LANKA IOC PLC

FINANCIAL STATEMENTS - 31 MARCH 2014

LANKA IOC PLC

FINANCIAL STATEMENTS - 31 MARCH 2014

CONTENTS

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 statement of financial position as at 31 March 2014, and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements as set out on pages 2 to 31.

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

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 2014 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2014 and of its results 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 Sections 151(2) of the Companies Act, No. 7 of 2007.

COLOMBO **CHARTERED ACCOUNTANTS**

LANKA IOC PLC

Statement of comprehensive income

(all amounts in Sri Lanka Rupees)

	Notes	Year ended 31 March	
		2014	**2013**
Sales	5	81,792,755,491	75,110,530,155
Cost of sales	6	(73,481,214,015)	(69,721,226,729)
Gross profit		8,311,541,476	5,389,303,426
Other operating income	7	31,228,188	38,109,710
Selling and distribution expenses		(1,748,268,910)	(1,675,863,662)
Administrative expenses		(875,303,769)	(889,165,513)
Operating profit	8	5,719,196,985	2,862,383,961
Finance income	9	301,045,004	267,033,857
Finance costs	9	(258,481,070)	(138,840,324)
Profit before tax		5,761,760,919	2,990,577,494
Tax	10	(948,399,926)	(81,398,595)
Profit for the year		4,813,360,993	2,909,178,899
Other comprehensive (loss) / income			
Actuarial (loss) / gain on retirement benefit obligations	21	(108,896)	2,327,318
Tax credit / (charge) on actuarial loss / gain	10	16,334	(349,098)
Other comprehensive (loss) / income - net of tax		(92,562)	1,978,220
Total comprehensive income for the year		**4,813,268,431**	**2,911,157,119**
Earnings per share attributable to the owners of the Company during the year			
(expressed in LKR per share)			
Basic earnings per share	11	**9.04**	**5.46**

The Notes on pages 6 to 31 form an integral part of these financial statements.

Report of the independent auditors' on page 1.

LANKA IOC PLC

Statement of financial position

(all amounts in Sri Lanka Rupees)

	Notes	31 March 2014	31 March 2013
ASSETS			
Non current assets			
Property, plant and equipment	14	3,341,115,047	3,264,570,198
Investment	15	4,394,000,000	4,394,000,000
Intangible assets	16	676,571,878	678,414,226
		8,411,686,925	**8,336,984,424**
Current assets			
Inventories	17	7,928,943,431	10,240,468,187
Trade and other receivables	18	1,886,184,591	2,570,303,335
Income tax recoverable		-	365,370,909
Cash and cash equivalents	19	8,757,743,308	3,187,156,121
		18,572,871,330	16,363,298,552
Total assets		**26,984,558,255**	**24,700,282,976**
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital	20	7,576,573,900	7,576,573,900
Retained earnings		9,466,314,499	5,451,744,626
		17,042,888,399	**13,028,318,526**
Non-current liabilities			
Retirement benefit obligations	21	47,185,447	41,038,013
Deferred tax liability	22	30,266,660	5,486,095
		77,452,107	46,524,108
Current liabilities			
Trade and other payables	23	3,213,040,673	7,257,968,175
Income tax payable		528,566,429	-
Borrowings	24	6,122,610,647	4,367,472,167
		9,864,217,749	11,625,440,342
Total liabilities		9,941,669,856	11,671,964,450
Total equity and liabilities		**26,984,558,255**	**24,700,282,976**

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

.... 09 - May - 2014 ....

Senior Vice President (Finance) **Date**

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were authorised for issue and signed on behalf by Board of Directors on

....

....

Managing Director **Director**

09.05.2014 9-5-2014

....

Date **Date**

PricewaterhouseCoopers Colombo

The Notes on pages 6 to 31 form an integral part of these financial statements.
Report of the independent auditors' on page 1.

LANKA IOC PLC
Statement of changes in equity

(all amounts in Sri Lanka Rupees)

	Stated capital	Retained earnings	Total
Balance at 1 April 2012	7,576,573,900	2,540,587,507	10,117,161,407
Profit for the year	-	2,909,178,899	2,909,178,899
Other comprehensive income for the year	-	1,978,220	1,978,220
Balance at 31 March 2013	**7,576,573,900**	**5,451,744,626**	**13,028,318,526**
Balance at 1 April 2013	7,576,573,900	5,451,744,626	13,028,318,526
Profit for the year	-	4,813,360,993	4,813,360,993
Other comprehensive loss for the year	-	(92,562)	(92,562)
Transaction with owners of the Company recognised directly in equity			
Dividend paid [Note 12]	-	(798,698,558)	(798,698,558)
Balance at 31 March 2014	**7,576,573,900**	**9,466,314,499**	**17,042,888,399**

The Notes on pages 6 to 31 form an integral part of these financial statements.

Report of the independent auditors' on page 1.

