



Lanka IOC

Annual Report 2008-2009



Lanka IOC

Lanka IOC PLC

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Website: www.lankaioec.net

Fuelling the rhythm...





Lanka IOC

Adding a new rhythm



Fuelling the rhythm

Many kinds of Sri Lankan Drums were used on special occasions during the life span of our ancestors to create the fascinating beats that reverberate our history. The sound of the drums often reflected the sound of thunder, which triggers off the rains that would bring good health and prosperity. These sounds gave escalation to dance forms and even became a way of life.

Lanka IOC has kept in tune with the rhythm of Sri Lankans and become a part of their lives. As we move from this year to the next, let us discover the beats that continue to fuel Sri Lanka's pride.



Lanka IOC



Dancers accompany the Chairman, LIOC, Mr. S. V. Narasimhan for the opening of Sri Lanka's first ServoXpress Service Station at M/s. Mineral Springs Pvt. Ltd. Dr. Danister De Silva Mawatha, Colombo 9.



The newly introduced ServoXpress Service Station at M/s. Mineral Springs Pvt. Ltd. that will provide customers a refreshing experience in autocare.



Mr. S. V. Narasimhan, Chairman, LIOC, officially inaugurated the first Nitrogen Inflator at Horton Place Filling Shed.



Lanka IOC

Our Vision

A major, integrated energy company, with a strong environment conscience, playing a national role in oil security.

Our Mission

To achieve international standards of excellence in all aspects of petroleum with focus on customer delight through value of products and services and cost reduction.

To maximize creation of wealth, value and satisfaction for the stakeholders.

To attain leadership in developing, adopting and assimilating state-of-the-art technology for competitive advantage.

To provide technology and services through sustained Research and Development.

To foster a culture of participation and innovation for employee growth and contribution.

To cultivate high standards of business ethics and Total Quality Management for a strong corporate identity and brand equity.

To help enrich the quality of life of the community and preserve ecological balance and heritage through a strong environment conscience.



Lanka IOC

Contents

	Page No.
Financial Highlights	1
Corporate Information	2
Board of Directors	3
Chairman's Message	6
Managing Director's Message	8
Senior Management	10
Corporate Governance	11
Report on the Affairs of the Company	12
Statement of Directors' Responsibility	14
CEO's and CFO's Responsibility Statement	15
Compliance of Corporate Governance Rules	16
Remuneration Committee Report	18
Audit Committee Report	18
Auditor's Report	20
Auditor's Confirmation w.r.t. appointment	21
Financial Statements	22
Shareholder's Information	37
Notice of Meeting	39
Form of Proxy	41
Photographs of events	43

Financial Highlights

(All amounts in LKR Million)

Performance Parameters	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Sales	1,306	14,533	27,586	37,493	32,796,	44,173	47,617
Net Profit/(Loss) Before Tax	78	588	2,331	(1,718)	(636)	2,516	(1,104)
As a % of Sales	6%	4%	8%	(5%)	(2%)	6%	(2%)
Net Profit / (Loss) After Taxation	78	578	2,329	(1,722)	(686)	2,340	(1,238)
Return on Capital Employed	13%	11%	18%	(21%)	(8%)	23%	(14%)
Shareholders' Funds	578	4,656	10,563	8,340	7,655	9,995	8,757
Key Ratios							
Earning Per Share	1.55	4.20	5.24	(3.23)	(1.29)	4.40	(2.32)
Net Assets Per Share	11.56	15.90	19.20	15.66	14.38	18.77	16.45
Current Ratio	1.18	0.49	1.38	1.06	0.63	0.80	1.04
Quick Assets Ratio	0.58	0.11	0.84	0.78	0.14	0.19	0.13
Price Movement LKR							
Market Value Per Share (Highest)	N/A	N/A	54.50	56.00	37.25	31.25	28.00
Market Value Per Share (Lowest)	N/A	N/A	38.00	25.00	23.00	19.00	14.00
Last Traded Price Record	N/A	N/A	47.75	29.25	30.00	22.00	16.00
Performance Parameters							
Turnover	1,306	14,533	27,586	37,493	32,796	44,173	47,617
Gross Profit	89	1,055	2,503	2,282	909	3,652	(449)
Net Profit/(Loss)	78	578	2,329	(1,722)	(686)	2,340	(1,238)
Earning Per Share (EPS)	1.55	4.20	5.24	(3.23)	(1.29)	4.40	(2.32)
Price Earning Ratio (P/E)	N/A	N/A	10.06	(9.05)	(23.29)	5.57	0
Other Information							
No. of Employees	202	214	201	202	170	170	171



Corporate Information

Company Name	:	Lanka IOC PLC
Company Number	:	PQ 179
Legal Form	:	A Public Quoted Company with Limited Liability, incorporated in Sri Lanka on 29 th August 2002 under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No.07 of 2007.
Stock Exchange Listing	:	The Ordinary Shares of the Company are listed on the Colombo Stock Exchange.
Registered Office	:	# 216, de Saram Place, Colombo – 10, Sri Lanka
Business Office	:	Level 20, West Tower, World Trade Center, Echelon Square, Colombo – 01, Sri Lanka. Telephone : + 94 - 11- 2475720 Facsimile : + 94 - 11- 2391490
Website	:	www.lankaiooc.net
Associates	:	Ceylon Petroleum Storage Terminals Limited
Board of Directors	:	Mr S V Narasimhan (Chairman) Mr K R Suresh Kumar (Managing Director) Mr R Narayanan Mr H S Bedi Prof. Lakshman R Watawala Mr Jaliya Medagama
Company Secretary	:	(Ms) Rajanie Balakrishnan, ACIS
Registrars	:	S S P Corporate Services (Private) Limited 101, Inner Flower Road, Colombo – 03
Auditors	:	PricewaterhouseCoopers P O Box 918, 100, Braybrooke Place, Colombo – 02
Lawyers	:	F J & G de Saram , Attorneys- at- Law # 216, de Saram place, Colombo – 10
Bankers	:	Citibank N.A. Deutsche Bank State Bank of India ICICI Bank Bank of Ceylon Commercial Bank of Ceylon People's Bank



Board of Directors

Mr S V Narasimhan – Chairman

Mr S V Narasimhan joined IOC on 21st February 1975. A Chartered Accountant by profession and also an MBA from Faculty of Management Studies, Delhi, he has rich experience in Indian Oil Sector over three decades. Before joining as Director (Finance) in IOC on 1st July 2005, he was Managing Director in Chennai Petroleum Corporation Ltd. (a group company of IOC) since November 2002. Mr. Narasimhan has assisted the Oil Cost Review Committee set up by the Government of India (GOI) in 1983 whose report was the basis for pricing of petroleum products till the time the deregulation started in phases effective 1.4.1998. He was also a Member of the Sub-Committee of Working Group set up by the Ministry of Petroleum and Natural Gas, GOI for the comprehensive long term perspective plan for the Hydrocarbon Sector which was the basis for "R" Group Report and subsequent deregulation road map drawn up by the GOI.

Mr K R Suresh Kumar – Managing Director

Mr. K. R. Suresh Kumar is a Chemical Engineer from Madras University and has done six months Management Education Programme at Indian Institute of Management at Ahmedabad. He has a wide exposure in various disciplines in petroleum marketing and has been with Indian Oil Corporation Limited in India for more than 30 years. He has presented papers in national and international seminars in India on lubrication and allied technologies and has also visited UK, Germany, Spain, Malaysia etc., for studying the markets. His last assignment in India was the General Manager (Retail Sales) at Indian Oil Corporation Limited, Mumbai.

He has taken over as the Managing Director, Lanka IOC PLC with effect from 6th December, 2008.

Mr R Narayanan – Director

Mr R Narayanan has 33 years of rich and varied experience in the Indian Oil Industry and currently he is functioning as Executive Director (Corporate Affairs) in IOC. He has served in IOC's Gujarat, Barauni & Mathura Refineries, Corporate Office at Delhi and the Registered Office at Mumbai, in addition to serving the Oil Coordination Committee (Ministry of Petroleum & Natural Gas, India) and the Indian Oil Institute of Petroleum Management. He is a member of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India. In his earlier capacity as the Company Secretary of IOC for 12 years, he played a key role in setting up several Joint Venture Companies and Subsidiaries, besides acquiring IBP Co. Limited in the fold of IOC.

Mr H S Bedi - Director

Mr H S Bedi, an MBA, is presently posted as an Executive Director (Retail Sales), Indian Oil Corporation Limited. He has around 30 years of diverse experience with the Indian Oil Corporation Limited, a USD 49 billion conglomerate which is the largest commercial undertaking in India and is ranked at 116, in the Fortune "Global 500" 2008 list.

Mr Bedi has acquired rich and varied experience across functions of downstream Petroleum Industry including

Corporate Planning, Aviation, Logistics, Human Resources and Marketing.

As head of Indian Oil's Retail Sales function, Mr Bedi holds responsibility for a vast network of more than 18000 Fuel Stations and 66 Offices spread across all parts of the country, contributing to approximately 50% of Company's sales volume.

He has been associated in conceptualizing and roll out of various strategic initiatives undertaken by the Corporation from time to time including introduction of e-Performance Management System, Revisiting of Promotion policy for officers etc.

Prof. Lakshman R Watawala – Director

Prof. Lakshman R Watawala is a fellow of the Institute of Chartered Accountants of Sri Lanka, a fellow of the Chartered Institute of Management Accountants of U.K and fellow of the Society of Certified Management Accountants of Sri Lanka. He has held the position of Chairman and Managing Director of Board of Investment of Sri Lanka twice. He also served as the Chairman of People's Bank, Peoples Merchant Bank and other State Corporations. He has served as an Advisor in the Ministry of Finance. He is a Past President of the Institute of Chartered Accountants of Sri Lanka, South Asian Federation of Accountants and Founder President of AAT Sri Lanka. Currently, he is a Committee Member of Ceylon Chamber of Commerce, President of the Society of Certified Management Accountants of Sri Lanka and serves on the Boards of a number of Quoted Public Companies.

Mr Jaliya Medagama – Director

Mr Jaliya Medagama holds a Bachelors Degree from the University of Ceylon, Peradeniya and obtained his post graduate qualifications at the Institute of Social Studies, Den Haag, Netherlands.

Mr Medagama has served as the Commissioner of the Department of Agrarian Services and later he was appointed as the Secretary to the Ministry of Irrigation, Power and Energy, Government of Sri Lanka. He also served as the Sri Lanka representative in the Board of Governors of the International Irrigation Management Institute and represented many forums held in Tokyo, Japan, Netherlands, and Nepal.

He served as the Chairman and Managing Director of the Ceylon Petroleum Corporation from April 2004 to September 2006. In addition to his work in the Petroleum Corporation, Mr Medagama served as the Chairman of the Ceylon Petroleum Storage Terminals Limited Company.

With his vast experience in the Petroleum Sector, he was appointed as its first Secretary to the newly established Ministry of Petroleum Resources Development. He also served as the Chairman and member of the Petroleum Resources Development Council which handled oil exploration and upstream activities.

After a successful career of forty years in the Public Service, Mr. Medagama retired in September 2006 and was invited to serve as an Independent Director of the Board of Directors of Lanka IOC PLC from September 2008.



Board of Directors



H S Bedi



Jaliya Medagama



K R Suresh Kumar





SV Narasimhan



R Narayanan



Prof. Lakshman R Watawala



Chairman's Message



Dear Shareowner,

On behalf of the Board of Directors, I am privileged to present to you the 7th Annual Report of Lanka IOC PLC together with the audited accounts and highlights of the activities carried out during the financial year ended 31st March, 09.

