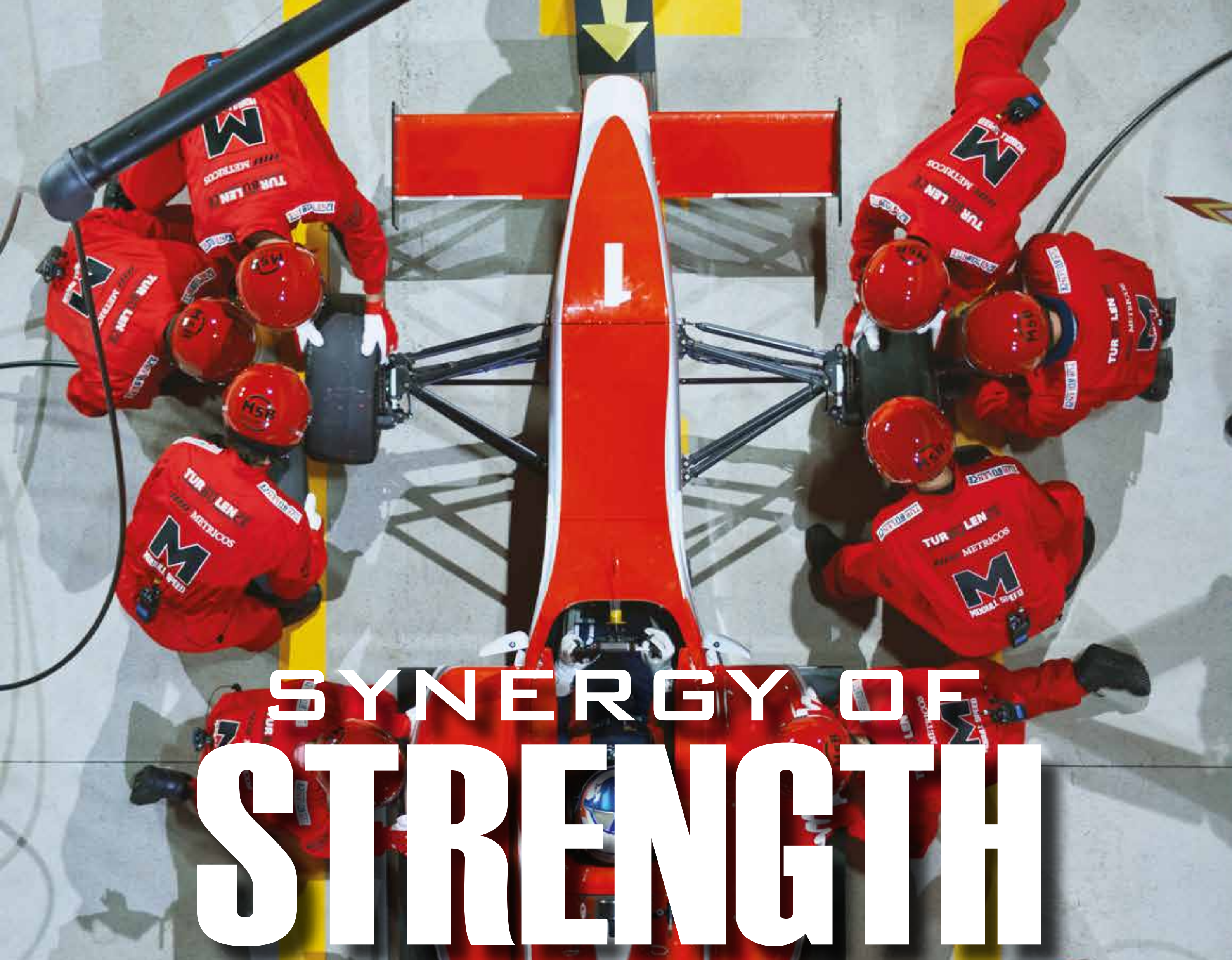


SYNERGY OF STRENGTH

Our family of brands

CHEVRON LUBRICANTS LANKA PLC | ANNUAL REPORT 2019

SYNERGY OF STRENGTH

Staying formidable in a market that is fiercely competitive requires an unparalleled level of team spirit, partnership and determination. At Chevron Lubricants Lanka PLC, the synergy of our strength comes from our people, who have today elevated us to become a pre-eminent marketer of lubricants with a far-reaching presence in Sri Lanka.

We are also proud to announce that as a result of the combined efforts of our team, we were able to maintain our impeccable safety record of 18 years since the last lost time from an injury. As we navigated a challenging course, we continued to forge ahead – relying on the efficient management of our operations, and equipping ourselves to achieve continuity and enhanced performance in the long run. We're taking on the challenges of the future, as a well - oiled machine that function flawlessly.

In motorsports, pit stop teams are a pure representation of teamwork, synergy and synchronicity. Each individual contributes towards achieving a single goal - to build endurance and guarantee survival. This report pays tribute to the outstanding performance and winning spirit of the Chevron Lanka team, who ensured we remained competitive despite the challenging conditions we faced during the year.

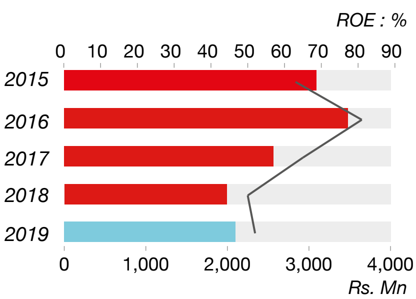

M5B
BRAKES

CONTENTS

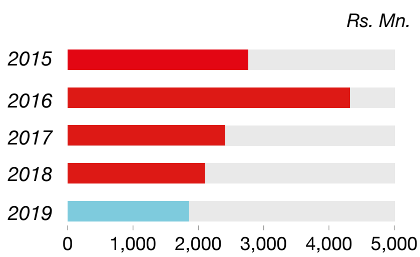
FINANCIAL HIGHLIGHTS

		2019 Rs. 000'	2018 Rs. 000'	%
Turnover		11,856,057	10,861,044	9%
Profit Before Tax & OCI		2,943,233	2,760,085	7%
Taxation		843,826	768,257	10%
Profit After Tax		2,099,408	1,991,829	5%
Shareholders Funds		4,136,297	3,914,473	6%
Property, Plant & Equipment		1,883,219	1,963,377	-4%
Gross Dividends	Rs. 000'	1,860,000	2,100,000	-11%
Dividend per Share	Rupees	7.75	8.75	-11%
Earnings per Share	Rupees	8.75	8.30	5%
Dividend Payout Ratio	%	89	105	-16%
Price Earnings Ratio	Times	8.56	8.77	-2%
Market Value per Share as at 31st December	Rupees	74.90	72.80	3%
Return on Equity	%	52	50	2%
Net Assets per Share	Rupees	17.23	16.31	6%
Net Income to Turnover	%	18	18	0%

Profit After Tax & ROE



Gross Dividends



VISION

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

OUR VALUES

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

Diversity and inclusion

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

High performance

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

Integrity and trust

We are honest with ourselves and others, and honor our commitments.

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

Partnership

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

Protect people and the environment

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

CHAIRPERSON'S REVIEW

Despite the sluggish operating conditions, the Company succeeded in improving its' performance over the previous year.

As a country in 2019, Sri Lanka experienced challenging economic conditions. The country was further dealt a cruel hand with the terrorist attacks of 21st April 2019. This tragedy impacted many lives and brought the economy to a virtual standstill as tourism and major commercial activities ground to a halt and investor sentiment dried up. However, the resilience of the country was on display in the latter half of the year as the security situation improved and business conditions began to improve. The uptick in business and consumer sentiment post the Presidential election suggests better times to come for the economy.

OPERATING ENVIRONMENT

Against this backdrop, the lubricants industry faced a challenging year in 2019. The economy grew at a slow pace of 2.3 percent in real terms in 2019 as per Central Bank statistics. The political uncertainty in the year under review and the scheduled Presidential Elections in November 2019 kept the economy sluggish through the year. Policy uncertainty led to weak investor confidence and low levels of investment. In spite of monetary policy easing, market interest rates -lagged adoption. The lack of liquidity in the market affected the construction industry while the extreme weather conditions of drought and excessive rains impacted agriculture and fisheries, both key sectors for the Company. Private sector credit growth too decelerated sharply, particularly during the first half of 2019, which prompted the Central Bank to take regulatory actions of imposing caps on deposit interest rates of financial institutions. The rupee showed greater stability in foreign exchange markets after its significant depreciation in 2018. Overall weak consumer demand due to lack of disposable incomes impacted sales of lubricants and the industry witnessed a de-growth of 5% in the first nine months of the year per the provisional statistics shared by PUCSL.

COMPANY PERFORMANCE

The weak economy experienced in 2019 put a dampener on commercial activity and disposable incomes. Despite the sluggish operating conditions, the Company succeeded in improving its' performance over the previous year. We redoubled our focus on our industry leading products and brands while offering various sales promotion incentives for distributors, channel partners and customers. The refreshed go-to-market strategy launched in January led to growth in the Retail channel. The C&I and Export channels protected the base business and won new accounts to achieve admirable growth this past year. The relatively stable rupee exchange rate in 2019 helped maintain prices in contrast with the preceding year when we had to make the difficult choice for upward price revisions on two occasions due to the depreciation of the rupee against the dollar. During 2019, the company's Net Earnings After Tax increased by 5% to Rs. 2,099 Mn, resulting in Earnings Per Share of Rs. 8.75, compared to Rs. 8.30 recorded in the previous year. The increased net earnings were mainly due to the improved sales volumes, lower base oil prices, and rigorous cost management. The Company declared and paid dividends of Rs. 7.75 per share during the year. The fourth interim dividend for 2019 was declared on 24th February 2020.

5%

Increase in Profit After Tax

Rs. 8.75

Earnings Per Share

LEADING FROM THE FRONT

Our impeccable safety record of 18 years since the last lost time from an injury reflects the unwavering commitment to operational excellence across the enterprise. This culture of working safely and efficiently is ingrained in everything we do, and it is portrayed in our performance.

Chevron has long been a pioneer in terms of introducing industry-leading products to Sri Lanka. Our renowned brands and creative sales promotions demonstrate our marketing savvy. The 'Star Power' incentive program launched in 2019 displays our commitment to our valued distributors and channel partners.

As a champion of the industry and a Company that has been the voice of the industry on many occasions, I would like to recognize the professionalism extended by the Public Utility Commission of Sri Lanka (PUCSL). The PUCSL officials collaborated with Chevron, and other industry players, to identify improvements for the industry and study issues such as used oil management. Chevron is committed to supporting the consumer through increased standards and regulations for the industry. We are hopeful that the government would expedite necessary measures to empower PUCSL's role in the industry and consider promoting them to a fully-fledged regulator status.

LOOKING AHEAD

The Company consolidated its market leadership during the year under consideration, while demonstrating its resilience in the face of challenges. Given recent developments, we are committed to staying resilient during 2020. Over the past few years, we have fortified our people and processes, and this resilient spirit positions the Company for the time ahead.

ACKNOWLEDGEMENTS

I would like to place on record my appreciation to fellow Directors on the Board and to the CEO and his team for demonstrating that when there is a will to win - nothing is impossible. I would like to express my gratitude to Anura Perera for his contributions to the Board of Directors and wish him the best in his retirement. I also would like to welcome Erande De Silva to the Board of Directors. I wish to also thank all our stakeholders, including employees, customers, distributors, channel partners and government officials for placing their confidence in our leadership.

Ms.Rochna Kaul
Chairperson

MANAGING DIRECTOR/ CHIEF EXECUTIVE OFFICER'S REVIEW

PAT MCCLOUD

Chevron aspires to win in any environment and every person in the company is focused on making this aspiration a reality.

The Company's resilient performance amidst trying conditions in the lubricants industry and the wider national economy is a testament to its ability to win in the market despite the numerous obstacles encountered in 2019. Management entered 2019 with the renewed strategies to guide the company after 2018, a year marked by pressure from rupee depreciation, rising base oil prices and reduced demand for lubricants. The Company showed improved performance in the first quarter. The unfortunate and devastating 21st April terrorist attack brought overall economic growth to a slow crawl and presented new challenges for the economy. However, the impressive resilience of the Chevron team, our distributors, Caltex Authorized Dealers and Express Lube operators, C&I customers, our suppliers, and our other channel partners was demonstrated in the months to follow. Amidst all these challenges, the third quarter in the year on review brought a 20% increase in the bottom line versus the same period in the prior year. The Company is proud of the full year results, growing the top line and the bottom line even during weak market conditions. Chevron aspires to win in any environment and every person in the company is focused on making this aspiration a reality.

LUBRICANTS INDUSTRY

The lubricants industry experienced degrowth in the first three quarters of the year in review versus the same period in the prior year. The industry was challenged by the low growth in the overall economy, a downturn in vehicle ownership/ registrations (per department of motor traffic of Sri Lanka), limited new construction activity. These factors, along with the extreme weather patterns and heavy rains in the second half of the year lowered demand for lubricants. Sri Lanka's lubricants market reflected a de-growth of 9% during the first half of the year under review (per the PUCSL), but the industry grew in the third quarter by 4% over the same period prior year. However, optimism dampened in the fourth quarter as the market slowed in advance of the Presidential Election, and reduced purchasing by the trade in anticipation of tax reductions by the new government. The latter months of the fourth quarter were characterized by increased political stability and an uptick in business sentiment across many industries.

COMPANY PERFORMANCE

Overall, the Company's volumes and revenue grew by 8% and 9%, respectively over 2018. Net Profit after Tax increased by 5% during the same period to Rs 2,099 Mn. Rs 107Mn higher than Rs. 1,992 Mn achieved in 2018. We are pleased with the company performance in the face of the challenges in FY2019. Our commitment to contributing to the economic health of Sri Lanka remains steadfast. When the newly elected government lowered Value Added Tax (VAT) and did away with the Nation Building Tax (NBT), the Company was quick to pass on the benefits to the trade and to consumers while many of the competitors kept the savings for their own coffers. An increase in distribution expenses was seen by as much as 24% during the year under review primarily due to additional expenditure on advertising, sales and promotional activities during the year under review.

Amidst the shrinking marketplace, our products, people and strategies enabled growth across most of our business segments. The resilient performance can be observed in market share results as reported by the PUCSL's provisional 3Q Lubricant Market Report, Chevron's market share on a relative basis rose from 39 percent to 43 percent (Source: PUCSL) for the first nine months of the year.

RETAIL

After two consecutive years of de-growth, the Retail channel demonstrated a growth of 4% over prior year. This result helped the company to post a healthier top line over the preceding year, though the bottom-line grew less than plan. The competition in the Retail channel remained fierce in 2019 and the company entered the year prepared to battle the competition for sales.

The Company approached 2019 confidently with a new go-to-market strategy, placing greater emphasis on alignment of Company strategies with the performance of our distributors and partners in the trade. The 'Star Power' incentive program launched in January with various schemes that enabled our partners to achieve financial rewards for growing Caltex branded sales. The multi-tier incentive structure provided opportunities for distributors and traders and eventually cascaded benefits to consumers through promotional pricing and give-away schemes. Ultimately, these initiatives served to enhance engagement and connection with distributors and channel partners.

During 1Q, the 'Caltex Havoline Thegi Engima' sales promotion rewarded consumers who purchased selected motorcycle, scooter and passenger car oils. In purchasing the oils, consumers not only protected their engines - the most valued asset in the vehicle - but were also guaranteed prize winners. With the momentum of this successful promotion, the Company rolled out a new image program for Caltex Authorized Dealers, Havoline Express Lube service stations, and the independent retail lubricant marts. We invested in the capabilities of our Authorized Dealers through an industry leading training program offered exclusively to our valued Authorized Dealer network. We launched new products this year including Sri Lanka's first ultra-low viscosity synthetic engine oil.

9%

Revenue Growth

Rs. 2,099 Mn

Profit After Tax

Company's volumes and revenue grew by 8% and 9%, respectively over 2018.

MANAGING DIRECTOR/ CHIEF EXECUTIVE OFFICER'S REVIEW

COMMERCIAL & INDUSTRIAL (C&I) CHANNEL

The C&I channel's performance improved by over 20% versus prior year. The Company was awarded multiple tenders from the government sector which included the Ceylon Electricity Board (CEB) and the Ceylon Transport Board. The Company is proud to supply lubricants to these government entities that provide energy and transportation services to the public every day. The C&I team put forth tremendous effort to support our existing customers with their lubrication needs. At the same time, they pursued and won new accounts in the rubber, power generation, and construction sectors.

EXPORTS

It is noteworthy to mention that the Company's export channel sales volume improved 13% over the previous year. Management appointed a new Manager to look after the export channel and he invested a significant amount of time and energy into the Bangladesh market. The Company was rewarded with sales volume increasing 18%. Performance in Maldives was unsatisfactory for the year in review, an opportunity that will be addressed in the year 2020. A stable foreign exchange rate regime contributed to the financial performance of the channel as well.

TOLL BLENDING AND ORIGINAL EQUIPMENT MANUFACTURER (OEM)

As for the Toll Blending and Original Equipment Manufacturer (OEM) segment, the Tolling segment grew by over 60%, albeit it on a small base. The OEM segment had a degrowth due to the intense competition in the heavy-duty market. Put together, the two segments combined to grow 1% over the prior year. The Company has strategies in place to improve the OEM segment and we expect a return to growth in 2020.

EMPOWERING EMPLOYEES

Chevron's emphasis on people, partners and the planet has ensured that we have built a team of like-minded professionals who strive to achieve its vision as the premiere marketer of lubricants in Sri Lanka. We are very proud of our safety record where we had no lost time from an injury for the last 18 years. This outstanding performance reflects the Company's concern for employees and the environment. This performance is made possible by the Company's culture of doing every task the right way every time. We also practice a mindset of continuous improvement in all aspects of our business. In the recent years, our Supply Chain function utilized Lean Six Sigma methodologies to become more efficient, and this past year we began doing the same in the Sales, Marketing, and Finance functions. The Company is implementing digital solutions across all parts of the operation. The Supply Chain is on the leading edge of this initiative with the introduction of a state-of-the-art quality management system. This world-class system connects the entire plant from the raw material tanks to blending to filling to the laboratory such that our customers can be certain that CALTEX products produced at Sapugaskanda are of the highest quality. The Company has a relentless approach to improving how we operate and run the business. We believe this attribute positions the company to be one of the best in Sri Lanka today and in the years to come.

During the year under review, we said farewell to two key members of our Management Team, our CFO, Anura Perera, and our Logistics Manager, Upali Wijesinghe. These gentlemen not only proudly served the Company for over 20 and 30 years respectively, they were leaders who enabled the transformation of the Company from the early days to the modern organization we are today. Mr. Perera served as a personal mentor to me during my first year in Sri Lanka, and I am

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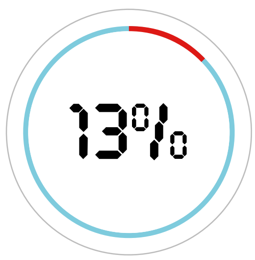


Export Volume Growth

forever grateful to have worked closely with him before his retirement. I personally want to thank them for their valuable contributions to the Company through the years.

Every year, the parent group conducts an annual employee survey globally. Chevron Lanka's results this time round were one of the best in the region, a fact the management team takes great pride in. The score on the survey has improved year on year. This reflects the people centric nature of the Company's culture, and Management will continue to empower the work force in the future. Despite the high level of employee satisfaction reported in the study, we have initiatives in place to address opportunities that our employees identified. In 2020, Management is offering more development and training opportunities to the team and applying the Lean mindset to simplify the business and improve the speed of decision making.

OUTLOOK

The resilience shown by the company gives our stakeholders ample confidence that, notwithstanding the odds, the Company forges ahead undeterred. Despite the economic headwinds in 2019 in the wider economy and industry, the Company withstood the challenges. We achieved growth in sales across most of our segments. We delivered better results than the preceding year in relation to the bottom-line while showing marked growth in the top-line. Overall, the Company closes the year on a positive note while looking ahead towards overcoming the macro-economic challenges in the country as 2020 unfolds. We look ahead with optimism to strengthen our domestic position and grow exports aggressively in Bangladesh and the Maldives.

APPRECIATION

I would like to thank the Chairperson and Board for their guidance through a challenging year. Our shareholders, distributors, suppliers, channel and business partners also need to be commended for placing their trust in our ability to navigate a difficult year in a spirited and resilient manner.

Mr. Pat McCloud
Managing Director/
Chief Executive Officer

Endurance & Efficiency

Often racing is the ultimate test of endurance, with drivers weathering some of the harshest conditions known to man. A few crucial, decisive stops in between help equip the car for the challenges that lie ahead.

