



Annual Report 2017



Bogala Graphite



Bogala Graphite

Annual Report 2017

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Financial and Operational Highlights

Bogala Graphite Lanka PLC

Year Ended 31st December

		2017	2016	% Change
Earnings Highlights and Ratios				
Revenue	Rs.million	732.9	702.5	4.3
Gross profit	Rs.million	255.0	270.4	(5.7)
(Loss)/Profit before Tax	Rs.million	(21.0)	79.3	(126.5)
(Loss)/Profit after tax	Rs.million	(19.7)	73.8	(126.6)
EBITDA	Rs.million	21.7	131.7	(83.5)
Cash from operating activities	Rs.million	56.4	111.4	(49.4)
Gross profit to turnover	%	34.8	38.5	(9.6)
Net income to turnover	%	(2.7)	10.5	(125.5)
Return on equity (ROE)	%	(6.1)	21.1	(128.7)

Balance Sheet Highlights & Ratios				
Total assets	Rs.million	608.7	579.7	5.0
Total debt	Rs.million	284.9	230.4	23.7
Total shareholders' funds	Rs.million	323.8	349.3	(7.3)
No of shares in issue	Million	94.6	94.6	-
Net assets	Rs.million	323.8	349.3	(7.3)
Net assets per share	Rs.	3.4	3.7	(7.3)
Debt/equity (book value)	%	88.0	66.0	33.3

Operational Highlights				
Lost time accident rate	%	1.5	2.4	37.5
Accident severity rate	%	0.06	0.11	45.5
Earning per share	Rs.	(0.2)	0.8	(126.9)

On behalf of the Board we wish to welcome you to the 27th Annual General meeting of our Company.

The year under review was indeed a very challenging one. With deep regret we had to report a fatal accident resulting in the loss of a valuable employee's life at the beginning of the year. This accident occurred despite the high standards we have set with regards to safety.

Safety of our workers is our primary focus at Bogala Graphite Lanka PLC. In 2013 we were one of the first Sri Lankan companies to achieve certification according to the Occupational Health and Safety Standard (OHSAS 18001). Substantial investments in safety and respective training led to a reduction of work accidents by 98% in the last 10 years. We conduct safety and health briefings with the employees on a regular basis. On some occasions we invite their family members to these briefings so that they too are aware of the safety measures that have to be taken by the employees - particularly underground.

Even taking into account all our efforts, this accident occurred; which resulted in the death of an employee who had not followed the mandatory instructions.

Bogala has paid the obligatory compensation to the aggrieved family. In addition to that we voluntarily agreed with the Commissioner of Compensation to pay the deceased's salary until his age of retirement to the family. Even though these payments will be made on a monthly basis, the full impact had to be recorded in 2017 accounts.

As a consequence of this accident the Geological Surveys and Mines Bureau (GSMB) conducted an independent evaluation of the incident. As a result, we could not operate the mine as planned leading to a loss in ROM and a related negative impact on our financial results. This limitation was lifted only after a report was issued by the University of Moratuwa, who are experts in assessing the safety measures necessary when mining activities are taking place. This report exonerated the Company from any blame whatsoever and stated that the safety measures adopted by the Company are well above the accepted norms. This limitation was in force from January to early June 2017. Consequently, affecting our ability to mine as planned during the first half year.

Our focus was to increase our productivity continuously during the year under review. We were mindful in having the right organisational structure in place to meet any future competitive threats. To achieve this objective, we introduced an early retirement scheme with financial incentives which cost the Company a sum of Rs.67 million, directly impacting our bottom line which, however, will have a favourable impact in the years ahead.

Despite all this, your Company achieved a turnover of Rs.732 million compared to Rs.702 million the previous year. This is notwithstanding the devaluation of the Rupee during the year under review.

Economic Environment

The county's economy grew by 3.9% in real terms during the first half of 2017 compared to 3.7% growth in the first half for 2016. However the adverse weather conditions hampered the growth of the agricultural sector, whilst the growth of the services sector helped boost the economy to some extent.

The balance of payment continued to decline because of the decline in foreign remittances and the high import bill.

The consumer price inflation remained high due to the combined effect of tax revisions and the adverse effect that the weather conditions had on commodity prices both locally and internationally.

The IMF in their World Economic Outlook – October 2017 indicated that the international economy would stabilise and grow in the year 2018.

Locally, the government is anticipating a higher economic growth by making the country an economic hub through improved global linkages. Entering of trade agreements and the links to global production network need to be driven by the active participation of the private sector. However, political and economic stability in the country will be a key factor if we are to achieve the growth that is envisaged.

Corporate Performance

Cash requirement to fund the Capital Expenditure and the Operational Re-structuring needs were internally generated. We were unable to meet the total requirement of sales to our parent company GK due to the lack of available material for reasons mentioned above. However, increased sales were made to the Far Eastern markets, Near and Middle Eastern markets, UK and USA, which contributed to the increased turnover.

The product mix with higher margins for graphite and the increased sales of lubricants by approximately 21% contributed to this commendable result.

The reasons for making a loss of Rs.17.1 million during the year under review was mainly impacted by the aforementioned death compensation and the introduction of the early retirement scheme which cost the Company Rs.67 million.

Nevertheless, the performance for the year is noteworthy compared to the previous year considering the exceptional circumstances referred to above.

The recent trends have indicated that we are on the right path to making profits in the future which we are confident will be demonstrated when the first quarter results are published at the end of March 2018 subject to any unforeseen circumstances.

Compliance and Risk Management

We have complied with the regulations laid down by the SEC in respect of establishing a Related Party Transaction Review Committee. In addition to the Audit and Remuneration Committees already in place. The requirements of Corporate Governance as laid down by the SEC have also been adhered to.

The Management of risk forms a significant part of our processes. In keeping with this policy, a well thought out disaster recovery plan and a business continuity plan are in place after a thorough review of risks to the business having been identified.

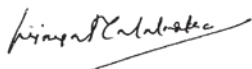
Future Prospects

Greater challenges are likely in the near future. To meet these challenges, the Company has downsized its management structure appropriately, with a view to being cost effective whilst being safety and quality conscious in every aspect to gain a competitive advantage. We are confident in our ability to withstand whatever challenges we may face in the future.

Acknowledgement

In conclusion, on behalf of the Board of Directors and all employees of the Company, I thank all our shareholders, including our major shareholder and Parent Company Graphit Kropfmühl for their unwavering support, and the stakeholders for the continued trust and confidence placed in the management of the Company and the support extended to the Company during the year.

Finally, I thank my colleagues on the Board for their guidance and support and wish to extend my sincere appreciation to the Management team and all employees who have worked diligently in trying conditions towards creating greater value for our stakeholders. I am confident that they will continue to demonstrate their support in the future.



Vijaya Malalasekara
Chairman
22nd February 2018

2017 was a year of challenge - beginning with a fatal accident followed by regulatory restrictions limiting our ability to work. Implementation of an operational re-structuring plan in the Company to support the Group in improving the overall graphite business also brought in additional challenges. This resulted in the Company downsizing its present management structure towards a more appropriate structure to achieve greater efficiency and enhanced productivity.

With deep regret we had to report a fatal accident in January 2017 which resulted in the loss of a valuable employee - Pradeep Kumara who was a team leader. The deceased employee's family with three children was immediately compensated under the workmen compensation insurance scheme. Additionally, the Company decided to pay the deceased's salary to the family until his age of retirement, on a voluntary basis. The respective provision has been made in 2017.

We requested the University of Moratuwa who have experts in mining to review all our safety measures which are in place. They were of the view that the measures already in place and the regular briefings on safety were above the expected norms of safety in the mining industry. We will continue regular training sessions as we have done in the past emphasising the need for safety and health.

Operational re-structuring resulted in achieving what we believe to be the ideal manning level for our Company.

The financial year ending 31st December 2017 recorded a revenue of Rs. 732.8 million (2016 Rs. 702.4 million), whilst the underlying operating loss was Rs. 17.1 million (profit for 2016 Rs. 85.4 million). The Company reported a loss before taxation of Rs. 20.9 million (profit for 2016 Rs. 79.3 million). This includes the aforementioned death compensation cost and an early retirement compensation cost of Rs.67.3 million. Negative earnings per share (EPS) recorded Rs.0.21 for the year with 94,632,904 shares in circulation compared to positive EPS of Rs.0.78 with similar shares in 2016. The results stated above were mainly due to the death compensation costs and the early retirement compensation costs.

Health and Safety

We continue to place great importance on health and safety measures. These are one of our key operational areas of focus. Despite the fatal accident in January 2017, we were able to maintain the loss time accidents to a low level and recorded only 7 minor accidents. However, we are making every possible effort to regain and maintain a zero lost time accident level that we achieved in 2015. We are confident that in the coming year we will be able to achieve this through strong commitment and on-going training.

Outlook

Despite encountering major challenges during the year under review, our consistent business focus, with the support of our parent company, along with the commitment from our work force enabled the Company to achieve its performance goals. It is critical for us to increase our production and productivity whilst minimising costs particularly in an environment where demand appears to be increasing. The Company consciously monitors industry developments which are taking place to identify potential threats that we may have to face in the years to come. We believe that our quest for continuous improvement will help us to achieve and meet these challenges as and when they arise.

Appreciation

I would like to take this opportunity to thank our parent company Graphit Kropfmühl GmbH, the Chairman and the Board of Directors for putting their faith in me, and for the support and guidance they have given me.

I sincerely wish to thank all our shareholders, employees, management team and staff for their unstinted support given to me throughout the year and look forward to working with them in the future as we continue to expand our business.



Amila Jayasinghe
Chief Executive Officer
22nd February 2018

Vijaya Malalasekera *(Non-Executive /Independent Director)*

MA (Cantab), Barrister-at-Law (Inner Temple)
Attorney-at-Law

He was appointed Chairman of Bogala Graphite Lanka PLC in April 2000. He is currently the Chairman of Fairway Sky Homes (Private) Limited. He also serves on the Board of Carson Cumberbatch PLC.

Thomas A. Junker *(Non-Executive Director)*

Mr. Junker is a graduate in Civil Engineering from the University of Applied Science in Aalen, Germany. He was appointed a Director of Bogala Graphite Lanka PLC on 26th March 2010. He is with Graphit Kropfmühl since April 2008 and currently serves as the President of AMG Graphite group. He also is the Managing Director of Qingdao Kropfmühl Graphite Ltd and Board Director since 2011.

J.C.P. Jayasinghe B.Com (Ceylon) *(Non-Executive Director)*

He was appointed Vice Chairman/CEO of Bogala Graphite Lanka PLC in April 2000. Upon his retirement from the position of CEO he was invited to the Board of the company as a Consultant/Director in January 2008 and holds the position to date.

Roger P. Miller *(Non-Executive Director)*

Mr. Miller was appointed a Director of Bogala Graphite Lanka PLC on 28th April, 2016. He is a founder and Managing Partner of Alterna Capital Partners (a private investment manager in the United States) since 2007 and a Director of AMG GK since March, 2015. He holds a BS in Mining Engineering from Montana School of Mines and a MBA from Cornell University.

Torben Müller *(Non-Executive Director)*

Mr. Müller was appointed a Director of Bogala Graphite Lanka PLC on 31st December 2012. He joined in January 2012 and served in various positions at AMG Mining GmbH and Graphit Kropfmuehl GmbH, latest as Managing Director and CFO. In addition he serves Graphite Kropfmuehl de Mozambique Lda and GK Ancuabe Graphite Mine SA as a Director since 2012. He holds a MBA and a Bachelor of Arts Degree from University of Applied Science Ludwigschafen.

A.P. Jayasinghe B.Bus, CPA *(Executive Director)*

Mr. Jayasinghe was appointed to Board of Bogala Graphite Lanka PLC in April 2004. He has worked in the capacity of Executive Director of the company from April 2000 to August 2005. Mr Jayasinghe was appointed Chief Executive Officer in January 2008.

Ms. M. C. Pietersz *(Non-Executive/Independent Director)*

Ms. M. C. Pietersz was appointed a Director on 14th May 2013. She is an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Institute of Chartered Accountants of Sri Lanka and holds a B.Sc (Honours) degree in Physics from the University of Sussex and an MBA from Heriot-Watt University, Edinburgh. Ms. Coralie Pietersz is the Finance Director of Finlays Colombo Limited, Hapugastenne Plantations PLC and Udapussellawa Plantations PLC. She serves as an Independent Director on the Board of Seylan Bank PLC.

Sugath Amarasinghe ACA, ASCMA *(Executive Director)*

Mr. Amarasinghe was appointed a Director on 4th April 2014. He is a member of the Institute of Chartered Accountants of Sri Lanka and the Institute of Certified Management Accountants of Sri Lanka. He possesses 25 years of working experience in the Mercantile Sector with industry coverage from FMCG (Foods & Beverages), Automobile, Services (Corporate and Management Consultancy), Information Technology, Garment Manufacturing and Garment Processing.

Mohamed Adamaly *(Non-Executive/Independent Director)*

Attorney-at-Law, Marketer

Mr. Adamaly was appointed to the board with effect from 2nd October 2014. He is an Attorney-at-Law, holds a Bachelors in Law (LL.B.) with Honors from University of Colombo and a Post Graduate Diploma in Marketing from Chartered Institute of Marketing, UK. Mr. Adamaly is a practicing lawyer specializing in investment consultancy, commercial litigation, labour and public law. He is also a resource person for Director Training for the Sri Lanka Institute of Directors, a Senior Lecturer in Marketing and serves on several boards of Public and Private companies.

Corporate Governance framework of the Company is based on the core principles of accountability, fairness and transparency and is the foundation for creation, enhancement and maintenance of sustainable business model. The Board provides strategic guidance and sets the tone enhancing stakeholder wealth whilst making certain that proper internal control systems are in place to ensure compliance with generally accepted Corporate Governance practices and specific requirements under the rules set out in Section 7.10 of Listing Rules of Colombo Stock Exchange together with the Code of Best Practices issued by the Institute of Chartered Accountants of Sri Lanka on matters relating to the financial aspect of Corporate Governance as a useful guideline.

The Board of Directors

The Board, comprise nine Directors, with seven Non-Executive Directors and two Executive Directors. These Directors are professionals and with considerable experience in business matters and they are men of repute. They are entrusted with, and are responsible for providing strategic direction to the Company and for proper stewardship of the Company's affairs; and share responsibility in ensuring that the highest standards of information - particularly financial information, business ethics and integrity, is adhered to.

Name	Executive	Non-Executive	Independent
Mr. V.P. Malalasekera		√	√
Mr. Thomas A Junker		√	
Mr. J.C.P. Jayasinghe		√	
Mr. A. P. Jayasinghe	√		
Mr. Torben Müller		√	
Ms. M. Coralie Pietersz		√	√
Mr. A. S. R. Amarasinghe	√		
Mr. Mohamed Adamaly		√	√
Mr. Roger Miller		√	

The Non-Executive Directors do not have any business interest except what is stated under Note 23 Related Party Disclosure on page No 50 of the Annual Report, that could materially interfere with the exercise of their independent judgment. Each Non-Executive Director has submitted a declaration of his or her independence or non-independence as required under the Listing Rules of the Colombo Stock Exchange.

The Board places strong emphasis on transparency, accountability, and integrity of transactions, in line with the code of Corporate Governance. Whilst the Board is responsible for guiding the overall direction, strategies and financial objectives, overseeing systems of internal control, risk management, and strategic plans, it is the responsibility of the corporate management team to ensure its implementation.