Performance

The turnover of the company stood at Rs. 47.617 Billion, the highest recorded by the company in the recent years. Your company has recorded a net loss of Rs. 1.238 Billion during the financial year. The company's performance was seriously affected by the volatile oil market during the year. The price of crude reached the highest ever recorded and also witnessed the sharpest fall. These extreme positions created uncertainty in respect of import and inventory management. It had its consequential effects on the domestic selling price. Your company managed to successfully handle the crisis and showed a positive margin in the operations. I had mentioned in my address to you last year that your company carried out hedging in crude to provide stability in the prices. However, due to unprecedented fall in the crude prices, your company suffered outgo which added to the selling cost. The market is still to recover from the low oil prices. However, your company is hopeful of posting improved performance in the current year due to expected recovery in the domestic prices, improved operational efficiency and higher income from other activities.



also been ruling high. Prices of petrol and diesel which were around USD 40.0 per barrel earlier have showed a steady increase to reach a level of USD 68.0 per barrel as at end May'09. However domestic selling prices do not reflect the impact of these factors. The Rupee has been weakening and has depreciated by more than 6 to 7% making imports costlier. Due to liquidity crisis domestic lending rates have been ruling high adding to the crisis. The impact of these factors on the state of the economy has been significant. Your company's performance was also affected.

The Government of Sri Lanka also altered the duty structure on petrol during the year. The impact on account of higher Customs Import Duty and revision of VAT to 12% has affected the margins. The total impact of duties on petrol consequent to the revision is nearly 65%. There is an urgent need to review the duty structure and impose a rationalized duty structure with fixed and variable components to accommodate rise and fall in the import prices. Stability in prices would be possible if the government takes a long term view of the price structure and address the issue keeping the interest of all the stakeholders. The support of the Government of Sri Lanka in the endeavor of Lanka IOC PLC is extremely critical and vital. The Government has to safeguard the interest of the Company as well as the people and adopt a balanced approach. The government may have to provide stimulus to the industry through appropriate fiscal policy, tax concession and timely price revision. Your company has been interacting with the Government

Current Oil Scenario

The global oil scene is still in a state of uncertainty. The crude oil price which touched bottom of USD 31.0 per barrel has increased to about USD 69.0 per barrel in May'09. The economic recovery expected in US and Europe due to Government intervention as also the production cut by OPEC has enabled oil to rise much more than expected.

The country has also been witnessing a serious USD liquidity problem and domestic interest rates have



at appropriate levels to protect its interest and also meet the rising expectations of the government and the customers.

The government of Sri Lanka's bonds matured on 05/01/2009 and the proceeds have been used to settle the outstanding loans. The Company made an entry into bunker business in November '08 and has already made significant strides. Lubricants business is also being consolidated by expanding the network of dealers and distributors.

Your company expects the economic situation to improve consequent to the end of the conflict in the North, with the Government, taking proactive measures to boost investment in key sectors. Your company being in the energy sector sees opportunities for growth and would take appropriate actions.

I am pleased to state that your company has been rated as No.1 in the list of Leading Listed Companies for 2007-08 by LMD. Your company has also been ranked among the leading Brands in Sri Lanka by Brand Finance.

Your company signed up Young Cricketer Mr. Ajantha Mendis as Brand Ambassador to promote the Brands and services.

Conclusion

In conclusion, on behalf of the Board of Directors of Lanka IOC PLC and on my own behalf, I thank all the shareholders of the Company for their valued support and co-operation at all times in consolidating the performance of the company. I also sincerely thank the Government of Sri Lanka and in particular the Ministry of Petroleum & Petroleum Resources Development and the Ministry of Finance & Planning for their valuable guidance and support at all times in furthering the performance and prospects of the company.

The loyal support of our valued customers, dealers, distributors and other business associates had always been the most motivating factor for us to achieve high standards of performance. I am confident that the achievement of the past and acumen enriched by the Human Resources of the Company will enable higher growth in the near future in all spheres of the business activities of the Company.

With best wishes,



S V Narasimhan
Chairman



Young Cricketer Mr. Ajantha Mendis seen with the Directors of Lanka IOC PLC after signing the Agreement as the Brand Ambassador.



Managing Director's Message

Dear Shareholder,

The financial year ended 31st March '09 has proved to be the most successful in terms of achievement of the turnover of Rs. 47.617 Billion but a mixed bag in terms of profit from operations and the net profit. The Company ended the year with a net loss of Rs. 1.238 Billion.

The Company recorded a robust performance in the retail segment during this turbulent year. The financial year witnessed a volatile oil market resulting in reaching a new high as well as new low within a short span of time, the drastic swing seriously impacted the operations of the Company. The domestic selling prices could not adjust to the changing international prices. The oil industry suffered significant loss in the volumes of all products. However, your company maintained the volumes at the same level as previous year in the retail segment, despite industry losing nearly 20% of the volumes. Your Company decided not to market diesel to direct sales segment due to huge under recoveries in May - June '08. Your Company was compelled to increase retail selling prices compared to the Industry resulting in loss of volumes.

The Government of Sri Lanka has been responding to the turbulence in market through various mechanisms. Selling price and the duty structure have been revised several times resulting in instability in the market and the margins moving from positive to negative. In addition certain legal issues also created uncertainty in the market. We have been strongly urging the government to take a long term view on the price structure to provide price stability. It has also been the endeavor of the Company to price the products at par with Ceylon Petroleum Corporation to avoid any anomaly and to look for long term growth and benefits.

Your Company has laid emphasis on expanding the network of retail outlets, marketing the value added branded petrol and diesel. Customers have shown



a strong preference to the branded products. Total volume increased substantially and a conversion percentage of approximately 25% in petrol and 10% in diesel were achieved in March '09. Responses from the customers to these products have been overwhelming and strengthened our belief that value addition in the interest of the customers would be welcomed in the market. It is planned to expand the network of outlets offering the branded products to reach the products to far flung areas.



The Company also reviewed the refurbishment of retail outlets using state-of-the-art equipment and providing right ambience to the consuming public. It is proposed to step up the refurbishment of the outlets. Strong emphasis has been laid on improving customer satisfaction by offering world class service at the forecourt.

Lube market suffered huge set back due to the downturn in economy. However your Company has been able to maintain the volume at the same level as previous year due to strong brand image, expansion in distribution network by appointing more distributors/dealers and enlarging product portfolio. Your Company has also been able to meet the exacting standards of institutions like Air Force, Army, Navy and it is a matter of pride that the contracts with these institutions are being renewed from time to time. Your Company also exported lubes to Mauritius and is scouting for markets to enhance the exports.





Air Force Group Captain K A P S Angulugaha, Wing Commander K M S Wijenayake and LIOC Managing Director K R Suresh Kumar after signing the agreement for the supply of lubricants.

Consequent to the settlement of the legal issues in bunker licence, the Company commenced full fledged bunker operations in November '08. Within a short span, the company was able to make inroads into this competitive business, and has become a name to reckon with in Sri Lankan bunker market. The Government of Sri Lanka has been very supportive in this regard and bunker license has been renewed for a further period of five years from March '09.

Steady progress has been made in the implementation of the ERP systems by setting up the hardware both at Head Office and Trincomalee Terminal and also providing the necessary support systems. The ERP package is planned to be introduced from 1st October, '09 along with Ceylon Petroleum Corporation and Ceylon Petroleum Storage Terminals Limited who are the partners in this.

It is also planned to step up bunker operations at Trincomalee by Customs bonding the storage

facilities at the Terminal. The Company has also been taking up with Government of Sri Lanka to grant permission for expanding the retail outlets to facilitate the Company to reach the products to the doorstep of the customer. Our request is under the consideration of the government and we hope to receive a favourable response.

I heartily thank the Government of Sri Lanka, Shareholders, Customers, Dealers, Distributors, business associates and the employees of the Company for their whole hearted support in making all the initiatives and efforts of the Company a success.

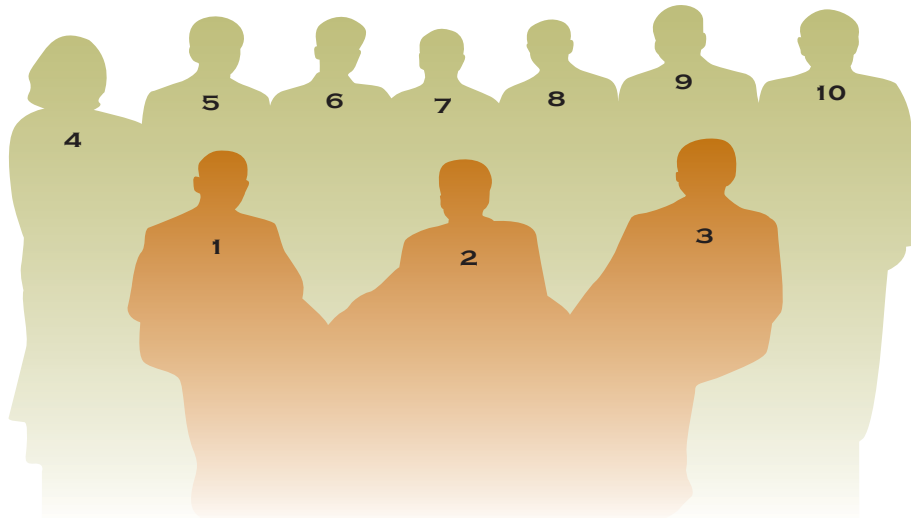
With best wishes,



K R Suresh Kumar
Managing Director



Senior Management Team



- | | |
|--|--|
| 1 Mr. K B Jambekar
Senior Vice President (Finance) | 6 Mr. S S Pandita
Vice President (Engineering) |
| 2 Mr. K R Suresh Kumar
Managing Director | 7 Mr. T C A Satagopan
Senior Vice President (Finance) |
| 3 Mr. V Sakthivel
Senior Vice President - (Lubes Marketing & Production) | 8 Mr. Praveen Jaiswal
Vice President (Operations & HR) |
| 4 Ms. Rajanie Balakrishnan
Company Secretary | 9 Mr. V C Asokan
Vice President (Sales) |
| 5 Mr. R Harikrishnan
Assistant Vice President (Operations) | 10 Mr. C M Chandrakandan
Senior Vice President (Operations &
Lube Blending Plant) |



Corporate Governance

Corporate Governance

Corporate governance is the set of processes, customs, policies and laws affecting the way a company is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed.

Board of Directors is committed to ensure the accountability through proper mechanism that enhances the shareholder value whilst ensuring that proper internal control systems are in place to govern the day to day affairs of the company. The company endeavours to practice the principles of corporate governance to ensure transparency, integrity and accountability in its functions which are vital for achieving the business objectives of becoming a major, integrated energy Company with a strong environment conscience and playing a national role in oil security.

The Company complies with the guidelines on corporate governance issued by the Colombo Stock Exchange from time to time.

Composition of the Board of Directors

The Board comprises of one Executive and five Non-Executive Directors. The Managing Director is a full time Director and functions as the CEO of the Company. The other Directors are professionals and experienced leaders of high repute in their respective functional areas.

The Non-Executive Directors include two independent Directors, Prof. Lakshman R Watawala and Mr Jaliya Medagama who are acclaimed for their knowledge and experience in their respective fields. Their active participation in the Board deliberations has brought in an independent and pragmatic view to the Board deliberations and in taking decisions.

Board Meetings Held during the year 2008-2009

S. No.	Date	Strength of the Board	No. Directors Present
1	14th May 2008	6	5
2	21st June 2008	6	5
3	23rd September 2008	6	6
4	5th December 2008	6	6

Corporate Management

The Managing Director manages the Company's day-to-day affairs based on strategic direction, policy formation and procedures approved by the Board from time to time. Each function is headed by a Senior Vice President or a Vice President who assist the Managing Director in the day-to-day functioning of the Company. The team members are well qualified with professional degrees, have long service experience and deal professionally in their respective functional areas.

