness events with the use of branding and leaflets conducted by the field sales teams. These events provided the platform for the consumers to gain awareness on the promotion and products in an interactive manner. The campaign was communicated via Point of sale material displayed at the channel partner outlets and on hoardings. The campaign also received publicity in print media.

This consumer promotion was successful in meeting the objectives while rewarding and creating loyal customers.

### One Liter Free Can – Consumer Promotion

During the second half of the year, we brought back the 1L free consumer promotion for the 5L consumer packs in the HDEO segment. Leveraging the success of the promotion in the local market, we extended the promotion to the Bangladesh retail market as well.

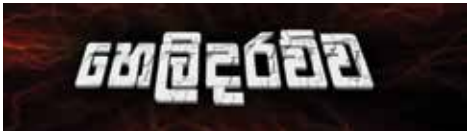


# MANAGEMENT DISCUSSION & ANALYSIS

## Above the line advertising campaigns

### “Helidarawwa” campaign

In order to curb product adulteration and fraudulent selling of counterfeit oils in the Sri Lankan market, we developed and executed a comprehensive ATL campaign named “Helidarawwa” to create awareness about this issue and its detrimental effects on customers, consumers, the industry and the national economy. We believe the use of such substandard products may have a serious negative impact on vehicles in the long term requiring increased repairs and replacement, which would be a further drain on foreign exchange and hence be unfavourable to the national economy.



The campaign communicated in Sinhala and Tamil were heavily promoted on television, radio, print, cinema and strongly supported by new media advertising such as on facebook, google ad words and YouTube. In addition, static hoardings and digital signages were used, making this campaign an integrated campaign.

### “Engimata hari oil” campaign

The campaign was launched to combat the fierce competition in the lower tier engine oil segment and to reposition “Lanka” as the premium brand in the segment. The second stage of the “Lanka” campaign was re-scheduled during the year on ATL media on radio and television.

This campaign was strongly supported by BTL activities including point of sale material, hoardings and an island wide poster campaign.



### New product introductions - Havoline® Full Synthetic Multi-Vehicle ATF

We further strengthened our product portfolio through the launch of Havoline® Full Synthetic Multi-Vehicle ATF. This product has been formulated with high purity synthetic base stocks and tested for a wide variety of ATF specifications, in both high and low viscosity applications.

Havoline® Full Synthetic Multi-Vehicle ATF is recommended for most of the modern transmissions requirements of vehicles manufactured by European, Asian and North American OEMs and covers the requirements of a large spectrum of vehicles in Sri Lanka.

### Product Technology

We continued to closely monitor the automotive and industry evolution to offer optimal products from our global product slate to customers. During the year, we introduced Delo 400 MGX SAE 15W-40 meeting the robust API CJ-4 diesel engine oil standards, a product proven with superior performance and extended drain capabilities. Meeting with the latest low viscosity new generation automatic transmission trend, Havoline® Full Synthetic Multi-Vehicle ATF Automatic Transmission Fluid was introduced to local customers breaking the OEM product dependence. Keeping with the global developments in the gas engine industry a new generation gas engine oil HDAX 9200 Low Ash SAE 40 was introduced to Bangladesh market.

We continued our efforts in transferring industry knowledge to our market by building capacity and empowering our field staff. The technical team visited all of our distributors across the country from Jaffna to Galle and Colombo to Batticaloa to support the ground level customers to better understand lubrication. Technical personnel with the support of the laboratory did a product integrity audit in the market to counter and curb product adulteration activities seen in the market. Our objective is to deliver the technology promise, right product

for the right application to our customers. We extended the oil monitoring services to our industrial and commercial customers at a nominal rate leveraging the Chevron global contracts.



## Supply Chain

Supply chain focus continued to revolve on Safety, Health, Environment, Reliability and Efficiency to achieve operational excellence. During the year in review, supply chain responded in a timely manner to varying patterns of demand and promotional initiatives executed by the Company to grow volumes and attract new business such as toll blended and co-branded products. The operations remained fluid, to ensure uninterrupted product supply to meet customer demand. Planning and execution through cross functional collaboration remained a focus in delivering results the right way. We were able to record an “On Time in Full” of greater than 97%, which illustrates the degree to which customer orders were met on time. The blended and filled volumes locally exceeded 97% of products that were sold during the year.

We continued to ensure a 100% blend conformance rate during the year. Certain plant and warehouse improvement projects to increase supply chain reliability and efficiency were undertaken. Some of the key initiatives included the increase in coolant blending and filling capacity, packing material movement optimization, improvements to the additive drum decanting system, warehouse dock leveler and extended warehouse management system.

Chevron’s “Extended Warehouse Management system” was successfully piloted in Sri Lanka to better serve customers and add security features to our packaging to ensure product integrity until it reaches the end customer. Learnings of the pilot project will be carried through the global organization.

Procurement operations also entailed a few significant cost savings through effective negotiations, simplifying sourcing and through rationalization of packing materials sourcing.

The continued commitment towards inculcating a safe work culture throughout supply chain and warehouse operations were pivotal in retaining our overall safety record of zero “recordable incidents” and “days away from work”. The use of LPS tools, safe work practices, operational excellence audits and more importantly loss-prevention-self-assessment (LPSA) during routine operations were foundation to this achievement.

Our key business partners that support us with certain supply chain activities continue to be pillars of strength and enable us to deliver superior business performance, whilst retaining operational excellence.

The organization completed 16 years of injury free operations, continuing our safety record as a trailblazer among manufacturing entities. Our employees operated 16 years without a single Day-Away-From-Work (DAFW) due to workplace related injuries, owing mainly to the stringent Safety Culture embraced at all levels of the organization. Through concepts such Repetitive Stress Injury Prevention (RSIP), Loss Prevention System (LPS), Safe Work Practices (SWP) and Motor Vehicle Safety (MVS) we continued to operate with excellence.

## People

The ‘Chevron Way’ forms the foundation of our existence and explains who we are, what we believe, how we achieve and where we aspire to go. It establishes a common understanding not only for us, but for all who interacts with us. Our ‘Chevron Way’ values include Diversity and Inclusion, High Performance, Integrity and Trust, Partnership and Protect People and the Environment which our employees are expected to exemplify in their business conduct.

We continued to develop our workforce under the 70-20-10 development philosophy of Chevron. The business demands of the day facilitated less time for education based training. However, focused competency development targeting our field sales team continued through a series of programmes covering technical knowledge and selling skills for our own staff as well as those of Distributors. A full day session titled ‘Sales Excellence’ complete with techniques on value based selling, sale simulation with role play, team and morale building games were held for the Distributor Sales Teams from around the country. It offered a great opportunity to expand their current knowledge and share expertise amongst each other. Newly recruited and promoted supervisors also attended the Supervisor Essentials Program (SEP) in Bangkok.

The Annual ‘Star Awards Night’ to recognize high flyers in Sales and Marketing teams saw the congregation of our distributors and sales force members from around the country to a star-studded night for the crowing of the Best Sales Team members in numerous categories.

# FINANCIAL REVIEW



## Growth, Profitability and Efficiency

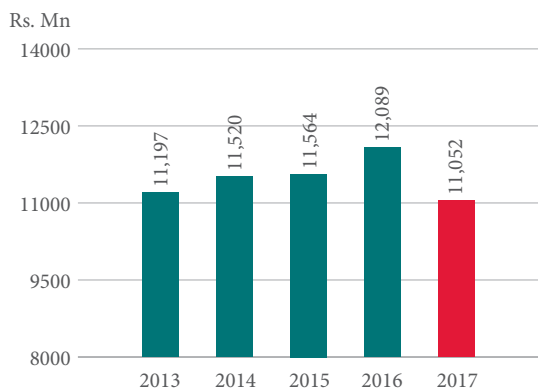
### Revenue

The Company recorded a revenue of Rs. 11.05 bn during the period under review which was a 9% YOY decline in comparison to Rs. 12.09 bn posted in 2016. The decline in revenue was primarily due to the decline in domestic trade volumes by 12%. The effect of the price revision in April, curtailed business activities due to the inclement weather conditions during certain months, compressed consumer disposable income due to higher indirect taxes and inflation and sluggish overall consumer demand in the economy were the contributory factors for the decline in volumes.

The price increase to counter the escalation of base oil prices and depreciation of the LKR against the USD and the inflationary pressure on operational expenditure, was met with stiff resistance in the retail channel. Therefore, the Company had to tactically maneuver its trade schemes and promotional campaigns to discount and incentivize customers and consumers, amidst intense competition.

However, export volumes grew steadily through higher retail penetration and acquisition of new accounts in Bangladesh. Exports to Bangladesh grew at 7% and retained its healthy growth momentum, whilst export volumes to Maldives remained flat compared to last year. Total combined export revenue from the two markets grew by 12% in 2017 to reach Rs. 1,081 mn (2016: Rs. 965 mn). The combined growth in revenue through the export markets, also reflected the price revisions made during the year. The Company continued to export certain lubricant and coolant products to a few inter companies of Chevron.

### Revenue

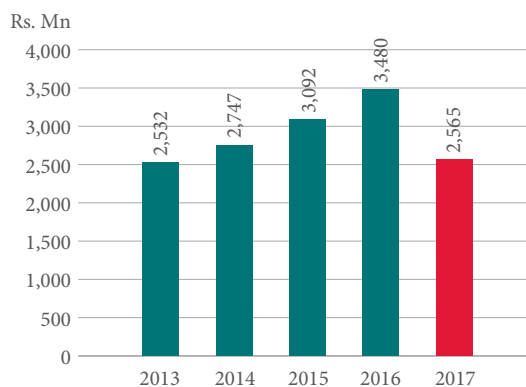


### Profit after Tax

Profit After Tax declined by 26% YOY to Rs. 2,565 mn compared to Rs. 3,480 mn recorded in 2016. The gross profit margin declined to 43% from 47% in 2016 stemming from the escalation of base oil prices and adverse effects of LKR depreciation against the USD. The rise in base oil prices were driven by the increase in crude oil prices and the tight market supply in Asian markets. In contrast, base oil prices during the comparative period were significantly lower due to the disequilibrium in the global base oil market owing to a glut in supply particularly during first six months of 2016.

Operating profit declined by 25% in 2017 mainly due to the decline in gross margins. Increased operational expenditure, and a decline in other income compared to 2016 further compressed operating results. Profit Before Tax declined to Rs. 3,496 mn in 2017 from Rs. 4,703 mn in 2016. Finance income declined substantially due to lower interest income as a result of depleted cash reserves. Total comprehensive income declined by 27% YOY to Rs. 2,546 mn, which included a net other comprehensive expense after tax of Rs.19 mn pertaining to an actuarial loss on retirement benefit obligation.

### Profit After Tax



### Income Tax

Income Tax expense for the year was Rs.931 mn, which translates to an effective tax rate of 27% compared to 26% last year. Effective rate was still lower than the statutory rate due to lower tax burden on export profits. Effective tax rate in 2016 was lower due to the claim of final instalment of the investment relief related to the investment on the blend plant.

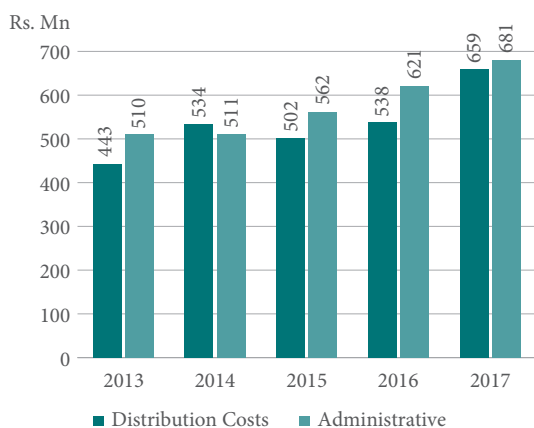
Total Income Tax expense amounted to Rs.923 mn, which included a tax credit on other comprehensive expense for the year.



### Distribution and Administration Expenses

Distribution expenses increased sharply by 23% to Rs.659 mn from Rs.538 mn recorded in 2016. The rise in distribution expenses was mainly due to the revised lubricants license fee from 0.5% of domestic sales (subject to a cap of Rs.10 mn) to 0.75% of domestic sales (with no cap). This revision resulted in an incremental license fee of Rs. 64 mn compared to Rs. 10 paid last year. Increased expenditure on advertising and sales promotion, incremental freight charges arising from higher export volumes and the revision of transport incentive paid to retail distribution were other contributory factors to the rise in distribution expenses. Administration expenses amounted to Rs. 681 mn, which is a 10% increase compared to Rs.621 mn recorded in 2016. The increase largely stemmed from inter-company service charges which were also affected by the rupee depreciation.

### Administration & Distribution Expenses



### Liquidity

#### Working Capital

Total inventory increased by Rs. 256 mn, due to increases in both raw material and finished goods inventory. The raw material inventory increased by Rs.175 mn due to higher base oil prices and larger parcel size. Finished goods inventory increased by Rs.81 mn to Rs.469 mn compared to the Rs.388 mn recorded in 2016 reflecting a relatively weak demand experienced during December 2017.

Trade Receivables remained almost parallel with 2016, whilst the number of “days sales outstanding” (DSO) also remained at 33 days in 2017 (33 days in 2016). The Company retained its tight credit control policy and collection efficiency to ensure the unswerving commitment towards efficiency in managing

its working capital cycle, despite the relatively loose credit policies seen in the market to lure sales in a highly competitive environment.

The company maintained a healthy liquidity position by recording a current ratio of 2.9 (2016: 1.7) and a quick asset ratio of 1.2 in 2017 (2016: 1.1) to meet working capital requirements. The decline in current ratio and quick asset ratio compared to 2016 was due to a lower trade and other payable liability and lower cash reserves at year end.

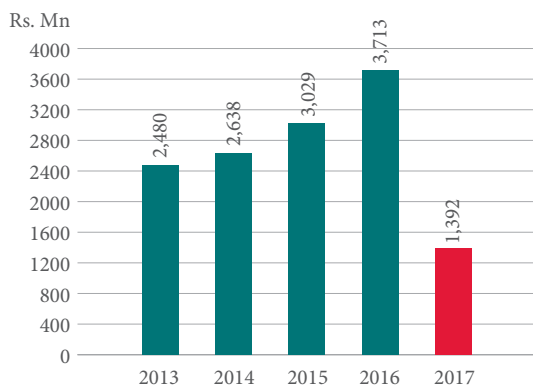
### Cash Flow

Cash generated from operating activities declined to Rs. 2.6 bn compared to Rs. 4.9 bn in 2016, whilst the net cash flow from operating activities declined to Rs. 1.4 bn from Rs. 3.7 bn recorded during 2016. The Company generated a free cash flow of Rs. 1.4 bn (2016: Rs.3.8 bn), while net cash generated from investing activities declined relative to the previous period. The comparatively lower free cash flow generated in 2017 was primarily due to decline in earnings for the year and timing effect of the trade payables.

Three interim dividends totaling to Rs. 2,400 mn were declared during the year, which also included a portion of dividend paid out from brought forward retained earnings. The cash payout of Rs. 3,240 mn, consisted of Rs. 2,400 mn dividends declared during the year and the last interim dividend of Rs. 840 mn for the year 2016. The fourth interim dividend of Rs.540 mn pertaining to 2017 was paid during March 2018. Cash and cash equivalents were compressed relative to 2016 as a result of the dividend payout during the year and timing effects of working capital commitments towards the culmination of the financial year.

# FINANCIAL REVIEW

## Net Cash Flow from Operating Activities

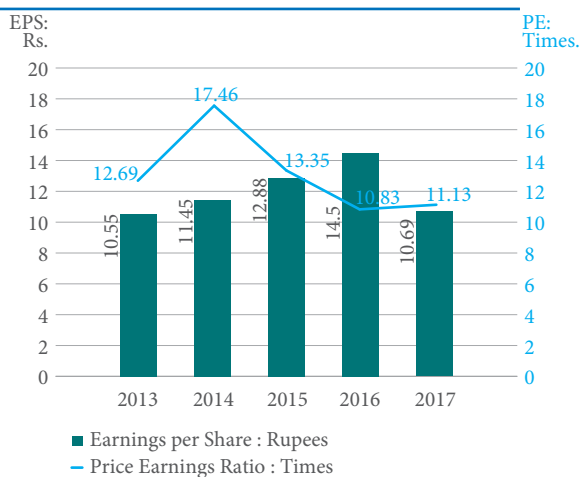


## Stability and Investor Return

### Financial Stability

The Company recorded a return on equity of 65% in 2017 (81% in 2016) due to the decline in profits. Earnings per share fell by 26% to record Rs.10.69 in 2017 compared to Rs.14.50 in 2016.