The Board has determined that Mr. Vijaya Malalasekera is an independent Director since he is not directly involved in the Management of the Company. The Board having considered these factors is of the opinion that Mr. Vijaya Malalasekera should continue to serve on the Board as an independent director notwithstanding the fact that he has served on the Board for more than ten years, as it is beneficial to the Company and its shareholders.

During the year under review four Board meetings were convened. The Directors are provided with relevant information and background material relevant to the agenda prior to every meeting to enable them to make informed decisions. Board papers are submitted in advance on Company performance, new investments, capital projects and other issues which require specific Board approval.

The attendance at the Board meetings held during the financial year 2017							
Directors	Year of Appointment to the Board	03/02/2017	29/04/2017	08/08/2017	01/11/2017	Eligible to Attend	Attended
Vijaya Malalasekera	2000	✓	✓	✓	✓	4	4
Thomas Junker	2010	Excused	Excused	✓	✓	4	2
J.C.P. Jayasinghe	2008	✓	✓	✓	✓	4	4
Torben Müller	2012	✓	✓	✓	✓	4	4
Amila jayasinghe	2004	✓	✓	✓	✓	4	4
Coralie Pietersz	2013	✓	✓	✓	✓	4	4
Sugath Amarasinghe	2014	✓	✓	✓	✓	4	4
Mohamed Adamaly	2014	✓	✓	Excused	✓	4	3
Roger Miller	2016	✓	✓	✓	Excused	4	3

The Role of the Chairman

The Chairman is an Independent Non-Executive Director who is responsible for the efficient conduct of Board meetings and, ensures effective participation of both Executive and Non-Executive Directors. While leading the Board, effectively executing its duties towards all stakeholders, he ensures that appropriate information is available to the Board to make an informed assessment of the Company's affairs. The Chairman, with the assistance of the Board Secretary, sees that Board procedures are followed and that the Directors receive timely, accurate and clear information before the Board meetings and updates on matters arising between meetings.

The Chairman whilst providing leadership to the Board also sets the tone for the governance and ethical framework of the Company, facilitates and solicits the views of all Directors by keeping in touch with local and global industry developments, whilst ensuring that Board is sensitive to its obligations to the Company's shareholders and stakeholders. He also tries to make sure that constructive working relations are maintained between the Executive and Non-Executive Directors of the Board so that every member is able to contribute effectively within their respective competencies.

Delegation of Authority

The Board is the ultimate decision-making body of the Company, except with respect to matters reserved to Shareholders. The primary function of the Board is to exercise its collective business judgment and to act in the best interest of the Company and its Shareholders. In exercising its business judgment, the Board acts as an advisor and counsellor to the CEO/Managing Director who defines and enforces standards of accountability, with a view to enabling senior management to execute their responsibilities fully in the interest of the Shareholders and the Company. The Board assesses the effectiveness of the management team through periodic review of their performance and compliance to best corporate practices.

Board Committees

The Board has delegated some of its functions to the Board Sub Committees, whilst retaining the rights of final decision. Members of these Sub Committees are able to focus on their designated areas of responsibility and impart knowledge and oversight in areas where they have greater expertise. The Directors dedicate sufficient time at such meetings to review respective documentation relating to the meeting, and call for additional information for any further clarification, in addition to familiarising themselves with the economic factors, legal and political risks and changes.

The three Board Sub Committees are;

1. Audit Committee
2. Remuneration Committee
3. Related Party Transaction Review Committee

The committees are provided with all resources to empower them to undertake their duties in an effective manner. The Company Secretary acts as secretary to these committees except the Remuneration Committee. The minutes of each committee meeting are circulated to all Directors on completion. The respective roles and responsibilities of each of the Board Sub Committees are included in the report.

Name	Audit Committee	Remuneration Committee	Related Party Transaction Review Committee
Mr. V. P. Malalasekera Independent Non-Executive Director	Member	Chairman	Chairman
Mr. Thomas A Junker Non-Executive Director	-	-	Member
Ms. M. Coralie Pietersz Independent Non-Executive Director	Chairperson	-	Member
Mr. Mohamed Adamaly Independent Non-Executive Director	Member	Member	Member
Mr. Torben Müller Non-Executive Director	Member	Member	-

Audit Committee

The Audit Committee is responsible for monitoring the integrity of the financial statements of the Company by ensuring compliance with relevant financial reporting regulations and requirements. The Audit Committee also ensures the independence of the External Auditor and objectivity of Internal Auditor and reviews with independent auditors the adequacy of internal controls and the quality of financial reporting.

The Committee is also responsible for the consideration and recommendation of the appointment of External Auditors, the maintenance of a professional relationship with them, reviewing the accounting principles, policies, and practices adopted in the preparation of financial information to the public.

The Audit Committee has formalised its authority, responsibilities, and duties through the Audit Committee Terms of Reference.

The Board has appointed an Audit Committee consisting three Independent Non-Executive Directors and a Non-Executive Director and is chaired by Ms. M. Coralie Pietersz. A comprehensive report of the Audit Committee appears on page 17.

Remuneration Committee

The Committee is responsible for determining and agreeing with the Board a framework for remuneration of Chief Executive Officer, Finance Director and Management Team. They consider target, and benchmark principles, for any performance related scheme and determine total remuneration packages keeping in view performance, industry trends and past remuneration. Employee performance is measured through key performance indicators including financial and non-financial measures of performance, and links a significant component of pay to individuals and the Company's performance. This encourages better performance, and limit pre-established contractual arrangements of the Company to avoid unjustified payments.

Determining the compensation of Non-Executive Directors are not under the scope of this Committee.

The Remuneration Committee comprises three Non-Executive Directors of which two are Independent Directors. The Committee is headed by Mr. Vijaya Malalasekera and the members include Mr. Torben Müller, and Mr. Mohamed Adamaly.

The remuneration policy and its role is discussed in the report of the Remuneration Committee given on page 19.

Related Party Transaction Review Committee

The objective of the Committee is to ensure on behalf of the Board that all Related Party Transactions of the Company with its parent, associate companies, and or any key management persons are undertaken and disclosed in a manner consistent with the Code of Best-Practices on Related Party Transactions issued by the SEC.

The Committee has developed and recommended a policy for adoption by the Board on RPT transactions of the Company with its parent, associate companies and others which is consistent with the Operating Model. The Committee update the Board on Related Party Transactions on a quarterly basis following the reporting templates, that specifies transaction threshold values based on recurrent and non-recurrent transactions which require discussion in detail, RPTs which require pre-approval by the Board, RPTs which require to be reviewed annually as specified in the guidelines of the SEC.

The Committee in discharging its functions have introduced processes whereby periodic reporting of the Company with a view to ensuring, that there is compliance with the Code, that shareholder interests are protected and that fairness and transparency are maintained at all times.

The Committee comprises four Non-Executive Directors and three of them are Independent Directors. The Committee is headed by Mr. Vijaya Malalasekera and the Report of the Related Party Transaction Review Committee is given on page 20. The Chief Executive Officer and Finance Director attend the meetings by invitation and the Company Secretaries serves as the Secretary to the Committee.

Accountability and System of Internal Control

The Board is responsible for the effectiveness of internal controls. The system is designed to give assurance, inter alia, safeguarding of all assets, the maintenance of proper accounting records and the reliability of the financial information generated. However, any system can only ensure reasonable and not absolute assurance that errors and irregularities are either prevented or detected within a reasonable time period.

The effectiveness of the internal control system is reviewed quarterly by the Audit Committee and major observations are reported to the Board through the reports of internal audit. The internal audit function is outsourced to Messrs' B. R. De Silva & Company, Chartered Accountants. The Board reviews the comments arising from the internal audits and monitors their progress through action plans focused to take corrective measures. The Board also evaluates appropriateness with the actual results and industry standards.

External Auditor is a qualified independent external party whose objective is to determine whether the Financial Statement of the Company represents a true and fair view of its financial performance, position and cash flow status. The audit firm KPMG, Chartered Accountants, was re-appointed at the AGM 2016 as external auditors of the Company for the financial year 2017.

The knowledge and experience of the Audit Committee ensures effective usage of the expertise of the auditors, while maintaining independence, in order to derive transparent Financial Statements. The Company maintains independence from financial and non-financial interest between auditors and re-assesses the same on a regular basis. The fees paid to audit and non-audit services are separately disclosed in the Notes to the Financial Statements.

The Board, having reviewed the system of internal control is satisfied with the Company's adherence to and effectiveness of them for the period up to the date of signing the Financial Statements.

Statement of compliance under Section 7.10 of the Rules of the Colombo Stock Exchange (CSE) on Corporate Governance (Mandatory provisions – Fully Complied)

Company has complied with the mandatory disclosure requirement on Corporate Governance for Listed Companies in Sri Lanka issued by the Colombo Stock Exchange (CSE) as set out below.

Corporate Governance Report

Bogala Graphite Lanka PLC

CSE Rule Reference	Corporate Governance Principles	Compliance Status	Bogala extent of adoption
7.10 (a, b, c)	Compliance	Complied	Compliance with Corporate Governance Rules
7.10.1(a, b, c)	Non-Executive Directors (NED)	Complied	Seven out of nine Directors are Non-Executive Directors
7.10.2 (a)	Independent Directors - 2 or 1/3 of NEDs, whichever is higher, should be independent	Complied	Three out of seven Non-Executive Directors are independent
7.10.2 (b)	Independent Directors- each NED should submit a signed and dated declaration of independence or non-independence	Complied	All NED's have submitted their confirmation on independence in line with regulatory requirement
7.10.3 (a, b)	Disclosure Relating to Directors - The Board shall annually determine the independence or otherwise of the NEDs	Complied	Names of the Independent Directors are disclosed on Page 22 and Criteria for independence have been met
7.10.3 (c)	Disclosure relating to Directors - a brief resume of each Director should be included in the Annual Report (AR) including the Director's areas of expertise	Complied	Brief resumes of the Directors are given under Directors' Profiles on Page 8
7.10.3 (d)	Disclosure relating to Directors – provide a brief resume of new Directors appointed to the Board along with details	Complied	Disclosed the appointments of new Directors to the CSE with brief resume when it was disclosed to the public
7.10.4 (a to h)	Criteria for Defining Independence – requirements for meeting criteria to be an independent Director	Complied	Company has established it through their independence statement
7.10.5	Remuneration Committee (RC)	Complied	Company has a Remuneration Committee
7.10.5 (a)	Composition of Remuneration Committee – shall comprise of NEDs, a majority of whom shall be independent, one NED shall be appointed as Chairman of the Committee	Complied	The Committee comprises two Independent Non-Executive Directors and a Non-Executive Director. Chairman of the Committee is a NED
7.10.5 (b)	Functions of Remuneration Committee – The RC shall recommend the remuneration of the CEO and Executive Director and Senior Management Staff	Complied	The Committee has recommended the remuneration of Chief Executive Officer, Finance Director, and Management Team
7.10.5 (c)	Disclosure in Annual Report relating to Remuneration Committee – Names of the Directors comprising the RC, statement of policy, aggregated remuneration paid to ED and NED	Complied	Refer page 19 for names of the committee members, and for the remuneration policy. The aggregate remuneration paid to Executive and Non-Executive Directors is given under Note 23.2 to the Financial Statements on page 50
7.10.6	Audit Committee (AC)	Complied	Company has an Audit Committee

Corporate Governance Report

Bogala Graphite Lanka PLC

CSE Rule Reference	Corporate Governance Principles	Compliance Status	Bogala extent of adoption
7.10.6 (a)	Composition of Audit Committee – Shall comprise NED a majority of whom shall be independent, An NED to be the Chairman of the Committee, CEO and FD to attend AC meetings, Chairman of the AC or one member should be a member of a professional accounting body	Complied	The Audit Committee comprises three Independent Non-Executive Directors, and a Non-Executive Director. CEO and Finance Director attended committee meetings by invitation. Chairman of the Committee is a NED
7.10.6 (b)	Audit Committee Functions – Preparation, presentation and adequacy of disclosures in the financial statements in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS), Compliance with financial reporting requirements, Ensuring that internal controls and risk management are adequate to meet the requirements of the SLFRS/LKAS, Assessment of the independence and performance of the external auditors, Make recommendations to the Board pertaining to appointment, re-appointment and removal of external auditors, and approve the remuneration and terms of engagement of the external auditors	Complied	Please refer page 17 for the functions of the Audit Committee
7.10.6 (c)	Disclosure in Annual Report relating to AC- Names of Directors comprising the AC, The AC shall make a determination of the independence of the Auditors and disclose the basis for such determination, The Annual Report shall contain a Report of the AC setting out the manner of compliance with their functions	Complied	The names of the Audit Committee members and the basis of determination of the independence of the auditor are given in the Audit Committee report on page 14

Statement of compliance under Section 168 of Companies Act No.07 of 2007

Company Act Section	Companies Act Requirement	Compliance Status	Reference to Annual Report 2017
168.(1) (a)	The nature of the business of the Company together with any change thereof during the accounting period	Complied	Annual Report of the Board of Directors Page No 21
168.(1) (b)	Signed financial statements of the Company for the accounting period completed - section 151	Complied	Financial Statements Page No 29
168.(1) (c)	Auditors' Report on financial statements of the Company	Complied	Independent Auditors' report Page No 27
168.(1) (d)	Accounting policies and any changes therein	Complied	Notes to the Financial Statements Page No 32 - 42

Corporate Governance Report

Bogala Graphite Lanka PLC

Company Act Section	Companies Act Requirement	Compliance Status	Reference to Annual Report 2017
168.(1) (e)	Particulars of the entries made in the Interest Register during the accounting period	Complied	Annual Report of the Board of Directors Page No 23
168.(1) (f)	Remuneration and othe benefits paid to Directors of the Company during the accounting period	Complied	Notes to the Financial Statements Page No 50
168.(1) (g)	Corporate donations made by the Company during the accounting period	Complied	Notes to the Financial Statements Page No 43
168.(1) (h)	Information on the Directorate of the Company at the end of the accounting period	Complied	Annual Report of the Board of Directors Page No 22
168.(1) (i)	Amounts paid/payable to the External Auditors as audit fees and fees for other services rendered during the accounting period	Complied	Notes to the Financial Statements Page No 43
168.(1) (j)	Auditors' relationship or any interest with the Company	Complied	Audit Committee Report Page No 17
168.(1) (k)	Acknowledgement of the contents of this Report and signatures on behalf of the Board	Complied	The Statement of Directors Responsibilities Page No 26

Risk Management

The Company has established an integrated risk management process to identify the types of risk specific to the industry in which we operates, measure those potential risks and to develop strategies in order to mitigate such risks. Risk management is an essential element of our corporate governance structure and strategic development process. Therefore, appropriate systems, policies and procedures are in place in all areas of operations and they are periodically reviewed to ensure adequacy and adherence.

Risk management is an integrated discipline and it plays a pivotal role in balancing strategic planning with business execution and compliance. This facilitates informed decision making and a conscious evaluation of opportunities and risks. Company overall risk management process is overseen by the Board through the Audit Committee as an important part of corporate governance.

However, we also recognise that risk management is a shared responsibility of all employees of the Company, rather than being a separate and standalone process. Hence it is integrated in to all business and decision making processes including strategy formulation, business planning, business development, investment decisions, capital allocation, internal control and day-to-day functions.

Having the right people to execute on strategies is imperative for success in new and diverse opportunities emerging with evolving strategies and growth markets. Board recognise the crucial role they play as human capital matters since talent and culture are arguably the biggest drivers of competitive advantage. Board will play an important role in ensuring that the leadership stays focused on building the talent strategy.