Investor Relations

The Company maintains excellent relationship with its investors. Through its Registrars, the Company strives to address the grievance of its shareholders on priority.

Accountability & Audit

The Board has reviewed in detail the contents of the Annual Financial Statements and has verified its adherence to principles of accounting; corporate laws and norms laid down for transparent disclosure and accepted accounting policies.

Internal Control

A professional firm of Chartered Accountants conducts the internal audit of the Company's transactions regularly. The audit reports and actions taken are placed before the Audit Committee on periodic basis for a review and to ensure the adequacy and effectiveness of the internal controls.



Report on the Affairs of the Company

To the Shareholders

The Board of Directors has pleasure in presenting the 07th Annual Report and the Audited Accounts of the Company for the year ended 31st March 2009. The Directors confirm that the financial statements have been prepared in accordance with the Sri Lanka Accounting Standards, which have been consistently applied and supported by reasonable and prudent judgments and estimates.

Review of the Year

The Chairman's statement describes in brief the Company's affairs and the performance during the year and also mentions the events subsequent to the balance sheet.

Financial Statements

The Financial statements of the Company for the year ended 31st March 2009, which include the Income Statement, Balance Sheet, Statement of changes in Equity and the Notes to the financial statements, are given on page 22 to 36.

Nature of the Business of the Company

The main activities of the Company are importing, blending, distributing, selling of petroleum products and bunkering in Sri Lanka.

Auditors' Report

The Auditors' Report on the financial statements is set out on page No.20.

Change in accounting policies

There is no other change in accounting policies made during the financial year ended 31st March 2009, except for the adoption of Sri Lanka Accounting Standard No.16; Employee Benefits.

Entries in the interests register

The Company in accordance with the Companies Act No.07 of 2007 maintains an interest register. Particulars of entries in the interests register are given below;

Directors' interests in transactions: The Directors of the Company have made the general disclosures provided for in section 192(2) of the Companies Act No.07 of 2007. Note No.24 to the financial statements deals with Director's interests in contracts with the Company.

Directors' interests in shares: There were no share dealings by the directors of the Company (Sec.200) during the accounting year.

Remuneration and other benefits of Directors

The aggregate remuneration and other benefits of directors of the Company for the financial year 2008-09 amounts to LKR.10,199,804/- (2008-LKR.8,054,919/-)

Dividends

The Directors do not recommend the payment of a dividend for the year ended 31st March 2009.

Directors

The Directors of the Company at 31st March 2009 were:

Mr S V Narasimhan	(Chairman)
Mr K R Suresh Kumar	(Managing Director)
Mr R Narayanan	(Non-Executive Director)
Mr A M K Sinha	(Non-Executive Director)
Prof. Lakshman R Watawala	(Independent Non-Executive Director)
Mr Jaliya Medagama	(Independent Non-Executive Director)



Report on the Affairs of the Company (Contd.)

Mr K Ramakrishnan who was the Managing Director of the Company as at 31st March 2008, resigned with effect from 06th December 2008.

Mr K R Suresh Kumar was appointed as the Managing Director of the Company with effect from 6th December 2008, replacing Mr K Ramakrishnan.

Mr A M K Sinha who was a director of the Company as at 31st March 2008, resigned with effect from 22nd April 2009.

Mr H S Bedi was appointed as a director of the Company with effect from 22nd April 2009 in place of Mr A M K Sinha.

Appointment of Auditors

A resolution to re-appoint the present auditors PricewaterhouseCoopers who have expressed their willingness to continue, will be proposed at the Annual General Meeting.

The Auditors' remuneration for the year 2008-09 was fixed at LKR 981,560/- (2008-LKR.916,088/-) as disclosed in note 7(a) to the financial statements on page 31 thereof.

Auditors relationship or any interest with the Company

The Directors are satisfied that, based on written representations made by the independent auditors to the Board, the auditors did not have any relationship or any interest with the Company that would impair their independence. PricewaterhouseCoopers were also engaged as tax consultants and for other certifications/consultations at a remuneration of LKR.116,720/- (2008-LKR.48,000/-) payable by the Company to the auditors for the additional services rendered to the Company.

Donations

The Company has made donations amounting to LKR.200,000/- during the year ended 31st March 2009 (2008-LKR. 1,155,000/-)

Changes in property, plant and equipment

The movements in property, plant and equipment during the year ended 31st March 2009 and 31st March 2008 are set out in note.11 to the financial statements.

Stated Capital and reserves

There was no change in the stated capital of the Company during the year under review. Majority of the shares ie: 75.12% are held by the Indian Oil Corporation Limited, India. The total retained earnings of the Company as at 31st March 2009 amounted to LKR. 1,180,822,119/- (2008 – LKR.2,418,576,241/-)

Investments

Treasury Bonds matured on 5th January 2009. (2008 – LKR.4,460,644,335/-)

Statutory payments

The Directors to the best of their knowledge and belief are satisfied that all statutory payments in relation to the employees and the Government, up to the balance sheet date, have been made.

Going Concern

The Directors have adopted the going concern basis in preparing the financial statements. The directors after making inquiry and following a review of the Company's budget, future cash flows and borrowing facilities, consider the Company has adequate resources to continue in operation.



Report on the Affairs of the Company (Contd.)

Post balance sheet events

No events have occurred since the balance sheet date which would require adjustments to, or disclosure in, the financial statements.

Signed on behalf of the Board



K R Suresh Kumar
Managing Director



Prof. Lakshman R Watawala
Director



Rajanie Balakrishnan
Company Secretary

Colombo

26th June 2009

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## Statement of Directors' Responsibility

The following statement, which should be read in conjunction with the Auditor's Statement of their responsibilities set out in their report, is made with a view to distinguish the respective responsibilities of the Directors and of the Auditors, in relation to the financial statements.

The Directors are required by Sections 150 (1) and 151 (1) of the Companies Act No.07 of 2007, to prepare financial statement for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit and loss for the financial year. The Directors are required to prepare these financial statements on going concern basis, unless it is not appropriate.

Since the Directors are satisfied that the Company has resources to continue in business for the foreseeable future, the financial statements continue to be prepared on the said basis.

The Directors confirm that in preparing the financial statements exhibited on pages 22 to 36 inclusive, appropriate accounting policies have been selected and applied on a consistent basis, while reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected.

The Directors are responsible for ensuring that the Company keeps accounting records, which will disclose with reasonable accuracy the financial position of the Company and enable them to ensure that financial statements comply with the Companies Act No.07 of 2007.

The Directors are generally responsible for taking such steps that are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are confident that they discharged their responsibility as set out in this statement. They also confirm that to the best of their knowledge all statutory payment payable by the Company as at the Balance Sheet Date, are paid or where relevant, provided for.

By Order of the Board



**K R Suresh Kumar**  
Managing Director

Colombo

5<sup>th</sup> June 2009



## Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The financial statements are prepared in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No.07 of 2007 and other applicable statutes. The accounting policies applied in the preparation of the financial statement are appropriate and are consistently applied, except as stated in the notes accompanying the financial statements.

The Board of Directors and the management of our company accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgments relating to the financial statements were made on a prudent and reasonable basis, in order that the financial statements reflect in a true and fair manner, the form and substance of transactions and reasonably present the company's state of affairs. To ensure this, the company has taken proper and sufficient care in putting in place an effective system of internal checks and controls, for ensuring the correctness of the financial transactions recorded in the books of accounts, safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the company were consistently followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal controls and accounting.

The financial statements were audited by PricewaterhouseCoopers, Chartered Accountants, the independent auditors.

The audit committee of our company meets periodically with the internal auditors and the independent auditors to review the manner in which these auditors are performing their responsibilities, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the independent auditors and the internal auditors have full and free access to the members of the audit committee to discuss any matter of substance.



**K R Suresh Kumar**  
Managing Director  
5<sup>th</sup> June 2009



**K B Jambekar**  
Sr. Vice President (Finance)



## Compliance of Corporate Governance Rules

| Rule No  | Subject                                                            | Applicable Requirement                                                                                                                                                                                                                                                                                   | Compliance status                | Details                                                                                                                                                                        |
|----------|--------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7.10.1a  | Non Executive Directors on the Board                               | At least one third of the total number of Directors should be Non Executive Directors                                                                                                                                                                                                                    | Complied                         | Five out of Six Directors are Non Executive Directors                                                                                                                          |
| 7.10.2 a | Independent Directors                                              | Two or one third of Non Executive Directors (whichever is higher) should be independent                                                                                                                                                                                                                  | Complied                         | Two of the Five Non Executive Directors are Independent                                                                                                                        |
| 7.10.2 b | Independent Directors                                              | Each Non Executive Director should submit a declaration of independence / non independence in the prescribed format                                                                                                                                                                                      | Complied                         | Non Executive Directors have submitted the declaration                                                                                                                         |
| 7.10.3 a | Disclosure relating to Directors                                   | Names of Independent Directors should be disclosed in the Annual Report                                                                                                                                                                                                                                  | Complied                         | Please Refer page 12                                                                                                                                                           |
| 7.10.3 c | Disclosure relating to Directors                                   | A brief resume of each Director should be included in the Annual Report including their expertise                                                                                                                                                                                                        | Complied                         | Please Refer page 03                                                                                                                                                           |
| 7.10.5   | Remuneration Cimmittee                                             | A listed Company shall have a Remuneration Committee                                                                                                                                                                                                                                                     | Complied                         | Names of members of Remuneration Committee are available on page 18                                                                                                            |
| 7.10.5 a | Composition of Remuneration Committee                              | Shall comprise of Non Executive Directors, a majority of whom shall be independent                                                                                                                                                                                                                       | Complied                         | Remuneration Committee consists of three Non Executive Directors of which two are independent. Chairman of the Remuneration Committee is an Independent Non Executive Director |
| 7.10.5 b | Functions of Remuneration Committee                                | The Remuneration Committee shall recommend the remuneration payable to Chief Executive Officer and Executive Officers                                                                                                                                                                                    | Complied                         | Please refer Remuneration Committee Report on page 18                                                                                                                          |
| 7.10.5 c | Disclosure in the Annual Report relating to Remuneration Committee | The Annual Report should set out; <ul style="list-style-type: none"> <li>i) Names of Directors comprising the Remuneration Committee</li> <li>ii) Statements of Remuneration policy &amp; Committee Report</li> <li>iii) Aggregate remuneration paid to Executive and Non Executive Directors</li> </ul> | Complied<br>Complied<br>Complied | Please refer page 18<br>Please refer Remuneration Committee report for a brief statement of policy<br>Please refer page 31                                                     |



## Compliance of Corporate Governance Rules (Contd.)

| Rule No  | Subject                                                         | Applicable Requirement                                                                                                           | Compliance status | Details                                                                                                                                                          |
|----------|-----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7.10.6   | Audit Committee                                                 | The Company shall have an Audit Committee                                                                                        | Complied          | Names of members of Audit Committee are available on page 18                                                                                                     |
| 7.10.6 a | Composition of the Audit Committee                              | Shall comprise of Non Executive Directors, a majority of whom shall be independent                                               | Complied          | Audit Committee consists of three Non Executive Directors, two of whom are independent. Chairman of the Audit Committee is an Independent Non Executive Director |
|          |                                                                 | Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings                                   | Complied          | Chief Executive Officer and Chief Financial Officer attend meetings by invitation                                                                                |
|          |                                                                 | The Chairman of the Audit Committee or one member should be a Member of a recognized professional accounting body                | Complied          | Chairman of Audit Committee is a member of a professional accounting body                                                                                        |
| 7.10.6 b | Functions of the Audit Committee                                | Should be as outlined in Section 7.10.6 b of the listing rules                                                                   | Complied          | The terms of reference of the Audit Committee adopted by the Board cover the areas described in the listing rules                                                |
| 7.10.6 c | Disclosure in the Annual Report relating to the Audit Committee | Names of Directors comprising the Audit Committee                                                                                | Complied          | Please refer page 18                                                                                                                                             |
|          |                                                                 | The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination | Complied          | Please refer Audit Committee report                                                                                                                              |
|          |                                                                 | The Annual Report shall contain a report by the Audit Committee setting out the manner of compliance of the functions            | Complied          | Please refer Audit Committee report                                                                                                                              |



## Remuneration Committee Report

The Remuneration Committee consists of three non-executive Directors, namely Prof. Lakshman R Watawala, Mr Jaliya Medagama and Mr R Narayanan of which the first two are Independent Directors. The Committee is chaired by Prof. Lakshman R Watawala. The Managing Director also participates in the Committee meetings as and when requested for by the Committee, and assists by providing relevant information during the deliberations.