The pit stop team’s role is central to the journey - as with Chevron, their unique skills, strategy and responsiveness to challenging circumstances ensure continuity and resilience in the long term.

BOARD OF DIRECTORS

ROCHNA KAUL

Chairperson / Non-Executive Director

NICOLAS BOSSUT

Non-Executive Director

HARSHA AMARASEKERA

Non-Executive Director

PAT MCCLOUD

Managing Director / Chief Executive Officer

ERANDE DE SILVA

Director / Chief Financial Officer

ASITE TALWATTE

Non-Executive Director

BOARD OF DIRECTORS

ROCHNA KAUL

Chairperson / Non-Executive Director

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

Ms. Kaul has 15 years of experience at Chevron. Throughout her Chevron career, she has held positions with increasing responsibility in marketing and sales. Kaul has worked across Asia, the Americas and Southern Africa. She is also actively involved in Chevron's Women's Network.

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

Positions held in other companies

Ms. Rochna Kaul is also a director of Chevron Ceylon Limited, Chevron Lubricants Vietnam Limited, Chevron Pakistan Lubricants Limited, Chevron Lubricants India Private Limited and Chevron Lubricants Holdings Pte Ltd.

PATRICK (PAT) MCCLOUD

Managing Director / Chief Executive Officer

Mr. Patrick McCloud appointed to the Board in 2018, joined Chevron in 2006 and advanced quickly through leadership roles in supply chain, procurement, sales and operations. He held positions across the Downstream and Chemicals organization, including Business Support Manager, Procurement Operations Manager, Lubricants Plant Operations Manager, and Sales and Operations Planning Manager.

Most recently, he served as Global Supply Chain Manager for Chevron Oronite, responsible for executing the business's global sales and operations planning process, helping increase asset utilization across the manufacturing system and optimize the supply chain, and implementing an integrated supply network planning platform.

Mr. McCloud earned a Bachelor of Science degree in Mechanical Engineering from Kettering University and a Master of Business Administration from the University of North Carolina at Chapel Hill.

Positions held in other companies

Mr. McCloud is also a Director of Chevron Ceylon Limited.

NICOLAS BOSSUT

Non-Executive Director

Nicolas Bossut appointed to the Board in 2019, joined Chevron in 2004 and has advanced through a variety of finance roles in Chevron's corporate departments and operating companies. He has held positions such as General Manager Finance & Planning for Chevron Technology, Project and Services organization; Administration and Finance Manager for Chevron Petroindependendecia Joint Venture in Venezuela, and Finance Manager for Colombia Upstream operations. During his Chevron career, Bossut has worked in Canada, Colombia, Kazakhstan, Venezuela, the United States and Singapore. Prior to working for Chevron, Mr. Bossut worked for 5 years for Alcatel.

Most recently, he served as Corporate Treasury, Opco Financing Manager, covering the Asia Pacific region from Singapore. Effective March 1st, 2019 he became Regional Finance Officer for Chevron's Downstream operations in Asia Pacific.

Bossut holds a Bachelor of Political Science from the University of California at Berkeley, as well as an MBA from the Haas School of Business at the University of California at Berkeley.

Positions held in other companies

Mr. Bossut is also Director of Chevron Singapore Pte Ltd, Chevron Pakistan Lubricants Limited, Chevron Lubricants Holdings Pte Ltd, Chevron International Holdings Pte Ltd, Chevron Companies (Greater China) Limited, Caltex South China Investments Limited, Chevron South Asia Holdings Pte Ltd and Star Petroleum Refining Public Company Limited which is a publicly-listed Company in Thailand.

ERANDE DE SILVA

Director / Chief Financial Officer

Mr. Erande De Silva appointed to the Board in 2019, joined Chevron Lubricants Lanka PLC in 2011 and served in the capacity of Manager Finance and Planning. He concurrently serves as the Company Secretary. He also functions as the Compliance Officer of the Company since August 2018. Amongst the accolades received, he was recognized as the Management Team Member of the year for 2014 at Chevron Lubricants Lanka. Mr. De Silva counts for more than fifteen years of experience in finance with business and commercial acumen in business planning, financial management, corporate finance, risk management and compliance. During his career he has been engaged in cross functional project initiatives with sales, marketing and supply chain. Prior to joining Chevron in 2011, Mr. De Silva was last employed as Manager Finance of a FMCG Company in Sri Lanka.

Mr. Erande De Silva holds a Bachelor of Business Administration Honours Degree from the Faculty of Management and Finance of the University of Colombo. He also has a Master of Business Administration from the Postgraduate Institute of Management of the University of Sri Jayewardenepura. Mr. De Silva is an Associate member of the Chartered Institute of Management Accountants (UK), a Chartered Global Management Accountant of the Association of International Certified Professional Accountants and an Affiliate of the Association of Chartered Certified Accountants (UK).

Positions held in other companies

Mr. De Silva is also a Director of Chevron Ceylon Limited.

HARSHA AMARASEKERA

Non-Executive Director

Mr. Harsha Amarasekera appointed to the Board in 2013, President Counsel is a leading light in the legal profession in Sri Lanka having a wide practice in the Original Courts as well as in the Appellate Courts. His fields of expertise include Commercial Law, Business Law, Securities Law, Banking Law and Intellectual Property Law.

Positions held in other companies

Non-Executive Chairman of CIC Holdings Plc, Swisstek (Ceylon) PLC and Swisstek Aluminium Ltd and a Non-Executive Director of Vallibel One Plc, Expolanka Holdings Plc, Royal Ceramic Plc, Ambeon Capital PLC, Vallibel Power Erathna Plc, Amaya Leisure Plc, CIC Agri Business (Pvt) Ltd, Delmege (Pvt) Ltd.

ASITE TALWATTE

Non-Executive Director

Mr. A. D. B. Talwatte appointed to the Board in 2018, is a fellow member of the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Chartered Institute of Management Accountants of the U.K. He also holds a Post-Graduate Diploma in Business and Financial Administration awarded by the ICASL and the University of Wageningen, Holland and has a MBA from the University of Sri Jayawardenapura, Sri Lanka. Mr. Talwatte has also participated in a Kellogg Executive Programme at the Kellogg Graduate School of Management, Northwestern University, Evanston, Illinois.

Mr. Talwatte worked at Ernst & Young in Assurance, Business Risk and Advisory Services for 37 years, including 10 years as Country Managing Partner. He has worked with Ernst & Young in Cleveland, Ohio and also served on Ernst & Young's Far-East Area Executive Committee, the Area Advisory Council and the ASEAN Leadership Committee.

Mr. Talwatte was President of the CA Sri Lanka for a two-year period in 2002/2003 and the CIMA in 1995/96. He also served as the Chairman of the Statutory Accounting Standards Committee and the Auditing Standards Committee, the Urgent Issues Task Force and the Examinations Committee of the ICASL.

Mr. Talwatte has been closely associated with the development of Corporate Governance in Sri Lanka being actively involved with the Code of Audit Committees in 2002 and the Code of Corporate Governance in 2003. He co-chaired the Committees to structure the revised Codes of Corporate Governance of 2008, 2012 and 2017 and the Listing Rules of 2008. He currently chairs the International Integrated Reporting Council of Sri Lanka (IIRSL) on behalf of CA Sri Lanka.

Positions held in other companies

Chairman of the Management Systems (Pvt) Limited, Director of Lanka Tours & Trades (Pvt) Limited, Business Intelligence (Pvt) Limited, Cirute Plantations (Pvt) Limited, MSL Kandy Properties (Pvt) Limited and MSL Audits Kandy (Pvt) Limited. Independent Non-Executive Director of Ceylon Hospitals PLC, Central Finance Plc, Sunshine Holdings Plc, DIMO PLC, CT Holdings PLC, Tokyo Cement PLC, Silvermill Investment Holdings (Pvt) Ltd, Estate Management Services (Pvt) Ltd, Sunshine Healthcare Lanka Ltd, Gilkrist Leisure (Pvt) Limited, Myanthiho Investment and Trading (Pvt) Limited and Braybrooke Residential Towers (Pvt) Ltd.

MANAGEMENT TEAM

PAT MCCLOUD
Managing Director / Chief Executive Officer

BERTRAM PAUL
General Manager Sales

ERANDE DE SILVA
Director / Chief Financial Officer

WIJITHA AKMEEMANA
Manager Supply Chain

MAHESHNI HAMANGODA
Human Resources Manager

ANURADH KEPPETIWALANA
Marketing Manager

THUSITHA DE SILVA
Direct Sales Manager

HILARY FERNANDO
Lead Technical Manager

YASORA KODAGODA
Manager Finance & Planning

NISHANTHA WANNIARACHCHI
Logistics Manager

THUSHARI WERAGODA
Laboratory & Quality Assurance Lead

MANAGEMENT DISCUSSION & ANALYSIS

ECONOMIC OVERVIEW

The Country's economic climate during the year was largely marred by the consequences of the April terrorist attack on the nation. The pre and post-presidential election period too had a dampening effect on commercial activities during the fourth quarter of the year. The fiscal policies remained relatively consistent during the first three quarters. However, following the change in Government post-presidential election in the fourth quarter of the year, revisions to the fiscal policy were witnessed through a reduction in revenue taxes. The customary national budget proposals for the forthcoming year were deferred by the government as parliamentary elections were expected to follow first half of 2020. The policy uncertainty that prevailed during the last quarter led to sluggish consumer demand and weak business sentiment which further compounded the adverse effects of an already weakening economy.

Overall the sentiments on business conditions, profitability, demand and capacity utilization deteriorated throughout the year as indicated in the "business sentiment index" (BSI) reported by Central Bank of Sri Lanka. The extreme weather conditions stemming from prolonged droughts and incessive rains during varied periods of the year further exacerbated the seamless flow of socio-economic activities of the nation.

The GDP was estimated to have grown by approximately 2.3% during 2019, below the 3.3% annual growth recorded during 2018, as per central bank of Sri Lanka. The sectoral growth for the year was perceived as uninspiring, with service, industrial and agricultural sectors indicating 0.6%, 2.7% and 2.3% respectively. Amongst the key sub-segments which indicated growth during the period, wholesale and retail trade activities, transportation and financial services of the service sector were prominent contributors. The manufacturing and construction segments remained the key pillars of the industrial sector growth and composition. The sectoral contribution to GDP remained largely consistent with services, industrial and agriculture contributing 58%, 26% and 7%, whilst taxes and subsidies accounted for the balance 9%.

The annual average inflation was estimated at 3.5%, compared to 2.1% in 2018, whilst core inflation increased sharply to 5.7%, compared to 2.4% in 2018, based on the National Consumer Price Index (2013=100) compiled by the Department of Census and Statistics. Food inflation wielded inflationary pressure on the NCPI during the latter half of the year in particular, leading to increased spend in basic consumption.

Based on the Central Bank of Sri Lanka data, the external sector recorded a balance of payments surplus during 2019. The trade deficit contracted due to an accelerated decline in imports, whilst exports grew marginally over the comparative period.

Growth in export earnings primarily stemmed from industrial exports, agricultural exports declined, mineral and unclassified exports also declined and remained meager proponents of the export composition. Textile and garment exports led the industrial export growth. Garment exports particularly to non-traditional markets grew during the period. The decline in agricultural exports stemmed mainly from tea, spices and rubber due to lower export prices and volumes. Import expenditure contracted during the period as expenditure on intermediate goods and consumer goods declined. The decline in intermediate goods were driven by refined petroleum fuel imports, gold, chemicals and base metals due to lower importation. The decline in consumer goods stemmed from the non-food consumer goods in the form of personal vehicles due to the high tariffs and curtailment of concessionary permits. Import expenditure on investment goods declined due to the reduction in transport equipment.

Overall, the sentiments on business conditions, profitability, demand and capacity utilization deteriorated throughout the year as indicated in the "business sentiment index" (BSI) reported by Central Bank of Sri Lanka.

As per Central Bank of Sri Lanka, earnings from tourism declined significantly following the sharp reduction in tourist arrivals post-April terror attack. The workers' remittances continued to decline due to geo-political uncertainties and continuation of subdued economic performance in major remittance generating destinations. The reduction in earnings from tourism and workers remittances strained the flows to the current account of the balance of payments (BOP) comparative to 2018.

The financial flows were strengthened through a higher proportion of inflows to the government through international sovereign bonds, loans vis-à-vis extended fund facility (EFF) from the IMF during the period compared to 2018. However, these inflows were partly off-set by the decline in foreign direct investments to the country, decline in foreign investments in the Colombo Stock Exchange, government term loans and securities market.

LUBRICANTS INDUSTRY

The structure of the lubricants industry remained unchanged during the year with 13 players, including four companies with local blending plants. During the year in review, the Ministry of Petroleum Resources Development did not issue new lubricant licenses to further liberalize the already competitive lubricant industry. The total lubricant market had declined during the first nine months of the year 2019 by 5% affected mainly by a 9% YoY decline during mid-year 2019 compared to the same period last year, as per provisional market statistics released by the Public Utilities Commission of Sri Lanka.

We believe the following factors affected lubricant volumes during the year in review:

The growth in registration of motor vehicles declined considerably during 2019 to 4.7%, compared to 6.6% recorded during the previous year. The higher import tariffs imposed on motor vehicles which included broader extension of luxury tax on vehicle imports, curtailment of duty free vehicle permits issued by the state and the firm control of loan-to-value (LTV) ratio by the Government to curtail credit expansion as a measure to curb the widening trade deficit continued to deter vehicle imports to the country resulting in a downward spiral of new registrations throughout the year. The depreciation of LKR against certain currencies such as the Japanese Yen continued to impede price sensitive consumers investing in motor vehicles.

The decline in disposable income due to increase in direct taxes, the gradual rise in inflation, the adverse effects of the April-terror attack and the incessant rains leading to floods during monsoon seasons stifled vehicle usage to an extent during the year.

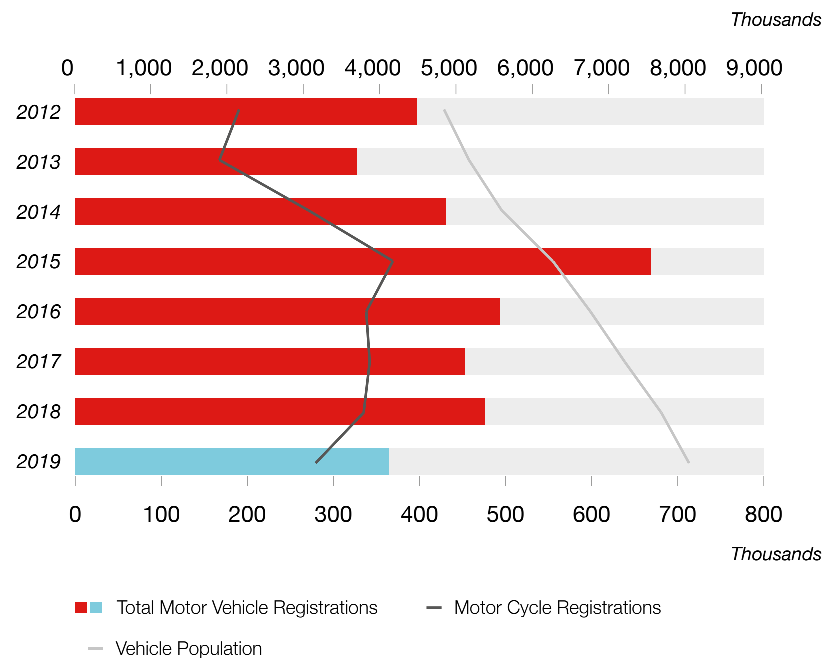
The lubricant-intensive thermal power contribution to the national energy grid was expected to have declined due to the consistent contribution of hydro-powered energy resulting from the considerable rainfall in the hydro catchment areas.

The hydro-skewed power generation compressed lubricant demand especially during the last quarter.

The demand for lubricants from the manufacturing and construction sector were believed to have improved during the year, based on national sectoral contribution statistics. However, the growth in demand for lubricants from the agriculture and fisheries sectors were considered uninspiring vis-à-vis the intermittent weather patterns.

Based on the statistics of the Department of Motor Traffic in Sri Lanka, the registration of motorcycles continued to dominate with 77% of the composition of new motor vehicle registrations, compared to 71% in 2018, followed by motor cars of 11%, compared to 17% in 2018, and three-wheelers 4%, parallel to the 4% in 2018. The overall vehicle population increased to 8.05 million from 7.69 million recorded in 2018, whilst 72% of the vehicle population consists of motorcycles (57%) and three-wheelers (15%).

Total Motor Vehicle Registrations



(Source: Department of Motor Traffic in Sri Lanka)

MANAGEMENT DISCUSSION & ANALYSIS

The functional benefit of longer oil drain intervals offered to consumers through superior product technology, continues to compress lubricant volumes in the industry due to less frequent oil fills.

SALES

2019 turned out to be a strong year for Chevron with overall volumes growing to the highest level over the past three years, driven by healthy growth in the local market and record growth in exports, with Bangladesh volumes hitting an all-time high. Also, as evidenced by the latest provisional statistics released by the Lubricant Regulator – the Public Utilities Commission of Sri Lanka (PUCSL), which is up to YTD Sept 2019, while the total Sri Lankan Lubricant market experienced a year on year decline of 5%, Chevron's volumes experienced a year on year growth of 5% which resulted in Chevron's market share increasing from 39% at the beginning of 2019 to 43% by the end of Q3, 2019. It is indeed commendable that these results were recorded despite challenging economic conditions following the Easter bombings and a depressed market situation around the presidential polls and changes in indirect taxes.

THE RETAIL CHANNEL

The rebound in Retail volumes could mainly be attributed to an attractive Distributor and Trade Programme that was launched to the network in January 2019, applicable for the entire year, where Distributors, their staff and our channel partners were offered various monetary and non-monetary incentives as well as recognitions upon hitting set targets. This programme proved most popular across all stakeholder groups and was the main driver of volume achievement during the year. This programme was further supported by various trade and consumer promotions during the year to ensure the competitiveness of our product proposition to consumers and the trade.

In terms of performance during the year, we ended Q1 strong but Q2 took quite a hit due to the Easter attacks following which there was a marked reduction in travel by consumers, depressed offtake and significantly reduced activity in sectors connected to the tourism industry. We did see an improvement in Q3 but the gains were eroded by poor performance in Q4 due to consumers and trade deferring purchases due to uncertainty surrounding the presidential elections and the subsequent changes to indirect taxes such as VAT and NBT.

It should be mentioned that Chevron, as a responsible corporate citizen was prompted to pass on the reduction in Government taxes to the consumer, lowering prices effective Dec 1, 2019 while most players in the industry held on for several weeks before passing on the reduction, unduly profiting in the meantime.

During the period under review, we also carried out a refresh of branding for our exclusive oil shops, rebranding them as Caltex Authorized Dealers from the previous Oil Mart name which has now become generic in nature, in pursuance of our objective of differentiating our exclusive channel so that our consumers can be assured of being sold a genuine product rather than dubious alternatives.

During the year, we also expanded our exclusive channel by adding on 75 new Caltex Authorized Dealers and three new Xpress Lube – Exclusive Service Stations.

In terms of new product introductions during the year, we introduced a new ultra-low viscosity passenger car motor oil – Caltex Havoline Pro DS Eco 5 SAE 0W-16 which was launched in October 2019 at the 5th annual meet up of the Suzuki Wagon R Owners Club of Sri Lanka. The Club is one of the fastest-growing automotive clubs in Sri Lanka with an active member base of about 5,000 Suzuki Wagon R car owners. The launch event was attended by over 650 members of the Club, Chevron's Asia Pacific Regional Technology Specialist, and senior officials of Chevron Sri Lanka's Sales, Technology and Marketing departments.

During the year we also launched a new 1kg pack size of Grease – Marfak Multipurpose EP3 thus closing a portfolio gap that had existed for some time.

We continued our strategy of channel partner education in order to reinforce our position as a technology leader and the programme included a certification programme for participants enabling them to increase their level of competence by advancing up the different levels of the programme.

We also continued our programme of using company technical officers to test lubricant samples from the trade to assess integrity of products sold in Caltex drums with action taken against those who were found to be selling adulterated oil to unsuspecting consumers, the instance of which is expanding to a significant extent.

THE COMMERCIAL & INDUSTRIAL CHANNEL

This sector recorded a year-on-year growth in excess of 20% with Chevron winning the major part of the Sri Lanka Transport Board Annual Tender and approximately 90% of the state-owned power generation annual tenders. There was however a delay in awarding of the Government tenders won by Chevron, due to the political turbulence that prevailed during the last quarter of 2018.

