ANNUAL REPORT 2010

State Trading Organization PLC

evolving with you

ATTENTION

This report (Annual Report) comprises the Annual Report of State Trading Organization PLC prepared in accordance with the Companies Act of the Republic of Maldives (10/96), Listing Rules of Maldives Stock Exchange, the Securities Act of Maldives Securities Depository, Securities (Continuing Disclosure Obligations of Issuers) Regulation 2010 and Corporate Governance Code of Capital Market Development Authority Requirements.

Unless otherwise stated in this Annual Report, the terms ‘STO’, the ‘Group’, ‘we’, ‘us’ and ‘our’ refer to State Trading Organization PLC and its subsidiaries, collectively. The term ‘Company’ refers to STO and/or its subsidiaries.

STO prepares its financial statements in accordance with International Financial Reporting Standards (IFRSs).

References to a year in this report are, unless otherwise indicated, references to the Company’s financial year ending 31st December 2010. In this report, financial and statistical information is, unless otherwise indicated, stated on the basis of the Company’s financial year. Information has been updated to the most practical date.

This Annual Report contains forward looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward looking statements often use words such as ‘anticipate’, ‘target’, ‘expect’, ‘estimate’, ‘intend’, ‘plan’, ‘goal’, ‘believe’, ‘will’, ‘may’, ‘should’, ‘would’, ‘could’ or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and STO plans and objectives, to differ materially from those expressed or implied in the forward looking statements.

There are several factors which could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions. STO cannot guarantee future results, levels of activity, performance or achievements.

بسم الله الرحمن الرحيم

CONTENTS

FINANCIAL HIGHLIGHTS

GROUP	2006	2007	2008	2009	2010
Turnover (Rf m)	5,838	5,560	6,418	4,982	4,742
Net Profit (Rf m)	161	170	187	172	143
Gross Proft (Rf m)	404	435	577	621	688
Net Worth (Rf m)	793	910	991	1,051	1,124
EPS (Rf)	135	142	156	151	127

STO PLC	2006	2007	2008	2009	2010
Shareholder Value					
EPS (Rf)	122	126	138	124	106
PE Ratio	6	5	4	5	4
Market Price Per Share					
Highest (Rf)	899	770	775	760	600
Lowest (Rf)	430	500	450	600	400
Weighted Average (Rf)	673	663	564	640	429
Dividend per share (Rf)	82	70	65	68	n/a
Performance					
Turnover (Rf m)	5,556	5,157	5,927	3,845	4,015
Net Profit (Rf m)	137	142	156	140	119
Gross Proft (Rf m)	302	308	414	422	475
Financial Position					
Current Assets (Rf m)	835	1,339	1,404	1,767	1,511
Current Liabilities (Rf m)	411	932	913	1,333	1,274
Total Assets (Rf m)	1,215	1,755	1,780	2,243	2,224
Total Liabilities (Rf m)	522	968	938	1,341	1,274
Equity (Rf m)	693	787	842	902	950
No of Shares	1,126,910	,126,910	1,126,910	1,126,910	1,126,910

VISION

Be a recognized trading leader in the region, creating enduring value for all stakeholders, positively influencing the lives of the communities we serve and be a catalyst of economic growth supporting economically and environmentally sustainable development.

MISSION

- Work towards achieving profitability not losing sight of the company's original founding purpose of ensuring supplies and stable prices of necessities and essentials.
- Offer a wide range of quality products and services targeted to the specific needs of consumers and businesses that cater to the changing demands of the market and maximize access to all corners of the country through an effective distribution network.
- Seek opportunities for investment abroad and engineer growth through expansion and diversification of our businesses, adapting to changing local and global business conditions.
- Contribute to the national economy through investing in local manufacturing, creating opportunities to help the development of local businesses by offering retail opportunities and strategic partnerships.
- Contribute to society through the development of and participation in social programs that directly contribute to the community.
- Ensuring good governance through strict compliance with the highest standards of corporate.
- Create a cooperative learning work environment and develop human resources of the company.