### EPS & PE

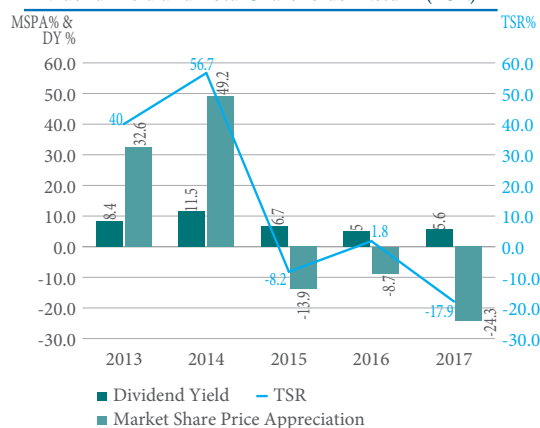


(Note: EPS for 2012 -2015 has been restated following the share split effected in June 2016)

### Investor Return

Dividend per share amounted to Rs.10 which translates to a dividend yield of 8.4% based on the share price recorded as at end December 2017 (2016: 11.5%), whilst capital growth contracted via fall in market share price to -24.3% (2016: -8.7%). Total Shareholder Return declined to -17.89% in 2017 (2016: 1.8%).

## Market Share Price Appreciation, Dividend Yield and Total Shareholder Return (TSR)



(Note: Market Share Price at year end 2016 has been adjusted following the share split effected in June 2016, to gauge relative movement for comparative purpose only.)

### Quarterly Results

A summary of the quarterly results for 2017 and 2016 based on the quarterly financial statements submitted to the Colombo Stock Exchange are tabulated below.

	2017 1Q Rs. Mn.	2017 2Q Rs. Mn.	2017 3Q Rs. Mn.	2017 4Q Rs. Mn.	2016 1Q Rs. Mn.	2016 2Q Rs. Mn.	2016 3Q Rs. Mn.	2016 4Q Rs. Mn.
Turnover	3,118	2,281	2,847	2,806	3,120	2,799	3,225	2,946
Gross Profit	1,402	1,023	1,193	1,123	1,520	1,303	1,576	1,273
Operating Profit	1,088	701	879	738	1,299	1,025	1,311	881
Finance income	29	27	16	23	44	67	37	39
Profit Before Tax	1,118	727	893	758	1,343	1,091	1,348	919
Profit After Tax	822	526	656	549	986	802	1,001	693

Note: These results may not add up to the final results disclosed in the Audited Annual Accounts due to changes in presentation, classification, other adjustments and rounding-off.

# CORPORATE SOCIAL RESPONSIBILITY



## Road Safety

One of the most pressing issues in our society is that of road safety. Amongst the leading causes of death in Sri Lanka are road accidents. Unfortunately, the number of people killed or injured on a daily basis shows no signs of declining. In fact, there has been an alarming rise in the number of fatalities that take place daily. As a result, Chevron Lubricants Lanka believes that education about road safety is a continuing necessity.

According to the Ministry of Transport and Civil Aviation Sri Lanka:

- Road accidents resulted in 3003 deaths in 2016
- Accidents in Sri Lanka for 2016 were recorded as follows:
  - 2824 fatal accidents
  - 8518 critical accidents
  - 13961 minor accidents

According to government statistics, 8 people died per day during the year 2016 due to road accidents in Sri Lanka. Many have faced a life time in disability and many more have lost their loved ones, especially the bread winner of the family, causing serious socio-economic burden for the family as well as for the country. In order to mitigate this dangerous trend, the company has embarked on several educational campaigns to promote good driving habits and raise greater awareness among road users to ensure road safety for all.

## WE ALSO CARRIED OUT DON'T DRINK AND DRIVE THIS SEASON' CAMPAIGN DURING THE FESTIVE PERIODS IN APRIL AND DECEMBER TO PREVENT THE ALCOHOL RELATED ACCIDENTS

### 'Drive Wise Embrace Life' Campaign

'Caltex Drive Wise, Embrace Life' campaign continued for its 14th year as we have realized the impact it has had in improving driver habits and sensitizing them to the need to ensure safety for other road users as well. The 'Drive Wise Embrace Life' was conducted successfully during year 2017 as well, in collaboration with the Ministry of Law and Oder - Southern Development, Sri Lanka Police and many other prominent stakeholders. The participation by these prominent partners in this campaign reflects the need for such awareness campaigns

As part of the 'Caltex Drive Wise Embrace Life' campaign, Caltex road safety message cut-outs with important, emotionally impactful messages with images of children, were displayed island-wide at police stations, schools, and at locations where accidents most commonly occur, these were done in all three languages. The objective of this campaign was to instill safe road habits among children and adults alike.

We also carried out Don't Drink and Drive this Season' Campaign during the festive periods in April and December to prevent the alcohol related accidents

Over 600 boards promoting the 'Don't drink and Drive' message was displayed at the most prominent locations in Colombo and in the main suburbs. This message was further driven strongly by advertisements on radio, print, hoarding and new social media platforms such as the Facebook pages of the partner stakeholders.



Mr. Kishu Gomes - Managing Director / CEO with the officials of Sri Lanka Police and the event partners of the “Don’t drink and Drive this season”



The A boards



Mr. Kishu Gomes - Managing Director / CEO officially handing over the “Caltex Drive Wise Embrace Life” boards to the Inspector General of Police

# CORPORATE GOVERNANCE



The Board of Directors of Chevron directs the affairs of the Company and is committed to sound principles of corporate governance.

## Board of Directors

The Board consists of 6 Directors, including 2 independent Directors. As per the Board charter, the Board is responsible for setting the overall direction, financial objectives and operational goals, reviewing and approving the annual plan, monitoring of performance against the objectives and goals, approval of quarterly and annual financial statements and major transactions other than the transactions specified in section 185 (1) of the Companies Act. It monitors overall performance, risk management systems, the integrity of the Company's financial controls and the effectiveness of the Company's compliance program.

Two non-executive directors out of the four Non-executive directors are considered independent in terms of the guidelines issued by the Securities and Exchange Commission of Sri Lanka.

Appointment of non-executive directors is based on the collective decision of the Board.

As per Article 84 of the Articles of Association, one-third of the directors of the Board must retire by rotation at every Annual General Meeting. The Chairman and Executive Directors are not subject to retirement by rotation, nor shall they be taken into account in determining the Directors to retire. The person who has served for the longest period shall retire but is eligible for re-appointment.

The Board met 4 times during 2017 and the attendance is given below;

		Attended
Farrukh Saeed	NED	2/4
Kishu Gomes	ED	4/4
Rochna Kaul	NED	2/4
Richard Brown	NED	3/4
Anura Perera	ED	4/4
Teek Hong Kee	NED	2/4
Deva Rodrigo	NED/IND	4/4
Harsha Amarasekera	NED/IND	4/4

NED= Non-Executive Director, ED=Executive Director, IND= Independent Director

## Board Audit Committee

This Committee functions under a written charter, and consists of two non-executive directors, namely Mr. Deva Rodrigo, (Chairman) and Mr. Harsha Amarasekera. The Managing Director and Finance Director attended meetings by invitation.

The primary function as per the charter is to assist the Board in fulfilling its responsibilities by reviewing the financial information which is provided to shareholders, the systems of internal controls which management and board of directors have established, compliance with laws, regulations and ethics, risk management, performance, qualifications and independence of the external auditors and the performance of the internal audit. Both the internal auditors and external auditors have direct access to the Audit Committee.

The Board Audit Committee met 4 times during 2016 and the attendance is given below

	Attended
Deva Rodrigo*	4/4
Harsha Amarasekera	4/4

\*Chairman of Audit Committee

Audit Committee Report is given in page 40.

## Remuneration Committee

The Remuneration committee consists of three non-executive directors. This Committee reviews the salary and benefits programs of executive employees, including the executive directors.

	Attended
Deva Rodrigo	1/1
Harsha Amarasekera*	1/1
Teek Hong Kee	1/1

\* Chairman of the Committee

## Directors Remuneration

Total remuneration paid to executive and non-executive directors are given in page 61 and the report of the Remuneration Committee is given in page 44.

## Related Party Transactions Review Committee

The above committee was established in December 2015 and the composition is as follows.

Deva Rodrigo - Chairman

Richard Brown- Non-Executive director (resigned with effect from 17.10.2017)

Teek Hong Kee (appointed with effect from 9th November 2017)

The scope of the committee is to provide independent review, approval and oversight of related party transactions on the terms set forth in greater detail in the Committee Charter.

The Committee met 4 times during the year;

	Attended
Deva Rodrigo	4/4
Richard Brown	3/4
Teek Hong Kee	2/4

### Chevron Business Conduct and Ethics Code

Our corporate values outlined in the 'Chevron Way' serve as the foundation of the Business Conduct and Ethics Code (BCEC). It is about 'getting the results the right way'.

Diversity and inclusion, high performance, integrity and trust, partnership and protection of people and the environment are the core values that we embrace.

The BCEC includes the following subject areas;

Human Rights

Company records and internal controls

Avoiding conflicts of interests, which covers accepting or giving gifts, fees, favors or other advantages & Insider trading

Antibribery, international trade and anti-boycott laws.

Government affairs and political involvement

Operation excellence

Anti-trust and completion laws

Data Privacy

Protection of information and intellectual property

Employees at all levels are required to undergo mandatory training of the code and there is a robust compliance monitoring and reporting process in place.

The Chevron Business Conduct and Ethics code encourage any employee having information or knowledge of any violation of the Code promptly report it to his or her management, the Corporation's Auditing Department, Corporate Security, or the employee may call the toll-free 24 hour compliance hot line. Names and contact telephone numbers of subject matter experts under each compliance subject and hot line numbers have been widely displayed within the Company.

Details of other Board Seats held by the Directors

Name of Director	Directorship status at CLLP	Board seats held in other Sri Lankan Companies	
		Executive Capacity	Non-Executive capacity
Rochna Kaul	Chairperson	Nil	Chevron Ceylon Ltd
Kishu Gomes	Managing Director/CEO	Chevron Ceylon Ltd	Nil
Teek Hong Kee	Non- Executive Director	Nil	Nil
Deva Rodrigo	Non- Executive Director	Nil	Taprobane Holdings PLC Cargills Ceylon PLC
Anura Perera	Executive Director	Chevron Ceylon Ltd	Nil

# CORPORATE GOVERNANCE

Name of Director	Directorship status at CLLP	Board seats held in other Sri Lankan Companies	
		Executive Capacity	Non-Executive capacity
Harsha Amarasekera	Non- Executive Director	Nil	CIC Holdings Plc Vallibel One Plc Expolanka Holdings Plc Royal Ceramic Plc Taprobane Holdings Plc Amana Bank Plc Vallibel Power Erathna Plc Amaya Leisure Plc Chemanex Plc CIC Agri Business (Pvt) Ltd Delmege (Pvt) Ltd Galle Face Management Company (Pvt) Ltd Link Natural Products (Pvt) Ltd The Hill Club Company Limited Millennium Airlines (Pvt) Ltd Millennium Investments Lanka (Pvt) Ltd Ceylon Hotel Holdings (Pvt)Ltd Bensons (Pvt) Limited

## Investor Relations

The Annual Report of the Company, quarterly reports and the Annual General Meeting are the principal means of communications with the shareholders. The Board is ready to answer any questions raised at the Annual General Meeting. Shareholders may direct any questions or seek clarifications or request publicly available information by contacting the Company Secretary.

## Protection of People and the Environment

We strive for world –class performance by implementing a rigorous system (Operational Excellence Management System) for managing risks to our employees, contractors, the public and the environment from our operations and products. Under the product stewardship, we manage risks of our products with everyone involved throughout the products' life cycle.

## Compliance with the rules of the Colombo Stock Exchange on corporate governance and related party transactions

Rule No	Subject	Criteria	Compliance Status	Details
7.10.1.(a)	Non-Executive Directors	At least one third of the total number of Directors should be Non-Executive Directors	Compliant	As at the conclusion of the last AGM and throughout the financial year, there were 4 Non-Executive Directors.
7.10.2 (a)	Independent Directors	Two or one third of the Non- Executive Directors , whichever is higher should be independent	Compliant	As at the conclusion of the last AGM and throughout the financial year there were 2 Independent Directors.
7.10.2.(b)	Independent Directors	Non Executive Directors should submit an annual declaration of his/ her independence/non independence against specified criteria	Compliant	Please refer to page 26 of the Corporate Governance Report.

Rule No	Subject	Criteria	Compliance Status	Details
7.10.3 (a)	Disclosure relating to Directors	The Board shall make a determination annually as to the independence or non-independence of each Non-Executive Director.	Compliant	The Board made a determination against the criteria given in rule 7.10.4
7.10.3 (b)	Disclosure relating to Directors	In the event a Director does not qualify as "independent" but if the Board is of the opinion that the Director is "Independent", the Board shall specify the criteria not met and the basis for its determination.	Not Applicable	No such determination was required as both Independent Directors met the criteria
7.10.3.(c)	Disclosure relating to Directors	Company shall publish a brief resume of each Director	Compliant	Please refer to pages 10 and 11.
7.10.3 (d)	Disclosure relating to Directors	Upon appointment of a new Director , a brief resume of such Director should be provided to CSE	Compliant	
7.10.4	Criteria for defining independence	As per defined criteria of the CSE listing rules	Compliant	Both Independent Directors met the criteria
7.10.5	Remuneration Committee	A listed entity shall have a Remuneration Committee	Compliant	Please refer to the Remuneration Committee report on page 44
7.10.5 (a)	Composition of Remuneration Committee	Remuneration Committee (RC) shall comprise a minimum of two Independent Non Executive Directors or majority of Independent Non Executive Directors.	Compliant	Out of the three members of the Remuneration Committee two are Independent Non-Executive Directors.
7.10.5 (b)	Functions of the Remuneration Committee	The RC shall recommend the remuneration payable to the Executive Directors/and Chief Executive Officer to the Board which will make the final determination .	Compliant	Please refer to the report of the Remuneration Committee appearing on page 44
7.10.5 .(C)	Disclosure relating to Remuneration Committee	Annual report shall set out the names of Directors in the RC, contain a statement of the remuneration policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors	Compliant	Please refer to the report of the Remuneration Committee appearing on page 44

# CORPORATE GOVERNANCE

Rule No	Subject	Criteria	Compliance Status	Details
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Please refer to the Audit Committee Report given on page 40
7.10.6 (a)	Composition of the Audit Committee	Composition of the Audit Committee	Compliant	Audit Committee comprised of two Non-Executive Independent Directors and headed by an Independent Director.
		CEO and CFO shall attend all Audit Committee Meetings	Compliant	Chief Executive Officer and Chief Financial Officer attended Audit Committee meetings by invitation.
		Chairman or one member of the Audit Committee shall be a member of a recognized professional body.	Compliant	The Chairman of the Audit Committee is a Fellow member of the Institute of Chartered Accountants of Sri Lanka
7.10.6 (b)	Functions of the Audit Committee	Should be as outlined in the 7.10 of the listing rules.	Compliant	Please refer to the Audit Committee report given on page 40 and the Corporate Governance Report
7.10.6.(c)	Disclosures in the Annual Report relating to Audit Committee.	a. Names of the Directors comprising the Audit Committee	Compliant	Please refer to the Audit Committee report on page 40
		b. The Audit Committee shall make determination of the independence of the Auditors and disclose the basis for such determination	Compliant	Please refer to the Audit Committee report on page 40
		c. The Annual Report shall contain a report of the Audit Committee setting out the manner of compliance of the functions	Compliant	Please refer to the Audit Committee report on page 40
9.2.1	Review of Related Party Transactions	All relevant Related Party Transactions should be reviewed by the Related Party Transactions Review Committee (RPTRC)	Compliant	Please refer to the report of the Related Party Transactions Review Committee appearing on page 41
9.2.2	Composition of the RPTRC	The Committee should comprise a combination of Non Executive Directors and Independent Non-Executive Directors	Compliant	Please refer to the report of the Related Party Transactions Review Committee appearing on page 41

