Chevron Lubricants Lanka PLC

Annual Report 2011

Think

Understand

Believe

Deliver

Our Family of Brands

Our 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. We conduct our business in a social responsible and ethical manner. We respect the law, support universal human rights, protect the environment and benefit the communities where we work

Integrity
We are honest with others and ourselves. We meet the highest ethical standards in all business dealings. We do what we say we will do. We accept responsibility and hold ourselves accountable for our work and our actions.

Trust
We trust, respect and support each other, and we strive to earn the trust of our colleagues and partners.

Diversity
We learn from and respect the cultures which we work. We value and demonstrate respect for the uniqueness of individuals and the varied perspectives and talents they provide. We have an inclusive work environment and actively embrace a diversity of people, ideas, talents and experiences.

Ingenuity
We seek new opportunities and out-of-the –ordinary solutions. We use our creativity to find unexpected and practical ways to solve problems. Our experience, technology and perseverance enable us to overcome challenges and deliver value.

Partnership
We have an unwavering commitment to being a good partner focused on building productive, collaborative, trusting and beneficial relationships with governments, other companies, our customers, our communities and each other.

Protecting people and the environment
We place the highest priority on the health and safety of our workforce and protection of our assets and the environment. We aim to be admired for world-class performance through disciplined application of our Operational Excellence Management System.

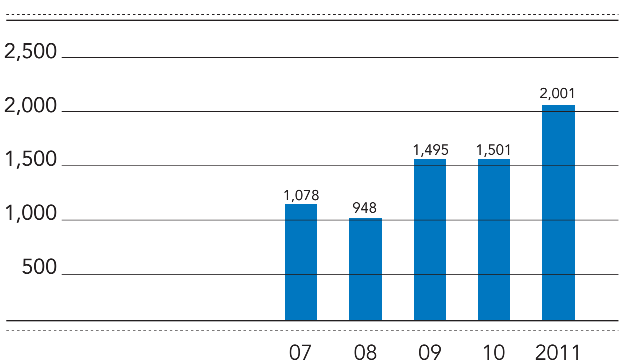
High Performance
We are committed to excellence in everything we do, and we strive continually improve. We are passionate about achieving results that exceed expectation- our own and those of others. We drive for results with energy and a sense of urgency.

Contents

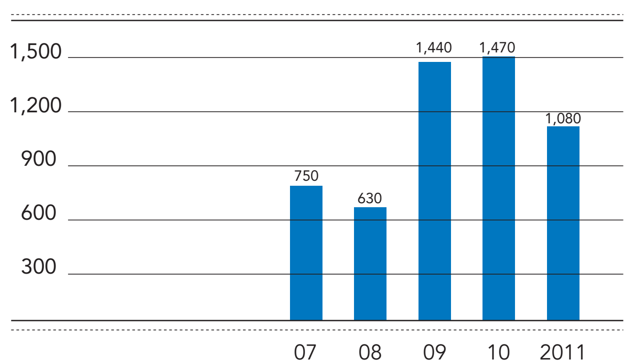
Financial Highlights

Financial Highlights		2011 Rs. 000'	2010 Rs. 000'	%
Turnover		**11,039,945**	9,471,256	17%
Profit before Tax		**2,767,780**	2,333,950	19%
Taxation		**767,164**	832,676	-8%
Profit after Tax		**2,000,616**	1,501,274	33%
Shareholders Funds		**3,158,145**	2,237,529	41%
Property, Plant & Equipment		**193,113**	220,338	-12%
Gross Dividends	Rs. 000'	**1,080,000**	1,470,000	-27%
Dividend per Share	Rupees	**9.00**	12.25	-27%
Earnings per Share	Rupees	**16.67**	12.51	33%
Price Earnings Ratio	Times	**10.20**	12.75	-20%
Market Value per Share as at 31st December	Rupees	**170.00**	159.50	7%
Return on Equity	%	**74**	68	10%
Net Assets per Share	Rupees	**26.32**	18.65	41%
Net Income to Turnover	%	**18**	16	14%

Profit after Tax
Rs million



Gross Dividends
Rs million



Think

Understand

Believe

Deliver

From customer to shareholder, executive to distributor, everyone associated with the Chevron brand has come to rely on the promise of excellent products, superior service and effective management that we are reputed for.

In this report we salute the people and principles that have made us great. Because we think ahead. We understand our potential. And we believe we can build exceptional value into every single thing we do.

TEXACO Chevron CALTEX

Our Family of Brands

Chairman's Review

It is my pleasure to present to you the Annual Report and Audited Accounts of Chevron Lubricants Lanka PLC. In the year under review, your company achieved a milestone in its financial performance, recording the highest earnings in its history with a net profit of Rs. 2 billion for the year. The Board of Directors declared three interim dividends amounting to Rs. 9.00 per share, and Chevron Lubricants Lanka PLC continues to be one of the best performing shares on the Colombo Stock Exchange.

During the year, we had to contend with a sharp increase in global oil prices. The company's healthy financial performance was achieved in spite of this, through sound management decisions, strong marketing efforts, and a focus on cost management. We also benefited from the Government's policy decision to reduce corporate tax from 35% to 28% - an encouraging move towards improving Sri Lanka's position in terms of global competitiveness.

I would also like to congratulate the entire staff on their outstanding safety record, as they celebrate the completion of ten years of incident-free operation. This is no mean feat, as the indicator encompasses not only Chevron staff but all supply chain partners on the company's premises. It has been achieved through a relentless commitment to instilling best practises, and the mitigation of risk at every step of the company's supply chain.

Another highlight of the year was the visit of Danny Roden, the President of Chevron Lubricants, to Sri Lanka. This was the first occasion of a visit by the head of Chevron Lubricants, and I would like to thank Mr. Roden for his initiative. His presence, a consequence of the peaceful environment in the country and the recognition of its potential for growth, was a source of great encouragement to our team. During his visit, Mr. Roden reviewed the Sri Lankan operation first hand and met with many of our key stakeholders. He was also honoured to meet with His Excellency President Mahinda Rajapakse.

Sri Lanka's economy performed reasonably well in 2011, with the Central Bank estimating GDP growth at 8.3% for the year. The annual average inflation rate was reported as 6.7% and the Debt-to-GDP ratio fell to an estimated 78% from 81.9% in 2010. The country attracted USD 1 billion in new investments, and the Government pursued pro-development policies, with an emphasis on improving infrastructure, increasing local production and mobilising manpower. Although the Sri Lankan rupee was devalued by 3% in 2011, which effectively increased the cost of our imported raw material, the outlook for the economy at the year-end seemed stable.

Since then however, much has changed. The increase in interest rates and the floating of the rupee went against the policies and forecasts put forward by the Central Bank during the past few months, and the swiftness of these directional changes took the market and economic participants by surprise. The IMF has welcomed the policy shift towards a flexible exchange rate, saying it will help contain the trade deficit and protect the foreign exchange reserves.

Meanwhile, the faltering recovery of the US economy and the ongoing euro-area debt crisis continues to undermine confidence in the global financial markets and will also remain a challenge to Sri Lanka's growth. Thus the outlook of the country's operating environment for the year 2012 could be volatile.

As in previous years, Chevron has invested both time and resources in putting into practise its belief in the importance of giving back to the community. The focus of our CSR initiatives in 2011 were in the areas of promoting water conservation, creating HIV and AIDS awareness, supporting the Temple Trees book donation programme, and encouraging sports for hearing impaired children.

As you know, the present land lease agreement with Ceylon Petroleum Storage Terminals Ltd expires in July 2014. In order to sustain the long term growth of the business, the Board has made a decision to relocate the plant at the expiry of the lease of the land. The Board is currently evaluating the cost and benefits of several properties identified for this purpose.

My review would not be complete without my sincere thanks to the Board of Directors who play a key role in guiding the company; to Kishu Gomes, his management team and staff for their tireless efforts to sustain, develop and constantly add value to the business; to our principles, supply chain and distribution partners both in Sri Lanka and overseas who join us in our continuous quest for product and service excellence; to our shareholders for their continued faith in Chevron Lubricants Lanka; and to our customers who once again demonstrated their loyalty to the Chevron brands and all they stand for.

Farrukh Saeed
Chairman

06th March 2012

Farrukh Saeed

Chairman

Managing Director's Review of Operations

The Highlights

For us at Chevron, 2011 was a challenging but ultimately very rewarding year. I am happy to report that our company has achieved its best ever financial performance to date, a Profit after Tax of Rs. 2 billion, up from Rs. 1.5 billion the previous year. I am also delighted to share a milestone achievement in operational safety. True to our motto, 'Do it safely or not at all', on the 6th of January 2012, Chevron Lanka Lubricants recorded ten years (3,652 consecutive days) without loss time injury. This is a record for any Chevron facility in the world, for which we received global recognition in the form of an accolade from the President of Chevron Lubricants, and it is a tribute to the efforts of all our staff.

The greatest challenge faced by the global lubricants industry during the year was the steep increase in the cost of base oils. Our raw material cost in 2011 increased significantly. We combated this through a focussed pricing strategy, taking a firm decision to prevent an erosion of our margins. This was supported with a concerted marketing effort, and we leveraged the strength of our brands to absorb the price increases. These actions, together with improved internal efficiencies and careful cost-management (including savings generated through synergies with our outsource partners), enabled us to significantly improve our overall profitability in 2011. The company also benefited from a reduction in corporate taxation from 35% to 28%.

Another factor that contributed to the increase in profit was the savings created through the restructuring exercise we undertook towards the end of 2010, in line with a Chevron Downstream & Chemicals initiative. The new organisational structure resulted in a significant reduction in costs.

In September last year, we were delighted to welcome to Sri Lanka the President of Chevron Lubricants, Danny Roden, along with Farrukh Saeed, the Vice President Lubricants Asia Pacific Region. During his historic first visit to the country, Mr. Roden visited all our operational facilities and personally met with many of our key strategic partners, distributors, business partners and high-end customers.

Despite the challenges ahead however, we have proved ourselves as a resilient company, and remain firmly committed to optimising our performance and driving our business forward, to generate value for all our stakeholders.

Coping with a Tough Operating Environment

Locally, while we did see positive industry growth, the high growth momentum of 12% seen in 2010 was not sustained, with growth in 2011 moderating to approximately 5%. As a result, sales volumes fell just short of our expectations. The growth in the markets of the Northern and Eastern regions, while higher than the national growth rate, was again somewhat less than anticipated, as significant growth in the demand for consumer goods in these areas did not extend to semi-industrial products such as lubricants. The volumes were also affected by severe weather, particularly the floods experienced in the country during the first quarter of the year. On a positive note, the vehicle population in the country grew by over 50% in 2011, as a result of the Government's decision to maintain a reduced import duty structure on vehicles. While the large increase in the number of vehicles will not result in a proportionately high increase in lubricant consumption due to the longer drain intervals in newer motor vehicles, the influx of new vehicles will create more opportunities to market some of our high-end products.

Desamanya Dr. Kishu Gomes

Managing Director/CEO

Managing Director's Review of Operations continued

The local lubricants industry saw a heightened level of competition, driven by the general optimism in the market. While competitors invested heavily in brand building and retail channel development activities, they also often resorted to aggressive discounting. This created some challenges for us, who as market leaders take a longer-term view, and are not willing to engage in price wars which would lead to unsustainably low pricing. As oil prices continued to rise, this strategy appears to have been prudent.

Our exports to Bangladesh and the Maldives continued to do well, as we increased our export volume by 30% and further strengthened our ties with our distributors in both countries in 2011. In Bangladesh, we expanded our retail distribution network, and also won several new industrial accounts, particularly in the power generation sector, making us optimistic about our growth there.

Focussed Marketing and Brand Management

During 2011, we invested heavily in above-the-line advertising for Caltex and Lanka products, and engaged in aggressive trade marketing to maintain our share of in-outlet sales. We also gained excellent exposure for our brands with our sponsorship of the country's premier 'Caltex' rugby series.

Excellence in Supply Chain Management

The management of our manufacturing operations and overall supply chain during the year has been good. This team was responsible for the company's exceptional safety record, while making continuous incremental improvements to better manage cost and be more effective in the delivery of customer satisfaction. Credit is also due to our transport partner Hayleys Logiwiz, with whom we were able to realise increasing synergies.