The Company conducts regular reviews of the major risks such as regulatory changes, political and environment changes that could affect the business and financial performance, and creates awareness of them. They also evaluates the potential threats that could be posed from possible competitors. The Company analyses the exposure to business risks by identifying their vulnerability and probability of occurrence in order to determine how best to handle such exposure.

The Company also engages consistently in new exploration techniques and processing methods focusing on overall efficiency improvement to be more attractive in terms of pricing and product quality, and to make certain that possible new entrants do not compromise the Company's strategic advantage.

The Company manages its working capital at a healthy level of liquidity and monitors its net operating cash flow and maintains cash and cash equivalent at an appropriate level to support operational and capital expenditure requirements.

Investment risks are hedged through close monitoring and compliance to production and quality parameters agreed and projected when making such investments. Periodic review and implementation of customer feedback also ensures sustained product quality.

Going Concern, Financial Reporting and Transparency

The Board of Directors, after conducting necessary inquiries and reviews of the Company's budget for the ensuing year, capital expenditure requirements, prospects and risks, cash flows and ability to raise funds, has a reasonable expectation that the Company have adequate resources to continue in operational existence in the foreseeable future. Therefore, the going concern principle has been adopted in preparing these financial statements.

The Financial Statements are prepared in accordance with the Sri Lanka Financial Reporting Standards (SLFRS/LKAS) and all statutory and material declarations are highlighted in the Annual Report of the Board of Directors. The Directors have taken reasonable steps to ensure the accuracy and timeliness of information in the annual financial statement.

The Board discuss full information, both financial and non-financial within the bounds of commercial realities. Being the only mining company listed on the Colombo Stock Exchange, it is committed to a responsible business discipline.

Conflict of Interest and Independence

Each Director has a continuing responsibility to determine whether he or she has a potential or actual conflict of interest arising from external associations, interests in material matters and personal relationships which may influence their judgement. Whilst the Board members are free to express their own opinion on matters of importance to the Company and its operation, the Board reviews such potential conflicts from time to time. Related Party Disclosure on Note 23 of Financial Statements on page No 50 provides the information to the exception.

Independent Professional advice by the Board during the financial year

The Board seeks independent professional advice when deemed necessary. During the year under review, professional advice was taken on following matters:

- Legal, tax and accounting aspects particularly where independent external advice was deemed necessary in ensuring the integrity of the subject decision.
- Actuarial valuation of retirement benefits.
- Information technology consultancy services pertaining to existing ERP system software upgrade.
- Specific technical knowledge and domain knowledge required for productivity improvements.

Investor Relations

The Company continues to maintain good communication with all shareholders comprising both corporate and individuals. The Board invites questions from shareholders during the Annual General Meeting.

Employee participation and Industrial Relations

The Company considers its employees as its greatest asset and includes them at various levels within its internal governance structure. Policies, processes and systems are in place to ensure effective recruitment, development and retention as the Company is committed to hiring, developing and promoting individuals who possess the required competencies.

Functions of the HR division are designed in a manner that enables accessibility by an employee to every level of management. Constant dialogue and facilitation are also maintained; pertaining to work related issues as well as matters of general interest that could affect employees and their families. Hence the Company follows open door policies for its employees and key stakeholders, and this is promoted at all levels of the Company.

The Company provides a safe, secure and conducive environment for its employees that allow freedom of association and collective bargaining, prohibits child labour, forced or compulsory labour and any discrimination based on gender, race or religion and promotes a workplace that is free from physical, verbal or sexual harassment, all of which compliment effective Corporate Governance.

Audit Committee Report

Bogala Graphite Lanka PLC

The Audit Committee, which is a subcommittee of the Board of Directors, is appointed by, and is responsible, to the Board of Directors. The Audit Committee's authority, responsibilities, and duties have been formalised through the Audit Committee Terms of Reference which are reviewed annually by the Committee and approved by the Board. The primary functions of the Audit Committee are to:

- review the effectiveness and adequacy of the internal control procedures,
- seek assurance on the integrity of the Company's financial reporting process and the reliability of the published Financial Statements.
- monitor the processes in place for ensuring compliance with statutory requirements,
- evaluate the adequacy of the process established by management for identifying, assessing and managing risk.

Composition of the Committee and Meetings

The Audit Committee is composed of three independent Non-Executive Directors and is chaired by Ms. Coralie Pietersz, Independent and Non-Executive Director.

Audit Committee Members

Chairperson	Ms. Coralie Pietersz, Independent Non-Executive Director
Members	Mr. Vijaya Malalasekera, Independent Non-Executive Director Mr. Torben Müller, Non-Executive Director Mr. Mohamed Adamaly, Independent Non-Executive Director
Secretary	Corporate Services (Private) Limited

The Audit Committee held four meetings which included two meetings with the external auditors and one meeting with internal auditors without the presence of the Management. The Chief Executive Officer and Finance Director of the Company, the CEO President of AMG Graphite, and the Managing Partner of Alterna Capital attend the meetings of the Audit Committee by invitation. The External Auditor and Internal Auditors attend meetings when required.

The attendance of the Committee members at these meetings were as follows:

Name of the Member	Eligible to attend	Attended
Ms. Coralie Pietersz	4	4
Mr. Vijay Malalasekera	4	4
Mr. Mohamed Adamaly	4	3
Mr. Torben Müller	4	4

Financial Reporting

The Committee reviewed and discussed the financial reporting system adopted by the Company in the preparation of its Interim and Annual Financial Statements to and consistency and relevance of the accounting policies and compliance with the Sri Lanka Financial Reporting Standards.

The Committee reviewed and recommended the Financial Statements for the year and the Interim Financial Statements to the Board for its acceptance, prior to publication. The Committee in its evaluation of the financial reporting system also recognises the adequacy of the content and quality of the routine management information. The Committee reviewed the issues arising from the audit of the Annual Financial Statements highlighted in the Management Letter together with the management responses thereto, and monitored the progress made by the Management in resolving the issues raised by the auditors.

Internal Audit

The internal audit function conforms to the terms and guidelines of the Internal Audit Charter, which sets out the scope, functions, authority, and responsibility of the internal audit function. The internal audit function is independent and the conduct of internal audits is outsourced to M/s B R de Silva & Co.

During the year, the Audit Committee reviewed and monitored the effectiveness of the internal audit function and reviewed the progress of audits against the internal audit plan for 2017 approved by the Committee. It reviewed the internal audit report and its findings and monitored the implementation of recommendations made by the Internal Auditors.

External Audit

The Committee held meetings with the external auditors during the year to discuss the audit plan, scope approach and procedures to be adopted during the audit.

The Audit Committee, having evaluated the performance of the external auditors, was satisfied that the independence of the external auditors has not been impaired by any event or service that gives rise to a conflict of interest.

The Committee has recommended to the Board that Messrs. KPMG be re-appointed as the External Auditors for the year ending 31st December 2018, subject to the approval by the shareholders at the forthcoming Annual General Meeting.



Coralie Pietersz
Chairperson – Audit Committee

22nd February 2018

Remuneration Committee Report

Bogala Graphite Lanka PLC

The Committee comprised two Independent and Non-Executive Directors: Mr. Vijaya Malalasekera, Mr. Mohamed Adamaly, and a Non-Executive Director Mr. Torben Müller. The Committee is chaired by the Independent Director Mr. Vijaya. P. Malalasekera.

The committee was assisted at meetings by the CEO, Amila Jayasinghe and Finance Director, Sugath Amarasinghe, who acts as the Secretary.

Remuneration Policy

The Remuneration Policy of the Company is to attract, motivate, and retain quality management in a competitive environment with relevant experience to achieve the objectives of the Company. The Committee focuses on and is responsible to ensure that the total package is competitive to attract the best talent for the Company.

The Committee is not responsible for determining the remuneration of Independent Non-Executive Directors, which is determined by the Board.

Framework and Scope

The remuneration framework of the Company is designed to create and enhance value to all stakeholders of the Company and to ensure alignment to short and long-term interests of the Company. In designing competitive compensation packages, the Committee, in consultation with the Chief Executive Officer consciously balances short-term performance with medium to long-term goals of the Company.

The Committee reviews all significant changes in the corporate sector in determining salary structures, terms and conditions relating to CEO and Executive Directors. In this decision making process, necessary information, and recommendations are obtained from the Chief Executive Officer. The Company ensures internal equity, and fairness among employees is maintained at all times; and a suitable work environment and working conditions are also provided.

The Committee is responsible for determining, reviewing, monitoring and evaluating the performance of the Chief Executive Officer, Finance Director and the Management Team of the Company. The Committee lays down guidelines and parameters for the management development and succession planning. The Chief Executive Officer who is responsible for the overall management of the Company attends all meeting by invitation and participates in all deliberations except when his own performance and compensation package is discussed.

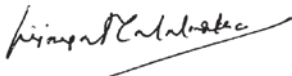
Fees

Independent Directors receive a fee for attendance at Board Meetings and for serving on sub-committees. They do not receive any performance or incentive payments. Total remuneration to Directors is shown in Note 23.2 to the financial statements on page 50.

Meetings

The Committee met on February 2017 to review 2016 performance of Chief Executive Officer, Finance Director and the Management Team. Decisions recommended by the Committee have been approved by the Board of Directors.

In conclusion, I wish to thank my colleagues on the Committee for their helpful contribution to the deliberations of the Committee.



Vijaya Malalasekera
Chairman – Remuneration Committee
22nd February 2018

Report of the Related Party Transaction Review Committee

Bogala Graphite Lanka PLC

Code of Best Practice on Related Party Transactions

The Board of Directors of the Company in compliance with the Code of Best Practices on Related Party Transaction issued by the Securities Exchange Commission of Sri Lanka (SEC) constituted a Related Party Transaction Review Committee (RPTRC) on 11th November 2014. With the guidance of RPTRC, Company developed its Compliance Code setting out the policies and procedures, that is required to comply with the rules and laws enacted in Sri Lanka relating to Related Party Transactions.

Composition of the Committee

Related Party Transaction Review Committee comprises of three Independent Non-Executive Directors and a one Non-Executive Director.

Mr. Vijaya Malalasekera	Chairman	Independent Non-Executive Director
Ms. Coralie Pietersz	Member	Independent Non-Executive Director
Mr. Mohamed Adamaly	Member	Independent Non-Executive Director
Mr. Thomas Junker	Member	Non-Executive Director

Purpose of the Committee

The objective of the Committee is to exercise oversight on behalf of the Board to ensure compliance with the Code on Related Party Transaction, as issued by the Securities and Exchange Commission of Sri Lanka and Section 9 of the Listing Rules of the Colombo Stock Exchange (CSE). The primary objective of the said rules is to ensure that the interests of the shareholders are considered when entering in to related party transactions, and to prevent Directors, key management personnel or substantial shareholders from taking advantage of their positions. To achieve this objective the Committee has adopted the related party transaction Code which contains the company's Policy governing the review, approval and oversight of related party transactions.

Procedure for Reporting Related Party Transactions

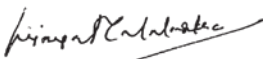
The Chief Executive Officer and the Chief Financial Officer are responsible for reporting to the Committee, for its review and approval the information set out under the Code, in respect of each category of related party transaction classifying them to recurrent and non-recurrent transactions. Moreover, on a quarterly basis, the CEO and CFO are required to report to the Committee on the related party transactions entered into by the Company.

In addition, the Company uses Related Party Transaction Declaration Form required to be filled by the Directors and key management personnel to capture the related party transactions at the end of every year.

Related Party Transaction Review Committee Meeting Attendance						
Directors	03.02.2017	29.04.2017	08.08.2017	01.11.2017	Eligible to attend	Attended
Vijaya Malalasekera	√	√	√	√	4	4
Coralie Pietersz	√	√	√	√	4	4
Mohamed Adamaly	√	√	Excused	√	4	3
Thomas Junker	Excused	Excused	Excused	Excused	4	0
By Invitation						
Torben Muller	√	√	√	√		4

The Duties of the Committee

- To review the related party transactions of the Company presented to the Committee in a specified format and decide upon same.
- Seek any information the Committee requires from Management, employees, or external parties regarding any transactions entered in to with a related party.
- Obtain knowledge of expertise to assess all aspects of related party transactions where necessary including obtaining appropriate professional and expert advice.
- To monitor the related party transactions of the entity to ensure that they are transacted on normal commercial terms and are not prejudicial to the interests of the entity and its minority shareholders.
- To review the transfer of resources and services between related parties to ascertain the reasonableness of the fee/price charged.



Vijaya Malalasekera

Chairman – Related Party Transaction Review Committee

22nd February 2018

Annual Report of the Board of Directors

Bogala Graphite Lanka PLC

The Board of Directors have pleasure in presenting the 27th Annual Report of your Company which covers the Audited Financial Statements for the year ended 31st December 2017. The details set out herein provide pertinent information required by the Companies Act, No.7 of 2007, Listing Rules of the Colombo Stock Exchange and are guided by the recommended best Accounting Practices.

Principal Activity

The principal activity of the Company is Mining, Separation, Refining, Treating, Processing and Preparation, Sale of Graphite and the Production and Sale of Lubricants.

Review of Business

A review of the Company's performance during the financial year is given in the Chairman's Review on page 4 and CEO's Review on page 6. These reports, form an integral part of the Directors Report and provide a fair review of the performance of the Company during the financial year ended 31st December 2017.

Results and Appropriations

The Company's Net Loss before Tax was at Rs.20.9 million (2016 – Rs.79.3 million). Results of the Company are given in the statement of profit or loss and other comprehensive income on page 28. Brief description of the results and appropriations are given below:

For the year ended 31st December in Rs.'000s	2017	2016
Profit/(loss) earned before Interest after providing for all known liabilities, bad and doubtful debts, and depreciation on property, plant and equipment	(17,144)	85,435
Finance Cost	(8,015)	(8,931)
Finance Income	4,173	2,814
(Loss)/ Profit before tax	(20,986)	79,318
Provision for taxation including deferred tax	1,332	(5,512)
Amount available to the shareholders Net (Loss)/ Profit	(19,653)	73,806
Other Comprehensive Income, net of tax	(5,877)	(610)
Balance brought forward from the previous year	241,511	192,514
Scrip dividends	-	(24,200)
Amount available for appropriation	215,980	241,511
Final Dividend Paid	-	-
Balance to be carried forward to next year	215,980	241,511

Accounting Policies and Changes during the year

The Company prepared the Financial Statements in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS). The significant accounting policies adopted in the preparation of the Financial Statements of the Company are given in pages 32 to 42. There were no significant changes to the accounting policies used by the Company during the year under review vis-à-vis those used in the previous financial year.

Donations

During the year, donations amounting to Rs.1.102 million were made by the Company which is given in Note 7 to the Financial Statements on page 43.

Taxation

A detailed statement of the income tax reconciliation of the accounting profits with the taxable profits are given in Note 9.1 of the Financial Statements. It is the policy of the Company to provide for deferred taxation on all known material timing differences between the carrying amounts of assets and liabilities for financial reporting purposes.

The deferred tax balances of the Company is given in the Note 20 of the Financial Statements.

Annual Report of the Board of Directors

Bogala Graphite Lanka PLC

Property, Plant and Equipment

The carrying value of property, plant and equipment as at the reporting date amounted to Rs 265.5 million compared to Rs.259.8 million for 2016.

The total expenditure incurred on acquisition of property, plant and equipment during the year for the company amounted to Rs. 44.5 million (2016 – Rs.52.6 million).

Land recognised as property, plant and equipment in the Financial Statements of the Company is recorded at revalued amounts. The land was revalued in 2013 by professionally qualified independent valuer during the financial year 2013.