Rule No	Subject	Criteria	Compliance Status	Details
	Related Party Transactions Review Committee	One Independent Non Executive Director shall be appointed as the Chairman of the Committee	Compliant	Please refer to the report of the Related Party Transactions Review Committee appearing on page 41
9.2.4	Frequency of meetings	The Committee shall meet at least once a calendar quarter.	Compliant	Please refer to the Corporate Governance report appearing on page 27
9.3.2 (c)	Disclosures in the Annual Report relating to RPTRC	Names of the Directors comprising the Committee	Compliant	Please refer to the report of the Related Party Transactions Review Committee appearing on page 41
		A statement to the effect that the Committee has reviewed the Related Party Transactions during the financial year and has communicated the comments/Observations to the Board of Directors	Compliant	Please refer to the report of the Related Party Transactions Review Committee appearing on page 41
		The Policies and procedures adopted by the Committee for reviewing the Related Party Transactions.	Compliant	Please refer to the report of the Related Party Transactions Review Committee appearing on page 41
		The number of times the Committee has met during the financial year.	Compliant	Please refer to the Corporate Governance report appearing on page 27
9.3.2.(d)	Declaration by Board of Directors	A declaration by the Board of Directors in the Annual Report as an affirmative statement of the compliance with these Rules pertaining to Related Party Transactions	Compliant	Please refer to the report of the Directors on page 37

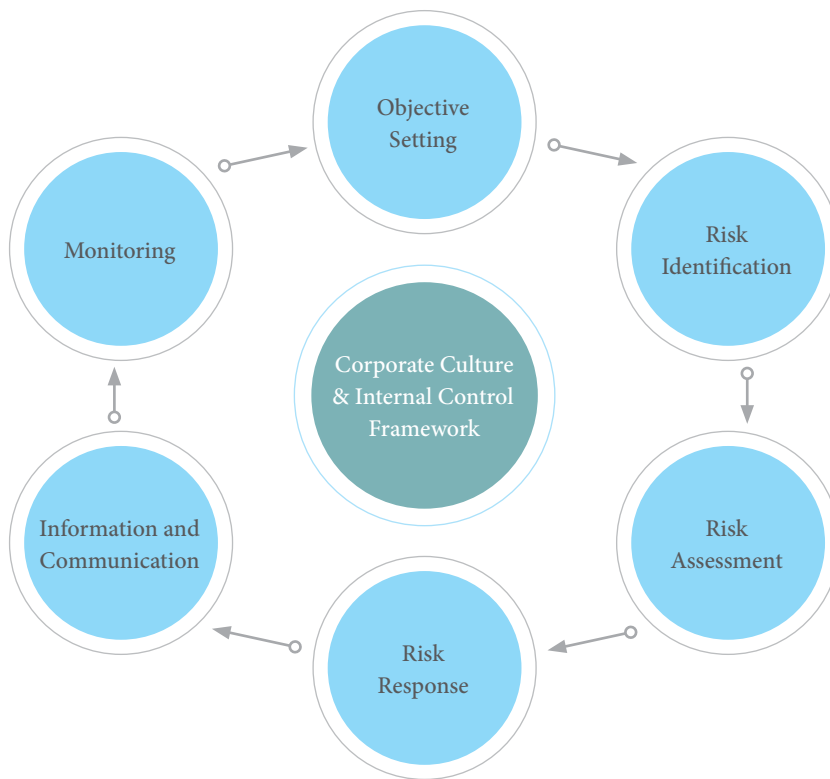
Compliance with section 9.3.2 (b) of listing rules of the Colombo Stock Exchange

Name of the Related Party	Relationship	Nature of the Transaction	Aggregate value of the related Party Transactions entered in to during the Financial Year (LKR)	Aggregate value of the related Party Transactions as % of Net Revenue	Terms and Conditions of Related Party Transactions
Chevron Singapore (Private) Limited	Subsidiary of the ultimate parent	Purchase of Raw Materials for Blending of Lubricants	2,791,638,159	25%	As per the Purchase Agreement between the two entities, on commercial terms.

# RISK MANAGEMENT



The Company encounters varied risks that originate from the micro and macro environment, which would impact the value creation and preservation process. The Company's risk management process involves setting corporate objectives, identification of risks, assessing their likelihood and severity, risk response, information and communication and periodic monitoring. The key risks faced by the Company are mapped in a detailed risk register, assessed and profiled based on its potential impact and likelihood and are managed through risk response strategies.



The audit committee spearheads the risk management process through periodic assessment and monitoring and cascades to the management committee for implementation and execution. Risk management is deeply rooted and embedded in our corporate culture.

### Internal Control Framework

Our policy is to conduct our business in accordance with the highest standards of integrity and ethics, and in compliance with all applicable laws. The Company implements, and maintains effective internal controls to guide and monitor compliance with applicable legal requirements and to maintain reliable and accurate financial reporting.

We have adopted the “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to document, catalog, assess and maintain our systems of internal controls over financial reporting. The COSO framework emphasizes publicly traded companies to adopt an internal control framework that is free from bias; allows for reasonably consistent qualitative and quantitative measurements of the Company’s internal controls; is complete, and enables an objective evaluation of internal controls over financial reporting.



## Risk assessment and profiling

Each identified risk is assessed based on the likelihood of it materializing and the potential impact it would have on the entity. Audit committee and management judgment remain crucial to assessing likelihood of a potential risk, whilst the severity is determined by assessing the potential financial and non-financial impact a particular risk would exert on realizing envisaged corporate objectives.

A composite risk score is ascertained based on the likelihood and impact ratings. The composite score is fundamental in scientifically profiling risks through a matrix and in prioritizing appropriate risk response strategies.

Likelihood	5	Almost Certain	5	10	15	20	25
	4	Likely	4	8	12	16	20
	3	Moderate	3	6	9	12	15
	2	Unlikely	2	4	6	8	10
	1	Remote	1	2	3	4	5
		Very Low	Low	Medium	High	Very High	
		1	2	3	4	5	
		Impact					
Risk Rating		Low		Moderate		High	
(Risk Score (RS		RS<5		RS>5<10		RS>10<25	

(Conceptual model of the Risk Matrix)

Following are some of the key risks faced by the Company.

### Business Risk

#### Loss of Volumes/ Market Share

The Company faces the risk of losing volumes due to negative market growth, intense competition from existing players, new entrants and unlicensed operators in the market who sell adulterated products. There is no effective regulatory mechanism to curb such illegal activities that affect the industry. The export volumes may be affected by macro-economic developments, political unrest, fiscal policies of the respective geographies.

#### Risk Response

The Company manages these risks through customer and channel partner education, marketing communication on product value propositions, creating awareness among the relevant stakeholders and leveraging on the brand equity. We also have regular dialogue and interaction with the Public Utility Commission of Sri Lanka, Ministry of Petroleum Resource Development and other relevant authorities to offer constructive

suggestions to regulate the industry and protect the interests of the customers and maintain high product standards.

#### Dependence on Business Partners

Some of the critical operations of the Company, such as handling warehouse operations, transportation & distribution have been outsourced. Any business disruption in the operations of such business partners may affect the Company's operations.

#### Risk response

The Company conducts regular supplier evaluations and benchmarking of such activities to re-validate the decision parameters of outsourcing. We believe that we maintain excellent relationships with our business partners and we share best practices with them. In addition, the Company has developed contingency plans to face any disruptions in critical outsourced activities.

# RISK MANAGEMENT

## Health, Environment and Safety Risk

These risks relate to incidents and events that could cause injuries to employees and disrupt day to day business operations and cause damage to the environment. Damages to the environment could lead to legal claims and reputational risk.

### Risk response

Protecting people and the environment is one of the core values advocated in the “Chevron Way,” which defines who we are, what we do, what we believe and what we plan to accomplish. The underlying principles and expectations are safety and incident free operations, advocacy, compliance assurance, conservation, product stewardship, pollution prevention, and emergency management. Chevron Operation Excellence (OE) provides for the overarching systematic management of safety, health and environment, reliability and efficiency to achieve world class performance.

## Operational Risk

These are risks that could arise due to systems and procedure failures, human error, fraud, lack of internal control and corporate governance practices. The occurrence of any of these may have an adverse impact on profitability, competitiveness, reputation and conducting overall business operations.

### Risk response

The Company has deployed policies, processes and procedures to ensure integrity of transactions, whilst also adopting controls mandated by Sarbanes-Oxley Act (SOX). Any deviations or gaps identified are reported, investigated and corrective action taken. The value chain activities from supply chain to distribution cum sales and marketing have been integrated on a central ERP system, supplemented with standardized processes. Further, these processes, systems and controls are subjected to periodic review by internal auditors and ISO auditors.

## Financial Risk

### Foreign Exchange Risk

As most of the raw materials are imported, the depreciation of the LKR against the US dollar adversely affects our product acquisition costs.

### Risk response

The Company consistently monitors foreign exchange movement and related economic indicators. Best possible rates are negotiated with banks for settlements of bills, whilst flexible settlement terms are negotiated with key suppliers. Hedging techniques such as forward contracts and matching foreign assets against liabilities are within the Company’s framework of response strategies to manage a high degree of currency volatility and foreign exchange risk.

### Credit Risk

The Company grants unsecured credit for some of our customers which could lead to bad debts. However, about 62% of the credit granted is fully secured.

### Risk response

Stringent credit controls are in place to limit and monitor the exposures on unsecured credit.

# FINANCIAL STATEMENTS

## Financial Calendar 2017

### Interim Financials

1st Quarter	20th April 2017
2nd Quarter	17th July 2017
3rd Quarter	17th October 2017
4th Quarter	1st February 2018

### Dividends Paid dates

1st Interim Dividend of	Rs. 5.50 per share paid on 16th May 2017
2nd Interim Dividend of	Rs. 2.00 per share paid on 8th August 2017
3rd Interim Dividend of	Rs.2.50 per share paid on 9th November 2017
4th Interim Dividend of	Rs. 2.25 per share paid on 2nd March 2018



# ANNUAL REPORT OF THE DIRECTORS

The Directors of Chevron Lubricants Lanka Plc are pleased to present their report together with the audited financial statements for the year ended 31st December 2017.

## Structure and Nature of the Business

Chevron Corporation (through Chevron Ceylon Ltd )



Chevron Lubricants Lanka plc

The Core business activity of the company is the import, export, manufacture and marketing of lubricants, greases, brake fluid and specialty products. The review of business activities for the year 2017 and the anticipated future developments are covered in detail under the Managing Director's review and management discussion analysis.

## Vision and Values

Our vision is to be the pre-eminent marketer of lubricants in Sri Lanka differentiated by its people, partnerships and performance. Our Company's foundation is built on our values; diversity and inclusion, high performance, integrity and trust, partnership and protecting people and the environment.

## Review of Business Performance

A review of the financial and operational performance of the business is given in the Chairman's message, Managing Director's message, Financial statements and management discussion and analysis.

## Financial Statements

The financial statements prepared in accordance with Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka are given on pages 46 to 77.

## Accounting Policies

All the significant accounting policies adopted by the Company are given in note 2 to the financial statements. There were no changes in the accounting policies adopted by the Company during the year.

## Profits and Appropriations

The profit after tax was Rs. 2,565 mn (2016: 3480 mn) and total comprehensive income for the period amounted to Rs. 2,546 mn (2016: 3494 mn).

For the year ended 31 December 2017	(Rs. Million)
Profit after tax	2,565
Balance brought from previous year	3,261
First Interim Dividend of Rs. 5.50 per share paid on 16th May 2017	(1,320)
Second Interim Dividend of Rs. 2 per share paid on 8th August 2017	(480)
Third interim Dividend of Rs.2.50 per share paid on 9th November 2017	(600)
Re-measurement of defined benefit obligations	(19)
Balance carried forward to 2018	3,407

No final dividend has been proposed by the Board.

## Property, Plant & Equipment

Capital expenditure incurred during 2017 including work-in-progress amounted Rs. 95,116,761 (2016: Rs. 91,316,443). The movements in Property, Plant & Equipment are given in Note 13 to the Accounts.

## Donations

No donations were made by the Company during the year. (2016: Nil). However Company incurred Rs.12,478,425 on social responsibility programs during the year (2016: Rs. 12,563,598). The details of the social responsibility programs are given in the corporate social responsibility report.

## Directorate

The following served as Directors of the Company during the year 2017:

Farrukh Saeed (resigned with effect from 31.07.2017)

Rochna Kaul (appointed w.e.f. 01.08.2017 )

Kishu Gomes

Anura Perera

Deva Rodrigo

Richard Brown (resigned w.e.f 17.10.2017 )

Harsha Amarasekera

Teek Hong Kee (appointed w.e.f 17.10.2017)

Rochna Kaul & Teek Hong Kee who were appointed by the Board since the last Annual General Meeting will retire at the forthcoming Annual General Meeting and are eligible for re-election in terms of the article 91 of Articles of Association of the Company.

In terms of Article 84 of Articles of Association of the Company Mr. Harsha Amarasekera will retire by rotation at the annual general meeting and is eligible for re-election.

### Director's Shareholdings

Shareholdings of the Directors including alternates and spouses are detailed below:

Anura Perera 400 (31.12.2016– 200).

None of the other Directors hold shares in the Company.

### Directors Independence

Devasiri Rodrigo and Harsha Amarasekera function as independent directors of the Company.

As per the rules on corporate governance (section 6.4) stipulated by the Colombo Stock Exchange, each of the above directors have made written declarations. Accordingly Devasiri Rodrigo and Harsha Amarasekera meet all the criteria of independence.

Information on Company's compliance with other rules on corporate governance are given in corporate governance report in page 26.

### Remuneration and other benefits of Directors

The remuneration and the value of other benefits received by the Directors are given in page 61.

### Directors Interests in Contracts

Directors' interests in contracts are disclosed in Note 26 to the accounts and have been declared at the meeting of the Directors.

### Other Directorships held by the Directors

Other directorships held by the Directors have been disclosed in the Corporate Governance report on page 27. These have been entered in the Interest Register.

### Related Party Transactions

The company procures most of the raw materials from Chevron group companies in the ordinary course of business. In addition the Company obtains and pays for various services provided by the Chevron group. The details of such transactions are given in note 26 to the Financial statements. The Directors believe that the Company has fully complied with the rules of the Colombo Stock Exchange relating to related party transactions. Report of the related party transactions review committee and the certificate given by the Finance Director to the Inland Revenue Department are given on pages 41 and 43 respectively.

Share Capital and information on shares as at 31 December

	2017 Rs.	2016 Rs.
Earnings Per Share	10.69	14.50
Net Assets Per Share	16.70	16.09
Market price per Share	119.00	157.10
Highest Price during the Year	179.90	350.00
Lowest Price During the Year	109.00	149.00
Price Earnings Ratio	11.13	10.83
Dividends Per Share	10.00	18.00

### Major Shareholders

The twenty largest shareholders and the percentages held by them are disclosed on page 81.

### Post Balance Sheet Events

The Company declared an interim Dividend of Rs. 2.25 per share on 8th February 2018, which was paid on 2nd of March 2018.

There have been no other events subsequent to the Balance Sheet date which would have material effect on the Company or require disclosure or adjustment to the Financial Statements.

### Internal Controls

Directors are responsible for devising proper internal controls to ensure that the proper books of accounts are maintained, the integrity of financial statements, assets are safeguarded, transactions are executed by those who have appropriate authority and there is proper segregation of duties. The Board Audit committee reviews the internal audit reports to ensure established controls are adhered and any deviations reported and remediated. A whistle blowing mechanism is in place to report any violations of internal controls and Business conduct and ethics code. Based on the internal control frame work as described above the Board is satisfied with the effectiveness of the internal controls for the period under review.

### Material Issues

There were no material issues pertaining to employees and industrial relations.

### Statutory Payments

The Board of Directors confirm that to the best of their knowledge all statutory payments for the financial year have been paid or where relevant provided for.

# ANNUAL REPORT OF THE DIRECTORS

## Going Concern

After considering the financial position, operating conditions regulatory and other factors and such matters required to be addressed in the Corporation Governance Code, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the Going Concern basis in preparing the financial statements

## Auditors

The financial statements for the year have been audited by Messrs PricewaterhouseCoopers (chartered accountants). They were paid Rs. 2,271,642 (2016: Rs. 2,103,372 ) as audit fees and Rs. 90,000 (2016: Rs. 120,000) for issue of solvency certificates.

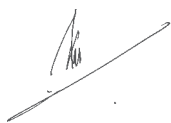
A resolution proposing their re-appointment as Auditors of the Company will be tabled at the Annual General Meeting.

The Auditors have confirmed that they do not have any relationship with or interests in the Company other than that of an auditor.

## Annual General Meeting

The Annual General Meeting will be held on 26th April 2018 at the Institute of Chartered Accountants of Sri Lanka (6th Floor) 30A, Malalasekera Mw, Colombo 7 at 3 .30 pm.