Sales and Distribution

During the year, we implemented new systems, processes and sales tools (including a new management information system and a profitability modelling and pricing tool) across our local and export markets, bringing our operations in full alignment with the international operations of Chevron.

We continued to strengthen our alternative channel strategy of using dedicated 'oil mart' outlets to exclusively sell a full range of Chevron Lubricants products direct to retail customers. We have also expanded our distribution network in areas of the country that have been recently made accessible, often being the first to establish a retail presence in these areas. During the year, we appointed two new distributors in Anuradhapura and Dambulla, which were identified as areas with high potential for growth.

Concerns about the Regulatory Environment

The lubricants industry faces many challenges this year due to the local regulatory environment. The much anticipated Petroleum Industry Act, which will grant power to the Public Utilities Commission of Sri Lanka to regulate the market, has not been enacted to date, despite considerable progress being made. Due to this lacuna, the Ministry of Petroleum still functions as the regulator. However, since Ceylon Petroleum Corporation competes with the other license holders, this has created a conflict of interest, and resulted in an uneven playing field for the industry.

Large scale projects are also allowed to directly import their lubricant requirements under special concessions granted for their projects. A mechanism should be introduced to allow local lubricant operators to supply these projects on a duty-free basis.

There are many non-licensed players who import products such as power steering oils. There is also a trend of some parties buying lubricants from licensed manufacturers and repackaging and selling them under their own brands or even more worryingly, adulterating original products. This not only results in a loss of direct revenue for the Government, in the form of duties and taxes, but also causes considerable damage to vehicles and machinery of consumers who fall victim to these substandard products. It is encouraging to note that the proposed Act includes provisions to deal with product adulteration, and it is hoped that once in place, the regulatory mechanism will help control this trend.

As an exporter, we are also faced with undue delays in obtaining approvals under the TIEP scheme (Temporary Importation for Export Processing). Such bottlenecks must be removed in order to encourage exports.

A Continued Commitment towards Engaging with Community

This year, the 'Water and Life' travelling exhibition, which was so well received in the Western and Southern regions of the country, entered its second phase, touring predominantly Tamil speaking areas of the country. The exhibition was designed to appeal to both children and adults, drawing attention to the importance of conserving our water resources.

We also undertook several initiatives to create awareness and better understanding of HIV and AIDS and the issues surrounding it. Chevron Lubricants Lanka continued to deepen its involvement with the Lanka Business Coalition on HIV & AIDS and, as its current Chairman, I am committed to spreading the coalition's message on the need to recognise the magnitude of the issue in the country. Globally, Chevron has adopted several policies specifically to combat discrimination and help eliminate the stigma attached to this disease, and I hope to use this platform to share some of these best practises with leaders of our own business community.

Once again, we also supported His Excellency the President's Temple Trees book donation programme and, for the tenth consecutive year, sponsored the three main annual sporting events for hearing impaired children in the country.

Managing Talent

The leaner organisation structure created by the comprehensive restructuring exercise we undertook in 2010, enabled a faster and more efficient decision making process, and created the opportunity for identified young talent to take on more responsibility as they moved into leadership positions in the organisation. I feel that this has infused new thinking, enthusiasm and dynamism into the management team, which bodes well for the future of our company. Our HR activities for the year focussed on team building, as well as training and personal development, and recognition and rewards for performance.

A new initiative in personal development that was piloted in 2011 was an expatriate exchange programme. During the year, our head of Supply Chain Management traded places with his counterpart at Chevron's operational plant in Bangkok, for a period of five months. This created a unique opportunity for the two managers to gain invaluable exposure, while also benefiting the plants through a cross pollination of ideas.

Encouraging Corporate Awards

Chevron was once again the only company in the petroleum industry to be listed among the prestigious Business Today Top 20. Despite an improved financial performance, our ranking was nineteenth versus sixteenth the previous year, which indicates that more of our top tier companies improved their performance significantly. This is a very positive and encouraging sign for business in the country.

Future Outlook

The most serious issues we will face in the year ahead are expected to be linked to the volatility of the economy. The sudden depreciation of the rupee during the first two months of 2012, and the attendant jump in the cost of imported goods, including oil, will affect our industry both directly and indirectly. The steep hike in fuel prices in February (with increases of 8.75% on petrol, 36% on diesel and 49% on kerosene) has seriously affected the transport sector and could lead to a reduction in fuel usage, which in turn would result in a decline in the usage of lubricants. The average consumer will also have to contend with price increases in a range of goods during the months ahead, and will have less disposable income to spend on non-essentials.

Heightened competition will also continue to be a challenge for our business, particularly with the possibility that the Government may issue more licenses to new players in the industry.

Despite the challenges ahead however, we have proved ourselves as a resilient company, and remain firmly committed to optimising our performance and driving our business forward, to generate value for all our stakeholders.

Desamanya Dr. Kishu Gomes
Managing Director/CEO

06th March 2012

Board of Directors

Left to right standing
Anura Perera, Daham Wimalasena
Robert L Otteson, Desamanya Dr. Kishu Gomes

Left to right seated
Farrukh Saeed, Desamanya Devasiri Rodrigo

Board of Directors

Chairman
Farrukh Saeed

Mr. Farrukh Saeed currently functions as the Vice President - Lubricants Asia Pacific. His previous assignments include General Manager Lubricants, Europe, Africa and Middle East; several positions in fuels (marketing and operations) and lubricants including Governance and P&L responsibilities in Joint Ventures. He also served at the Head Quarters in a supporting role as advisor for Asia and Africa markets. He counts over 28 years experience across a variety of business disciplines at Chevron.

Mr. Saeed has a Bachelor of Science Degree in Chemical Engineering and Masters in Business Administration.

Desamanya Dr. Kishu Gomes

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

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

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

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

He counts over 25 years of experience working for US multinationals having started his career at Coke in 1984.

Anura Perera

Appointed to the Board in 2002, Mr.Perera holds an Honours Degree in Commerce from the University of Kelaniya and Post Graduate qualifications in Human Resources & Management. He is a Fellow member of the Institute of Chartered Accountants of Sri Lanka and functions as the Alternate Chairman of the Business School Committee of the CA Sri Lanka. He joined the Company in 1996 as Deputy Manager Finance and Administration and was promoted to Manager Finance and Administration in 1997 and to General Manager in 2000. He counts more than 21 years experience in Accounting and Finance. He also functions as a Director of Chevron Ceylon Limited.

Desamanya Devasiri Rodrigo

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

He is presently a Director of Softlogic Holdings PLC and Ceylon Tobacco Co. PLC, and serves as the Chairman of their Audit Committees.

His public sector appointments include, member of the Monetary Board of the Central Bank of Sri Lanka, member of the Administrative Reforms Committee, National Council for Administration, Presidential Commission on Trade and Tariffs, Telecom Regulatory Commission and Director of People's Bank.

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

Robert L Otteson

Robert L Otteson is the Regional Finance Officer- Asia Pacific for Chevron Corporation based in Singapore. He is a graduate of the University of Utah (B.A. in Accounting -1981) and is a licensed certified Public Accountant. He currently serves as a Director for Caltex Australia Ltd.

Rob began his career as an international internal auditor with Cargill Corp. in Minneapolis, Minnesota in 1981. Since joining Chevron in 1982, Rob has served in various Chevron Finance Department capacities with increasing responsibilities.

Before assuming his current role in 2009, Rob served as Controller for Stillwater Mining Company (A Chevron operated partnership), Chief Financial Officer for Chevron's Global Lubricants Division, Vice –President- Finance for Chevron's Mining Company, Chief Financial Officer for Chevron Pipeline, and Chevron's Risk Control Officer.

Rob also has extensive experience with Chevron's global downstream operations in the Finance function managing a comprehensive advanced trading systems development project, and in a Sr. Compliance role as the Chief Risk Officer for Chevron's Global Trading operations.

Daham Wimalasena

Graduate of the University of Ceylon. Wide experience in the Corporate Sector including Senior Management positions in the C.W.E, Competent Authority of the Colombo Gas and Water Company, Chairman of the Ceylon Petroleum Corporation and Lanka Tankers Ltd. from 1977 – 1989. He was also Chairman and Managing Director of the Ceylon Petroleum Corporation, Lanka Tankers and Lanka Marine Services Pvt. Ltd from 2002 – 2004.

Also served as an Executive Director of Plantation Management Companies namely Pussellewa Plantations and Maturata Plantations.

Held office in various National Sports Bodies for various years including Vice President of the Board of Control for Cricket in Sri Lanka, President of the Cycling Federation of Sri Lanka and President of the Nationalized Services Cricket Association. Presently he is the Chairman of the Board of Trustees of the Sri Lanka Cricket Foundation and also serves as a Non – Executive Director of Free Lanka Capital Holdings PLC.

Mr. Wimalsena was also a Member of Parliament from 2000- 2001.

Management Team

Left to right standing
Upali Wijesinghe - Logistics Manager
Thusitha De Silva - Direct Sales Manager
Anura Perera - Chief Financial Officer / Director
Maheshni Hamangoda - Human Resources Manager
Thushari Weragoda - Laboratory & Quality Assurance Lead
Wijitha Akmeemana - Supply Chain Manager
Erande De Silva - Manager Finance & Planning
Upuli Kulasiri - Marketing Manager

Left to right seated
Hilary Fernando - Lead Technical Manager
Kishu Gomes - Managing Director / Chief Executive Officer
Sumith Hewavitharana - Indirect Sales Manager
Bertram Paul - Head of Sales

Management Discussion & Analysis

Sri Lanka's Economy

Sri Lanka's economy grew by an estimated 8.3% in 2011, which is a significant achievement given the global economic scenario. Exchange rates were fairly stable during most of the year. Inflation was contained at 6.7%.while unemployment had fallen to an estimated 4.3% at the end of the year. Industrial sector had grown by 10.1%.

Most importantly vehicle imports had increased by 31.6% over 2010. Registration of three- wheelers rose 40% and motor cycles by 12%. Motor car registrations rose by a staggering 60% driven by the tax cut that increased people's access to vehicles.

Lubricants Industry

The number of players in the industry remained at 14 including the two local blenders namely Chevron and Lanka IOC.

The regulation of the downstream petroleum industry, covering the imports and exports, refining and blending, storing, distributing and transporting, and wholesale and retailing of petroleum products is to be assigned to the Public Utilities Commission under the Act No 35 of 2002.

However the Petroleum Products (special provisions) (Amendment) Bill and Ceylon Petroleum Corporation (Amendment) Bill, which would empower the commission to regulate economic, technical, competition and safety aspects of the petroleum industry, have not been passed in to law to date. The lubricants industry will benefit from an effective regulatory mechanism and we hope the Acts would be passed during 2012.

New technical standards

During the year the Ministry of Petroleum introduced minimum standards for greases that should meet the performance level of at least NLGI LA and pass the acceptable level in a set of properties tabled by SLSI. Also the draft Sri Lanka Standard Specification for Two Stroke Cycle Gasoline Engine Lubricating Oil was sent for Public comments.

Following are the minimum standards of quality currently in force.

	Minimum standard
Gasoline engine oil	Gasoline Engine Oil SLSI 1374 (equivalent to API –SJ) (Revised from AP-SF)
Diesel engine oil	SLSI 1373- equivalent to API-CF
Two stroke engine oil	JASO-FC
Four stroke engine oil	API-SG and JASO MA
Automotive gear oil	SLSI 1396- Equivalent to API –GL4
Automotive transmission oil	DEXTRON -11D, DEXTRON III MERCON ALLISON C4, JASO M315 type Group I
Base Oil	API Group I

Industry Structure

The major segments in our industry are the retail (automotive sector) and industrial lubricants.

Retail segment

Competition continued to be intense in this sector while the severe floods experienced during the first quarter of the year in the North and East affected volumes adversely.

Categories such as motor cycle oils, higher tier heavy duty engine oils and hydraulics continued to show high growth driven by the increase in the motor vehicle population and an increase in the number of construction projects. However the transition to premium products, which lead to longer draining intervals, led to reduction in volumes in certain lower tier categories.

We continued the strategy of supporting and developing our network of branded channels - the automobile service stations, signing up new partners and upgrading existing partners to higher levels in the channel hierarchy. We also made significant inroads into newly liberated areas in the North and East, as well as recently developed fisheries harbours in the South. We ran several consumer promotions and customer awareness activities in branded service stations to facilitate incremental business for our partners.

