# LANKA IOC PLC

# FINANCIAL STATEMENTS - 31 MARCH 2022

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# LANKA IOC PLC

## FINANCIAL STATEMENTS - 31 MARCH 2022

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# *Independent auditor's report*

To the Shareholders of Lanka IOC PLC

## *Report on the audit of the financial statements*

### *Our opinion*

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Lanka IOC PLC ("the Company") as at 31 March 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### What we have audited

The Company's financial statements comprise:
- the statement of financial position as at 31 March 2022;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

### *Basis for opinion*

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

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

#### Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka ("CA Sri Lanka Code of Ethics"). We have fulfilled our other ethical responsibilities in accordance with the CA Sri Lanka Code of Ethics.

#### Key audit matters

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

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# Independent auditor's report

To the Shareholders of Lanka IOC PLC (Contd.)

## Report on the audit of the financial statements (Contd.)

**Key audit matters**

| Key audit matter | How our audit addressed the Key audit matter |
|---|---|
| **Revenue recognition**<br><br>The Company's revenue consists of sale of petroleum products. Due to the magnitude of revenue reported, we assessed that a higher risk is associated with revenue recognition and measurement.<br><br>Accordingly, the recognition and measurement of revenue was considered a Key Audit Matter. | Our audit procedures which included, amongst others, the following:<br><br>a) Reviewed the revenue recognition policy applied by the Company and its compliance with SLFRS 15 Revenue from Contracts with Customers.<br><br>b) Tested the effectiveness of relevant controls over revenue recognition.<br><br>c) Performed cut off procedures to ensure that the sales are recorded in proper accounting period.<br><br>d) Performed test of details on the revenue generated through the period by checking original source documents.<br><br>e) Reviewed the credit notes issued before and after the period end to ensure sales were recorded in the correct accounting period.<br><br>f) Assessed the reasonableness of selling price for key products by comparing average price per unit derived by dividing product wise monthly revenue by quantity sold with respective approved sales prices for the period.<br><br>g) Assessed the adequacy of related disclosures on revenue in the financial statements with reference to the disclosure requirements given in SLFRS 15. |

### *Other information*

Management is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended 31 March 2022 ("the Annual Report") but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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# Independent auditor's report

To the Shareholders of Lanka IOC PLC (Contd.)

## Report on the audit of the financial statements (Contd.)

### Other matter

The financial statements of the Company for the year ended 31 March 2021 were audited by another firm of auditors whose report, dated 10 May 2021, expressed an unmodified opinion on those statements.

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

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

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

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

### Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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# *Independent auditor's report*

To the Shareholders of Lanka IOC PLC (Contd.)

## *Report on the audit of the financial statements (Contd.)*

### *Auditor's responsibilities for the audit of the financial statements (Contd.)*

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

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

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

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

## *Report on other legal and regulatory requirements*

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

**CHARTERED ACCOUNTANTS**
**CA Sri Lanka membership number 2857**
**Colombo**
**Sri Lanka**

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Colombo

**Date:** 29 April 2022

Lanka IOC PLC

# STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2022

| | Note | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|---|
| Revenue from Contracts with Customers | 3 | 89,951,223 | 66,685,892 |
| Cost of Sales | | (81,106,644) | (63,572,855) |
| **Gross Profit** | | 8,844,579 | 3,113,037 |
| Other Operating Income | 4 | 115,819 | 252,430 |
| Administrative Expenses | | (1,638,789) | (1,400,609) |
| Selling and Distribution Expenses | | (1,911,931) | (1,803,430) |
| **Operating Profit** | | 5,409,678 | 161,428 |
| Finance Income | 5.1 | 1,364,149 | 1,302,596 |
| Finance Expenses | 5.2 | (1,162,155) | (476,276) |
| **Profit Before Tax** | 6 | 5,611,672 | 987,748 |
| Income Tax | 7.1 | (793,217) | (105,114) |
| **Profit for the Year** | | 4,818,455 | 882,634 |
| **Other Comprehensive Income /(Loss)** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Actuarial Loss on Defined Benefit Obligations | 8.3 | (4,224) | (6,882) |
| Income Tax on Other Comprehensive Loss | 9.2 | 634 | 1,032 |
| Other Comprehensive Loss for the Year, Net of Tax | | (3,590) | (5,850) |
| **Total Comprehensive Income for the Year, Net of Tax** | | 4,814,865 | 876,784 |
| **Earnings Per Share/Diluted Earnings Per Share** | 10 | 9.05 | 1.66 |

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The accounting policies and notes on pages 09 through 51 form an integral part of the Financial Statements.

Lanka IOC PLC

# STATEMENT OF FINANCIAL POSITION

As at 31 March 2022

| | Note | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non Current Assets** | | | |
| Property, Plant and Equipment | 11 | 3,856,924 | 4,019,364 |
| Investment | 12 | 4,443,000 | 4,394,000 |
| Intangible Assets | 13 | 673,876 | 674,376 |
| Right -of-use Assets | 14.1 | 80,146 | 62,565 |
| Other Receivables at Amortized Cost | 17.2 | 141,700 | 118,675 |
| Bank Deposits | 22.3 | 1,461,896 | 10,222,477 |
| Deferred Tax Asset (Net) | 9.1 | - | 261,416 |
| | | 10,657,542 | 19,752,873 |
| **Current Assets** | | | |
| Inventories | 15 | 27,257,032 | 9,625,050 |
| Trade Receivables | 16 | 3,965,382 | 2,585,212 |
| Other Receivables at Amortized Cost | 17.1 & 17.3 | 667,182 | 1,707,035 |
| Other Current Assets | 18 | 107,950 | 78,902 |
| Income Tax Receivables | | - | 18,173 |
| Short Term Investments | 22.2 | 19,891,773 | 12,040,810 |
| Cash and Bank Balances | 19.1 | 2,523,749 | 598,950 |
| | | 54,413,068 | 26,654,132 |
| **Total Assets** | | 65,070,610 | 46,407,005 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and Reserves** | | | |
| Stated Capital | 20 | 7,576,574 | 7,576,574 |
| Retained Earnings | | 16,709,340 | 12,347,070 |
| **Total Equity** | | 24,285,914 | 19,923,644 |
| **Non Current Liabilities** | | | |
| Defined Benefit Obligation (Net) | 8.2 | 11,532 | 13,692 |
| Deferred Tax Liabilities | 9.1 | 380,489 | - |
| Lease Liabilities | 14.2 | 45,782 | 38,205 |
| | | 437,803 | 51,897 |
| **Current Liabilities** | | | |
| Trade and Other Payables | 21 | 14,504,470 | 5,808,435 |
| Lease Liabilities | 14.2 | 41,955 | 33,476 |
| Interest Bearing Borrowings | 22.1 | 25,778,225 | 20,589,553 |
| Income Tax Payable | | 22,243 | - |
| | | 40,346,893 | 26,431,464 |
| **Total Equity and Liabilities** | | 65,070,610 | 46,407,005 |

I certify, these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

Senior Vice President (Finance)

PricewaterhouseCoopers

The Board of Directors is responsible for these Financial Statements. Signed for and on behalf of the Board by;

29 April 2022

Director

Director

The accounting policies and notes on pages 09 through 51 form an integral part of the Financial Statements.

Lanka IOC PLC

# STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2022

| | Note | Stated Capital Rs '000 | Retained Earnings Rs '000 | Total Rs '000 |
|---|---|---|---|---|
| **As at 1 April 2020** | | 7,576,574 | 11,869,635 | 19,446,209 |
| Dividends Paid | 27 | - | (399,349) | (399,349) |
| Profit for the Year | | - | 882,634 | 882,634 |
| Other Comprehensive Loss | | - | (5,850) | (5,850) |
| **As at 31 March 2021** | | 7,576,574 | 12,347,070 | 19,923,644 |
| Dividends Paid | 27 | - | (452,595) | (452,595) |
| Profit for the Year | | - | 4,818,455 | 4,818,455 |
| Other Comprehensive Loss | | - | (3,590) | (3,590) |
| **As at 31 March 2022** | | 7,576,574 | 16,709,340 | 24,285,914 |

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The accounting policies and notes on pages 09 through 51 form an integral part of the Financial Statements.

Lanka IOC PLC

# STATEMENT OF CASH FLOWS

Year ended 31 March 2022

| | Note | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|---|
| **Cash Flows From/(Used in) Operating Activities** | | | |
| Profit before Income Tax Expense | | 5,611,672 | 987,748 |
| **Adjustments for** | | | |
| Finance Income | 5.1 | (1,364,149) | (1,302,596) |
| Finance Expenses | 5.2 | 1,162,155 | 476,276 |
| Dividends Income | 4 | - | (120,000) |
| Gain on disposal of property, Plant and Equipment | 4 | (25,180) | (3,317) |
| Defined Benefit Plan Cost | 8.3 | 5,480 | 5,701 |
| Depreciation | 11.2 | 421,509 | 402,889 |
| Amortisation of Intangible Asset | 13.2 | 500 | 500 |
| Amortisation Right-of- use Assets | 14.1 | 31,528 | 32,275 |
| Lease Interest - Right of - use Assets | 14.2 | 8,283 | 9,957 |
| Exchange Loss on borrowing | | 1,198,085 | 125,703 |
| **Operating Profit/(Loss) before Working Capital Changes** | | 7,049,883 | 615,136 |
| (Increase)/ Decrease in Inventories | | (17,631,982) | 3,670,267 |
| Increase in Trade receivable, Other Receivables and Other Current Assets | | (392,390) | (384,708) |
| Increase in Trade and Other Payables | | 8,696,035 | 2,557,772 |
| **Cash Generated (Used in)/From Operations** | | (2,278,454) | 6,458,467 |
| Income Tax | | (163,485) | (13,798) |
| Finance Expenses | 5.2 | (1,162,155) | (476,276) |
| Defined Benefit Paid | | (17,927) | (7,639) |
| **Net Cash Flows From Operating Activities** | | (3,622,021) | 5,960,754 |
| **Cash Flows from Investing Activities** | | | |
| Finance Income | | 1,364,149 | 1,302,596 |
| Dividends Income | | - | 120,000 |
| Acquisition of Property, Plant and Equipment | 11.1 | (265,308) | (309,659) |
| Proceeds from Property, Plant and Equipment | | 31,418 | 3,928 |
| Net Withdrawal/(Investment) in Gratuity Fund | | 10,286 | (1,128) |
| Withdrawal/(Investment) in Bank Deposits | | 8,760,581 | (10,222,477) |
| Withdrawal/(Investment) in Short Term Investments | | (7,850,963) | 619,678 |
| **Net Cash Flows From/(Used in) Investing Activities** | | 2,050,163 | (8,487,062) |
| **Cash Flows From Financing Activities** | | | |
| Proceed from Interest bearing borrowings | | 105,575,340 | 55,863,217 |
| Repayments of Interest bearing borrowings | | (101,584,753) | (52,353,939) |
| Dividends Paid | | (452,595) | (399,349) |
| Payment of Lease Creditor | 14.2 | (41,335) | (36,004) |
| **Net Cash Flows From Financing Activities** | | 3,496,657 | 3,073,925 |
| **Net Increase / (Decrease) in Cash and Cash Equivalents** | | 1,924,799 | 547,617 |
| Cash and Cash Equivalents at the Beginning of the Year | | 598,950 | 51,333 |
| **Cash and Cash Equivalents at the End of the Year** | 19.1 | 2,523,749 | 598,950 |