Except for the first quarter of 2019, power generation volumes were adversely affected by heavy rains that persisted most of Q2 to Q4, with consumption in state-owned power generation reducing with the mix swinging in favor of hydro power at the expense of lubricant intensive thermal power. This situation was further compounded by state-owned power generation also curtailing operations, giving preference to Independent Power Producers (IPPs) due to contractual obligations.

One of the key drivers of growth in Bangladesh during the year was gas engine oils which was enabled by a series of technical seminars conducted during the early part of the year for customers by technical experts from Chevron

The Easter bombings also affected the C&I Channel adversely with reduced consumption across industries. For example, the Manufacturing Index for April dropped to an all-time low as per Central Bank statistics, due to the closures & reduced worker attendance on account of unrest. This depressed situation persisted for most of Q2.

The rubber sector also fared poorly during the year with their reduced export order book adversely affecting lubricant consumption. While the construction sector experienced marginal gains especially during the latter part of the year, we had decent growth from the police, navy and air force which buffered some of the hits from the other sectors.

In the OEM business, while we encountered reduced consumption from the main truck and bus operators, we experienced strong growth from construction sector OEMs and motorcycle OEMs.

Certain internal restructuring activities done in the Direct Channel at the beginning of the year, paid off, in terms of enabling increased focus and dedicated resources for this part of the business.

EXPORT MARKETS:

Bangladesh:

Despite a slow start to the year, volumes picked up from March onwards supported by a series of Trade Promotions run in the Retail Sector and delivered consistent growth from Q2 to Q4 resulting in a 18% year on year growth for the year ended Dec 2019 which incidentally clocked the highest volume level recorded for export sales to Bangladesh.

The C&I Sector however delivered below par performance, hit mainly by reduced consumption from the power generation sector due to over capacity and the government opting to purchase power from neighbouring India rather than from in-country private sector producers.

One of the key drivers of growth in Bangladesh during the year was gas engine oils which was enabled by a series of technical seminars conducted during the early part of the year for customers by technical experts from Chevron. This programme yielded rich dividends evidenced by the strong growth we recorded by the end of the year on gas engine oils.

Our distributor also engaged in certain restructuring activities during the first half of the year which was supported by Chevron in terms of training and familiarization programmes for some of their key personnel.

A structural change done by Chevron early 2019 by assigning an experienced and dedicated resource to manage the export business also bore fruit in terms of focus and greater supervision of this key growth market.

Maldives

Maldives yielded below par performance during the year affected by distribution issues. While we have been pursuing a dual distributor model for this market for some time now, we parted company with one distributor during Q1 and appointed another in their place during Q3. The other distributor who has been recording decent growth in recent years was unfortunately unable to pick the slack resulting in an overall reduction in volumes.

Several investments were made during the year on technical training of salespersons of the distributors and in customer visits to the resort segment in the Maldives by our sales & technical staff, the return on which we expect to reap during 2020.

TOLL BLENDING

Toll blending continued to do well for us for the second year running since 2018, recording double digit growth, with the local dealer experiencing strong customer acceptance of the product.

MANAGEMENT DISCUSSION & ANALYSIS

PRODUCT TECHNOLOGY

As the lubricants leader in Sri Lanka, Chevron strives to be the first to introduce products considered industry's latest trends. In this quest, in 2019 we introduced Havoline ProDS ECO5 SAE 0W-16 (API SN Plus) to cater the latest lower viscosity SAE 0W-16 petrol car engine oil requirements which is now starting to be seen in Sri Lanka with the influx of Japanese latest domestic models. Havoline ProDS ECO5 premium gasoline engine oils help to improve the fuel economy, lower the emissions and extend the period between oil changes, thus lead in changing the dynamics of local lubricants industry. We also did a test marketing of a grease to extend changing intervals in transport industry wheel bearing applications, achieving over 50,000Km. New grease Delo Starplex EP3 will be introduced to Sri Lanka for local customers to reap the long grease change interval benefits. We also initiated local field proven trials for Delo Gold Ultra extended oil drain intervals in 2 large prime mover fleets. Delo Gold Ultra has proof of performance over 30,000 Km oil drain intervals in Asia Pacific countries. These field trials will help us to re-confirm Delo® 30,000 Km extended oil drain intervals under Sri Lankan operating conditions.

Our technical staff continued their efforts in transferring Chevron global industry knowledge to the Sri Lankan market by building capacity and empowering our retail field staff. The technical team visited all Caltex depots across the country from north to south and east to west training the depot staff and transferring the knowledge with all channels. We designed two special training modules to complement the 'Caltex Star Power' concept - B-Tech to deliver the basic product application knowledge and M-Tech to upskill the B-Tech holders.

We continued to support curbing product adulteration activities seen in the domestic market by randomly sampling the channel with the support of our sales team and testing samples at our lab. These product integrity findings were submitted for management discussions and actions.

We also continued our good relationship closely working with the regulator PUCSL to uplift the standards in the local lubricants industry.

MARKETING ACTIVITIES

Havoline Consumer Promotion – "Havoline Thagi Engima"

Chevron Lubricants Lanka PLC kick-started the year with a mega consumer promotion themed "Havoline Thagi Engima" for selected products of Havoline motorcycle (MCO) and passenger car motor oils (PCMO). The promotion was able to achieve a record number of entries due to its novel and innovative approach enabling a 20% volume growth for Havoline products. Havoline Thagi Engima promotion rewarded the consumers with over Rs.10 million worth of gifts during February and March 2019.

All purchases of the promotional packs were rewarded with a guaranteed instant mobile reload; the promotion gave away Rs.5 Million worth of mobile reloads across all mobile networks in Sri Lanka. Apart from the guaranteed mobile reloads, the promotion also rewarded consumers on a daily and weekly basis, through a lucky draw. Latest smart phones and brand-new Bajaj motorcycles was rewarded on daily and weekly basis respectively.

An astounding 120 smart phones and eight motor bikes were presented to lucky winners during weekly presentation ceremonies, which was announced through mainstream media and through various digital and social media platforms.

The promotion was heavily supported by a fully-fledged and well executed 360-degree multi touch point communication campaign, which spanned across both Above the Line and Below the Line mediums. Furthermore, on ground visibility for the promotion was created through a merchandising competition among the sales representatives, where they were eligible to win exciting prizes.

Campaign mnemonic

Patrick McCloud, Managing Director / Chief Executive officer of Chevron Lubricants Lanka PLC presenting a gift to a lucky winner of "Caltex Havoline Thegi enigma" consumer promotion

Exclusive Service Station Visual refresher

Exclusive service stations experienced a branded image change in order to leverage and build equity for both Havoline and Delo brands and convey the brand attributes of quality and world-class customer service standards. As a direct result, the “Caltex Star Care” has been re-branded as “Caltex Havoline Xpresslube and Caltex Delo Xpresslube”. The new rolled out imagery is in line with global chevron workshop image standards.

New Retail and Service Station imagery refresher - Caltex Authorized Dealer and Xpress Lubes

In an effort to create a strong differentiated visual identity among the CLLP channel partners, a revamped channel imagery was launched in Q2 of 2019. The channel visibility strategy focused on two channels, namely Exclusive Channel (such as Caltex Oil Marts and Caltex Star Care Outlets) and Non-Exclusive Channel (such as Retail Lube Centers, High street outlets etc).

The challenge for these outlets was the risk of losing visual identity due to ease of imitation (“Me too” outlets), whilst the competition and brand clutter was increasing at the non-exclusive channels. Thus, a new visual identity for Caltex in the retail space was required. Therefore, the visibility strategy focused on driving authenticity and in-imitability at the exclusive channel whilst focusing on strong brand visibility at the non-exclusive channel.

Caltex Authorized dealer

“Caltex Star” symbol was used in driving the visual authenticity for the Caltex exclusive channel retailers. Further to negate imitability of the term “Oil Mart”, “Caltex Authorized Dealer” terminology was substituted and introduced along with creating visibility to two global lubricant brands Delo and Havoline. Further, the new strategy introduced a tier-based investment on visibility creating an aspirational journey for the retailers to grow volume and reap higher benefits. A total of 174 outlets was branded with the new Caltex Authorized Dealer (CAD) imagery during 2019 across the country.

MANAGEMENT DISCUSSION & ANALYSIS

NON-EXCLUSIVE RETAILER VISIBILITY

Caltex Havoline Yes FM Drag Race Sponsorships

In promoting its world-renowned lubricant passenger car motor oil brand Havoline, Chevron chose local racing sponsorships as a key platform to take the brand message to our core target consumers.

Caltex Havoline was the associated as the main sponsor of “Yes 101 drag battle” held at the Katukurunda Air base, in September 2019. The event was attended by over 150 racers in 18 different vehicle class competing for the prestigious trophy and bragging rights to be the best Drag racers in Sri Lanka. A crowd of well over 3,750 participants attended the event.

Caltex received high brand visibility pre event on both Radio and Social media. “Caltex Havoline Zone” displayed the Havoline product range and offered free-of-charge lubricant technical expertise to participants. The visitors to the “Caltex Havoline Zone” were able to win from the Interactive game zone, the Havoline raffle draw and the social media competitions.

Launch of “Caltex Star Power Academy”

“Caltex Star Power Academy” was launched with the objective of creating a platform for knowledge dissemination in parallel to our trade and dealer engagement program Caltex Star Power, which was launched in January 2019. Two courses were developed and executed through the academy during 2019, focusing on key stakeholders; Caltex authorized dealers and Caltex distributor sales representatives & regional warehouse managers.

Caltex Authorized Dealer Training Program

Whilst enhancing knowledge of our key stakeholders remained key focus of this programs, it also helped to provide more augmented benefits going beyond monetary terms to our exclusive dealers. Underpinning this, the CAD Authorized Dealer Training Program was launched during the third quarter of 2019. This program had 3 levels in its pathway titled:

» B-Tec: Basic Lubrication Technology workshop for all newly contracted authorized dealers,

» M-Tec: Refresher program on lubrication technology and business support training and

» Advanced M-Tec: Lubrication technology certification from Technical institute.

B-Tec program was successfully completed for over 40 newly contracted authorized dealers. The highlight of the B-Tec program was that - participants were given a comprehensive factory visit to our blending plant in Sapugaskanda to comprehend the lubricant manufacturing process.

M-Tec programs were held in as regional workshops at 4 different locations targeting over 300 authorized dealers island wide. The combination of technology and business support training was well accepted by the audience and it is evident from the feedback provided. The training sessions were concluded with a networking session fostering better relationship with our authorized dealers.

COMPETENCY TRAINING FOR LUBRICANT SALES (CTLS)

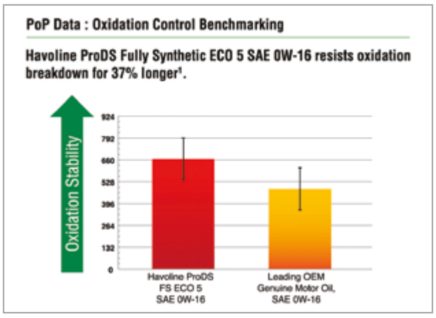
The second module launched by Caltex Star Power academy focused on enhancing the knowledge levels of our distributor sales representatives and regional warehouse managers epitomizing the importance of product knowledge in selling. CTLS is offered in 3 levels, basic, intermediary and advanced. Basic level was successfully executed in 2019 Q3 covering all 18 regional warehouses.

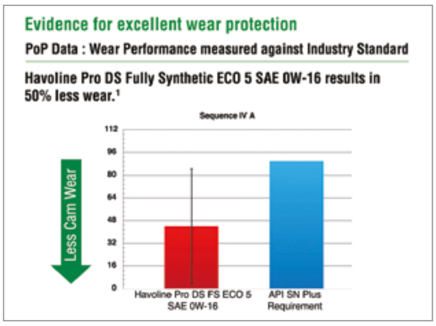
Successful roll-out of Star Power Academy was a direct result of a collaborative effort between Chevron Marketing, Sales and Technology teams working as one.

LAUNCH OF SRI LANKA'S FIRST ULTRA LOW VISCOSITY PCMO LUBRICANT: CALTEX HAVOLINE PRO DS ECO 5 SAE 0W-16

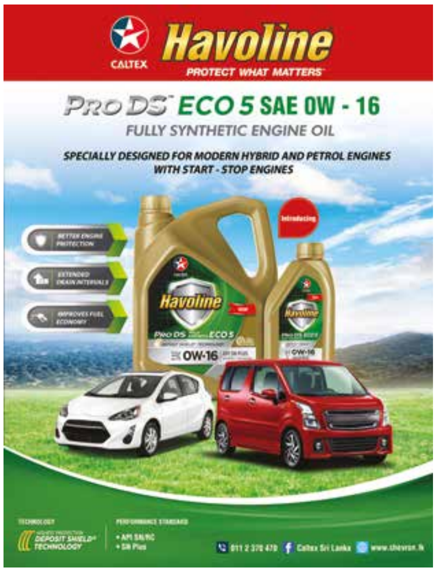
Demand for hybrid vehicles is increasing both locally and globally. Furthermore, global car manufacturers and consumers are demanding better performance from lubricants in terms of enhanced fuel efficiency, lower maintenance costs and longer drain intervals. This has created the need for more technologically advanced, resource-conservative lubricants.

In response to these market needs, Caltex Havoline Pro DS Eco 5 SAE 0W-16 was launched in Sri Lanka. This is a first of its kind in the ultra-low viscosity category in Sri Lanka. Caltex Havoline Pro DS Eco 5 SAE 0W-16 was officially launched at the 5th annual meet up of the Suzuki Wagon R Owners Club of Sri Lanka. The Club is one of the fastest growing automotive clubs locally with an active member base of about 5,000 Suzuki Wagon R car owners. The launch event was attended by over 650 members of the Club and the product was well received by the members. The said viscosity grade is mainly recommended for "Suzuki Wagon R" car models manufactured from 2017 onwards and "Toyota Aqua" cars manufactured from 2014 forward.





The product is specially formulated for new generation of hybrid car designed to operate on ultra-low viscosity required engines, with start–stop capability. The product formulation is powered by Havoline's Deposit Shield® technology and meets the latest industry performance standards; API SN/ RC and API SN plus. The product delivers top line performance benefits such as extended engine protection, sludge control for a cleaner engine, excellent oxidation which enables longer oil drain intervals and most importantly improved fuel efficiency.



MANAGEMENT DISCUSSION & ANALYSIS

Product Launch at the 5th annual meet up of the Suzuki Wagon R Owners Club of Sri Lanka.

L – R :Sumith Hewavitharana National Sales Manager of Chevron Lubricants Lanka, Bathiya Palihakkara - President of Suzuki Wagon R Owners Club of Sri Lanka, Jing Jim Lim – Asia Pacific Regional Technology Specialist of Chevron, Chanaka Pushpa Lal - Group creator of Suzuki Wagon R Owners Club of Sri Lanka.

SUPPLY CHAIN AND LOGISTICS

During the year 2019 supply chain was able to manage cost effectively and support volume growth initiatives by responding to sales promotions on time. As a result, supply chain successfully met all promotional volume targets. It was a systematic approach of collaborating cross functionally to deliver results the right way. The team continued to improve plant reliability and efficiency to ensure uninterrupted product supply to meet customer demand. Overall, supply chain was able to exceed an “On Time in Full” target in excess of 95% in 2019 as well.

The Supply Chain team was instrumental in contributing towards yet another year to CLLP’s safety record by running the plant and warehouse operations safely with zero recordable incidents and day’s away from work cases. We have been able to achieve this for 18 years consecutively. We were able to successfully deploy Human performance tool to enhance the safety culture by focusing on safeguards. We used learning teams to engage people to get their inputs to identify and improve process gaps.

We have successfully deployed SAP Quality Management Process functions and Computer based Maintenance Management Systems (CMMS) at SAPLUB Sri Lanka. These implementations helped streamline Supply Chain operations and set CLLP on a digitization journey.

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

DIGITAL

Digital Innovation and Acceleration:

To win in a fast-changing world, Chevron empowers its people to make better, faster decisions supported by digital technologies and a culture of innovation. The company is investing resources in enhancing business workflows that improve safety and reliability performance, increase speed and efficiency, and reduce costs and increase profitability. We innovate with technologies that bring together IT and the business functions to pursue solutions that create value. We select solutions that are built on solid foundations so that we can expand quickly and adapt to emerging technologies. The company is shifting its mindset to adopt innovative thinking, thinking big, acting fast and taking calculated risks that don’t compromise safety. An example of Digital Innovation can be found at our blending plant in Sapugaskanda. The Supply Chain team introduced a state-of-the-art quality management system (QMS) in 2019. This system provides real time product specifications and quality data to operations and provides full transparency to the status of each blend and filling operation.

DECISION-MAKING

The Decision-Making Imperative will unlock higher performance by transforming our decision-making culture. The company is doing this by focusing on mindset, empowerment, and approach to making decisions. The management team and staff are embracing the growth mindset. We are focused on continuous improvement of ourselves and the work that we do. Leadership is encouraging managers and supervisors to decentralize decision making and delegate to those with the knowledge to act responsibly. We begin with aligned goals and success vision and clearly defined decision authorities. The company uses a fit-for-purpose approach when selecting the decision-making method to match the challenge being addressed. The mindset and processes were positively adopted by the team. A portion of the company’s performance in 2019 can be attributed to how we are handling decision making.

Building our tomorrow

We're investing in our workforce by building our tomorrow. We have embarked upon new ways to improve decision-making, digital innovation, and performance management, as well as foster a more inclusive workplace where every idea is heard and every person has a chance to contribute to their fullest.

Three imperatives. One goal.

PERFORMANCE MANAGEMENT

In 2019, we refreshed our 25-year-old performance management process with a fit-for-purpose program to create an even more committed, engaged, and motivated workforce. The goals of evolving our performance management process were:

- » Cohesive alignment to company goals
- » Creating a feedback-rich culture
- » Identifying and rewarding high performance
- » Strengthening employee development
- » Simplicity and efficiency

The Performance Management initiative has created a fit-for-purpose program that is right for Chevron and its employees at every level. The company will use the tools to drive alignment within the team by setting clear goals and expectations, to give and receive feedback, and to develop all employees and coach them to achieve even higher levels of performance. To enable the benefits of the new program, the company launched 'Workday'; a cloud based digital solution to seamlessly integrate the employee experience for all Human Resource matters.

FINANCIAL REVIEW

GROWTH, PROFITABILITY AND EFFICIENCY

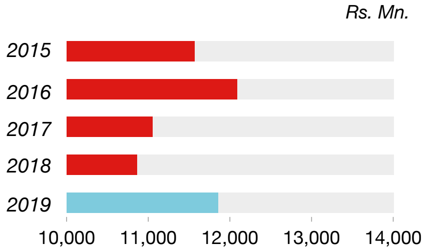
REVENUE

The Company recorded a revenue of Rs. 11.86 Bn during the period under review which is a 9% YoY growth in comparison to Rs. 10.86 Bn recorded in 2018. The growth in revenue is mainly attributed to the domestic and export markets which recorded 8% and 19% increases over 2018.The growth in domestic revenue was primarily due to the higher trade volumes of 7% and secondly due to growth in average selling price, as the price revisions effected during the latter half of 2018 took full effect during the year 2019. The growth in domestic market volumes were despite the adverse effects on economy as a consequence of the terrorist attack in April 2019, political and policy uncertainty vi-a-vis pre and post presidential election which led to sluggish consumer demand for lubricants in the industry during the latter quarter of 2019.

The growth in retail channel volumes were driven by the distributor and trade incentive programme and the tactical promotions executed during the year, whilst the growth in commercial and industrial channel was largely attributed to winning of key government tenders in the power generation and transportation sectors.

Export volumes grew by 13% compared to 2018, led by export volumes to Bangladesh which grew by 18% compared to last year. The growth in Bangladesh stemmed mainly from the retail sector supported by a series of trade promotions and particularly through the growth in sales recorded in gas engine oils. Export volumes to Maldives declined by 12% compared to last year, due to distribution issues during the period. Despite the decline experienced in Maldives, the total combined export revenue in local currency from the two markets increased to reach Rs. 1,286 Mn (2018: Rs. 1,081 Mn) due to incremental export volumes to Bangladesh and the favourable effects of LKR depreciation against the USD. The Company continued to export certain lubricant and coolant products to a few inter companies of Chevron which recorded an 8% increase in volumes and a 22% increase in revenue YoY.