We continued to expand our channel of exclusive lubricant sales outlets / branded Caltex Oil Marts, which now exceed 800 outlets, thus providing self employment opportunities to a considerable number of small scale entrepreneurs.

We also increased penetration into High Street outlets (spare part shops) and independent service stations by successfully converting even some of those previously aligned with competitors.

We successfully explored cost effective expansion of our distribution reach during the year by linking non traditional lubricant retailers to our network.

During the year, we supported our distributors with detailed territory-wise business plans covering all key aspects of distribution, sales and regional marketing activity, and provided training to distribution staff to help them improve the quality of their service to channel partners and consumers. Supporting our channel partners with training on product knowledge and lubricant technology continued to be a key differentiator for Chevron in the market. A strategy that continued to be widely appreciated by the trade and consumers alike. With an eye on the increasing popularity of sports utility vehicles in Sri Lanka, we launched DELO Sport Engine Oil, a low-viscosity synthetic oil specifically designed for SUVs. DELO Sport is the first of its kind in the local market and early interest, since its introduction in October 2011, has been encouraging.

We also introduced a low viscosity Passenger Car Motor Oil under the Havoline brand for high performance, low emission petrol engines to effectively address a product gap that existed previously in the portfolio.

During the year, we promoted our Caltex and Lanka branded products through national, above-the-line advertising campaigns, as well as trade marketing activities aimed at consolidating our share of outlet sales.

Our sponsorship of the popular local 'Caltex' rugby series, the Caltex League inter-club rugby tournament and Caltex Clifford Cup Knockout for the thirteenth consecutive year, was a notable success. This year, the high standard of competition also contributed towards generating a high level of exposure for the brand through media coverage, spectator participation and stakeholder involvement.

We also continued our long standing sponsorship of high profile motor racing champion Aravinda Premadasa, who was named Champion for 2010 of the Sri Lanka Association of Racing Drivers and Riders.

Chevron continues to play a lead role in educating the local market regarding the increasing range of lubricants that has been developed for specialised uses, and we continue to pursue a strategy of encouraging customers to progress to our premium brands and high performance product offerings, a strategy that continues to pay rich dividends.

Management Discussion & Analysis continued

Industrial Segment

The Industrial and Commercial (Direct Sales) Sector in Sri Lanka can be broadly divided into three major market segments comprising of Power and Energy Sector, Rubber and Industrial Sector, and Automotive (OEM – Original Equipment Manufacturers.

Sri Lanka's power consumption has steadily increased from 5000 Gwh in 2000 to 10,000 Gwh, at an estimated annual growth rate of close to 7%. Consumption is mainly attributed to domestic usage ahead of industrial consumption. Power generation in Sri Lanka is predominantly sourced via thermal and hydro power energy, whilst a few renewable energy projects are in operation.

During 2011, especially during the first six months, the contribution of hydropower to the mix was considerably higher due to good rainfall experienced in the catchment areas.

Chevron Lubricants enjoy a dominant share in the hydro power sector and the government owned thermal power sector, and a majority share in the privately owned IPP sector.

The Rubber and Industrial sector recorded a positive growth with the key industrial players expanding their operations. Chevron's service package which goes well beyond the product offer has been a continuous success factor in these sectors where the key requirement is reliability. Chevron's Reliability-based Lubrication, including its comprehensive proposition of product testing, training and lubricant optimisation packages, is a key differentiator in the industry.

The automotive sector is one of the key sectors that grew over 30% with respect to new vehicle imports vis a vis 2010. The 4 stroke 3 wheeler segment grew over 40%, whilst commercial vehicles including trucks, buses and gasoline passenger cars combined grew at 60% compared to the previous year. With Chevron's dominance in the lubricant intensive Heavy Diesel Engine Oils (HDEO) sector, the increase in the commercial vehicle population produced incremental volumes which significantly contributed to the top line and bottom line. The growth in demand for vehicles especially from rural areas resulted in most of the key OEMs expanding their service operations to those areas, which resulted in increased sales through our regional distributor network and branded service channels. Chevron also entered into a partnership with Hybrid Motors, a new specialised service facility set up in Sri Lanka to cater exclusively for hybrid vehicles. However, as in the case of retail segment, the transition to premium products which lead to longer draining intervals led to reduction in volumes in certain lower tier categories.

Export Market – Bangladesh

With a lubricant market almost double that of Sri Lanka, Bangladesh continues to be a key focus market for Chevron although a significant portion of the market consumes unbranded lubricants. The Bangladesh business continued the growth momentum experienced during the last five years and ended 2011 with a 30% volume growth over 2010. The central focus in Bangladesh during the year was the industrial sector, dominated by the power generation industry, the consumer sector made up of the diesel and petrol engine market, CNG market and the motor cycle engine oils market. With Bangladesh's CNG reserves failing to support the national requirements which grew by an estimated 7% year on year, the Ministry of Power and Energy in Bangladesh is in the process of mobilising close to 5,000 MW of power as an urgent step to reduce load shredding to manageable levels within the next 5 years. The increased power generation requirements may hold potential for lubricants marketers to increase their volumes.

Export Market – Maldives

With a size of less than 300 sq km and with a population of less than 350,000 people, the Maldives with a USD 5000 per capita income continues to be an interesting export market for Chevron.

Despite several macro-economic challenges such as the Euro zone crisis adversely affecting tourism, a severe shortage of foreign currency, political unrest, currency devaluation and new taxes being introduced thereby affecting disposable income, exports volumes to Maldives grew by 15% in 2011.

A significant achievement during the year was the appointment of a second distributor who is part of a large

Chevron Lubricants enjoy a dominant share in the hydro power sector and the government owned thermal power sector, and a majority share in the privately owned IPP sector.

Our continuous focus on sustaining Operational Excellence to ensure zero recordable injuries, zero recordable incidents, and the number one position in the market place were realised in 2011 successfully through the process alignment and engagement of stakeholders.

and diversified group with expertise in the business of petroleum distribution.

Supply Chain

Our continuous focus on sustaining Operational Excellence to ensure zero recordable injuries, zero recordable incidents, and the number one position in the market place were realised in 2011 successfully through the process alignment and engagement of stakeholders. Implementation of "Kaizen" during the year was a significant milestone in the Supply Chain operations as it reinforced focus on continuous improvement .

We completed 10 years without lost time injury on 6th January 2012. The reinforcement of Loss Prevention System and the right level of stewardship were the contributory factors in realising a high standard of safety and performance in our operation.

OE processes along with the Quality Assurance system enabled us to operate with optimal reliability and efficiency.

The collaboration with sales and marketing via sales and operational planning process, resulted in improvements in demand forecasting and supply network planning, which was highlighted by a 86% forecast accuracy and a 96% OTIF. This reiterates supply chain's emphasis towards efficiency improvement during a challenging year.

We will continue our commitment towards ensuring efficiency and process reliability in 2012.

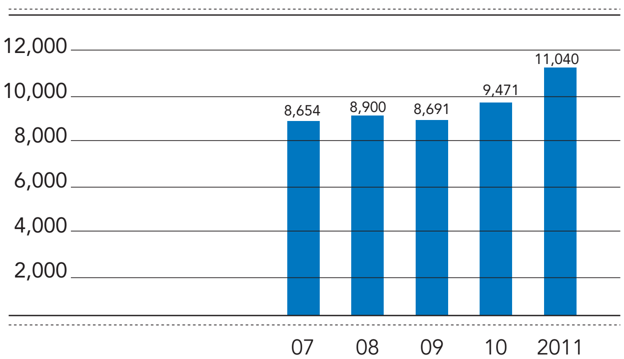
Financial Review

Growth, Profitability and Efficiency

Revenue

Revenue increased by 16.5% to Rs.11 billion in 2011 from Rs.9.4 billion recorded in 2010. The growth in revenue could be primarily attributed to the price increases that were required as a result of increased input costs, while export revenue continued its positive momentum driven by volume growth as well as increased selling prices.

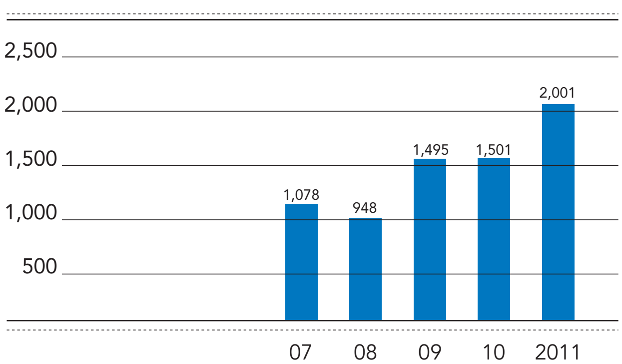
Revenue
Rs million



Profit after Tax

The Company recorded a net profit of Rs.2,001 million during the year 2011 compared to Rs.1,501 million in 2010.

Profit after Tax
Rs million



The Gross Margin declined slightly from 32% in 2010 to 31.5% during the year due to sharp increases in Base oil and raw materials prices. Although the devaluation of the Rupee in November led to further cost escalation, the softening of the Base oil prices in the last quarter helped mitigate the effect. The Operating profit grew by 20% year on year stemming from top line growth, sustained efficiency in managing operational costs and increases in other operating income. Profit before Tax increased from Rs.2,334 million to Rs.2,768 million, despite a 55% year on year decline in Interest Income.

Income Tax

Income Tax expense for the year was Rs.767 million, which reflects an 8% decrease from 2010. The reduction in Income Tax was due to the reduction in Corporate Income Tax from 35% to 28% and the abolition of 1.5% SRL. Income tax on export profits also came down to 12% compared to 15% in 2010.

Distribution and Administration Expenses

Distribution expenses recorded a decrease of 3.7% compared to last year. However the distribution costs of Rs.405.5 million recorded in 2010 included a gratuity provision reversal of Rs.33.5 million. Excluding the effect of the above reversal, the distribution expenses declined by 11% to Rs.390.5 million during the year 2011. This sharp decline was primarily due to the reorganization exercise cascaded to all functions during the latter half of 2010. .

Liquidity

Working Capital

Raw material inventory increased by Rs.442 million due to higher cost of acquisition of inventories and the timing of imports. The company continued its stance with an aggressive finished goods inventory cover which decreased from Rs.392 million to Rs.347 million compared to last year.

Trade Receivables increased by Rs.245 million. This indicated a growth parallel to revenue for the latter half of the year, in comparison to 2010. The robust credit control policies helped sustain the days sales outstanding at 31 days.

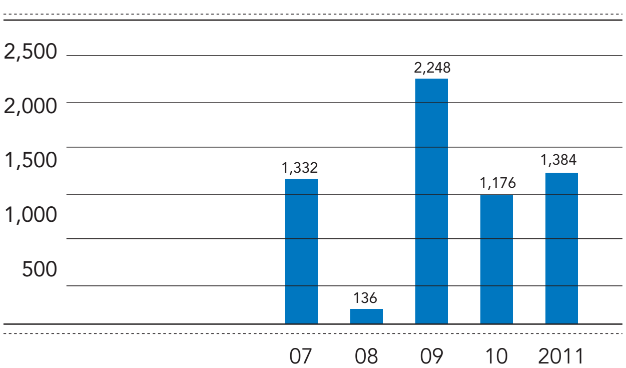
The liquidity position of the company was augmented by the increase in its current ratio from 2.99 in 2010 to 3.73 in

2011. The quick asset ratio recorded a healthy 2.02 in 2011 compared to 1.56 in the previous year.

Cash Flow

Cash generated from operating activities slipped marginally by Rs.39 million in 2011, due to increased inventory and debtors.. However Net cash generated from operating activities during the period amounted to Rs.1.4 billion compared to Rs.1.2 billion in 2010. This sharp growth in cash flow was directly correlated to a relatively lower tax burden stemming from the reduction of corporate tax rates in 2011.