The Committee is responsible for laying down guidelines and parameters for determining the compensation of the Executive Director and make recommendations to the Board for final determination. The Committee also lays down guidelines and parameters for the compensation structures of management staff. The primary objective of the compensation packages is to attract and retain a highly qualified and experienced work force and reward performance. The remuneration package attempts to provide appropriate compensation commensurate with the employees' qualification and experience, bearing in mind the business performance and long term shareholder returns.

The Committee meets periodically to review the Company's compensation structure and reviews the appropriateness of the compensation package keeping in view the pay structure amongst comparative companies, etc. to ensure its alignment with the compensation offered in the industry.



**Prof. Lakshman R Watawala**

Chairman,  
Remuneration Committee

Date: 5th June 2009

## Audit Committee Report

### Composition of the Audit Committee

The Audit Committee, appointed by and responsible to the Board of Directors, comprises of three Non-Executive Directors of which two are independent Directors. The Committee is chaired by Prof. Lakshman R Watawala, an Independent Director. The other two committee members comprise of Mr Jaliya Medagama, an Independent Director and Mr R Narayanan. Mr K R Suresh Kumar, the Managing Director and Vice President (Finance) Mr. K. B. Jambekar attend the Audit Committee Meetings by invitation.

The Chairman of the Audit Committee is a senior Chartered Accountant, acclaimed for his professional knowledge and expertise in financial / Company matters. The brief profile of the Audit Committee members is given on page 03. Their individual as well as collective knowledge on financial & legal matters and their business acumen are brought to bear in the deliberations and judgments on matters that come up in the Committee deliberations.

### Functions of the Audit Committee

The terms of reference specified by the Board of Directors for the Audit Committee include the functions of the Audit Committee prescribed in the Continuing Listing Rule No. 7.10.6b of the Colombo Stock Exchange.

### Meetings

The Committee held 5 meetings during the financial year 2008-09 to discuss the matters within its purview. All committee members were present at the meetings.



## Audit Committee Report (Contd.)

### Tasks of the Audit Committee

The Committee reviewed the financial reporting system adopted by the Company in preparation, presentation and adequacy of disclosures in the annual financial statements to ensure reliability of the processes, consistency of the accounting policies & methods adopted and their compliance with the Sri Lanka Accounting Standards. The Committee also reviewed the Company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements. The Committee also reviewed the adequacy of the internal controls and assessed the independence and performance of the external auditors. The Committee recommended the financial statements to the Board for its approval and issuance. The committee also reviewed the risks the company was exposed to and has approved the Risk Management Policy to be followed by the company so as to manage and mitigate the impact arising from such risks.

### Internal Audits

The Committee reviewed the accounting system and the scope and coverage of the internal audit process to assess the effectiveness of financial controls that have been designed to provide reasonable assurance to the Directors that assets are safeguarded and that the financial reporting system can be relied upon in preparation and presentation of Financial Statements. The Internal Audit function has been outsourced to a leading audit firm. Follow-up reviews are scheduled periodically to ascertain that audit recommendations are being acted upon.

### External Audits

The Committee also deliberated with the external auditors to review the nature, approach and scope of audit. Actions taken by the Management in response to the issues raised as well as the effectiveness of internal controls in place were also discussed.

### Appointment of External Auditors

The Audit Committee upon reviewing the independence and performance of the auditors has recommended to the Board of Directors that Messrs PricewaterhouseCoopers be appointed as Auditors for the financial year ending 31st March 2010, subject to the approval of the shareholders at the Annual General Meeting.

### Conclusion

The Audit Committee is satisfied that the Company's accounting policies and operational controls provide reasonable assurance that the affairs of the Company are managed in accordance with its policies and that the Company's assets are properly accounted for and adequately safeguarded.



**Prof. Lakshman R Watawala**

Chairman,  
Audit Committee

Date: 5th June 2009



## **Independent Auditor's Report To the members of Lanka IOC PLC Report on the Financial Statements**

1. We have audited the accompanying financial statements of Lanka IOC PLC, which comprise the balance sheet as at 31 March 2009, and the income statement, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 22 to 36.

### **Management's Responsibility for the Financial Statements**

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Scope of Audit and Basis of Opinion**

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 plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

4. In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2009 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2009 and of its profit and 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. 07 of 2007.

**COLOMBO**

**CHARTERED ACCOUNTANTS**





**Confirmation from an Auditor Performing Work for a Listed Company of compliance with Guidelines issued by the Securities and Exchange Commission of Sri Lanka (SEC) for Appointment of Auditors of Listed Companies**

I Sujeewa Mudalige hereby confirm that PricewaterhouseCoopers, 100, Braybrooke Place, Colombo 2, is compliant with the Guidelines issued by SEC for Appointment of Auditors of Listed Companies with respect to Lanka IOC PLC.



[Signed of the Engagement Partner]

28th May 2009  
Colombo



## Income Statement

(all amounts in Sri Lanka Rupees)

|                                      | Notes | Year ended 31 March     |                      |
|--------------------------------------|-------|-------------------------|----------------------|
|                                      |       | 2009                    | 2008                 |
| Revenue                              | 3     | <b>47,617,186,435</b>   | 44,172,867,983       |
| Cost of sales                        | 4     | <b>(48,066,589,690)</b> | (40,520,752,744)     |
| Gross (loss) / profit                |       | <b>(449,403,255)</b>    | 3,652,115,239        |
| Other operating income               | 5     | <b>490,412,716</b>      | 260,908,008          |
| Selling and distribution costs       |       | <b>(24,636,356)</b>     | (32,296,295)         |
| Administrative expenses              |       | <b>(633,008,113)</b>    | (820,248,784)        |
| Disallowed input VAT                 | 6     | <b>Nil</b>              | (795,971,473)        |
| Operating (loss) / profit            | 7     | <b>(616,635,008)</b>    | 2,264,506,695        |
| Finance (costs) / income             | 8     | <b>(487,100,485)</b>    | 251,111,913          |
| (Loss) / profit before tax           |       | <b>(1,103,735,493)</b>  | 2,515,618,608        |
| Tax                                  | 9     | <b>(134,018,629)</b>    | (175,214,449)        |
| <b>Net (loss) / profit after tax</b> |       | <b>(1,237,754,122)</b>  | <b>2,340,404,159</b> |
| Earnings per share                   | 10    | <b>(2.32)</b>           | 4.40                 |

The notes on pages 26 to 36 form an integral part of these financial statements.  
Auditors' report - pages 20 and 21.



## Balance Statement

(all amounts in Sri Lanka Rupees)

Year ended 31 March

|                                                 | Notes  | 2009                  | 2008                  |
|-------------------------------------------------|--------|-----------------------|-----------------------|
| <b>ASSETS</b>                                   |        |                       |                       |
| <b>Non current assets</b>                       |        |                       |                       |
| Property, plant and equipment                   | 11     | 3,234,562,320         | 3,234,408,112         |
| Long term investment                            | 12 (a) | 4,394,000,000         | 4,394,000,000         |
| Other investments                               | 12(b)  | Nil                   | 4,460,644,335         |
| Goodwill                                        | 13     | 673,876,577           | 673,876,577           |
|                                                 |        | <b>8,302,438,897</b>  | <b>12,762,929,024</b> |
| <b>Current assets</b>                           |        |                       |                       |
| Inventories                                     | 14     | 10,614,339,051        | 8,510,867,789         |
| Receivables and prepayments                     | 15     | 1,068,692,538         | 547,990,950           |
| Cash and cash equivalents                       | 16     | 468,440,307           | 2,138,085,954         |
| <b>Total current assets</b>                     |        | <b>12,151,471,896</b> | <b>11,196,944,693</b> |
| <b>Total assets</b>                             |        | <b>20,453,910,793</b> | <b>23,959,873,717</b> |
| <b>EQUITY AND LIABILITIES</b>                   |        |                       |                       |
| <b>Capital and reserves</b>                     |        |                       |                       |
| Stated capital                                  | 17     | 7,576,573,900         | 7,576,573,900         |
| Retained earnings                               |        | 1,180,822,119         | 2,418,576,241         |
| <b>Total capital and reserves</b>               |        | <b>8,757,396,019</b>  | <b>9,995,150,141</b>  |
| <b>Non-current liabilities</b>                  |        |                       |                       |
| Retirement benefit obligations                  | 18     | 26,496,869            | 46,383,365            |
| <b>Current liabilities and provisions</b>       |        |                       |                       |
| Trade and other payables                        | 19     | 5,988,422,047         | 9,692,271,562         |
| Current tax payable                             |        | 26,346,837            | 120,766,402           |
| Borrowings                                      | 20     | 5,655,249,021         | 4,105,302,247         |
| <b>Total current liabilities and provisions</b> |        | <b>11,670,017,905</b> | <b>13,918,340,211</b> |
| <b>Total liabilities</b>                        |        | <b>11,696,514,774</b> | <b>13,964,723,576</b> |
| <b>Total equity and liabilities</b>             |        | <b>20,453,910,793</b> | <b>23,959,873,717</b> |

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were authorised for issue by Board of Directors on 22/05/2009.


I certify that these financial statements have been prepared in compliance with the requirements of the Companies Act, No. 07 of 2007.



Managing Director



Director



Senior Vice President (Finance)

The notes on pages 26 to 36 form an integral part of these financial statements.

Auditors' report - pages 20 and 21.



## Statement of changes in equity

(all amounts in Sri Lanka Rupees)

|                                 | Notes     | Stated capital       | Retained Earnings    | Total                |
|---------------------------------|-----------|----------------------|----------------------|----------------------|
| Balance at 1 April 2007         | 17        | 7,576,573,900        | 78,172,082           | 7,654,745,982        |
| Net profit for 2007/08          |           | -                    | 2,340,404,159        | 2,340,404,159        |
| <b>Balance at 31 March 2008</b> | <b>17</b> | <b>7,576,573,900</b> | <b>2,418,576,241</b> | <b>9,995,150,141</b> |
| Balance at 1 April 2008         |           | 7,576,573,900        | 2,418,576,241        | 9,995,150,141        |
| Net loss for 2008/09            |           | -                    | (1,237,754,122)      | (1,237,754,122)      |
| <b>Balance at 31 March 2009</b> |           | <b>7,576,573,900</b> | <b>1,180,822,119</b> | <b>8,757,396,019</b> |

The notes on pages 26 to 36 form an integral part of these financial statements.  
Auditors' report - pages 20 and 21.