By order of the Board of Directors



**Kishu Gomes**

Managing Director/CEO



**A.M. Anura Perera**

Director/ Secretary/CFO

2 April 2018

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

Companies Act 07 of 2007 stipulates that Directors are responsible for the preparation of financial statements for each financial year and place before a general meeting financial statements, comprising of a Statement of Comprehensive Income and a Statement of Financial Position which presents a true and fair view of the state of the Company as at the end of the financial year and which comply with the requirements of the above Act. The financial statements have been prepared and presented in accordance with all relevant Sri Lanka Accounting Standards. The financial statements include amounts that are based on management's best estimates and judgments.

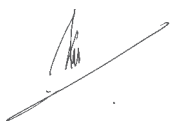
As per the Section 148 of the Act the Directors are also required to maintain sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and to ensure that the financial statements presented comply with the requirements of the Companies Act.

The directors are also responsible for devising proper internal controls for safeguarding the assets of the company against unauthorized use or disposition and prevention and detection of fraud and for reliability of financial information used within the business or publication.

The Board of Directors is of the opinion that Board has discharged their responsibilities as set out above.

The company's financial statements have been audited by PricewaterhouseCoopers, independent auditors approved by the shareholders. Management has made available to PricewaterhouseCoopers all the Company' financial records and data, as well as the minutes of directors' meetings

The Board of Directors also confirms that having reviewed the financial position and strategies for managing risks faced by the Company, the Company could continue in operation and has adopted the going concern basis in preparing the financial statements.



**Kishu Gomes**  
Managing Director



**A.M. Anura Perera**  
Finance Director

# AUDIT COMMITTEE REPORT

The Audit Committee composition complied with the requirements of the SEC and comprised Desamanya Deva Rodrigo FCA (Chair) and Mr. Harsha Amarasekara PC, both independent directors.

## Terms of Reference

The Audit Committee Terms of Reference (TOR) adopted by the Company in line with Chevron, US SEC and Sri Lanka SEC requirements and best practice, defines its responsibilities and work.

Ensuring financial statement integrity, effectiveness of internal controls over financial reporting, compliance with laws and regulations and the independence of the external auditors PricewaterhouseCoopers, was the primary responsibility of the Committee. TOR also requires the Committee to evaluate the performance of the internal audit function and of the external auditors and oversee the business risk identification, management and monitoring process.

## Meeting the Goals

The Committee held four meetings during the year 2017.

The Committee also met with the external auditors to agree the audit plan, to consider the key interim audit findings and to discuss the final audit findings and management letter. It held a private meeting with the auditors to ensure that they have had unimpeded access to records, other audit evidence and personnel and have not been imposed with any restrictions on scope or on reporting.

The reports issued by local internal audit and by the external auditors were reviewed, the implications of the matters reported were assessed and the relevant risk handling and mitigation procedures implemented or to be implemented were discussed with the management to ensure that they were adequate to protect the company from reported risks.

The Committee examined and was satisfied with the independence of the external auditors.

The Committee also reviewed the year-end financial statements prepared by the management in conformity with the requirements of the Companies Act No 7 of 2007, and the unaudited interim financial statements released to the Colombo Stock Exchange quarterly. The review included a year end discussion with the external auditors and discussions with the executive Directors of the movements in key account balances, the reasons for fluctuations from budget and previous year financial data to ensure that the reported results and financial position at the balance sheet date were consistent with the

Committee's understanding of the operating environment, industry dynamics, results, strategic plans and budget of the company.

Business risk reviews and presentation of their results to the Board of Directors were made in the presence of all members of the Audit Committee who ensured that the risk management function overall was effective in design and in operation. The risk management activity is closely linked to strategic planning and the Committee was satisfied with the business risk review and management process.

## Appreciation

The contribution made by the Managing Director and other Directors in fulfilling the obligations of the Audit Committee is recognized with appreciation.

Sgd,

**Deva Rodrigo**  
Chairman  
Audit Committee

2 April 2018

# RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

## Introduction

The Related Party Transactions Review Committee was formed by the Board of Directors as a Board Committee in December 2015. The objective of the Committee is to ensure that the interests of shareholders as a whole are taken into account when entering in to related party transactions and that the Company is compliant with the requirements of the SEC code and CSE listing rules.

## Committee Composition

The Committee comprises one Independent Non-Executive Director and one Non-Executive Director. The composition of the Committee fulfilled the requirements of the Listing Rule No. 9.2.2 of the Colombo Stock Exchange, throughout the financial year. The composition of the Related Party Transactions Review Committee during the year is indicated below.

Name of Director	Directorship Status at CLLP
Deva Rodrigo	Independent Non-Executive Director
Richard Brown	Non-Executive Director *(Resigned w:e:f: 17/10/2017)
Teek Hong Kee	Non-Executive Director *(Appointed w:e:f: 09/11/2017)

\* Mr. Richard Brown resigned from the Board of Directors and the Committee on 17/10/2017, and Mr. Teek Hong Kee was appointed to the Board of Directors on 17/10/2017 and the Committee on 09/11/2017.

## Terms of Reference

The Terms of Reference of the Related Party Transactions Review Committee deals with its authority and responsibilities. The TOR encompass matters prescribed in the Listing Rules of the Colombo Stock Exchange and include the following:

- Review in advance all proposed Related Party Transactions of the Company except those explicitly exempted by section 9.5 of the CSE rules.
- Determine whether Related Party Transactions that are to be entered into by the Company require the prior approval of the Board or shareholders of the Company
- Ensure that no Director of the Company shall participate in any discussion of a proposed Related Party Transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the express purpose of providing information concerning the Related Party Transaction to the Committee in its ongoing dealings with the relevant related party.

- Where necessary, the Committee shall seek the approval of the Board of Directors for Related Party Transactions, which are under review by the Committee. In such instances, the approval of the Board of Directors should be obtained prior to entering in to the relevant Related Party Transaction.
- In the event a Related Party Transaction will be ongoing (a Recurrent Related Party Transaction), the Related Party Transactions Review Committee may establish guidelines for the senior management to follow in its ongoing dealings with the Related Party. Thereafter, the Committee, on an annual basis, shall review and assess ongoing relationships with the Related Party to determine whether they are in compliance with the Committee's guidelines and that the Related Party Transaction remains appropriate.

## Policies and Procedures

Sri Lanka Accounting Standards define Related Party Transactions. This definition is consistent with Section 9 of the listing rules of CSE. Under these the members of the Board of Directors of the Company have been identified as Key Management Personnel. In accordance with the Related Party Transaction Policy, declarations are obtained from each Key Management Personnel of the Company for the purpose of identifying parties related to them. Based on the information furnished in these declarations, the Company retrieves data on related party transactions from the data base of the Company.

## Meetings

The Committee met on five occasions during the financial year 2017 and the members' attendance record is indicated in page 27 of corporate governance report. The meeting held on 23rd January, 2017 was in lieu of the fourth meeting that was required to be held in the year 2016.

## Related Party Transactions during the Year

The activities and observations of the Committee were communicated to the Board of Directors quarterly through oral briefings and by tabling the minutes of the Committee's meetings. During the year there were no Non-Recurrent Related Party Transactions that exceeded the respective thresholds mentioned in the Listing Rules. Details of Recurrent Related Party Transactions entered into by the Company during the year are disclosed in Note 26 to the Financial Statements.

## Disclosures in the Annual Report

The Company has also made the following disclosures as mandated by the CSE listing rules and the Inland Revenue Act No.10 of 2006.

# RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

- Recurrent Related Party Transactions are disclosed in page 31 of the annual report in compliance with Section 9.3.2 (b) of the listing rules of CSE.
- The “Certificate by the Director on Transfer Pricing” is reproduced in page 43 of the annual report, in compliance with regulations stipulated in the Gazette Extraordinary No. 1960/39 of March 31, 2016 issued under Section 104 of the Inland Revenue Act, No. 10 of 2006

## **Declaration**

The declaration by the Board of Directors confirming that the Company has complied with the requirements of the listing rules of the CSE on related party transactions for the financial year 2017 is given on page 37, in the ‘Annual Report of the Directors.’

Sgd

**Deva Rodrigo**

Chairman

Related Party Transaction Review Committee

2 April 2018

# CERTIFICATE OF THE DIRECTOR ON TRANSFER PRICING



Our Family of Brands

Chevron Lubricants Lanka PLC  
Chevron House, 490, Galle road  
Colombo 03,  
Sri Lanka.  
Tel : +94 11 4 524 524  
Fax : +94 11 4 524 555  
www.chevron.lk  
Company Reg No. : PQ54

The Commissioner General of Inland Revenue  
Department of Inland Revenue,  
Colombo 2.  
29.11.2017

Dear Sir,

## Certificate of the Director on Transfer Pricing

It is certified that the company has complied with the Transfer Pricing Regulations issued under Section 104 of the Inland Revenue Act, No. 10 of 2006. The information pursuant to these Regulations is given in approved accountant certificate produced under Section 107(2)(a) of the said Inland Revenue Act. I believe that the record of transaction/s entered into with associated undertaking/s during the period from 01/01/2016 to 31/12/2016 are at arm's length, not prejudicial to the interests of the company and not carried out for profit shifting purposes.

Records and information of all transactions have been submitted to the, approved accountant who reviewed the transfer pricing records and no adverse remarks have been made in the certificate done by the approved accountant.

Colombo

Place

For and on behalf of the Directors

Anura Perera  
Director / Company Secretary  
Chevron Lubricants Lanka PLC  
490, Galle road,  
Colombo 3

# REMUNERATION COMMITTEE REPORT

## **Remuneration Policy**

Chevron Lubricants Lanka PLC provides a remuneration package to its employees in conformity with Chevron's worldwide remuneration policy. The framework to determine the compensation and benefits package which links the remuneration to enterprise and individual performance is provided by Chevron Global TR (Total Remuneration) Group. The local HR team assists the process by providing salary survey information and market data to the Chevron Regional TR group to determine the annual salary structures.

Business unit leaders and supervisors are responsible for evaluating performance of each individual employee and the performance evaluations of CLLP's functional leaders, and are ranked accordingly. Based on this policy, the regional TR group proposes annual salary increases to each employee.

Surveys are commissioned periodically in order to assess the prevailing salary and benefit structure within the company, the findings of which are considered and reviewed by the Committee.

The Committee is satisfied with the salary review process in place.

The aggregate remuneration paid to Executive and Non-Executive Directors is given on page 61

Sgd.

**Harsha Amarasekera**

Chairman, Remuneration Committee

2 April 2018

# INDEPENDENT AUDITOR'S REPORT



To the shareholders of Chevron Lubricants Lanka PLC  
Report on the Financial Statements

- 1 We have audited the accompanying financial statements of Chevron Lubricants Lanka PLC, which comprise the statement of financial position as at 31 December 2017 and the statements of income, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information as set out in pages 51 to 77.

## Management's responsibility for the financial statements

- 2 Management is responsible for the preparation and the presentation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

## Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation of 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

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

## Opinion

- 4 In our opinion the financial statements give a true and fair view of the financial position of Chevron Lubricants Lanka PLC as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## Report on Other Legal and Regulatory Requirements

- 5 These financial statements also comply with the requirements of Section 151(2) of the Companies Act, No. 7 of 2007.

2 April 2018

COLOMBO

CHARTERED ACCOUNTANTS

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PricewaterhouseCoopers is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

# INCOME STATEMENT

(all amounts in Sri Lanka Rupees)

	Notes	Year ended 31 December	
		2017	2016
Sales	5	<b>11,052,496,295</b>	12,089,110,879
Cost of sales		<b>(6,311,851,231)</b>	(6,418,424,438)
<b>Gross profit</b>		<b>4,740,645,064</b>	5,670,686,441
Other income	8	<b>5,461,315</b>	3,175,351
Distribution expenses		<b>(658,950,701)</b>	(537,596,553)
Administrative expenses		<b>(681,273,893)</b>	(620,822,598)
<b>Operating profit</b>	6	<b>3,405,881,785</b>	4,515,442,641
Finance income	9	<b>95,056,335</b>	187,266,438
Finance costs	9	<b>(5,153,034)</b>	(38,161)
Finance income - net	9	<b>89,903,301</b>	187,228,277
Profit before tax		<b>3,495,785,086</b>	4,702,670,918
Income tax expenses	10	<b>(930,564,872)</b>	(1,222,260,985)
<b>Profit for the year</b>		<b>2,565,220,214</b>	3,480,409,933
<b>Earnings per share attributable to the owners of the Company during the year</b>			
Basic earnings per share (LKR)	11	<b>10.69</b>	14.50

Notes on pages 51 to 77 form an integral part of these financial statements

Report of the independent auditors' on page 45

# STATEMENT OF COMPREHENSIVE INCOME

(all amounts in Sri Lanka Rupees)

	Notes	Year ended 31 December	
		2017	2016
Profit for the year		<b>2,565,220,214</b>	3,480,409,933
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefit obligations	20	<b>(26,290,047)</b>	18,311,187
Deferred tax attributable to remeasurement of retirement benefit obligations	16	<b>7,361,213</b>	(5,127,132)
Other comprehensive (loss) / income for the year, net of tax		<b>(18,928,834)</b>	13,184,055
Total comprehensive income for the year		<b>2,546,291,380</b>	3,493,593,988

Notes on pages 51 to 77 form an integral part of these financial statements

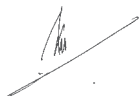
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# STATEMENT OF FINANCIAL POSITION

(all amounts in Sri Lanka Rupees)

	Notes	As at 31 December	
		2017	2016
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	2,066,550,702	2,132,857,872
Trade and other receivables	14	77,294,180	74,915,018
		<b>2,143,844,882</b>	2,207,772,890
<b>Current assets</b>			
Inventories	17	2,045,959,622	1,789,584,711
Trade and other receivables	14	1,266,382,881	1,138,882,023
Cash and cash equivalents	18	139,732,757	1,910,266,703
		<b>3,452,075,260</b>	4,838,733,437
<b>Total assets</b>		<b>5,595,920,142</b>	7,046,506,327
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Stated capital	19	600,000,000	600,000,000
Retained earnings		3,406,913,996	3,260,622,616
		<b>4,006,913,996</b>	3,860,622,616
<b>Non-current liabilities</b>			
Retirement benefit obligations	20	162,227,628	119,511,188
Deferred tax liabilities	16	245,717,527	246,303,605
		<b>407,945,155</b>	365,814,793
<b>Current liabilities</b>			
Trade and other payables	21	661,176,026	2,139,094,343
Current income tax liabilities		404,851,459	680,974,575
Borrowing	22	115,033,506	Nil
		<b>1,181,060,991</b>	2,820,068,918
<b>Total liabilities</b>		<b>1,589,006,146</b>	3,185,883,711
<b>Total equity and liabilities</b>		<b>5,595,920,142</b>	7,046,506,327

The Board of Directors is responsible for the preparation and presentation of these financial statements. The financial statements were authorised for issue by Board of Directors on 2 April 2018



**Kishu Gomes**  
Managing Director



**A.M. Anura Perera**  
Director / Chief Financial Officer



**Erande De Silva**  
Manager - Finance and Planning

I certify that these financial statements have been prepared in compliance with the requirements of the Companies Act, No. 7 of 2007.