Net Cash Flow from Operating Activities
Rs million



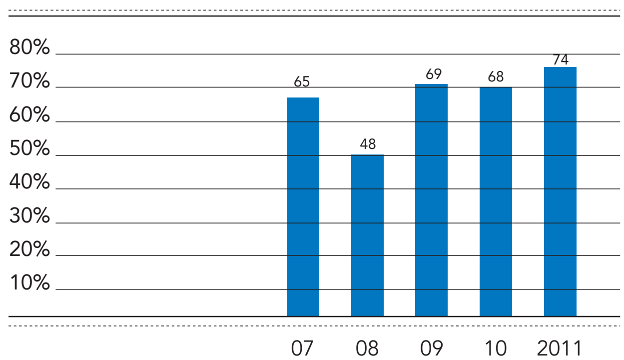
Three interim dividends totaling Rs.1,080 million were declared during the year. The last interim dividend of Rs. 3.50 for the year was paid on 04th January 2012. The total dividend paid of Rs.1,020 million consisted of Rs.660 million declared of current year profits and the last interim dividend of Rs.360 million pertaining to 2010.

Stability and Investor Return

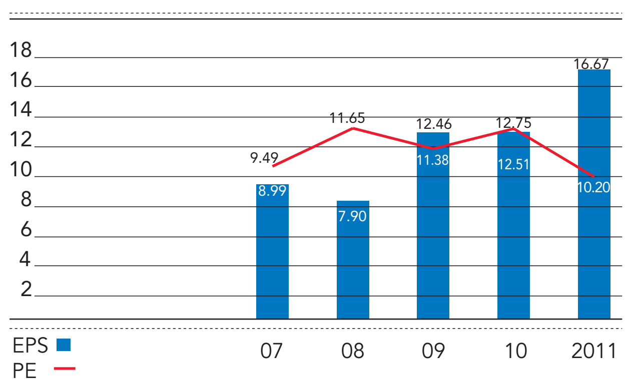
Financial Stability

The return on equity increased to 74% in 2011 (from 68% in 2010) as the company surpassed a landmark Profit after Tax figure of Rs.2 billion. Earnings per share climbed 33% to record Rs.16.67 in 2011 compared to Rs.12.51 in 2010. .

ROE
%



EPS & PE
Rs./ Times



Investor Return

Dividend per share amounted to Rs.9 which translates to a dividend yield of 5.29% based on the share price recorded end December 2011. Total shareholder return amounted to 12% in 2011.

Sustainability Report

Carrying the 'Water & Life' message to the North and East

A joint effort between Chevron and the Mihindu Cultural Foundation, the bi-lingual 'Water & Life' mobile exhibition travelled through predominantly Tamil speaking areas of the country during 2011, particularly targeting communities engaged in agriculture and fisheries in Puttalam, Nikaweratiya, Dambulla, Batticaloa, Trincomalee, Monaragala, Ampara, Mahiyangana, Vavuniya, Mannar, Killinochchi and Jaffna.

The exhibition, which toured the Southern and Western regions of the country in 2010, showcases the country's extraordinary hydro-cultural heritage while highlighting today's critical issues. It clearly demonstrates the problems of depleting water resources and the urgency of preserving this most precious natural resource for the sake of the country's economic future as well as its environmental wellbeing.

'Water & Life' has been extremely well received, with thousands of adults and, more importantly, school children visiting the exhibition and going away with a new appreciation for a resource that is too often taken for granted. Each school was also given copies of a book, also titled Water & Life, authored by Kalasoori Sathischandra Edirisinghe, to be used as a teaching aid by the school.

Efforts to prevent the spread of HIV and AIDS through awareness and education

Even though Sri Lanka is still considered a country with a low prevalence of HIV and AIDS, it is spreading faster than ever before, and we know the only way to stem the tide is to take action now. While Chevron has a global programme to fight HIV and AIDS with its 'Zero discrimination and zero AIDS-related deaths' global campaign, we at Chevron Lubricants Lanka have also been associated with this cause for several years as part of the Lanka Business Coalition for HIV and AIDS. Our own initiatives are focussed towards advocating change through awareness, ridding our society of the fear and stigma, born of ignorance, that prevent many affected people and vulnerable groups from seeking out information and getting help for both prevention and treatment.

Since the majority of new cases of HIV and AIDS infections have been found to be among young people who live and work away from their hometowns, we at Chevron identified our own channel partners, our network of Caltex service station staff and other Caltex distributors, as a vulnerable group. To address the potential risks faced by this group, we designed and conducted a series of education and awareness seminars for service station staff and some of their consumers at seventeen locations in the Western Province, reaching over 500 people during the year. The programmes covered general information about the disease and how it is spread, how to stay protected and protect loved ones from contracting the virus, and where to seek treatment. It also aimed to quash myths about the disease and teach people how to live side by side with people already living with HIV, without fear.

Chevron also sponsored the Salvation Army's annual event for families of those who have contracted HIV and AIDS. The all day event included games and song and drama designed to bring the four hundred families from all over the island closer together in a cheerful and welcoming space, and creating an opportunity for them to draw support and encouragement from others who live with the same challenges and issues they do.

A decade of encouraging hearing impaired children through sport

For the tenth year running, Chevron was the official sports partner to schools for the deaf across the country. Working with the Deaf Schools' Past Pupils' Association, we were once again pleased to sponsor the three main sporting events in the deaf schools' calendar: the all island netball, volleyball and cricket tournaments. While the schools truly appreciate any support they receive to carry on the excellent work they do with their students, for all of us involved, it is both a pleasure and an inspiration to witness the skill, teamwork, enthusiasm and perseverance demonstrated by the children in overcoming their disability to participate in sports they love.

Supporting the Temple Trees book donation programme

For the second successive year we donated books to the Presidential Secretariat to be distributed among the school children who visit Temple Trees, an initiative launched by the president to encourage the reading habit among children..

Human Resources - All about team building

After the comprehensive restructuring exercise of 2010, the focus was on building new teams, encouraging cohesion within working groups, and alignment across functions. The new, flatter organisational structure we have adopted has the advantages of enabling closer supervision of employees, a more efficient decision making process, and greater collaboration between business units. Continuous performance feedback and mentoring of employees are also built in.

We used a fourfold behavioural matrix: Results - Speed - Simplicity - Directness, to guide performance, and revived our recognition and awards programmes for employees and stakeholders. At Chevron's Star Awards Night, the company celebrates outstanding performances among sales staff and business partners who have gone that extra mile to add value to our business. In 2011, we also introduced a new recognition and awards programme for members of the management team, to identify and reward exemplary leadership.

The company sports day, cricket tournament and family day also provided enjoyable opportunities for the 'Chevron One' team to bond in a relaxed and fun environment.

During the year, we undertook a comprehensive compensation benchmark survey across all ranks to align employees' remuneration levels of with those of the market.

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 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 the compliance program.

The Board met 4 times during 2011 and the attendance is given below;

		Attended
Farrukh Saeed	NED	4/4
Kishu Gomes	ED	4/4
Anura Perera	ED	4/4
Daham Wimalasena	NED/IND	4/4
Robert Otteson	NED	4/4
Deva Rodrigo	NED/IND	4/4

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

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 Managing Director 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.

Board Audit Committee

This Committee which was established in November 1999 functions under a written charter, and consists of two Non-Executive Directors namely Deva Rodrigo (Chairman), and Daham Wimalasena. The Managing Director and Finance 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 4 times during 2011 and the attendance is given below

	Attended
Daham Wimalasena	4/4
Deva Rodrigo*	4/4

*Chairman of Audit Committee

Audit committee report is given in page 35

Remuneration Committee

The Remuneration Committee consists of three Non Executive Directors. Daham Wimalasena was appointed Chairman of the Remuneration Committee on 3rd August 2011. This Committee reviews the salary program of executive employees, including the executive directors.

The Committee met twice during the year and the attendance is given below;

	Attended
Daham Wimalasena*	2/2
Deva Rodrigo	2/2
Rob Otteson	1/2

* Chairman of the Committee

Directors Remuneration

Total remuneration paid to Executive and Non-Executive Directors is given on page 46 and the report of the Remuneration Committee is given on page 36.

Management Structure

Clearly defined limits of authority have been delegated to the Managing Director and the General Managers. The Leadership Team consists of the Managing Director and the Heads of Functions including Finance, Supply Chain, and Sales and Marketing. Under the Functionalized structure of the Chevron Corporation local General Managers, in addition to their reporting line to the Managing Director report to their functional heads in the Asia Pacific region. Functional Heads are fully accountable for the respective performance agreements under the business and strategic plan.

Chevron Business Conduct and Ethics Code

The above code describes our policies both in the way we conduct ourselves and the way we do business. As a subsidiary of Chevron Corporation all the employees of the company are required to adhere to the code which covers the areas of internal controls, conflicts of interest, improper payments and gifts, Government relations, multinational operations, protecting people and the environment, Antitrust laws, privacy of personal information, information protection and management of intellectual property assets. Training is provided to employees and a well defined process in place to monitor compliance. Group Internal Audit separately reviews compliance apart from the review of internal controls and financial records.

The Chevron Business Conduct and Ethics code directs any employee having information or knowledge of any unrecorded fund or asset or any prohibited act to 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

The 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.

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.

Corporate Governance continued

Compliance with the section 7.10 of Corporate Governance rules of the Colombo Stock Exchange

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	Complaint	
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 is determination	Not Applicable	No such determination was required as the two 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 12 and 13.
7.10.3 (d)	Disclosure relating to Directors	Upon appointment of a new Director, a brief resume of such Director should be provided to the CSE	Compliant	The Board complies with this requirement when new appointments are made.
7.10.5	Remuneration Committee	A listed entity shall have a Remuneration Committee	Compliant	
7.10.5 (a)	Composition of Remuneration Committee	The 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 .	Please refer to the Remuneration Committee Report on page 36.	

Rule No	Subject	Criteria	Compliance Status	Details
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 36.
7.10.6	Audit Committee	The Company shall have a Audit Committee	Compliant	Please refer to the Audit Committee Report given on page 35.
7.10.6 (a)	Composition of the Audit Committee	Composition of the Audit Committee	Compliant	Audit Committee comprised of two non-executive independent Directors and headed by an Independent Director.
		CEO or CFO shall attend all Audit Committee Meetings	Compliant	Chief Executive Officer and Chief Financial Officer attend Audit Committee meetings by invitation.
		Chairman or one member of the Audit Committee shall be a member of a recognised 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 35 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 35.
		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 35.
		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 35.

Other Directorships held by Directors

Name of the Director	Name of the Company	Position held
Deva Rodrigo	1. Softlogic Holdings PLC	Non Executive Director
	2. Ceylon Tobacco Company PLC	Non Executive Director
Daham Wimalasena	Free Lanka Capital Holdings	Non Executive Director
Kishu Gomes	Chevron Ceylon Limited	Managing Director
Anura Perera	Chevron Ceylon Limited	Director/ Company Secretary

Risk Management

Risk Management

The company encounters varied risks that originate from the micro and macro environment, which challenges the value creation and preservation process. The entity's Risk Management mechanism involves setting corporate objectives, identification of risks, assessing their severity, risk response and periodic monitoring.

The Audit Committee spearheads the Risk Management process through periodic assessment and monitoring, which cascades to the management committee for implementation and execution. Risk Management is deeply rooted and embedded in the corporate culture at Chevron.

Internal Control Framework

Chevron's policy is to conduct its 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

Chevron has adopted the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to document, catalog, assess and maintain its 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.

The 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 intense competition from the existing players in the industry as well as new entrants if the Government allows more players into the industry. Competitors may resort to price undercutting to gain market share. On the other hand there are unlicensed operators in the market who resort to selling adulterated products. There is no effective regulatory mechanism to curb such illegal activities which affect the industry. The export volumes could be affected due to the political unrest and macroeconomic scenarios in Maldives and Bangladesh.

Risk Response

Company manages these risks through customer and channel partner education, creating awareness among the relevant stakeholders and leveraging on the brand equity. We also offer constructive suggestions to the authorities to maintain high product standards.

Dependence on Business Partners

Some of the critical operations of the business such as warehousing, distribution and drum fabrication have been outsourced. Any disruption to the operations of the business partners may affect the company's operations.

Risk Response

The company maintains excellent relationships with its business partners and shares 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, disrupt day to day business operations and cause harm 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, with 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. This would have an adverse impact on profitability, competitiveness, reputation and overall business operations.

Risk Response

The company has deployed policies, processes and procedures to ensure integrity of transactions. 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 processes and practices that are globally recognized. Further, these processes, systems and controls are subject to periodic review by internal and ISO auditors.