**ANALYSIS OF CASH AND CASH EQUIVALENTS**

| | | |
|---|---|---|
| Cash in Hand and at Bank | 2,523,749 | 598,950 |
| | 2,523,749 | 598,950 |

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For the details on reclassification of cash flow statement please refer note 2.8

The accounting policies and notes on pages 09 through 51 form an integral part of the Financial Statements.

## 1. CORPORATE INFORMATION

### 1.1 General

Lanka IOC PLC ("Company") is a Public Quoted Company with limited liability incorporated and domiciled in Sri Lanka. The registered office of the Company is located at Level 20, West Tower, World Trade Centre, Echelon Square, Colombo 01.

### 1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were importing, selling and distribution of petroleum products

The Company has been granted a Petroleum Products License by the Minister of Power and Energy which gives authority to import, export, store, transport, distribute, sell and supply petrol, auto diesel, heavy diesel (industrial diesel), furnace oil and kerosene, naphtha and other mineral petroleum including premium petrol and premium diesel but excluding aviation fuel and liquid petroleum gas. The license is valid for a period of 20 years from 22 January 2004 and renewable thereafter.

### 1.3 Parent Entity and Ultimate Controlling Party

The Company's immediate and ultimate parent enterprise is Indian Oil Corporation Limited headquartered in India and ultimate controlling party is Government of India.

### 1.4 Date of Authorization for Issue

The Financial Statements of Lanka IOC PLC for the year ended 31 March 2022 was authorized for issue in accordance with a resolution of the Board of Directors on 29th April 2022.

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## 2. BASIS OF PREPARATION

### 2.1 Statement of Compliance

The financial statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards comprising of SLFRS and LKAS (hereafter referred as "SLFRS") as issued by the Institute of Chartered Accountants of Sri Lanka.

The preparation and presentation of these Financial Statements are in compliance with the Companies Act No. 07 of 2007.

### 2.2 Basis of Measurement

The financial statements have been prepared on a historical cost basis, except for defined benefit obligation and investment in unit trust which is measured at present value of the obligation and at fair value respectively.

### 2.3 Functional and Presentation Currency

These Financial Statements are presented in Sri Lankan Rupees, which is the functional currency of the Company. All values are rounded to the nearest rupees thousand (Rs '000) except when otherwise indicated.

### 2.4 Going Concern

The Company's Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future with no interruptions or curtailment of operations. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Financial Statements are prepared on the going concern basis.

### 2.5 Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:
• Expected to be realised or intended to be sold or consumed in the normal operating cycle
• Held primarily for the purpose of trading
• Expected to be realised within twelve months after the reporting period
Or
• Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:
• It is expected to be settled in the normal operating cycle
• It is held primarily for the purpose of trading
• It is due to be settled within twelve months after the reporting period
Or
•It does not have a right at reporting date to defer the settlement of the liability by transfer of cash or other assets for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

## 2. BASIS OF PREPARATION (Contd...)

### 2.6 Segment Reporting

Company is dealing only in the Petroleum products. There are no separate activities other than the petroleum segment in the Company.

### 2.7 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous year.

### 2.8 Comparative Information

The presentation and classification of the financial statements of the previous years have been amended, where relevant including the following for better presentation and to be comparable with those of the current year. A summary of such changes are as follows:

Statement of cash flows for the year ended 31 March 2021:

| | As reported previously | Reclassifications | Current presentation |
|---|---|---|---|
| ANALYSIS OF CASH AND CASH EQUIVALENTS: | | | |
| Cash and Cash Equivalents at the End of the Year [See Note (a) below] | 12,639,760 | (12,040,810) | 598,950 |
| | **12,639,760** | **(12,040,810)** | **598,950** |

(a) As per the comparative year presentation of Statement of cash flows, cash and cash equivalents at the end of the year included the short-term investments which was not considered as a part of cash and cash equivalents. Therefore, the short term investments have been excluded from the cash and cash equivalents at the end of the year.

For the details on cash flow please refer Cash Flow Statement on page 8.

### 2.9 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements requires the application of certain critical accounting estimates and assumptions relative to the future. Further, it requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Other disclosures relating to the Company's exposure to risks and uncertainties includes:

- Capital management Note 28.5
- Financial instruments risk management and policies Note 28
- Sensitivity analyses disclosures Notes 8 and 28.

**2. BASIS OF PREPARATION (Contd…)**

**2.9 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Contd…)**

**2.9.1 Critical Judgments in Applying the Accounting Policies**

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the Financial Statements.

***a) Investment in Ceylon Petroleum Storage Terminal Limited***

The Company owns a 33 1/3% of stake in Ceylon Petroleum Storage Terminal Limited. The management has decided to carry the investment at cost on the grounds that the Company has no significant influence on the financial and operating decisions of Ceylon Petroleum Storage Terminal Limited due to the government influence and the sensitivity of the industry towards the national economy. Further information is disclosed in Note 12.1

***b) Investment in Trinco Petroleum Terminal (Pvt) Limited***

The Company owns a 49% of stake in Trinco Petroleum Terminal (Pvt) Limited. The management has decided to carry the investment at cost on the grounds that the Company has no significant influence on the financial and operating decisions of Trinco Petroleum Terminal (Pvt) Limited due to the government influence and the sensitivity of the industry towards the national economy. Further information is disclosed in Note 12.2.

***c) Critical judgements in determining the lease term***

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

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

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate);
- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate), and
- Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset;

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

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

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

**2. BASIS OF PREPARATION (Contd...)**

**2.9 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Contd...)**

**2.9.2 Estimates and Assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

***a) Estimation of net realizable value for inventory***

Inventory disclosed in Note 15 is stated at the lower of cost and net realizable value (NRV). NRV is assessed with reference to market conditions and prices existing at the reporting date and in the light of recent market transactions.

***b) Impairment losses on Trade Receivables***

The Company reviews its individually significant receivables at each reporting date to assess whether an impairment loss should be recorded in the Statement of Comprehensive income. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

In accordance with SLFRS 9, the Company applies Expected Credit Loss (ECL) model for measurement and recognition of impairment loss on the Trade Receivables.

**Simplified Approach**

The Company follows 'simplified approach' for recognition of impairment loss allowance on Trade receivables. The application of simplified approach does not require the Company to track changes in credit risk. Rather, it recognizes impairment loss allowance based on lifetime ECLs at each reporting date, right from its initial recognition. As a practical expedient, the Company uses a provision matrix to determine impairment loss allowance on portfolio of its trade receivables. The provision matrix is based on its historically observed default rates over the expected life of the trade receivables and is adjusted for forward looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. On that basis, the Company estimates provision on trade receivables at the reporting date. ECL impairment loss allowance (or reversal) recognized during the period is recognized as income/ expense.

The impairment loss on Trade Receivables is disclosed in Notes 16.

***c) Defined Benefit Obligations***

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

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

Other key assumptions for gratuity obligations are based in part on current market conditions; additional information is disclosed in Note 8.

## 2. BASIS OF PREPARATION (Contd...)

### 2.9 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Contd...)

#### 2.9.2 Estimates and Assumptions (Contd...)

*d) Impairment of non-financial assets*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. Further information is disclosed in Note 13.

*e) Estimation of Useful Lives of Property, Plant and Equipment*

The Company reviews annually the estimated useful lives of Property, Plant and Equipment disclosed in Note 11 based on factors such as business plan and strategies, expected level of usage and future developments. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of Property, Plant and Equipment would increase the recorded depreciation charge and decrease the Property, Plant and Equipment balance.

### 2.10 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.10.1 Foreign Currency Translation

The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### 2.10.2 Revenue Recognition

Sales are recognised when the performance obligation is satisfied, being when the products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Goods and services deliverable under contracts with customers are identified as separate performance obligations ('obligations') to the extent that the customer can benefit from the goods or services on their own or together with other resources that are readily available to the customer and that the separate goods and services are considered distinct from other goods and services in the agreement. Where individual goods and services do not meet the criteria to be identified as separate obligations they are aggregated with other goods and/or services in the agreement until a separate obligation is identified.

The Company determines the transaction price to which it expects to be entitled to in return for providing the promised obligations to the customer based on the committed contractual amounts, net of sales taxes and discounts. The transaction price is allocated between the identified obligations according to the relative standalone selling prices of the obligations. The standalone selling price of each obligation deliverable in the contract is determined according to the prices that the Company would achieve by selling the same goods and / or services included in the obligation to a similar customer on a standalone basis. Where the Company does not sell equivalent goods or services in similar circumstances on a standalone basis it is necessary to estimate the

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**2. BASIS OF PREPARATION (Contd...)**

**2.10 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd...)**

**2.10.2 Revenue Recognition (Contd...)**

standalone price. When estimating the standalone price, the Company maximises the use of external input; observing the standalone prices for similar goods and services when sold by Ceylon Petroleum Corporation or using a cost-plus reasonable margin approach.

***a) Sale of goods***

Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods; with the Company not retaining neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

**Contract balances**

**Contract assets**

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. There is no contract asset as at reporting date.