Notes on pages 51 to 77 form an integral part of these financial statements

Report of the independent auditors' on page 45

# STATEMENT OF CHANGES IN EQUITY

(all amounts in Sri Lanka Rupees)

	Notes	Stated capital	Retained earnings	Total
<b>Balance at 1 January 2016</b>		600,000,000	4,087,028,628	4,687,028,628
Profit for the year		Nil	3,480,409,933	3,480,409,933
Other comprehensive income for the year, net of tax		Nil	13,184,055	13,184,055
Total comprehensive income for the year		Nil	3,493,593,988	3,493,593,988
Transactions with owners - Dividends	12	Nil	(4,320,000,000)	(4,320,000,000)
<b>Balance at 31 December 2016</b>		600,000,000	3,260,622,616	3,860,622,616
Balance at 1 January 2017		600,000,000	3,260,622,616	3,860,622,616
Profit for the year		Nil	2,565,220,214	2,565,220,214
Other comprehensive loss for the year, net of tax		Nil	(18,928,834)	(18,928,834)
Total comprehensive income for the year		Nil	2,546,291,380	2,546,291,380
Transactions with owners - Dividends	12	Nil	(2,400,000,000)	(2,400,000,000)
<b>Balance at 31 December 2017</b>		600,000,000	3,406,913,996	4,006,913,996

Notes on pages 51 to 77 form an integral part of these financial statements

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# CASH FLOW STATEMENT

(all amounts in Sri Lanka Rupees)

	Notes	Year ended 31 December	
		2017	2016
<b>Cash flows from operating activities</b>			
Cash generated from operations	25	<b>2,600,420,369</b>	4,906,014,831
Interest paid		<b>(5,065,386)</b>	(38,161)
Retirement benefits paid	20	<b>(8,632,791)</b>	(7,958,802)
Income tax paid		<b>(1,194,513,039)</b>	(1,185,349,822)
<b>Net cash generated from operating activities</b>		<b>1,392,209,153</b>	3,712,668,046
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	13	<b>(95,116,761)</b>	(91,316,443)
Proceeds from disposal of property, plant and equipment		<b>3,474,243</b>	198,068
Interest received		<b>53,865,913</b>	149,668,454
<b>Net cash (used in) / generated from investing activities</b>		<b>(37,776,605)</b>	58,550,079
<b>Cash flows from financing activities</b>			
Dividends paid		<b>(3,240,000,000)</b>	(4,200,000,000)
<b>Net cash used in financing activities</b>		<b>(3,240,000,000)</b>	(4,200,000,000)
<b>Net decrease in cash and cash equivalents</b>		<b>(1,885,567,452)</b>	(428,781,875)
<b>Movement in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year		<b>1,910,266,703</b>	2,339,048,578
Net decrease in cash and cash equivalents		<b>(1,885,567,452)</b>	(428,781,875)
<b>Cash and cash equivalents at end of year</b>	18	<b>24,699,251</b>	1,910,266,703

Notes on pages 51 to 77 form an integral part of these financial statements

Report of the independent auditors' on page 45

# NOTES TO THE FINANCIAL STATEMENTS

(All amounts in notes are shown in Sri Lanka Rupees unless otherwise stated)

## 1 General information

Chevron Lubricants Lanka PLC carries on the business of importing, blending, distributing and marketing of lubricant oils and greases. The Company is a public limited liability company incorporated and domiciled in Sri Lanka. The address of its registered office is Chevron House, 490, Galle Road, Colombo 03.

The Company has its primary listing on the Colombo Stock Exchange. The ultimate parent of the Company is Chevron Corporation Inc., incorporated in San Ramon - USA.

These financial statements have been approved for issue by the Board of Directors on 2 April 2018.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The financial statements of the Company has been prepared in accordance with Sri Lanka Accounting Standards, which comprise Sri Lanka Financial Reporting Standards ("SLFRS"s), Sri Lanka Accounting Standards ("LKAS"s), relevant interpretations of the Standing Interpretations Committee ("SIC") and International Financial Reporting Interpretations Committee ("IFRIC"). These financial statements have been prepared under the historical cost convention except for financial assets and liabilities which are measured at fair value or at amortised cost.

The preparation of financial statements in conformity with Sri Lanka Accounting Standards (SLFRS/LKAS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Company's financial statements are disclosed in note 4 to the financial statements.

### 2.2 Changes in accounting policies and disclosures

#### (a) New and amended standards adopted by the Company

The following standards and interpretations were adopted for the first time to financial reporting periods commencing on or after 1 January 2017:

- (i) Amendments to LKAS 7 - Disclosure Initiative. An entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (eg: drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities.

#### (b) New accounting standards, amendments and interpretations issued but not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods have not been early adopted by the Company. The Company is yet to assess the impact of these new standards that are set out below.

- (i) SLFRS 9 Financial Instruments and associated amendments to various other standards.

SLFRS 9 replaces the multiple classification and measurement models in LKAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortised cost and fair value.

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if: a) the objective of the

# NOTES TO THE FINANCIAL STATEMENTS

business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.

All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value.

All fair value movements on financial assets are taken through the income statement, except for equity investments that are not held for trading, which may be recorded in the income statement or in reserves (without subsequent recycling to income statement).

For financial liabilities that are measured under the fair value option entities will need to recognise the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than income statement.

The new hedge accounting rules align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

Further changes introduced to the classification and measurement rules and also introduced a new impairment model to SLFRS 9. The changes introduce:

- i. a third measurement category (FVOCI) for certain financial assets that are debt instruments
- ii. a new Expected Credit Loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (eg trade receivables). On initial recognition, entities will record a day one loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

SLFRS 9 also introduces expanded disclosure requirements and a change in presentation.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted,

(ii) SLFRS 15 Revenue from contracts with customers and associated amendments to various other standards

SLFRS 15 will replace LKAS 18 which covers contracts for goods and services and LKAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. So the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:

- i. identify contracts with customers
- ii. identify the separate performance obligation
- iii. determine the transaction price of the contract
- iv. allocate the transaction price to each of the separate performance obligations, and
- v. recognise the revenue as each performance obligation is satisfied.

Key changes to current practice are:

- i. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- ii. Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts must be recognised if they are not at significant risk of reversal.
- iii. The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- iv. There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few.
- v. There are also increased disclosures.

These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications.

The standard is effective for accounting periods beginning on or after 1 January 2018. Entities will have a choice of full retrospective application, or prospective application with additional disclosures and earlier application is permitted.

(iii) SLFRS 16 Leases

SLFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on statement of financial position. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under SLFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The standard is effective for annual periods beginning on or after 1 January 2019 with earlier adoption permitted if SLFRS 15, 'Revenue from Contracts with Customers', is also adopted.

(iv) IFRIC 22, 'Foreign Currency Transactions and Advance Consideration'

The interpretation clarifies how to determine the date of transaction for the exchange rate to

be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability).

If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt.

Entities can choose to apply the interpretation:

- i. retrospectively for each period presented
- ii. prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or
- iii. prospectively from the beginning of a prior reporting period presented as comparative information.

The amendment is effective for the annual periods beginning on or after 1 January 2018.

(iv) IFRIC 23, 'Uncertainty over income tax treatments'

This IFRIC clarifies how the recognition and measurement requirements of LKAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

# NOTES TO THE FINANCIAL STATEMENTS

The amendment is effective for the annual periods beginning on or after 1 January 2019.

## 2.3 Foreign currency translation

### (a) Functional and presentation currency

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

Foreign exchange gains and losses are presented in the income statement within 'net finance income'.

### (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 re-measured. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in currencies other than the functional currency are recognised in the statement of comprehensive income.

## 2.4 Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

The cost of self-constructed assets include the cost of materials, direct labour and appropriate proportion of production overheads. Cost also includes site restoration costs.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement

of comprehensive income during the financial period in which they are incurred.

Capital work in progress represents all amounts paid on work undertaken, and still in an unfinished state as at the end of the year.

Depreciation is calculated on the straight line method to allocate the cost of each asset, to their residual values over their estimated useful lives commencing from date of availability for use. On disposal of assets, depreciation ceases on the date that the asset is derecognised.

The principal annual rates used for this purpose are:

	%
Land improvements	3.57 - 5
Leasehold buildings	2.22 - 3.57
Storage tanks and pipe lines	6.25
Plant and machinery	6.25 - 20
Office furniture and equipment	10 - 20
Motor vehicles	10 - 20
Computers	16.67 - 33.33

Leasehold buildings are depreciated over the lesser of useful economic life and lease period.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other income in the statement of comprehensive income.

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

## 2.5 Impairment of non-financial assets

Assets 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 asset's carrying amount 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 are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill

that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2.6 Accounting for leases - where the Company is the lessee

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

## 2.7 Financial assets

### (a) Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held to maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. At the reporting date, there were no financial assets at fair value through profit or loss, available for sale and held to maturity investments.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

#### 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 as trade and other receivables except for maturities greater than 12 months after the end of reporting period. These are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables, short term deposits and cash and cash equivalents in the statement of financial position.

### (b) Recognition and measurement of financial assets

Regular purchases and sales of financial assets are

recognised on the trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised 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. Loans and receivables are carried at amortised cost using the effective interest method.

### (c) Impairment of financial assets

#### Assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a 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 a group of financial assets that can be reliably estimated.

For loans and receivables category, 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 carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. Cash flows relating to loans and receivables falling due within a period of less than one year are not discounted if the effect of discounting is immaterial.

Impairment testing of trade receivables is described in Note 2.10.

## 2.8 Financial liabilities

### 2.8.1 Classification and initial recognition

Financial liabilities are initially recognised at fair value, net of transaction costs.

The Company's financial liabilities consist of trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within

# NOTES TO THE FINANCIAL STATEMENTS

one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

## 2.8.2 Subsequent measurement

Financial liabilities are subsequently carried at amortised cost using effective interest method.

## 2.8.3 Derecognition

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

## 2.8.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legal 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

## 2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads, but excludes interest expense. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

## 2.10 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), 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 method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy

or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within distribution expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against distribution expenses in the statement of comprehensive income.

## 2.11 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, net of book overdrafts. In the statement of financial position, bank overdrafts are included in borrowings in current liabilities.

## 2.12 Stated capital

Ordinary Shares are classified as equity.

## 2.13 Employee benefits

### (a) Defined contribution plans

Defined contribution plan is a plan under which the Company pays a fixed contribution into a separate entity. All employees of the Company in Sri Lanka are members of the Employees' Provident Fund and Employees' Trust Fund, to which the Company contributes 15% and 3% respectively, of employees' basic or consolidated wage or salary. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

### (b) Defined benefit obligation

A defined benefit plan is a plan that is not a defined contribution plan. Defined benefit plan defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Company pays gratuity to its eligible employees computed at one month's salary for each completed year of service, which exceeds the amount stipulated by the Gratuity Act, No. 12 of 1983, which is a defined benefit plan.

The liability recognised in the statement of financial position in respect of gratuity is the present value of the defined benefit obligation at the statement of financial position date together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds, as there is no deep market on high quality corporate bonds, by the actuarial valuer.

Past service costs are recognised immediately as an expense in the statement of comprehensive income, unless the changes to the plan are conditional on the employees remaining in service for a specified period of time (vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Actuarial gains and losses from experience adjustments and changes in actuarial assumptions are recognised under other comprehensive income of the statement of comprehensive income.

The assumptions based on which the results of the actuarial valuation was determined, are included in Note 20 to the financial statements.

## 2.14 Current and deferred income tax

The tax expense for the period comprises current and deferred tax.

The provision for current income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the tax laws enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax is recognised using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the statement of financial position

date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred 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 income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The principal temporary differences arise from depreciation on property, plant and equipment and defined benefit obligations.

## 2.15 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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.

## 2.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

# NOTES TO THE FINANCIAL STATEMENTS

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

(a) **Sale of goods**

Sale of goods are recognised on delivery of products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) **Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method unless collectability is in doubt.

## 2.17 Dividend distribution

Final dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

## 2.18 Segment reporting

A segment is a distinguishable component of an enterprise that is engaged in either providing products or services (Business segment) or in providing products or services within a particular economic environment (Geographical segment), which is subject to risk and rewards that are different from those of other segments.

Local and export sales are to be identified as distinguishable segments for the Company and the applicable segment reporting disclosures are given in Note 5 and Note 15.

## 3 Financial risk management

### 3.1 Financial risk

#### 3.1.1 Financial risk factors

The Company's activities expose it to a variety of financial risks. Market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial risks and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is performed by the management under policies approved by the board of directors. The board provides guidance for overall risk management.

The principal financial instruments of the Company comprise of short term deposits, money market investments, and cash. The main purpose of these finance instruments is to raise and maintain liquidity for the Company's operations, and maximise returns on the Company's financial reserves. The Company has various other financial instruments such as trade receivables and trade payables which arise directly from its business activities.

(a) **Market risk**

(i) **Foreign exchange risk**

The Company is principally exposed to fluctuations in the value of the US Dollar (USD) against the Sri Lankan Rupee (LKR). The Company's functional currency is LKR in which most of the transactions are denominated, and all other currencies are considered foreign currencies for reporting purposes. Certain bank balances, trade receivables, and trade payables are denominated in foreign currencies.

The Company's financial statements which are presented in LKR, are affected by foreign exchange fluctuations through both translation risk and transaction risk. Changes in foreign currency exchange rates may affect the Company's cost of materials purchased and services obtained from related companies in foreign currencies. In particular, depreciation of the LKR against the USD can impact the Company's operating results through its impact on cost of imported raw materials.

#### Sensitivity analysis

As at 31 December 2017, a foreign exchange loss of LKR 686,502 would have resulted if LKR had weakened by 1% against USD with all other variables held constant on translation of year end foreign currency denominated balances.

(b) **Credit risk**

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

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

#### Trade receivables

The Company is responsible for managing and analysing the credit risk for each of their new customers before standard payment and delivery terms and conditions are offered. The management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored. Management does not expect any losses from non-performance by these counterparties.

#### Cash and cash equivalents

The Company invests in government security and rated banks. The Company limits the concentration of financial exposure to any single financial institution.

#### (c) Liquidity risk

In the management of liquidity risk, the Company monitor and maintain a level of cash in hand at bank deemed adequate by the management to finance the

Company's operations and to mitigate the effects of fluctuations in cash flows. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of available bank facilities. Access to source of funding is sufficiently available.

Surplus cash held over and above the amount required for working capital management is invested in interest bearing savings accounts, treasury bills and repurchase agreements, time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room. At the reporting date, the Company held money market funds of LKR Nil (2016 - LKR 1,510,800,000) and other liquid assets of LKR 1,204,114,936 (2016 - LKR 1,471,183,117) that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2017	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>Liabilities</b>					
Trade and other payables (excluding statutory payables)	487,011,653	Nil	Nil	Nil	Nil
Amounts due to related parties (Note 21)	171,637,351	Nil	Nil	Nil	Nil
<b>Total liabilities</b>	<b>658,649,004</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

As at 31 December 2016	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>Liabilities</b>					
Trade and other payables (excluding statutory payables)	917,767,464	Nil	Nil	Nil	Nil
Amounts due to related parties (Note 21)	1,070,903,319	Nil	Nil	Nil	Nil
<b>Total liabilities</b>	<b>1,988,670,783</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

# NOTES TO THE FINANCIAL STATEMENTS

(d) **Price risk**

Company is exposed to the commodity price risk pertaining to base oils.

The Company monitors price of base oils on a dynamic basis and manages procurement accordingly.

(e) **Interest rate risk**

The Company has cash and bank balances including deposits placed with government and creditworthy banks. The Company monitors interest rate risk by actively monitoring the yield curve trends and interest rate movements.

### 3.2 Capital risk management

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

The capital structure of the Company represents equity attributable to owners of the Company, comprising issued stated capital and retained earnings.

The Company has not obtained any debt facilities (other than temporary bank overdrafts) to finance operations over the past 5 years.

## 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4.1 Critical accounting estimates and assumptions

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

(a) **Estimated useful lives of property, plant and equipment (PPE)**

The Company reviews annually the estimated useful lives of PPE based on factors such as business plan and strategies, expected level of usage and future developments. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of PPE would increase the recorded depreciation charge and decrease the PPE balance.

(b) **Defined benefit obligations**

The present value of the gratuity obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for gratuity include the discount rate. Any changes in these assumptions will impact the carrying amount of gratuity obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the gratuity obligations. In determining the appropriate discount rate, the Company considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for defined benefit obligations are based in part on current market conditions, additional information is disclosed in Note 20.

(c) **Allowance for doubtful debts**

The Company assesses at the date of statement of financial position whether there is objective evidence that trade receivables have been impaired. Impairment loss is calculated based on a review of the current status of existing receivables and historical collections experience. Such provisions are adjusted periodically to reflect the actual and anticipated impairment.

(d) **Estimated impairment of non-current assets**

The Company reviews for impairment of property, plant and equipment in accordance with the Accounting Policy in Note 2.5. The recoverable amount of these assets have been determined based on higher of the assets' fair value less cost to sell and value in use. These calculations require the use of estimates and judgements.

Management believes that any reasonably possible change in the estimated future cash flows of the operations on which the recoverable amounts of the cash-generating units is based would not cause the cash-generating units' carrying amount to exceed its recoverable amount.

### 4.2 Critical judgements in applying the entity's accounting policies

No critical judgements have been made in applying the entity's accounting policies.