Revenue



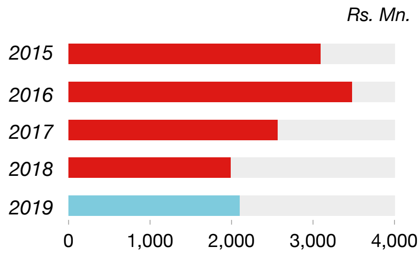
PROFIT AFTER TAX

Profit After Tax increased by 5% YoY to Rs. 2,099 Mn compared to Rs. 1,992 Mn recorded in 2018. The gross profit margin declined marginally to 37% from 38% in 2018 stemming from the adverse effects of LKR depreciation against the USD and its impact on cost of sales vis-à-vis base oil and additive imports. Base oil prices softened partly due to the decline in crude oil prices and the effects of overall demand-supply economics. However, the favourable effects from the softening of base oil prices were outweighed by the depreciation of the LKR against the USD, which also led to a compounding adverse effect on import tariffs.

Operating profit increased by 6% in 2019 mainly due to the increase in gross profit driven by higher volumes. A growth in operational expenditure and a decline in other income compared to 2018, compressed the operational earnings. Profit Before Tax increased to Rs. 2,943 Mn in 2019 from Rs. 2,760 Mn in 2018. Net finance income increased due to higher interest income as a result of higher cash reserves held during the year and a net foreign exchange gain recorded in 2019 compared to the foreign exchange loss recorded during the parallel period. An increase in finance cost was recorded during the period as result of the interest expenses accounted pertaining to lease liabilities recognized under SLFRS 16.

Profit for the year was Rs. 2,099 Mn compared to Rs. 1,992 Mn in 2018. Total comprehensive income increased by 4% YoY to Rs. 2,080 Mn, which included a net other comprehensive expense after tax of Rs. 19 Mn pertaining to an actuarial loss on retirement benefit obligation.

Profit After Tax



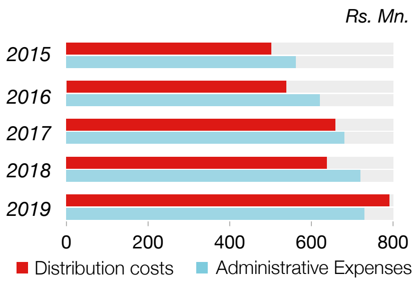
INCOME TAX

Income Tax expense for the year was Rs. 844 Mn, which translates to an effective tax rate of 29% compared to 28% last year. The effective tax rate was marginally above the statutory rate of tax with export earnings taxed at the standard rate. The marginal increase in effective tax rate in comparison to the parallel period was mainly due to a proportion of export earnings being taxed at the concessionary rate previously applicable during 2018 prior to transition to the New Inland Revenue Act from Y/A 2018/19. Total income tax expense amounted to Rs. 836 Mn, which included a deferred tax reversal on other comprehensive expenses for the year.

DISTRIBUTION AND ADMINISTRATION EXPENSES

Distribution expenses increased by 24% to Rs.791 Mn from Rs.638 Mn recorded in 2018. The increase in distribution expenses were largely attributable to increased advertising and sales promotional expenditure with a full budget spend to support sales and marketing initiatives in comparison to cost curtailment efforts during 2018 in correlation to business performance. Transportation expenses increased due to higher domestic and export volumes, whilst the growth in domestic revenue entailed a higher lubricant license fee. Administration expenses amounted to Rs. 730 Mn, recording a marginal increase of 1% compared to Rs.720 Mn in 2018. The increase largely stemmed from a higher depreciation expense as a result of SLFRS 16 adoption.

Administration & Distribution Expenses



LIQUIDITY

Working Capital

Total inventory decreased by Rs. 816 Mn, due to a decline in both raw material and finished goods inventory. The raw material inventory decreased by Rs.770 Mn due to both lower base oil prices and timing effects of imports compared to 2018. Finished goods inventory also decreased by Rs. 46 Mn to Rs. 529 Mn compared to the Rs. 575 Mn recorded in 2018, reflecting a higher demand during December 2019 as opposed to the weak demand experienced during the parallel month in 2018.

Trade receivables increased compared to 2018, due to stronger consumer demand during the latter quarter of 2019. The number of “days sales outstanding” (DSO – Company formulated matric) improved to 33 days in 2019 (34 days in 2018). The Company retained its tight credit control policy and collection efficiency to ensure the unswerving commitment towards efficiency in managing its working capital cycle, despite the relatively loose credit policies seen in the market to lure sales in a highly competitive environment. The Company remained cautious in extending credit to sectors predisposed to liquidity constraints and remained vigilant to market and economic developments through robust credit controls.

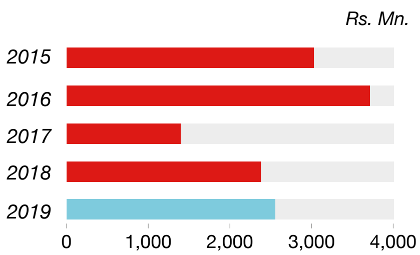
The company maintained a healthy liquidity position by recording a current ratio of 2.9 (2018: 2.3) and a quick asset ratio of 1.5 in 2019 (2018: 0.7) to meet working capital requirements. The increase in current ratio and quick asset ratio compared to 2018 was due to a decline in trade payables and an increase in cash and cash equivalents respectively.

CASH FLOW

Cash generated from operating activities increased to Rs. 3.3 Bn compared to Rs. 3.2 Bn in 2018, whilst the net cash flow from operating activities increased to Rs. 2.6 Bn from Rs. 2.4 Bn recorded during 2018. The Company generated a free cash flow of Rs. 2.5 Bn (2018: Rs. 2.3 Bn), while net cash generated from investing activities declined relative to the previous period. The comparatively higher free cash flow generated in 2019 is mainly attributed to the increase in earnings and the decline in taxes paid during the year.

Three interim dividends totaling to Rs. 1,500 Mn were declared during the year. The cash payout of Rs. 1,860 Mn, consisted of Rs. 1,500 Mn dividends declared during the year and the fourth interim dividend of Rs. 360 Mn for the year 2018. The fourth interim dividend of Rs.480 Mn pertaining to 2019 was paid during March 2020. Cash and cash equivalents at year end increased relative to 2018 due to the timing effects of operating commitments and the cash payout of dividends during the financial year.

Net Cash Flow from Operating Activities

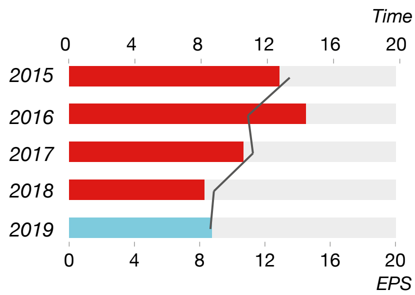


STABILITY AND INVESTOR RETURN

Financial Stability

The Company recorded a return on equity of 52% in 2019 (50% in 2018). Earnings per share increased by 5% to record Rs.8.75 in 2019 compared to Rs.8.30 in 2018.

EPS & PE

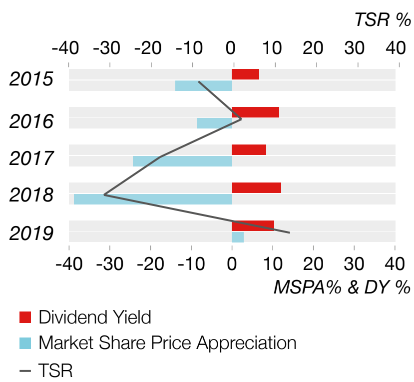


INVESTOR RETURN

Dividend per share amounted to Rs.7.75 which translates to a dividend yield of 10.0% based on the share price recorded as at end December 2019 (2018: 12%), whilst capital growth improved via an increase in market share price by 2.9% (2018: -38.8%).

Total Shareholder Return also increased to 13.53% in 2019 (2018: -31.47%).

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



FINANCIAL REVIEW

QUARTERLY RESULTS

A summary of the quarterly results for 2019 and 2018 based on the quarterly financial statements submitted to the Colombo Stock Exchange are tabulated below.

Interim financial statements submitted to the Colombo Stock Exchange

	2019				2018			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Turnover	3,265	2,749	3,301	2,541	2,979	2,785	2,883	2,214
Gross Profit	1,215	979	1,262	977	1,264	1,037	1,036	754
Operating Profit	837	608	875	597	961	698	716	368
Finance income - Net	6	4	(1)	16	10	8	4	(4)
Profit Before Tax	843	612	874	613	970	706	720	363
Profit After Tax	603	439	622	435	697	507	516	267

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

CORPORATE GOVERNANCE

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

BOARD OF DIRECTORS

The Board consists of 6 Directors, including 2 Independent Directors. As per the Board charter, the Board is responsible for the setting the overall direction, financial objectives and operational goals, reviewing and approving the annual plan, monitoring of performance against the objectives and goals, approval of quarterly and annual financial statements and major transactions. It monitors overall performance, risk management systems, the integrity of the Company's financial controls and the effectiveness of compliance program.

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

Appointment of Non-Executive Directors is based on the collective decision of the Board.

As per Article 84 of the Articles of Association one third of the directors of the Board have to retire by rotation at every Annual General Meeting. The Chairman and Executive Directors are excluded in determining the Directors to retire. The person who has served for the longest period has to retire but is eligible for re-appointment.

The Board met 4 times during 2019 and the attendance is given below;

	Attended
Rochna Kaul NED	3/4
Pat McCloud ED	4/4
Anura Perera (resigned w.e.f. 28.06.2019) ED	2/2
Erande De Silva (appointed w.e.f. 28.06.2019) ED	2/2
Teek Hong Kee (resigned w.e.f. 15.02.2019) NED	1/1
Nicolas Bossut (appointed w.e.f. 04.03.2019) NED	3/3
Asite Talwatte NED/IND	4/4
Harsha Amarasekera NED/IND	4/4

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

BOARD AUDIT COMMITTEE

This Committee functions under a written charter, and consists of two Non-Executive Independent Directors namely Mr. Asite Talwatte, (Chairman) and Mr. Harsha Amarasekera. CEO/ Managing Director and CFO/ Director attend the meeting by invitation.

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

The Board Audit Committee met 7 times during 2019 and the attendance is given below

	Attended
Asite Talwatte*	7/7
Harsha Amarasekera	7/7

REMUNERATION COMMITTEE

Remuneration committee consists of three Non-Executive Directors. This Committee reviews the salary and benefits programs of executive employees, including the Executive Directors.

	Attended
Harsha Amarasekera*	1/1
Asite Talwatte	1/1
Nicloas Bossut (appointed w.e.f. 04.03.2019)	1/1

* Chairman of the Committee

DIRECTORS REMUNERATION

Total remuneration paid to Executive and Non-Executive Directors are given in page 73 and the report of the Remuneration Committee is given in page 47.

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Committee consists of three Non-Executive Directors. The scope of the committee would be to provide independent review, approval and oversight of related party transactions on the terms set forth in greater detail in the Committee Charter.

CORPORATE GOVERNANCE

The Committee met 4 times during the year;

	Attended
Asite Talwatte*	4/4
Harsha Amarasekera	4/4
Teek Hong Kee (resigned w.e.f. 15.02.2019)	1/1
Nicloas Bossut (appointed w.e.f. 04.03.2019)	3/3

* Chairman of the Committee

CHEVRON BUSINESS CONDUCT AND ETHICS CODE

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

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

The BCEC includes the following subject areas;

» Human rights
» Company records and internal controls
» Avoiding conflicts of interests which also covers accepting or giving gifts, fees, favors or other advantages & insider trading.
» Anti-bribery, international trade and anti-boycott laws.
» Government affairs and political involvement.
» Operational excellence
» Anti- trust and competition laws.
» Data privacy.
» Protection of information and intellectual property

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

WHISTLE BLOWING

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

INVESTOR RELATIONS

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

PROTECTION OF PEOPLE AND THE ENVIRONMENT

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

Compliance with the Rules of the Colombo Stock Exchange on Corporate Governance & Related Party Transactions

Rule No	Subject	Criteria	Compliance Status	Details
7.10.1.(a)	Non-Executive Directors	At least one third of the total number of Directors should be Non-Executive Directors	Compliant	As at the conclusion of the last AGM and throughout the financial year, there were 4 Non-Executive Directors.
7.10.2 (a)	Independent Directors	Two or one third of the Non-Executive Directors , whichever is higher should be independent	Compliant	As at the conclusion of the last AGM and throughout the financial year there were 2 Independent Directors.
7.10.2.(b)	Independent Directors	Non Executive Directors should submit an annual declaration of his/her independence/non independence against specified criteria	Compliant	Please refer to page 33 of the Corporate Governance Report.

Rule No	Subject	Criteria	Compliance Status	Details
7.10.3 (a)	Disclosure relating to Directors	The Board shall make a determination annually as to the independence or non-independence of each Non-Executive Director.	Compliant	The Board made a determination against the criteria given in rule 7.10.4
7.10.3 (b)	Disclosure relating to Directors	In the event a Director does not qualify as "independent" but if the Board is of the opinion that the Director is "Independent", the Board shall specify the criteria not met and the basis for its determination.	Not Applicable	No such determination was required as both Independent Directors met the criteria
7.10.3.(c)	Disclosure relating to Directors	Company shall publish a brief resume of each Director	Compliant	Please refer to pages 16 and 17.
7.10.3 (d)	Disclosure relating to Directors	Upon appointment of a new Director , a brief resume of such Director should be provided to CSE	Compliant	A brief resume of the directors appointed during the year were provided to CSE.
7.10.4	Criteria for defining independence	As per defined criteria of the CSE listing rules	Compliant	Both Independent Directors met the criteria
7.10.5	Remuneration Committee	A listed entity shall have a Remuneration Committee	Compliant	Please refer to the Remuneration Committee report on page 47.
7.10.5 (a)	Composition of Remuneration Committee	Remuneration Committee (RC) shall comprise a minimum of two Independent Non Executive Directors or majority of Independent Non Executive Directors.	Compliant	Out of the three members of the Remuneration Committee two are Independent Non-Executive Directors.
7.10.5 (b)	Functions of the Remuneration Committee	The RC shall recommend the remuneration payable to the Executive Directors/and Chief Executive Officer to the Board which will make the final determination.	Compliant	Please refer to the report of the Remuneration Committee appearing on page 47.
7.10.5 .(C)	Disclosure relating to Remuneration Committee	Annual report shall set out the names of Directors in the RC, contain a statement of the remuneration policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors	Compliant	Please refer to the report of the Remuneration Committee appearing on page 47.
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Please refer to the Audit Committee Report given on page 44.
7.10.6 (a)	Composition of the Audit Committee	Composition of the Audit Committee	Compliant	Audit Committee comprised of two Non-Executive Independent Directors and headed by an Independent Director.

CORPORATE GOVERNANCE

Rule No	Subject	Criteria	Compliance Status	Details
		CEO and CFO shall attend all Audit Committee Meetings	Compliant	Chief Executive Officer and Chief Financial Officer attended Audit Committee meetings by invitation.
		Chairman or one member of the Audit Committee shall be a member of a recognized professional body.	Compliant	The Chairman of the Audit Committee is a Fellow member of the Institute of Chartered Accountants of Sri Lanka.
7.10.6 (b)	Functions of the Audit Committee	Should be as outlined in the 7.10 of the listing rules.	Compliant	Please refer to the Audit Committee report given on page 44 and the Corporate Governance Report.
7.10.6.(c)	Disclosures in the Annual Report relating to Audit Committee.	a. Names of the Directors comprising the Audit Committee	Compliant	Please refer to the Audit Committee report on page 44.
		b. The Audit Committee shall make determination of the independence of the Auditors and disclose the basis for such determination	Compliant	Please refer to the Audit Committee report on page 44.
		c. The Annual Report shall contain a report of the Audit Committee setting out the manner of compliance of the functions	Compliant	Please refer to the Audit Committee report on page 44.
9.2.1	Review of Related Party Transactions	All relevant Related Party Transactions should be reviewed by the Related Party Transactions Review Committee (RPTRC)	Compliant	Please refer to the report of the Related Party Transaction Review Committee appearing on page 45.
9.2.2	Composition of the RPTRC	The Committee should comprise a combination of Non Executive Directors and Independent Non-Executive Directors	Compliant	Please refer to the report of the Related Party Transaction Review Committee appearing on page 45.
	Related Party Transactions Review Committee	One Independent Non Executive Director shall be appointed as the Chairman of the Committee	Compliant	Please refer to the report of the Related Party Transaction Review Committee appearing on page 45.
9.2.4	Frequency of meetings	The Committee shall meet at least once a calendar quarter. The Committee shall ensure that the minutes of all meetings are properly documented and communicated to the Board of Directors.	Compliant	Please refer to the Corporate Governance report appearing on page 34.
9.3.2 (c)	Disclosures in the Annual Report relating to RPTRC	Names of the Directors comprising the Committee	Compliant	Please refer to the report of the Related Party Transaction Review Committee appearing on page 45.

Rule No	Subject	Criteria	Compliance Status	Details
		A statement to the effect that the Committee has reviewed the Related Party Transactions during the financial year and has communicated the comments/ Observations to the Board of Directors	Compliant	Please refer to the report of the Related Party Transaction Review Committee appearing on page 45.
		The Policies and procedures adopted by the Committee for reviewing the Related Party Transactions.	Compliant	Please refer to the report of the Related Party Transaction Review Committee appearing on page 45.
		The number of times the Committee has met during the financial year.	Compliant	Please refer to the Corporate Governance report appearing on page 34.
9.3.2.(d)	Declaration by Board of Directors	A declaration by the Board of Directors in the Annual Report as an affirmative statement of the compliance with these Rules pertaining to Related Party Transactions	Compliant	Report of the Directors on page 41.

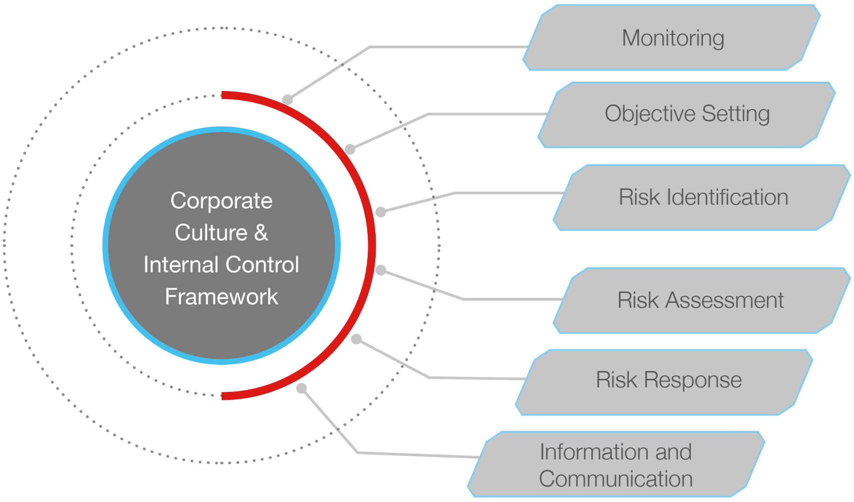
Compliance with the section 9.3.2 (b) of Listing rules of the Colombo Stock Exchange
Recurrent Related Party Transactions

Name of the Related Party	Relationship	Nature of the Transaction	Aggregate value of the related Party Transactions entered in to during the Financial Year (LKR)	Aggregate value of the related Party Transactions as % of Net Revenue	Terms and Conditions of Related Party Transactions
Chevron Singapore Private Limited	Subsidiary of the ultimate parent	Purchase of Raw Materials for Blending of Lubricants	2,372,326,464	20%	As per the Purchase Agreement between the two entities, on commercial terms.
Chevron Singapore Private Limited	Subsidiary of the ultimate parent	Services obtained for Lubricant Business, Procurement, HES, Legal, IT, HR.	519,385,339	4%	As per the Service Level Agreement between the two entities.
			2,891,711,803	24%	

RISK MANAGEMENT

RISK MANAGEMENT

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



(Risk Management Process)

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

INTERNAL CONTROL FRAMEWORK

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

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

RISK ASSESSMENT AND PROFILING

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

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

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

BUSINESS RISK

Loss of Volumes/ Market Share

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

Risk Response

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

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

(Conceptual model of the Risk Matrix)

and other relevant authorities to offer constructive suggestions to regulate the industry and protect the interests of the customers and maintain high product standards.

Dependence on Business Partners

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

Risk response

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

Health, Environment and Safety Risk

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

Risk response

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

OPERATIONAL RISK

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

Risk response

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

RISK MANAGEMENT

FINANCIAL RISK

Foreign Exchange Risk

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

Risk response

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

Credit Risk

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

Risk response

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

CYBER SECURITY RISK

The potential loss resulting from a cyber-attack or data breach on the organization or the company's technical infrastructure.

Risk response

Chevron Lubricants Lanka PLC practices a systematic approach to Cybersecurity Risk for all of its business units and subsidiaries. The Cybersecurity Risk management life cycle is based on and follows the National Institute of Standards and Technology (NIST) Cybersecurity Framework. This framework provides the structure for our Cyber Risk Management policies, procedures and guidance.