Financial Risk

Foreign Exchange Risk

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

Risk Response

The company consistently monitors foreign exchange movement and related economic indicators. Best possible rates are negotiated with banks for settlements of bills. 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 its customers which could lead to bad debts. However about 70% of the credit granted is fully secured.

Risk response

The major proportion of the company's credit sale is executed based on secured credit terms. Stringent credit controls are in place to limit the exposure on unsecured credit.

Financial Report

Financial Calender 2011

Dividends

First Interim	13th July 2011
Second Interim	14th November 2011
Third Interim	04th January 2012

Interim Financials

First quarter ended 31st March 2011	06th of May 2011
Second quarter ended 30th June 2011	21st of July 2011
Third quarter ended 30th September 2011	21st of October 2011
Fourth quarter ended 31st December 2011	24th of February 2012

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 2011.

Nature of the Business and Likely Future Developments

The core business activity of the company is the import, manufacture and marketing of lubricants, greases, brake fluid and specialty products. The review of business activities for the year 2011 and the likely future developments are covered in detail under the Managing Director's review and Management Discussion and Analysis.

Financial Statements

The Financial Statements which include the Income Statement , Balance Sheet, statement of Changes in Equity and notes to the financial statements are given on pages 42 to 56.

Accounting Polices

Details of the accounting policies are given in Note 2 of the Financial Statements. There have been no changes to accounting policies adopted by the company during the year.

The sales revenue for the year was Rs.11 bn (2010:Rs.9.5 bn), which included export revenues of Rs.582 mn.

Review of Business

The company made a Net Profit after Tax of Rs. 2bn (2010:Rs.1.5bn) , after making provisions for all known liabilities, provision for doubtful debts and depreciation on property plant and equipment. The detailed income statement and the statement of changes to the equity are given on page 38 and 40 respectively.

Dividends

The following Interim Dividends were paid out of the current year profits.

First Interim Dividend	-	Rs. 2.50 per share paid on 13-07-2011
Second Interim Dividend	-	Rs. 3.00 per share paid on 14-11-2011
Third Interim Dividend	-	Rs. 3.50 per share paid on 04-01-2012

No final dividend has been proposed by the Board.

Property, Plant & Equipment

Capital expenditure incurred during 2011 including work-in-progress amounted Rs.20,793,501 (2010: Rs. 24,583,935). The movements in Property, Plant & Equipment are given in the Notes to the Financial Statements.

Donations

Donations made by the company during the year amounted to Rs. 1,322,703 (2010:Rs.1,291,215) . This is excluding the expenses charged to earnings on social responsibility programs which amounted to Rs.11,214,046. (2010:Rs.6,383,357). The details of the social responsibility programs are given in the sustainability report.

Directorate

The following served as Directors of the Company during the year 2011:

Farrukh Saeed

Kishu Gomes

Daham Wimalasena

A.M.Anura Perera

Deva Rodirgo

Robert L Otteson

In terms of Clause 84 of the Articles of Association of the company, Robert Otteson retires by rotation and being eligible, offers himself for re-election.

Notice has been given pursuant to section 211 of the Companies Act no 7 of 2007 of the intention to propose an ordinary resolution for re-election of Daham Wimalasena notwithstanding the age limit of 70 years.

Director's Shareholdings

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

Anura Perera 400 (31.12.2011 – 400).

None of the other Directors hold shares in the Company.

Directors Independence

Daham Wimalsena and Devasiri Rodrigo function as Independent Directors of the Company.

Annual Report of the Directors continued

As per the rules on Corporate Governance (section 6.4) stipulated by the Colombo Stock Exchange, both the above Directors have made written declarations and they meet all the criteria of Independence.

Information on the company's compliance with other rules on Corporate Governance are given in the Corporate Governance report in page

Remuneration and other benefits of Directors

The remuneration and value of other benefits of Directors are given on page 46.

Directors Interests in Contracts

Directors' interests in contracts are disclosed in Note 24 to the accounts and have been declared at the meeting of the Directors.

Other Directorships held by the Directors

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

Related Party Transactions

The company procures most of the raw materials from Chevron group companies in the ordinary course of business. In addition the company pays for various services provided by the group. The value of purchases of products from Chevron Singapore (private) Ltd, Chevron Oronite (private) Ltd and Chevron Thailand Ltd exceed 5% of the equity.The details of such transactions are given in notes 24 to the financial statements.

Information on Shares as at 31 December are as follows:

	2011	2010
Earnings per Share	16.67	12.51
Net Assets per Share	26.32	18.65
Market Price per Share	170.00	160.00
Highest Price during the Year	173.50	193.75
Lowest Price during the Year	156.00	141.00
Price Earnings Ratio	10.20	12.79
Dividends Per Share	9.00	12.25

Major Shareholders

The twenty largest shareholders and the percentages held by them are disclosed on page 60.

Reserves

Retained earnings of the company as at 31.12.2011, amount to Rs. 2,558 million (31.12.2010 – Rs. 1,637 million). Movements are shown in the statement of Changes in Equity in the financial statements.

Post Balance Sheet Events

There have been no events subsequent to the Balance Sheet date which would have material effect on the company or require disclosure or adjustment to the financial statements.

Internal Controls

Directors are responsible for devising proper internal controls to ensure that the proper books of accounts are maintained, the integrity of financial statements, assets are safeguarded, transactions are executed by those who have appropriate authority and there is proper segregation of duties. The heads of each function are responsible for primary controls identified in the respective areas. Board Audit Committee reviews the internal audit reports to ensure established controls are adhered to and any deviations are reported and remediated. A whistle blowing mechanism is in place to report any violations of internal controls and the 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.

Going Concern

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

Auditors

The financial statements for the year have been audited by Messrs PricewaterhouseCoopers (chartered accountants). They were paid Rs. 1,374,956 (2010: Rs. 1,250,000) as audit fees and Rs. 90,000 (2010:Rs. 90,000) for issue of solvency certificates.

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

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

Annual General Meeting

The Annual General Meeting will be held at the Sri Lanka Institute of Tourism & Hotel Management auditorium, at 78, Galle Road , Colombo 3 on Tuesday, 3rd April 2012 at 3.30 p.m.

By order of the Board

Kishu Gomes	A.M. Anura Perera
Managing Director/CEO	**Director/Secretary**

06th March 2012

Statement of Directors Responsibility

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

As per 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, the prevention and detection of fraud and for the 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.

By order of the Board

A.M. Anura Perera
Company Secretary

06th March 2012

Audit Committee Report

Composition

The Audit Committee comprising Desamanya Devasiri Rodrigo (Chair) and Daham Wimalasena complied with SEC rules relating to independence, having at least one member with financial expertise and not having any Directors with executive responsibilities. Together they possessed relevant experience in the industry and in business.

Terms of Reference

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

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 core responsibility of the Committee. TOR also included evaluating the performance of the internal audit function and of the external auditors and oversight of the business risk identification, management and monitoring function.

1. Meeting the Goals

In fulfilling the TOR the committee held four meetings during the year.

The Committee had two meetings with the external auditors including one without the presence of any executive directors.

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 mitigation and management procedures implemented or to be implemented were discussed with the management to ensure that they were adequate to protect the company from reported risks.

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

The Committee also reviewed the year end financial statements prepared by the management in conformity with the requirements of the Companies Act No 7 of 2007, and the unaudited interim financial statements. 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 understanding of the Committee of the operating environment, results and strategic plans and budget of the company.

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

Appreciation

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

Sgd,
Devasiri Rodrigo
Chairman

Audit Committee

06th March 2012

Report of the Remuneration Committee

Remuneration Policy

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

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

The Remuneration Committee makes its comments and recommendations to the chairman and the regional office in Singapore for consideration.

The aggregate remuneration paid to Executive and Non-Executive Directors is given on page 46.

Sgd.
Daham Wimalasena
Chairman, Remuneration Committee

06th March 2012

Independent Auditor's Report

pwc

To the members of Chevron Lubricants Lanka PLC

Report on the Financial Statements

1 We have audited the accompanying financial statements of Chevron Lubricants Lanka PLC, which comprise the balance sheet as at 31 December 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements as set out on pages 42 to 56.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

4 In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2011 and the financial statements give a true and fair view of the Company's state of affairs as at 31 December 2011 and of its results and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers

CHARTERED ACCOUNTANTS

COLOMBO

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Partners **Y. Kanagasabai FCA, D.T.S.H. Mudalige FCA, C.S. Manoharan ACA, N.R. Gunasekera FCA, S. Gajendran FCA, Ms. S. Hadgie FCA, Ms. S. Perera ACA**

Income Statement

For the year ended 31st December	Note	2011 Rs.	2010 Rs.
Sales	4	**11,039,945,418**	9,471,256,226
Cost of sales		**(7,565,448,536)**	(6,426,102,922)
Gross profit		**3,474,496,882**	3,045,153,304
Other operating income	7	**31,176,114**	1,533,530
Distribution expenses		**(390,500,092)**	(405,517,363)
Administrative expenses		**(389,940,738)**	(373,740,034)
Operating profit	5	**2,725,232,166**	2,267,429,437
Finance income - net	8	**42,548,090**	66,520,994
Profit before tax		**2,767,780,256**	2,333,950,431
Tax	9	**(767,164,188)**	(832,676,236)
Net profit		**2,000,616,068**	1,501,274,195
Basic Earnings per Share	10	**16.67**	12.51

Notes on pages 42 to 56 form an integral part of these financial statements.
Report of the auditors on page 37.

Balance Sheet

For the year ended 31st December	Note	2011 Rs.	2010 Rs.
Non-current assets			
Property, plant and equipment	12(a)	**193,112,940**	220,338,258
Non-current receivables	13	**74,377,056**	55,690,710
Deferred tax assets	14	**5,204,729**	15,245,034
		272,694,725	291,274,002
Current assets			
Inventories	15	**1,870,032,279**	1,472,985,907
Receivables and prepayments	16	**1,199,131,514**	954,655,448
Cash and cash equivalents	17	**1,012,060,416**	656,149,934
		4,081,224,209	3,083,791,289
Total assets		**4,353,918,934**	3,375,065,291
Equity and liabilities			
Capital and reserves			
Stated capital	22	**600,000,000**	600,000,000
Retained earnings		**2,558,145,384**	1,637,529,316
		3,158,145,384	2,237,529,316
Non-current liabilities			
Defined benefit obligations	19	**101,769,102**	108,944,304
		101,769,102	108,944,304
Current liabilities			
Trade and other payables	18	**721,439,537**	659,381,161
Current tax liabilities		**372,564,911**	369,210,510
		1,094,004,448	1,028,591,671
Total liabilities		**1,195,773,550**	1,137,535,975
Total equity and liabilities		**4,353,918,934**	3,375,065,291

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

Erande De Silva
Manager - Finance and Planning

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 06th march 2012.

Kishu Gomes
Managing Director / Chief Executive Officer

A.M Anura Perera
Finance Director / Chief Financial Officer

Notes on pages 42 to 56 form an integral part of these financial statements.
Report of the auditors on page 37.

Statement of Changes in Equity

For the year ended 31st December	Notes	Stated capital	Retained earnings	Total
Balance at 1 January 2010		600,000,000	1,606,255,121	2,206,255,121
Dividends	11	Nil	(1,470,000,000)	(1,470,000,000)
Net profit		Nil	1,501,274,195	1,501,274,195
Balance at 31 December 2010		600,000,000	1,637,529,316	2,237,529,316
Balance at 1 January 2011		**600,000,000**	**1,637,529,316**	**2, 237,529,316**
Dividends	**11**	**Nil**	**(1,080,000,000)**	**(1,080,000,000)**
Net profit		**Nil**	**2,000,616,068**	**2,000,616,068**
Balance at 31 December 2011		**600,000,000**	**2,558,145,384**	**3,158,145,384**

Notes on pages 42 to 56 form an integral part of these financial statements.
Report of the auditors on page 37

Cash Flow Statement

For the year ended 31st December	Note	2011 Rs.	2010 Rs.
Operating activities			
Cash generated from operations	23	**2,128,600,669**	2,167,727,448
Interest received		**35,685,487**	79,788,977
Interest paid		**(1,461,100)**	(206,661)
Defined benefit obligation paid	19	**(25,005,726)**	(32,083,905)
Tax paid		**(753,769,482)**	(1,039,169,634)
Net cash generated from operating activities		**1,384,049,848**	1,176,056,225
Investing activities			
Purchase of property, plant and equipment	12(a)	**(20,793,501)**	(24,583,935)
Proceeds from disposal of property, plant and equipment		**12,654,135**	442,199
Net cash used in investing activities		**(8,139,366)**	(24,141,736)
Financing activities			
Dividends paid		**(1,020,000,000)**	(1,890,000,000)
Net cash used in financing activities		**(1,020,000,000)**	(1,890,000,000)
Increase / (decrease) in cash and cash equivalents		**355,910,482**	(738,085,511)
Movement in cash and cash equivalents			
At start of year		**656,149,934**	1,394,235,445
Increase / (decrease)		**355,910,482**	(738,085,511)
At end of year	17	**1,012,060,416**	656,149,934

Notes on pages 42 to 56 form an integral part of these financial statements.
Report of the auditors on page 37

Notes to the Financial Statements

1 General information

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

The Company has its primary listing on the Colombo Stock Exchange.