**Contract liabilities**

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company executed performance obligations under the contract.

**a) Rental Income**

Rental income receivable under operating leases is recognised on a straight-line basis over the term of the lease, except for contingent rental income which is recognised when it arises.
The lease term is the fixed period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

Premiums received to terminate leases are recognised in the Statement of Comprehensive Income when they arise.

***b) Finance Income***

Finance Income is recognized using the effective interest rate method unless collectability is in doubt.

***c) Dividend income***

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

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## 2. BASIS OF PREPARATION (Contd...)

## 2.10 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd...)

### 2.10.2 Revenue Recognition (Contd...)

***d) Others***

Other income is recognized on an accrual basis.

Net gains and losses on the disposal of property, plant & equipment have been accounted for in the income statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.

Gains and losses arising from incidental activities to main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

### 2.10.3 Expenditure Recognition

All expenditure incurred in the running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged to the statement of comprehensive income for the period.

### 2.10.4 Taxation

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

**Current Taxes**

The Company has entered into agreements with the Board of Investment of Sri Lanka (BOI), as specified below. Such agreements specify that the sections of the Inland Revenue Act relating to the imposition, payment and recovery of income tax should not apply to the company, as explained below.

Pursuant to the agreement between the Company and the Board of Investment of Sri Lanka, the Company was entitled to a ten year "tax exemption period" on its profits and income, commencing from the first year of making profit.

The 10 year tax exemption period commenced in the year of assessment 2002/2003 and ended in the year of assessment 2012/2013. Thereafter, the Company is taxed at 15% on its business profits.

Current Income Tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. The Provision for Income Tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the relevant tax legislation.

**Deferred Taxation**

Deferred income tax is provided, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

**2. BASIS OF PREPARATION (Contd...)**

**2.10 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd...)**

**2.10.4 Taxation (Contd...)**

**Deferred Taxation (Contd...)**

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilized except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

**Sales Tax (Value Added Tax and Nations Building Tax)**

Revenues, expenses and assets are recognized net of the amount of sales tax except where the sales tax incurred on a purchase of assets or service is not recoverable from the taxation authorities in which case the sales tax is recognized as a part of the cost of the asset or part of the expense items as applicable and receivable and payable that are stated with the amount of sales tax included. The amount of sales tax recoverable and payable in respect of taxation authorities is included as a part of receivables and payables in the Statement of Financial Position.

**2.10.5 Financial Instruments**

**2.10.5.1 Financial Assets**

***Initial Recognition and Measurement***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables do not contain a significant financing component. Refer to the accounting policies in section 2.7 Changes in Accounting Policies and Disclosures.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

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**2. BASIS OF PREPARATION (Contd...)**

**2.10 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd...)**

**2.10.5 Financial Instruments (Contd...)**

**2.10.5.1 Financial Assets (Contd...)**

***Subsequent Measurement***

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through Other Comprehensive Income (FVTOCI)
- Financial assets at fair value through profit or loss (unless measured at amortised cost or FVTOCI)

However, the financial assets of the company are limited to the categories of financial assets at amortised cost (debt instrument) and financial assets through profit or loss.

**a) Financial assets at amortised cost (debt instruments)**

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes cash and short-term deposits, trade and other receivables and other financial assets.

**b) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The company's financial assets at fair value through profit or loss includes investment in unit trust.

***Derecognition***

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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## 2. BASIS OF PREPARATION (Contd...)

## 2.10 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd...)

### 2.10.5 Financial Instruments (Contd...)

#### b) Financial assets at fair value through profit or loss (Contd...)

*Derecognition (Contd...)*

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of the Company's continuing involvement in it.

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

### 2.10.5.1 Impairment of Financial Assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flow from the sale of collateral held or other credit enhancement that are integral to the contractual terms.

ECLs are recognised in two stages, for credit exposures for which there has not been a significant increase in credit risk since initial recognition. ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12 month ECL). For those credit exposures which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining lift of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

### 2.10.5.2 Financial Liabilities

***Initial Recognition and Measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, Right -to-use- Lease Liability, bank overdrafts and loans and borrowings.

**2. BASIS OF PREPARATION (Contd...)**

**2.10 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd...)**

**2.10.5 Financial Instruments (Contd...)**

**2.10.5.2 Financial Liabilities (Contd...)**

***Subsequent Measurement***

The measurement of financial liabilities depends on their classification, as described below:

**a) Loans and Borrowings (Financial Liabilities at Amortised cost)**

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note22.1.

***Derecognition***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

**2.10.5.3 Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognized amounts and intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

**2.10.5.4 Fair Value of Measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

  **Or**

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

**2. BASIS OF PREPARATION (Contd…)**

**2.10 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd…)**

**2.10.5 Financial Instruments (Contd…)**

**2.10.5.4 Fair Value of Measurement (Contd…)**

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised in the following notes:

- Quantitative disclosures of fair value measurement hierarchy Note 29
- Financial instruments (including those carried at amortised cost) Note16, 17,19& 22.

**2.10.5 Inventories**

Inventories are valued at the lower of cost and net realizable value, after making due allowances for obsolete and slow moving items. Net realizable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

The cost incurred in bringing inventories to its present location and conditions are accounted using the following cost formulae:

| | | |
|---|---|---|
| Finished goods (Lubricants) | - | Weighted Average Cost basis |
| Other Products | - | First in First out basis |
| Goods in Transit | - | At Purchase Price |

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**2. BASIS OF PREPARATION (Contd...)**

**2.10 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd...)**

**2.10.6 Property Plant and Equipment**

Property, Plant and Equipment are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Such costs include the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria are met.

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

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

The asset's residual values, useful lives and method of depreciation are reviewed, and adjusted if appropriate, at least at each financial year end. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the Statement of comprehensive income.

**2.10.7 Intangible assets**

**a) Goodwill**

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

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

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

**b) License fees on computer software**

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

**2.10.8 Investment in Ceylon Petroleum Storage Terminal Limited and Trinco Petroleum Terminal (Private) Limited**

Investment in the associate company is accounted for at cost and is classified as a long term investment in the statement of financial position. The Company has no significant influence in the financial and operating policy decisions of the investee as more fully explained in Note 12.

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## 2. BASIS OF PREPARATION (Contd...)

## 2.10 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd...)

### 2.10.9 Cash and Short-Term Deposits

Cash and cash equivalents are defined as cash in hand, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with original maturities of three months or less are also treated as cash equivalents.

### 2.10.10 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

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

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

***i) Right-of-use assets***

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

## 2. BASIS OF PREPARATION (Contd...)

## 2.10 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd...)

### 2.10.11 Accounting for leases - where the Company is the lessee (Contd...)

***i) Right-of-use assets (Contd...)***

•Building - Lease Period 4 years

-Trinco Tank Farm - Lease Period 50 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies on Impairment of non-financial assets.

***ii) Lease liabilities***

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the

Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company's lease liabilities are included in Right -to-use Lease Liability (see Note 14.2).

### 2.10.12 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

### 2.10.13 Dividend Distribution

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

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## 2. BASIS OF PREPARATION (Contd…)

## 2.10 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Contd…)

### 2.10.14 Employee Benefits

**a) Defined Benefit Obligations – Gratuity**

The liability recognised in the statement of financial position is the present value of the defined benefit obligation at the reporting date using the projected unit credit method by an independent qualified actuaries firm, Messrs Prime Actuarial Solutions who carried out actuarial valuation as at 31 March 2022.

***Recognition of Actuarial Gains and Losses***

Actuarial gains and losses are recognized in Other Comprehensive Income in the year in which they arise.

***b) Defined Contribution Plans***

The Company also operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability.

The Company contributes to the following Schemes:

***Employees' Provident Fund***

The Company and employees contribute 15% and 10% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund for Trincomalee based (erstwhile CPC) and 12% and 8% for other employees.

***Employees' Trust Fund***

The Company contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions (%) into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to a defined contribution pension plan are recognized as an employee benefit expense in profit or loss when they are due.

## 2.11 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

**(a) New and amended standards adopted by the company**

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 April 2021.

**(i) Amendment to SLFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient**

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to SLFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

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**2. BASIS OF PREPARATION (Contd...)**

**2.11 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Contd...)**

**(a) New and amended standards adopted by the company (Contd...)**

**(i) Amendment to SLFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient (Contd...)**

This amendment is effective for the annual periods beginning on or after 1 April 2021.

**(ii) Inter Bank Offered Rates (IBOR) Reform and its Effects on Financial Reporting—Phase 2: Amendments to IFRS 7, IFRS 4 and IFRS 16**

The IASB has issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 that address issues arising during the reform of benchmark interest rates including the replacement of one benchmark rate with an alternative one. Given the pervasive nature of IBOR-based contracts, the amendments could affect companies in all industries. This publication provides guidance on how to apply the Phase 2 amendments to various contracts and hedge accounting relationships, including the interaction with the Phase 1 reliefs for hedge accounting.

This amendment is effective for the annual periods beginning on or after 1 January 2021.

**(b) New standards and amendments not effective and not early adopted in 2021**

The following standards and interpretations had been issued but not mandatory for annual reporting periods ending 31 March 2022.

**(i) Property, Plant and Equipment: Proceeds before intended use – Amendments to LKAS 16**

The amendment to LKAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

This amendment is effective for the annual periods beginning on or after 1 January 2022.

**(ii) Onerous Contracts – Cost of Fulfilling a Contract Amendments to LKAS 37**

The amendment to LKAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

This amendment is effective for the annual periods beginning on or after 1 January 2022.

**2. BASIS OF PREPARATION (Contd...)**

**2.11 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Contd...)**

**(b) New standards and amendments not effective and not early adopted in 2021 (Contd...)**

**(iii) Annual Improvements to SLFRS Standards 2018–2020**

The following improvements were finalized in May 2020:

- SLFRS 9; Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- SLFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- SLFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same SLFRS 1 exemption.
- LKAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under LKAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

These amendments are effective for the annual periods beginning on or after 1 January 2022.