Details of property, plant and equipment and their movements are given in Note 11 of the Financial Statements on page 45.

Stated Capital

The stated capital of the Company as at 31st December 2017 was Rs.102.074 million (2016 – Rs.102.074 million) consisting of 94,632,904 Ordinary Shares as given in Note 16 of the Financial Statements on page 47.

Shareholder Information

Information relating to shareholding, net assets per share, market value of shares, and share trading are available on page 58 and 59 of the Annual Report.

There were 9,487 registered shareholders as at 31st December 2017. The 20 major shareholders and public shareholding as at 31st December 2017 and the number of shares held and the percentage shareholding are disclosed on page 58 in the Share Information section of the Annual Report.

Reserves

Total reserves of the Company as at 31st December 2017 amounts to Rs.221.7 million (2016 – Rs.247.2 million) and the movement and composition is given in the Statement of Changes in Equity on page 30 of the Financial Statements.

Board of Directors

The Directors of the Company as at 31st December 2017 were:

Name of the Director	Executive	Non-Executive	Independent
V.P. Malalasekera			√
Thomas A Junker		√	
J.C.P. Jayasinghe		√	
Torben Müller		√	
Amila Jayasinghe	√		
Coralie Pietersz			√
Sugath Amarasinghe	√		
Mohamed Adamaly			√
Roger Miller		√	

New Appointments/Resignation during the year and Re-appointment of Directors who are over 70 years of age

There were no new appointments or resignations during the year.

In accordance with the provisions of the Companies Act No 7 of 2007, section 210, the Company has received a notice from Graphit Kropfmühl GmbH, the principal shareholder giving notice to the Company of their intention to move a resolution to re-elect Mr. J.C.P. Jayasinghe who has reached the age of 74 years, for a further period of one year until conclusion of the next Annual General Meeting.

In accordance with the provisions of the Companies Act No 7 of 2007, section 210, the Company has received a notice from Graphit Kropfmühl GmbH, the principal shareholder giving notice to the Company of their intention to move a resolution to re-elect Mr. V. P. Malalasekera who attained the age of 72 years on the 11th August 2016, for a further period of one year until conclusion of the next Annual General Meeting.

The Board has determined that Mr. Vijaya Malalasekera who has served the Board for more than 10 years is an Independent Director since he is not directly involved in the Management of the Company.

The Board, having considered the said fact, believes Mr. Vijaya Malalasekera should continue to serve on the Board as an Independent Director notwithstanding the fact that he has served on the Board for more than ten years as it is beneficial to the Company and its Shareholders.

Annual Report of the Board of Directors

Bogala Graphite Lanka PLC

Board Committees

The Board of Directors has formed the following committees and the members serving those committees and the Reports of such committees are given on pages 17 to 20 of the Annual Report.

Name	Audit Committee	Remuneration Committee	Related Party Transaction Review Committee
Mr. V. P. Malalasekera	Member	Chairman	Chairman
Mr. Thomas A Junker	-	-	Member
Ms. M. Coralie Pietersz	Chairman	-	Member
Mr. Mohamed Adamaly	Member	Member	Member
Mr. Torben Müller	Member	Member	-

Directors Interest and Interest Register

The Directors of the Company were not directly or indirectly interested in any contracts/proposed contracts with the Company during the year ended 31st December 2017 except as stated in Note 23 of the financial statements on page 51.

The Company maintains an Interest Register as required by the Companies Act No 7 of 2007 which is available for inspection upon request.

The following entries have been made in the Interest Register maintained by the Company:

Mr. Thomas A Junker is also the Managing Director / CEO Graphit of Graphit Kropfmühl GmbH which owns 79.58% of the shareholding of Bogala Graphite Lanka PLC and Managing Director of Qingdao Kropfmühl Graphite Ltd and a Board Director.

Mr. Torben Müller is also Managing Director / CFO of Graphit Kropfmühl GmbH which owns 79.58% of the shareholding of Bogala Graphite Lanka PLC and is a Director in Graphite Kropfmühl de Mozambique Lda and GK Ancuabe Graphite Mine SA.

Mr. Roger P Miller is also the Founder and Managing Partner of Alterna Capital Partners which owns 10.33% of the shareholding of Bogala Graphite Lanka PLC.

Related party disclosure in terms of the section 192 are given below and disclosed in Note 23.3 of the Financial Statements on page 51

Name of the Company	Relationship	Name of Director	Nature of Transaction	Value Rs.
Graphit Kropfmühl GmbH	Parent Entity	Mr. Thomas A Junker Mr. Torben Müller	Sale of Goods	92,198,204
			Purchase of Goods	72,734,475
			Technical Service Fees	36,644,399
			Interest Paid	6,998,072
			Loan Settlement	29,047,201
	Loan Receiving	32,056,150		
Qingdao Kropfmühl Graphite Co. Ltd.	Affiliate	Mr. Thomas A Junker	Sale of Goods	26,816,568
Graphite Tyn Spol. S.r.o	Affiliate	Mr. Thomas A Junker	Sale of Goods	50,737,560
Mr. Mohamed Adamaly	Director	Mr. Mohamed Adamaly	Consultancy Fee (legal)	35,000

Related Party Transaction Review Committee

The Related Party Transactions of the Company during the financial year have been reviewed by the Related Party Transaction Review Committee and are in compliance with the Section 09 of the CSE Listing Rules. The Committee comprises three Independent Non-Executive Directors and a Non-Executive Director as shown under the Board Committees of this report. The Related Party Transaction Review Committee Report is given on page 20 of the Annual Report whilst the Related Party Transactions are given in Note 23.3 on page 51 of the Financial Statements.

Corporate Governance

The Board of Directors confirm that the Company is compliant with section 7.10 of the Listing Rules of the CSE. The Directors declare having considered all information and explanations made available to them that:

Annual Report of the Board of Directors

Bogala Graphite Lanka PLC

- the Company complied with all applicable Laws and Regulations in conducting its business,
- the Directors have declared all material interests in contract involving the Company and refrained from voting on matters in which they were materially interested,
- the Company has made all endeavours to ensure the equitable treatment to all shareholders,
- the business is a going concern with supporting assumptions or qualifications as necessary; and
- they have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence herewith.

The Corporate Governance Report is given on pages 9 to 16 of the Annual Report.

Directors Remuneration

The Directors emoluments and fees for the financial year ended 31st December 2017 are stated below and are also given in Note 23.2 to the Financial Statements on page 50.

Directors' Fees and Emoluments	Executive Directors	Rs 26,375,437
	Non-Executive Directors	Rs 2,802,914

Directors' Responsibilities for Financial Statements

The Directors are responsible for the preparation of the Financial Statements of the Company to reflect a true and fair view of the status of its affairs. The Directors are of the view that the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto appearing on pages 28 to 56 have been prepared in conformity with Sri Lanka Financial Reporting Standards (SLFRS/LKAS) and provide the information required by the Companies Act No 7 of 2007, and the Listing Requirements of the Colombo Stock Exchange.

Statement of Directors' Responsibility is given on page 26 of the Annual Report.

Directors' Shareholding

The relevant interest of Directors in the shares of the Company as at 31st December 2017 and 31st December 2016 are as follows:

Name	31 st December 2017	31 st December 2016
Mr. V.P. Malalasekara- Chairman	Nil	Nil
Mr. Thomas A Junker	Nil	Nil
Mr. J.C.P. Jayasinghe	Nil	Nil
Mr. Roger Miller	Nil	Nil
Mr. A.P. Jayasinghe - CEO/MD	Nil	Nil
Ms. C. Pietersz	Nil	Nil
Mr. Torben Müller	Nil	Nil
Mr. Sugath Amarasinghe - FD	Nil	Nil
Mr. Mohamed Adamaly	Nil	Nil

Statutory Payments

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of, and in respect of the employees of the Company, and all other known statutory dues as were owing and payable by the Company as at the reporting date have been paid or, where relevant, provided for.

Employees and Industrial Relations

The number of persons employed by the Company as at 31st December 2017 was 178 (2016 – 187). The Company is committed to pursuing various HR initiatives that provides a culture that recognises the competencies, and commitment of its employees. Career growth and advancement opportunities facilitate the creation of value for themselves, the Company and other stakeholders.

Risk Management and Internal Control

The Board confirms that there is an ongoing process for identifying, evaluating and managing any significant risks faced by the Company. Risk Assessment and evaluation is an integral part of the Company's planning cycle and the principle risks and mitigating actions in place are reviewed regularly by the Board and the Audit Committee.

Annual Report of the Board of Directors

Bogala Graphite Lanka PLC

The Board through the involvement of the risk review and controls takes steps to gain assurance of the effectiveness of the Company's system of internal controls that are in place. The control system is designed to give assurance, regarding the safeguarding of assets, the maintenance of proper accounting and the reliability of financial information generated.

The Audit Committee receives regular reports on the adequacy and effectiveness of the internal controls within the Company, the compliance with laws and regulations, and the established policies and procedures. Audit Committee reviews the reports of the outsourced internal audit function regularly to ensure effective implementation of the systems and procedures.

However, any system can only provide reasonable and not absolute assurance that errors and irregularities are either prevented or detected within a reasonable period.

Events After the Reporting Date

There have been no events subsequent to the reporting period, which would have material effect and which requires an adjustment to or a disclosure in the Financial Statements other than those disclosed above and in Note 28 of the Financial Statements on page 56.

Going Concern

The Board of Directors after considering the financial position, operating conditions, regulatory and other factors including matters addressed in the Corporate Governance Report on page 9, have a reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis has been adopted in the preparation of the Financial Statements.

Appointment and Remuneration of Independent Auditors

The Audit Committee reviews the appointment of the Auditors, its effectiveness, its independence and its relationship with the Company including the level of audit and non-audit fees paid to the Auditor.

Based on the declaration made by Messrs' KPMG, Chartered Accountants, and as far as the Directors are aware, the auditors do not have any relationship or interest in the Company. Details of the Auditors remuneration are set out in Note 7 to the Financial Statements on page 43.

Compliance with Laws and Regulations

To the best of knowledge and belief of the Directors, the Company has not engaged in any activity, which contravenes laws and regulations of the country.

Annual Report

The Board of Directors approved the Company Financial Statements on 22nd of February 2018. The appropriate number of Copies of this report will be submitted to the Colombo Stock Exchange and Sri Lanka Accounting and Auditing Standards Monitoring Board.

Annual General Meeting

The Annual General Meeting will be held at the Ceylon Chamber of Commerce, No 50, Nawam Mawatha, Colombo 02 on Saturday the 28th April 2018 at 11.00a.m. The Notice of the Annual General Meeting is on page 60 of the Annual Report.

This Annual Report is signed for and on behalf of the Board of Directors.

By order of the Board



Corporate Services (Private) Limited
Secretaries



Vijaya Malalasekera
Chairman



Amila Jayasinghe
CEO/Managing Director

22nd February 2018

Statement of Directors' Responsibility

Bogala Graphite Lanka PLC

The Companies Act No 7 of 2007 requires the Directors of the Company to be responsible for the preparation and presentation of the Financial Statements and other statutory reports. The responsibility of the Directors in relation to the Financial Statements is set out in the following statement. The responsibility of the auditors, in relation to the Financial Statements prepared in accordance with the provisions of the Companies Act No.7 of 2007, is set out in the Report of the Auditors.

The Directors are also responsible under Section 148, to ensure that the Company maintains proper accounting records to disclose, and enable the determination of the financial position with reasonable accuracy, and to enable preparation of Financial Statements in accordance with the Companies Act No 07 of 2007, the Sri Lankan Accounting and Auditing Standards Act No.15 of 1995 and the Listing Rules of the Colombo Stock Exchange.

The Financial Statements comprise:

- Statement of Financial Position, which presents a true and fair view of the state of affairs of the Company as at the end of the financial year
- Statement of Profit or Loss and Other Comprehensive Income, which presents a true and fair view of the profits or loss of the Company for the financial year
- Statement of Changes in Equity, Statement of Cash Flow and summary of Significant Accounting Policies and other explanatory notes.

The Directors are required to confirm that the Financial Statements have been prepared:

- Using appropriate accounting policies which have been selected and applied in a consistent basis and material departures, if any, are disclosed and explained.
- In accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka, and stipulations as relevant, have been followed.
- Using reasonable and prudent judgments and estimates.
- Ensuring that the information required is in compliance with the Companies Act and the Listing Rules of the Colombo Stock Exchange are provided.

The Directors are of the opinion, based on their knowledge of the Company, business plans, and review of its current and future operations that adequate resources are available to support the Company on a going concern basis over the next year. Accordingly, Financial Statements have been prepared on that basis.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and to prevent and detect frauds and other irregularities. The Directors have instituted an appropriate system of internal controls, with a view to providing reasonable, though not absolute, assurance that assets are safeguarded to carry on the business in an orderly manner.

The Directors are required to prepare the Financial Statements and to provide the Auditors with every opportunity to carry out any reviews and tests that they consider appropriate and necessary to give their audit opinion.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable on behalf of and in respect of the employees of the Company and all other known statutory dues as were due and payable by the Company to regulatory and statutory authorities as at the balance sheet date have been duly paid, or been adequately provided for in the Financial Statements.

By Order of the Board



Corporate Services (Private) Limited
Secretaries

22nd February 2018



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BOGALA GRAPHITE LANKA PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Bogala Graphite Lanka PLC, ("the Company"), which comprise the statement of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 28 to 56.

Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion 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 and the financial statements of the Company, comply with the requirements of section 151 of the Companies Act.

CHARTERED ACCOUNTANTS
Colombo
22 February 2018

KPMG, a Sri Lankan partnership and a member firm
of the KPMG network of independent member firms
affiliated with KPMG International Cooperative
("KPMG International"), a Swiss entity.

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan ACA

P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyratne FCA
R.M.D.B. Rajapakse FCA

C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA

Principals - S.R.I. Perera FCA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA
Ms. C.T.K.N. Perera ACA

Statement of Profit or Loss and Other Comprehensive Income

Bogala Graphite Lanka PLC

Year ended 31 December,

	Note	2017 Rs.	2016 Rs.
Revenue	5	732,887,983	702,454,446
Cost of sales		(477,849,178)	(432,079,989)
Gross profit		255,038,805	270,374,457
Other income	6	3,599,488	11,312,655
Net exchange gain/(loss)		(3,453,177)	10,010,388
Administrative expenses		(173,758,229)	(107,115,315)
Selling and distribution expenses		(98,571,380)	(99,147,080)
(Loss)/ Profit from operations	7	(17,144,493)	85,435,105
Finance income		4,173,322	2,814,117
Finance cost		(8,014,555)	(8,930,781)
Net finance cost	8	(3,841,233)	(6,116,664)
(Loss)/Profit before tax		(20,985,726)	79,318,441
Income tax reversal/(expense)	9	1,332,350	(5,512,475)
(Loss)/Profit for the year		(19,653,376)	73,805,966
Other comprehensive income for the year			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability		(6,833,999)	(692,909)
- Related tax		956,760	83,149
Other comprehensive income, net of tax		(5,877,239)	(609,760)
Total comprehensive (loss)/ income for the year		(25,530,615)	73,196,206
Basic (loss)/earnings per share (Rs.)	10	(0.21)	0.78

The Notes to the Financial Statements form an integral part of these Financial Statements.
 Figures in brackets indicate deductions.