## Cash Flow Statement

(all amounts in Sri Lanka Rupees)

Year ended 31 March

|                                                                 | Notes | 2009                   | 2008                 |
|-----------------------------------------------------------------|-------|------------------------|----------------------|
| <b>Operating activities</b>                                     |       |                        |                      |
| Cash (used in) / generated from operations                      | 23    | (7,152,695,507)        | 1,342,427,529        |
| Economic Service Charge and income tax paid                     |       | (228,438,194)          | (45,819,281)         |
| Interest received                                               |       | 411,840,820            | 436,198,154          |
| Interest paid                                                   |       | (247,229,687)          | (249,333,560)        |
| Defined benefit obligations paid                                | 18    | (2,243,010)            | (4,437,605)          |
| <b>Net cash (used in) / generated from operating activities</b> |       | <b>7,218,765,578</b>   | <b>1,479,035,237</b> |
| <b>Investing activities</b>                                     |       |                        |                      |
| Purchase of property, plant and equipment                       | 11    | (176,334,256)          | (352,680,447)        |
| Proceeds from disposal of investment                            |       | 4,460,644,335          | Nil                  |
| Proceeds from sale of property, plant and equipment             |       | Nil                    | 9,237,479            |
| <b>Net cash generated from / (used in) investing activities</b> |       | <b>4,284,310,079</b>   | <b>(343,442,968)</b> |
| <b>Financing activities</b>                                     |       |                        |                      |
| Repayment of borrowings                                         |       | (20,570,796,808)       | (15,944,958,070)     |
| Proceeds from borrowings                                        |       | 21,198,062,875         | 17,128,572,581       |
| <b>Net cash generated from financing activities</b>             |       | <b>627,266,067</b>     | <b>1,183,614,511</b> |
| <b>(Decrease)/ increase in cash and cash equivalents</b>        |       | <b>(2,307,189,432)</b> | <b>2,319,206,780</b> |
| <b>Movement in cash and cash equivalents</b>                    |       |                        |                      |
| At the beginning of the year                                    |       | 1,890,374,282          | (428,832,499)        |
| (Decrease) / increase during the year                           |       | (2,307,189,432)        | 2,319,206,780        |
| <b>At the close of the year</b>                                 | 16    | <b>(416,815,151)</b>   | <b>1,890,374,282</b> |

The notes on pages 26 to 36 form an integral part of these financial statements.

Auditors' report - pages 20 and 21.



## Notes to the Financial Statement

(In the notes all amounts are shown in Sri Lanka Rupees unless otherwise stated)

### 1 General information

The Company commenced commercial operations of importing, selling and distribution of petroleum products on 14 February 2003.

The Company has been granted a Petroleum Products License by the Minister of Power and Energy which gives authority to Import, Export, Store, Distribute, Sell and Supply Petrol, Auto Diesel, Heavy Diesel (Industrial Diesel), Furnace Oil and Kerosene, Naphtha and other mineral petroleum including Premium Petrol and Premium Diesel but excluding Aviation and Marine Fuels and Liquid Petroleum Gas. The license is valid for a period of 20 years from 22 January 2004 and renewable thereafter.

The financial statements were authorised for issue by the Board of Directors on 22 May 2009.

### 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.

#### 2.01 Basis of preparation

The financial statements are prepared in accordance with Sri Lanka Accounting Standards on the historical cost basis of accounting except for the revaluation of land. The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the report of amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

#### 2.02 Foreign currency translation

##### (a) Functional and presentation currency

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

##### (b) Transactions and balances

Foreign currency transactions are translated into the measurements currency using the exchange rates prevailing at the dates of transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Such balances are translated at the year-end exchange rates.

#### 2.03 Property, plant and equipment

Land and buildings comprise mainly retail outlets and terminals. Land is shown at valuation by independent valuers carried out on 1 May 2005. All other 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. Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful lives commencing from the month after the month of purchase as follows:

|                                                |          |
|------------------------------------------------|----------|
| Buildings                                      | 15 years |
| Plant and equipment                            | 8 years  |
| Motor vehicles                                 | 5 years  |
| Furniture and fittings and interior furnishing | 5 years  |
| Computers                                      | 4 years  |
| Communication equipment                        | 2 years  |



## Notes to the Financial Statement (Contd.)

(In the notes all amounts are shown in Sri Lanka Rupees unless otherwise stated)

### 2 Summary of significant accounting policies (contd.)

Land is not depreciated as it is deemed to have an indefinite life.

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.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company. Major renovations are depreciated over the remaining useful life of the related asset.

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

Gains and losses on disposal are determined by the comparing proceeds with carrying amount and are included in operating profit.

Increase in the carrying amount arising on revaluation of land, within one year from date of acquisition, is credited to goodwill arising on acquisition.

#### 2.04 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the 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).

#### 2.05 Borrowing costs

Borrowing costs are recognised as an expense in the year in which they are incurred.

#### 2.06 Goodwill

Goodwill represents the excess of the costs of acquisition over the fair values of the retail outlets at the date of acquisition. Surplus arising from revaluation of land of 100 retail outlets, is set off against the goodwill on acquisition of 100 retail outlets.

#### 2.07 Investments in associates

Investment in the associate company is accounted for at cost and is classified as a long term investment in the balance sheet. The Company has no significant influence in the financial and operating policy decisions of the investee and hence the adoption of the equity method is inappropriate.

#### 2.08 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in first-out (FIFO) method and includes direct costs on transport, handling costs and insurance.

Net realisable value is the estimate of selling price in the ordinary course of business, less the cost of completion and selling expenses. Provision is made where necessary for slow moving, defective and obsolete stocks.



## Notes to the Financial Statement (Contd.)

### 2 Summary of significant accounting policies (contd.)

#### 2.09 Trade receivables

Trade receivables are carried at anticipated realisable value. 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default payments are considered indicators that the trade receivable is impaired. 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 income statement within distribution cost. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivable. Subsequent recoveries of amounts previously written-off are credited against distribution cost in the income statement.

#### 2.10 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 maturity of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities in the balance sheet.

#### 2.11 Taxation

The tax expense for the year comprise current tax and deferred tax.

##### (a) Current taxes

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act and amendments thereto. Calculated on the basis of the tax laws enacted at the balance sheet date.

##### (b) Deferred income taxes

Deferred taxation is computed using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on property, plant and equipment, provisions for retirement benefit obligations and tax losses carried forward.

Tax rates enacted by the balance sheet date are used to determine deferred income tax. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### 2.12 Defined contribution plans

All local employees of the Company are members of the Employees' Provident Fund and Employees' Trust Fund. The employer contributes to the above two funds at the rate of 15% and 3% respectively of such employees' basic or consolidated wage or salary and meal allowance, as applicable, for Trincomalee based (erstwhile CPC) employees. The contribution of the employer to these funds for other employees is 12% and 3% respectively.

#### 2.13 Retirement benefit obligations

The Company has adopted the benefit plan as required under the Payment of Gratuity Act No. 12 of 1983 for all eligible employees. The benefit plan is unfunded. Provision for gratuity is made by the Company taking account of the recommendation of an independent qualified actuaries firm, Messrs Actuarial & Management Consultants (Private) Limited [Formerly Messrs Watson Wyatt Lanka (Private) Limited] who carried out actuarial valuation as at 31 March 2009. Change in the accounting policy was not considered as a prior year adjustment since the amount concerned is not material.





## Notes to the Financial Statement (Contd.)

### 2 Summary of significant accounting policies (contd.)

Defined benefit plans define 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 liability recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognized past service cost. The defined benefit obligation is calculated annually by the Company using the projected unit credit method prescribed in Sri Lanka Accounting Standard 16; Employee Benefits. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of recognized income and expense in the period in which they arise.

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

#### 2.14 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

#### 2.15 Revenue recognition

Revenue comprises the invoiced value for sale of goods net of Value Added Tax, and discounts. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

Interest income is recognised on a time proportionate basis, taking account of principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Company.

#### 2.16 Dividends

Dividends are recorded in the financial statements in the period in which they are approved by the shareholders.

#### 2.17 Comparative

Comparative figures of revenue, cost of sales and selling and distribution expenses have been reclassified by Rs 587,277,370, Rs 564,679,940 and Rs 22,597,430 respectively to reflect the net realisation on sales. Further, Social Responsibility Levy of Rs 1,752,144 shown under current tax was reclassified to operating expenses.



## Notes to the Financial Statement (Contd.)

### 3 Revenue

|                       | Year ended<br>31 March 2009 |                       | Year ended<br>31 March 2008 |                       |
|-----------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|
|                       | Qty<br>Litres               | Value                 | Qty<br>Litres               | Value                 |
| <b>Domestic sales</b> |                             |                       |                             |                       |
| Super petrol          | 10,322,400                  | 1,464,176,611         | 13,219,800                  | 1,385,521,032         |
| Lanka petrol          | 166,026,300                 | 21,742,281,374        | 166,065,510                 | 16,889,160,950        |
| Auto diesel           | 260,057,060                 | 22,452,360,235        | 343,856,369                 | 24,641,783,345        |
| Super diesel          | 554,400                     | 48,569,443            | 4,904,430                   | 375,831,602           |
| Lubricants            | 4,806,899                   | 931,831,215           | 4,863,351                   | 829,181,000           |
| Total domestic sales  | 441,767,059                 | 46,639,218,878        | 532,909,460                 | 44,121,477,929        |
| Bunkering operations  | 21,080,845                  | 977,967,557           | 623,800                     | 51,390,054            |
| <b>Total sales</b>    | <b>462,847,904</b>          | <b>47,617,186,435</b> | <b>533,533,260</b>          | <b>44,172,867,983</b> |

Sales can be further analysed as follows:

|                                             | 2009                  | 2008                  |
|---------------------------------------------|-----------------------|-----------------------|
| Sales                                       | 49,035,482,118        | 45,472,203,414        |
| Dealer commission / discounts on lubricants | (786,663,721)         | (734,655,493)         |
| Evaporation allowance                       | (120,669,849)         | (102,478,970)         |
| Turnover tax                                | (510,962,112)         | (462,200,968)         |
| Net sales                                   | <b>47,617,186,435</b> | <b>44,172,867,983</b> |

### 4 Cost of sales

The cost of sales includes the FOB/C&F/CIF cost (as applicable), customs / excise duties and taxes, port charges, terminalling charges, hedge settlements, blending expenses, transportation charges etc. incurred on import of raw materials and petroleum products.

### 5 Other operating income

|                                                                | 2009               | 2008               |
|----------------------------------------------------------------|--------------------|--------------------|
| Dividend income from Ceylon Petroleum Storage Terminal Limited | 168,750,000        | 143,750,000        |
| Income from Ceylon Petroleum Corporation                       | 304,301,864        | 98,912,934         |
| (Loss) / profit on disposal of property, plant and equipment   | (6,000)            | 8,215,917          |
| Others                                                         | 17,366,852         | 10,029,157         |
|                                                                | <b>490,412,716</b> | <b>260,908,008</b> |

### 6 Disallowed input VAT

This represents amount disallowed consequent to a change in applicability of VAT on products traded by the Company.



## Notes to the Financial Statement (Contd.)

### 7 (a) Operating (loss) / profit

The following items have been charged in arriving at operating (loss) / profit:

|                                            | 2009               | 2008               |
|--------------------------------------------|--------------------|--------------------|
| Directors' emoluments                      | 10,199,804         | 8,054,919          |
| Auditors' remuneration                     |                    |                    |
| - audit                                    | 981,560            | 916,088            |
| - non-audit                                | 116,720            | 48,000             |
| Depreciation (Note 11)                     | 168,115,970        | 283,624,306        |
| Staff costs [Note 7 (b)]                   | 122,651,010        | 171,167,128        |
| Lease rent - Trincomalee                   | 10,937,125         | 9,898,500          |
| Donations                                  | 200,000            | 1,155,000          |
| Payments under voluntary retirement scheme | 1,681,330          | 11,679,845         |
| <b>7 (b) Staff costs</b>                   |                    |                    |
| Salaries and wages                         | 140,294,496        | 143,431,373        |
| Defined benefit plan (Note 18)             | (17,643,486)       | 27,735,755         |
|                                            | <b>122,651,010</b> | <b>171,167,128</b> |

The average number of employees employed by the Company during the year was 171 (2008 - 170).