LANKA IOC PLC

Cash flow statement

(all amounts in Sri Lanka Rupees)

	Notes	Year ended 31 March	
		2014	**2013**
Cash flows from operating activities			
Cash generated from operations	27	4,737,014,209	1,719,646,622
Interest paid	9	(91,117,945)	(116,024,224)
Interest received	9	301,045,004	104,254,019
Retirement benefits paid	21	(1,788,069)	(2,663,010)
Economic service charge and income tax paid		(29,665,689)	(130,078,382)
Net cash generated from operating activities		4,915,487,510	1,575,135,025
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(303,778,816)	(195,774,335)
Purchase of computer software	16	-	(2,064,227)
Proceeds from disposal of property, plant and equipment		2,438,571	4,379,697
Dividend paid		(798,698,558)	-
Net cash used in investing activities		(1,100,038,803)	(193,458,865)
Cash flows from financing activities			
Repayment of borrowing		(45,334,693,045)	(45,352,288,170)
Proceeds from borrowings		47,089,831,525	45,459,280,389
Net cash generated from financing activities		1,755,138,480	106,992,219
Net increase in cash and cash equivalents		**5,570,587,187**	**1,488,668,379**
Movement in cash and cash equivalents			
Cash and cash equivalents at beginning of year		3,187,156,121	1,698,487,742
Increase in cash and cash equivalents		5,570,587,187	1,488,668,379
Cash and cash equivalents at end of year	19	**8,757,743,308**	**3,187,156,121**

The Notes on pages 6 to 31 form an integral part of these financial statements.

Report of the independent auditors' on page 1

LANKA IOC PLC

Notes to the financial statements

(All amounts in notes 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 fuel and liquid petroleum gas. The license is valid for a period of 20 years from 22 January 2004 and renewable thereafter.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The financial statements have been prepared in accordance with and comply with Sri Lanka Accounting Standards ("SLAS") under the historical cost convention except for defined benefit obligation which is measured at present value of the obligation.

The preparation of financial statements in conformity with SLAS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2.2 Changes in accounting policy and disclosures

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

There are no SLAS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 April 2013 that would be expected to have a material impact on the Company.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2013 and not early adopted.

SLFRS 9, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and Financial liabilities. SLFRS 9 was issued in November 2009 and October 2010. It replaces the parts of LKAS 39 that relate to the classification and measurement of financial instruments. SLFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the LKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess SLFRS 9’s full impact and intends to adopt SLFRS 9 no later than the accounting period beginning on or after 1 January 2015.

LANKA IOC PLC

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.2 Changes in accounting policy and disclosures (contd)

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2013 and not early adopted (contd)

SLFRS 10, Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is yet to assess SLFRS 10's full impact and intends to adopt SLFRS 10 no later than the accounting period beginning on or after 1 January 2014.

SLFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess SLFRS 12's full impact and intends to adopt SLFRS 12 no later than the accounting period beginning on or after 1 January 2014.

SLFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across SLFRSs. The Company is yet to assess SLFRS13's full impact and intends to adopt SLFRS 13 no later than the accounting period beginning on or after 1 January 2014.

2.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in currencies other than the functional currency are recognised in the statement of comprehensive income.

2.4 Property, plant and equipment

Land and buildings comprise mainly retail outlets and terminals. All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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.

LANKA IOC PLC

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.4 Property, plant and equipment (contd)

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.

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

Land is not depreciated as it is deemed to have an indefinite life. Depreciation is calculated on the straight line method to allocate the cost of each asset, to their residual values over their estimated useful lives commencing from date of availability for use. On disposal of assets, depreciation ceases on the

The principal annual rates used for this purpose are:

Buildings	15 years
Plant and equipment	8 years
Motor vehicles	5 years
Furniture and fittings and interior furnishing	5 years
Office equipment	4 years

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

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

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

2.5 Intangible assets

(a) Goodwill

Goodwill represents the excess of purchase consideration paid in 2003 to the Government of Sri Lanka over the net assets value representing applicable shares allotted in the acquisition of the retail outlets, which were vested with Independent Petroleum Marketers Limited (IPML). The IPML was subsequently amalgamated in 2004 with Lanka IOC PLC and dissolved under a court order. Due to the amalgamation and subsequent dissolution of this acquired company no consolidated financial statements are prepared.

Goodwill is attributed to the future economic benefits arising from other assets which were acquired from the above business combination that were not able to individually identified and separately recognised. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

LANKA IOC PLC

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.5 Intangible assets (contd)

(b) License fees on computer software

License fees represent costs pertaining to the licensing of software applications purchased. License fees are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives of 5 years.

2.6 Accounting for leases - where the Company is the lessee

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

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

2.7 Impairment of non-financial 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).

2.8 Financial assets

(a) Classification

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

Loans and receivables

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

(b) Recognition and measurement of financial asset

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

LANKA IOC PLC

Notes to the financial statements (contdd)

2 Summary of significant accounting policies (contd)

2.8 Financial assets (contd)

(c) Impairment of financial assets

Assets carried at amortised cost

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

For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. Cash flows relating to loans and receivables falling due within a period of less than one year are not discounted if the effect of discounting is immaterial.