Statement of Financial Position

Bogala Graphite Lanka PLC

As at 31 December,

	Note	2017 Rs.	2016 Rs.
ASSETS			
Property, plant and equipment	11	265,538,553	259,841,373
Other financial assets	12	19,217,736	18,434,971
Deferred tax	20	220,244	-
Non-current assets		284,976,533	278,276,344
Inventories	13	100,879,067	112,020,923
Trade and other receivables	14	143,424,251	102,798,312
Advance and prepayments		12,579,187	11,551,675
Other financial assets	12	12,024,966	11,787,496
Current taxation	22	1,544,612	-
Cash and cash equivalents	15	53,297,756	63,250,862
Current assets		323,749,839	301,409,268
Total assets		608,726,372	579,685,612
EQUITY			
Stated capital	16	102,074,201	102,074,201
Reserves	17	5,718,298	5,718,298
Retained earnings		215,979,966	241,510,581
Total equity		323,772,465	349,303,080
LIABILITIES			
Loans and borrowings	18	92,155,122	108,592,147
Employee benefits	19	53,927,614	48,011,111
Deferred tax	20	-	4,384,021
Non-current liabilities		146,082,736	160,987,279
Trade and other payables	21	72,551,073	32,206,336
Current taxation	22	-	6,905,519
Loans and borrowings	18	66,320,098	30,283,398
Current liabilities		138,871,171	69,395,253
Total liabilities		284,953,907	230,382,532
Total equity and liabilities		608,726,372	579,685,612

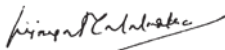
The Notes to the Financial Statements from pages 32 to 54 form an integral part of these Financial Statements.

These Financial Statements have been prepared in compliance with the requirements of the Companies Act No.07 of 2007.



Finance Director

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Approved for and on behalf of the Board of Directors:



Director

22nd February 2018

Colombo

The Notes to the Financial Statements form an integral part of these Financial Statements.

Figures in brackets indicate deductions.



Director

Statement of Changes in Equity

Bogala Graphite Lanka PLC

Year ended 31 December,

	Stated Capital Rs.	Revaluation Reserve Rs.	Retained earnings Rs.	Total equity Rs.
Balance as at 1 January 2016	80,074,201	5,718,298	192,514,375	278,306,874
Profit for the year	-	-	73,805,966	73,805,966
Other comprehensive income, net of income tax				
- Actuarial loss on defined benefit plan	-	-	(609,760)	(609,760)
Total comprehensive income for the year	-	-	73,196,206	73,196,206
Transactions with owners of the Company				
Contributions and Distributions				
Scrip dividends	22,000,000	-	(24,200,000)	(2,200,000)
Total transactions with owners of the Company	22,000,000	-	(24,200,000)	(2,200,000)
Balance as at 31 December 2016	102,074,201	5,718,298	241,510,581	349,303,080
Balance as at 1 January 2017	102,074,201	5,718,298	241,510,581	349,303,080
Loss for the year	-	-	(19,653,376)	(19,653,376)
Other comprehensive income, net of income tax				
- Actuarial loss on defined benefit plan	-	-	(5,877,239)	(5,877,239)
Total comprehensive income for the year	-	-	(25,530,615)	(25,530,615)
Transactions with owners of the Company				
Contributions and Distributions	-	-	-	-
Total transactions with owners of the Company	-	-	-	-
Balance as at 31 December 2017	102,074,201	5,718,298	215,979,966	323,772,465

Capitalization of reserves

The Board of Directors of the Company by circular resolution passed on 19 January 2016 resolved to recommend a distribution by the issue of new shares in the Company credited as fully paid up by way of capitalization of sum of Rs.22,000,000/- from and out of its retained earnings, to the shareholders of the Company.

Further, issuance of Rs.22 Mn shares were subject to a withholding tax of 10% amounted to Rs. 2,200,000/- which was borne by the Company on behalf of the shareholders.

Revaluation reserve

The reserve relates to a revaluation surplus recorded as at 31 December 2001. The Company opted to record freehold land at revalued amount less impairment losses if any. As described in Note 11.1 to the Financial Statements, the revaluation surplus of Rs. 978,000 based on the revaluation on 31 December 2013 was not recorded based on materiality. Accordingly, the reserve does not show any movement since 2001. This will be transferred to retained earnings when the related land is disposed.

The Notes to the Financial Statements form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Statement of Cash Flows

Bogala Graphite Lanka PLC

Year ended 31 December,

	Note	2017 Rs.	2016 Rs.
Cash Flows From Operating Activities			
(Loss)/Profit before taxation		(20,985,726)	79,318,441
Adjustments for			
Depreciation	11	38,836,915	46,274,392
Effect on exchange loss on loans	18.1	19,524,455	3,504,784
Gain on sale of property, plant and equipment	6	(2,802,402)	(10,336,739)
Interest expense	8	8,014,555	8,930,781
Interest income	8	(4,173,322)	(2,814,117)
Provision/(Reversal) of slow moving inventories	13.1	5,322,392	(659,982)
Provision for employee benefits	19.2.1	9,210,250	7,750,552
Changes in working capital			
Inventories		5,819,464	4,007,106
Trade and other receivables		(40,625,939)	(19,651,899)
Advance and prepayments		(1,027,513)	(2,488,371)
Other financial assets		(1,020,235)	512,239
Trade and other payables		40,344,737	(2,911,203)
Cash generated from operating activities		56,437,631	111,435,984
Income taxes paid		(10,765,286)	(4,011,513)
Gratuity paid	19.2	(10,127,746)	(4,102,521)
Net cash generated from operating activities		35,544,599	103,321,950
Cash flows from investing activities			
Interest received	8	4,173,322	2,814,117
Proceeds from sale of property, plant and equipment		2,811,066	10,336,739
Net acquisition of property, plant and equipment	11	(44,542,759)	(44,112,870)
Net cash used in investing activities		(37,558,371)	(30,962,014)
Cash flows from financing activities			
Interest paid	8	(8,014,555)	(8,930,781)
Loans obtained	18.1	32,056,150	-
Repayment of borrowings	18.1	(29,047,201)	(27,780,716)
Payment of finance lease liabilities	18.2	(2,933,728)	(5,201,580)
Net cash used in financing activities		(7,939,334)	(41,913,077)
Net (decrease)/increase in cash and cash equivalents		(9,953,106)	30,446,859
Cash and cash equivalents at 1 January	15	63,250,862	32,804,003
Cash and cash equivalents at 31 December	15	53,297,756	63,250,862

The Notes to the Financial Statements form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

1. REPORTING ENTITY

1.1 Corporate information

The Bogala Graphite Lanka PLC is a limited liability Company incorporated and domiciled in Sri Lanka and whose shares are publicly traded in Colombo Stock Exchange. The registered office and the principal place of business are located at Bogala Mines, Aruggammana.

The Company is primarily engaged in mining, separation, refining, treating, processing and preparation and sale of graphite and the production of lubricants.

1.2 Parent enterprise and Ultimate parent enterprise

The Company's parent and ultimate undertaking is Graphit Kropfmuhl GmbH and AMG Advanced Metallurgical Group N.V (Netherlands) respectively.

1.3 Number of Employees

Total number of employees as at 31st December 2017 was 178 (2016 – 187)

2. BASIS OF ACCOUNTING

2.1 Statement of compliance

The Financial Statements of the Company, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

2.2 Responsibility for Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of the Financial Statements of the Company as per the provisions of the Companies Act No. 07 of 2007 and SLFRSs and LKASs.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors' Responsibility' and the certification on the Statement of Financial Position.

These Financial Statements include the following components:

a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company for the year under review. Refer page 28;

a Statement of Financial Position providing the information on the financial position of the Company as at the year-end. Refer page 29;

a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Company. Refer page 30;

a Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and utilisation of those cash flows. Refer page 31.

Notes to the Financial Statements comprising Accounting Policies and other explanatory information. Refer pages 32 to 56.

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements were authorized for issue by the Company's board of directors on 22 February, 2018.

2.4 Basis of measurement

The Financial Statements of the Company have been prepared on the historical cost basis except for Freehold land and Defined benefit obligations which have been measured at fair value and actuarial valuation respectively.

2.5 Going concern basis of accounting

The 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. 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. Therefore, the Financial Statements of the Company continue to be prepared on a going concern basis.

2.6 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Profit or Loss, unless required or permitted by an Accounting Standard and as specifically disclosed in the Accounting policies of the Company.

2.7 Materiality and aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately, unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 1 on 'Presentation of Financial Statements'.

2.8 Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

2.9 Functional and presentation currency

The Financial Statements are presented in Sri Lankan Rupees (LKR) which is the Company's functional currency. All amounts have been rounded to the nearest rupee, unless otherwise indicated.

2.10 Use of judgments and estimates

In preparing the Financial Statements of the Company in conformity with SLFRSs and LKASs, the management has made judgments, estimates and assumptions which affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

a. Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements:

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December, 2017 is included in the following notes:

- Note 3.11 measurement of defined benefit obligations: key actuarial assumptions;
- Note 3.2.2 recognition of deferred tax assets: availability of future taxable profit against which tax losses carried forward can be used
- Note 3.4 revaluation of freehold land and useful life time
- Note 3.9/3.10 recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources

i. Measurement of fair values

Fair value related disclosures for freehold land which is measured at fair value are summarised as follows.

Fair value is the price that would be received to sell an asset 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 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.

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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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

Fair value of the Land has been determined under Level 3 valuation.

The Company's Management Committee determines the policies and procedures for recurring fair value measurement of freehold land.

External valuers are involved for valuation of freehold land. Involvement of external valuers is decided upon annually by the Management Committee after discussion with and approval by the Company's Audit Committee. Selection criteria includes market knowledge, reputation, independence and whether professional standards are maintained.

At each reporting date, the Management Committee analyses the movements in the values of assets which are required to be re-measured or re-assessed as per the Company's accounting policies.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the Financial Statements of the Company, unless otherwise indicated. These accounting policies have been applied consistently by the Company.

3.1.1 Foreign currency translations

The Financial Statements are presented in Sri Lankan Rupees, which is also the Company's functional currency as explained in Note 2.9.

3.1.2 Foreign currency transactions and balances

Transactions in foreign currencies are translated into functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of the functional currency prevailing at the reporting date.

Foreign exchange differences arising on translation of foreign exchange transactions are recognised in the Statement of Profit or Loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.2 Income tax expense

Income tax expense for the year comprises current and deferred tax including adjustments to previous years and changes in tax provisions. It is recognised in Profit or Loss except to the extent it relates to items recognised directly in Equity or in Other Comprehensive Income (OCI).

3.2.1 Current tax

Current tax' comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted, at the reporting date.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and amendments thereto, at the rates specified in Note 09 on page 44. This Note also includes the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense, as required by the Sri Lanka Accounting Standard – LKAS 12 on 'Income Taxes'.

3.2.2 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Un-recognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

3.2.3 Tax on dividends

Additional taxes that arise from the distribution of dividends by the Company are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss as they generally relate to income arising from transactions that were originally recognised in profit or loss.

3.2.4 Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable

Receivables and payables that are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

3.3 Revenue

3.3.1 Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customers, to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The Company separately identifies different components of a single transaction in order to reflect the substance of the transaction. The following specific criteria are used for the purpose of recognition of revenue.

(i) Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer, usually depends on the terms and conditions of the contract of sale.

3.4 Property, plant and equipment

Basis of recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and cost of the asset can be measured reliably.

Basis of measurement

All property, plant and equipment are initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (as explained under 'subsequent costs'). The cost of self-constructed assets include the cost of materials, direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs that are directly attributable to the asset under construction.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Purchased software which is integral to the functionality of the related equipment is capitalized as part of that equipment.

Cost model

Property, plant and equipment (excluding freehold land), is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

When an asset's carrying value is higher than its estimated recoverable amount, the carrying value is written down to its recoverable amount.

Revaluation model

The Company applies the revaluation model for the entire class of freehold land for measurement after initial recognition. The Company policy is to revalue all freehold land every five years or when there is a substantial difference between the fair value and the carrying amount.

Any revaluation surplus is recognised in Other Comprehensive Income and accumulated in equity in the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in Profit or Loss, in which case the increase is recognised in Profit or Loss.

A revaluation deficit is recognised in Profit or Loss, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve. Upon disposal, any revaluation reserve relating to particular assets being sold is transferred to retained earnings.

Subsequent costs

When significant parts of a property, plant and equipment are required to be replaced at regular intervals, the Company derecognizes the replaced part, and recognizes the new part with its own associated useful life and depreciates accordingly. Ongoing repair and maintenance costs are expensed as incurred.

De-recognition

An item of property, plant and equipment is derecognized upon disposal, replacement or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in Profit or Loss in the period the asset is derecognized.

Depreciation

Depreciation is based on straight-line method over the estimated useful lives of the assets. Freehold land is not depreciated

Depreciation of an asset begins from the date it is available for use or in respect of self-constructed assets from the date that the asset is completed and ready for use. Depreciation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

The estimated useful lives of assets are as follows:

Class of asset	Year
Buildings on freehold land	25
Road development	10
Access tunnels	5 - 20
Plant and machinery	5 - 20
Other equipment	10
Office equipment	5
Furniture and fittings	5
Computer equipment	3
Motor vehicles	5
Assets on finance lease	Over the lease period

Residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted if appropriate.

Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceed the estimated recoverable amount the assets are written down to their recoverable amount. Impairment losses are recognized in the Income Statement unless it reverses a previous revaluation surplus for the same asset.

Capital work-in-progress

Capital work-in-progress is stated at cost, including borrowing costs, less any accumulated impairment losses. These would be transferred to the relevant asset category in property, plant and equipment when the asset is completed and available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

3.5 Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

3.5.1 Finance leases – Company as a lessee

Finance leases that transfer substantially all risks and benefits incidental to ownership of the leased item to the Company, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

3.6 Financial instruments

3.6.1 Initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

3.6.2 Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

The Company's financial assets include cash, trade and other receivables and staff loans to employees.

Subsequent measurement

Staff loans and receivables

This category is the most relevant to the Company. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. 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 amortization is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

De-recognition

A financial asset (or, where applicable, a part of financial assets) is primarily derecognized (i.e., removed from the statement of financial position) 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.

Impairment of financial assets

The Company assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default, the probability that they will enter bankruptcy or other financial re-organisation.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss.

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 and loans and borrowings.

Subsequent measurement

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

Loans and borrowings

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 de-recognised 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.

De-recognition

A financial liability is de-recognised 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 de-recognition 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.

3.7 Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials – Purchased cost on a weighted average cost basis

Finished goods and work in progress – Direct cost incurred on excavation, cost of raw materials, processing, finishing and manufacturing overheads (excluding borrowing cost)

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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 indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) 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. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased.

3.8 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand.

For the purpose of the statement of cash flow, cash and cash equivalents consist of cash as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Company's cash management.

3.9 Provisions

Provisions are recognized when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of benefits will be required to settle the obligation and it can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability.

3.10 Commitments and contingencies

Provisions are made for all obligations existing as at the reporting date when it is probable that such an obligation will result in an outflow of resources and reliable estimate can be made of the quantum of the outflow.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote.

3.11 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed determinable contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Employees are eligible to Employees' Provident Fund (EPF) contributions and Employees' Trust Fund (ETF) contributions as per the respective statutes. These obligations come within the scope of a defined contribution plan as per LKAS -19 on 'Employee Benefits'. Obligations for contributions to defined contribution plans are recognised in Profit or Loss as incurred.

Defined benefit obligation

In accordance with the Gratuity Act No. 12 of 1983, a liability arises for a defined benefit obligation to employees.