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## 3. REVENUE FROM CONTRACTS WITH CUSTOMERS

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| Lanka petrol 92 octane | 24,793,759 | 19,807,769 |
| Lanka auto diesel | 18,493,788 | 19,589,059 |
| IFO380/ LSFO | 19,595,130 | 9,215,522 |
| Marine Gas Oil | 3,500,004 | 1,788,553 |
| Lubricants | 7,291,454 | 4,073,459 |
| Xtrapremium 95 | 3,910,973 | 3,388,347 |
| Xtrapremium Euro 3 | 5,231,756 | 3,283,132 |
| Xtramile | 2,781,728 | 2,857,608 |
| Lanka super diesel | 1,512,561 | 1,397,747 |
| Bitumen | 2,818,812 | 1,173,731 |
| Petrochemical | 21,258 | 110,965 |
| **Total Sales of Petroleum Products** | 89,951,223 | 66,685,892 |

### 3.1 Segment Information

Company is dealing only in the Petroleum products. There are no separate activities other than the petroleum segment in the Company.

**3.2** The Revenue from contracts with customers are recognised at a point in time upon satisfying the performance obligation.

### 3.3 Contract balances

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| Trade Receivables (Note 16) | 3,965,382 | 2,585,212 |
| Contract Liabilities (Note 21) | 1,067,451 | 85,568 |

## 4. OTHER OPERATING INCOME

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| Dividend Income | - | 120,000 |
| Rental Income | 60,223 | 65,032 |
| Sundry Income | 30,416 | 64,081 |
| Gain on Disposal of Property, Plant and Equipment | 25,180 | 3,317 |
| | 115,819 | 252,430 |

## 5. FINANCE INCOME AND EXPENSES

### 5.1 Finance Income

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| Income from Short term Investments & Deposits | 1,335,349 | 1,278,979 |
| Interest on Others | 28,800 | 23,617 |
| | 1,364,149 | 1,302,596 |

## 5. FINANCE INCOME AND EXPENSES (Contd...)

### 5.2 Finance Expenses

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| Interest Expenses | 962,589 | 642,895 |
| Exchange Loss/(Gain) | 199,566 | (166,619) |
| | 1,162,155 | 476,276 |

## 6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| ***Stated after Charging /Crediting*** | | |
| Directors' Emoluments | 45,832 | 35,772 |
| Employee benefit expenses (6.1) | 649,554 | 536,301 |
| Loss/(Gain) on disposal of Property, Plant and Equipment | (25,180) | (3,317) |
| Exchange (Gain)/ Loss | 199,566 | (166,619) |
| Defined Benefit Obligation : Charge for the year | 5,481 | 5,701 |
| Audit Fee - Current year | 1,500 | 1,750 |
| Rent | 68,856 | 36,143 |
| Depreciation Charge for the year | 421,509 | 402,889 |
| Amortization of right-of-use assets | 31,528 | 42,232 |
| Amortisation Charge for the year | 500 | 500 |

### 6.1 Employee benefit expenses

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| Salaries, wages and other fringe benefits | 606,746 | 502,992 |
| Contribution to defined contribution plans | 37,328 | 27,608 |
| Defined benefit obligations (Note 8.3) | 5,480 | 5,701 |
| | **649,554** | **536,301** |
| Monthly average number of persons employed by the Company during the year: | | |
| Permanent employees | **153** | **151** |

## 7. TAX EXPENSES

The major components of income tax expense for the years ended 31 March 2022 and 31 March 2021 are as follows :

### 7.1 Income Statement

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| ***Current Income Tax:*** | | |
| Current Tax Expense | 150,679 | 178,017 |
| Under/(Over) Provision of Current Taxes in respect of Prior Year | - | (1,176) |
| ***Deferred Tax:*** | | |
| Deferred Taxation Charge/ (Credit) (Note 9.2) | 642,538 | (71,727) |
| **Income Tax Expense / (Credit) Reported in the Income Statement** | 793,217 | 105,114 |

Lanka IOC PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

## 7. TAX EXPENSES (Contd...)

### 7.2 Reconciliation between tax

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| Accounting Profit (Loss) before tax | 5,611,672 | 987,748 |
| Tax calculated at a statutory income tax rate of 15% (2020 - 15%) | 841,751 | 148,162 |
| Tax impact of expenses deductible/not deductible for tax purpose | (330,217) | (90,093) |
| Tax impact of income taxable at different rate | (94,175) | (112,011) |
| Tax impact of income not subject to tax | (109,591) | (82,775) |
| Adjustment due to the estimated deferred tax base in previous year | 334,770 | 64,990 |
| **Tax charge on profit from trade or business** | **642,538** | **(71,727)** |
| Taxable Interest Income | 627,831 | 741,739 |
| Tax calculated at a tax rate of 24% | 150,679 | 178,017 |
| Adjustments in respect of prior years | - | (1,176) |
| **Tax charge on Interest Income** | **150,679** | **176,841** |
| **Total tax charge for the year** | **793,217** | **105,114** |

## 8. DEFINED BENEFIT OBLIGATION

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| **Balance as at 01 April** | 111,657 | 97,124 |
| Current Service Cost | 5,620 | 5,374 |
| Interest Cost | 10,783 | 9,797 |
| Actuarial Loss (8.4) | 4,005 | 7,001 |
| Benefits Paid | (17,927) | (7,639) |
| **Balance as at 31 March** | 114,138 | 111,657 |

### 8.1 Reconciliation of Fair Value of Plan Assets

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| **Balance as at 01 April** | 97,965 | 86,495 |
| Contribution by employer | 12,772 | 9,794 |
| Expected return | 10,015 | 9,196 |
| Remeasurement | (219) | 119 |
| Benefits Paid | (17,927) | (7,639) |
| **Balance as at 31 March** | 102,606 | 97,965 |

### 8.2 Reconciliation of Fair Value of the Plan Assets and Defined Benefit Obligation

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| Defined Benefit Obligation at the end of the year | 114,138 | 111,657 |
| Fair value of the plan assets at the end of the year | (102,606) | (97,965) |
| Amount recognised in statement of financial position | 11,532 | 13,692 |

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**8. DEFINED BENEFIT OBLIGATION (Contd...)**

**8.3 Expenses recognised on Defined Benefit Plan**

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| **Income Statement** | | |
| Current Service Cost for the year | 5,708 | 5,566 |
| Net Interest Cost for the year | 767 | 602 |
| Transfers | (995) | (467) |
| | 5,480 | 5,701 |
| **Other Comprehensive Income** | | |
| Actuarial (Gain) / Loss (8.4) | 4,005 | 7,001 |
| Remeasurement | 219 | (119) |
| | 4,224 | 6,882 |

**8.4 Actuarial (Gain)/Loss during the year has resulted from the following:**

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| Changes in Financial Assumptions | 468 | (9,577) |
| Changes in Demographic Assumptions | - | - |
| Experience Adjustments | 3,537 | 16,578 |
| | 4,005 | 7,001 |

**8.5** Actuarial valuation of Retirement Benefit Obligation as at 31 March 2022 was carried out by Messrs. Prime Actuarial Solutions, a firm of professional actuaries using "Projected Unit Credit Method" as recommended by LKAS 19 - 'Employee Benefits'.

**8.6 Principle Actuarial Assumptions**

Principle Actuarial Financial Assumptions underlying the valuation are as follows:

| | 2021 | 2021 |
|---|---|---|
| Discount Rate | 12.0% | 10.5% |
| Salary Incremental Rate | 1-7% | 0.3-4% |
| Staff Turnover | 0-3% | 0-3% |
| Retirement Age | 60 years | 60 years |
| Return on Plan Assets | 9.75% | 10.5% |

Assumptions regarding future morality are based on 67/70 Mortality Table issued by Institute of Actuaries, London.

**8.7 Maturity Profile of the Defined Benefit Obligation Plan**

Expected maturity analysis of undiscounted retirement benefit obligations:

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| Less than 1 Year | 2,151 | 9,080 |
| Between 2-5 years | 61,757 | 71,008 |
| Beyond 5 years | 202,298 | 157,765 |

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**8. DEFINED BENEFIT OBLIGATION (Contd...)**

**8.8** Sensitivity of Assumptions in Actuarial Valuation of Retirement Benefit Obligation

The following table demonstrates the sensitivity to a possible change in key assumptions employed with all other variables held constant in the Retirement Benefit Obligations measurement as at 31 March 2022. The sensitivity of the Statement of Financial Position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment on the profit or loss and Retirement Benefit Obligation for the year.

| Increase/(Decrease) in Discount Rate | Increase/ (Decrease) in Salary Increment Rate | Increase/ (Decrease) in Staff Turnover Rate | Sensitivity Effect on Statement of Comprehensive Income | Sensitivity Effect on Defined Benefit Obligation |
|---|---|---|---|---|
| | | | Rs '000 | Rs '000 |
| 1% | | | 5,644 | (5,644) |
| -1% | | | (11,935) | 11,935 |
| | 1% | | (498) | 498 |
| | -1% | | 12,953 | (12,953) |
| | | 25% | (7,008) | 7,008 |
| | | -25% | 1,759 | (1,759) |

**8.9 Defined Benefit Plan**

As per company policy, plan assets is maintained under the assets liability matching strategy. Plan asset is invited to fund management entity and that entity is responsible for the administration of plan assets and for definition of the investment strategy.

A major categories of Plan assets is as follows :

| | 2022 | 2021 |
|---|---|---|
| Insurer-managed funds | 100% | 100% |

**8.10** The weighted average duration of defined benefit Obligation is 8.39 years

**9. DEFERRED TAX ASSETS - NET**

**9.1 Deferred Tax**

Deferred Tax Relates to the Following:

| | 2022 | 2021 |
|---|---|---|
| | Rs '000 | Rs '000 |
| **Deferred Tax Assets Arising on:** | | |
| Brought forward tax losses | 138,473 | 446,147 |
| Retirement Benefit Obligation | 17,121 | 16,749 |
| ECL Provision | 7,217 | 7,217 |
| | 162,811 | 470,113 |
| **Deferred Tax Liability Arising on:** | | |
| Property Plant & Equipment | (116,641) | (126,547) |
| Unrealized Exchange Gain | (426,659) | (82,150) |
| | (543,300) | (208,697) |
| **Net Deferred Tax (Liability)/Asset** | (380,489) | 261,416 |

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**9.1.1** Deferred tax asset on account of taxable loss works out to Rs 138 million (2021- Rs 446 million). Management is of view that taxable losses can be set off in future and entire amount has been recognised as an deferred tax assets as on 31 March 2022.