Impairment testing of trade receivables is described in Note 2.11.

2.9 Investments in associates

Investment in the associate company is accounted for at cost and is classified as a long term investment in the statement of financial position. 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.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method for lubricant finished goods and first-in first-out (FIFO) method for other products. This 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.

2.11 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

LANKA IOC PLC

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.12 Cash and cash equivalents

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

2.13 Stated capital

Ordinary Shares are classified as equity.

2.14 Trade payables

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

Trade payables are recognised initially at fair value (which is the purchase cost of the company) and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

All other borrowing costs are recognised in statement of comprehensive income in the period in which they are incurred.

2.16 Current and deferred income tax

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

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

LANKA IOC PLC

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.16 Current and deferred income tax (contd)

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

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

2.17 Employee benefits

(a) 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.

(b) Defined benefit obligation

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

The Company 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 2014.

The liability recognized in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the statement of financial position 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-LKAS19; Employee Benefits. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates of long term governments 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 gratuity liability.

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

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

The assumptions based on which the results of the actuarial valuation was determined, are included in Note 21 to the financial statements.

LANKA IOC PLC

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.18 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provision 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.

2.19 Revenue recognition

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

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

(a) Sale of goods

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

(b) Interest income

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

2.20 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.21 Dividend distribution

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

2.22 Comparatives

Where necessary, comparative figures have been adjusted to confirm with changes in presentation in the current year.

LANKA IOC PLC

Notes to the financial statements (contd)

3 Financial risk management

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks. Market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial risks and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is performed by the finance department under policies approved by the board of directors.

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

(a) Foreign exchange risk

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

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

As at 31 March 2014, if LKR had weakened by 1% against USD with all other variables held constant, will result in foreign exchange loss of LKR 87,751,860 (2013 - LKR 78,045,186).

(b) Credit risk

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

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

Trade receivables

The Company is responsible for managing and analysing the credit risk for each of their new customers before standard payment and delivery terms and conditions are offered. The management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored. Management does not expect any losses from non-performance by these counterparties. Details of the credit risk is disclosed in Note 13 (b).

Bank balances

The Company invest in bank deposit and repo investments. The Company limits the concentration of financial exposure to any single financial institutions. Funds are invested in rated financial institutions as noted in Note 13.

LANKA IOC PLC

Notes to the financial statements (contd)

3 Financial risk management (contd)

3.1 Financial risk factors (contd)

(c) Liquidity risk

Cash flow forecasting is performed by the finance division. The finance division monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs.

Surplus cash held over and above balance required for working capital management is invested in interest bearing savings accounts and short term repo investments. At the reporting date, the Company held repo investments of Rs 7,915,000,000 (2013 - RS 2,151,000,000) and other liquid assets of Rs 842,743,308 (2013 - Rs 1,036,156,121) that are expected to readily generate cash inflows for managing liquidity risk.

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

	Less than 1 year	Total
At 31 March 2014		
Borrowings	6,122,610,647	6,122,610,647
Trade and other payables (excluding statutory liabilities)	2,651,180,217	2,651,180,217
At 31 March 2013		
Borrowings	4,367,472,167	4,367,472,167
Trade and other payables (excluding statutory liabilities)	7,143,613,958	7,143,613,958

(d) Interest rate risk

The Company's interest rate risks arises from the borrowings and repo investments.

The function in the London Inter Bank Offer Rate (LIBOR) and the Money Market rate results in the effective interest rate of borrowings and repo investments respectively, usually without a corresponding charge in the fair value.

The Company analyses the interest rate exposure on a dynamic basis monitoring LIBOR and Money Market rates.

(e) Price risk

The Company is exposed to the commodity price risk of petroleum products.

The Company monitors price of petroleum products on a dynamic basis and adjust inventory levels to minimise the impact.

3.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, capital is monitored on the basis of the gearing ratio.

LANKA IOC PLC

Notes to the financial statements (contd)

3 Financial risk management (contd)

3.2 Capital risk management (contd)

	2014	2013
Total borrowings [Note 24]	6,122,610,647	4,367,472,167
Less :- cash and cash equivalents [Note 19]	(8,757,743,308)	(3,187,156,121)
Net debt	-	1,180,316,046
Total equity	17,042,888,399	13,028,318,526
Total capital	17,042,888,399	14,208,634,572
Gearing ratio	**0%**	**8%**

4 Critical accounting estimates, assumptions and judgments

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

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

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

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

4.2 Income taxes

The Company is subject to income taxes in Sri Lanka. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax assessment issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and different from the amounts that were ideally recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

4.3 Provisions

The Company recognise provision when they have a present legal or constructive obligations arising as a result of past event, and if is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made. The recording of provisions required the application of judgment about ultimate resolution of their obligations. As a result the reviewed at each settlement of financial position date and adjusted to reflect the Company's best estimate.

LANKA IOC PLC

Notes to the financial statements (contd)

4 Critical accounting estimates, assumptions and judgments (contd)

4.4 Impairment of trade receivables

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

4.5 Impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in 2.5.

The recoverable amount of cash generating unit have been determined based on value - in - use calculation. These calculations required the use of estimates.