Such defined benefit obligation is a post-employment benefit obligation falling within the scope of Sri Lanka Accounting Standard LKAS -19 on 'Employee Benefits'.

The liability recognised in the Statement of Financial Position is the present value of the defined benefit obligation at the reporting date. The calculation is performed annually by a qualified actuary using the projected unit credit method (PUC). Any actuarial gains and losses arising are recognised immediately in Other Comprehensive Income. The discount rate has been derived considering the yield of government bonds.

The liability is not externally funded.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE AS AT THE REPORTING DATE

A number of new standards and amendments to standards which have been issued but not yet effective as at the reporting date have not been applied in preparing these Financial Statements. Accordingly, these accounting standards have not been applied in preparing these Financial Statements.

New or amended standard	Summary of the Requirement	Possible impact on Financial Statements
SLFRS 15 Revenue from Contracts with Customers	<p>SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 on 'Revenue' and LKAS 11 on 'Construction Contracts'.</p> <p>SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018.</p>	<p>The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 15 and does not expect a significant impact on Financial Statements.</p>

Notes to the Financial Statements

Bogala Graphite Lanka PLC

New or amended standard	Summary of the Requirement	Possible impact on Financial Statements
SLFRS 16 Leases	<p>SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead, there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting</p> <p>SLFRS 16 is effective for reporting periods beginning on or after 01 January 2019.</p>	<p>The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.</p>
SLFRS 9 Financial Instruments	<p>SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.</p> <p>SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.</p>	<p>The Company is assessing the potential impact on its financial statements resulting from the application of SLFRS 9. It is not expected to have significant impact on the Financial Statements.</p>

Notes to the Financial Statements

Bogala Graphite Lanka PLC

Year ended 31 December,

	2017 Rs.	2016 Rs.
5 REVENUE		
Export sales	727,750,306	698,475,529
Local sales	5,137,677	3,978,917
	732,887,983	702,454,446
6 OTHER INCOME		
Income from sales of obsolete items	313,971	389,098
Gain on disposal of property, plant and equipment	2,802,402	10,336,739
Miscellaneous income	483,115	586,818
	3,599,488	11,312,655
7 (LOSS)/ PROFIT FROM OPERATIONS		
(Loss)/ Profit from operations are stated after charging all expenses including the following;		
Directors' remuneration	29,178,351	22,289,927
Auditor's remuneration		
Audit and audit related fee	807,750	770,000
Professional charges	1,216,983	1,294,947
Depreciation of property, plant and equipment	38,836,915	46,274,392
Impairment provision/(reversal) on inventories	5,322,392	(659,982)
Royalty charges on exports (Note 7.1)	40,452,108	40,588,057
Technical service fees (Note 7.2)	36,644,399	35,122,722
Donations	1,102,296	740,033
Legal charges	804,900	984,500
Death compensation cost (Note 7.3)	9,931,044	-
Early retirement compensation cost (Note 7.4)	67,338,210	-
Staff costs (Note 7.5)	231,763,188	215,359,947
7.1 Royalty charges are paid to GSMB (Geological Survey and Mines Bureau) on Graphite sales at 7% and 6% for Export and Local sales respectively.		
7.2 Technical service fee is paid to Graphit Kropfmuhl GmbH at 5% on total sales of the Company.		
7.3 Death compensation cost relates to the provision made for compensation payable to the aggrieved family of the mine worker who died during working hours at the mine on 28 January 2017. Consequently, the Company decided to pay the salary of the deceased employee until his retirement age to the aggrieved family on a monthly basis. Accordingly, a provision of Rs. 9.9 Mn has been recognised in the Financial Statements for a period of 152 months.		
7.4 Early retirement compensation cost includes the amounts paid to the outgoing employees as compensation amounts decided by the Company. The basis of compensation was equal to all the employees.		
7.5 Staff costs		
Salaries and wages	129,754,715	118,771,180
Defined contribution plan cost - EPF and ETF	22,081,925	19,806,730
Defined benefit plan cost - retiring gratuity (Note 19.2.1)	9,210,250	7,750,552
Performance bonuses	7,180,094	9,999,000
Overtime	8,676,523	8,442,808
Other staff expenses	54,859,681	50,589,677
	231,763,188	215,359,947

Staff costs reported above include benefits paid to the Executive Directors during the year.

Notes to the Financial Statements

Bogala Graphite Lanka PLC

Year ended 31 December,

	2017 Rs.	2016 Rs.
8. NET FINANCE COST		
Interest income on staff loans	2,846,223	2,632,398
Interest income on savings deposits	1,327,099	181,719
Finance income	4,173,322	2,814,117
Interest on interest bearing borrowings	(6,998,072)	(7,984,351)
Finance charge on lease liabilities	(1,016,483)	(946,430)
Finance cost	(8,014,555)	(8,930,781)
Net finance cost recognised in profit or loss	(3,841,233)	(6,116,664)
9 INCOME TAX EXPENSE		
The charge for income tax expense is made up as follows.		
Current tax expense (Note 9.1)	2,323,362	7,318,793
Adjustment for prior years	(8,207)	1,140,613
Deferred taxation	(3,647,505)	(2,946,931)
	(1,332,350)	5,512,475

The Company is liable for Income tax at the rate of 12% on profit derived from Export sales. A provision has been made in these Financial Statements on account of income taxes in view of adjusted taxable profits of the Company.

9.1 Reconciliation of accounting (loss)/profit to income tax expense

Accounting (loss)/profit before tax from continuing operations	(20,985,726)	79,318,441
Aggregated disallowable expenses	99,681,298	69,968,024
Aggregated allowable expenses	(53,082,202)	(58,269,901)
Aggregated other income	4,173,322	2,814,117
Statutory deductions - tax loss (Note 9.1.1)	(10,425,342)	(32,840,738)
Taxable profit	19,361,350	60,989,943
Statutory tax rate		
- Tax rate 12%	2,323,362	7,318,793
Current tax expense	2,323,362	7,318,793

9.1.1 Tax loss analysis is as follows;

Tax losses brought forward	145,918,985	178,759,723
Set off against current year profits	(10,425,342)	(32,840,738)
Tax losses carried forward (Note 20.3)	135,493,643	145,918,985

9.2 Recognition of deferred tax origination / (reversal) in the comprehensive income

Profit or loss	(3,647,505)	(2,946,931)
Other comprehensive income	956,760	83,149
	(2,690,745)	(2,863,782)

10. BASIC (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to ordinary shareholders and the weighted average number of shares outstanding during the year.

(Loss)/Profit attributable to ordinary shareholders	(19,653,377)	73,805,965
Weighted average number of ordinary shares	94,632,904	94,632,904
Basic (loss)/earnings per share (Rs.)	(0.21)	0.78

Notes to the Financial Statements

Bogala Graphite Lanka PLC

11. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2017

	Freehold land		Buildings on freehold land		Road development		Access tunnels		Plant & machinery		Other equipment		Office equipment		Furniture & fittings		Computer equipment		Motor vehicles		Assets on finance lease		Capital WIP		Total 2017		Total 2016				
	Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.				
Cost																															
Balance as at 1 Jan 2017	11,422,000		47,721,790		8,807,789		227,285,752		271,693,984		43,725,278		9,113,223		2,865,048		8,799,837		11,961,703		45,877,195		19,306,019		708,579,618		671,685,437		708,579,618		671,685,437
Additions	-	-	-	-	-	-	781,634	-	10,672,786	-	-	-	-	-	-	-	692,000	-	-	-	-	-	32,396,339	-	44,542,759	-	52,612,870	-	44,542,759	-	52,612,870
Disposals	-	-	-	-	-	-	-	(3,530,112)	-	(8,943,398)	-	-	(16,300)	-	(31,021)	-	(1,394,411)	-	(3,757,779)	-	(6,058,715)	-	(24,389,088)	-	(14,788,338)	-	(15,718,689)	-	(14,788,338)	-	(15,718,689)
Transfers	-	-	4,627,133	-	-	-	7,819,057	-	8,943,398	-	3,109,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2017	11,422,000		52,348,923		8,807,789		235,104,609		287,600,056		46,834,778		9,878,557		2,834,027		8,097,428		8,203,924		39,818,480		27,303,270		738,334,039		708,579,618		738,334,039		708,579,618
Accumulated depreciation and impairment losses																															
Balance as at 1 Jan 2017	-	-	25,569,285	-	5,020,162	-	141,092,521	-	188,027,158	-	34,014,489	-	4,535,302	-	2,600,682	-	6,679,768	-	10,226,455	-	28,972,423	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	1,191,160	-	779,272	-	13,075,490	-	13,479,301	-	2,451,675	-	(16,300)	-	(139,084)	-	(286,132)	-	(1,001,948)	-	(5,079,772)	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	(3,527,446)	-	(3,527,446)	-	-	-	-	-	-	(3,1021)	-	(3,175,779)	-	(6,058,715)	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2017	-	-	26,760,425	-	5,799,454	-	154,168,011	-	197,985,211	-	36,466,364	-	5,897,763	-	2,726,745	-	7,551,489	-	7,740,524	-	27,993,480	-	-	-	-	-	-	-	-	-	-
Carrying amount																															
Balance as at 31 December 2017	11,422,000		25,569,498		3,008,335		80,936,798		89,604,845		10,368,414		3,986,774		105,282		585,937		733,400		11,825,000		27,303,270		265,538,553		265,538,553		265,538,553		265,538,553
Balance as at 31 December 2016	11,422,000		22,152,525		3,797,807		86,193,231		83,668,826		9,710,789		4,577,921		264,366		120,069		1,735,248		16,904,772		19,306,019		259,841,373		259,841,373		259,841,373		259,841,373

11.1 Revaluation of freehold land

Freehold land was revalued as at 31 December 2013 by Mr. N.M. Jayatilake, (F.I.V) who is a professionally qualified independent valuer. The valuation method adopted was open market value on an existing use basis without considering mineral deposits and under ground works.

The value of freehold land has been written up to correspond with the market value and the details are as follows:

Location	Extent	Cost	Freehold land	
			revalued	Pledged
Weiathudawa village, Koliyakumbura	13,2113 Hectares		Rs. 6,300,000	No
Weiathudawa village, Koliyakumbura	9,7159 Hectares	5,703,702	3,400,000	No
Kendawa village, Buathkohupitya	7,2361 Hectares		2,700,000	No
		5,703,702	12,400,000	

As the increase in value of Rs.978,000 was not material, it has not been recognized to the Financial Statements.

Description of the valuation technique used together with narrative description on sensitivity of the fair value measurement to changes in significant unobservable inputs are as follows:

Valuation technique

This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for any differences in the nature, location or condition of the specific property.

11.2 Capital Work in Progress

The closing balance of Rs. 27,303,270/- as at the reporting date includes mainly the ongoing capital projects of Drilling Programme, Generator Automation and Other capital projects amounting to Rs. 18,611,899/-, Rs. 2,847,885/- and Rs. 5,983,486/- respectively. All these projects are to be materialise during the next financial year based on the management assessment.

11.3 Fully depreciated but still in use

The cost of fully-depreciated property, plant and equipment of the Company which are still in use amounted to Rs.148,804,105 (2016 - Rs.149,516,872).

11.4 Permanent fall in value of property, plant and equipment

There is no permanent fall in the value of property, plant and equipment which require a provision for impairment.

11.5 Title restriction on property, plant and equipment

There were no restrictions existing on the title to the property, plant and equipment of the Company as at the reporting date.

Notes to the Financial Statements

Bogala Graphite Lanka PLC

As at 31 December 2017

	2017 Rs.	2016 Rs.
12. OTHER FINANCIAL ASSETS		
Loans to Company Officers	31,242,702	30,222,467
The movement of loans are as follows;		
Balance as at 1 Jan	30,222,467	30,734,705
Loans granted	24,975,180	19,168,505
Loan repayments	(23,954,945)	(19,680,743)
Balance as at 31 Dec	31,242,702	30,222,467
Non-current	19,217,736	18,434,971
Current	12,024,966	11,787,496
	31,242,702	30,222,467
13. INVENTORIES		
Raw materials - Lubricants	18,817,347	21,918,596
Raw materials - Graphite	7,501,536	11,195,139
Work-in-Progress - Graphite	6,178,841	6,621,986
Finished goods - Graphite	2,614,614	9,617,375
Consumables and spares	68,609,415	60,732,213
	103,721,753	110,085,309
Impairment for slow moving stocks (Note 13.1)	(6,449,076)	(1,341,139)
	97,272,677	108,744,170
Goods-in-transit	3,606,390	3,276,753
	100,879,067	112,020,923
13.1 Impairment for slow moving stocks		
Balance as at 1 Jan	1,341,139	2,001,121
Provision/(Reversal) for the year	5,322,392	(659,982)
Write off against provisions	(214,455)	-
Balance as at 31 Dec	6,449,076	1,341,139
14. TRADE AND OTHER RECEIVABLES		
Trade receivables	68,419,332	55,664,094
Trade receivables due from related companies	22,975,766	9,909,113
	91,395,098	65,573,207
VAT receivables	51,068,196	36,188,470
Other receivables	960,957	1,036,635
	143,424,251	102,798,312
Age analysis of Trade and related Company receivables As at 31 December,		
Neither past due nor impaired	67,838,898	63,090,081
Past due but not impaired		
0-30 days	20,011,304	2,483,126
31-60 days	3,544,896	-
	91,395,098	65,573,207

Notes to the Financial Statements

Bogala Graphite Lanka PLC

As at 31 December 2017

	2017 Rs.	2016 Rs.
15. CASH AND CASH EQUIVALENTS		
Cash in hand	241,799	118,670
Cash at bank	53,055,957	63,132,192
	53,297,756	63,250,862
Bank overdraft	-	-
Cash and cash equivalents as per statement of cash flows	53,297,756	63,250,862

16. STATED CAPITAL

	2017		2016	
	Number	Rs.	Number	Rs.
Fully paid ordinary shares (Note 16.1)	94,632,904	102,074,201	94,632,904	102,074,201
	94,632,904	102,074,201	94,632,904	102,074,201

16.1 The movement of the stated capital is as follows;

	2017		2016	
	No. of shares	No. of shares	Rs.	Rs.
In issue at 1 January	94,632,904	47,316,452	102,074,201	80,074,201
Capitalization of reserves (1:1 Share issue)	-	47,316,452	-	22,000,000
In issue at 31 December - fully paid	94,632,904	94,632,904	102,074,201	102,074,201

17. RESERVES

Revaluation reserve	5,718,298	5,718,298
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18. LOANS AND BORROWINGS

Loans from Graphit Kropfmühl GmbH (Note 18.1)	152,444,274	129,910,870
Finance lease obligations (Note 18.2)	6,030,947	8,964,675
	158,475,221	138,875,545

Non current

Loan from Graphit Kropfmühl GmbH	88,200,270	102,561,213
Finance lease obligations	3,954,852	6,030,934
	92,155,122	108,592,147

Current

Loan from Graphit Kropfmühl GmbH	64,244,003	27,349,657
Finance lease obligations	2,076,095	2,933,741
	66,320,098	30,283,398

18.1 The movement of the loan is as follows;

Balance as at the beginning of the year	129,910,870	154,186,802
Loans obtained	32,056,150	-
Repayments	(29,047,201)	(27,780,716)
Effect on exchange loss	19,524,455	3,504,784
Balance as at the end of the year	152,444,274	129,910,870

Terms and conditions of the loan

Graphit Kropfmühl GmbH Loan

The repayment terms of borrowing and the security offered to the loan are set out below;

Rate of interest

EURO 5.53%

Terms of repayment - equal capital installments

EURO 43,616.25
(Quarterly)

Grace period

2 years upto October, 2011

Loan repayment period

10 years end in 2021

Security offered

NIL

Notes to the Financial Statements

Bogala Graphite Lanka PLC

As at 31 December 2017

	2017 Rs.	2016 Rs.
18. LOANS AND BORROWINGS (CONT.)		
Finance lease obligations		
18.2 The movement of the finance lease is as follows;		
Balance as at 1 Jan	8,964,675	5,666,255
Leases obtained	-	8,500,000
Lease repayments	(2,933,728)	(5,201,580)
Balance as at 31 Dec	6,030,947	8,964,675

19. EMPLOYEE BENEFITS

19.1 Defined contribution plans

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

Employees' Provident Fund		
Employers' contribution	17,665,543	15,845,368
Employees' contribution	14,731,133	13,778,581
Employees' Trust Fund	4,419,340	3,961,362

19.2 Defined benefit plan

Balance at the beginning of the year	48,011,111	43,670,171
Provision recognized during the year (Note 19.2.1)	9,210,250	7,750,552
Actuarial loss during the year (Note 19.2.2)	6,833,999	692,909
	64,055,360	52,113,632
Payments made during the year	(10,127,746)	(4,102,521)
Balance at the end of the year	53,927,614	48,011,111

19.2.1 Provision recognized in the statement of profit or loss

Current service cost	3,688,972	3,383,535
Interest on obligation	5,521,278	4,367,017
	9,210,250	7,750,552

19.2.2 Provision recognized in the other comprehensive income

Actuarial loss for the year	6,833,999	692,909
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An actuarial valuation for gratuity liability was carried out as at 31 December 2017 by Mr.M.Poopalanathan, AIA of Messers Actuarial and Management Consultants (Pvt) Ltd., a firm of professional actuaries.