### 8 Finance (costs) / income

|                                            | 2009                 | 2008               |
|--------------------------------------------|----------------------|--------------------|
| Interest expense                           | (247,229,686)        | (249,333,560)      |
| Interest income                            | 411,840,820          | 552,054,000        |
| Exchange (losses) / gains                  | (497,424,929)        | 277,428,172        |
| LC charges                                 | (25,106,481)         | (31,529,875)       |
| Interest on deferred payments to suppliers | (129,180,209)        | (297,506,824)      |
|                                            | <b>(487,100,485)</b> | 251,111,913        |
| <b>9 Taxation</b>                          |                      |                    |
| Current tax                                | <b>134,018,629</b>   | <b>175,214,449</b> |

In terms of the agreement entered into with the Board of Investment (BOI) of Sri Lanka under Section 17 of the Board of Investment Law No. 4 of 1978, the Company is exempt from income tax for a period of ten years commencing from 14 February 2003.

The current year tax charge wholly consists of tax on non-exempt interest income at 33 1/3% (2008 - 33 1/3%).

### 10 Earnings per share

Basic earnings per share is calculated by dividing the net (loss) / profit attributable to shareholders by the weighted average number of ordinary shares in issue as at 31 March.

|                                                     | 2009            | 2008          |
|-----------------------------------------------------|-----------------|---------------|
| Net (loss) / profit attributable to shareholders    | (1,237,754,122) | 2,340,404,159 |
| Weighted average number of ordinary shares in issue | 532,465,700     | 532,465,700   |
| Basic earnings per share (Rs)                       | (2.32)          | 4.40          |



## Notes to the Financial Statement (Contd.)

| 11                              | Property, plant and equipment  | Freehold land        | Building & fixtures | Plant and equipment | Office equipment | Computer software | Lube Plant         | Capital work-in-progress | Furniture & fittings & interior furnishing | Motor vehicles    | Total                |
|---------------------------------|--------------------------------|----------------------|---------------------|---------------------|------------------|-------------------|--------------------|--------------------------|--------------------------------------------|-------------------|----------------------|
| <b>Year ended 31 March 2008</b> |                                |                      |                     |                     |                  |                   |                    |                          |                                            |                   |                      |
| (a)                             | Opening net book amount        | 1,969,631,680        | 790,771,288         | 238,806,367         | 2,236,242        | -                 | -                  | 164,898,362              | 2,289,894                                  | 5,392,750         | 3,174,026,583        |
|                                 | Adjustments                    | -                    | (7,021,534)         | (631,516)           | -                | -                 | -                  | -                        | -                                          | -                 | (7,653,050)          |
|                                 | Additions                      | -                    | 15,735,966          | 36,461,704          | 601,895          | -                 | -                  | 295,327,936              | 813,097                                    | 3,739,849         | 352,680,447          |
|                                 | Disposals                      | -                    | -                   | (1,021,562)         | -                | -                 | -                  | -                        | -                                          | -                 | (1,021,562)          |
|                                 | Transfers                      | -                    | 28,542,254          | 10,883,100          | -                | -                 | 388,958,586        | (428,383,940)            | -                                          | -                 | -                    |
|                                 | Depreciation charge            | -                    | (64,568,169)        | (159,794,703)       | (741,483)        | -                 | (53,659,633)       | -                        | (1,994,479)                                | (2,765,839)       | (283,624,306)        |
|                                 | <b>Closing net book amount</b> | <b>1,969,631,680</b> | <b>763,359,805</b>  | <b>124,703,390</b>  | <b>2,096,654</b> | <b>-</b>          | <b>335,298,953</b> | <b>31,842,358</b>        | <b>1,108,512</b>                           | <b>6,366,760</b>  | <b>3,234,408,112</b> |
| <b>At 31 March 2008</b>         |                                |                      |                     |                     |                  |                   |                    |                          |                                            |                   |                      |
|                                 | Cost / valuation               | 1,969,631,680        | 982,864,129         | 834,681,882         | 9,357,884        | -                 | 388,958,586        | 31,842,358               | 10,316,857                                 | 14,602,349        | 4,242,255,725        |
|                                 | Accumulated depreciation       | -                    | (219,504,324)       | (709,978,492)       | (7,261,230)      | -                 | (53,659,633)       | -                        | (9,208,345)                                | (8,235,589)       | (1,007,847,613)      |
|                                 | <b>Net book amount</b>         | <b>1,969,631,680</b> | <b>763,359,805</b>  | <b>124,703,390</b>  | <b>2,096,654</b> | <b>-</b>          | <b>335,298,953</b> | <b>31,842,358</b>        | <b>1,108,512</b>                           | <b>6,366,760</b>  | <b>3,234,408,112</b> |
| <b>Year ended 31 March 2009</b> |                                |                      |                     |                     |                  |                   |                    |                          |                                            |                   |                      |
|                                 | Opening net book amount        | 1,969,631,680        | 763,359,805         | 124,703,390         | 2,096,654        | -                 | 335,298,953        | 31,842,358               | 1,108,512                                  | 6,366,760         | 3,234,408,112        |
|                                 | Adjustments                    | -                    | -                   | -                   | -                | -                 | (8,058,077)        | -                        | -                                          | -                 | (8,058,077)          |
|                                 | Additions                      | -                    | 36,761,180          | 17,006,805          | 4,717,735        | 2,480,187         | 960,413            | 106,102,842              | 939,876                                    | 7,365,217         | 176,334,256          |
|                                 | Disposals                      | -                    | -                   | -                   | -                | -                 | -                  | -                        | (6,000)                                    | -                 | (6,000)              |
|                                 | Transfers                      | -                    | 24,547,197          | 39,355,780          | -                | -                 | 2,689,608          | (66,592,585)             | -                                          | -                 | -                    |
|                                 | Depreciation charge            | -                    | (63,123,710)        | (58,203,629)        | (2,256,319)      | (445,678)         | (39,888,520)       | -                        | (466,161)                                  | (3,731,954)       | (168,115,970)        |
|                                 | <b>Closing net book amount</b> | <b>1,969,631,680</b> | <b>761,544,472</b>  | <b>122,862,346</b>  | <b>4,558,070</b> | <b>2,034,509</b>  | <b>291,002,377</b> | <b>71,352,614</b>        | <b>1,576,227</b>                           | <b>10,000,024</b> | <b>3,234,562,320</b> |
| <b>At 31 March 2009</b>         |                                |                      |                     |                     |                  |                   |                    |                          |                                            |                   |                      |
|                                 | Cost / valuation               | 1,969,631,680        | 1,044,172,506       | 891,044,467         | 14,075,619       | 2,480,187         | 384,550,530        | 71,352,614               | 11,166,733                                 | 21,967,566        | 4,410,441,903        |
|                                 | Accumulated depreciation       | -                    | (282,628,034)       | (768,182,121)       | (9,517,549)      | (445,678)         | (93,548,153)       | -                        | (9,590,506)                                | (11,967,543)      | (1,175,879,583)      |
|                                 | <b>Net book amount</b>         | <b>1,969,631,680</b> | <b>761,544,472</b>  | <b>122,862,346</b>  | <b>4,558,070</b> | <b>2,034,509</b>  | <b>291,002,377</b> | <b>71,352,614</b>        | <b>1,576,227</b>                           | <b>10,000,024</b> | <b>3,234,562,320</b> |



## Notes to the Financial Statement (Contd.)

### 11 Property, plant and equipment (contd)

(b) Capital work-in-progress at 31 March 2009 represents the following:

|                    | 2009              | 2008              |
|--------------------|-------------------|-------------------|
| Refurbishment work |                   |                   |
| - Trincomalee      | 28,505,437        | 12,186,926        |
| - Retail outlets   | 42,847,177        | 19,655,431        |
|                    | <u>71,352,614</u> | <u>31,842,357</u> |

### (c) Valuation of land

The lands belonging to the retail outlets were valued on 1 May 2004 by professional independent valuers. The revaluation surplus of Rs 896,641,680 was credited against the goodwill recognised at the time of acquisition as permitted by SLAS 25 (Business Combinations).

If land was stated on a historical cost basis, the amount would be as follows :

|                          | 2009                 | 2008                 |
|--------------------------|----------------------|----------------------|
| Cost                     | 1,072,000,000        | 1,072,990,000        |
| Accumulated depreciation | Nil                  | Nil                  |
| <b>Net book amount</b>   | <u>1,072,990,000</u> | <u>1,072,990,000</u> |

There are fully depreciated assets as at the balance sheet date amounting to Rs 184,003,037 (2008-Rs 167,727,230).

### 12 Investment

#### (a) Long term investment

- (i) Lanka IOC PLC owns 1/3rd share of Ceylon Petroleum Storage Terminal Limited (CPSTL), also known as the "Common User Facility" (CUF).
- (ii) The Company paid US\$ 45 million to Ceylon Petroleum Corporation on 22 January 2004 to obtain 1/3 ownership of CPSTL (250,000,000 equity shares).

|                                | 2009                 | 2008                 |
|--------------------------------|----------------------|----------------------|
| At the beginning of the year   | 4,394,000,000        | 4,394,000,000        |
| <b>Closing net book amount</b> | <u>4,394,000,000</u> | <u>4,394,000,000</u> |

#### (b) Other investment

Other investments as at 31 March 2008 wholly consisted of investment in treasury bonds, which accrued an interest of 11% per annum and matured on 5 January 2009.

### 13 Goodwill

Goodwill is due to the excess of purchase consideration paid to the Government of Sri Lanka over the net assets value representing applicable shares allotted in the acquisition of the retail outlets.

Accumulated amortisation as at the balance sheet date amounted to Rs 85,420,976.