(all amounts in Sri Lanka Rupees)

	2017	2016
<b>5 Sales</b>		
Sales are made up as follows:		
Local sales	<b>9,903,932,812</b>	11,021,687,729
Export sales	<b>1,081,502,651</b>	964,654,312
Related party sales [Note 26(a)]	<b>67,060,832</b>	102,768,838
	<b>11,052,496,295</b>	12,089,110,879
<b>6 Expenses by nature</b>		
Directors' emoluments		
- executive	<b>43,200,885</b>	39,417,137
- non executive	<b>5,808,000</b>	5,430,000
	<b>49,008,885</b>	44,847,137
Auditors' remuneration		
- audit	<b>2,271,642</b>	2,103,372
- non audit	<b>90,000</b>	120,000
	<b>2,361,642</b>	2,223,372
Depreciation on property, plant and equipment (Note 13)	<b>161,399,332</b>	150,965,946
Amortisation of marketing support fee paid	<b>18,662,057</b>	22,159,697
Provision / (reversal of provision) for impairment on trade receivables [Note 14(i)]	<b>2,045,212</b>	(769,167)
Property, plant and equipment written off (Note 13)	<b>10,967</b>	3,229,982
Repair and maintenance expenditure	<b>38,065,599</b>	17,887,425
Operating lease rental - property	<b>39,825,519</b>	39,938,461
Employee benefit costs (Note 7)	<b>264,073,661</b>	236,516,795
<b>7 Employee benefit costs</b>		
Salaries and wages	<b>209,302,210</b>	189,246,915
Contribution to defined contribution plans	<b>29,712,267</b>	27,045,908
Contribution to defined benefit obligations (Note 20)	<b>25,059,184</b>	20,223,972
	<b>264,073,661</b>	236,516,795
Average monthly number of persons employed by the Company during the year:		
Permanent employees	<b>77</b>	79
<b>8 Other income</b>		
Scrap sales	<b>845,942</b>	310,406
Write back of unassigned credit balances in debtors ledger	<b>Nil</b>	410,640
Profit on disposal of property, plant and equipment	<b>3,460,611</b>	109,029
Empty drum sales	<b>1,154,762</b>	2,345,276
	<b>5,461,315</b>	3,175,351

# NOTES TO THE FINANCIAL STATEMENTS

(all amounts in Sri Lanka Rupees)

	2017	2016
<b>9 Finance income and costs</b>		
<b>Finance income:</b>		
Interest income on short term deposits	55,161,934	144,584,231
Interest income on employee loans	459,694	545,814
	55,621,628	145,130,045
Net foreign exchange transaction and translation gains	39,434,707	42,136,393
	95,056,335	187,266,438
<b>Finance costs:</b>		
Interest expense on bank overdraft	(5,153,034)	(38,161)
Finance income - net	89,903,301	187,228,277
<b>10 Tax</b>		
<i>Current tax:</i>		
Current tax on profits for the year	924,703,659	1,157,736,574
Over provision for income tax in respect of previous years	(913,922)	(3,010,847)
	923,789,737	1,154,725,727
<i>Deferred tax :</i>		
Origination of temporary differences (Note 16)	6,775,135	67,535,258
<b>Income tax expense</b>	930,564,872	1,222,260,985
Deferred tax (credited) / charged to other comprehensive Income (Note 16)	(7,361,213)	5,127,132
	923,203,659	1,227,388,117

The tax on the Company's profit before tax differs from theoretical amount that would arise using the basic tax rate of the Company as follows:

	2017	2016
<b>Profit before tax</b>	3,495,785,086	4,702,670,918
Tax calculated at a tax rate of 28% (2016 - 28%)	978,819,824	1,316,747,857
Tax effects of:		
- Different tax rates	(63,936,237)	(69,514,282)
- Income not subject to tax	(1,886,231)	(10,904,052)
- Expenses not deductible for tax purposes	18,481,438	17,288,749
Tax effect of qualifying payments [See Note (a) below]	Nil	(28,346,440)
Over provision for income tax in respect of previous years	(913,922)	(3,010,847)
<b>Tax charge</b>	930,564,872	1,222,260,985

- (a) The Company has claimed qualifying payment relief in terms of Section 34 (2) (s) of the Inland Revenue (Amendment) Act No. 8 of 2012 on the investments made in the expansion of its plant. Accordingly, out of the sum of LKR 404,949,140 directly attributable to expansion, the Company has already claimed the entire amount during the years of assessment 2013/14, 2014/15, 2015/16 and 2016/17. Therefore, the Company had no further investment relief to be claimed during year of assessment 2017/18.

Further information about deferred tax is provided in Note 16.

## 11 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the number of shares in issue as at end of the year.

	2017	2016
Profit attributable to shareholders	<b>2,565,220,214</b>	3,480,409,933
Number of ordinary shares in issue at 31 December (Note 19)	<b>240,000,000</b>	240,000,000
Basic earnings per share (LKR)	<b>10.69</b>	14.50

The shareholders of the Company ratified the proposed share sub-division of one into two of the issued ordinary shares at the extra ordinary general meeting held on the 7 June 2016. The share sub-division increased the number of shares two-fold from 120,000,000 to 240,000,000 shares.

## 12 Dividends

	2017	2016
Proposed and paid interim dividend of LKR 10.00 per share (2016 - LKR 18.00 per share)	<b>2,400,000,000</b>	4,320,000,000

The fourth interim dividend of LKR 2.25 per share amounting to LKR 540,000,000 was declared on 08 February 2018 and paid on 02 March 2018.

# NOTES TO THE FINANCIAL STATEMENTS

## 13 Property, plant and equipment

	Land improvement	Leasehold buildings	Storage tanks	Plant and machinery	Office furniture and equipment	Motor vehicles	Computers	Capital work in progress	Total
<b>Year ended 31 December 2016</b>									
Opening net book amount	198,922,866	1,071,826,369	357,512,629	408,308,333	54,233,036	29,237,502	31,505,202	44,280,459	2,195,826,396
Additions	9,997,492	3,690,137	5,638,514	5,744,879	13,491,443	Nil	4,838,781	47,915,197	91,316,443
Transferred from capital work-in-progress	Nil	10,389,329	Nil	29,535,857	3,400,771	179,500	775,000	(44,280,457)	Nil
Write offs - cost (Note 6)	(605,020)	(369,832)	Nil	(10,402,459)	(2,912,384)	Nil	(1,515,000)	Nil	(15,804,695)
- accumulated depreciation (Note 6)	467,378	167,051	Nil	7,887,927	2,537,357	Nil	1,515,000	Nil	12,574,713
Disposals - cost	Nil	Nil	Nil	Nil	(1,282,812)	(124,000)	Nil	Nil	(1,406,812)
- accumulated depreciation	Nil	Nil	Nil	Nil	1,193,773	124,000	Nil	Nil	1,317,773
Depreciation charge (Note 6)	(7,785,592)	(40,350,683)	(25,526,605)	(51,715,552)	(8,817,153)	(6,261,485)	(10,508,876)	Nil	(150,965,946)
<b>Closing net book amount</b>	<b>200,997,124</b>	<b>1,045,352,371</b>	<b>337,624,538</b>	<b>389,358,985</b>	<b>61,844,031</b>	<b>23,155,517</b>	<b>26,610,107</b>	<b>47,915,199</b>	<b>2,132,857,872</b>
<b>At 31 December 2016</b>									
Cost	220,265,401	1,137,879,810	422,415,492	623,219,042	99,469,615	60,902,959	60,693,679	47,915,199	2,672,761,197
Accumulated depreciation	(19,268,277)	(92,527,439)	(84,790,954)	(233,860,057)	(37,625,584)	(37,747,442)	(34,083,572)	Nil	(539,903,325)
<b>Net book amount</b>	<b>200,997,124</b>	<b>1,045,352,371</b>	<b>337,624,538</b>	<b>389,358,985</b>	<b>61,844,031</b>	<b>23,155,517</b>	<b>26,610,107</b>	<b>47,915,199</b>	<b>2,132,857,872</b>
<b>Year ended 31 December 2017</b>									
Opening net book amount	200,997,124	1,045,352,371	337,624,538	389,358,985	61,844,031	23,155,517	26,610,107	47,915,199	2,132,857,872
Asset class reclassification - cost	2,499,255	(2,499,255)	Nil	Nil	Nil	Nil	Nil	Nil	Nil
- accumulated depreciation	(999,702)	999,702	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Additions	1,220,108	8,449,333	Nil	29,133,040	4,368,529	Nil	21,257,359	30,688,392	95,116,761
Transferred from capital work-in-progress	Nil	978,724	1,058,768	21,721,822	16,680,001	Nil	7,106,674	(47,545,989)	Nil
Write offs - cost (Note 6)	Nil	Nil	Nil	Nil	(1,007,201)	Nil	(501,465)	Nil	(1,508,666)
- accumulated depreciation (Note 6)	Nil	Nil	Nil	Nil	996,234	Nil	501,465	Nil	1,497,699
Disposals - cost	Nil	Nil	Nil	Nil	(633,254)	(8,125,000)	(2,422,745)	Nil	(11,180,999)
- accumulated depreciation	Nil	Nil	Nil	Nil	619,622	8,125,000	2,422,745	Nil	11,167,367
Depreciation charge (Note 6)	(8,187,524)	(40,582,546)	(25,953,928)	(55,034,157)	(12,225,159)	(6,264,477)	(13,151,541)	Nil	(161,399,332)
<b>Closing net book amount</b>	<b>195,529,261</b>	<b>1,012,698,329</b>	<b>312,729,378</b>	<b>385,179,690</b>	<b>70,642,803</b>	<b>16,891,040</b>	<b>41,822,599</b>	<b>31,057,602</b>	<b>2,066,550,702</b>
<b>At 31 December 2017</b>									
Cost	223,984,764	1,144,808,612	423,474,260	674,073,904	118,877,690	52,777,959	86,133,502	31,057,602	2,755,188,293
Accumulated depreciation	(28,455,503)	(132,110,283)	(110,744,882)	(288,894,214)	(48,234,887)	(35,886,919)	(44,310,903)	Nil	(688,637,591)
<b>Net book amount</b>	<b>195,529,261</b>	<b>1,012,698,329</b>	<b>312,729,378</b>	<b>385,179,690</b>	<b>70,642,803</b>	<b>16,891,040</b>	<b>41,822,599</b>	<b>31,057,602</b>	<b>2,066,550,702</b>

- (a) Property, plant and equipment includes fully depreciated assets still in books, the cost of which at 31 December 2017 amounted to LKR 143,465,701 (2016 - LKR 124,577,063)
- (b) Depreciation expense of LKR 134,743,568 (2016 - LKR 127,254,480) has been charged in cost of goods sold, LKR 11,042,945 (2016 - LKR 8,230,522) as administrative expenses and LKR 15,612,819 (2016 - LKR 15,480,944) as selling and distribution expenses.

(all amounts in Sri Lanka Rupees)

#### 14 Trade and other receivables

	2017	2016
Trade receivables	1,082,435,808	1,087,731,783
Less: provision for impairment of trade receivables [refer (i) below]	(18,053,628)	(16,015,370)
Trade receivables - net	1,064,382,180	1,071,716,413
Prepayments	17,077,401	15,472,722
Deposits	28,864,746	27,787,143
Staff loans [refer (e) below]	27,607,953	28,643,415
"Marketing support fee paid to service centre operators [refer (f) below]"	43,862,515	41,523,903
Other receivables [refer (d) below]	148,008,845	7,073,322
	1,329,803,640	1,192,216,918
Receivable from related parties [Note 26 (d) (i)]	13,873,421	21,580,123
<b>Total trade and other receivables</b>	<b>1,343,677,061</b>	<b>1,213,797,041</b>
Less: non-current portion		
Staff loans	20,967,967	21,475,530
Marketing support fee paid to service centre operators	27,461,467	25,652,345
Deposits	28,864,746	27,787,143
<b>Total non-current portion</b>	<b>77,294,180</b>	<b>74,915,018</b>
<b>Current portion</b>	<b>1,266,382,881</b>	<b>1,138,882,023</b>

(a) Trade receivables by credit quality:

	2017	2016
Neither past due nor impaired	952,526,750	1,000,003,119
Past due but not impaired	111,855,430	71,713,294
Impaired	18,053,628	16,015,370
	1,082,435,808	1,087,731,783

(b) The past due but not impaired balance relates to a number of independent customers for whom there is no recent history of default or in circumstances where sufficient collateral is available. The age analysis of past due but not impaired balance is as follows:

	2017			
	Up to 3 months	3 to 6 months	Over 6 months	Total
Past due but not impaired	103,617,417	7,665,083	572,930	111,855,430

	2016			
	Up to 3 months	3 to 6 months	Over 6 months	Total
Past due but not impaired	66,141,361	5,571,933	Nil	71,713,294

# NOTES TO THE FINANCIAL STATEMENTS

The impaired receivables have been fully provided for.

(c) The carrying amounts of trade and other receivables are denominated in following currencies:

	2017	2016
US Dollars	<b>191,377,107</b>	172,640,974
Sri Lankan Rupees	<b>1,152,299,954</b>	1,041,156,067
	<b>1,343,677,061</b>	1,213,797,041

- (d) Other receivables mainly consist of VAT receivable of LKR 136,405,138 (2016 - LKR Nil).
- (e) Staff loans due at the financial position date represent loans given to staff on fixed repayment terms and are unsecured. These loans are largely given at a concessionary rate of 4.2% per annum (2016 - 4.2%).
- (f) Marketing support fee is an advance payment made to the service station operators under which a bulk payment is made at the beginning of the contract period to meet the marketing expenses over the contract period. Service station operator should guarantee a minimum volume over the contract period to meet his obligations under the contract. If the terms are not met, service station operator is required to refund to the Company a proportionate amount of the bulk payment. The marketing support payment is amortised over the contract period and amortisation charge is recognised in the statement of comprehensive income.
- (g) The effective market interest rates on non-current receivables (staff loans) as at 31 December 2017 were 15% per annum (2016 - 15%). The effect of discounting is not considered to be material.
- (h) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. However, the Company does hold collateral security for a proportion of its trade receivables.
- (i) Movement of the provision for impairment of trade receivables is as follows:

	2017	2016
At 1 January	<b>16,015,370</b>	16,784,537
Trade receivables written off against provision	<b>(6,954)</b>	Nil
Provision / (reversal of provision) for impairment (Note 6)	<b>2,045,212</b>	(769,167)
At 31 December	<b>18,053,628</b>	16,015,370

## 15 Financial instruments by category

	Loans and receivables	Total
a) <b>31 December 2017</b>		
<b>Financial assets - measured at amortised cost</b>		
Trade and other receivables (excluding prepayments, statutory receivables and marketing support fee paid to service centre operators)	<b>1,146,332,007</b>	1,146,332,007
Cash and cash equivalents (Note 18)	<b>139,732,757</b>	139,732,757
	<b>1,286,064,764</b>	1,286,064,764

## 15 Financial instruments by category (Contd.)

	Other financial liabilities	Total
<b>b) 31 December 2017</b>		
<b>Financial liabilities - measured at amortised cost</b>		
Trade and other payables (excluding statutory liabilities)	<b>658,649,004</b>	658,649,004
Bank overdrafts (Note 22)	<b>115,033,506</b>	115,033,506
	<b>773,682,510</b>	773,682,510

	Loans and receivables	Total
<b>c) 31 December 2016</b>		
<b>Financial assets - measured at amortised cost</b>		
Trade and other receivables (excluding prepayments and marketing support fee paid to service centre operators)	<b>1,156,800,416</b>	1,156,800,416
Cash and cash equivalents (Note 18)	<b>1,910,266,703</b>	1,910,266,703
	<b>3,067,067,119</b>	3,067,067,119

	Other financial liabilities	Total
<b>d) 31 December 2016</b>		
<b>Financial liabilities - measured at amortised cost</b>		
Trade and other payables (excluding statutory liabilities)	<b>1,988,670,783</b>	1,988,670,783

e) Credit quality of financial assets that are not impaired can be assessed by reference to historical information.

	2017	2016
<b>Trade receivables</b>		
Distributors	<b>658,424,148</b>	704,799,636
Commercial / industrial and others	<b>282,626,324</b>	275,849,790
Export customers / overseas	<b>123,331,708</b>	91,066,987
	<b>1,064,382,180</b>	1,071,716,413

	2017	2016
<b>Cash and cash equivalents</b>		
Cash at Banks with AAA to A ratings	<b>139,576,106</b>	399,313,197
Government securities	<b>Nil</b>	1,510,800,000
Cash in hand	<b>156,651</b>	153,506
	<b>139,732,757</b>	1,910,266,703

# NOTES TO THE FINANCIAL STATEMENTS

## 16 Deferred tax liabilities

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 28% (2016 - 28%).