ANNUAL REPORT OF THE DIRECTORS

The Directors of Chevron Lubricants Lanka PLC are pleased to present their report together with the audited financial statements for the year ended 31st December 2019.

STRUCTURE AND NATURE OF THE BUSINESS

Chevron Corporation
(through Chevron Ceylon Ltd)

51%
Chevron Lubricants Lanka PLC

The core business activity of the company is the import, manufacturing / blending, distribution and marketing of lubricant products, greases, brake fluid, specialty products for domestic and certain export markets. The review of business activities for the year 2019 and the likely future developments are covered in detail under the Managing Director's Review, and Management Discussion and Analysis.

REVIEW OF BUSINESS PERFORMANCE

A review of the financial and operational performance of the business is given in the Chairperson's Review, Managing Directors Review, Management Discussion and Analysis, Financial Review and the Financial Statements.

FINANCIAL STATEMENTS

The financial statements prepared in accordance with Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka are given on pages 51 to 91.

ACCOUNTING POLICIES

All the significant accounting policies adopted by the Company are given in note 2 to the financial statements. The changes in the accounting policies adopted by the Company are given in Note 27 on pages 88 to 90.

PROFITS AND APPROPRIATIONS

The profit after tax was Rs. 2,099 Mn (2018: 1,992 Mn) and total comprehensive income for the period amounted to Rs. 2,080 Mn (2018: 1,995 Mn).

Information on Dividends and Reserves are given below.

» First interim dividend paid on 15th May 2019 at Rs. 2.25 per share
» Second interim dividend paid on 5th September 2019 at Rs. 1.75 per share
» Third interim dividend paid on 15th November 2019 at Rs. 2.25 per share
» Fourth Interim dividend paid on 16th March 2020 at Rs.2.00 per share

For the year ended 31 December 2019	(Rs. Million)
Profit after tax	2,099
Balance brought from previous year	3,314
Fourth Interim Dividend (FY 2018) of Rs. 1.50 per share paid on 12th March 2019	(360)
First Interim Dividend of Rs. 2.25 per share paid on 15th May 2019	(540)
Second Interim Dividend of Rs. 1.75 per share paid on 5th Sept 2019	(420)
Third interim Dividend of Rs. 2.25 per share paid on 15th Nov 2019	(540)
Unclaimed Dividend transferred to Retained Earnings	2
Re-measurement of defined benefit obligations	(19)
Balance carried forward to 2020	3,536

No final dividend has been proposed by the Board.

PROPERTY, PLANT & EQUIPMENT

Capital expenditure incurred during 2019 including work-in-progress amounted Rs. 99,834,142 (2018: Rs. 74,753,686). The movements in Property, Plant & Equipment are given in Note 13 to the Accounts.

DONATIONS

No donations were made by the Company during the year. (2018: Nil).

DIRECTORATE

The following served as Directors of the Company during the year 2019:

Rochna Kaul
Patrick McCloud
Anura Perera (resigned w.e.f. 28.06.2019)
Teek Hong Kee (resigned w.e.f. 15.02.2019)
Asite Talwatte
Harsha Amarasekera
Nicolas Michel Bossut (appointed w.e.f. 04.03.2019)
Erande De Silva (appointed w.e.f. 28.06.2019)

ANNUAL REPORT OF THE DIRECTORS

Mr. Erande De Silva who was appointed by the Board since the last Annual General Meeting retires at the forthcoming Annual General Meeting and is eligible for re-election in terms of the article 91 of Articles of Association of the Company.

In terms of Article 84 of Articles of Association of the Company Mr. Asite Talwatte retires by rotation at the Annual General Meeting and is eligible for re-election.

DIRECTOR'S SHAREHOLDINGS

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

None of the Directors hold shares in the Company.

DIRECTOR'S INDEPENDENCE

Asite Talwatte and Harsha Amarasekera function as independent directors of the Company.

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

Information on Company's compliance with other rules on corporate governance are given in corporate governance report in page 34.

REMUNERATION AND OTHER BENEFITS OF DIRECTORS

The remuneration and the value of other benefits received by the Directors are given in page 88.

DIRECTORS INTERESTS IN CONTRACTS

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

OTHER DIRECTORSHIPS HELD BY THE DIRECTORS

Other directorships held by the Directors have been disclosed with the Directors profiles on pages 16 and 17. These have been entered in the Interest Register.

RELATED PARTY TRANSACTIONS

The company procures most of the raw materials from Chevron group companies in the ordinary course of business. In addition the Company obtains and pays for various services provided by the group. The details of such transactions are given in note 26 to the Financial statements. The Directors believe that the Company has fully complied with the rules of the Colombo Stock Exchange relating to related party transactions. Report of the related party transactions review committee is given on pages 45 and 46.

SHARE INFORMATION

Information relating to market value of shares, public shareholding and top 20 shareholders are given in page 94 and 95.

POST BALANCE SHEET EVENTS

Company declared an interim Dividend of Rs. 2.00 per share on 24 February 2020 and was paid on 16th of March 2020.

Other than those disclosed in Note 28 (a), (b) and (c) to the financial statements in page 91, there have been no other events subsequent to the Balance Sheet date which would have material effect on the company or require disclosure or adjustment to the Financial Statements.

INTERNAL CONTROLS

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

STATUTORY PAYMENTS

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

AUDITORS

The financial statements for the year have been audited by Messrs PricewaterhouseCoopers (chartered accountants). They were paid Rs. 2,649,643 (2018: Rs. 2,453,373) as audit fees and Rs. 120,000 (2018: Rs. 120,000) for issue of solvency certificates.

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

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

ANNUAL GENERAL MEETING

The Board of Directors are monitoring the ongoing developments in the country due to the COVID-19 pandemic and the related directives issued by the regulatory authorities. The date, venue and business to be transacted in terms of the agenda of the annual general meeting, will be notified to shareholders in due course.

By order of the Board of Directors,

Patrick McCloud
Managing Director/CEO

Erande De Silva
Director /CFO/ Company Secretary

02 June 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

Pat McCloud
Managing Director / CEO

Erande De Silva
Director / CFO

AUDIT COMMITTEE REPORT

COMPOSITION

The Audit Committee composition complied with the requirements of the SEC. The composition of the Audit Committee during the year is indicated below.

Name and Details of Director	Directorship Status at CLLP
Asite Talwatte FCA (Chair)	Independent Non-Executive Director
Harsha Amarasekera PC	Independent Non-Executive Director

TERMS OF REFERENCE

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

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

MEETING THE GOALS

The Committee held seven meetings during the year 2019. The Committee met on seven occasions during the financial year 2019 and the members' attendance record is indicated in page 33 of corporate governance report.

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

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

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

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

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

EVENTS AFTER THE END OF THE REPORTING PERIOD

The audit committee was presented with estimated cash flows and profit forecasts prepared by the executive team of the company consequent to the Covid-19 pandemic globally and in Sri Lanka and its impacts on the business over the next 12 months. These projections which were also presented to the board do not raise concerns on the company's ability to continue as a going concern.

APPRECIATION

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

Sgd.
Asite Talwatte
Chairman
Audit Committee

02 June 2020

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

COMMITTEE COMPOSITION

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

Name of Director	Directorship Status at CLLP
Asite Talwatte	Independent Non-Executive Director
Harsha Amarasekera	Independent Non-Executive Director
Teek Hong Kee	Non-Executive Director *(Resigned w:e:f: 15/02/2019)
Nicolas Bossut	Non-Executive Director *(Appointed w:e:f: 04/03/2019)

* Indicates the effective dates on which the respective officers were either appointed or resigned from the Board of Directors and the Committee.

TERMS OF REFERENCE

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

» Review in advance all proposed Related Party Transactions of the Company except those explicitly exempted by section 9.5 of the CSE rules.

» Determine whether Related Party Transactions that are to be entered into by the Company require the prior approval of the Board or shareholders of the Company or require immediate market disclosure.

» Ensure that no Director of the Company shall participate in any discussion of a proposed Related Party Transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the express purpose of providing information concerning the Related Party Transaction to the Committee in its ongoing dealings with the relevant related party.

» Where necessary, the Committee shall seek the approval of the Board of Directors for Related Party Transactions, which are under review by the Committee. In such instances, the approval of the Board of Directors should be obtained prior to entering in to the relevant Related Party Transaction.

» In the event a Related Party Transaction will be ongoing (a Recurrent Related Party Transaction), the Related Party Transactions Review Committee may establish guidelines for the senior management to follow in its ongoing dealings with the Related Party. Thereafter, the Committee, on an annual basis, shall review and assess ongoing relationships with the Related Party to determine whether they are in compliance with the Committee's guidelines and that the Related Party Transaction remains appropriate.

POLICIES AND PROCEDURES

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

MEETINGS

The Committee met on four occasions during the financial year 2019 and the members' attendance record is indicated in page 34 of corporate governance report.

RELATED PARTY TRANSACTIONS DURING THE YEAR

The activities and observations of the Committee were communicated to the Board of Directors quarterly through oral briefings and by tabling the minutes of the Committee's meetings. During the year there were no Non-Recurrent Related Party Transactions that exceeded the respective thresholds mentioned in the Listing Rules. The Committee reviewed the recurrent related party transactions on a quarterly basis at each meeting, which included the transactions for the specific quarter and the cumulative amounts for the reporting period. Details of Recurrent Related Party Transactions entered into by the Company during the year are disclosed in Note 26 to the Financial Statements.

DISCLOSURES IN THE ANNUAL REPORT

The Company has also made the following disclosures as mandated by the CSE listing rules:

Recurrent Related Party Transactions are disclosed in page 37 of the annual report in compliance with Section 9.3.2 (b) of the listing rules of CSE.

During the year there were no Non-Recurrent Related Party Transactions that exceeded the respective thresholds, which require disclosure as per Section 9.3.2 (a) of the listing rules of CSE.

The Company has made relevant disclosures on related party transactions as required by LKAS 24 in Note 26 to the financial statements. These disclosures are on page 86 to page 89.

The Company has appointed an approved accountant to carry out a review of the Company's transactions with associated

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

enterprises on an annual basis and their reports are presented to the Related Party Transaction Review Committee.

The Company has also filed the Transfer Pricing Disclosure Form with the Department of Inland Revenue for Year of Assessment 2018/19 in terms of paragraph (d) of regulation 6 of Gazette Extraordinary Notification – 2104/4 issued under section 76, 77 and 194 of the Inland Revenue Act, No. 24 of 2017.

DECLARATION

The declaration by the Board of Directors confirming that the Company has complied with the requirements of the listing rules of the CSE on related party transactions for the financial year 2019 is given on page 42, in the 'Annual Report of the Directors'.

Sgd.
Asite Talwatte
Chairman
Related Party Transaction Review Committee

02 June 2020

REMUNERATION COMMITTEE REPORT

REMUNERATION POLICY

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

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

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

As was referred to in my report last year, the Committee is satisfied with the salary review process in place.

The Committee is also of the view that with the periodic increments made over the last few years, the total remuneration of the employees of the Company is in line with the Company Policy.

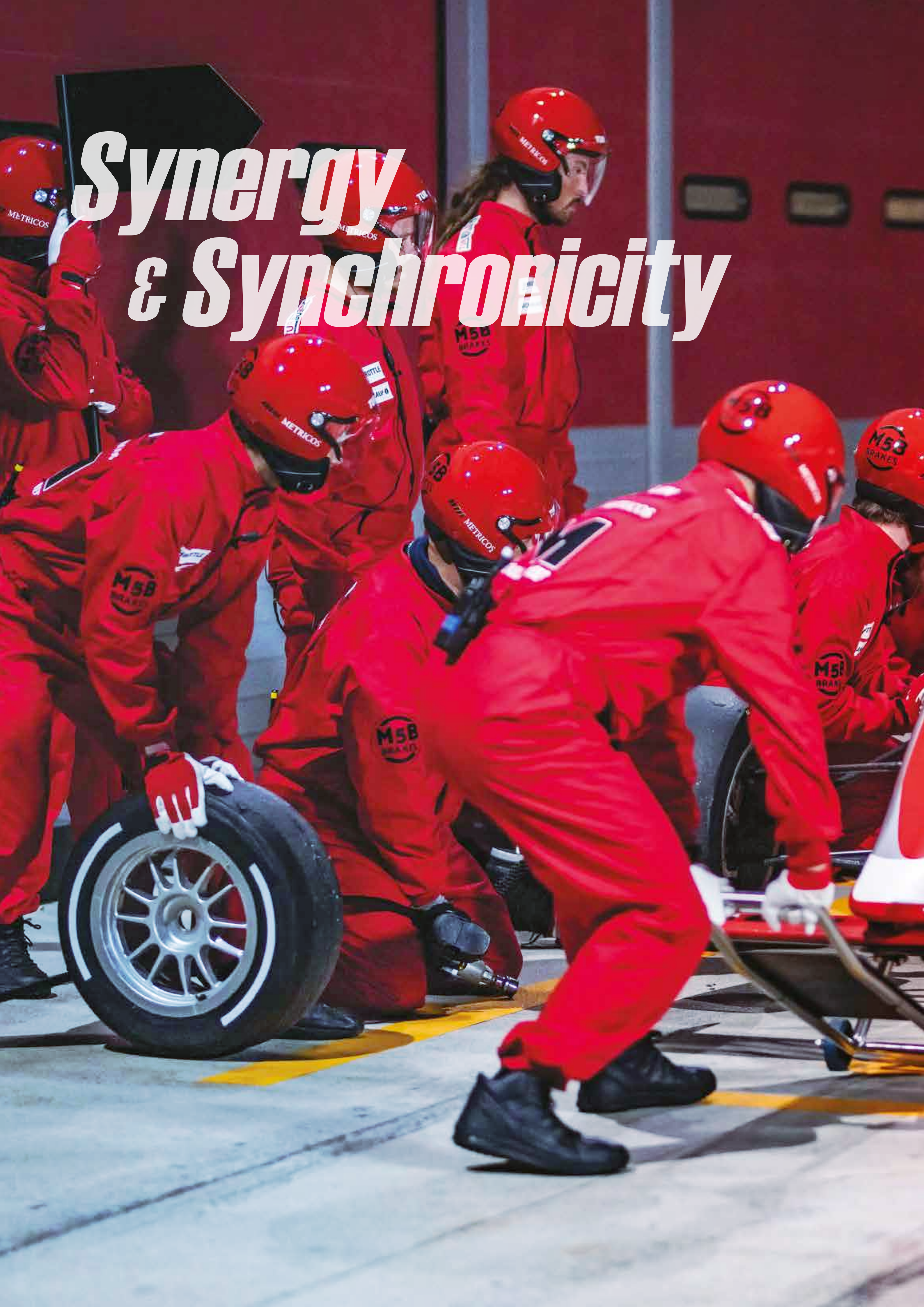
Notwithstanding the impact on the economy and the business of the Company by reason of Covid-19, the Company has not taken any steps to either reduce salaries and/or to withhold allowance as at the date of this report. The Remuneration Committee will periodically review the situation prevailing by reason of Covid-19 and take appropriate steps as and when necessary.

The aggregate remuneration paid to Executive and Non-Executive Directors is given on page 73.

Sgd.
Harsha Amarasekera
Chairman, Remuneration Committee

02 June 2020

Synergy & Synchronicity



In motorsports, timing is of the essence. A rapid response to changing dynamics, timely implementation of strategies and an individual responsibility towards a greater purpose can make the difference between a victory and a loss.

Each member works simultaneously, like a well-oiled machine designed to achieve pure precision, collaboration and efficiency - a triple threat that drives the Chevron team every day.

FINANCIAL STATEMENTS

FINANCIAL CALENDAR 2019

Interim Financials

1st Quarter	25th April 2019
2nd Quarter	05th August 2019
3rd Quarter	24th October 2019
4th Quarter	24th February 2020

Dividends Paid Dates

First interim dividend of Rs. 2.25 per share paid on 15th May 2019

Second interim dividend of Rs. 1.75 per share paid on 5th September 2019

Third interim dividend of Rs. 2.25 per share paid on 15th November 2019

Fourth Interim dividend of Rs.2.00 per share paid on 16th March 2020

INDEPENDENT AUDITOR'S REPORT

pwc

TO THE SHAREHOLDERS OF CHEVRON LUBRICANTS LANKA PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Chevron Lubricants Lanka PLC ("the Company") as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

What we have audited

The financial statements of the Company, which comprise:

» the statement of comprehensive income for the year then ended;

» the statement of financial position as at 31 December 2019;

» the statement of changes in equity for the year then ended;

» the statement of cash flows for the year then ended; and

» the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities* for the *Audit of the Financial* Statements section of our report.

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

Independence

We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Performance incentives and discounts to customers The Company offers several incentives and discounts to distributors and some retailers through their distributors. At the point of invoicing, the incentives and discounts are computed to arrive at the amount to be invoiced based on historical sales trends of each customer and such invoiced sales recorded are subsequently adjusted based on actual redistribution sales information received. Accordingly, revenue of LKR 11.9 billion is recognised net of customer incentives and discounts amounting to LKR 1.2 billion for 2019.	Our audit procedures included controls testing and substantive procedures covering the following: a) We obtained a list of customers with whom the Company has sales agreements / contracts with terms and conditions on eligibility of incentives and discounts, and selected those customers whose sales have been recorded net of significant sales incentives and discounts. The sales agreements / contracts with the selected customers were examined and the terms and conditions related to customer incentives and discounts were discussed with management. b) For the selected sample of customers, we recomputed the sales incentives and discounts, based on the contractual terms in the related customer sales agreements / contracts using the actual redistribution sales details of those customers, extracted from the 'Distribution Management System' of the Company, for which we had obtained reliance from the Risk Assurance team of the firm.

PricewaterhouseCoopers, P. O. Box 918, 100 Braybrooke Place, Colombo 2, Sri Lanka
T: +94 (11) 771 9700, 771 9838, F: +94 (11) 230 3197, www.pwc.com/lk

Partners **D T S H Mudalige FCA, C S Manoharan FCA, Ms S Hadgïe FCA, Ms S Perera ACA, N R Gunasekera FCA**
T U Jayasinghe FCA, H P V Lakdeva FCA, M D B Boyagoda ACA

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CHEVRON LUBRICANTS LANKA PLC (CONTD.)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTD.)

Key audit matter	How our audit addressed the Key audit matter
The customer incentives and discounts are material to the financial statements and is based on complex calculations with significant manual intervention and therefore this area was considered as a key audit matter.	c) We checked the approvals from the relevant personnel of the Company for a sample of the monthly debit / credit notes raised for adjustment of sales incentives and discounts for the month, for differences between sales incentives and discounts originally estimated at the time of sales invoicing and sales incentives and discounts recomputed based on actual sales extracted from the "Distribution Management System". d) We checked the incentive and discounts adjustments after the reporting date to arrive at the actual amount of incentives and discounts applicable to the financial year to assess the reasonability of the estimates made at the year-end. The procedures performed above did not reveal any material misstatements in performance incentives and discounts to customers.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

» Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a

TO THE SHAREHOLDERS OF CHEVRON LUBRICANTS LANKA PLC (CONTD.)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTD.)