4.6 Defined benefit obligations

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

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

Other key assumptions for gratuity obligations are based in part on current market conditions, additional information is disclosed in Note 21.

LANKA IOC PLC

Notes to the financial statements (contd)

5 Revenue

	Year ended 31 March	
	2014	**2013**
Domestic sales		
Xtrapremium 95	3,032,791,236	2,243,599,239
Lanka petrol 92 octane	5,532,869,086	-
Lanka petrol 90 octane	16,452,703,713	21,770,109,979
Lanka auto diesel	22,289,935,140	14,358,167,397
Xtramile	3,397,173,352	2,391,669,019
Lanka super diesel	745,772,156	551,734,441
Xtrapremium Euro 03	8,096,972,781	6,653,567,258
Bunkering operations	94,274,167	101,659,395
Lubricants	2,216,018,379	1,655,858,866
Bitumen	7,086,365,632	7,262,357,310
	68,944,875,642	56,988,722,904
Export sales		
Lubricants	37,284,670	86,302,809
Bunkering operations	12,810,595,179	17,234,358,212
Bulk export	-	801,146,230
	12,847,879,849	18,121,807,251
Total sales	**81,792,755,491**	**75,110,530,155**

6 Cost of sales

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

7 Other operating income

	Year ended 31 March	
	2014	**2013**
Income from Ceylon Petroleum Corporation	4,968,216	1,635,599
(Loss) / profit on disposal of property, plant and equipment	(4,262,898)	2,746,426
Rental income	17,277,464	21,507,560
Sundry income	13,245,406	12,220,125
	31,228,188	**38,109,710**

LANKA IOC PLC

Notes to the financial statements (contd)

8 Operating profit

(a) Expenses by nature

	Year ended 31 March	
	2014	**2013**
Directors' emoluments	19,666,529	19,399,366
Auditors' remuneration		
- Statutory audit fee	1,276,500	1,353,000
- Other permitted services	1,214,219	1,236,103
Depreciation [Note 14]	220,532,498	205,129,040
Amortisation charge [Note 16]	1,842,348	2,216,857
Staff costs [Note 8 (b)]	324,086,698	321,875,166
Lease rent - Trincomalee	13,049,300	11,807,075
Corporate Social Responsibility Expenses	19,226,910	3,774,634
Payments under voluntary retirement scheme	-	1,896,180
Provision for receivables	-	125,067,375
Cost of goods sold	73,153,110,521	69,506,459,729
Storage and handling expenses	1,011,150,094	888,271,081
Direct expenses	328,103,495	214,767,000
Transport expenses	778,797,900	766,825,066
Advertising costs	16,119,435	20,767,514
Other expenses	216,610,247	195,435,718
Total cost of sales distribution and administration cost	**76,104,786,694**	**72,286,255,904**

(b) Staff costs

	Year ended 31 March	
	2014	**2013**
Salaries and wages	298,383,905	298,928,467
Defined contribution plans	17,876,186	16,128,088
Defined benefit plan [Note 21]	7,826,607	6,818,611
	324,086,698	**321,875,166**
Number of staff	177	175

9 Net finance income

	Year ended 31 March	
	2014	**2013**
Finance income		
Interest income	301,045,004	104,254,019
Exchange gain	-	162,779,838
	301,045,004	267,033,857
Finance costs		
Interest expense	(91,117,945)	(116,024,224)
Exchange loss	(143,572,143)	-
Bank charges	(23,790,982)	(22,816,100)
	(258,481,070)	(138,840,324)
Net finance income	**42,563,934**	**128,193,533**

LANKA IOC PLC

Notes to the financial statements (contd)

10 Tax

	Year ended 31 March	
	2014	**2013**
Current tax	923,511,065	76,261,598
Adjustments in respect of prior years	91,962	-
Deferred tax [Note 22]	24,796,899	5,136,997
	948,399,926	**81,398,595**

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

	Year ended 31 March	
	2014	**2013**
Profit before tax	5,761,760,919	2,990,577,494
Tax calculated at a tax rate of 15% (2013 - 15%)	864,264,138	448,586,624
Adjustments in respect of prior years	91,962	-
Tax impact of expenses not deductible for tax purpose	37,283,183	5,455,295
Tax impact of income not subject to tax	(454)	(382,517,724)
Tax impact of interest income taxable at different rate	(45,156,297)	(15,638,103)
Adjustment due to the estimated deferred tax base in previous year	7,625,640	(3,669,463)
Tax charge on profit from trade or business	**864,108,172**	**52,216,629**
Interest income	301,041,977	104,221,308
Tax calculated at a tax rate of 28% (2013 - 28%)	**84,291,754**	**29,181,966**
Total tax charge for the year	**948,399,926**	**81,398,595**

Tax recognised in other comprehensive (loss) / income.