### 14 Inventories

|                                  | 2009                  | 2008                 |
|----------------------------------|-----------------------|----------------------|
| Petroleum products               | 9,856,420,752         | 7,937,064,825        |
| Lubricants                       | 236,853,981           | 98,581,637           |
| Base oil and other raw materials | 521,064,318           | 475,221,327          |
|                                  | <u>10,614,339,051</u> | <u>8,510,867,789</u> |



## Notes to the Financial Statement (Contd.)

### 15 Receivables and prepayments

|                   | 2009                 | 2008               |
|-------------------|----------------------|--------------------|
| Trade receivables | 228,940,482          | 76,315,960         |
| VAT receivables   | 131,088,471          | 12,469,931         |
| Other receivables | 592,258,255          | 372,733,459        |
| Deposits          | 5,150,453            | 5,035,283          |
| Advances          | 81,587,410           | 55,865,570         |
| Prepayments       | 29,667,467           | 25,570,747         |
|                   | <b>1,068,692,538</b> | <b>547,990,950</b> |

### 16 Cash and cash equivalents

|                        |                    |                      |
|------------------------|--------------------|----------------------|
| Cash and bank balances | 468,440,307        | 2,138,085,954        |
| At end of year         | <b>468,440,307</b> | <b>2,138,085,954</b> |

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

|                           | 2009                 | 2008                 |
|---------------------------|----------------------|----------------------|
| Cash and bank balances    | 468,440,307          | 2,138,085,954        |
| Bank overdrafts (Note 20) | (885,255,459)        | (247,711,672)        |
|                           | <b>(416,815,151)</b> | <b>1,890,374,282</b> |

### 17 Stated Capital

|                         | Number of shares   | Stated Capital | Total                |
|-------------------------|--------------------|----------------|----------------------|
| At 31 March 2008        | 532,465,700        | 7,576,573,900  | 7,576,573,900        |
| <b>At 31 March 2009</b> | <b>532,465,700</b> |                | <b>7,576,573,900</b> |

### 18 Defined benefit obligations

The amounts recognised in the balance sheet are determined as follows:

|                                                       | 2009              |
|-------------------------------------------------------|-------------------|
| Present value of unfunded obligation                  | 26,496,869        |
| <b>Balance recognised in the financial statements</b> | <b>26,496,869</b> |

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

|                         | 2009              |
|-------------------------|-------------------|
| At 1 April 2008         | 46,383,365        |
| Current service cost    | 1,737,591         |
| Transitional adjustment | (19,381,077)      |
| Benefits paid           | (2,243,010)       |
| <b>At 31 March 2009</b> | <b>26,496,869</b> |

The amounts recognised in the income statement are as follows:

|                                         | 2009                |
|-----------------------------------------|---------------------|
| Current service cost                    | 1,737,591           |
| Transitional adjustment                 | (19,381,077)        |
| <b>Total included in the staff cost</b> | <b>(17,643,486)</b> |



## Notes to the Financial Statement (Contd.)

The principal actuarial assumptions used were as follows.

|                         |                         |
|-------------------------|-------------------------|
|                         | <b>2009</b>             |
| Discount rate           | 12%                     |
| Staff turnover          | 10%                     |
| Retiring age            | <b>60 years</b>         |
| Future salary increases | <b>2 - 4% per annum</b> |

### 19 Trade and other payables

|                                           | <b>2009</b>          | 2008                 |
|-------------------------------------------|----------------------|----------------------|
| Trade payables                            | <b>3,672,306,506</b> | 4,399,043,140        |
| Amount due to related companies (Note 24) | <b>1,545,268,434</b> | 4,856,270,203        |
| Accrued expenses                          | <b>185,566,976</b>   | 214,754,820          |
| Other payables                            | <b>585,280,132</b>   | 222,203,399          |
|                                           | <b>5,988,422,047</b> | <b>9,692,271,562</b> |

### 20 Borrowings

|                         | <b>2009</b>          | 2008                 |
|-------------------------|----------------------|----------------------|
| <b>Current</b>          |                      |                      |
| Short term loans        | <b>4,769,993,562</b> | 3,857,590,575        |
| Bank overdrafts         | <b>885,255,459</b>   | 247,711,672          |
| <b>Total borrowings</b> | <b>5,655,249,021</b> | <b>4,105,302,247</b> |

The short term loans and bank overdrafts are unsecured.

The interest rates are as follows:

|                  | <b>Interest rates</b> |
|------------------|-----------------------|
| Short term loans | <b>LIBOR + Margin</b> |
| Bank overdrafts  | <b>LIBOR + Margin</b> |

### 21 Contingent liabilities

There were no material contingent liabilities at the balance sheet date.

### 22 Commitments

#### (a) Financial commitments

The company has a commitment to pay USD 100,000 per annum to Government of Sri Lanka as leased rental for storage tanks at Trincomalee used by the company. There were no other material financial commitments as at the balance sheet date.

#### (b) Capital commitments

There were no material capital commitments outstanding at the balance sheet date.



## Notes to the Financial Statement (Contd.)

### 23 Cash (used in) / generated from operations

Reconciliation of (loss) / profit before tax to cash (used in) / generated from operations:

|                                                                      | 2009                   | 2008                 |
|----------------------------------------------------------------------|------------------------|----------------------|
| Profit / (loss) before tax                                           | (1,103,735,493)        | 2,515,618,608        |
| Adjustments :                                                        |                        |                      |
| Add Depreciation (Note 11)                                           | 168,115,970            | 283,624,306          |
| Add Exchange losses/ (Less) gains                                    | 285,136,923            | (67,405,636)         |
| Add Adjustments to property, plant and equipment                     | 8,058,077              | 7,653,050            |
| (Less) Interest income (Note 8)                                      | (411,840,820)          | (552,054,000)        |
| Add Loss/ (less) profit on disposal of property, plant and equipment | 6,000                  | (8,215,917)          |
| Add Disallowed input VAT                                             | Nil                    | 795,971,473          |
| Add Interest expense (Note 8)                                        | 376,409,895            | 546,840,384          |
| Changes in working capital                                           |                        |                      |
| - Increase in receivables and prepayments                            | (520,701,588)          | (382,205,865)        |
| - Increase in inventories                                            | (2,103,471,262)        | (1,951,648,128)      |
| - (Decrease) / increase in trade and other payables                  | (3,833,029,724)        | 126,513,499          |
| Add Provision for retirement benefit obligations (Note 18)           | (17,643,486)           | 27,735,755           |
| Cash (used in) / generated from operations                           | <b>(7,152,695,507)</b> | <b>1,342,427,529</b> |

### 24 Directors' interests in contracts with the Company

Indian Oil Corporation Limited (incorporated in India) holds 75.12% of the Company's issued share capital.

Mr K R Suresh Kumar, Managing Director, Mr K B Jambekar - Senior Vice President (Finance) and Mr D Sothiselvam - Senior Vice President (Lubricant Marketing and Production) were directors of Ceylon Petroleum Storage Terminal Limited (CPSTL) as at 31 March 2009.

Mr U L Kadurugamuwa, a Director of the Company upto 31 October 2009 is a Partner of Messrs F J & G De Saram.

The following transactions were carried out with related parties :

|                                                                          | 2009                 | 2008                 |
|--------------------------------------------------------------------------|----------------------|----------------------|
| <b>Sales / purchases of goods and services</b>                           |                      |                      |
| Indian Oil Corporation Limited                                           |                      |                      |
| - Petroleum products                                                     | 838,268,226          | 414,777,279          |
| - Others                                                                 | 166,477,007          | 303,532,837          |
| Ceylon Petroleum Storage Terminal Limited                                | 1,252,163,017        | 884,234,599          |
| F J & G De Saram                                                         | 2,259,125            | 1,074,856            |
| <b>Outstanding balances arising from purchases of goods and services</b> |                      |                      |
| Amounts due to related companies                                         |                      |                      |
| Indian Oil Corporation Limited - Petroleum products                      | 696,306,740          | 3,937,895,052        |
| Indian Oil Corporation Limited - Others                                  | 655,576,331          | 567,232,955          |
| Ceylon Petroleum Storage Terminal Limited (CPSTL)                        | 193,385,363          | 351,142,196          |
|                                                                          | <b>1,545,268,434</b> | <b>4,856,270,203</b> |

### 25 Related party transactions

There were no related parties or related party transactions other than those disclosed in Note 24 to the financial statements.

### 26 Post balance sheet events

No events have occurred since the balance sheet date which should require adjustments to or disclosures in the financial statements.





## Shareholders' Information

### Ordinary Shareholding as at 31st March 2009

Stated Capital representing 532,465,705 ordinary shares

No. of Shareholders as at 31st March 2009 : 13,267

| Shareholdings               | Resident            |                    |              | Non Resident        |                    |              | Total               |                    |               |
|-----------------------------|---------------------|--------------------|--------------|---------------------|--------------------|--------------|---------------------|--------------------|---------------|
|                             | No. of Shareholders | No. of Shares      | Percentage   | No. of Shareholders | No. of Shares      | Percentage   | No. of Shareholders | No. of Shares      | Percentage    |
| 1 to 1,000 Shares           | 6,672               | 3,659,610          | 0.69         | 28                  | 16,105             | 0.00         | 6,700               | 3,675,715          | 0.69          |
| 1,001 to 5,000 Shares       | 5,349               | 11,631,474         | 2.18         | 57                  | 149,900            | 0.03         | 5,406               | 11,781,374         | 2.21          |
| 5,001 to 10,000 Shares      | 487                 | 3,847,747          | 0.72         | 16                  | 122,600            | 0.02         | 503                 | 3,970,347          | 0.74          |
| 10,001 to 50,000 Shares     | 429                 | 9,486,800          | 1.78         | 29                  | 904,100            | 0.17         | 458                 | 10,390,900         | 1.95          |
| 50,001 to 100,000 Shares    | 70                  | 5,136,070          | 0.96         | 5                   | 360,900            | 0.07         | 75                  | 5,496,970          | 1.03          |
| 100,001 to 500,000 Shares   | 91                  | 19,307,500         | 3.63         | 7                   | 1,657,900          | 0.31         | 98                  | 20,965,400         | 3.94          |
| 500,001 to 1,000,000 Shares | 11                  | 7,474,100          | 1.40         | 0                   | 0                  | 0.00         | 11                  | 7,474,100          | 1.40          |
| Over 1,000,000 Shares       | 13                  | 61,112,800         | 11.49        | 3                   | 407,598,099        | 76.55        | 16                  | 468,710,899        | 88.04         |
| <b>Total</b>                | <b>13,122</b>       | <b>121,656,101</b> | <b>22.85</b> | <b>145</b>          | <b>410,809,604</b> | <b>77.15</b> | <b>13,267</b>       | <b>532,465,705</b> | <b>100.00</b> |

| Categories of Shareholders |                     |               |                    |               |
|----------------------------|---------------------|---------------|--------------------|---------------|
|                            | No. of Shareholders | Percentage    | No. of Shares      | Percentage    |
| Individual                 | 12,786              | 96.37         | 56,459,906         | 10.60         |
| Institutional              | 481                 | 3.63          | 476,005,799        | 89.40         |
| <b>Total</b>               | <b>13,267</b>       | <b>100.00</b> | <b>532,465,705</b> | <b>100.00</b> |

### Twenty Largest Shareholders as at 31st March 2009

| Name                                                            | No. of Shares  | Percentage |
|-----------------------------------------------------------------|----------------|------------|
| Indian Oil Corporation Limited                                  | 399,999,999    | 75.12      |
| National Savings Bank                                           | 15,365,100     | 2.89       |
| Sri Lanka Insurance Corporation Ltd - Life Fund                 | 11,978,700     | 2.25       |
| Mr Tarik Al Nakib                                               | 6,500,000      | 1.22       |
| Mr Shanker Varadananda Somasunderam                             | 6,239,600      | 1.17       |
| Sri Lanka Insurance Corporation Ltd - General Fund              | 5,730,300      | 1.08       |
| Employees Provident Fund                                        | 5,195,200      | 0.98       |
| Bank of Ceylon A/c Ceybank Unit Trust                           | 4,279,700      | 0.80       |
| Mr Louis Rajkumar Page                                          | 2,375,300      | 0.45       |
| Sampath Bank PLC A/c No.1                                       | 2,124,600      | 0.40       |
| Waldock Mackenzie Ltd/Hi-Line Trading (Pvt) Ltd                 | 2,018,700      | 0.38       |
| Sampath Bank PLC A/c No.3                                       | 1,786,400      | 0.34       |
| Nuwara Eliya Property Developers (Pvt) Ltd                      | 1,647,400      | 0.31       |
| Waldock Mackenzie Ltd/Mr A F Munas & Mrs N Munas                | 1,266,400      | 0.24       |
| Mr Zainul Abdeen Naseer Ahamed                                  | 1,105,400      | 0.21       |
| HSBC International Nominees Ltd - UBS AG Hongkong               | 1,098,100      | 0.21       |
| Mr Morarji Meghji Udeshi                                        | 900,600        | 0.17       |
| Aegis Fund Management (Private) Limited                         | 881,700        | 0.17       |
| Freudenberg Shipping Agencies Limited                           | 775,900        | 0.15       |
| Employees Trust Fund Board                                      | 774,200        | 0.15       |
| <b>LIOC Share Performance at Colombo Stock Exchange (CSE)</b>   |                |            |
| No. of Share transactions for the year                          | 14,189         |            |
| No. of Shares traded                                            | 39,594,300     |            |
| Value of Shares Traded (LKR)                                    | 901,923,975.00 |            |
| Price Movements (LKR)                                           |                |            |
| Highest (Rs)                                                    | 28.00          |            |
| Lowest (Rs)                                                     | 14.00          |            |
| Closing Price                                                   | 16.00          |            |
| Market Capitalization (LKR Mln) (Closing Price * No. of Shares) | 8,519          |            |