Auditor's responsibilities for the audit of the financial statements (contd.)

material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

» Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

» Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

» Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

» Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by section 163 (2) of the Companies Act, No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CHARTERED ACCOUNTANTS
CA Sri Lanka membership number 2857
Colombo
Sri Lanka

12 May 2020

STATEMENT OF COMPREHENSIVE INCOME
INCOME STATEMENT

(all amounts in Sri Lanka Rupees)	Notes	Year ended 31 December 2019	2018
Sales	5	11,856,056,511	10,861,043,808
Cost of sales		(7,421,331,899)	(6,769,486,364)
Gross profit		4,434,724,612	4,091,557,444
Other income	8	1,731,246	8,149,195
Distribution expenses		(791,339,694)	(638,343,903)
Administrative expenses		(729,799,434)	(719,725,356)
Net reversals of impairment losses on financial assets	15 (a)	2,058,390	1,441,351
Operating profit	6	2,917,375,120	2,743,078,731
Finance income	9	71,306,464	22,173,711
Finance costs	9	(45,448,199)	(5,167,122)
Finance income - net	9	25,858,265	17,006,589
Profit before tax		2,943,233,385	2,760,085,320
Income tax expenses	10	(843,825,810)	(768,256,733)
Profit for the year		2,099,407,575	1,991,828,587
Earnings per share attributable to the owners of the Company during the year			
Basic earnings per share (LKR)	11	8.75	8.30

Notes on pages 59 to 91 form an integral part of these financial statements

Report of the independent auditors' on pages 51 to 53

STATEMENT OF COMPREHENSIVE INCOME
OTHER COMPREHENSIVE INCOME

(all amounts in Sri Lanka Rupees)	Notes	Year ended 31 December	
		2019	2018
Profit for the year		2,099,407,575	1,991,828,587
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefit obligations	21	(26,608,860)	4,432,557
Deferred tax attributable to the remeasurement of retirement benefit obligations	17	7,450,481	(1,241,116)
Other comprehensive (loss) / income for the year, net of tax		(19,158,379)	3,191,441
Total comprehensive income for the year		2,080,249,196	1,995,020,028

Notes on pages 59 to 91 form an integral part of these financial statements

Report of the independent auditors' on pages 51 to 53

STATEMENT OF FINANCIAL POSITION

(all amounts in Sri Lanka Rupees)	Notes	As at 31 December	
		2019	2018
Assets			
Non-current assets			
Property, plant and equipment	13	1,883,218,970	1,963,377,488
Right-of-use assets	14	389,368,278	Nil
Trade and other receivables	15	74,366,350	76,238,763
		2,346,953,598	2,039,616,251
Current assets			
Inventories	18	1,939,297,198	2,755,735,263
Trade and other receivables	15	1,079,619,912	1,013,719,182
Cash and cash equivalents	19	869,635,146	258,765,876
		3,888,552,256	4,028,220,321
Total assets		6,235,505,854	6,067,836,572
Equity and liabilities			
Capital and reserves			
Stated capital	20	600,000,000	600,000,000
Retained earnings		3,536,296,890	3,314,473,195
		4,136,296,890	3,914,473,195
Non-current liabilities			
Retirement benefit obligations	21	146,951,965	139,638,014
Deferred tax liabilities	17	266,010,083	257,505,313
Lease liabilities	14	358,791,714	Nil
		771,753,762	397,143,327
Current liabilities			
Trade and other payables	22	789,383,245	1,423,438,580
Current income tax liabilities		501,952,766	332,781,470
Lease liabilities	14	36,119,191	Nil
		1,327,455,202	1,756,220,050
Total liabilities		2,099,208,964	2,153,363,377
Total equity and liabilities		6,235,505,854	6,067,836,572

The Board of Directors is responsible for the preparation and presentation of these financial statements. The financial statements were authorised for issue by Board of Directors on 12 May 2020.

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

Signed on behalf of the Board on 12 May 2020.

Patrick McCloud
Managing Director

Erande De Silva
Director / Chief Financial Officer

Yasora Kodagoda
Manager - Finance and Planning

Notes on pages 59 to 91 form an integral part of these financial statement

Report of the independent auditors’ on pages 51 to 53

STATEMENT OF CHANGES IN EQUITY

(all amounts in Sri Lanka Rupees)	Notes	Stated capital	Retained earnings	Total
Balance at 1 January 2018		600,000,000	3,406,913,996	4,006,913,996
Profit for the year		Nil	1,991,828,587	1,991,828,587
Other comprehensive income for the year, net of tax		Nil	3,191,441	3,191,441
Total comprehensive income for the year		Nil	1,995,020,028	1,995,020,028
Transactions with owners - Dividends	12	Nil	(2,100,000,000)	(2,100,000,000)
Unclaimed dividends transfer to retained earnings		Nil	12,539,171	12,539,171
Balance at 31 December 2018		**600,000,000**	**3,314,473,195**	**3,914,473,195**
Balance at 1 January 2019		600,000,000	3,314,473,195	3,914,473,195
Profit for the year		Nil	2,099,407,575	2,099,407,575
Other comprehensive loss for the year, net of tax		Nil	(19,158,379)	(19,158,379)
Total comprehensive income for the year		Nil	2,080,249,196	2,080,249,196
Transactions with owners - Dividends	12	Nil	(1,860,000,000)	(1,860,000,000)
Unclaimed dividends transfer to retained earnings		Nil	1,574,499	1,574,499
Balance at 31 December 2019		**600,000,000**	**3,536,296,890**	**4,136,296,890**

Notes on pages 59 to 91 form an integral part of these financial statements

Report of the independent auditors' on pages 51 to 53

CASH FLOW STATEMENT

(all amounts in Sri Lanka Rupees)	Notes	Year ended 31 December	
		2019	2018
Cash flows from operating activities			
Cash generated from operations	25	3,305,623,285	3,252,571,501
Interest paid		(45,448,199)	(1,954,870)
Retirement benefits obligations paid	21	(45,987,529)	(43,066,303)
Income tax paid		(658,699,263)	(829,780,052)
Net cash generated from operating activities		2,555,488,294	2,377,770,276
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(99,834,142)	(74,753,686)
Proceeds from disposal of property, plant and equipment		3,269,176	8,876,325
Interest received		41,340,640	22,173,710
Net cash used in investing activities		(55,224,326)	(43,703,651)
Cash flows from financing activities			
Principal elements of lease payments	14	(29,394,698)	Nil
Dividends paid	12	(1,860,000,000)	(2,100,000,000)
Net cash used in financing activities		(1,889,394,698)	(2,100,000,000)
Net increase in cash and cash equivalents		610,869,270	234,066,625
Movement in cash and cash equivalents			
Cash and cash equivalents at beginning of year		258,765,876	24,699,251
Net increase in cash and cash equivalents		610,869,270	234,066,625
Cash and cash equivalents at end of year	19	869,635,146	258,765,876

Notes on pages 59 to 91 form an integral part of these financial statements

Report of the independent auditors' on pages 51 to 53

NOTES TO THE FINANCIAL STATEMENTS

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

1 GENERAL INFORMATION

Chevron Lubricants Lanka PLC carries on the business of importing, blending, distributing and marketing of lubricant oils and greases. The Company is a public limited liability company incorporated and domiciled in Sri Lanka. The address of its registered office is Chevron Lubricants Lanka PLC, Level 16, MAGA ONE, No 200, Nawala Road, Narahenpita, Colombo 5.

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

These financial statements have been approved for issue by the Board of Directors on 12 May 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

(i) SLFRS 16; Leases

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

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

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

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under SLFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(ii) Prepayment Features with Negative Compensation – Amendments to SLFRS 9

The narrow-scope amendments made to SLFRS 9; Financial Instruments, which enable entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss.

To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.

(iii) IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Changes in accounting policies and disclosures (Contd)

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

(iii) IFRIC 23 Uncertainty over Income Tax Treatments (Contd)

- How to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty;
- That the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored;
- That the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment;
- That the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- That the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.

(iv) LKAS 19; Employee Benefits

Amendments to LKAS 19, Plan Amendment, Curtailment or Settlement

The amendments to LKAS 19 Employee Benefits clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must:

- Calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change.
- Recognise any reduction in a surplus immediately in profit or loss, either as part of past service cost or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling.
- Separately recognise any changes in the asset ceiling through other comprehensive income.

The adoption of the above amendments and new standard are not expected to have a material impact to the financial statements of the Company except from SLFRS 16. The Company elected to adopt SLFRS 16 retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 27.

(b) New standards and amendments not effective and not early adopted in 2019

The following standards and interpretations had been issued but not mandatory for annual reporting periods ended 31 December 2019.

(i) Definition of Material – Amendments to LKAS 1 and LKAS 8

The amendments to LKAS 1; Presentation of Financial Statements and LKAS 8; Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in LKAS 1 about immaterial information.

In particular, the amendments clarify:

- That the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- The meaning of ‘primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need.

This amendment is effective for the annual periods beginning on or after 1 January 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.2 Changes in accounting policies and disclosures (Contd)

(b) New standards and amendments not effective and not early adopted in 2019 (Contd)

(ii) Revised Conceptual Framework for Financial Reporting

The revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- Increasing the prominence of stewardship in the objective of financial reporting;
- Reinstating prudence as a component of neutrality;
- Defining a reporting entity, which may be a legal entity, or a portion of an entity;
- Revising the definitions of an asset and a liability;
- Removing the probability threshold for recognition and adding guidance on derecognition;
- Adding guidance on different measurement basis, and
- Stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

2.3 Foreign currency translation

(a) Functional and presentation currency

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

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

(b) Transactions and balances

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

2.4 Property, plant and equipment

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.4 Property, plant and equipment (Contd)

The principal annual rates used for this purpose are:

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

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

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

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

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

2.5 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. 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 (or CGU'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 (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.6 Accounting for leases - where the Company is the lessee

The Company leases various buildings and motor vehicles.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating lease. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

The Company has assessed the impact arising from the adoption of SLFRS 16 under the simplified approach. Assets and liabilities arising from the leases are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments;

» fixed payments (including in-substance fixed payments), less any lease incentives receivable, and

» variable lease payment that are based on an index or a rate.

To determine the incremental borrowing rate, the Company:

» where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;

» uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third party financing, and

» makes adjustments specific to the lease, e.g. term, country, currency and security.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.6 Accounting for leases - where the Company is the lessee (Contd)

The lease payments are discounted using the Company's incremental borrowing rate. Lease payments are allocated between principal and finance cost. The finance cost is charged to income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

» the amount of the initial measurement of lease liability;

» any lease payments made at or before the commencement date less any lease incentives received;

» any initial direct costs, and

» restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

As explained above, the Company has changed its accounting policy for leases where the Company is the lessee. The impact of the change is included in Note 27.

Until 31 December 2018, leases of property, plant and equipment where the Company, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Company as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to income statement on a straight-line basis over the period of the lease.

Lease income from operating leases where the Company is a lessor is recognised in income on a straight line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature. The Company did not need to make any accounting adjustments as a result of adopting the new leasing standard as the Company did not have any assets held as a lessor.

2.7 Financial assets

(a) Classification

From 1 January 2018, the Company classifies its financial assets in the following measurement categories:

» those to be measured subsequently at fair value (either through OCI or through profit or loss), and

» those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on 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 financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.7 Financial assets (Contd)

(c) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the company's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains / (losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) Impairment of financial assets

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by SLFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2.8 Financial liabilities

2.8.1 Classification and initial recognition

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.8 Financial liabilities (Contd)

2.8.2 Subsequent measurement

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

2.8.3 Derecognition

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

2.8.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.9 Inventories

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

2.10 Trade receivables

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

The Company applies the SLFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables and accordingly adjusts the historical loss rates based on expected changes.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within the statement of comprehensive income. Subsequent recoveries of amounts previously written off are credited against the same line item.

2.11 Cash and cash equivalents

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

2.12 Stated capital

Ordinary Shares are classified as equity.

2.13 Employee benefits

(a) Defined contribution plans

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

(b) Defined benefit obligation

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

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

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.13 Employee benefits (Contd)

(b) Defined benefit obligation (Contd)

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

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

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

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

2.14 Current and deferred income tax

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

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

Deferred income tax is recognised using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax is settled.

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

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

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

2.15 Provisions

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

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

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

2.16 Revenue recognition

Goods and services deliverable under contracts with customers are identified as separate performance obligations (‘obligations’) to the extent that the customer can benefit from the goods or services on their own or together with other resources that are readily available to the customer and that the separate goods and services are considered distinct from other goods and services in the agreement. Where individual goods and services do not meet the criteria to be identified as separate obligations they are aggregated with other goods and/or services in the agreement until a separate obligation is identified.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD)

2.16 Revenue recognition (Contd)

The Company determines the transaction price to which it expects to be entitled to in return for providing the promised obligations to the customer based on the committed contractual amounts, net of sales taxes and discounts. The transaction price is allocated between the identified obligations according to the relative standalone selling prices of the obligations. The standalone selling price of each obligation deliverable in the contract is determined according to the prices that the Company would achieve by selling the same goods and / or services included in the obligation to a similar customer on a standalone basis. Where the Company does not sell equivalent goods or services in similar circumstances on a standalone basis it is necessary to estimate the standalone price. When estimating the standalone price, the Company maximises the use of external input; observing the standalone prices for similar goods and services when sold by third parties or using a cost-plus reasonable margin approach. Payment of the transaction price is due immediately when the customer purchases the lubricants and takes delivery.

(a) Sale of goods

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

(b) Interest income

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

2.17 Dividend distribution

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

2.18 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The board of Chevron Lubricants Lanka PLC assesses the financial performance and position of the Company, and makes strategic decisions. The management, has been identified as being the chief operating decision maker. Authority is delegated down by the board to management consisting of the chief executive officer, chief financial officer and few other managers designated in the management team.

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

2.19 Comparatives

Where necessary, comparative figures have been adjusted to conform with change in presentation in the current year. A summary of such changes is as follows:

Income Statement:

	Note	As previously reported	Reclassifications	Current presentation
Distribution expenses		636,902,552	1,441,351	638,343,903
Net reversals of impairment losses on financial assets	15 (a)	Nil	(1,441,351)	(1,441,351)
		636,902,552	Nil	636,902,552

The net reversals of impairment losses on financial assets which was previously recognised under distribution expenses are now recognised under net reversals of impairment losses in the income statement as a separate line item.

Management believes that the above re-classification gives a fairer presentation.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk

3.1.1 Financial risk factors

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

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

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

(a) Market risk

(i) Foreign exchange risk

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

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

Sensitivity analysis

As at 31 December 2019, a foreign exchange loss of LKR 1,635,320 would have resulted if LKR had weakened by 1% against USD with all other variables held constant on translation of year end foreign currency denominated balances.

(b) Credit risk

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

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

Trade receivables

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

Cash and cash equivalents

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

Risk exposure

The maximum risk positions of financial assets which are generally subject to credit risk are equal to their carrying amounts. Following table shows the maximum risk positions.

3 FINANCIAL RISK MANAGEMENT (CONTD)

3.1 Financial risk (Contd)

3.1.1 Financial risk factors (Contd)

(b) Credit risk (Contd)

As at 31 December 2019

	Cash in hand and at bank	Trade and other receivables	Amounts due from related parties	Total
Risk Exposure				
Trade and other receivables (excluding prepayments, statutory receivables and marketing support fee paid to service centre operators)	Nil	1,059,166,058	Nil	1,059,166,058
Amounts due from related parties (Note 15)	Nil	Nil	15,209,640	15,209,640
Cash and cash equivalents (excluding bank overdrafts) (Note 19)	869,635,146	Nil	Nil	869,635,146
Total credit risk exposure	869,635,146	1,059,166,058	15,209,640	1,944,010,844

As at 31 December 2018

	Cash in hand and at bank	Trade and other receivables	Amounts due from related parties	Total
Risk Exposure				
Trade and other receivables (excluding prepayments, statutory receivables and marketing support fee paid to service centre operators)	Nil	963,424,769	Nil	963,424,769
Amounts due from related parties (Note 15)	Nil	Nil	21,729,258	21,729,258
Cash and cash equivalents (excluding bank overdrafts) (Note 19)	258,765,876	Nil	Nil	258,765,876
Total credit risk exposure	258,765,876	963,424,769	21,729,258	1,243,919,903

(c) Liquidity risk

In the management of liquidity risk, the Company monitors and maintains a level of cash in hand at bank deemed adequate by the management to finance the Company's operations and to mitigate the effects of fluctuations in cash flows. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of available bank facilities. Access to source of funding is sufficiently available.

Surplus cash held over and above the amount required for working capital management is invested in interest bearing savings accounts, treasury bills and repurchase agreements, time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room. At the reporting date, the Company held liquid assets of LKR 1,858,144,398 (2018 - LKR 1,154,915,050) that are expected to readily generate cash inflows for managing liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTD)

3.1 Financial risk (Contd)

3.1.1 Financial risk factors (Contd)

(c) Liquidity risk (Contd)

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

As at 31 December 2019

	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Liabilities					
Trade and other payables (excluding statutory payables)	496,193,547	Nil	Nil	Nil	Nil
Amounts due to related parties (Note 22)	291,677,511	Nil	Nil	Nil	Nil
Lease liabilities	15,469,093	59,931,529	70,272,917	157,368,727	546,647,506
Total liabilities	803,340,151	59,931,529	70,272,917	157,368,727	546,647,506

As at 31 December 2018

	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Liabilities					
Trade and other payables (excluding statutory payables)	657,202,995	Nil	Nil	Nil	Nil
Amounts due to related parties (Note 22)	756,263,617	Nil	Nil	Nil	Nil
Total liabilities	1,413,466,612	Nil	Nil	Nil	Nil

(d) Price risk

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

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

(e) Interest rate risk

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

3.2 Fair value estimation

The Company's financial assets and liabilities include receivables, cash in hand and at bank, other payables and bank borrowings. The carrying amounts of these assets and liabilities approximate their fair values. The fair values for both financial assets and liabilities together with the carrying amounts shown in the statement of financial position date are as follows:

3 FINANCIAL RISK MANAGEMENT (CONTD)

3.2 Fair value estimation (Contd)

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables (excluding prepayments, statutory receivables and marketing support fee paid to service centre operators)	1,059,166,058	1,059,166,058	963,424,769	963,424,769
Amounts due from related parties (Note 15)	15,209,640	15,209,640	21,729,258	21,729,258
Cash and cash equivalents (excluding bank overdrafts) (Note 18)	869,635,146	869,635,146	258,765,876	258,765,876
Trade and other payables (excluding statutory payables)	496,193,547	496,193,547	657,202,995	657,202,995
Amounts due to related parties (Note 22)	291,677,511	291,677,511	756,263,617	756,263,617
Lease liabilities (Note 14)	394,910,905	394,910,905	Nil	Nil

3.3 Capital risk management

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 Critical accounting estimates and assumptions

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

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

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

(b) Defined benefit obligations

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTD)

4.1 Critical accounting estimates and assumptions (Contd)

(c) Impairment of trade receivables

The Company applies the SLFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the trade receivable.

(d) Estimated impairment of non-current assets

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

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

4.2 Critical judgements in applying the entity's accounting policies

SLFRS 16

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of buildings and motor vehicles, the following factors are normally the most relevant:

» If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate);

» If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate), and

» Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset;

Most extension options in buildings and motor vehicles leases have not been included in the lease liability, because the Company could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

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

5 SALES

Sales are made up as follows:

	2019	2018
Local sales	10,456,806,135	9,687,064,495
Export sales	1,286,256,756	1,081,497,882
Related party sales [Note 26 (a)]	112,993,620	92,481,431
	11,856,056,511	10,861,043,808

6 EXPENSES BY NATURE

	2019	2018
Directors' emoluments		
- executive	114,242,821	77,435,087
- non executive	5,808,000	5,808,000
	120,050,821	83,243,087
Auditors' remuneration		
- audit	2,649,643	2,453,373
- non audit	120,000	120,000
	2,769,643	2,573,373
Depreciation on property, plant and equipment (Note 13)	176,399,447	172,976,571
Depreciation on right-of-use assets (Note 14)	49,076,873	Nil
Amortisation of marketing support fee paid [Note 15 (f)]	17,361,757	17,937,995
Reversal of provision for impairment on trade receivables [Note 15 (a)]	(2,058,390)	(1,441,351)
Write off of property, plant and equipment (Note 13)	758,986	3,037,231
Repair and maintenance expenditure	21,045,986	35,201,524
Changes in inventories of finished goods	6,927,866,718	6,249,746,721
Operating lease rentals - property	Nil	41,299,154
Employee benefit expenses (Note 7)	319,542,372	274,324,409

7 EMPLOYEE BENEFIT EXPENSES

	2019	2018
Salaries, wages and other fringe benefits	261,823,540	218,419,374
Contribution to defined contribution plans	31,026,212	30,995,789
Defined benefit obligations (Note 21)	26,692,620	24,909,246
	319,542,372	274,324,409
Average monthly number of persons employed by the Company during the year:		
Permanent employees	77	77

NOTES TO THE FINANCIAL STATEMENTS

8 OTHER INCOME

	2019	2018
Scrap sales	548,771	450,061
Write back of creditors	232	53,211
Profit on disposal of property, plant and equipment	434,949	6,963,227
Empty drum sales	747,294	682,696
	1,731,246	8,149,195

9 FINANCE INCOME AND COSTS

	2019	2018
Finance income:		
Interest income on short term deposits	42,139,283	21,703,639
Interest income on employee loans	442,566	470,072
	42,581,849	22,173,711
Net foreign exchange transaction and translation gains	28,724,615	Nil
	71,306,464	22,173,711
Finance costs:		
Interest charge on lease liabilities (Note 14)	(42,100,336)	Nil
Interest expense on bank overdraft	(3,347,863)	(1,867,223)
	(45,448,199)	(1,867,223)
Net foreign exchange transaction and translation losses	Nil	(3,299,899)
	(45,448,199)	(5,167,122)
Finance income - net	25,858,265	17,006,589

10 TAX

	2019	2018
Current tax:		
Current tax on profits for the year	827,870,559	757,669,592
Under provision for income tax in respect of previous years	Nil	40,471
	827,870,559	757,710,063
Deferred tax :		
Origination of temporary differences (Note 17)	15,955,251	10,546,670
Income tax expense	843,825,810	768,256,733
Deferred tax (credited) / charged to other comprehensive Income (Note 17)	(7,450,481)	1,241,116
	836,375,329	769,497,849

10 TAX (CONTD)

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:

	2019	2018
Profit before tax	2,943,233,385	2,760,085,320
Tax calculated at a tax rate of 28% (2018 - 28%)	824,105,348	772,823,890
Tax effects of:		
- Different tax rates	Nil	(12,240,329)
- Income not subject to tax	Nil	(18,958)
- Expenses not deductible for tax purposes	19,644,845	7,743,517
- Profit on sale of fixed assets	(121,787)	(91,858)
- Tax profit on retirement / disposal of fixed assets	197,404	Nil
(Over) / under provision for income tax in respect of previous years	Nil	40,471
Tax charge	843,825,810	768,256,733

The Company is liable for income tax at a rate of 28% on trading, interest income and on profits attributable to direct and indirect exports from year of assessment 2019/20. Profits attributable to direct and indirect exports prior to year of assessment 2018/19 was taxed at 12%.