	Year ended 31 March	
	2014	**2013**
Tax credit / (charge) on actuarial loss / (gain)	**16,334**	**(349,098)**

11 Earnings per share

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

	Year ended 31 March	
	2014	**2013**
Profit attributable to shareholders	4,813,360,993	2,909,178,899
Number of ordinary shares in issue at 31 March [Note 20]	532,465,705	532,465,705
Basic earnings per share	9.04	5.46

LANKA IOC PLC

Notes to the financial statements (contd)

12 Dividends

During the year the Company paid a final dividend of Rs1.00 per share amounting to Rs 532,465,705 in respect of 2012/2013.

The Company paid an interim dividend of Rs 0.50 per share amounting to Rs 266,232,853 for the year ended 31 March 2014.

13 (a) Financial instrument by category

	Loans and receivables	Total
31 March 2014		
Assets as per statement of financial position		
Trade and other receivables (excluding prepayments)	1,868,401,128	1,868,401,128
Cash and cash equivalents [Note 19]	8,757,743,308	8,757,743,308
	10,626,144,436	**10,626,144,436**

	Other financial liabilities	Total
31 March 2014		
Liabilities as per statement of financial position		
Trade and other payables (excluding statutory liabilities)	2,651,180,217	2,651,180,217
Borrowings [Note 24]	6,122,610,647	6,122,610,647
	8,773,790,864	**8,773,790,864**

	Loans and receivables	Total
31 March 2013		
Assets as per statement of financial position		
Trade and other receivables (excluding prepayments)	2,556,318,062	2,556,318,062
Cash and cash equivalents [Note 19]	3,187,156,121	3,187,156,121
	5,743,474,183	**5,743,474,183**

	Other financial liabilities	Total
31 March 2013		
Liabilities as per statement of financial position		
Trade and other payables (excluding statutory liabilities)	7,143,613,958	7,143,613,958
Borrowings [Note 24]	4,367,472,167	4,367,472,167
	11,511,086,125	**11,511,086,125**

LANKA IOC PLC

Notes to the financial statements (contd)

13 (b) Credit quality of financial asset

	31 March 2014	31 March 2013
Neither past due nor impaired	1,446,289,986	2,083,837,584
Past due but not impaired	161,540,098	104,089,138
	1,607,830,084	**2,187,926,722**

The past due but not impaired balance relates to a number of independent customers for whom there is no recent history of default. The age analysis of past due but not impaired balance is as follows:

	31 March 2014	31 March 2013
Up to 3 months	62,659,377	5,520,010
3 to 6 months	6,013,817	7,272,338
Over 6 months	92,866,904	91,296,790
	161,540,098	**104,089,138**

The impaired receivables of Rs 607,410,035 (2013 - Rs 607,410,035) have been fully provided for.

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

	31 March 2014	31 March 2013
Trade receivables		
Existing customers for more than 6 months	1,446,289,986	2,083,837,584
	1,446,289,986	**2,083,837,584**

Cash at bank and short term deposits	**Rating**	31 March 2014	31 March 2013
Citibank N.A	AAA	2,383,772,833	2,692,497,186
Standard Chartered Bank	AAA	1,170	12,022
People's Bank	AA+	8,608,888	4,443,644
Bank of Ceylon	AA+	2,065,784	3,939,602
Commercial Bank of Ceylon PLC	AA	6,287,491,196	434,071,102
ICICI Bank	AAA	3,187,275	2,879,345
State Bank of India	BBB-	28,014,747	48,983,150
Deutsche Bank	A+	44,266,169	43,119
		8,757,408,062	**3,186,869,170**

LANKA IOC PLC

Notes to the financial statements (contd)

14 Property, plant and equipment (contd)

(b) Capital work-in-progress as at 31 March 2014 represents the following:

	31 March	
	2014	**2013**
Refurbishment work		
- Trincomalee	12,136,809	-
- Retail outlets	34,182,169	19,486,117
	46,318,978	**19,486,117**

(c) Land

In line with the Statement of Recommended Practice of Institute of Chartered Accountant of Sri Lanka, the revaluation done by independent chartered valuer on 01 May 2004 has been considered as cost of the assets at the time of acquisition on 30 December 2003.

(d) Fully depreciated assets still in use amounting to Rs 834,331,859 (2012 - Rs 807,327,114).

15 Long term investment

Lanka IOC PLC owns 33 1/3% of the 750,000,000 shares of Ceylon Petroleum Storage Terminal Limited (CPSTL), also known as the "Common User Facility" (CUF). The Company paid US$ 45 million to Ceylon Petroleum Corporation on 22 January 2004 for the acquisition of 250,000,000 shares.

The Ceylon Petroleum Corporation owns 66 2/3% of 750,000,000 shares of CPSTL and controls through the nomination of six of the nine board members. Lanka IOC PLC nominates the balance three board members. Due to the government influence and the sensitivity of the industry towards the national economy, the directors nominated by Lanka IOC PLC do not have significant influence over decisions of CPSTL. As such, the investment is recorded at cost.