The following assumptions and data were used in valuing the defined benefit obligation by the actuarial valuer.

Discount rate	11%	11.5%
Salary increment rate	10%	10%

Assumptions regarding future mortality are based on A67/70 mortality table, issued by Institute of Actuaries, London.

Normal retirement age of an individual is assumed to be 55 years and employees over 55 years are assumed to retire on their respective next birthdays.

According to the Payment of Gratuity Act No. 12 of 1983, the liability for gratuity to an employee arises only on completion of 5 years of continuous service.

Notes to the Financial Statements

Bogala Graphite Lanka PLC

As at 31 December 2017

19. EMPLOYEE BENEFITS (CONT.)

19.2.3 Sensitivity analysis

If there is a change in the assumption by 1%, the following would be the impact on employee benefits.

	2017		2016	
	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
Discount rate	(3,315,093)	3,689,538	(3,098,673)	3,453,282
Salary increment rate	4,018,499	(3,658,864)	3,753,965	(3,411,706)

20. DEFERRED TAXATION

Deferred tax (assets)/liabilities

Deferred tax liabilities (Note 20.1)

Deferred tax assets (Note 20.2)

	2017 Rs.	2016 Rs.
Deferred tax (assets)/liabilities	26,298,732	20,975,330
Deferred tax liabilities (Note 20.1)	(26,518,976)	(16,591,309)
Deferred tax assets (Note 20.2)	(220,244)	4,384,021

The movement on the deferred tax account is as follows;

20.1 Deferred tax liabilities

Balance as at 1 Jan

Originated/(Reversed) during the year

Balance as at 31 Dec

	2017 Rs.	2016 Rs.
Balance as at 1 Jan	20,975,330	21,107,429
Originated/(Reversed) during the year	5,323,402	(132,099)
Balance as at 31 Dec	26,298,732	20,975,330

20.2 Deferred tax assets

Balance as at 1 Jan

Originated during the year through profit or loss

Originated during the year through other comprehensive income

Balance as at 31 Dec

	2017 Rs.	2016 Rs.
Balance as at 1 Jan	16,591,309	13,693,328
Originated during the year through profit or loss	8,970,907	2,814,832
Originated during the year through other comprehensive income	956,760	83,149
Balance as at 31 Dec	26,518,976	16,591,309

Deferred tax assets and liabilities are attributable to the following:

	2017		2016	
	Temporary difference Rs.	Tax effect Rs.	Temporary difference Rs.	Tax effect Rs.
Deferred tax liabilities				
Property, plant and equipment	187,848,087	26,298,732	174,794,414	20,975,330
	187,848,087	26,298,732	174,794,414	20,975,330
Deferred tax assets				
Employee benefits	(53,927,614)	(7,549,866)	(48,011,111)	(5,761,333)
Tax loss (Note 20.3)	(135,493,643)	(18,969,110)	(90,249,800)	(10,829,976)
	(189,421,257)	(26,518,976)	(138,260,911)	(16,591,309)
Net deferred tax (assets)/liabilities	(1,573,170)	(220,244)	36,533,503	4,384,021

20.3 Tax loss

Deferred tax liability arising from temporary differences is set-off against the deferred tax assets created by brought forward tax losses to the extent that it could be recovered in the future. Deferred tax asset arising from carried forward tax losses amounted to Rs. 18,969,110/- (2016 - Rs.10,829,976/-) have been recognised in the Financial Statements. Such losses considered for deferred tax amounted to Rs. 135,493,643/- (2016 - Rs. 90,249,800/-).

	2017		2016	
	Temporary difference Rs.	Tax effect Rs.	Temporary difference Rs.	Tax effect Rs.
Recognised	135,493,643	18,969,110	90,249,800	10,829,976
Un-recognised	-	-	55,669,185	6,680,302
	135,493,643	18,969,110	145,918,985	17,510,278

Notes to the Financial Statements

Bogala Graphite Lanka PLC

Year ended 31 December 2017

20.4 Impact due to corporate Income Tax rate change

As provided for in LKAS 12 - Income taxes, deferred tax assets and liabilities should be measured at the tax rate (and tax laws) that has been enacted or substantively enacted as at the reporting date. Accordingly as the Inland Revenue Act No 24 of 2017 which has been legislated, the new tax rate of 14% (previously 12%) which will be applicable to the Company from 1 April 2018. The said new rate of 14% has been applied for deferred tax computation.

As per the New Revenue Act No 24 of 2017 which will become effective from 1 April 2018, Business Assets will attract Capital Gains Tax at the corporate tax rate, at the time of disposal. Accordingly, Land under revaluation model which has been considered as a business asset by the entity, and a deferred tax liability on revaluation reserve as at reporting date has been computed. The respective deferred tax liability is to be recognized through Other comprehensive income (OCI). However, as the amount is not material to the Financial Statements, no adjustments have been made to this effect.

21. TRADE AND OTHER PAYABLES

Trade payables - Others
Trade payables - Related companies
Sundry creditors
Accrued expenses

	2017 Rs.	2016 Rs.
	20,353,725	7,842,800
	4,729,489	4,752,291
	19,632,314	5,536,633
	27,835,545	14,074,612
	72,551,073	32,206,336
	(1,544,612)	6,905,519

22. CURRENT TAXATION

Current tax (asset)/ liability

23. RELATED PARTY DISCLOSURES

The Company carried out transactions in the ordinary course of its business with parties who are defined as related parties as per Sri Lanka Accounting Standard - LKAS 24 on 'Related Party Disclosures', the details of which are reported below:

Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard - LKAS 24 on 'Related Party Disclosures', Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly. Accordingly, the Board of Directors of the Company have been classified as KMP.

Being the parent and ultimate undertaking, Graphit Kropfmuhl GmbH and AMG Advanced Metallurgical Group N.V (Netherlands) respectively as noted in Note 1.2, the Board of directors have the authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly. Accordingly, the Board of Directors of those companies have been classified as KMP.

23.1 Transactions with KMP of the Company are as follows:

Name of KMP	Relationship	Nature of transaction	Amount Rs.	Balance as at 31.12.2017 Rs.
Mr. A P Jayasinghe	Managing Director/CEO	Distress loan granted	2,500,000	
		Distress loan repaid	(492,187)	3,228,386
Mr. Sugath Amarasinghe	Finance Director/CFO	Distress loan repaid	(46,875)	NIL
		Special loan repaid	(21,448)	NIL
The above loans were granted to the executive directors in their capacity as employees.				
Mr. Mohamed Adamaly	Independent Non Executive Director	Consultancy fee on legal matters	35,000	NIL

23.2 Compensation to Key Management Personnel of the Company are as follows:

For the year ended 31 December, 2017

Short-term employment benefits

Executive directors - Emoluments
Non-executive directors - Fees and other benefits

Post-employment benefits

Executive directors

Total compensation applicable to KMP

	2017 Rs.	2016 Rs.
	26,375,437	18,958,406
	2,802,914	3,331,521
	29,178,351	22,289,927
	7,508,518	2,447,155
	36,686,869	24,737,082

Notes to the Financial Statements

Bogala Graphite Lanka PLC

Year ended 31 December 2017

23. RELATED PARTY DISCLOSURES (CONT.) 23.3 Transactions with related companies

Nature of Transactions	Name of Company & Relationship								Total		
	Parent Graphit Kropfmühl GmbH		Affiliate Graphite Tyn spol. s.r.o.		Affiliate Qingdao Kropfmühl Graphite Co. Ltd.		Total		Total		
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	
Balance receivable/(payable) as at 01 January											
Sale of goods/services	(129,476,030)	(162,449,738)	3,475,436	5,181,136	1,246,546	2,666,367	(124,754,048)	(154,602,235)			
Purchase of goods/services	92,198,204	120,285,681	50,737,560	58,129,484	26,816,568	10,990,337	169,752,332	189,405,502			
Expenses reimbursable from related companies	(72,734,475)	(60,130,765)	-	-	-	-	(72,734,475)	(60,130,765)			
Finance cost (Interest expenses)	-	1,255,608	-	-	-	-	-	1,255,608			
Technical service fee payments	(6,998,072)	(7,984,351)	-	-	-	-	(6,998,072)	(7,984,351)			
Receipt of loans and borrowings	(36,644,399)	(35,122,722)	-	-	-	-	(36,644,399)	(35,122,722)			
Repayment of loans and borrowings	(32,056,150)	(27,780,716)	-	-	-	-	(32,056,150)	(27,780,716)			
Net settlements	29,047,201	29,047,201	-	-	-	-	29,047,201	29,047,201			
Net exchange loss	21,804,778	(9,605,675)	(50,646,591)	(59,835,184)	(18,416,327)	(12,410,158)	(47,258,140)	(81,851,017)			
	(19,524,455)	(3,504,784)	-	-	-	-	(19,524,455)	(3,504,784)			
Balance receivable/(payable) as at 31 December	(154,383,398)	(129,476,030)	3,566,405	3,475,436	9,646,787	1,246,546	(141,170,206)	(124,754,048)			
Above balance included in											
Trade receivables											
Trade payables	9,762,574	5,187,131	3,566,405	3,475,436	9,646,787	1,246,546	22,975,766	9,903,113			
Other payables	(4,729,489)	(4,752,291)	-	-	-	-	(4,729,489)	(4,752,291)			
Loans and borrowings	(6,972,209)	-	-	-	-	-	(6,972,209)	-			
	(152,444,274)	(129,910,870)	-	-	-	-	(152,444,274)	(129,910,870)			
	(154,383,398)	(129,476,030)	3,566,405	3,475,436	9,646,787	1,246,546	(141,170,206)	(124,754,048)			

23.3.3.1 Total aggregated value of the sales made to Graphit Kropfmühl, Graphite Tyn and Qingdao Kropfmühl are 12.6%, 6.9% and 3.7% respectively from the total revenue of the Company.

Terms and conditions:

All related party transactions have been conducted on an agreed commercial terms with the respective parties.

Notes to the Financial Statements

Bogala Graphite Lanka PLC

Year ended 31 December 2017

24. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value of assets and liabilities

The fair values of financial assets and financial liabilities, together with the carrying amounts shown in the statement of financial position are as follows;

	31 December 2017		31 December 2016	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
Assets carried at amortised cost				
Other financial assets	31,242,702	31,242,702	30,222,467	30,222,467
Trade receivables	91,395,098	91,395,098	65,573,207	65,573,207
Cash and cash equivalents	53,297,756	53,297,756	63,250,862	63,250,862
	175,935,556	175,935,556	159,046,536	159,046,536
Liabilities carried at amortised cost				
Loans and borrowings	158,475,221	158,475,221	138,875,545	138,875,545
Trade payables	25,083,215	25,083,215	12,595,091	12,595,091
	183,558,436	183,558,436	151,470,636	151,470,636

The carrying amount of cash and cash equivalents approximate the fair value due to the relatively short maturity of the financial instruments. This includes cash balances as well. For all the other items the carrying value has been considered as the fair value due to the timing of the cash flows.

The Company does not have any financial assets or liabilities carried at fair value as at the reporting date.

Non financial assets measured at fair value

The valuation technique and inputs used in measuring the fair value of freehold land are given in Note 11.1.

25. FINANCIAL RISK MANAGEMENT

25.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

1. Credit risk
2. Liquidity risk
3. Market risk
4. Operational risk

Introduction and overview

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout this financial statements.

25.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Notes to the Financial Statements

Bogala Graphite Lanka PLC

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25.3 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances. However, geographically there is no concentration of credit risk.

The Management Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Management Committee; these limits are reviewed quarterly. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for Companies of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

25.3.1 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was;

	2017 Rs.	2016 Rs.
As at 31 December,		
Trade receivables	91,395,098	65,573,207
Cash and cash equivalents	53,297,756	63,250,862

The maximum exposure to credit risk for loans and receivables at the reporting date by currency wise;

EUR	183.84	156.76
GBP	207.20	183.10
USD	153.29	148.72

Impairment losses

The aging of trade receivables at the end of the reporting period that was as follows.

	2017 Rs.	2016 Rs.
Neither past due nor impaired	91,395,098	65,573,207
Due and impaired	-	-

Notes to the Financial Statements

Bogala Graphite Lanka PLC

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25. FINANCIAL RISK MANAGEMENT (CONT.)

25.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimizing its cash return on investments. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

25.4.1 Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date.

	Carrying Amount Rs.	Less than 3 months Rs.	3 - 12 months Rs.	> 5 Years Rs.
As at 31 December 2017				
Non-derivative financial liabilities				
Loans and borrowings	158,475,221	24,594,290	41,725,809	92,155,122
Trade payables	25,083,215	25,083,215	-	-
	183,558,436	49,677,505	41,725,809	92,155,122
As at 31 December 2016				
Non-derivative financial liabilities				
Loans and borrowings	138,875,545	8,029,767	22,253,631	108,592,147
Trade payables	12,595,091	12,595,091	-	-
	151,470,636	20,624,858	22,253,631	108,592,147

25.4.2 Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's policy is to hold cash and undrawn overdraft facilities at a level sufficient to ensure that the Company has available funds to meet its liabilities.

25.5 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. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

25.5.1 Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes on foreign exchange rates. The Company monitors the fluctuations in foreign currencies with appropriate strategies to minimize risk.

The Company's exposure to the risk of changes in foreign exchange rates relate primarily to the Company's operating activities (when revenue or expense is denominated in a foreign currency) and loans and borrowings.