Further information about deferred tax is provided in Note 17.

11 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year:

	2019	2018
Profit attributable to shareholders	2,099,407,575	1,991,828,587
Number of ordinary shares in issue at 31 December (Note 20)	240,000,000	240,000,000
Basic earnings per share (LKR)	8.75	8.30

12 DIVIDENDS

	2019	2018
Proposed and paid interim dividend of LKR 7.75 per share (2018 - LKR 8.75 per share)	1,860,000,000	2,100,000,000

The fourth interim dividend for 2018 of LKR 1.50 per share amounting to LKR 360,000,000 was declared on 15 February 2019 and paid on 12 March 2019.

The fourth interim dividend for 2019 of LKR 2.00 per share amounting to LKR 480,000,000 was declared on 24 February 2020 and paid on 17 March 2020.

13 PROPERTY, PLANT AND EQUIPMENT

	Land	Improvements on leasehold buildings	Storage tanks and pipe lines	Plant and machinery	Office furniture and equipment	Motor vehicles	Computers	Capital work in progress	Total
Year ended 31 December 2018									
Opening net book amount	195,529,261	1,012,698,329	312,729,378	385,179,690	70,642,803	16,891,040	41,822,599	31,057,602	2,066,550,702
Additions	Nil	Nil	Nil	9,631,164	2,234,974	10,500,000	2,190,746	50,196,802	74,753,686
Transferred from capital work-in-progress	1,305,543	1,784,905	Nil	15,727,777	94,000	Nil	12,145,377	(31,057,602)	Nil
Write offs - cost (Note 6)	Nil	(1,252,185)	(4,310,000)	(4,538,679)	(6,076,793)	Nil	(7,032,975)	Nil	(23,210,632)
- accumulated depreciation (Note 6)	Nil	1,171,199	2,440,908	3,795,596	5,866,954	Nil	6,898,744	Nil	20,173,401
Disposals - cost	Nil	Nil	Nil	Nil	(232,691)	(25,816,000)	(287,825)	Nil	(26,336,516)
- accumulated depreciation	Nil	Nil	Nil	Nil	232,691	23,902,902	287,825	Nil	24,423,418
Depreciation charge (Note 6)	(8,403,083)	(40,950,298)	(25,913,724)	(57,212,727)	(14,332,296)	(6,214,078)	(19,950,365)	Nil	(172,976,571)
Closing net book amount	188,431,721	973,451,950	284,946,562	352,582,821	58,429,642	19,263,864	36,074,126	50,196,802	1,963,377,488
At 31 December 2018									
Cost	225,290,307	1,145,341,332	419,164,260	694,894,166	114,897,180	37,461,959	93,148,825	50,196,802	2,780,394,831
Accumulated depreciation	(36,858,586)	(171,889,382)	(134,217,698)	(342,311,345)	(56,467,538)	(18,198,095)	(57,074,699)	Nil	(817,017,343)
Net book amount	188,431,721	973,451,950	284,946,562	352,582,821	58,429,642	19,263,864	36,074,126	50,196,802	1,963,377,488
Year ended 31 December 2019									
Opening net book amount	188,431,721	973,451,950	284,946,562	352,582,821	58,429,642	19,263,864	36,074,126	50,196,802	1,963,377,488
Additions	Nil	Nil	Nil	663,000	43,751,202	17,500,000	34,775,573	3,144,367	99,834,142
Transferred from capital work-in-progress	3,031,899	18,452,037	Nil	12,524,672	239,351	Nil	15,926,504	(50,174,463)	Nil
Write offs - cost (Note 6)	(82,495)	(4,453,391)	Nil	(1,539,493)	(1,662,997)	Nil	(634,228)	Nil	(8,372,604)
- accumulated depreciation (Note 6)	77,343	4,453,391	Nil	1,426,932	1,021,724	Nil	634,228	Nil	7,613,618
Disposals - cost	Nil	(1,708,254)	Nil	Nil	(7,804,544)	(114,000)	(10,972,499)	Nil	(20,599,297)
- accumulated depreciation	Nil	1,213,633	Nil	Nil	5,564,415	114,000	10,873,022	Nil	17,765,070
Depreciation charge (Note 6)	(8,541,218)	(41,474,058)	(25,663,546)	(57,783,241)	(16,783,362)	(6,290,684)	(19,863,338)	Nil	(176,399,447)
Closing net book amount	182,917,250	949,935,308	259,283,016	307,874,691	82,755,431	30,473,180	66,813,388	3,166,706	1,883,218,970
At 31 December 2019									
Cost	228,239,711	1,157,631,724	419,164,260	706,542,345	149,420,192	54,847,959	132,244,175	3,166,706	2,851,257,072
Accumulated depreciation	(45,322,461)	(207,696,416)	(159,881,244)	(398,667,654)	(66,664,761)	(24,374,779)	(65,430,787)	Nil	(968,038,102)
Net book amount	182,917,250	949,935,308	259,283,016	307,874,691	82,755,431	30,473,180	66,813,388	3,166,706	1,883,218,970

(a) Property, plant and equipment includes fully depreciated assets still in books, the cost of which at 31 December 2019 amounted to LKR 177,718,162 (2018 - LKR 143,744,657).

(b) Depreciation expense of LKR 137,785,875 (2018 - LKR 138,166,897) has been charged in cost of goods sold, LKR 15,534,517 (2018 - LKR 13,765,851) as administrative expenses and LKR 23,079,055 (2018- LKR 21,043,823) as selling and distribution expenses.

14 LEASES

This note provides information for leases where the Company is the lessee.

(a) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	2019	2018
Right-of-use assets		
Land and buildings	337,321,174	Nil
Motor vehicles	52,047,104	Nil
	389,368,278	Nil
Lease liabilities		
Current lease liabilities	36,119,191	Nil
Non-current lease liabilities	358,791,714	Nil
	394,910,905	Nil

Additions to the right-of-use assets during the financial year ended 31 December 2019 were LKR 76,725,030.

Movement relating to leases:

	2019
Right-of use assets	
Right-of-use asset recognised as at 1 January 2019 - Land and buildings	270,831,992
Right-of-use asset recognised as at 1 January 2019 - Motor vehicles	76,748,581
Transferred from lease rentals paid in advance	14,139,548
Additions made during the year - Buildings	76,725,030
Depreciation charged during the year - Land and buildings (Note 6)	(24,375,396)
Depreciation charged during the year - Motor vehicles (Note 6)	(24,701,477)
	(49,076,873)
Right-of-use asset recognised as at 31 December 2019	389,368,278
Lease liabilities	
Lease liability recognised as at 1 January 2019 - Land and buildings	270,831,992
Lease liability recognised as at 1 January 2019 - Motor vehicles	76,748,581
Additions made during the year - Buildings	76,725,030
Interest charged during the year (Note 9)	42,100,336
Rentals paid during the year	(71,495,034)
Lease liability recognised as at 31 December 2019	394,910,905

NOTES TO THE FINANCIAL STATEMENTS

14 LEASES (CONTD)

(b) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	2019	2018
Depreciation charge of right-of-use assets		
Land and buildings (Note 6)	24,375,396	Nil
Motor vehicles (Note 6)	24,701,477	Nil
	49,076,873	Nil
Interest charge on lease liabilities (Note 9)	42,100,336	Nil

(c) The total cash outflow for leases for the financial year ended 31 December 2019 was LKR 71,495,034.

15 TRADE AND OTHER RECEIVABLES

	2019	2018
Trade receivables	988,555,261	898,951,644
Less: provision for impairment of trade receivables [refer (a) below]	(46,008)	(2,802,470)
Trade receivables - net	988,509,253	896,149,174
Prepayments	4,125,090	17,931,792
Deposits	35,511,515	29,471,505
Staff loans [refer (d) below]	29,174,919	32,159,474
Marketing support fee paid to service centre operators [refer (e) below]	33,140,763	37,326,520
Statutory receivables [refer (c) below]	42,344,711	49,545,606
Other receivables	5,970,371	5,644,616
	1,138,776,622	1,068,228,687
Receivables from related parties [Note 26 (d) (i)]	15,209,640	21,729,258
Total trade and other receivables	1,153,986,262	1,089,957,945
Less: non-current portion		
Staff loans	21,624,537	24,824,174
Marketing support fee paid to service centre operators	17,230,298	21,943,084
Deposits	35,511,515	29,471,505
Total non-current portion	74,366,350	76,238,763
Current portion	1,079,619,912	1,013,719,182

15 TRADE AND OTHER RECEIVABLES (CONTD)

(a) Impairment of trade receivables;

The Company applies the SLFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables and accordingly adjusts the historical loss rates based on expected changes.

On that basis, the loss allowance as at 31 December 2019 and 1 January 2019 (on adoption of SLFRS 9) was determined as follows for both trade receivables:

	2019	2018
Loss allowance	46,008	2,802,470

The closing loss allowances for trade receivables as at 31 December 2019 reconcile to the opening loss allowances as follows:

	2019	2018
Opening loss allowance as at 1 January	2,802,470	18,053,628
Trade receivables written off against loss allowance	(698,072)	(13,809,807)
Reversal of loss allowance on trade receivables (Note 6)	(2,058,390)	(1,441,351)
Closing balance	46,008	2,802,470

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company and a failure to make contractual payments.

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

	2019	2018
US Dollars	228,476,805	128,659,783
Sri Lankan Rupees	925,509,457	961,298,162
	1,153,986,262	1,089,957,945

(c) Other receivables mainly consist of VAT receivable of LKR 42,344,711 (2018 - LKR 49,545,606).

(d) Staff loans due at the financial position date represent loans given to staff on fixed repayment terms and are unsecured. These loans are largely given at a concessionary rate of 4.2% per annum (2018 - 4.2%). The effective market interest rates on non-current receivables (staff loans) as at 31 December 2019 were 12.5% per annum (2018 - 14.5%). The effect of discounting is not considered to be material.

(e) Marketing support fee is an advance payment made to the service station operators under which a bulk payment is made at the beginning of the contract period to meet the marketing expenses over the contract period. Service station operator should guarantee a minimum volume over the contract period to meet his obligations under the contract. If the terms are not met, service station operator is required to refund to the Company a proportionate amount of the bulk payment. The marketing support payment is amortised over the contract period and amortisation charge of LKR 17,361,757 (2018 - LKR 17,937,995) is recognised in the statement of comprehensive income (Note 6).

NOTES TO THE FINANCIAL STATEMENTS

16 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables	Total
a) 31 December 2019		
Financial assets - measured at amortised cost		
Trade and other receivables (excluding prepayments, statutory receivables and marketing support fee paid to service centre operators)	1,059,166,058	1,059,166,058
Amounts due from related parties	15,209,640	15,209,640
Cash and cash equivalents (Note 19)	869,635,146	869,635,146
	1,944,010,844	1,944,010,844

	Other financial liabilities	Total
b) 31 December 2019		
Financial liabilities - measured at amortised cost		
Trade and other payables (excluding statutory liabilities)	496,193,547	496,193,547
Amounts due to related parties	291,677,511	291,677,511
Lease liabilities (Note 14)	394,910,905	394,910,905
	1,182,781,963	1,182,781,963

	Loans and receivables	Total
c) 31 December 2018		
Financial assets - measured at amortised cost		
Trade and other receivables (excluding prepayments, statutory receivables and marketing support fee paid to service centre operators)	963,424,769	963,424,769
Amounts due from related parties	21,729,258	21,729,258
Cash and cash equivalents (Note 19)	258,765,876	258,765,876
	1,243,919,903	1,243,919,903

	Other financial liabilities	Total
d) 31 December 2018		
Financial liabilities - measured at amortised cost		
Trade and other payables (excluding statutory liabilities)	657,202,995	657,202,995
Amounts due to related parties	756,263,617	756,263,617
	1,413,466,612	1,413,466,612

16 FINANCIAL INSTRUMENTS BY CATEGORY (CONTD)

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

Trade receivables

	2019	2018
Distributors	536,809,655	570,439,295
Commercial / industrial and others	279,753,365	261,224,664
Export customers / overseas	171,946,233	64,485,215
	988,509,253	896,149,174

Counterparties without external credit rating:

	2019	2018
Group 1	987,892,626	895,532,547
Group 2	616,627	616,627
Group 3	Nil	Nil
Total unimpaired trade and related party receivables	988,509,253	896,149,174

Group 1 – customers / related parties (less than 3 months).

Group 2 – customers / related parties (more than 3 months) with no defaults in the past.

Group 3 – customers / related parties (more than 3 months) with some defaults in the past. All defaults were fully recovered.

Cash and cash equivalents

	2019	2018
Cash at banks with AAA to A ratings	869,502,448	258,633,796
Cash in hand	132,698	132,080
	869,635,146	258,765,876

17 DEFERRED TAX LIABILITIES

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 28% (2018 - 28%).

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

	2019	2018
At beginning of year	257,505,313	245,717,527
Charged to income statement (Note 10)	15,955,251	10,546,670
(Credited) / charged to other comprehensive income (Note 10)	(7,450,481)	1,241,116
At end of year	266,010,083	257,505,313

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

	2019	2018
Deferred tax assets		
- Deferred tax assets to be recovered after more than 12 months	(36,816,342)	(24,681,175)
- Deferred tax assets to be recovered within 12 months	(4,330,208)	(14,417,469)
	(41,146,550)	(39,098,644)

NOTES TO THE FINANCIAL STATEMENTS

17 DEFERRED TAX LIABILITIES (CONTD)

	2019	2018
Deferred tax liabilities		
- Deferred tax liability to be recovered after more than 12 months	307,156,633	296,603,957
Deferred tax liabilities - net	266,010,083	257,505,313

	Accelerated tax depreciation	Total
Deferred tax liabilities		
At 1 January 2018	291,141,263	291,141,263
Charged to income statement	5,462,694	5,462,694
At 31 December 2018	296,603,957	296,603,957
Charged to income statement	10,552,676	10,552,676
At 31 December 2019	307,156,633	307,156,633

	Defined benefit obligations	Total
Deferred tax assets		
At 1 January 2018	(45,423,736)	(45,423,736)
Charged to income statement	5,083,976	5,083,976
Charged to other comprehensive income (Note 10)	1,241,116	1,241,116
At 31 December 2018	(39,098,644)	(39,098,644)
Charged to income statement	5,402,575	5,402,575
Credited to other comprehensive income (Note 10)	(7,450,481)	(7,450,481)
At 31 December 2019	(41,146,550)	(41,146,550)

18 INVENTORIES

	2019	2018
Raw materials and consumables	1,410,579,687	2,181,038,900
Finished goods	528,717,511	574,696,363
	1,939,297,198	2,755,735,263

(a) Raw material and consumables and finished goods include goods in transit amounting to LKR 146,131,853 (2018 - LKR 622,612,566).

(b) The cost of inventories consumed and included in cost of sales amounted to LKR 6,927,866,718 (2018 - LKR 6,249,746,721).

19 CASH AND CASH EQUIVALENTS

	2019	2018
Cash and bank balances	169,635,146	258,765,876
Short term deposits	700,000,000	Nil
	869,635,146	258,765,876

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

The weighted average effective interest rate on short term deposits was 7.89% (2018 - 7.28%).

The cash and cash equivalents are denominated in following currencies:

	2019	2018
US Dollars	16,960,167	47,079,222
Sri Lankan Rupees	852,674,979	211,686,654
	869,635,146	258,765,876

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

	2019	2018
Cash and bank balances	169,635,146	258,765,876
Short term deposits	700,000,000	Nil
	869,635,146	258,765,876

20 STATED CAPITAL

	Ordinary shares	
	Number of shares	Value of shares
At 31 December 2018	240,000,000	600,000,000
At 31 December 2019	240,000,000	600,000,000

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

21 RETIREMENT BENEFIT OBLIGATIONS

	2019	2018
Statement of financial position obligations for:		
Gratuity benefits	146,951,965	139,638,014
Income statement charge:		
Gratuity benefits (Note 7)	26,692,620	24,909,246
Other comprehensive income:		
Remeasurement loss / (gain)	26,608,860	(4,432,557)

NOTES TO THE FINANCIAL STATEMENTS

21 RETIREMENT BENEFIT OBLIGATIONS (CONTD)

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

	2019	2018
At 1 January	139,638,014	162,227,628
Current service cost	10,215,334	16,547,218
Interest cost	16,477,286	8,362,028
Remeasurement loss / (gain)	26,608,860	(4,432,557)
Benefits paid	(45,987,529)	(43,066,303)
At 31 December	146,951,965	139,638,014

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

	2019	2018
Current service cost	10,215,334	16,547,218
Interest cost	16,477,286	8,362,028
Total included in the employee benefit costs (Note 7)	26,692,620	24,909,246

The provision is not externally funded, but actuarially valued and the valuation was carried out by Actuarial & Management Consultants (Private) Limited, an independent actuary, on 31 December 2019 using the Projected Unit Credit Method. The principal actuarial assumptions used were as follows:

	2019	2018
Discount rate	10% compounded annually	11.80% compounded annually
Estimated salary increment rate	7% per year	6% per year
Withdrawal rate	8% per annum up to age 55 and 0% thereafter	8% per annum up to age 55 and 0% thereafter

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

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

	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	Decrease by 5.22%	Increase by 5.77%
Future salary growth rate	1.00%	Increase by 6.07%	Decrease by 5.57%

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

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

21 RETIREMENT BENEFIT OBLIGATIONS (CONTD)

Maturity profile of the defined benefit obligations

The weighted average duration of the defined benefit obligation is 5.98 years. The distribution of the timing of benefit payments is as follows.

Expected maturity analysis of undiscounted retirement benefit obligations:

	2019	2018
Less than 1 year	15,465,028	51,490,962
Between 1 – 2 years	44,298,792	12,756,213
Between 2 – 5 years	65,674,178	47,110,769
Between 5 - 10 years	60,299,231	82,139,285
	185,737,229	193,497,229

22 TRADE AND OTHER PAYABLES

	2019	2018
Trade payables	259,347,506	305,920,591
Accrued expenses [see Note (a) below]	206,070,019	329,131,023
Statutory payables	1,512,187	9,971,968
Other payables [see Note (b) below]	30,776,022	22,151,381
	497,705,734	667,174,963
Payable to related companies - Trade [Note 26 (d)(ii)]	291,677,511	756,263,617
	789,383,245	1,423,438,580

(a) Accrued expenses include employee related payables amounting to LKR 47,273,462 (2018 - LKR 35,926,325), lubricant license fee of LKR 35,748,854 (2018 - LKR 30,483,070), payable for advertising and sales promotional expenditure of LKR 32,758,319 (2018 - LKR 2,113,485), payable for trade discounts & Incentives of LKR 17,281,781 (2018 - LKR 23,186,253) and import fees payable of LKR 11,032,692 (2018 - LKR 164,118,453).

(b) Other payables mainly consist of unclaimed dividends by shareholders other than parent company of LKR 26,889,977 (2018 - LKR 21,662,404).

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

	2019	2018
US Dollars	408,968,964	917,091,338
Sri Lankan Rupees	380,414,281	506,347,242
	789,383,245	1,423,438,580

23 CONTINGENT LIABILITIES

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

NOTES TO THE FINANCIAL STATEMENTS

24 COMMITMENTS

Capital commitments

There were no material capital commitments at the date of the statement of financial position.

Operating lease commitments

There were no operating lease commitments at the date of the statement of financial position.

Financial commitments

The Company has entered into Service Level Agreements (SLA) with Chevron USA Inc., Chevron Singapore Private Limited and Chevron Holdings Inc. which govern the services offered by the Group companies and reimbursement of costs incurred by the Group.