	31 March	
	2014	**2013**
At the beginning and end of the year	**4,394,000,000**	**4,394,000,000**

LANKA IOC PLC

Notes to the financial statements (contd)

16 Intangible assets

	Goodwill	License fees on computer software	Total
At 31 March 2012			
Cost	759,297,552	9,627,755	768,925,307
Accumulated amortisation and impairment	(85,420,976)	(4,937,475)	(90,358,451)
Net book amount	**673,876,576**	**4,690,280**	**678,566,856**
Year ended 31 March 2013			
Opening net book amount	673,876,576	4,690,280	678,566,856
Additions	-	2,064,227	2,064,227
Amortisation charge [Note 8]	-	(2,216,857)	(2,216,857)
Closing net book amount	**673,876,576**	**4,537,650**	**678,414,226**
At 31 March 2013			
Cost	759,297,552	11,691,982	770,989,534
Accumulated amortisation and impairment	(85,420,976)	(7,154,332)	(92,575,308)
Net book amount	**673,876,576**	**4,537,650**	**678,414,226**
Year ended 31 March 2014			
Opening net book amount	673,876,576	4,537,650	678,414,226
Amortisation charge [Note 8]	-	(1,842,348)	(1,842,348)
Closing net book amount	**673,876,576**	**2,695,302**	**676,571,878**
At 31 March 2014			
Cost	759,297,552	11,691,982	770,989,534
Accumulated amortisation and impairment	(85,420,976)	(8,996,680)	(94,417,656)
Net book amount	**673,876,576**	**2,695,302**	**676,571,878**

Goodwill

Goodwill represents the excess of purchase consideration paid in 2003 to the Government of Sri Lanka over the net assets value representing applicable shares allotted in the acquisition of the retail outlets, which were vested with Independent Petroleum Marketers Limited (IPML). The IPML was subsequently amalgamated in 2004 with Lanka IOC PLC and dissolved.

Goodwill represents future economic benefits arising from other assets which were acquired from the above business combination that were not able to individually identified and separately recognised. Accumulated amortisation as at the statement of financial position date amounting to Rs 85,420,976 which were amortised up to 2007 based on 20 years useful life. However, as per the revised accounting standards goodwill is tested annually for impairment and carried at cost less amortisation up to 2007.

LANKA IOC PLC

Notes to the financial statements (contd)

17 Inventories

	31 March 2014	31 March 2013
Petroleum products	6,618,221,716	9,589,352,461
Lubricants	317,570,751	326,588,220
Base oil and other raw materials	993,150,964	324,527,506
	7,928,943,431	**10,240,468,187**

(a) Inventory comprise of Rs 952,054,119 (2013 - Rs 617,768,174) worth of goods in transits.

18 Trade and other receivables

	31 March 2014	31 March 2013
Trade receivables - net	1,607,830,084	2,187,926,722
Receivable from related parties [Note 28 (c)]	-	3,761,170
VAT receivable	94,395,156	217,321,486
Advances and deposits	148,235,481	132,371,285
Other receivables	17,940,407	14,937,399
Prepayments	17,783,463	13,985,273
	1,886,184,591	**2,570,303,335**

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

	31 March 2014	31 March 2013
US Dollars	812,862,755	1,839,017,892
Sri Lankan Rupees	1,073,321,836	731,285,443
	1,886,184,591	**2,570,303,335**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned in Note 13 (b) above. The Company does not hold any collateral security.

19 Cash and cash equivalents

	31 March 2014	31 March 2013
Cash at bank and in hand	842,743,308	1,036,156,121
Short term deposits	7,915,000,000	2,151,000,000
	8,757,743,308	**3,187,156,121**

For the purposes of cash flow statement cash and cash equivalents comprise the above.

Short term deposits mainly consist of repo deposits.

LANKA IOC PLC

Notes to the financial statements (contd)

20 Stated capital

	Ordinary shares	
	Number of shares	Value of shares
At 31 March 2013	532,465,705	7,576,573,900
At 31 March 2014	**532,465,705**	**7,576,573,900**

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

21 Retirement benefit obligations

	31 March	
	2014	2013
Present value of unfunded obligation	47,185,447	**41,038,013**
Liabilities in the statement of financial position	**47,185,447**	**41,038,013**

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

	31 March	
	2014	2013
At 1 April	41,038,013	39,209,730
Current service cost	3,004,640	2,723,562
Interest cost	4,821,967	4,166,034
Actuarial loss / (gain)	108,896	(2,327,318)
Benefits paid	(1,788,069)	(2,663,010)
Benefits to be paid by the CPC	-	(70,985)
At 31 March	**47,185,447**	**41,038,013**

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

	31 March	
	2014	2013
Comprehensive income		
Current service cost	3,004,640	2,723,562
Interest cost	4,821,967	4,166,034
Benefits to be paid by the CPC	-	(70,985)
Total included in the staff costs [Note 8(b)]	**7,826,607**	**6,818,611**
Other comprehensive loss / (income)		
Actuarial loss / (gain) on post employment benefit obligation	**108,896**	**(2,327,318)**

LANKA IOC PLC

Notes to the financial statements (contd)