## 9. DEFERRED TAX ASSETS - NET (Contd...)

### 9.2 Deferred Tax Movement

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| **Balance brought forward** | (261,416) | (188,657) |
| Deferred Income Tax Charge/(Credit)- Income Statement | 642,538 | (71,727) |
| Deferred Income Tax Credit - Statement of Other Comprehensive Income | (634) | (1,032) |
| **Net Deferred Tax Liability/(Asset)** | 380,488 | (261,416) |

## 10. EARNINGS PER SHARE

10.1 Earnings Per Share is calculated by dividing the net profit/loss for the period attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the period and the previous period are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

10.2 The following reflects the income and share data used in the Earnings Per Share computation.

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| **Amounts Used as the Numerator** | | |
| Net Profit Attributable to Ordinary Shareholders for Basic Earnings Per Share | 4,818,455 | 882,634 |
| | **2022** | **2021** |
| **Number of Ordinary Shares used as the Denominator:** | | |
| Weighted Average Number of Ordinary Shares | 532,465,705 | 532,465,705 |
| Basic Earning Per Share | 9.05 | 1.66 |

## 11. PROPERTY, PLANT AND EQUIPMENT

### 11.1 Gross Carrying Amounts

| At Cost | Balance as at 01.04.2021 Rs '000 | Additions Rs '000 | Transfers Rs '000 | Disposals Rs '000 | Balance as at 31.03.2022 Rs '000 |
|---|---|---|---|---|---|
| Freehold Land | 1,959,744 | - | - | (5,887) | 1,953,857 |
| Building and Fixtures | 2,351,474 | - | 67,822 | (273,235) | 2,146,061 |
| Plant and Equipment | 3,600,410 | 184 | 168,947 | (289,258) | 3,480,283 |
| Office Equipment | 68,459 | 10,621 | 390 | (1,095) | 78,375 |
| Furniture and Fittings | 306,630 | 1,290 | 76,174 | (7,636) | 376,458 |
| Motor Vehicles | 40,457 | - | - | (19,555) | 20,902 |
| Capital Work-In- Progress | 123,227 | 253,213 | (313,333) | - | 63,107 |
| | 8,450,401 | 265,308 | - | (596,666) | 8,119,043 |

**11. PROPERTY, PLANT AND EQUIPMENT (Contd...)**

**11.2 Depreciation**

| At Cost | Balance as at 01.04.2021 Rs '000 | Charge for the year Rs '000 | Transfers Rs '000 | Disposals Rs '000 | Balance as at 31.03.2022 Rs '000 |
|---|---|---|---|---|---|
| Building and Fixtures | 1,549,448 | 103,268 | - | (273,235) | 1,379,481 |
| Plant and Equipment | 2,631,459 | 255,719 | - | (289,209) | 2,597,969 |
| Office Equipment | 34,296 | 11,937 | - | (815) | 45,418 |
| Furniture and Fittings | 178,893 | 48,930 | - | (7,614) | 220,209 |
| Motor Vehicles | 36,942 | 1,655 | - | (19,555) | 19,042 |
| Capital Work-In- Progress | - | - | - | - | - |
| | 4,431,038 | 421,509 | - | (590,428) | 4,262,119 |

**11.3 Net Book Value**

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| Freehold Land | 1,953,857 | 1,959,744 |
| Building and Fixtures | 766,580 | 802,028 |
| Plant and Equipment | 882,314 | 968,949 |
| Office Equipment | 32,957 | 34,161 |
| Furniture and Fittings | 156,249 | 127,739 |
| Motor Vehicles | 1,860 | 3,515 |
| Capital Work-In- Progress | 63,107 | 123,228 |
| **Total Carrying Value of Property, Plant & Equipment** | 3,856,924 | 4,019,364 |

**11.4** During the financial year, the company acquired Property, Plant and Equipment to aggregate value of Rs 265 Mn (2021 - Rs 310 Mn).

**11.5 The Useful Lives of the Assets are Estimated as Follows:**

| | 2022 | 2021 |
|---|---|---|
| Building and Fixtures | 15 Years | 15 Years |
| Plant and Equipment | 8 Years | 8 Years |
| Office Equipment | 4 Years | 4 Years |
| Furniture and Fittings | 5 Years | 5 Years |
| Motor Vehicles | 5 Years | 5 Years |

**12 INVESTMENT**

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| Ceylon Petroleum Storage Terminal Limited (12.1) | 4,394,000 | 4,394,000 |
| Trinco Petroleum Terminal (Private) Limited (12.2) | 49,000 | - |
| | 4,443,000 | 4,394,000 |

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Lanka IOC PLC

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Year ended 31 March 2022

**12 INVESTMENT (Contd...)**

**12.1** Lanka IOC PLC owns 33 1/3% of the 750,000,000 shares of Ceylon Petroleum Storage Terminal Limited (CPSTL), also known as the "Common User Facility" (CUF). The Company paid US$ 45 million to Treasury on 22 January 2004 for the acquisition of 250,000,000 shares. The Ceylon Petroleum Corporation owns 66 2/3% of 750,000,000 shares of CPSTL and controls through the nomination of six of the nine board members. Lanka IOC PLC nominates the balance three board members. Due to the government influence and the sensitivity of the industry towards the national economy, the directors nominated by Lanka IOC PLC do not have significant influence over decisions of CPSTL. As such, the investment is recorded at cost less accumulated impairment if any.

**12.2** LIOC PLC acquired 49% of the shares in newly formed Joint Venture Trinco Petroleum Terminal Pvt Ltd. (TPTL) for the development of Sixty-One (61) tanks, the related area, and allied facilities in the Upper Tank Farm of the China Bay Oil Tank Farm. LIOC has also entered into a Modalities Agreement with CPC and TPTL for the possession, development, and use of the China Bay Oil Tank Farm by LIOC, CPC and TPTL. The Company paid Rs 49 million for TPTL shareholding in Jan'22. The Ceylon Petroleum Corporation owns 51% shares of TPTL and nominates four board members including Chairman out of the seven board members. Lanka IOC PLC nominates the balance three board members including Managing Director. At this stage management decided that TPTL carries same features and business model of CPSTL and not as Joint venture or associates. Accordingly, the management has decided to carry the investment at cost on the grounds that the Company has no significant influence on the financial and operating decisions of TPTL due to the government influence and the sensitivity of the industry towards the national economy.

**13. INTANGIBLE ASSETS**

**13.1 Gross Carrying Amounts**

| | Goodwill Rs '000 | License fees on computer software Rs '000 | Total Rs '000 |
|---|---|---|---|
| **As at 01.04.2021** | 759,298 | 14,437 | 773,734 |
| Additions | - | - | - |
| Disposals | - | - | - |
| **As at 31.03.2022** | 759,298 | 14,437 | 773,734 |

**13.2 Amortisation**

| | Goodwill Rs '000 | License fees on computer software Rs '000 | Total Rs '000 |
|---|---|---|---|
| **As at 01.04.2021** | 85,421 | 13,937 | 99,358 |
| Charge for the year | - | 500 | 500 |
| **As at 31.03.2022** | 85,421 | 14,437 | 99,858 |
| **13.3 Net Book Value as at 31.03.2021** | 673,876 | 500 | 674,376 |
| **13.4 Net Book Value as at 31.03.2022** | 673,876 | - | 673,876 |

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**13.5** Goodwill represents the excess of purchase consideration paid in 2003 to the Government of Sri Lanka over the net assets value representing applicable shares allotted in the acquisition of the retail outlets, which were vested with Independent Petroleum Marketers Limited (IPML). The IPML was subsequently amalgamated in 2004 with Lanka IOC PLC and dissolved. Goodwill represents future economic benefits arising from other assets which were acquired from the above business combination that were not able to individually identified and separately recognised. Accumulated amortisation as at the statement of financial position date amounting to LKR. 85 Mn which were amortised up to 2007 based on 20 years useful life. However, as per the revised accounting standards Goodwill is tested for impairment annually (as at 31 March) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

**13. INTANGIBLE ASSETS (Contd...)**

**13.6** Company assess the recoverable amount of the Goodwill using value in use calculation and found the recoverable amount exceeds its carrying value, as such Goodwill is not impaired.

The key assumptions used to determine the recoverable amount are as follows:

*EBIT*
The basis used to determine the value assigned to the budgeted EBIT is the EBIT achieved in the year preceding the budgeted year adjusted for projected market conditions.

*Discount rates*
The discount rate used is the risk free rate, adjusted by the addition of an appropriate risk premium.

*Inflation*
The basis used to determine the value assigned to the budgeted cost inflation, is the inflation rate, based on projected economic

*Volume growth*
Volume growth has been budgeted on a reasonable and realistic basis by taking into account the industry growth rates of one to five years immediately subsequent to the budgeted year. Cash flows beyond the five year period are extrapolated using 0% growth rate.

**14. LEASES**

***As a lessee***

The Company has lease contracts for the office building which has lease terms 4 years and a lease contract of 14 Tanks at Lower Tank Farm area of Trincomalee Terminal for the period of 50 years. The Company's obligation under its leases are secured by the lessor's title to the leases assets.

The Company also has certain leases with lease term of 12 months or less and leases with low value. The Company applies the 'short-term lease' and lease of low - value assets' recognition exemptions for these leases.

**14.1 Right-of-use assets**

Set out below are the carrying amount of Right-of-use Assets recognised and movements during the year.

| | 2022 | 2021 |
|---|---|---|
| **Cost** | **Rs '000** | **Rs '000** |
| Balance As at 01 April | 125,129 | 121,158 |
| Additions and Improvements | 49,109 | 3,971 |
| Balance As at 31 March | 174,238 | 125,129 |

| | 2022 | 2021 |
|---|---|---|
| **Accumulated Amortisation** | **Rs '000** | **Rs '000** |
| Balance As at 01 April | 62,564 | 30,289 |
| Charge for the year | 31,528 | 32,275 |
| Balance As at 31 March | 94,092 | 62,564 |
| **Net Book Value As at 31 March** | 80,146 | 62,565 |

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## 14. LEASES (Contd...)