These financial statements have been approved for issue by the Board of Directors on 06th March 2012.

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

2.2 Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions: gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Such balances are translated at the rate prevailing on the balance sheet date.

2.3 Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation.

Self constructed assets

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.

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.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as 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 write off the cost of each asset, to their residual values over their estimated useful life commencing from the month following the month of acquisition or commencement of use. On disposal of assets depreciation is calculated inclusive of the month in which disposal takes place.

The principal annual rates used for this purpose are:

	%
Land improvements	5 - 18
Leasehold buildings	2.22 - 10
Storage tanks and pipe lines	6.25
Plant and machinery	6.25 - 18
Office furniture and equipment	10
Motor vehicles	10 - 20
Computers and software	16.67 - 33.33

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

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

Service station equipment is depreciated over the agreement period.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

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

2.4 Accounting for leases - where the Company is the lessee

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

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

2.5 Inventories

Inventories are stated at the lower of cost or 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.

2.6 Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

2.7 Cash and cash equivalents

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

2.8 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 embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.9 Defined benefit obligations

Typically, a defined benefit plan defines an amount of benefit that an employee will receive on retirement, which is usually dependent on one or more factors such as period of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit plans is the present value of defined benefit obligation at the balance sheet date together with adjustments for unrecognised gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of defined benefit obligation is determined by discounting the estimated future cash outflows using estimated long term interest rates.

The assumptions, based on which the results of the actuarial valuation were determined, are included in Note 19 to the financial statements.

2.10 Defined contribution plans

Contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

Notes to the Financial Statements continued

The Company contributes 15% to the Employees' Provident Fund and 3% to the Employees' Trust Fund.

2.11 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 provision of the Inland Revenue Act.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

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

2.12 Revenue recognition

Sales are recognised upon delivery of products and customer acceptance, if any, or performance of services, net of Value Added Taxes and discounts.

Other revenue earned by the Company is recognised on the following basis:

Interest income - as it accrues unless collectability is in doubt.

2.13 Financial risk management

The Company's activities expose it to variety of financial risks including credit risk, currency risk and interest rate risk. The Company's overall risk management programmes focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Management manage risks under policies approved by the Board of Directors.

2.14 Comparatives

Profit and loss on disposal of property, plant and equipment previously disclosed under administrative expenses are now shown under other operating income.

3 Critical accounting estimates, assumptions and judgments

"Estimates, assumptions 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."

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

3.1 Impairment of property plant and equipment

The Company reviews for impairment of property, plant and equipment in accordance with the Accounting Policy in Note 2.3. 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 on amount to exceed its recoverable amount.

3.2 Defined benefit obligations

The Company has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employees service in the current and prior years. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognised actuarial gains or losses and 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 that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the income statement in the period in which they arise.

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

For defined contribution plans, the Company pays contribution to publicly administered funds on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

It is expected that such actuarial valuations will be carried out once in a year. The principal assumptions made are given below (Note 19).

Notes to the Financial Statements continued

4 Sales

Sales are arrived at as follows:

	2011 Rs.	2010 Rs.
Gross sales	**12,300,102,353**	10,567,693,358
Taxes	**(1,260,156,935)**	(1,096,437,132)
Net sales	**11,039,945,418**	9,471,256,226

Taxes consist of Value Added Tax of Rs 1,260,156,935 (2010 - Rs 1,092,973,521) and Turnover Tax of Rs Nil (2010 - Rs 3,463,611).

5 Operating profit

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

	2011 Rs.	2010 Rs.
Directors' emoluments		
- executive	**29,834,489**	28,986,854
- non executive	**1,939,558**	2,823,272
Auditors' remuneration		
- audit	**1,374,956**	1,250,000
- non audit	**90,000**	90,000
Depreciation on property, plant and equipment [Note 12(a)]	**47,306,892**	63,046,919
(Reversal of) / provision for bad and doubtful debts	**(1,901,535)**	5,449,334
Property, plant and equipment written off	**513,112**	818,007
Repair and maintenance expenditure	**7,978,341**	2,857,715
Operating lease rentals		
- property	**39,539,115**	40,047,478
Staff costs (Note 6)	**185,555,508**	202,999,538

6 Staff costs

	2011 Rs.	2010 Rs.
Salaries and wages	**149,181,632**	159,524,402
Contribution to defined contribution plans	**18,543,352**	21,425,404
Contribution to defined benefit obligations (Note 19)	**17,830,524**	22,049,732
	185,555,508	202,999,538
Number of persons employed by the Company at year end		
Permanent employees	**82**	87
Contract employees	**Nil**	1
	82	88

7 Other operating income

	2011 Rs.	2010 Rs.
Scrap sales	**2,026,762**	1,552,499
Write back of over provision for defined benefit obligation	**9,044,540**	Nil
Write back of unidentified credit balances in debtors ledger	**7,649,492**	Nil
Profit / (loss) on disposal of property, plant and equipment	**12,455,320**	(18,969)
	31,176,114	1,533,530

8 Finance income - net

	2011 Rs.	2010 Rs.
Interest income	**35,685,487**	79,788,977
Net foreign exchange gain / (loss)	**8,323,703**	(13,061,322)
Interest expense on bank overdraft	**(1,461,100)**	(206,661)
	42,548,090	66,520,994

9 Tax

	2011 Rs.	2010 Rs.
Current tax	**757,453,919**	802,015,940
Deferred tax (Note 14)	**10,040,305**	31,463,071
Over provision for income tax in respect of previous years	**(330,036)**	(802,775)
	767,164,188	832,676,236

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:

Profit before tax	**2,767,780,256**	2,333,950,431
Tax calculated at a tax rate of 28% (2010 - 35%)	**774,978,472**	816,882,651
Effect of different tax rates	**(20,049,860)**	(16,979,928)
Social responsibility levy (2010 - 1.5%)	**Nil**	12,253,240
Income not subject to tax	**(4,419,036)**	(2,957,730)
Expenses not deductible for tax purpose	**16,984,648**	24,280,778
Over provision for income tax in respect of previous years	**(330,036)**	(802,775)
Tax charge	**767,164,188**	832,676,236

Notes to the Financial Statements continued

10 Earnings per share

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

	2011 Rs.	2010 Rs.
Net profit attributable to shareholders	**2,000,616,068**	1,501,274,195
Number of ordinary shares in issue 31 December	**120,000,000**	120,000,000
Basic earnings per share	**16.67**	12.51

11 Dividends

	2011 Rs.	2010 Rs.
Interim dividend of Rs 9.00 per share for 2011 (2010 - Rs 12.25 per share)	**1,080,000,000**	1,470,000,000

12 (a) Property, plant and equipment

	Land improvement	Leasehold buildings	Storage tanks	Plant and machinery	Office furniture and equipment	Motor vehicles	Computers	Capital work in progress	Total
At 31 December 2010									
Cost	8,613,637	63,451,326	86,111,133	233,158,212	153,889,216	55,684,146	40,666,326	7,017,765	648,591,761
Accumulated depreciation	(4,301,415)	(47,431,909)	(34,507,166)	(134,156,073)	(124,031,282)	(52,653,237)	(31,172,421)	Nil	(428,253,503)
Net book amount	**4,312,222**	**16,019,417**	**51,603,967**	**99,002,139**	**29,857,934**	**3,030,909**	**9,493,905**	**7,017,765**	**220,338,258**
Year ended 31 December 2011									
Opening net book amount	4,312,222	16,019,417	51,603,967	99,002,139	29,857,934	3,030,909	9,493,905	7,017,765	220,338,258
Additions	Nil	Nil	Nil	14,423,357	486,433	Nil	1,568,791	4,314,920	20,793,501
Transfers	Nil	Nil	Nil	2,977,960	Nil	Nil	4,039,805	(7,017,765)	Nil
Write offs at cost	Nil	(2,076,491)	(601,030)	(1,317,297)	(54,488,971)	Nil	(1,763,194)	Nil	(60,246,983)
Accumulated depreciation on write-offs	Nil	2,076,491	601,030	1,259,929	54,064,351	Nil	1,732,070	Nil	59,733,871
Disposals at cost	Nil	(1,980,728)	Nil	(436,212)	(620,240)	(22,984,978)	(8,573,441)	Nil	(34,595,599)
Accumulated depreciation on disposal	Nil	1,865,186	Nil	422,641	602,921	22,984,978	8,521,058	Nil	34,396,784
Depreciation charge (Note 5)	(619,922)	(4,408,744)	(5,716,607)	(15,314,931)	(15,320,778)	(1,719,109)	(4,206,801)	Nil	(47,306,892)
Closing net book amount	**3,692,300**	**11,495,131**	**45,887,360**	**101,017,586**	**14,581,650**	**1,311,800**	**10,812,193**	**4,314,920**	**193,112,940**
At 31 December 2011									
Cost	8,613,637	59,394,107	85,510,103	248,806,020	99,266,438	32,699,168	35,938,287	4,314,920	574,542,680
Accumulated depreciation	(4,921,337)	(47,898,976)	(39,622,743)	(147,788,434)	(84,684,788)	(31,387,368)	(25,126,094)	Nil	(381,429,740)
Net book amount	**3,692,300**	**11,495,131**	**45,887,360**	**101,017,586**	**14,581,650**	**1,311,800**	**10,812,193**	**4,314,920**	**193,112,940**

(b) Property, plant and equipment include fully depreciated assets, the cost of which at 31 December 2011 amounted to Rs 170,746,701 (2010 - Rs 139,138,439).

13 Non-current receivables

	2011 Rs.	2010 Rs.
Staff loans [refer (a) below]	**13,008,747**	11,822,113
Marketing support fee paid to service centre operators [refer (b) below]	**61,368,309**	43,868,597
	74,377,056	55,690,710

(a) Staff loans due at the balance sheet date represent loans given to staff at an interest rate of 4.2% (2010 - 4.2%) on fixed repayment terms and are unsecured. The current portion of the staff loan balance is included under other receivables.

(b) Marketing support payment 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 their 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 fee.

14 Deferred tax assets

Deferred tax assets are calculated on all temporary differences under the balance sheet liability method using an effective tax rate of 28% (2010 - 28%).

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

	2011 Rs.	2010 Rs.
At beginning of year	**15,245,034**	46,708,105
Income statement charge (Note 9)	**(10,040,305)**	(31,463,071)
At end of year	**5,204,729**	15,245,034

The temporary differences mainly arise from accelerated depreciation and defined benefit obligations.

15 Inventories

	2011 Rs.	2010 Rs.
Raw materials and consumables	**1,522,519,946**	1,080,814,827
Finished goods	**347,512,333**	392,171,080
	1,870,032,279	1,472,985,907

Raw material and consumables include goods in transit amounting to Rs 494,841 (2010 - Rs 31,493,059) and finished goods include goods in transit amounting to Rs Nil (2010 - Rs 8,629,816).

The cost of inventories recognised as expense and included in cost of sales amounted to Rs 7,390,892,398 (2010 - Rs 6,283,010,390).

Notes to the Financial Statements continued

16 Receivables and prepayments

	2011	2010
	Rs.	Rs.
Trade receivables [refer (a) overleaf]	**1,085,460,737**	848,763,547
Prepayments	**3,634,784**	3,477,887
Receivable from related companies [Note 24 (ii) (c)]	**15,404,635**	18,919,778
Other receivables [refer (b) overleaf]	**94,631,358**	83,494,236
	1,199,131,514	954,655,448

(a) Trade receivables are stated after deducting a provision for doubtful debts of Rs 13,567,298 (2010 - Rs 15,468,834).