21 Retirement benefit obligations (contd)

The principal actuarial assumptions used were as follows:

	31 March 2014	31 March 2013
Discount rate	10.60%	11.75%
Staff turnover	6%	6%
Retiring age	60 years	60 years
Future salary increases	2 - 4% p.a	2 - 4% per Annum

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption;

	Change in the assumption	Impact on defined benefit obligation: Increase in assumption	Impact on defined benefit obligation: Decrease in assumption
Discount rate	1%	Decrease by 4.99%	Increase by 5.50%
Staff turnover	1%	Increase by 6.45%	Decrease by 5.91%
Future salary increases	1%	Increase by 2.70%	Decrease by 2.91%

22 Deferred tax liability

	31 March 2014	31 March 2013
Deferred tax assets	(7,077,817)	(6,155,702)
Deferred tax liabilities	37,344,477	11,641,797
Deferred tax liability - (net)	**30,266,660**	**5,486,095**

Deferred income taxes are calculated on all temporary differences under the liability method using the effective tax rate of 15%. The net movement on the deferred income tax is as follows :

	Accelerated tax depreciation	Retirement benefit obligation	Total
At 1 April 2012	-	-	-
Charge / (credit) to income statement	11,641,797	(6,504,800)	5,136,997
Charge to other comprehensive income	-	349,098	349,098
At 31 March 2013	**11,641,797**	**(6,155,702)**	**5,486,095**
At 1 April 2013	11,641,797	(6,155,702)	5,486,095
Charge / (credit) to income statement	25,702,680	(905,781)	24,796,899
Credit to other comprehensive income	-	(16,334)	(16,334)
At 31 March 2014	**37,344,477**	**(7,077,817)**	**30,266,660**

LANKA IOC PLC

Notes to the financial statements (contd)

23 Trade and other payables

	31 March 2014	31 March 2013
Trade payables	2,188,165,975	6,993,782,267.00
Trade payable to related companies [Note 28 (b)]	657,478,552	208,357,892.00
Accruals and other payables	367,396,146	55,828,016
	3,213,040,673	**7,257,968,175**

24 Borrowings

	31 March 2014	31 March 2013
Current		
Short term loans	6,122,610,647	4,367,472,167
Total borrowings	**6,122,610,647**	**4,367,472,167**

The short term loans are unsecured except for the loans from State Bank of India Colombo branch and Singapore branch amounting to USD 30 Mn and USD 35 Mn respectively. These two loans are secured against mortgage over trading stock held at Kolonnawa, Trincomalee and Muthurajawala terminals.

The interest rates are as follows:

	Interest Rates
Short term loans	LIBOR + Margin

The monthly LIBOR rate at the date of the statement of financial position was 0.14850.

25 Contingent liabilities

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

26 Commitments

(a) Capital commitments

Capital expenditure contracted at the end of the reporting period not yet incurred amount to LKR 95.8 Mn (2013 - LKR 101.7 Mn).

(b) Operating lease commitments - where the Company is the lessee

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 statement of financial position date. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

LANKA IOC PLC

Notes to the financial statements (contd)

26 Commitments (contd)

(b) Operating lease commitments - where the Company is the lessee (contd)

	31 March 2014	31 March 2013
Non - cancellable		
Not later than one year	13,068,470	12,713,550
Later than 1 year and not later than 5 years	65,342,350	63,567,750
More than 5 years	248,300,930	254,271,000
	326,711,750	**330,552,300**

27 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	31 March 2014	31 March 2013
Profit before tax	5,761,760,919	2,990,577,494
Adjustments for:		
Depreciation [Note 14]	220,532,498	205,129,040
Amotisation of intangible asset [Note 16]	1,842,348	2,216,857
Loss / (profit) on disposal of property, plant and equipment	4,262,898	(2,762,848)
Interest income [Note 9]	(301,045,004)	(104,254,019)
Interest expense [Note 9]	91,117,945	116,024,224
Changes in working capital		
- trade and other receivables	684,118,744	380,238,173
- inventories	2,311,524,756	(1,427,104,855)
- trade and other payables	(4,044,927,502)	(447,236,055)
Increase in retirement benefit obligation [Note 21]	7,826,607	6,818,611
Cash generated from operations	**4,737,014,209**	**1,719,646,622**

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

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

Mr Subodh Dakwale - Managing Director, Mr Saurav Mitra - Senior Vice President (Finance) and Mr Sunil Kaleshwari - Vice President (Operation and Bunkering) were directors of Ceylon Petroleum Storage Terminal Limited (CPSTL) as at 31 March 2014.

LANKA IOC PLC

Notes to the financial statements (contd)

28 Directors' interest in contracts and related party transactions with the Company (contd)

The following transactions were carried out with the related parties.