### 14.2 Lease Liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| Balance As at 01st April | 71,681 | 97,728 |
| Additions | 49,109 | 3,971 |
| Accretion of Interest | 8,283 | 5,986 |
| Payments | (41,335) | (36,004) |
| **Balance As at 31 March** | 87,738 | 71,681 |
| | | |
| Current liability | 41,955 | 33,476 |
| Non current liability | 45,782 | 38,205 |
| | 87,737 | 71,681 |

### 14.3 Maturity Analysis of Lease Liability

Expected maturity analysis of undiscounted lease liability:

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| Not later than one month | 3,496 | 3,357 |
| Later than one month and not later than three months | 7,068 | 6,714 |
| Later than three months and not later than one year | 31,804 | 30,213 |
| Later than one year and not later than five years | 24,150 | 41,836 |
| Later than five years | 438,500 | - |
| | 505,018 | 82,120 |

### 14.4 Following are the amounts recognized in profit or loss:

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| Depreciation expenses of right-of-use assets | 31,528 | 32,275 |
| Interest expenses on lease liability | 8,283 | 9,957 |
| Expenses relating to short term and low value leases included in administrative expenses | 29,045 | 36,143 |
| **Total amount recognized in profit or loss** | 68,856 | 78,375 |

The total cashflows made with respect to leases is Rs. 41 Mn. (2021 - Rs. 36 Mn)

## 15. INVENTORIES

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| Auto Fuel | 21,780,522 | 5,223,909 |
| Base oil and other raw materials | 2,266,537 | 2,684,500 |
| Bunker Fuel | 2,015,864 | 1,254,043 |
| Lubricants | 295,252 | 258,684 |
| Bitumen | 203,299 | 3,734 |
| Goods In Transit | 695,558 | 200,180 |
| | 27,257,032 | 9,625,050 |

## 16. TRADE RECEIVABLES

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| Trade Receivable from third- party customers | 4,076,022 | 2,695,852 |
| Allowance for Impairment | (110,640) | (110,640) |
| | 3,965,382 | 2,585,212 |

**16.1** Set out below is the movement in the allowance for expected credit losses of trade receivables

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| **As at 01 April** | 110,640 | 463,416 |
| Provision for the expected credit losses | - | - |
| Write off | - | (352,776) |
| **As at 31 March** | 110,640 | 110,640 |

**16.2** As at 31 March, the age analysis of net - trade receivables is set out below.

| | | Neither Past due nor Impaired | Past Due but not Impaired | | | | |
|---|---|---|---|---|---|---|---|
| | Total | | Less than 30 days | 31-90 days | 91-180 days | 181-365 days | >365 days |
| | Rs '000 | Rs '000 | Rs '000 | Rs '000 | Rs '000 | Rs '000 | Rs '000 |
| 2022 | 3,965,382 | 3,845,922 | 114,995 | 226 | 60 | 66 | 4,113 |
| 2021 | 2,585,212 | 2,573,224 | 7,252 | 336 | 551 | 2,337 | 1,512 |

**16.3** Allowance for impairment Rs 111 Mn (2021 Rs 111 Mn) Includes provision for Expected Credit Loss line with accounting policy applicable for trade receivable for which Company has applied the simplified approach. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned in Note 28.2.

**16.4 The carrying amounts of trade receivables are denominated in following currencies:**

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| US Dollars | 2,827,728 | 1,635,648 |
| Sri Lankan Rupees | 1,137,654 | 949,564 |
| | 3,965,382 | 2,585,212 |

## 17. OTHER RECEIVABLE AT AMORTIZED COST

### 17.1 Other Receivable At Amortized Cost - Current

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| Claims, Refunds, Staff loans and Others | 11,327 | 992,821 |
| VAT Receivables | 526,043 | 632,851 |
| Deposits | 117,443 | 81,363 |
| | 654,813 | 1,707,035 |

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# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

## 17. OTHER RECEIVABLE AT AMORTIZED COST (Contd...)

### 17.2 Other Receivables At Amortized Cost - Non Current

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| Staff Loans | 108,648 | 97,247 |
| Interest Accrued on Staff Loan | 33,052 | 21,428 |
| | 141,700 | 118,675 |

### 17.3 Other Receivable - Related Parties

| | Relationship | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|---|
| Trinco Petroleum Terminal (Private) Limited | Significant Investee | 12,369 | - |
| | | 12,369 | - |

**17.4** The carrying amounts of other receivables are denominated in Sri Lankan Rupees

**17.5** For the other receivable, the Company applies the three stage model approach permitted by SLFRS 9, which requires Company to follow 12 months expected credit loss method or life time expected credit loss method in assessing the losses to be recognised from initial recognition. On that basis, the loss allowance as at 31 March 2022 and 31 March 2021 were immaterial.

## 18. OTHER CURRENT ASSETS

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| Advance payments | 79,582 | 42,589 |
| Prepayments | 28,368 | 36,313 |
| | 107,950 | 78,902 |

## 19. CASH AND CASH EQUIVALENTS

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| **19.1 Cash & Cash Equivalent balances** | | |
| Cash and Bank Balances | 2,523,749 | 598,950 |
| **Total Cash & Cash Equivalent balances** | 2,523,749 | 598,950 |

For the purposes of the statement of cash flows, the year end cash and cash equivalents comprise the followings:

| | | |
|---|---|---|
| Cash and Bank Balances | 2,523,749 | 598,950 |
| **Total Cash & Cash Equivalent balances** | 2,523,749 | 598,950 |

## 20. STATED CAPITAL

| | 2022 | 2021 |
|---|---|---|
| **20.1** Stated Capital as at 31 March ( Rs '000) | 7,576,574 | 7,576,574 |
| **20.2** Number of Ordinary Shares | 532,465,705 | 532,465,705 |

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Year ended 31 March 2022

## 21. TRADE AND OTHER PAYABLES

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| Trade Payables - Related Parties (21.2) | 304,918 | 759,693 |
| - Others | 13,023,839 | 3,503,512 |
| Other Payables - Related Parties (21.3) | 497,139 | 932,343 |
| Sundry Creditors Including Accrued Expenses | 678,574 | 612,887 |
| | 14,504,470 | 5,808,435 |

**21.1** Trade payables consist of Rs 1,067 Mn (2021- Rs 85 Mn) contract liability received from Customers.

### 21.2 Trade Payables- Related Parties

| | Relationship | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|---|
| Indian Oil Corporation Limited | Immediate Parent | 304,918 | 759,693 |
| | | 304,918 | 759,693 |

### 21.3 Other Payables- Related Parties

| | | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|---|
| Indian Oil Corporation Limited | Immediate Parent | 227,384 | 135,555 |
| Ceylon Petroleum Storage Terminal Limited | Significant Investee | 269,755 | 796,788 |
| | | 497,139 | 932,343 |

## 22. OTHER FINANCIAL ASSETS AND LIABILITIES

### 22.1 Interest Bearing Borrowings

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| Short Term Loans from banks (Note 22.1.1) | 25,778,225 | 20,589,553 |

### 22.1.1 Short Term Loans from Banks Movement

| | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| **Balance as at 01 April** | 20,589,553 | 16,954,572 |
| Proceeds from bank loans | 105,575,340 | 55,863,217 |
| Repayments of bank loans | (101,584,753) | (52,353,939) |
| Exchange Loss on bank loans | 1,198,085 | 125,703 |
| **Balance as at 31st March** | 25,778,225 | 20,589,553 |

**22.1.2** The short term loans from banks Rs 25,778 Mn (2021- Rs 20,590 Mn) are unsecured except for the loans from State Bank of India Colombo branch amounting to Rs 8,804 Mn (2021- Rs 2,383 Mn). These loans are secured against hypothecation over trading stock held at Kolonnawa, Muthurajawala and Trincomalee terminals.

## 22. OTHER FINANCIAL ASSETS AND LIABILITIES (Contd...)

### 22.2 Short Term Investments

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| Investment in Unit Trust (Note 22.4) | 2,447,539 | 7,866,496 |
| Investment Through Portfolio Management Services | 7,058,108 | 3,437,671 |
| Short Term Bank Deposits (Note 22.3) | 10,386,126 | 736,643 |
| | 19,891,773 | 12,040,810 |

### 22.3 Bank Deposits

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| Total Bank Deposits | 11,848,022 | 10,959,120 |
| Less: Short Term Bank Deposits | (10,386,126) | (736,643) |
| **Long term Bank Deposits** | 1,461,896 | 10,222,477 |

### 22.4 Investment in Unit Trust - Fair Value Through Profit or Loss

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| **Balance as at 01 April** | 7,866,496 | 4,344,920 |
| (Withdrawals) / Additions (Net) | (5,648,705) | 3,003,451 |
| Fair Value Gain | 229,747 | 518,125 |
| **Balance as at 31 March** | 2,447,538 | 7,866,496 |

### 22.5 The interest rates are as follows:

Short term loans LIBOR + Margin

**22.6** The LIBOR rate (monthly) at the date of statement of financial position was 0.452% .

## 23. RELATED PARTY DISCLOSURES

### 23.1 Transactions with the Related Entities

#### 23.1.1 Transactions with Parent

| **Nature of Transaction** | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| **Amounts Receivable as at 01 April** | - | - |
| **Amounts Payable as at 01 April** | (895,248) | (598,864) |
| Fund Transfers/Payment Made | 762,722 | 3,510,255 |
| Purchases of Goods/Services | (303,443) | (3,746,320) |
| Sale of Goods | | 63,994 |
| Expenses Reimbursed | (96,333) | (124,313) |
| **Amounts Receivable as at 31 March** | - | - |
| **Amounts Payable as at 31 March** | (532,302) | (895,248) |
| **Net Balance as at 31 March** | (532,302) | (895,248) |

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**23.1.2** During the year, the Company paid a gross dividend of Rs 453 Mn with respect to the financial year ended 31 March '2021, out of which Rs 340 Mn was paid to Indian Oil Corporation Limited.