(b) Other receivables mainly consist of Value Added Tax recoverable on raw material purchased of Rs 54,634,923 (2010 - Rs 37,651,169).

17 Cash and cash equivalents

	2011	2010
	Rs.	Rs.
Cash at bank and in hand	**352,440,431**	234,444,316
Short term deposits	**659,619,985**	421,705,618
	1,012,060,416	656,149,934

Short term deposits mainly consist of overnight repos and treasury bills.
The weighted average effective interest rate on short term deposits was 5.48% (2010 - 6.49%).

18 Trade and other payables

	2011	2010
	Rs.	Rs.
Trade payables	**109,246,130**	47,967,330
Payable to related companies [Note 24 (ii) (c)]	**99,277,500**	93,449,374
Accrued expenses [refer (a) below]	**57,833,639**	74,201,165
Other payables [refer (b) below]	**35,082,268**	83,763,292
Dividend payable	**420,000,000**	360,000,000
	721,439,537	659,381,161

(a) Accrued expenses include marketing support payments to service station operators amounting to Rs 7,321,045 (2010 - Rs 5,223,613), Corporate Social Responsibility expenses of Rs 6,020,798 (2010 - Rs Nil) and gratuity payable for employees who opted to retire under the Voluntary Retirement Scheme of Rs Nil (2010 - Rs 19,270,682).

(b) Other payables mainly consist of employee benefit expenses of Rs 20,883,477 (2010 - Rs 30,216,974).

19 Defined benefit obligations

	2011	2010
	Rs.	Rs.
Present value of unfunded obligation	**101,769,102**	108,944,304
Liability in the balance sheet	**101,769,102**	108,944,304

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

At 1 January	**108,944,304**	118,978,477
Current service cost	**8,631,422**	10,370,812
Interest cost	**9,199,102**	11,678,920
Actuarial gain	**Nil**	Nil
Benefits paid	**(25,005,726)**	(32,083,905)
At 31 December	**101,769,102**	108,944,304

The amounts recognised in the income statement are as follows:

Current service cost	**8,631,422**	10,370,812
Interest cost	**9,199,102**	11,678,920
Actuarial gain	**Nil**	Nil
Total included in the staff cost (Note 6)	**17,830,524**	22,049,732

The provision is not externally funded, but actuarially valued and the valuation was carried out by Messrs Towers Watson Philippines, Inc an independent actuary, using Projected Unit Method. The principal actuarial assumptions used were as follows:

	2011	2010
	Rs.	Rs.
Discount rate	9% compounded annually	9% compounded annually
Estimated salary increment rate	9% per year	9% per year
Withdrawal rate	5% per annum upto age 50 and 0% thereafter	5% per annum upto age 50 and 0% thereafter

Assumptions regarding future mortality experience are set in accordance with 1983 Group Annuity Mortality Table.

20 Contingent liabilities

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

Notes to the Financial Statements continued

21 Commitments

Capital commitments

There were no material capital commitments contracted for at the balance sheet date not recognised in the financial statements.

Financial commitments

The Company has entered into Service Level Agreement (SLA) with Chevron USA Inc. which governs the services offered by the Group companies and reimbursement cost incurred by the Group.

Operating lease commitments - where the Company is the lessee

The future minimum lease payments under cancellable operating leases and non-cancellable leases are as follows:

	2011	2010
	Rs.	Rs.
Cancellable		
Not later than one year	**16,500,000**	8,400,000
Later than 1 year and not later than 5 years	**53,488,370**	23,772,150
	69,988,370	32,172,150
Non-cancellable		
Not later than one year	**13,789,000**	16,578,864
Later than 1 year and not later than 5 years	**17,689,860**	41,447,160
	31,478,860	58,026,024

The lease agreement covering the land on which Blending Plant is located expires on 14th July 2014 with no provision for renewal thereafter.

22 Stated capital

	Number of shares	Value of shares
At 31 December 2010	**120,000,000**	600,000,000
At 31 December 2011	**120,000,000**	600,000,000

All issued shares are fully paid.

23 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2011	2010
	Rs.	Rs.
Profit before tax	**2,767,780,256**	2,333,950,431
Adjustments for:		
Depreciation [Note 12(a)]	**47,306,892**	63,046,919
Property, plant and equipment written off (Note 5)	**513,112**	818,007
(Profit) / loss on disposal of property, plant and equipment (Note 7)	**(12,455,320)**	18,969
Interest income (Note 8)	**(35,685,487)**	(79,788,977)
Interest expense (Note 8)	**1,461,100**	206,661
(Reversal of) / provision for bad and doubtful debts (Note 5)	**(1,901,535)**	5,449,334
Changes in working capital		
- trade and other receivables	**(261,260,877)**	(113,794,694)
- inventories	**(397,046,372)**	(44,464,844)
- payables	**2,058,376**	(19,764,090)
Defined benefit obligations (Note 19)	**17,830,524**	22,049,732
Cash generated from operations	**2,128,600,669**	2,167,727,448

24 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:

Mr Anura Perera, Mr Kishu Gomes and Mr Farrukh Saeed, directors of the Company, are also directors of Chevron Ceylon Limited, which is the immediate holding company.

Mr Kandiah Balendra has resigned as a director of the Company with effect from 17 January 2011.

Mr Farrukh Saeed was appointed as a director of the Company with effect from 31 December 2010.

The following transactions were carried out with the related companies.

Notes to the Financial Statements continued

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

(i) Reimbursable expenses incurred by Chevron Lubricants Lanka PLC

	2011	2010
	Rs.	Rs.
Chevron Ceylon Limited	**22,500**	1,457,805

(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) Sales of goods and services

	2011	2010
	Rs.	Rs.
Sales of goods:		
Fuel and Marine Marketing Limited	**20,923,833**	30,311,968
Chevron Thailand Limited	**71,893**	Nil
	20,995,726	30,311,968

(b) Purchases of goods and services

	2011	2010
Purchase of goods:		
Chevron Singapore (Private) Limited	**4,040,112,753**	3,242,453,034
Chevron Espana SA	**5,076,165**	2,291,641
Chevron Alkhalij	**12,761,830**	9,630,000
Chevron Thailand Limited	**187,849,532**	112,039,589
Chevron Oronite (Private) Limited	**473,262,167**	417,694,644
Chevron South Africa (Private) Limited	**20,858,905**	6,051,807
Chevron (Tianjin) Lubricants Company Limited	**12,553,821**	16,639,397
CUSA Global Lubricants Asia Pacific	**2,476,981**	1,614,191
Chevron Lubricants India (Private) Limited	**Nil**	Nil
	4,754,952,154	3,808,414,303

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

(b) Purchases of goods and services

	2011 Rs.	2010 Rs.
Purchases of services:		
Chevron International (Private) Limited	**1,143,395**	721,359
Chevron Holding Inc. Philippines	**7,546,052**	7,039,353
Chevron Texaco Information Technology Company	**50,532,429**	49,725,074
Chevron International Tech Centre (Private) Limited	**Nil**	577,075
Chevron Global Downstream Services	**76,391,387**	72,942,791
Chevron Business and Real Estate Services	**37,398**	814,015
Chevron Asia Pacific Regional Services	**136,376,477**	126,230,638
CUSA Project Olympic Branch	**37,175,170**	33,510,809
Chevron Belgium N.V	**732,853**	785,343
Chevron Pakistan Limited	**Nil**	672,538
Chevron Global Down Stream	**36,895**	98,626
Chevron Thailand Limited	**169,396**	Nil
Chevron International Services Limited	**203,396**	Nil
Chevron Lubricants Vietnam Limited	**116,065**	Nil
	310,460,913	293,117,621

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

Company receives services from Chevron Group Companies (CGCs) for which payments are made by Chevron Lubricants Lanka PLC. 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 finance. Company has entered into a service level agreement with Chevron USA Inc which governs the framework and terms and conditions for the service charges among Group Companies.

Purchases of goods and services during the year from related parties amounts to 160% (2010 - 183%) of net assets and 116% (2010 - 122%) of total assets at the end of the financial year.

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

	2011 Rs.	2010 Rs.
Receivable from related parties:		
Chevron Ceylon Limited	**Nil**	2,437,455
Chevron International (Private) Limited	**1,364,600**	149,521
Chevron Product Company	**492,575**	484,341
Chevron Marine Products LLC	**12,156,610**	14,545,784
Chevron Pipeline Company	**Nil**	1,302,677
Chevron Europe Eurasia & MidEast E&P	**1,390,850**	Nil
	15,404,635	18,919,778

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

	2011 Rs.	2010 Rs.
Payable to related parties:		
Chevron Ceylon Limited	**Nil**	Nil
Chevron Holdings Incorporation Philippines	**284,832**	1,024,614
Chevron Corporation	**Nil**	1,384,468
Chevron Singapore (Private) Limited	**505,446**	58,971
Chevron Oronite (Private) Limited	**42,468,050**	30,957,335
Chevron Information Technology Company	**14,637,618**	12,991,888
Chevron Africa-Pakistan Services	**2,872**	103,143
Chevron (Thailand) Limited	**8,713,519**	Nil
CUSA Global Lubricants Asia Pacific	**Nil**	5,488,684
Chevron South Africa (Private) Limited	**Nil**	3,932,175
Chevron Asia Pacific Regional Services	**18,930,516**	23,052,923
Chevron Business Real Estate Services	**8,271**	115,700
Chevron Texaco Global Downstream	**Nil**	15,301
Chevron Global Downstream Services	**6,844,098**	14,044,392
CUSA Project Olympic Branch	**6,417,511**	Nil
Chevron Belgium N.V	**145,305**	279,780
Chevron International Services Limited	**203,396**	Nil
Chevron Lubricants Vietnam Limited	**116,066**	Nil
	99,277,500	93,449,374 I

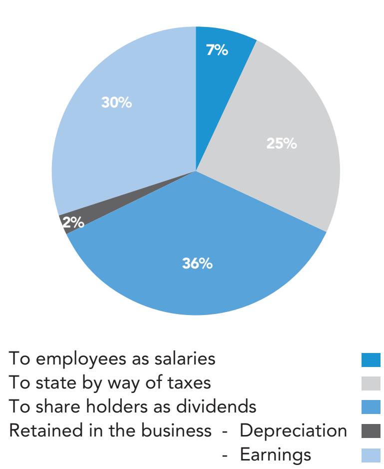
25 Post balance sheet events

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

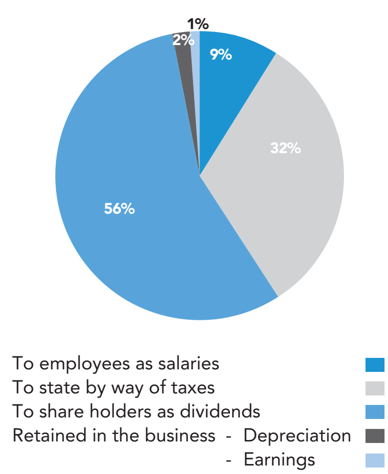
Statement of Value Added

	2011 Rs. million	2010 Rs. million
Value addition		
Turn Over	**11,040**	9,471
Finance Income	**42**	66
Less: Materials and services purchased	**8,052**	6,906
value created	**3,030**	2,631
Distribution of Value addition		
To employees as salaries	**215**	231
To state by way of taxes	**767**	836
To share holders as dividends	**1,080**	1,470
Retained in the business - Depreciation	**47**	63
- Earnings	**921**	31
	3,030	2,631