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

	2017	2016
At beginning of year	246,303,605	173,641,215
Charged to income statement (Note 10)	6,775,135	67,535,258
(Credited) / charged to other comprehensive income (Note 10)	(7,361,213)	5,127,132
<b>At end of year</b>	<b>245,717,527</b>	<b>246,303,605</b>

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2017	2016
<b>Deferred tax assets</b>		
- Deferred tax assets to be recovered after more than 12 months	(40,600,332)	(28,982,273)
- Deferred tax assets to be recovered within 12 months	(4,823,404)	(4,480,862)
	(45,423,736)	(33,463,135)
<b>Deferred tax liabilities</b>		
- Deferred tax liability to be recovered after more than 12 months	291,141,263	279,766,740
<b>Deferred tax liabilities - net</b>	<b>245,717,527</b>	<b>246,303,605</b>

### Deferred tax liabilities

	Accelerated tax depreciation	Total
At 1 January 2016	208,797,233	208,797,233
Charged to income statement	70,969,507	70,969,507
<b>At 31 December 2016</b>	<b>279,766,740</b>	<b>279,766,740</b>
Charged to income statement	11,374,523	11,374,523
<b>At 31 December 2017</b>	<b>291,141,263</b>	<b>291,141,263</b>

### Deferred tax assets

	Defined benefit obligations	Total
At 1 January 2016	(35,156,018)	(35,156,018)
Credited to income statement	(3,434,249)	(3,434,249)
Charged to other comprehensive income (Note 10)	5,127,132	5,127,132
At 31 December 2016	(33,463,135)	(33,463,135)
Credited to income statement	(4,599,388)	(4,599,388)
Credited to other comprehensive income (Note 10)	(7,361,213)	(7,361,213)
<b>At 31 December 2017</b>	<b>(45,423,736)</b>	<b>(45,423,736)</b>

## 17 Inventories

	2017	2016
Raw materials and consumables	<b>1,576,665,119</b>	1,401,710,500
Finished goods	<b>469,294,503</b>	387,874,211
	<b>2,045,959,622</b>	1,789,584,711

- (a) Raw material and consumables and finished goods include goods in transit amounting to LKR 73,545,401 (2016 - LKR 534,721,086).
- (b) The cost of inventories consumed and included in cost of sales amounted to LKR 5,905,660,369 (2016 - LKR 6,022,614,375).

## 18 Cash and cash equivalents

	2017	2016
Cash at bank and in hand	<b>139,732,757</b>	399,466,703
Short term deposits	<b>Nil</b>	1,510,800,000
	<b>139,732,757</b>	1,910,266,703

Short term deposits in previous year mainly consisted of repos, treasury bills and time deposits with a tenure of 1 to 3 months.

The weighted average effective interest rate on short term deposits was 7.99% (2016 - 7.37%).

The cash and cash equivalents are denominated in following currencies:

	2017	2016
US Dollars	<b>32,058,358</b>	265,373,680
Sri Lankan Rupees	<b>107,674,399</b>	1,644,893,023
	<b>139,732,757</b>	1,910,266,703

For the purpose of cash flow statement, the year end cash and cash equivalents comprise of the following:

	2017	2016
Cash and bank balances and short term deposits	<b>139,732,757</b>	1,910,266,703
Bank overdrafts (Note 22)	<b>(115,033,506)</b>	Nil
	<b>24,699,251</b>	1,910,266,703

## 19 Stated capital

	Ordinary shares	
	Number of shares	Value of shares
At 31 December 2016	<b>240,000,000</b>	600,000,000
At 31 December 2017	<b>240,000,000</b>	600,000,000

All issued shares are fully paid and do not have a par value.

# NOTES TO THE FINANCIAL STATEMENTS

## 20 Retirement benefit obligations

	2017	2016
<i>Statement of financial position obligations for:</i>		
Gratuity benefits	<b>162,227,628</b>	119,511,188
<i>Income statement charge:</i>		
Gratuity benefits (Note 7)	<b>25,059,184</b>	20,223,972
<i>Other comprehensive income:</i>		
Remeasurement loss / (gain)	<b>26,290,047</b>	(18,311,187)

The movement in the defined benefit obligation over the year is as follows:

	2017	2016
At 1 January	<b>119,511,188</b>	125,557,205
Current service cost	<b>10,012,725</b>	7,216,245
Interest cost	<b>15,046,459</b>	13,007,727
Remeasurement loss / (gain)	<b>26,290,047</b>	(18,311,187)
Benefits paid	<b>(8,632,791)</b>	(7,958,802)
<b>At 31 December</b>	<b>162,227,628</b>	119,511,188

The amounts recognised in the statement of comprehensive income are as follows:

	2017	2016
Current service cost	<b>10,012,725</b>	7,216,245
Interest cost	<b>15,046,459</b>	13,007,727
<b>Total included in the employee benefit costs (Note 7)</b>	<b>25,059,184</b>	20,223,972

The provision is not externally funded, but actuarially valued and the valuation was carried out by Actuarial & Management Consultants (Private) Limited, an independent actuary, on 31 December 2017 using the Projected Unit Credit Method. The principal actuarial assumptions used were as follows:

	2017	2016
Discount rate	<b>10.20% compounded annually</b>	12.59% compounded annually
Estimated salary increment rate	<b>6% per year</b>	5% per year
Withdrawal rate	<b>8% per annum up to age 55 and 0% thereafter</b>	8% per annum up to age 55 and 0% thereafter

Assumptions regarding future mortality experience are set in accordance with A 67/70 Mortality Table.

## 20 Retirement benefit obligations (Contd.)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	Decrease by 4.42%	Increase by 4.83%
Future salary growth rate	1.00%	Increase by 5.17%	Decrease by 4.80%

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

### Maturity profile of the defined benefit obligations

The weighted average duration of the defined benefit obligation is 5.04 years. The distribution of the timing of benefit payments is as follows.

	2017	2016
Less than 1 year	17,226,443	16,003,078
Between 1 – 2 years	51,110,799	14,665,251
Between 2 – 5 years	47,388,864	64,974,423
Between 5 - 10 years	91,345,647	83,116,528
	207,071,753	178,759,280

## 21 Trade and other payables

	2017	2016
Trade payables	301,064,433	251,237,267
Accrued expenses [see Note (a) below]	143,083,938	265,042,670
Other payables [see Note (b) below]	45,390,304	551,911,087
	489,538,675	1,068,191,024
Payable to related companies - Trade [Note 26 (d)(ii)]	171,637,351	685,343,319
- Dividend [Note 26 (d)(iii)]	Nil	385,560,000
	171,637,351	1,070,903,319
	661,176,026	2,139,094,343

- (a) Accrued expenses include lubricant license fee of LKR 34,464,938 (2016 - LKR 4,000,000), advertising and sales promotion expenses of LKR 24,191,313 (2016 - LKR 22,626,926), employee related payables amounting to LKR 24,671,526 (2016 - LKR 23,729,950), CSR project expenses of LKR 12,352,111 (2016 - LKR 3,483,897) and import fees payable of LKR 8,110,699 (2016 - LKR 151,679,146).
- (b) Other payables mainly consist of unclaimed dividend by shareholders other than parent company of LKR 32,654,905 (2016 - LKR 23,471,603), interim dividend payable to shareholders other than parent company of LKR Nil (2016 - LKR 371,649,919) and WHT payable in relation to dividend of LKR Nil (2016 - LKR 82,790,082).

# NOTES TO THE FINANCIAL STATEMENTS

(c) The carrying amounts of trade and other payables are denominated in following currencies:

	2017	2016
US Dollars	292,085,697	760,686,719
Sri Lankan Rupees	369,090,329	1,378,407,624
	<b>661,176,026</b>	2,139,094,343

## 22 Borrowing

	2017	2016
Bank Overdraft	115,033,506	Nil

(a) The exposure of the Company's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	2017	2016
6 months or less	115,033,506	Nil

(b) Weighted average effective interest rates:

- Bank overdrafts - LKR	9.85%	Nil
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(c) Bank overdrafts are unsecured.

## 23 Contingent liabilities

There were no material contingent liabilities existing at the date of the statement of financial position.

## 24 Commitments

### Capital commitments

There were no material capital commitments at the date of the statement of financial position (as at 31 December 2016 - LKR Nil).

### Financial commitments

The Company has entered into Service Level Agreements (SLA) with Chevron USA Inc., Chevron International Pte Ltd and Chevron Holdings Inc. which govern the services offered by the Group companies and reimbursement of cost incurred by the Group.

### Operating lease commitments - where the Company is the lessee

#### (a) Cancellable

Details of cancellable operating leases are as follows:

Description	Lessor	Term
Lease of land on which blending plant and warehouse facility is located at Sapugaskanda	Lanka Industrial Estates Limited	30 Years
Lease of Tank Yard at Mutwal	Sri Lanka Ports Authority	30 Years

The undiscounted future minimum lease payments under cancellable operating leases are as follows:

	2017	2016
Not later than one year	<b>26,914,574</b>	25,451,829
Later than one year and not later than five years	<b>114,209,181</b>	108,046,254
Later than five years	<b>603,397,021</b>	614,742,666
	<b>744,520,776</b>	748,240,749

(b) Non-cancellable

Details of non-cancellable operating leases are as follows:

Description	Lessor	Term
Lease of building at which the Company's registered office is located in Colombo 03	Oceanica Group Private Limited	5 Years

The undiscounted future minimum lease payments under non-cancellable lease is as follows:

	2017	2016
<b>Non-cancellable</b>		
Not later than one year	<b>13,536,000</b>	13,536,000
Later than one year and not later than five years	<b>3,384,000</b>	16,920,000
	<b>16,920,000</b>	30,456,000

# NOTES TO THE FINANCIAL STATEMENTS

## 25 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2017	2016
Profit before tax	<b>3,495,785,086</b>	4,702,670,918
Adjustments for:		
Depreciation (Note 13)	<b>161,399,332</b>	150,965,946
Property, plant and equipment written off (Note 6)	<b>10,967</b>	3,229,982
Amortisation of marketing support fee paid (Note 6)	<b>18,662,057</b>	22,159,697
Profit on disposal of property, plant and equipment (Note 8)	<b>(3,460,611)</b>	(109,029)
Interest income (Note 9)	<b>(55,621,628)</b>	(145,130,045)
Interest expense (Note 9)	<b>5,153,034</b>	38,161
Provision / (reversal of provision) for impairment of trade receivables [Note 14(i)]	<b>2,045,212</b>	(769,167)
Defined benefit obligations (Note 20)	<b>25,059,184</b>	20,223,972
Changes in working capital		
- trade and other receivables	<b>(154,231,388)</b>	(38,215,655)
- inventories	<b>(256,374,911)</b>	(480,965,724)
- payables	<b>(638,005,965)</b>	671,915,775
<b>Cash generated from operations</b>	<b>2,600,420,369</b>	4,906,014,831

## 26 Directors' interest in contracts and related party transactions with the Company

None of the directors of the Company had any direct or indirect interests in any contracts with the Company other than those stated below:

Ms Rochna Kaul, Mr Kishu Gomes and Mr Anura Perera, directors of the Company, are also directors of Chevron Ceylon Limited, which is the immediate holding company. Ms. Rochna Kaul is also a director of Chevron Lubricants Vietnam Limited, whilst Mr. Teek Hong Kee is a Director of Chevron Singapore Pte Ltd.

The following transactions were carried out with the related parties.

### (i) Reimbursable expenses incurred by Chevron Lubricants Lanka PLC

	2017	2016
Chevron Ceylon Limited	<b>4,600</b>	Nil
Chevron International Pte Limited	<b>Nil</b>	1,987,080
	<b>4,600</b>	1,987,080

### (ii) Other related party transactions

The Company is controlled by Chevron Ceylon Limited which owns 51% of the Company's shares. The remaining 49% of the shares are widely held. The ultimate parent of the Company is Chevron Corporation Inc, incorporated in San Ramon - USA. All the related entities disclosed below with which the Company had transactions during the year are related through the ultimate parent company.

(a) Sale of goods and services (Note 5)

	2017	2016
<i>Sale of goods:</i>		
Chevron Thailand Limited	<b>4,092,474</b>	3,826,714
Chevron Marine Products LLC	<b>60,255,198</b>	98,942,124
Chevron Pakistan Lubricants Pvt Ltd	<b>2,713,160</b>	Nil
	<b>67,060,832</b>	102,768,838

Goods are sold based on the price list in force and terms that would be available to third parties.

(b) Purchase of goods and services

	2017	2016
<i>Purchase of goods:</i>		
Chevron Singapore (Private) Limited	<b>2,791,638,159</b>	2,974,218,426
Chevron Asia Pacific Holdings Ltd (Chevron Alkhalij)	<b>20,041,037</b>	28,509,725
Chevron Thailand Limited	<b>72,559,451</b>	66,436,003
Chevron Oronite (Private) Limited	<b>464,532,170</b>	450,244,510
Chevron (Tianjin) Lubricants Company Limited	<b>120,072</b>	30,357
Chevron Products Company	<b>5,033,215</b>	7,501,971
Chevron Brazil Lubricants Limited	<b>2,608,195</b>	4,387,200
Chevron Belgium N.V	<b>6,453,055</b>	4,201,785
Chevron Lubricants Vietnam Ltd	<b>4,481,786</b>	5,022,414
Chevron Pakistan Lubricants Pvt Ltd	<b>4,661,866</b>	Nil
Chevron Malaysia Limited	<b>1,292,893</b>	Nil
Chevron International Pte Limited	<b>181,911</b>	Nil
	<b>3,373,603,810</b>	3,540,552,391

	2017	2016
<i>Purchase of services:</i>		
Chevron International Pte Limited	<b>435,915,222</b>	411,348,651
Chevron Holdings Inc. (Philippines)	<b>7,562,382</b>	4,540,234
Chevron USA Inc. (Chevron Information Technology Company)	<b>69,337,077</b>	61,322,107
Chevron USA Inc. (Chevron Products Company)	<b>58,712,036</b>	51,185,313
Chevron Belgium N.V	<b>314,601</b>	156,531
Chevron Service Company	<b>92,457</b>	Nil
Chevron Corporation	<b>Nil</b>	249,298
	<b>571,933,775</b>	528,802,134

# NOTES TO THE FINANCIAL STATEMENTS

## 26 Directors' interest in contracts and related party transactions with the Company (Contd.)

The Company procures most of its raw materials (base oils and additives) from related parties on commercial terms and conditions.

The Company receives services from Chevron Group Companies (CGCs) for which payments are made by the Company. These services include Original Equipment Manufacturers (OEM) endorsement and identification and acquisition, product life cycle management, regional marketing, global supply chain planning and operations, operational excellence and enterprise resources planning, human resources management services, legal services, IT services and finance. The Company has entered into service level agreements with relevant Chevron affiliates, setting out the methodology, terms and conditions for the service charges among Group Companies.

Purchase of goods and services during the year from related parties amounts to 98% (2016 - 105%) of net assets and 71% (2016 - 58%) of total assets at the end of the financial year.

### (c) Key management compensation

Key management consists the members of the Board. The compensation paid or payable to key management personnel is shown below:

	2017	2016
Salaries and other short-term employee benefits	<b>54,064,941</b>	49,420,480
	<b>54,064,941</b>	49,420,480

### (d) Outstanding balances arising from sale / purchase of goods / services

	2017	2016
(i) Receivable from related parties:		
Chevron Products Company	<b>1,235,645</b>	420,445
Chevron Marine Products LLC	<b>12,637,776</b>	21,159,678
	<b>13,873,421</b>	21,580,123

	2017	2016
(ii) Payable to related parties:		
Chevron Brasil Lubricants LTD	<b>Nil</b>	8,007
Chevron International Pte Limited	<b>66,535,333</b>	113,921,544
Chevron Holdings Inc. (Philippines)	<b>318,805</b>	518,202
Chevron Singapore (Private) Limited	<b>48,555,802</b>	537,017,898
Chevron Oronite (Private) Limited	<b>28,291,693</b>	11,151,754
Chevron USA Inc. (Chevron Information Technology Company)	<b>11,092,147</b>	15,633,605
Chevron Thailand Limited	<b>2,082,552</b>	2,157,211
Chevron USA Inc. (Chevron Products Company)	<b>6,818,105</b>	4,873,748
Chevron Belgium N.V	<b>2,028,155</b>	61,350
Chevron Malaysia Limited	<b>1,252,893</b>	Nil
Chevron Pakistan Lubricants Pvt Ltd	<b>4,661,866</b>	Nil
	<b>171,637,351</b>	685,343,319

	2017	2016
(iii) Dividend payable to related party:		
Chevron Ceylon Limited	<b>Nil</b>	385,560,000

## **27 Events after the end of reporting period**

No events have occurred since the statement of financial position date which would require adjustments to, or disclosure in, the financial statements apart from the following disclosure.