**23. RELATED PARTY DISCLOSURES (Contd...)**

**23.1 Transactions with the Related Entities (Contd...)**

**23.1.3 Transactions with Indian Oil (Mauritius) Ltd - Affiliated Company**

| Nature of Transaction | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| **Amounts Receivable as at 01 April** | - | - |
| **Amounts Payable as at 01 April** | - | - |
| Fund Received | 10,858 | (4,065) |
| Sale of Goods | (10,858) | 4,065 |
| **Amounts Receivable as at 31 March** | - | - |
| **Amounts Payable as at 31 March** | - | - |

**23.1.4 Transactions with Ceylon Petroleum Storage Terminal Limited (CPSTL) - Significant Investee**

| Nature of Transaction | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| **Amounts Receivable as at 01 April** | - | - |
| **Amounts Payable as at 01 April** | (796,788) | (448,352) |
| Fund Transfers/Payment Made | 1,072,135 | 189,289 |
| Services Rendered | (545,102) | (657,725) |
| Dividend | - | 120,000 |
| Sponsorship | - | - |
| **Amounts Receivable as at 31 March** | - | - |
| **Amounts Payable as at 31 March** | (269,755) | (796,788) |

**23.1.5 Transactions with Trinco Petroleum Terminal Limited (TPTL) - Significant Investee**

| Nature of Transaction | 2022 Rs '000 | 2021 Rs '000 |
|---|---|---|
| **Amounts Receivable as at 01 April** | - | - |
| **Amounts Payable as at 01 April** | - | - |
| Fund Transfers/Payment Made | (49,000) | - |
| Investments In Equity | 49,000 | - |
| Payment made on account of TPTL Tanks Lease Rental | (12,369) | - |
| **Amounts Receivable as at 31 March** | 12,369 | - |
| **Amounts Payable as at 31 March** | - | - |

During the year LIOC invested Rs 49 Mn in Equity of Trinco Petroleum Terminal Limited (TPTL) - Significant Investee to hold 49% of its equity value.

**23.1.6 Terms and Conditions**

Transactions with related parties are carried out in the ordinary course of the business. Outstanding current account balances at year end are unsecured, interest free and settlement occurs in cash. The intention of the Company is to settle such related party dues within a short term (less than one year).

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# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

## 23. RELATED PARTY DISCLOSURES (Contd...)

### 23.2 Transactions with Key Management Personnel of the Company or its Subsidiaries

**a)** The Key Management Personnel are the members of the Board of Directors, of the company.

Payments made to Key Management Personnel during the year were as follows:

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| Fees for Directors | 2,800 | 2,800 |
| Emoluments | 39,913 | 30,014 |
| Short Term Employment Benefits | 3,119 | 2,958 |
| | 45,832 | 35,772 |

**23.3** Apart from the transactions reported above, the company has transactions with other Government of India related entities, which includes but not limited to Goods/services etc. These transactions are conducted in the ordinary course of the company business on the terms comparable to other entities.

The Company enters into transactions, arrangements and agreements with the Government of India related entities and the Summary of transactions have been reported in follows,

| | Nature of the transactions | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|---|
| **(a) Items in Statement of Comprehensive Income** | Finance Expenses | 57,459 | 69,729 |
| | Revenue | - | 4,006 |
| | Purchases | 353,623 | 219,718 |
| **(b) Items in Statement of Financial Position** | Interest bearing Loans and Borrowings | (8,803,505) | (2,362,813) |
| | Investment in Gratuity Fund | 102,606 | 97,964 |
| | Trade Payables | 82,369 | 106,778 |
| **(c) Off statement of financial position Items** | Letters of credit | 1,797 | - |

## 24. COMMITMENTS

There were no material commitments as at the reporting date except the following:

### 24.1 Capital Commitments

Capital expenditure contracted for at end of the reporting period but not yet incurred amounts to Rs 126 Mn (2021- Rs 137 Mn).

### 24.2 Purchase Commitments

Letters of Credit opened with Banks Favouring Suppliers as at 31 March 2021 amounted to Rs.3,594 Mn (2021 - Rs 5,415 Mn).

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## 25. CONTINGENCIES

There were no material contingencies as at the reporting date except the following:

**25.1** Guarantees issued by Banks on behalf of the Company as at 31 March 2021 amounted to Rs 557 Mn (2020- Rs 620 Mn).

**25.2** There is a disagreement on interpretation of NBT Act between Company and Inland Revenue Department. The case was determined by the Tax Appeal Commission in favor of IRD for the assessment period Jan 2012 to Sept 2012 amounting to LKR 149.12 Mn including interest & penalty. Considering the merits of the case & expert opinion, LIOC filed the appeals in the Court of Appeal. The cases for the assessment period Oct 2012 to Dec 2015 & April 2016 to Mar 2017 is pending before the Tax Appeal Commission amounting to LKR 1,052.18 Mn including interest & penalty. For the assessment period April 2017 to March 2018 amounting to LKR 376.68 Mn including interest & penalty, appeals have been filed before the Commissioner General of Inland Revenue. The estimated liability for the assessment period Jan 2016 to Mar 2016 & Apr 2018 to November 2019 is LKR 410.28 Mn for which assessment orders have not yet been issued by Inland Revenue Department. NBT has been abolished w.e.f. 01.12.2019.

Therefore, total Contingent liability for the period Jan 2012 to Nov 2019 is LKR 1,988.26 Mn which includes principal demand of LKR 1,412 Mn and Interest & penalty of LKR 576 Mn for the assessed periods. The management is of the view that there will be no material liability that would arise from this case. The next hearing for the case is scheduled for on 27 June 2022.

## 26. ASSETS PLEDGED

The short term loans from banks Rs 25,778 Mn (2021- Rs 20,590 Mn) are unsecured except for the loans from State Bank of India Colombo branch amounting to Rs 8,804 Mn (2021- Rs 2,383 Mn). These loans are secured against hypothecation over trading stock held at Kolonnawa, Muthurajawala and Trincomalee terminals.

Except above no assets have been pledged as at the reporting date.

## 27. DIVIDEND

| | 2022 | 2022 | 2021 | 2021 |
|---|---|---|---|---|
| Equity Dividend on Ordinary shares | Per Share | Rs '000 | Per Share | Rs '000 |
| Declared and Paid during the year | 0.85 | 452,595 | 0.75 | 399,349 |

During the year, the Board of Directors have declared and paid a final dividend of Rs. 452,595,849.25 representing Rs 0.85 per share for the year ended 31 March 2021 (2021 - final dividend of Rs.399,349,278.75 representing Rs 0.75 per share for the year ended 31 March 2020).

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company's management oversees the management of these risks. The Company's Board of Directors is supported by an Audit Committee that advises on financial risks and the appropriate financial risk governance framework for the Company. The Audit Committee provides guidance to the Company's Board of Directors that the Company's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company policies and Company risk appetite.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd...)

### 28.1 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

An analysis of the carrying amount of financial instruments based on the currency they are denominated are as follows.

| As at 31 March 2022 | Denominated in LKR Rs '000 | Denominated in USD Rs '000 |
|---|---|---|
| Cash at bank and in hand | 1,476,089 | 1,047,660 |
| Interest Bearing Loans & Borrowings | 8,806,438 | 16,971,787 |
| Investment in Unit Trust | 2,447,539 | - |
| Investment Through Portfolio Management Services | 7,058,108 | - |
| Bank Deposits | - | 11,848,022 |
| Trade Receivables | 1,137,654 | 2,827,728 |
| Other Receivables at Amortised cost | 808,882 | - |
| Trade and Other Payables | 3,085,684 | 11,418,780 |
| **As at 31 March 2021** | | |
| Cash at bank and in hand | 201,169 | 397,781 |
| Interest Bearing Loans & Borrowings | 10,793,241 | 9,796,312 |
| Investment in Unit Trust | 7,866,496 | - |
| Investment Through Portfolio Management Services | 3,437,671 | - |
| Bank Deposits | - | 10,959,120 |
| Trade Receivables | 949,564 | 1,635,648 |
| Other Receivables at Amortised cost | 1,825,710 | - |
| Trade and Other Payables | 2,287,852 | 3,520,583 |

#### a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's short term debt obligations, Unit Trust investments and other investments. The Company manages its interest rate risk by daily monitoring and managing of cash flow, by keeping borrowings to a minimum and negotiating favorable rates on borrowings.

| 2022 | Increase/ decrease in interest rate | Effect on Profit Before Tax Rs '000 |
|---|---|---|
| **Sensitivity only using borrowings** | | |
| Increase | +1% | (257,782) |
| Decrease | -1% | 257,782 |
| **Sensitivity using Investment in deposits** | | |
| Increase | +1% | 213,537 |
| Decrease | -1% | (213,537) |

| 2021 | Increase/ decrease in interest rate | Effect on Profit Before Tax Rs '000 |
|---|---|---|
| **Sensitivity only using borrowings** | | |
| Increase | +1% | (205,896) |
| Decrease | -1% | 205,896 |
| **Sensitivity using Investment in deposits** | | |
| Increase | +1% | 222,633 |
| Decrease | -1% | (222,633) |

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## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd...)

### 28.1 Market Risk (Contd…)

#### b) Foreign currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's USD denominated loans, short term investments, Trade Receivables and Trade Payables.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate , with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of USD denominated liabilities).

| | Average Value Rs '000 | Year End Exchange Rate | Change in USD Rate | Effect on Profit Before Tax Rs '000 |
|---|---|---|---|---|
| **2022** | | | | |
| Bank Deposits (USD) | 11,848,022 | 293.87 | +/- 1% | +/- 118,480 |
| Interest Bearing Loans and Borrowings (USD) | 16,971,787 | 293.87 | +/- 1% | +/- 169,718 |
| Trade and Other Receivables (USD) | 2,827,728 | 293.87 | +/- 1% | +/- 28,279 |
| Trade and Other Payables (USD) | 11,418,780 | 293.87 | +/- 1% | +/- 114,188 |
| **2021** | | | | |
| Short Term Investments (USD) | 10,959,120 | 199.38 | +/- 1% | +/- 109,591 |
| Interest Bearing Loans and Borrowings (USD) | 9,796,312 | 199.38 | +/- 1% | +/- 97,963 |
| Trade and Other Receivables (USD) | 1,635,648 | 199.38 | +/- 1% | +/- 19,914 |
| Trade and Other Payables (USD) | 3,520,583 | 199.38 | +/- 1% | +/- 35,206 |

The movement on the post-tax effect is a result of a change in the fair value of monetary assets and liabilities denominated in US dollars, where the functional currency of the entity is a currency other than US dollars.