	31 March 2014	31 March 2013
(a) Purchases of goods and services		
Indian Oil Corporation Limited - (Marketing Division)		
- Petroleum products	1,221,800,945	360,617,051
- Others	6,102,838	7,535,135
Ceylon Petroleum Storage Terminal Limited	703,982,537	536,810,234
Indian Oil Corporation Limited (Middle East)	7,637,274	12,622,707
	1,939,523,594	**917,585,127**

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

Outstanding balances arising from purchased of goods and services

	31 March 2014	31 March 2013
(b) Amounts due to related companies		
Indian Oil Corporation Limited - (Marketing Division)		
- Petroleum products	552,741,992	58,516,760
- Others	9,168,192	1,945,585
Ceylon Petroleum Storage Terminal Limited (CPSTL)	95,568,368	147,895,547
	657,478,552	**208,357,892**
(c) Amounts due from related companies		
Indian Oil Corporation Limited - (Marketing Division)		
- Non Products	**-**	**3,761,170**

(e) Key management compensation

The compensation paid or payable to key management personnel consist of payment to executive and non-executive directors.

	31 March 2014	31 March 2013
Salaries and other short-term employee benefits	**19,666,529**	**19,399,366**

29 Events after the reporting period

No events have occurred after the reporting period which would require adjustments to or disclosure in the financial statements.

LANKA IOC PLC

Notes to the financial Statement (Contd)

14 Property, plant and equipment (contd)

(a)	Freehold land	Building and fixtures	Plant and equipment	Office equipment	Lube plant	Capital work-in progress	Furniture and fittings	Motor vehicles	Total
At 31 March 2012									
Cost / valuation	1,972,120,668	1,378,905,377	1,132,240,481	25,064,894	416,948,742	24,471,324	21,746,707	23,901,653	4,995,399,846
Accumulated depreciation	-	(539,778,095)	(878,692,015)	(20,370,545)	(246,866,597)	-	(13,686,288)	(20,464,554)	(1,719,858,094)
Net book amount	**1,972,120,668**	**839,127,282**	**253,548,466**	**4,694,349**	**170,082,145**	**24,471,324**	**8,060,419**	**3,437,099**	**3,275,541,752**
Year ended 31 March 2013									
Opening net book amount	1,972,120,668	839,127,282	253,548,466	4,694,349	170,082,145	24,471,324	8,060,419	3,437,099	3,275,541,752
Additions	-	-	-	1,933,837	-	169,879,813	4,405,685	19,555,000	195,774,335
Disposals	(1,600,245)	-	-	(266,395)	-	-	-	-	(1,866,640)
Cost of depreciation on disposals	-	-	-	249,791	-	-	-	-	249,791
Transfers	-	66,242,459	108,622,561	-	-	(174,865,020)	-	-	-
Depreciation charge (note 8)	-	(94,046,164)	(46,166,293)	(3,109,555)	(56,721,106)	-	(2,740,479)	(2,345,443)	(205,129,040)
Closing net book amount	**1,970,520,423**	**811,323,577**	**316,004,734**	**3,502,027**	**113,361,039**	**19,486,117**	**9,725,625**	**20,646,656**	**3,264,570,198**
At 31 March 2013									
Cost / valuation	1,970,520,423	1,445,147,836	1,240,863,042	26,732,336	416,948,742	19,486,117	26,152,392	43,456,653	5,189,307,541
Accumulated depreciation	-	(633,824,259)	(924,858,308)	(23,230,309)	(303,587,703)	-	(16,426,767)	(22,809,997)	(1,924,737,343)
Net book amount	**1,970,520,423**	**811,323,577**	**316,004,734**	**3,502,027**	**113,361,039**	**19,486,117**	**9,725,625**	**20,646,656**	**3,264,570,198**
Year ended 31 March 2014									
Opening net book amount	1,970,520,423	811,323,577	316,004,734	3,502,027	113,361,039	19,486,117	9,725,625	20,646,656	3,264,570,198
Additions	-	-	-	9,258,337	-	288,002,420	2,622,310	3,895,749	303,778,816
Disposals	-		(6,701,469)	(1,017,128)	-		-	(1,798,126)	(9,516,723)
Cost of depreciation on disposals	-		-	1,017,128			-	1,798,126	2,815,254
Transfers	-	51,540,511	206,147,569	-	3,481,479	(261,169,559)	-	-	-
Depreciation charge (note 8)	-	(96,839,706)	(55,320,204)	(2,559,538)	(57,515,560)	-	(3,470,458)	(4,827,032)	(220,532,498)
Closing net book amount	**1,970,520,423**	**766,024,382**	**460,130,630**	**10,200,826**	**59,326,958**	**46,318,978**	**8,877,477**	**19,715,373**	**3,341,115,047**
At 31 March 2014									
Cost / valuation	1,970,520,423	1,496,688,347	1,440,309,142	34,973,545	420,430,221	46,318,978	28,774,702	45,554,276	5,483,569,634
Accumulated depreciation	-	(730,663,965)	(980,178,512)	(24,772,719)	(361,103,263)	-	(19,897,225)	(25,838,903)	(2,142,454,587)
Net book amount	**1,970,520,423**	**766,024,382**	**460,130,630**	**10,200,826**	**59,326,958**	**46,318,978**	**8,877,477**	**19,715,373**	**3,341,115,047**