The fourth interim dividend of LKR 2.25 per share amounting to LKR 540,000,000 was declared on 08 February 2018 and paid on 02 March 2018.

# 10-YEAR FINANCIAL SUMMARY

(in Rupees 000')

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Trading Results</b>										
Turnover	11,052,496	12,089,111	11,563,854	11,519,891	11,197,152	11,754,046	11,039,945	9,471,256	8,690,554	8,900,298
Profit Before Tax & OCI	3,495,785	4,702,671	4,318,544	3,699,633	3,453,598	3,111,457	2,767,780	2,333,950	2,344,370	1,482,962
Taxation	930,565	1,222,261	1,226,709	952,800	921,697	845,630	767,164	832,676	849,465	535,240
Profit After Tax	2,565,220	3,480,410	3,091,835	2,746,833	2,531,900	2,265,827	2,000,616	1,501,274	1,494,905	947,722
<b>Balance Sheet</b>										
Share Capital	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000
Reserves	3,406,914	3,260,623	4,087,029	4,599,210	4,240,021	3,525,818	2,558,145	1,637,529	1,606,255	1,551,350
Shareholders funds	4,006,914	3,860,623	4,687,029	5,199,210	4,840,021	4,125,818	3,158,145	2,237,529	2,206,255	2,151,350
Property, Plant & Equipment	2,066,551	2,132,858	2,195,826	2,243,616	1,296,651	215,813	193,113	220,338	260,080	325,608
Current & Non Current Assets excluding PPE	3,529,369	4,913,648	4,849,178	4,233,183	5,755,821	5,731,694	4,160,806	3,154,727	3,771,466	2,846,258
Current Liabilities	1,181,061	2,820,069	2,058,777	1,056,091	2,090,392	1,734,361	1,094,004	1,028,591	1,706,313	927,828
Non Current Liabilities	407,945	365,814	299,198	221,497	122,060	87,328	101,769	108,945	118,978	92,688
Net Assets	4,006,914	3,860,623	4,687,029	5,199,211	4,840,021	4,125,818	3,158,145	2,237,529	2,206,255	2,151,350
<b>Key Indicators</b>										
Gross Dividends	Rs. 000'	4,320,000	2,760,000	2,400,000	1,800,000	1,320,000	1,080,000	1,470,000	1,440,000	630,000
Dividend per Share	Rupees	10.00	18.00	11.50	10.00	7.50	4.50	6.13	6.00	2.63
Price Earnings Ratio	Times	11.13	10.83	13.35	17.46	12.69	10.20	12.75	11.38	11.65
Market value per share as at 31st December	Rupees	119.00	157.10	344.00	399.60	267.80	170.00	159.50	141.75	92.00
Return on Equity	%	65	81	63	55	56	74	68	69	48
Net Assets per share	Rupees	16.70	16.09	19.53	21.66	20.17	13.16	9.32	9.19	8.96
Net Income to Turnover	%	23	29	27	24	23	18	16	17	11
Earnings per Share	Rupees	10.69	14.50	12.88	11.45	10.55	8.34	6.26	6.23	3.95

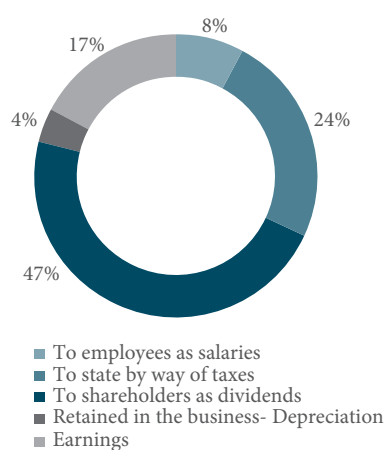
Note : The Company effected an increase of the Company's shares by way of a subdivision of each ordinary share into two ordinary shares thus increasing the number of shares from 120,000,000 ordinary shares to 240,000,000 effective 7th June 2016. Therefore Basic EPS / DPS / Net Asset per share for prior years have been restated for comparative purpose. However PE ratio has been retained unadjusted to reflect historical records.

# STATEMENT OF VALUE ADDED

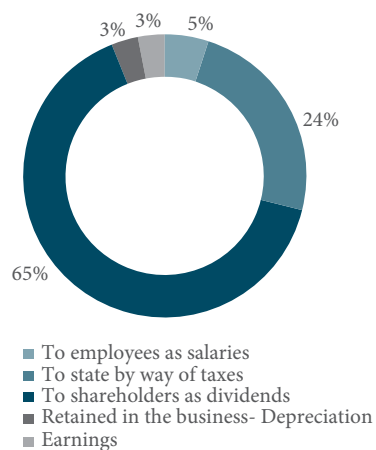
(all amounts in Sri Lanka Rupees)

	2017	2016
<b>Value addition</b>		
Turnover	11,052	12,089
Finance income	95	187
Less: Materials and services purchased	7,210	7,128
value created	3,937	5,148
<b>Distribution of Value addition</b>		
To employees as salaries	307	276
To state by way of taxes	923	1,227
To shareholders as dividends	1,860	3,354
Retained in the business - Depreciation	161	151
- Earnings	686	140
	3,937	5,148

Statement of Value added -2017



Statement of Value added -2016



# SHAREHOLDER INFORMATION

Shareholders categorised summary report as at 31st December 2017

No of shares held	No of shareholders	No of shareholders %	Total Holdings	Total Holdings %
1 - 1000	3,092	55.69	1,010,589	0.42
1001 - 10,000	1,736	31.27	6,666,122	2.78
10,001 - 100,000	597	10.75	18,582,835	7.74
100,001 - 1,000,000	99	1.78	31,488,686	13.12
1,000,001 & over	28	0.50	182,251,768	75.94
Total	5,552	100.00	240,000,000	100.00

Analysis report of shareholders as at 31st December 2017

	No of shareholders	No of shareholders %	Total Holdings	Total Holdings %
Individual	5,206	93.77	37,634,713	15.68
Institutional	346	6.23	202,365,287	84.32
Total	5,552	100.00	240,000,000	100.00
Resident	5,402	97.30	188,993,548	78.75
Non- Resident	150	2.70	51,006,452	21.25
Total	5,552	100.00	240,000,000	100.00
Public Holding	5,550		117,599,600	49.00%

Share price movements	Closing	Highest	Lowest
Market value of share in 1996	50.00	50.00	40.00
Market value of share in 1997	46.00	64.50	35.00
Market value of share in 1998	62.75	70.00	57.00
Market value of share in 1999	75.00	75.00	55.25
Market value of share in 2000	50.00	68.00	45.00
Market value of share in 2001	75.00	88.00	54.50
Market value of share in 2002	120.50	124.00	72.00
Market value of share in 2003	71.50	227.00	69.00
Market value of share in 2004	63.75	110.00	54.50
Market value of share in 2005	58.00	74.00	52.25
Market value of share in 2006	85.00	90.50	56.00
Market value of share in 2007	85.25	97.50	76.00
Market value of share in 2008	92.00	118.25	81.75
Market value of share in 2009	141.75	233.00	93.00
Market value of share in 2010	159.50	193.75	141.00
Market value of share in 2011	170.00	183.50	152.00
Market value of share in 2012	202.00	205.20	160.00
Market value of share in 2013	267.80	375.00	202.00
Market value of share in 2014	399.60	400.00	263.00
Market value of share in 2015	344.00	460.00	342.10
Market value of share in 2016	157.10	350.00	149.00
Market value of share in 2017	119.00	179.90	109.00

## 20 Largest Shareholders

as at 31st December 2017

Name of Shareholders	2017		2016	
	Number of Shares	%	Number of Shares	%
Chevron Ceylon Limited	<b>122,400,000</b>	51.00	122,400,000	51.00%
Renuka Hotels Limited	<b>5,201,918</b>	2.17	2,800,000	1.17%
BNYM SA/NV- Blackrock Frontiers Investment Trust PLC	<b>4,443,434</b>	1.85	4,443,434	1.85%
BNYM SA/NV-NEON LIBERTY EMERGING MARKETS FUND LP	<b>4,177,352</b>	1.74	4,177,352	1.74%
RBC Investor Services Bank- COELI SICAV I- FRONTIER MARKETS FUND	<b>4,175,502</b>	1.74	3,759,702	1.57%
Northern Trust Global Services London S/A VERDIPAPIRONDET ODIN EMERGING MARKETS	<b>3,444,194</b>	1.44	3,144,194	1.31%
Cargo Boat Development Company Limited	<b>3,400,000</b>	1.42	2,800,000	1.17%
Sri Lanka Insurance Corporation LTD- LIFE FUND	<b>2,900,000</b>	1.21	2,000,000	0.83%
BNYM SA/NV- FRONTAURA GLOBAL FRONTIER FUND LLC	<b>2,769,163</b>	1.15	2,769,163	1.15%
HSBC INTL NOM LTD-SSBT-ABERDEEN INSTITUTIONAL COMMINGLED FUNDS LLC	<b>2,523,723</b>	1.05	2,986,444	1.24%
BNYM SA/NV- Frontier Market Opportunities Master FD, L.P	<b>2,076,963</b>	0.87	1,876,963	0.78%
Crescent Launderers & Dry Cleaners (Pvt) Ltd	<b>2,000,000</b>	0.83	2,000,000	0.83%
HSBC INTL NOM LTD-SSBT PARAMETRIC EMERGING MARKETS FUND	<b>1,821,700</b>	0.76	2,003,628	0.83%
HSBC INTL NOMINEES LTD-SSBT-FRANK RUSSEL TRUST COMPANY COMINGLED BENEFIT FUNDS TRUST GNA-6QH3	<b>1,809,078</b>	0.75	1,809,078	0.75%
Citigroup Global Markets Limited Agency Trading Prop Securities A/C	<b>1,754,570</b>	0.73	4,653,040	1.94%
Bank of Ceylon -No 2 A/C	<b>1,729,977</b>	0.72	-	
Mellon Bank NA Florida Retirement System	<b>1,646,876</b>	0.69	-	
HSBC INTL NOM LTD-SSBT-RUSSELL INVESTMENTS INSTITUTIONAL FUNDS PUBLIC LIMITED COMPANY	<b>1,635,690</b>	0.68		
Deutsche Bank AG- National Equity fund	<b>1,500,000</b>	0.63	-	
HSBC INTL NOM LTD-JPMCB- INVESTERINGSFORENINGEN BANKINVEST, NEW EMERGING MARKETS AKTIER KL	<b>1,400,870</b>	0.58	1,703,354	0.71%
	<b>172,811,010</b>	72.01	165,326,352	68.89%

# NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Twenty Fifth Annual General Meeting of Chevron Lubricants Lanka PLC will be held on Thursday, 26th April 2018 at 3.30p.m. at Level 6 Public Forum, The Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha, Colombo 07 for the following purposes.

- To receive and consider the Report of the Directors with the statement of accounts for the year ended 31.12.2017 and the Report of the Auditors thereon.
- To re- elect as Director, Ms. Rochna Kaul who retires in terms of Article 91 of the Articles of Association of the Company.
- To re- elect as Director, Mr. Teek Hong Kee who retires in terms of Article 91 of the Articles of Association of the Company.
- To re-elect as Director, Mr. Harsha Amarasekera who retires by rotation in terms of Clause 84 of the Articles of Association of the Company.
- To re-elect as Director, Mr. Devasiri Rodrigo who has attained the age of 72 years and retires in terms of Article 83(viii) of the Articles of Association of the Company, for which the following notice has been given by a member:  
“That the age limit stipulated in Section 210 of the Companies Act No.7 of 2007 shall not apply to Mr. Devasiri Rodrigo who has attained the age of 70 years and that he be re-elected a Director of the Company”.
- To reappoint Messrs. Pricewaterhouse Coopers as Auditors and to authorise the Directors to determine their remuneration.
- To authorize the Directors to determine & make donations.
- To consider any other business of which due notice has been given.

By Order of the Board



**A.M. Anura Perera**  
Secretary  
Colombo

2 April 2018

Note:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him.
2. A proxy need not be a member of the Company. The form of proxy is attached herewith.
3. The Completed form of proxy should be deposited at the Registered Office of the Company at Chevron House 490, Galle Road, Colombo 3 not less than 48 hours before the time appointed for the holding of the meeting.

# FORM OF PROXY

I/We the undersigned (please print) .....

of.....

..... being member/s of Chevron Lubricants Lanka PLC do hereby appoint

Rochna Misra Kaul	whom failing
Honnantharage Kishu Pradeep Kumara Gomes	whom failing
Teek Hong Kee	whom failing
Parakrama Devasiri Rodrigo	whom failing
Shiran Harsha Amarasekera	whom failing
Adikarige Mervin Anura Perera	whom failing

Of .....

as my / our proxy to represent me / us and to vote as indicated hereunder for me / us and on my / our behalf at the Twenty Fifth Annual General Meeting of Chevron Lubricants Lanka PLC will be held on Thursday, 26th April 2018 at 3.30p.m. at Level 6 Public Forum, The Institute of Chartered Accountants of Sri Lanka, 30A, Malalasekera Mawatha, Colombo 07 and at any adjournment thereof and at every poll which may be taken in consequence thereof:

	FOR	AGAINST
1. To receive and consider the Report of the Directors with the statement of accounts for the year ended 31.12.2017 and the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re- elect as Director, Ms. Rochna Kaul who retires in terms of Article 91 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re- elect as Director, Mr. Teek Hong Kee who retires in terms of Article 91 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect as Director, Mr. Harsha Amarasekera who retires by rotation in terms of Clause 84 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect as Director, Mr. Devasiri Rodrigo who is over the age of 72 years and retires in terms of Article 83(viii) of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
6. To reappoint Messrs. PricewaterhouseCoopers as Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorize the Directors to determine & make donations.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this .....day of.....2018

Signature .....

## NOTES:

- Please indicate with an "X" in the space provided how your proxy is to vote on each resolution. If there is in the view of the proxy holder doubt (by reason of the way in which the instructions in the proxy have been completed) as to the way in which the proxy holder should vote, the proxy holder will vote as he thinks fit.
- A proxy need not be a member of the Company.
- Instructions as to completion are noted on the reverse hereof.

# FORM OF PROXY

## INSTRUCTIONS AS TO COMPLETION

1. Please perfect the Form of Proxy overleaf, after filling in legibly your full name and address and by signing in the space provided and filling in the date of signature.
2. If the shareholder is a Company or Corporate body, the proxy should be executed under its Common Seal in accordance with its Articles of Association or Constitution.
3. If the Form of Proxy has been signed by an attorney, the relative Power of Attorney should also accompany the Form of Proxy for registration, if such Power of Attorney has not already been registered with the company.
4. The Completed Form of Proxy should be deposited at the Registered Office of the Company, located at Chevron House, 490, Galle Road, Colombo 3, 48 hours prior to the time appointed for the holding of the meeting.

# CORPORATE INFORMATION

Legal Form	:	A Public Limited Liability Company (Incorporated in 1992 and listed on the Colombo Stock Exchange)
Directors	:	Rochna Kaul - Chairperson Kishu Gomes - Managing Director & CEO Teek Hong Kee Devasiri Rodrigo Harsha Amarasekera Anura Perera
Secretary	:	Anura Perera Chevron House, 490, Galle Road, Colombo 3
Registered Office	:	Chevron House 490, Galle Road, Colombo 3 Tel: 0114 524524
Company Registration Number	:	PQ 54
Registrars to the Company	:	S S P Corporate Services (Private) Limited 101, Inner Flower Road, Colombo 3
Auditors	:	PricewaterhouseCoopers Chartered Accountants P.O. Box 918 100, Braybrooke Place, Colombo 2
Lawyers to the Company	:	Julius & Creasy Attorneys-at-Law and Notaries Public No 41, Janadhipathi Mawatha, Colombo 1
Bankers	:	Citibank NA Deutsche Bank AG Commercial Bank of Ceylon PLC
Web Address	:	<a href="http://www.chevron.lk">www.chevron.lk</a>
Email	:	<a href="mailto:contactus@chevron.com">contactus@chevron.com</a>
Telephone	:	0114 524 524
Facsimile	:	0114 524 566



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