### 28.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions.

**Trade receivables**
Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management.

The following policies are implemented within the group in order to manage credit risk related to receivables:
• Outstanding customer receivables are regularly monitored with regular trade debtor review meetings.
• Contractual obligation to release assets only upon full payment of receivable, for related contracts and assets.

For trade receivables, the Company has applied the simplified approach in SLFRS 9 to measure the loss allowance at lifetime ECL. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Set out below is the information about the credit risk exposure on the Company's trade receivable using the provision matrix:

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd...)

### 28.2 Credit risk (Contd...)

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Carrying amount at default Rs '000 | Expected credit loss Rs '000 | Carrying amount at default Rs '000 | Expected credit loss Rs '000 |
| Current | 3,872,910 | 26,988 | 2,591,331 | 18,107 |
| < 30 days | 115,682 | 687 | 7,511 | 259 |
| 31-90 days | 231 | 5 | 407 | 71 |
| 91-180 days | 70 | 10 | 674 | 123 |
| 181-365 days | 126 | 60 | 4,602 | 2,265 |
| >365 days | 87,003 | 82,890 | 91,327 | 89,815 |
| | 4,076,022 | 110,640 | 2,695,852 | 110,640 |

**Other financial assets**

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counter party. Counterparty credit limits are reviewed by the Company's board of directors on an annual basis and may be updated throughout the year. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

For other receivable at amortized cost, bank deposits and cash and Bank balances the Company applies the three stage model approach permitted by SLFRS 9, which requires Company to follow 12 months expected credit loss method or life time expected credit loss method in assessing the losses to be recognised from initial recognition. On that basis, the loss allowance as at 31 March 2022 and 31 March 2021 were immaterial.

### 28.3 Liquidity risk

The Company monitors its risk to a shortage of funds by forecasting its operational cash requirements on an annual basis and project cash flow requirements as per the project implementation period. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans. The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and financing for current operations is already secured.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

| As at 31 March 2022 | Less than 1 year Rs '000 | More than 1 year Rs '000 | Total Rs '000 |
|---|---|---|---|
| Interest-bearing loans and borrowings | 25,778,225 | - | 25,778,225 |
| Right to Use-Lease Liability | 42,368 | 462,650 | 505,018 |
| Trade and Other Payables | 14,504,470 | - | 14,504,470 |
| | 40,325,063 | 462,650 | 40,787,713 |

| As at 31 March 2021 | Less than 1 year Rs '000 | More than 1 year Rs '000 | Total Rs '000 |
|---|---|---|---|
| Interest-bearing loans and borrowings | 20,589,553 | - | 20,589,553 |
| Right to Use-Lease Liability | 40,284 | 41,836 | 82,120 |
| Trade and Other Payables | 5,808,435 | - | 5,808,435 |
| | 26,438,272 | 41,836 | 26,480,108 |

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd...)

### 28.4 Price Risk

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

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

### 28.5 Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, capital is monitored on the basis of the desired gearing ratio within 40%.

| | 2022<br>Rs '000 | 2021<br>Rs '000 |
|---|---|---|
| Total borrowings (Note 22.1) | 25,778,225 | 20,589,553 |
| Less :- Cash and cash equivalents (Note 19.1) | (2,523,749) | (598,950) |
| Net debt | 23,254,476 | 19,990,603 |
| Total Equity | 24,285,914 | 19,923,644 |
| Total Capital | 50,064,139 | 40,513,197 |
| **Gearing ratio** | 46% | 49% |

For the details on dividends please refer note no 27.

## 29. FAIR VALUES

The carrying amounts of the Company's financial instruments by classes, that are not carried at fair value in the financial statements are not materially different from their fair values.

### a) Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial assets by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 March, the Company held the following financial instruments carried at fair value on the statement of financial position:

**29. FAIR VALUES (Contd...)**

**b) Financial Assets measured at fair value**

| | 2022 Rs '000 | Level 1 Rs '000 | Level 2 Rs '000 | Level 3 Rs '000 |
|---|---|---|---|---|
| Investment in Unit Trust (Note 22.4) | 2,447,538 | 2,447,538 | - | - |

| | 2021 Rs '000 | Level 1 Rs '000 | Level 2 Rs '000 | Level 3 Rs '000 |
|---|---|---|---|---|
| Investment in Unit Trust (Note 22.4) | 7,866,496 | 7,866,496 | - | - |

During the reporting period ended 31 March 2022, there were no transfers between Level 1 and Level 2 fair value measurements.

**30. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS**

Financial assets and financial liabilities are measured on an ongoing basis at either fair value or amortised cost. The summary of significant accounting policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyse the carrying amount of financial assets and liabilities by category as defined in SLFRS 9 - Financial Instruments : Recognition and measurement and by Statement of Financial Position heading:

**As at 31 March 2022**

| **Financial Assets** | Note | Financial Assets and Liabilities at FVTPL Rs '000 | Financial Assets and Liabilities at Amortised Cost Rs '000 | Total Rs '000 |
|---|---|---|---|---|
| Other Receivables at amortised cost | 17 | - | 796,513 | 796,513 |
| Trade Receivables | 16 | - | 3,965,382 | 3,965,382 |
| Bank deposits | 22.3 | - | 11,848,022 | 11,848,022 |
| Investment in Unit Trust | 22.4 | 2,447,538 | - | 2,447,538 |
| Investment Through Portfolio Management Services | 22.2 | - | 7,058,108 | 7,058,108 |
| Cash and Bank Balances | 19 | - | 2,523,749 | 2,523,749 |
| **Total Financial Assets** | | 2,447,538 | 26,191,774 | 28,639,312 |
| **Financial Liabilities** | | | | |
| Trade and Other Payables | 21 | - | 14,504,470 | 14,504,470 |
| Interest Bearing Loans and Borrowings | 22.1 | - | 25,778,225 | 25,778,225 |
| **Total Financial Liabilities** | | - | 40,282,695 | 40,282,695 |

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**30. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS (Contd...)**

**As at 31 March 2021**

| **Financial Assets** | **Note** | **Financial Assets and Liabilities at FVTPL Rs '000** | **Financial Assets and Liabilities at Amortised Cost Rs '000** | **Total Rs '000** |
|---|---|---|---|---|
| Other Receivables at amortised cost | 17 | - | 1,825,710 | 1,825,710 |
| Trade Receivables | 16 | - | 2,585,212 | 2,585,212 |
| Bank deposits | 22.3 | - | 10,959,120 | 10,959,120 |
| Investment in Unit Trust | 22.4 | 7,866,496 | - | 7,866,496 |
| Investment Through Portfolio Management Services | 22.2 | - | 3,437,671 | 3,437,671 |
| Cash and Bank Balances | 19 | - | 598,950 | 598,950 |
| Total Financial Assets | | 7,866,496 | 19,406,663 | 27,273,159 |
| **Financial Liabilities** | | | | |
| Trade and Other Payables | 21 | - | 5,808,435 | 5,808,435 |
| Interest Bearing Loans and Borrowings | 22.1 | - | 20,589,553 | 20,589,553 |
| Total Financial Liabilities | | - | 26,397,988 | 26,397,988 |

**31. Events after the end of reporting period**

**a)** Other than those disclosed below, no events have occurred since the statement of financial position date which would require adjustments to, or disclosure in, the financial statements. The following disclosures are considered as non adjusting events after the reporting period.

Financial assets and financial liabilities in foreign currency, disclosed in the note no 28.1 were valued in LKR using the year end foreign exchange rate of 293.86 (LKR/USD). However, the foreign exchange rate reported by the Central Bank of Sri Lanka on 28 April 2022 was 348.58 (LKR/USD). Hence the net foreign currency liability of LKR 13.7 Bn that is exposed to foreign currency risk at the financial year-end would increase significantly to LKR 16.27 Bn resulting in a net exchange loss for the year ended 31 March 2022 amounting to LKR 2.5 Bn approximately, If it were valued at the 28 April 2022 exchange rate. Exchange rate fluctuations occurred after the balance sheet date is not adjusted in the current year financial statements since the conditions that gave rise to the loss did not exist as at 31 March 2022. The company has been revising its selling prices to circumvent the losses arising from the exchange rate impact on input costs.

| | **USD Amount 000** | **Date Valued** | **Exchange Rate** | **LKR Equivalent '000** |
|---|---|---|---|---|
| Unpaid USD denominated Interest Bearing Loans | 57,752 | 27/04/2022 | 348.58 | 20,131,321 |
| and Borrowings brought forward from the Statement | 57,752 | 31/03/2022 | 293.87 | 16,971,787 |
| of Financial Position date | | | | (3,159,534) |
| Unpaid USD denominated Trade & Other Payables | 38,856 | 27/04/2022 | 348.58 | 13,544,545 |
| brought forward from the Statement of Financial | 38,856 | 31/03/2022 | 293.87 | 11,418,780 |
| Position date | | | | (2,125,765) |
| **Estimated Unrealized Foreign Exchange Loss** | | | | (5,285,299) |
| USD denominated Bank Deposits brought forward | 40,317 | 27/04/2022 | 348.58 | 14,053,696 |
| from the Statement of Financial Position date | 40,317 | 31/03/2022 | 293.87 | 11,848,022 |
| | | | | 2,205,674 |
| USD denominated Trade & Other Receivable | 9,622 | 27/04/2022 | 348.58 | 3,354,149 |
| brought forward from the Statement of Financial | 9,622 | 31/03/2022 | 293.87 | 2,827,728 |
| Position date | | | | 526,421 |
| **Estimated Unrealized Foreign Exchange Gain** | | | | 2,732,095 |
| **Net Estimated Unrealized Foreign Exchange Loss** | | | | **(2,553,204)** |

**31. Events after the end of reporting period (Contd…)**

**b) Accessibility to foreign currency**

The Sri Lankan economy has been facing a shortage of foreign currency that has impacted the availability of foreign currency. Since petroleum products are considered as essential items, the Company is confident in meeting these challenges with the support of the Government of Sri Lanka, the Central Bank of Sri Lanka and its bankers.

**c) Interest rates**

The Monetary Board of the Central Bank of Sri Lanka increased the standing deposit facility rate and the standing lending facility rate by 700 basis points on 8 April 2022. This will negatively impact the finance costs of the Company.

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