Notes to the Financial Statements

Bogala Graphite Lanka PLC

Year ended 31 December 2017

25. FINANCIAL RISK MANAGEMENT (CONT.)

25.5 Market risk (Cont.)

25.5.1 Currency risk (Cont.)

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
EUR	172.08	158.90	183.84	156.76
USD	151.33	144.08	153.29	148.72
GBP	196.40	193.72	207.20	183.10

The Company's exposure to foreign currency risk is as follows;

The summary quantitative data about the Company's exposure to currency risk as reported to the management of the Company as follows;

	31 December, 2017		31 December, 2016	
	EUR	USD	EUR	USD
Cash and cash equivalents	82,656	29,550	104,705	30,691
Trade receivables	72,505	62,934	161,014	270,600
Loans and borrowings - GK	(829,244)	-	(828,709)	-
Trade payables	(25,726)	-	(26,710)	-
Net statement of financial position exposure	(699,809)	92,484	(589,700)	301,291

The following significant exchange rates have been applied.

	Average rate		Year end spot rate	
	2017	2016	2017	2016
EUR	172.08	158.90	183.84	156.76
USD	151.33	144.08	153.29	148.72

Sensitivity analysis

A reasonably possible strengthening (weakening) of the Euro and US dollar against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	Profit or loss (Rs.)		Equity, net of tax (Rs.)	
	Strengthening	Weakening	Strengthening	Weakening
31 December, 2016				
EUR (1% movement)	2,557	(2,557)	(2,557)	2,557
USD (1% movement)	18,696	(18,696)	(18,696)	18,696

Notes to the Financial Statements

Bogala Graphite Lanka PLC

Year ended 31 December 2017

25. FINANCIAL RISK MANAGEMENT (CONT.)

25.5 Market risk (Cont.)

25.5.1 Currency risk (Cont.)

	Profit or loss (Rs.)		Equity, net of tax (Rs.)	
	Strengthening	Weakening	Strengthening	Weakening
31 December 2016				
EUR	(5,897)	5,897	(5,897)	5,897
USD	3,013	(3,013)	3,013	(3,013)

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 long-term debt obligations.

The Company's interest rate includes an fixed rate of 5.53%.

Sensitivity analysis

A change of 50 basis points in interest rates at the end of the reporting period would have increased/(decreased) profit or loss by the amounts shown below.

	Increase/ decrease in basis points	Effect on profit before tax (Rs.)
2017	+50	(762,221)
	-50	762,221
2016	+50	(649,554)
	-50	649,554

26. CAPITAL COMMITMENTS

There were no contract for capital expenditure of material amounts approved or contracted for as at the reporting date.

27. CONTINGENT LIABILITIES

There are no cases have been filed against the Company or claims have been made in reconviction. Accordingly, no provision has been made in the Financial Statements.

28. EVENTS AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements.

29. COMPARATIVE FIGURES

The previous year's figures have been re-classified where necessary to conform to current year's presentation.

30. DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Board of Directors is responsible for the preparation and presentation of the Financial Statements in accordance with Sri Lanka Accounting Standards.

TEN YEAR FINANCIAL SUMMARY (In Rupees '000)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Trading Results										
Turnover	732,888	702,454	582,861	607,425	535,758	556,226	399,324	386,373	241,382	383,976
Gross Profit	255,039	270,374	186,600	239,628	177,488	184,222	115,004	130,098	19,319	108,606
Other Income	7,773	14,127	3,287	9,440	7,718	13,813	6,925	36,132	6,926	2,195
Profit before Interest	(12,971)	88,249	16,538	92,223	47,757	40,741	38,069	88,405	(76,387)	(53,603)
Interest Cost	(8,015)	8,931	10,232	13,796	17,928	18,548	16,406	15,144	47,630	48,270
Profit after interest before Tax	(20,986)	79,318	6,306	78,426	29,829	22,193	21,663	73,261	(124,017)	(101,873)
Taxation	1,332	5,512	6,150	3,968	5,072	1,652	(1,552)	(2,844)	-	1,845
Net Profit/(Loss)	(19,653)	73,806	156	74,459	24,757	23,845	20,111	70,417	(124,017)	(100,028)
Reversal of Unclaimed Dividend	-	-	-	-	-	-	-	-	-	-
Actuarial loss	(5,877)	610	1,554	2,075	126	1,738	-	-	-	-
Total Comprehensive Income for the Year	(25,531)	73,196	(1,398)	72,384	24,656	22,108	-	-	-	-
Balance Sheet										
Stated Capital	102,074	102,074	80,074	80,074	80,074	80,074	80,074	80,074	547,142	397,290
Reserves	221,698	247,229	198,233	189,328	116,944	92,313	82,009	76,135	(461,350)	(337,333)
Shareholders' Funds	323,772	349,303	278,307	269,402	197,018	172,362	162,083	156,209	85,792	59,957
Property, Plant & Equipment	265,539	259,841	253,503	270,451	297,136	282,859	275,276	242,700	262,043	303,916
Current & Non Current Assets	343,188	319,844	271,116	263,130	238,042	241,997	227,833	255,636	205,422	215,938
Current Liabilities	138,871	69,395	66,717	61,645	86,875	81,542	80,198	40,674	47,200	306,145
Non Current Liabilities	146,083	160,987	179,595	203,389	253,684	270,952	260,827	301,453	334,471	153,752
Net/Assets	323,772	349,303	278,307	269,402	197,018	172,362	162,083	156,209	85,792	59,957
Key Indicators										
Gross Profit to Turnover	35%	38%	32%	39%	33%	33%	29%	33.67%	8.00%	28.28%
Net Income to Turnover	-2.68%	10.51%	0.03%	12.26%	4.62%	4.29%	5.04%	18.23%	-51.38%	-26.05%
Earnings Per Share	-0.21	0.78	0.00	1.57	0.52	0.50	0.43	1.49	(2.62)	(3.57)
Price Earnings Ratio	(64)	18	9,839	19,89	35.17	47.03	91.76	39.31	(6.87)	(3.57)
Market Value per share as at 31st December	13.30	14.40	32.40	31.30	18.40	23.70	39.00	58.50	18.00	9.00
Return on Equity	-6.07%	21.13%	0.06%	27.64%	12.57%	13.93%	12.41%	45.08%	-144.55%	-166.83%
Net Assets per share	3.42	3.69	5.88	5.69	4.16	3.64	3.43	3.30	1.81	1.51
No of Shares in Issue	94,632,904	94,632,904	47,316,452	47,316,452	47,316,452	47,316,452	47,316,452	47,316,452	47,316,452	38,729,000

Notes:

- 1) In Year 2004 a Loan of Euro 1,000,000 obtained from GK was converted to 11,768,000 shares
- 2) In year 2009 further 7,587,452 shares were issued by capitalising Euro loan due to GK.
- 3) In year 2010 BGL reduced its stated capital to Rs.80,074,201 by setting off the accumulated losses as at 31/12/2009 of Rs.467,067,988 against the stated capital of Rs.547,142,189 without affecting the number of shares in issue.

Top 20 Shareholders

Bogala Graphite Lanka PLC

As at 31st December 2017

	Name of Shareholders	No. of shares	%
1	GRAPHIT KROPFMUHL GMBH	75,310,068	79.58
2	ALTERNA GK LLC	9,775,580	10.33
3	SECRETARY TO THE TREASURY	509,000	0.54
4	MRS. N.TIRIMANNE	374,200	0.40
5	PEOPLES LEASING & FINANCE PLC/L.P.HAPANGAMA	276,379	0.29
6	MR. W.A.DE SILVA (DECEASED)	181,800	0.19
7	MR. D.M.KODIKARA	121,386	0.13
8	MR. A.J.M.JINADASA	111,000	0.12
9	UNIVOGUE GARMENTS (PVT) LIMITED.	99,000	0.10
10	MR. M.H.HANIFFA	91,921	0.10
11	BIMPUATH FINANCE PLC	79,092	0.08
12	MR. M.Z.RASHEED	73,922	0.08
13	PEOPLES LEASING & FINANCE PLC/DR.H.S.D.SOYSA & MRS.G.SOYSA	70,750	0.07
14	MRS. N.MULJIE	69,902	0.07
15	MR. K.S.M.RODRIGO	61,300	0.06
16	ASHA FINANCIAL SERVICES LIMITED/MR.C.N.PAKIANATHAN	59,500	0.06
17	MBSL/G.S.P. GUNASENA	58,922	0.06
18	MR. N.A.WITHANA	54,604	0.06
19	MR. M.S.HIRIPITIYA	53,026	0.06
20	MR. A.R.IBRAHIM	47,500	0.05

SHARES NOT TAKEN INTO ACCOUNT TO COMPUTE PUBLIC HOLDING

Name	Shares	%
GRAPHIT KROPFMUHL GMBH	75,310,068	79.58
ALTERNA GK LLC	9,775,580	10.33
TOTAL	85,085,648	89.91

Number of Share held by Public	9,547,256
Number of shareholders holding the Public Shares	9,485
Percentage	10.09

Number of shares representing stated capital	94,632,904
Total number of shareholders	9,487

Net Assets Value per Share as at 31st December 2017 (2016 - Rs.3.69)	Rs.	3.42
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Summary of Shareholders

Bogala Graphite Lanka PLC

As at 31st December 2017

Shareholding	No. of Shareholders	Total No. of Shares	Percentage %
1-1000	8,430	2,890,259	3.05
1001-5000	843	1,943,278	2.05
5001-10000	125	970,474	1.03
10001-50000	70	1,397,541	1.48
50001-100000	11	771,939	0.82
100001-500000	5	1,064,765	1.13
500001-1000000	1	509,000	0.54
OVER 1000000	2	85,085,648	89.91
TOTAL	9,487	94,632,904	100.00

SHARE TRADING DETAILS FOR THE YEAR 2017

Highest Market Price (30-05-2017)	Rs.	17.60
Lowest Market Price (17-03-2017)	Rs.	11.00
Market Price as at 31 st December 2017	Rs.	13.30
Traded Share Volume		2,025,763
No of Trades		1,812
Trading Turnover		31,128,175.00

NOTICE IS HEREBY GIVEN THAT the Twenty SEVENTH Annual General Meeting of the Company will be held at 11.00 a.m. on Saturday the 28th April 2018 at the Ceylon Chamber of Commerce Auditorium at No. 50, Navam Mawatha, Colombo 02 for the following purposes:

AGENDA

1. To receive and consider the Annual Report of the Board together with the Financial Statements of the Company for the year ended 31st December 2017 with the Auditors' Report thereon.
2. To propose the following resolution as an ordinary resolution for the reappointment of Mr. J. C. P. Jayasinghe who has reached the age of 74 years.

"IT IS HEREBY RESOLVED that the age limit referred to in section 210 of the Companies Act No.07 of 2007 shall not apply to Mr. J.C.P Jayasinghe who has reached the age of 74 years prior to this Annual General Meeting and that he be reappointed as a director of the Company".

3. To propose the following resolution as an ordinary resolution for the reappointment of Mr. V. P. Malalasekera who has reached the age of 72 years.

"IT IS HEREBY RESOLVED that the age limit referred to in section 210 of the Companies Act No.07 of 2007 shall not apply to Mr. V.P. Malalasekera who has reached the age of 72 years prior to this Annual General Meeting and that he be reappointed as a director of the Company".

4. To reappoint KPMG, Chartered Accountants, 32 A, Sir Mohamed Macan Markar Mawatha, Colombo 03 as the Auditors of the Company until the next Annual General Meeting at a remuneration to be agreed upon with them by the Board of Directors and to audit the Financial Statements of the Company for the accounting period ending 31st December 2018.
5. To authorise the Directors to determine contributions to charities for the ensuing year.

By Order of the Board

CORPORATE SERVICES (PRIVATE) LIMITED

Secretaries

BOGALA GRAPHITE LANKA PLC

Colombo on this 22nd day of March 2018

Note:

Any member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his/her stead and a form of proxy is sent herewith for this purpose. A proxy need not be a member of the Company.

A completed form of proxy must be deposited at the Registered Office of the Company at No.216, De Saram Place, Colombo 10 not less than 48 hours before the time appointed for the holding of the meeting.



Form of Proxy

Bogala Graphite Lanka PLC

I/We of
 being
 a member/s of BOGALA GRAPHITE LANKA PLC hereby appoint
 of
or failing him Mr.V.P.Malalasekera or failing him
 Mr.Roger Miller or failing him Mr.J.C.P.Jayasinghe or failing him Mr.A.P.Jayasinghe or failing him Mr.T.Müller
 or failing him Mr.T.Junker or failing him Ms.M.C.Pietersz or failing her Mr.A.S.R.Amarasinghe or failing him
 Mr.M.Adamaly as my/our proxy to speak/vote for me/us and on my/our behalf at the 27th Annual General
 Meeting of the Company to be held on theday of2018 at 11.00 a.m. and at any adjournment thereof
 and at every poll which may be taken in connection with such meeting.

As witness my/our hands this day ofTwo Thousand and Eighteen.

.....
Signature

Note :
Delete what is inapplicable

***Please bring your National Identity Card.**

INSTRUCTIONS AS TO COMPLETION

1. The instrument appointing a proxy may be in writing under the hands of the appointor or of its attorney duly authorized in writing under the hands of the appointor or of its attorney duly authorized in writing or if such appointor is a corporation under its common seal or the hand of its attorney or duly authorized person.
2. The instrument appointing a proxy and the Power of Attorney or other authority, if any, under which it is signed or a notorially certified copy of the Power of Attorney or other authority will have to be deposited at the Registered Office of the Company not less than 48 hours before the time appointed for the holding of the meeting.

Corporate Information

Bogala Graphite Lanka PLC

1. **Name of the Company** - Bogala Graphite Lanka PLC
2. **Legal Form** - A Public Quoted Company with limited liability incorporate under the provisions of Companies Act No 7 of 2007
3. **Date of Incorporation** - 11th March 1991
4. **Company Registration Number** - PQ 218
5. **Nature of Business** - Mining, Separation, Refining, Treating , Processing and Preparation, and sale of Graphite, and production of Lubricants
6. **Board of Directors**
 - Mr. Vijaya Malalasekera - Chairman
 - Mr. Thomas A Junker - Vice Chairman
 - Mr. Jayampathi Jayasinghe
 - Mr. Roger Miller
 - Mr. Amila Jayasinghe - CEO / Managing Director
 - Mr. Torben Müller
 - Ms. Coralie Pietersz
 - Mr. Sugath Amarasinghe - Finance Director
 - Mr. Mohamed Adamaly
7. **Business Address** Bogala Mines, 71041 Aruggammana
Website : www.gk-graphite.lk
8. **Secretaries** Corporate Services (Private) Limited
216, De Saram Place, Colombo 10.
Tel: 004718200 Fax 004718220
email: csl@figdesaram.com
Lawyers F J & G De Saram
216 De Saram Place, Colombo 10.
Tel: 0114605100 Fax 0112669769
email: fjgdesaram@fjgdesaram.com
9. **External Auditors** KPMG,
Chartered Accountants
32A, Sir Mohammed Macan Marker Mw.,
Colombo 03
Internal Auditors B.R.De Silva & Company
Chartered Accountants
22/4, Vijaya Kumaranathunga Mawatha,
Colombo 05.
10. **Bankers** Peoples Bank
Sampath Bank PLC
11. **Management Committee**
 - Assistant General Manager (Underground) - Chaminda Ekanayake
 - Assistant General Manager (Processing) - Anura Liyanage
 - Assistant General Manager (Engineering Services / Safety, Health & Environment) - Saliya Gunasekara
 - Assistant General Manager (Finance) - Ms. Devika Kumari
 - Manager Human Relations - Kithsiri Muhandiram
 - Manager IT - Ruwan Jayakody
 - Manager Mining - I. V. Sunil
 - Deputy Processing Manager - Nalin Samantha
 - Mine Service Manager / Geologist - Kithsiri Palandagama
 - Manager Public Relations & Stores - Hemantha Jayasinghe