Statement of Value added -2011



Statement of Value Added -2010



Ten Years Summary

(in Rupees 000')		2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Trading Results											
Turnover		**11,039,945**	9,471,256	8,690,554	8,900,298	8,654,342	7,694,289	5,560,298	4,545,588	4,214,126	3,931,910
Profit before tax		**2,767,780**	2,333,950	2,344,370	1,482,962	1,658,252	1,245,924	994,004	892,071	1,185,809	1,217,788
Taxation		**767,164**	832,676	849,465	535,240	579,893	439,191	293,508	245,274	352,079	406,118
Profit after tax		**2,000,616**	1,501,274	1,494,905	947,722	1,078,359	806,733	700,496	646,797	833,730	811,670
Balance Sheet											
Stated Capital/Share Capital		**600,000**	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	300,000
Reserves		**2,558,145**	1,637,529	1,606,255	1,551,350	1,233,627	905,269	668,535	616,123	2,009,326	2,165,596
Shareholders funds		**3,158,145**	2,237,529	2,206,255	2,151,350	1,833,627	1,505,269	1,268,535	1,216,123	2,609,326	2,465,596
Property, Plant & Equipment		**193,113**	220,338	260,080	325,608	387,869	420,828	426,424	468,377	449,985	483,442
Current & Non Current Assets		**4,160,805**	3,154,727	3,771,466	2,846,258	2,483,180	2,125,702	2,082,317	1,669,446	3,401,436	3,035,793
Current Liabilities		**1,094,004**	1,028,591	1,706,313	927,828	938,389	932,817	1,101,357	777,179	1,100,999	913,242
Non Current Liabilities		**101,769**	108,945	118,978	92,688	99,032	108,445	138,849	144,521	141,096	140,397
Net Assets		**3,158,145**	2,237,529	2,206,255	2,151,350	1,833,627	1,505,269	1,268,535	1,216,123	2,609,326	2,465,596
Key Indicators											
Gross Dividends	Rs. 000'	**1,080,000**	1,470,000	1,440,000	630,000	750,000	570,000	585,000	2,040,000	690,000	369,000
Dividend per Share	Rupees	**9.00**	12.25	12.00	10.50	12.50	9.50	9.75	34.00	11.50	6.15
Price Earnings Ratio	Times	**10.20**	12.75	11.38	11.65	9.49	12.64	9.94	11.83	10.29	4.45
Market value per share as at 31st December	Rupees	**170.00**	159.50	141.75	92.00	85.25	85.00	58.00	63.75	71.50	120.50
Return on Equity	%	**74**	68	69	48	65	58	56	34	33	37
Net Assets per Share	Rupees	**26.32**	18.65	18.39	17.93	15.28	12.54	10.57	10.13	21.74	20.55
Net Income to Turnover	%	**18**	16	17	11	12	10	13	14	20	21
Earnings per Share	Rupees	**16.67**	12.51	12.46	7.90	8.99	6.72	5.84	5.39	6.95	6.76

Shareholder Information

Shareholders categorised summary report as at 31st December 2011

No of Shares held	No of Shareholders	No of Shareholders %	Total Holdings	Total Holdings %
1 - 1000	1,984	58.05	781,163	0.65
1001 - 10,000	1,106	32.36	4,012,242	3.34
10,001 - 100,000	271	7.93	8,103,495	6.75
100,001 - 1,000,000	47	1.38	14,455,100	12.05
1,000,001 & over	10	0.29	92,648,000	77.21
Total	3,418	100.00	120,000,000	100.00

Analysis report of Shareholders as at 31st December 2011

	No of Shareholders	No of Shareholders %	Total Holdings	Total Holdings %
Individual	3,194	93.45	14,301,784	11.92
Institutional	224	6.55	105,698,216	88.08
Total	3,418	100.00	120,000,000	100.00
Resident	3,305	96.69	92,445,000	77.04
Non- Resident	113	3.31	27,555,000	22.96
Total	3,418	100.00	120,000,000	100.00
Public Holding			58,799,600	48.99%

Share Price movements	Closing	Highest	Lowest
Market value of share in 1996	50.00	50.00	40.00
Market value of share in 1997	46.00	64.50	35.00
Market value of share in 1998	62.75	70.00	57.00
Market value of share in 1999	75.00	75.00	55.25
Market value of share in 2000	50.00	68.00	45.00
Market value of share in 2001	75.00	88.00	54.50
Market value of share in 2002	120.50	124.00	72.00
Market value of share in 2003	71.50	227.00	69.00
Market value of share in 2004	63.75	110.00	54.50
Market value of share in 2005	58.00	74.00	52.25
Market value of share in 2007	85.25	97.50	76.00
Market value of share in 2008	92.00	118.25	81.75
Market value of share in 2009	141.75	233.00	93.00
Market value of share in 2010	159.50	193.75	141.00
Market value of share in 2011	170.00	183.00	152.00

Shareholder Information

20 Largest Shareholders

as at 31st December 2011		
Name of Shareholder	**Number of Shares**	**%**
Chevron Ceylon Limited	61,200,000	51.00
HSBC International Nominees Ltd-BPSS Lux -Aberdeen Global Asia Smaller Comp	10,629,700	8.86
HSBC International Nominees Ltd-BPSS Lux -Aberdeen Global- EME	4,563,700	3.80
HSBC International Nominees Ltd-BP2S London -Aberdeen Asia Smaller Comp	3,580,800	2.98
Caceis Bank Luxembourg S/A Barca Global Master Fund LP	3,414,600	2.85
Employees Provident Fund	3,310,800	2.76
Cargo Boat Development Company Limited	2,000,000	1.67
Renuka Hotels Limited	1,400,000	1.17
National Savings Bank	1,276,200	1.06
Bank of Ceylon No 1 Account	1,272,200	1.06
Crescent Launderers & Dry Cleaners (Pvt) Ltd	1,000,000	0.83
Mellon Bank N.A.- Florida Retirement system	770,000	0.64
AVIVA NDB Insurance PLC A/C No 07	704,800	0.59
Danske Bank A/S	650,000	0.54
DFCC Bank- Account No 1	609,400	0.51
DBIL-Danske invest-Global Emerging Markrts Small Cap	600,000	0.50
Employees Trust Fund Board	549,200	0.46
Freudenberg Shipping Agencies Limited	509,000	0.42
Northern Trust CO S/A the Royal Bank of Scotland as Trustee	500,000	0.42
Mr. Mahipala Udabage	476,500	0.40
	99,016,900	82.51

as at 31st December 2010		
Name of Shareholder	**Number of Shares**	**%**
Chevron Ceylon Limited	61,200,000	51.00
HSBC International Nominees Ltd-BPSS Lux -Aberdeen Global Asia Smaller Comp	11,869,200	9.89
HSBC International Nominees Ltd-BP2S London -Aberdeen Asia Smaller Comp	3,580,800	2.98
Caceis Bank Luxembourg S/A Barca Global Master Fund LP	3,414,600	2.85
Employees Provident Fund	3,091,200	2.58
HSBC International Nominees Ltd-BPSS Lux -Aberdeen Global- EME	2,300,000	1.92
Cargo Boat Development Company Limited	2,000,000	1.67
Renuka Hotels Limited	1,400,000	1.17
National Savings Bank	1,276,200	1.06
Employees Trust Fund Board	1,179,200	0.98
Crescent Launderers & Dry Cleaners (Pvt) Ltd	1,000,000	0.83
Mellon Bank N.A.- Florida Retirement system	770,000	0.64
Bank of Ceylon No 1 Account	768,200	0.64
AVIVA NDB Insurance PLC A/C No 07	692,500	0.58
DFCC Bank- Account No 1	609,400	0.51
Freudenberg Shipping Agencies Limited	525,000	0.44
Northern Trust CO S/A the Royal Bank of Scotland as Trustee	500,000	0.42
Danske Bank A/S	500,000	0.42
Bartlee Financial Services Limited	500,000	0.42
Mr. Mahipala Udabage	476,500	0.40
	97,652,800	81.40

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Nineteenth Annual General Meeting of Chevron Lubricants Lanka PLC will be held on Tuesday, 3rd April 2012 at 3.30p.m. at the Sri Lanka Institute of Tourism & Hotel Management auditorium, 78, Galle Road, Colombo 3 for the following purposes.

- To receive and consider the Report of the Directors with the statement of accounts for the year ended 31.12.2011 and the Report of the Auditors thereon.
- To re-elect Mr. Rob Otteson, a Director who retires by rotation in terms of Clause 84 of the Articles of the Company.
- To re-appoint Mr. Daham Wimalasena, who retires in terms of Article 83(viii) of the Articles of Association of the Company, as a Director. As Mr. Wimalasena is over 70 years, Special Notice has been received from a shareholder of the intention to pass a Resolution which is set out below in relation to his re-appointment. (see Note No: 2 below).
- To reappoint Messrs. Pricewaterhouse Coopers as Auditors and to authorise the Directors to determine their remuneration.
- To authorize the Directors to determine & make donations.
- To consider any other business of which due notice has been given.

By Order of the Board

A.M. Anura Perera
Secretary

Colombo
6th March 2012

Note:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him.
2. Special Notice was received by the Company from a shareholder giving notice of his intention to move the following Resolution at the Annual General Meeting:

   "Resolved that Mr. Daham Wimalasena a Director of the Company, who is 74 years, be and is hereby re-appointed a Director of the Company and it is further specifically declared that the age limit of 70 years referred to in Section 210 of the Companies Act No: 7 of 2007 shall not apply to the said Director, Mr. Daham Wimalasena."
3. A proxy need not be a member of the Company. The form of proxy is attached herewith.
4. The Completed form of proxy should be deposited at the Registered Office of the Company at Chevron House 490, Galle Road, Colombo 3 not less than 48 hours before the time appointed for the holding of the meeting.

Notes

Form of Proxy

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

....

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

Farrukh Saeed	whom failing
Honnantharage Kishu Pradeep Kumara Gomes	whom failing
Robert Lloyd Otteson	whom failing
Daham Wimalasena	whom failing
Parakrama Devasiri Rodrigo	whom failing
Adikarige Mervin Anura Perera	whom failing

....

of ....

as my / our proxy to represent me / us and to vote as indicated hereunder for me / us and on my / our behalf at the Nineteenth Annual General Meeting of Chevron Lubricants Lanka PLC to be held on Tuesday, 3rd April 2012 at 3.30 p.m. at the Sri Lanka Institute of Tourism & Hotel Management auditorium, 78, Galle Road, Colombo 3 and at any adjournment thereof and at every poll which may be taken in consequence thereof :

	FOR	AGAINST
1. To receive and adopt the Report of the Directors and the Statement of Accounts for the year ended 31st December 2011 with the Report of Auditors thereon.	☐	☐
2. To re-elect Mr. Rob Otteson who retires by rotation, a Director.	☐	☐
3. To re-appoint Mr. Daham Wimalasena, who retires in terms of Article 83 (viii)of the Articles of Association of the Company, a Director. As Mr. Wimalasena is over 70 years, Special Notice has been received from a shareholder of the intention to pass a Resolution which is set out in the notice of meeting.	☐	☐
4. To authorize the Directors to determine & make donations.	☐	☐
5. To reappoint Messrs Pricewaterhouse Coopers as Auditors and to authorise the Directors to determine their remuneration.	☐	☐

Signed this ....day of...........2012 Signature ....

NOTES:

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

INSTRUCTIONS AS TO COMPLETION

1. Please perfect the Form of Proxy overleaf, after filling in legibly your full name and address and by signing in the space provided and filling in the date of signature.

2. If the shareholder is a Company or Corporate body, the proxy should be executed under its Common Seal in accordance with its Articles of Association or Constitution.

3. If the Form of Proxy has been signed by an attorney, the relative Power of Attorney should also accompany the Form of Proxy for registration, if such Power of Attorney has not already been registered with the company.

4. The Completed Form of Proxy should be deposited at the Registered Office of the Company, located at Chevron House, 490, Galle Road, Colombo 3, 48 hours prior to the time appointed for the holding of the meeting.

Corporate Information

Legal Form	:	A Public Limited Liability Company (Incorporated in 1992 and listed on the Colombo Stock Exchange)
Directors	:	Farrukh Saeed - Chairman Kishu Gomes- Managing Director & CEO Robert L Otteson Daham Wimalasena Deva Rodrigo Anura Perera
Secretary	:	Anura Perera Chevron House, 490, Galle Road, Colombo 3
Registered Office	:	Chevron House 490, Galle Road, Colombo 03 Tel:0114524524
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
Principal Bankers	:	Citibank NA Deutsche Bank Standard Chartered Bank Commercial Bank of Ceylon PLC
Web Address	:	www.chevron.lk
Email	:	contactus@chevron.com
Telephone	:	0114524524
Facsimile	:	0114524566

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Chevron House
490, Galle Road, Colombo 03, Sri Lanka.