## Shareholders' Information

### Ordinary Shareholding as at 31st March 2008

Stated Capital representing 532,465,705 ordinary shares

No. of Shareholders as at 31st March 2008 : 13,945

| Shareholdings               | Resident            |                    |              | Non Resident        |                    |              | Total               |                    |               |
|-----------------------------|---------------------|--------------------|--------------|---------------------|--------------------|--------------|---------------------|--------------------|---------------|
|                             | No. of Shareholders | No. of Shares      | Percentage   | No. of Shareholders | No. of Shares      | Percentage   | No. of Shareholders | No. of Shares      | Percentage    |
| 1 to 1,000 Shares           | 7,012               | 3,881,785          | 0.73         | 31                  | 19,205             | -            | 7,043               | 3,900,990          | 0.73          |
| 1,001 to 5,000 Shares       | 5,644               | 12,354,866         | 2.32         | 54                  | 142,200            | 0.03         | 5,698               | 12,497,066         | 2.35          |
| 5,001 to 10,000 Shares      | 520                 | 4,129,350          | 0.78         | 11                  | 84,400             | 0.02         | 531                 | 4,213,750          | 0.80          |
| 10,001 to 50,000 Shares     | 453                 | 10,266,400         | 1.93         | 26                  | 837,100            | 0.16         | 479                 | 11,103,500         | 2.09          |
| 50,001 to 100,000 Shares    | 68                  | 4,990,100          | 0.94         | 2                   | 120,600            | 0.02         | 70                  | 5,110,700          | 0.96          |
| 100,001 to 500,000 Shares   | 84                  | 17,756,900         | 3.33         | 10                  | 2,078,800          | 0.39         | 94                  | 19,835,700         | 3.72          |
| 500,001 to 1,000,000 Shares | 13                  | 9,309,100          | 1.75         | -                   | -                  | -            | 13                  | 9,309,100          | 1.75          |
| Over 1,000,000 Shares       | 13                  | 57,396,800         | 10.77        | 4                   | 409,098,099        | 76.83        | 17                  | 466,494,899        | 87.60         |
| <b>Total</b>                | <b>13,807</b>       | <b>120,085,301</b> | <b>22.55</b> | <b>138</b>          | <b>412,380,404</b> | <b>77.45</b> | <b>13,945</b>       | <b>532,465,705</b> | <b>100.00</b> |

| Categories of Shareholders |                     |               |                    |               |
|----------------------------|---------------------|---------------|--------------------|---------------|
|                            | No. of Shareholders | Percentage    | No. of Shares      | Percentage    |
| Individual                 | 13,443              | 96.40         | 55,822,006         | 10.48         |
| Institutional              | 502                 | 3.60          | 476,643,699        | 89.52         |
| <b>Total</b>               | <b>13,945</b>       | <b>100.00</b> | <b>532,465,705</b> | <b>100.00</b> |

### Twenty Largest Shareholders as at 31st March 2008

| Name                                                                          | No. of Shares | Percentage |
|-------------------------------------------------------------------------------|---------------|------------|
| Indian Oil Corporation Limited                                                | 399,999,999   | 75.122     |
| National Savings Bank                                                         | 15,365,100    | 2.886      |
| Sri Lanka Insurance Corporation Ltd.-Life Fund                                | 7,740,000     | 1.454      |
| Mr. Al-Nakib Tarik - Kuwait                                                   | 6,500,000     | 1.221      |
| Mr. Somasunderam Shanker Varadananda                                          | 6,239,600     | 1.172      |
| Sri Lanka Insurance Corporation Ltd.-General Fund                             | 5,730,300     | 1.076      |
| Employees Provident Fund                                                      | 5,195,200     | 0.976      |
| Janashakthi Insurance Co. Ltd. (Policy Holders)                               | 3,863,100     | 0.726      |
| Bank of Ceylon A/C Ceybank Unit Trust                                         | 3,169,900     | 0.595      |
| Mr. Page Louis Rajkumar                                                       | 2,375,300     | 0.446      |
| Sampath Bank Limited A/C No.1                                                 | 2,129,600     | 0.400      |
| Sampath Bank Limited A/C No.3                                                 | 1,786,400     | 0.335      |
| HSBC International Nominees Ltd-HSBC Bank PLC-CMG First State Global          |               |            |
| Umbrella Fund PLC-CMG First State Indian- CMG First State Indian Subcontinent | 1,500,000     | 0.282      |
| Waldock Mackenzie Ltd/Hie-Line Trading (Pvt) Ltd                              | 1,430,500     | 0.269      |
| Waldock Mackenzie Ltd/Mr. A.F. Munas & Mrs. N. Munas                          | 1,266,400     | 0.238      |
| Mr. Nazeer Ahamed Zainul Abdeen                                               | 1,105,400     | 0.208      |
| HSBC International Nominees Ltd-UBS AG Hongkong                               | 1,098,100     | 0.206      |
| Eagle Insurance Co., Ltd A/c No.3                                             | 933,100       | 0.175      |
| Aegis Fund Management (Pvt) Ltd                                               | 881,700       | 0.166      |
| Waldock Mackenzie Ltd/Ceylinco Shriram Capital Management Services (Pvt) Ltd. | 863,400       | 0.162      |
| <b>LIOC Share Performance at Colombo Stock Exchange (CSE)</b>                 |               |            |
| No. of Share transactions for the year                                        | 9,499         |            |
| No of Shares traded                                                           | 19,365,800    |            |
| Value of Shares Traded (LKR)                                                  | 467,362,950   |            |
| Price Movements (LKR)                                                         |               |            |
| Highest (Rs.)                                                                 | 31.25         |            |
| Lowest (Rs.)                                                                  | 19.00         |            |
| Closing Price                                                                 | 22.00         |            |
| Market Capitalization (LKR Mln) (Closing Price * No. of shares)               | 11,714        |            |



## Notice of Meeting

NOTICE IS HEREBY GIVEN THAT the 7th Annual General Meeting of the shareholders of Lanka IOC PLC will be held at the "Grand Ball Room" Galle Face Hotel, Colombo 3 on Tuesday, 11th August 2009 at 4.00 p.m. for the following purposes:-

1. To receive and consider the financial statements of the Company for the financial year ended 31st March 2009 with the Report of the Auditors thereon.
2. a) To re-elect Mr S V Narasimhan who retires in terms of Article 29(2) of the Articles of Association of the Company and being eligible has offered himself for re-election.  
b) To re-elect Mr Jaliya Medagama who retires in terms of Article 29(2) of the Articles of Association of the Company and being eligible has offered himself for re-election.  
c) To re-appoint Mr H S Bedi who retires in terms of Article 27(6) of the Articles of Association of the Company and being eligible has offered himself for re-election.
3. To re-appoint Messrs.PricewaterhouseCoopers, Chartered Accountants, as the Auditors of the Company to hold office until the conclusion of the next Annual General Meeting and audit the Financial Statements of the Company for the financial year ending on 31st March 2010 and to authorize the Directors to fix their remuneration.

By Order of the Board  
Lanka IOC PLC



Ms. Rajanie Balakrishnan  
Company Secretary  
Lanka IOC PLC  
Level 20, West Tower  
World Trade Center  
Echelon Square  
Colombo 01

**Note:-** Any member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her place. Such Proxy need not be a member of the Company. A form of proxy is enclosed for this purpose.

*Instruments appointing proxies must be lodged with the company not less than 48 hours before the time appointed for the holding of the Annual General Meeting.*

*Shareholders/proxy holders are requested to bring with them their National Identity Cards or any other form of valid identification.*





## Form of Proxy

I/We ..... of

..... being

a member/s of Lanka IOC PLC, hereby appoint .....

of .....

..... or failing him/her

Mr S V Narasimhan or failing him

Mr K R Suresh Kumar or failing him

Mr R Narayanan or failing him

Mr H S Bedi or failing him

Prof. Lakshman R Watawala or failing him

Mr Jaliya Medagama

as my/our Proxy to represent me/us and to vote for me/us on my/our behalf at the Seventh Annual General Meeting of the Company to be held on Tuesday, 11th August 2009 at 4.00 p.m. at the "Grand Ball Room" Galle Face Hotel, Colombo 3, and at any adjournment thereof and at every poll which may be taken in consequence thereof.

The Proxy may vote as he/she thinks fit on any resolution brought before the meeting and may also speak on my/our behalf at the meeting.

In witness I/we set my/our hand/s hereto on this .....day of ..... 2009.

.....  
Signature/s



### **Instructions as to Completion of Proxy Form**

- Please perfect the Form of Proxy by filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
- The completed Form of Proxy should be deposited at the Business office of Lanka IOC PLC at Level 20, West Tower, World Trade Center, Colombo 1, not less than 48 hours before the time appointed for the holding of the Meeting.
- If the appointer is a Company or Corporation, this Form must be executed under its Common Seal or the hand of a duly Authorized Officer of the Company, in accordance with its Articles of Association.
- If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should accompany the Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
- If this Form of Proxy is returned without any indication of how the person appointed as Proxy shall vote, then the Proxy shall exercise his/her discretion as to how he/she votes or, whether or not he/she abstains from voting.

Please fill in the following details:

NIC No: .....

Share Folio No: .....

Name: .....

Address: .....  
.....  
.....

Jointly with: .....



## Events of Lanka IOC PLC 01.04.2008 to 31.03.2009



*Indian High Commissioner Mr Alok Prasad's visit to Trincomalee Terminal on 17th February 2009. Managing Director of Lanka IOC PLC, Mr K R Suresh Kumar is seen briefing the High Commissioner.*



*Lanka IOC PLC conducted a Training Programme for the Pump Attendants of the Retail Outlets in the Colombo Area.*



*The Dealers Convention of Lanka IOC PLC held on 5th December 2008 at Holiday Inn, Colombo.*



## Events of Lanka IOC PLC 01.04.2008 to 31.03.2009 (Contd.)



*Mr Carol, Executive (Sales) of Lanka IOC PLC addressing the Mini Dealers of Matara District while Managing Director, Mr K R Suresh Kumar and Mr V C Asokan, Vice President (Sales) look on.*



*Nitrogen Filling Facility made available at the LIOC Retail Outlet at Felix Perera & Son, Alexander Place, Colombo 07.*



*Fire Fighting training programme conducted at the Trincomalee Terminal and the Employees of LIOC, who participated in the training.*



*Employees of LIOC, Trincomalee seen actively participating in the Fire Fighting training*





## Fox Hill Super Cross 2008 - Motor Sport

The Fox Hill Super Cross - the mega motor sporting event in Sri Lanka, organized by Sri Lanka Army and Automobile Association of Sri Lanka, held on 19th April 2008 at famous Fox Hill track in Diyatalawa. The event was co-sponsored by Lanka IOC PLC.



## Lube Plants and Oil Tanks of Lanka IOC at Chinabay, Trincomalee