Other than above, there were no material commitments outstanding as at the date of the statement of financial position.

25 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	2019	2018
Profit before tax	2,943,233,385	2,760,085,320
Adjustments for:		
Depreciation on property, plant and equipment (Note 13)	176,399,447	172,976,571
Depreciation on right-of-use assets [Note 14 (b)]	49,076,873	Nil
Write off of property, plant and equipment (Note 6)	758,986	3,037,231
Amortisation of marketing support fee paid (Note 6)	17,361,757	17,937,995
Profit on disposal of property, plant and equipment (Note 8)	(434,949)	(6,963,227)
Interest income (Note 9)	(42,581,849)	(22,173,711)
Interest expense (Note 9)	45,448,199	1,867,223
Reversal of provision for impairment of trade receivables [Note 15 (a)]	(2,058,390)	(1,441,351)
Defined benefit obligations (Note 21)	26,692,620	24,909,246
Changes in working capital		
- trade and other receivables	(92,230,023)	237,222,472
- inventories	816,438,065	(709,775,641)
- payables	(632,480,836)	774,889,373
Cash generated from operations	3,305,623,285	3,252,571,501

26 DIRECTORS' INTEREST IN CONTRACTS AND RELATED PARTY TRANSACTIONS WITH THE COMPANY

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

Ms Rochna Kaul, Mr Pat McCloud and Mr Erande De Silva, directors of the Company, are also directors of Chevron Ceylon Limited, which is the immediate holding company. Ms. Rochna Kaul is also a director of Chevron Lubricants Vietnam Limited, Chevron Pakistan Lubricants Limited, Chevron Lubricants India Private Limited and Chevron Lubricants Holdings Pte Ltd, whilst Mr Nicolas Bossut is a Director of Chevron Singapore Pte Ltd, Chevron Pakistan Lubricants Limited, Chevron Lubricants Holdings Pte Ltd, Chevron International Holdings Pte Ltd, Chevron Companies (Greater China) Limited, Caltex South China Investments Limited, Chevron South Asia Holdings Pte Ltd and Star Petroleum Refining Public Company Limited.

26 DIRECTORS' INTEREST IN CONTRACTS AND RELATED PARTY TRANSACTIONS WITH THE COMPANY (CONTD)

The following transactions were carried out with the related parties.

(i) Reimbursable expenses incurred by Chevron Lubricants Lanka PLC

	2019	2018
Chevron Ceylon Limited	53,500	Nil
Chevron Singapore (Private) Limited	1,340,854	Nil
	1,394,354	Nil

(ii) Other related party transactions

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

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

	2019	2018
Sale of goods:		
Chevron Thailand Limited	45,045,227	17,795,103
Chevron Marine Products LLC	65,322,016	53,022,759
Chevron Pakistan Lubricants Private Limited	2,626,377	21,663,569
	112,993,620	92,481,431

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

(b) Purchases of goods and services

	2019	2018
Purchase of goods:		
Chevron Singapore Private Limited	2,372,326,464	3,308,200,695
Chevron Asia Pacific Holdings Ltd (Chevron Alkhalij)	28,012,736	25,865,420
Chevron Thailand Limited	72,848,852	93,453,830
Chevron Oronite (Private) Limited	834,994,456	527,891,326
Chevron Products Company	Nil	5,837,975
Chevron Brazil Lubricants Limited	Nil	5,508,308
Chevron Belgium N.V	4,322,886	4,386,080
Chevron Lubricants Vietnam Limited	5,653,811	4,780,853
Chevron Marine Products LLC	377,863	Nil
	3,318,537,068	3,975,924,487

NOTES TO THE FINANCIAL STATEMENTS

26 DIRECTORS' INTEREST IN CONTRACTS AND RELATED PARTY TRANSACTIONS WITH THE COMPANY (CONTD)

	2019	2018
Purchases of services:		
Chevron Holdings Inc. (Philippines)	6,724,692	5,423,876
Chevron USA Inc. (Chevron Information Technology Company)	71,494,110	69,291,950
Chevron USA Inc. (Chevron Products Company)	8,072,088	46,140,219
Chevron Belgium N.V	221,354	176,646
Chevron Corporation	60,091	3,157,411
Chevron USA Inc. (Chevron Industries)	89,601,585	33,071,269
Chevron Singapore Private Limited	519,385,339	479,599,481
	695,559,259	636,860,852

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

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

Purchases of goods and services during the year from related parties amounts to 97% (2018 - 118%) of net assets and 64% (2018 - 76%) of total assets at the end of the financial year.

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

	2019	2018
Salaries and other short-term employee benefits	122,860,010	87,409,997
	122,860,010	87,409,997

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

	2019	2018
(i) Receivable from related parties:		
Chevron Products Company	1,581,895	889,788
Chevron Services Company	401,536	150,823
Chevron Marine Products LLC	5,321,561	20,688,647
Chevron Pakistan Lubricants Private Limited	2,628,100	Nil
Chevron Thailand Limited	3,935,694	Nil
Chevron Singapore Private Limited	1,340,854	Nil
	15,209,640	21,729,258

26 DIRECTORS' INTEREST IN CONTRACTS AND RELATED PARTY TRANSACTIONS WITH THE COMPANY (CONTD)

	2019	2018
(ii) Payable to related parties:		
Chevron Holdings Inc. (Philippines)	612,777	128,569
Chevron Singapore Private Limited	177,172,535	653,394,589
Chevron Oronite (Private) Limited	89,898,436	41,517,083
Chevron USA Inc. (Chevron Information Technology Company)	11,796,770	14,200,435
Chevron Thailand Limited	Nil	8,062,398
Chevron USA Inc. (Chevron Products Company)	Nil	417,509
Chevron Belgium N.V	12,349	Nil
Chevron Malaysia Limited	115,448	Nil
Chevron Corporation	Nil	6,071
Chevron USA Inc. (Chevron Industries)	9,441,499	33,071,269
Chevron Asia Pacific Holdings Ltd (Chevron Alkhalij)	2,627,697	5,465,694
	291,677,511	756,263,617

(d) Mr. Asite Talwatte is a Director of Diesel & Motor Engineering PLC & Central Finance Company PLC. The Company had following receivable and payable balances as at the statement of financial position.

	2019	2018
Receivable from Diesel & Motor Engineering PLC	2,948,771	3,165,509
Payable to Central Finance Company PLC	23,760	Nil

27 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of SLFRS 16; Leases, on the Company's financial statements.

The Company has adopted SLFRS 16; Leases retrospectively from 1 January 2019, but has not restated comparatives for the 31 December 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019. The new accounting policy is disclosed in Note 2.6.

On adoption of SLFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of LKAS 17; Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 11%.

(a) Practical expedients applied

In applying SLFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard.

» applying a single discount rate to a portfolio of leases with reasonably similar characteristics;

» relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;

» accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

» excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

» using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying LKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

NOTES TO THE FINANCIAL STATEMENTS

27 CHANGES IN ACCOUNTING POLICIES (CONTD)

(b) Measurement of lease liabilities

	2019
Operating lease commitments disclosed as at 31 December 2018	828,266,022
(Less): short-term leases not recognised as a liability	(3,384,000)
Add: NBT of operating leases	12,724,756
Operating lease commitments for SLFRS 16 adoption	837,606,778
Discounted using the lessee's incremental borrowing rate of at the date of initial application	347,580,573
Lease liability recognised as at 1 January 2019	347,580,573
Of which are:	
Current lease liabilities	23,611,742
Non-current lease liabilities	323,968,831
	347,580,573

(c) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(d) Adjustments recognised in the statement of financial position on 1 January 2019

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019;-

- right-of-use assets – increase by LKR 347,580,573
- prepayments – decrease by LKR 14,139,548
- lease liabilities – increase by LKR 347,580,573

The net impact on retained earnings on 1 January 2019 was LKR Nil.

(e) Adjustments recognised in the statement of financial position on 1 January 2019

The Company did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of SLFRS 16.

(f) Simplified transition approach

Where a lessee applies the simplified approach, it does not restate any comparative information. Instead, the cumulative effect of applying the standard is recognised as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at the date of initial application. While full retrospective application is optional, if chosen it must be applied to all leases. Selective application of the simplified transition approach is not permitted.

27 CHANGES IN ACCOUNTING POLICIES (CONTD)

Statement of financial position item	Measurement
Leases previously classified as operating leases	
Lease liability	Present value of remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.
Right-of-use asset	Retrospective calculation, using a discount rate based on the lessee's incremental borrowing rate at the date of initial application. Or Amount of lease liability (adjusted by the amount of any previously recognised prepaid or accrued lease payments relating to that lease). Lessees can choose one of the alternatives on a lease-by-lease basis.

Statement of financial position item	Measurement
Leases previously classified as finance leases	
Lease liability	Carrying amount of the lease liability immediately before the date of initial application.
Right-of-use asset	Carrying amount of the lease asset immediately before the date of initial application.
Lease liabilities and right-of use assets	Any measurement adjustments arising from applying SLFRS 16 are recognised post-transition, i.e. not through retained earnings.

28 EVENTS AFTER THE END OF REPORTING PERIOD

Other than those disclosed below, no events have occurred since the statement of financial position date which would require adjustments to, or disclosure in, the financial statements.

(a) The fourth interim dividend of LKR 2.00 per share amounting to LKR 480,000,000 was declared on 24 February 2020 and paid on 17 March 2020 (The Company was compelled to defer payment by a day from 16 March 2020 due to the sudden bank holiday declared by the Government in relation to COVID-19).

(b) The Government has proposed amendments to Inland Revenue Act No. 24 of 2017, intimated by the Department of Inland Revenue on 8 April 2020 under circular PN/IT/2020-03 (Revised). The proposed amendment includes a reduction in the corporate tax rate applicable to the Company, from 28% to 18% on gains and profits from Manufacturing, and 28% to 14% on gains and profits from conducting a business of sale of goods or merchandise where the payment for such sale is received in foreign currency and remitted through a bank to Sri Lanka.

(c) The Corona Virus ("Covid-19") is expected to have an impact on the Company's business performance in the short term. The Management will monitor and control spending in anticipation of an eventual recovery of the marketplace. Considering the degree of uncertainty and the prevailing market conditions, Management is leveraging on scenario planning in preparation for varying degrees and pacing of the recovery in the market. As such, based on management's initial estimates, the Company's financial performance in the short term is expected to correlate with the prevailing negative business environment which continues to evolve. In this context, conservation of cash remains a priority and the Company has adequate cash flows (including undrawn credit facilities if required to meet contingencies) to ensure seamless operations. The Board and management remain committed to take all decisions and measures to ensure the Company remains viable as an entity through these uncertain times.

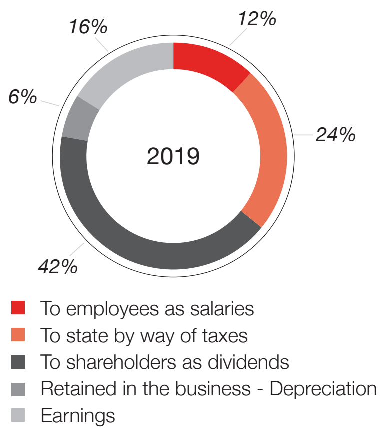
10- YEAR FINANCIAL SUMMARY

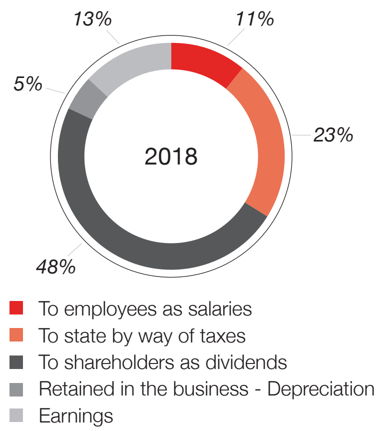
(in Rupees 000')		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Trading Results											
Turnover		11,856,057	10,861,044	11,052,496	12,089,111	11,563,854	11,519,891	11,197,152	11,754,046	11,039,945	9,471,256
Profit Before Tax & OCI		2,943,233	2,760,085	3,495,785	4,702,671	4,318,544	3,699,633	3,453,598	3,111,457	2,767,780	2,333,950
Taxation		843,826	768,257	930,565	1,222,261	1,226,709	952,800	921,697	845,630	767,164	832,676
Profit After Tax		2,099,408	1,991,829	2,565,220	3,480,410	3,091,835	2,746,833	2,531,900	2,265,827	2,000,616	1,501,274
Balance Sheet											
Share Capital		600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000
Reserves		3,536,297	3,314,473	3,406,914	3,260,623	4,087,029	4,599,210	4,240,021	3,525,818	2,558,145	1,637,529
Shareholders funds		4,136,297	3,914,473	4,006,914	3,860,623	4,687,029	5,199,210	4,840,021	4,125,818	3,158,145	2,237,529
Property, Plant & Equipment		1,883,219	1,963,377	2,066,551	2,132,858	2,195,826	2,243,616	1,296,651	215,813	193,113	220,338
Current & Non Current Assets excluding PPE		4,352,287	4,104,459	3,529,369	4,913,648	4,849,178	4,233,183	5,755,821	5,731,694	4,160,806	3,154,727
Current Liabilities		1,327,455	1,756,220	1,181,061	2,820,069	2,058,777	1,056,091	2,090,392	1,734,361	1,094,004	1,028,591
Non Current Liabilities		771,754	397,143	407,945	365,814	299,198	221,497	122,060	87,328	101,769	108,945
Net Assets		4,136,297	3,914,473	4,006,914	3,860,623	4,687,029	5,199,211	4,840,021	4,125,818	3,158,145	2,237,529
Key Indicators											
Gross Dividends	Rs.000'	1,860,000	2,100,000	2,400,000	4,320,000	2,760,000	2,400,000	1,800,000	1,320,000	1,080,000	1,470,000
Dividend per Share	Rupees	7.75	8.75	10.00	18.00	11.50	10.00	7.50	5.50	4.50	6.13
Price Earnings Ratio	Times	8.56	8.77	11.13	10.83	13.35	17.46	12.69	10.70	10.20	12.75
Market value per share as at 31st December	Rupees	74.90	72.80	119.00	157.10	344.00	399.60	267.80	202.00	170.00	159.50
Return on Equity	%	52	50	65	81	63	55	56	62	74	68
Net Assets per share	Rupees	17.23	16.31	16.70	16.09	19.53	21.66	20.17	17.19	13.16	9.32
Net Income to Turnover	%	18	18	23	29	27	24	23	19	18	16
Earnings per Share	Rupees	8.75	8.30	10.69	14.50	12.88	11.45	10.55	9.44	8.34	6.26

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

STATEMENT OF VALUE ADDED

(in Rupees millions)	2019	2018
Value addition		
Turn Over	11,856	10,861
Finance Income	71	22
Less: Materials and services purchased	8,344	7,594
value created	3,583	3,289
Distribution of Value addition		
To employees as salaries	434	352
To state by way of taxes	844	769
To shareholders as dividends	1500	1560
Retained in the business - Depreciation	225	173
- Earnings	580	435
	3,583	3,289





SHAREHOLDER INFORMATION

SHAREHOLDERS CATEGORISED SUMMARY REPORT AS AT 31ST DECEMBER 2019

Shareholdings	No of shareholders	No of shareholders %	Total Holdings	Total Holdings %
1 - 1000	3,767	56.56%	1,199,643	0.50%
1001 - 10,000	2,059	30.92%	7,758,011	3.23%
10,001 - 100,000	717	10.77%	22,212,702	9.26%
100,001 - 1,000,000	100	1.50%	29,158,871	12.15%
1,000,001 & Over	17	0.26%	179,670,773	74.86%
Total	6,660	100.00	240,000,000	100

SHAREHOLDERS CATEGORISED SUMMARY REPORT AS AT 31ST DECEMBER 2019

	No of Shareholders	No of shareholders %	Total holdings	Total holdings %
Individual	6,317	94.85	45,715,574	19.05
Institutional	343	5.15	194,284,426	80.95
Total	6,660	100.00	240,000,000	100.00
Resident	6,535	98.12%	193,752,026	80.73
Non- Resident	125	1.88%	46,247,974	19.27
Total	6,660	100.00	240,000,000	100.00
Public Holding	6,659		117,600,000	49.00%

SHARE INFORMATION

	2019	2018
Net Assets Per Share (Rs)	17.23	16.31
Closing Price Per Share (Rs.)	74.90	72.80
Highest Price during the year (Rs.)	83.00	122.00
Lowest Price During the year (Rs.)	50.00	64.80
Public Shareholding	49%	49%
Number of public Shareholders	6659	6062
Compliant with CSE Rule 7.13.1 under option 2 - Float Adjusted Market Capitalization (Rs.)	8,808,240,000	8,561,280,000

NAMES AND THE NUMBER OF SHARES HELD BY THE LARGEST 20 SHAREHOLDERS AS AT 31ST DECEMBER 2019

Name of Shareholders	2019 Number of Shares	%	2018 Number of Shares	%
Chevron Ceylon Limited	122,400,000	51.00%	122,400,000	51.00%
Caceis Bank, Luxembourg Branch-Barca Global Master Fund LP	19,802,707	8.25%	14,673,379	6.11%
Renuka Hotels Limited	5,201,918	2.17%	5,201,918	2.17%
SSBT-Change Global Frontier Markets, LP	4,768,777	1.99%	4,270,250	1.78%
Northern Trust Global Services London S/A Verdipapirfondet Odin Emerging Markets	3,444,194	1.44%	3,444,194	1.44%
Sri Lanka Insurance Corporation LTD- LIFE FUND	3,400,000	1.42%	3,400,000	1.42%
Cargo Boat Development Company Limited	3,400,000	1.42%	3,400,000	1.42%
BNYM SA/NV- FRONTAURA GLOBAL FRONTIER FUND LLC	2,756,627	1.15%	2,769,163	1.15%
BNYMSANV RE-NEON LIBERTY EMERGING MARKETS FUND,LP	2,709,102	1.13%	4,177,352	1.74%
BBH-PIONEER MULTI-ASSET INCOME FUND	2,117,467	0.88%	2,117,467	0.88%
Crescent Launderers & Dry Cleaners (Pvt) Ltd	2,000,000	0.83%	2,000,000	0.83%
Bank of Ceylon -No 2 A/C	1,688,823	0.70%	1,688,823	0.70%
SSBT- PARAMETRIC TAX- MANAGED EMERGING MARKETS FUND	1,378,614	0.57%	1,378,614	0.57%
Mrs. Selliah Arunthathi	1,350,000	0.56%	1,350,000	0.56%
DFCC Bank PLC A/C 1	1,161,628	0.48%		
Mr. Somasiri Addara Pathiranage	1,075,000	0.45%		
EMPLOYEES PROVIDENT FUND	1,015,916	0.42%	1,015,916	0.42%
Bank of Ceylon No 1 -Account	979,440	0.41%		
Mrs. Kailasapillai Abiramipillai	900,000	0.38%		
Rubber Investment Trust Limited A/C # 1	828,746	0.35%		
Sub Total	182,378,959	75.99%	173,287,076.00	72.20%
Others	57,621,041	24.01%	66,712,924.00	27.80%
Total	240,000,000	100.00%	240,000,000	100.00%

NOTES

CORPORATE INFORMATION

LEGAL FORM
A Public Limited Liability Company
(Incorporated in 1992 and listed on the Colombo Stock Exchange)

DIRECTORS
Rochna Kaul - Chairperson / Non Executive Director
Pat McCloud - Managing Director / Chief Executive Officer
Erande De Silva - Director / Chief Financial Officer
Nicolas Bossut - Non Executive Director
Asite Talwatte - Non Executive Director
Harsha Amarasekera - Non Executive Director

SECRETARY
Erande De Silva
Level 16, MAGA ONE,
200, Nawala Road,
Narahenpita, Colombo 5

REGISTERED OFFICE
Level 16, MAGA ONE,
200, Nawala Road,
Narahenpita, Colombo 5

COMPANY REGISTRATION NUMBER
PQ 54

REGISTRARS TO THE COMPANY
S S P Corporate Services (Private) Limited
101, Inner Flower Road,
Colombo 3

AUDITORS
PricewaterhouseCoopers
Chartered Accountants
P.O. Box 918
100, Braybrooke Place,
Colombo 02

LAWYERS TO THE COMPANY
Julius & Creasy
Attorneys-at-Law and Notaries Public
No 41, Janadhipathi Mawatha,
Colombo 01

BANKERS
Citibank NA
Deutsche Bank AG
Commercial Bank of Ceylon PLC

WEB ADDRESS
www.chevron.lk

EMAIL
contactus@chevron.com

TELEPHONE
0114524524

FACSIMILE
0114524566

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