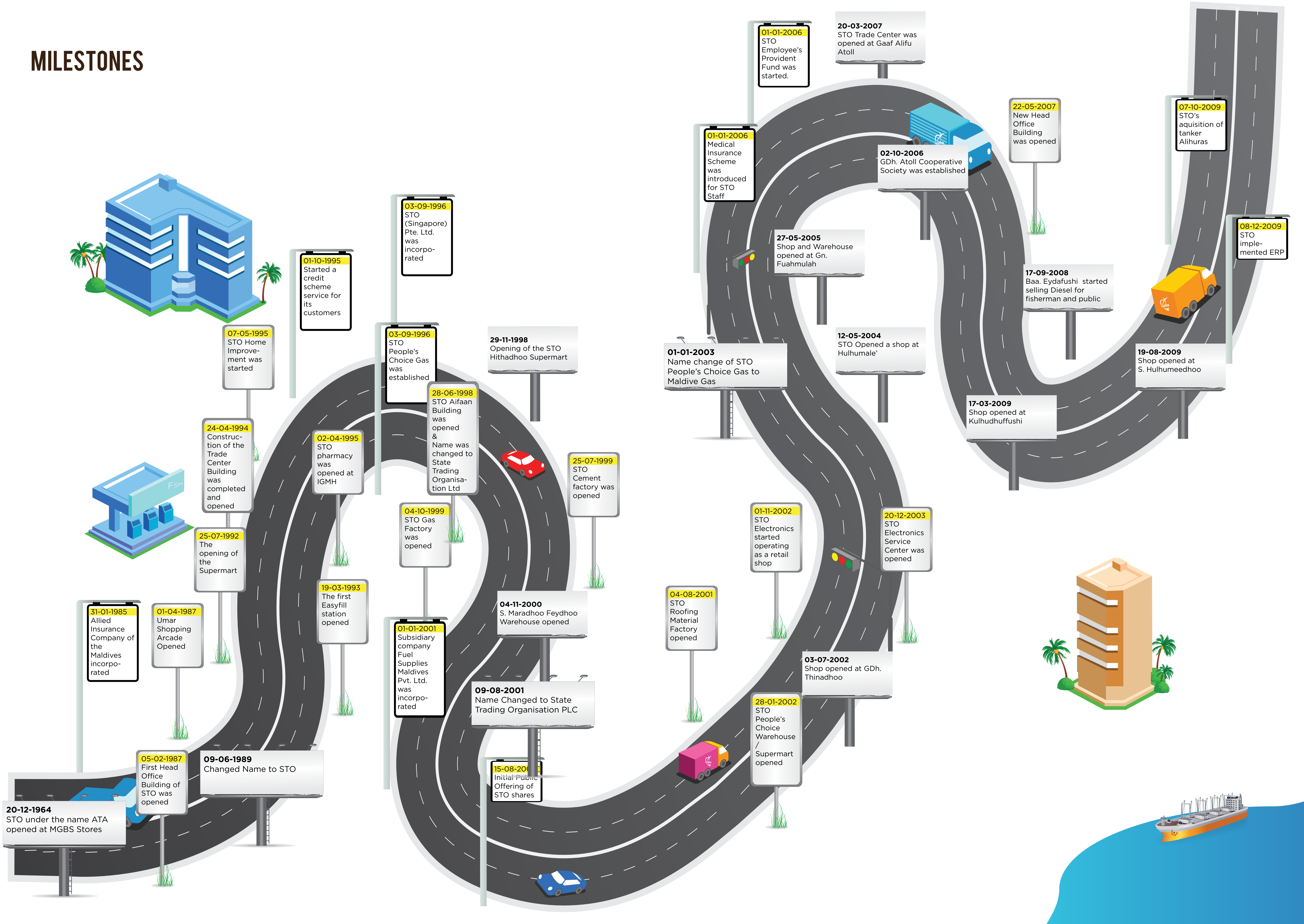
CORE VALUES

Nation first - National interest is number one priority
Customer focus - Delight each and every customer
Employee well-being - Pleasant workplace, learning and growth
Leadership - Excel with reliability, integrity, honesty and transparency
Social Responsibility - Care for the society and the environment

KEY DECISIONS AND ACHIEVEMENTS OF 2010

- Implemented the world renowned SAP enterprise resource planning system throughout the company with imminent success.
- Successfully undertook a company restructuring exercise in order to streamline internal operations to benefit maximally from implementing a new enterprise resource planning system.
- Decided to increase the level of investment in the resort and hotel industry in lieu of the immense growth potential of the industry.
- Decided to be an investment partner in the development of Gan International Airport.
- Decided to purchase the 39,876 square feet plot where STO Staple Foods is located.
- Sold back to Government the 10% shares of Maldives Industrial Fisheries Company Plc held by STO.

MILESTONES


20-12-1964
STO under the name ATA opened at MGBS Stores
31-01-1985
Allied Insurance Company of the Maldives incorporated
05-02-1987
First Head Office Building of STO was opened
01-04-1987
Umar Shopping Arcade Opened
09-06-1989
Changed Name to STO
25-07-1992
The opening of the Supermart
19-03-1993
The first Easyfill station opened
24-04-1994
Construction of the Trade Center Building was completed and opened
07-05-1995
STO Home Improvement was started
02-04-1995
STO pharmacy was opened at IGMH
01-10-1995
Started a credit scheme service for its customers
03-09-1996
STO (Singapore) Pte. Ltd. was incorporated
03-09-1996
STO People's Choice Gas was established
28-06-1998
STO Aifaan Building was opened & Name was changed to State Trading Organisation Ltd
29-11-1998
Opening of the STO Hithadhoo Supermart
25-07-1999
STO Cement factory was opened
04-10-1999
STO Gas Factory was opened
04-11-2000
S. Maradhoo Feydhoo Warehouse opened
01-01-2001
Subsidiary company Fuel Supplies Maldives Pvt. Ltd. was incorporated
09-08-2001
Name Changed to State Trading Organisation PLC
15-08-20
Initial Public Offering of STO shares
04-08-2001
STO Roofing Material Factory opened
28-01-2002
STO People's Choice Warehouse / Supermart opened
03-07-2002
Shop opened at GDh. Thinadhoo
01-11-2002
STO Electronics started operating as a retail shop
20-12-2003
STO Electronics Service Center was opened
01-01-2003
Name change of STO People's Choice Gas to Maldive Gas
12-05-2004
STO Opened a shop at Hulhumale'
27-05-2005
Shop and Warehouse opened at Gn. Fuahmulah
01-01-2006
Medical Insurance Scheme was introduced for STO Staff
01-01-2006
STO Employee's Provident Fund was started.
02-10-2006
GDh. Atoll Cooperative Society was established
20-03-2007
STO Trade Center was opened at Gaaf Alifu Atoll
22-05-2007
New Head Office Building was opened
17-09-2008
Baa. Eydafushi started selling Diesel for fisherman and public
17-03-2009
Shop opened at Kulhudhuffushi
19-08-2009
Shop opened at S. Hulhumeedhoo
07-10-2009
STO's aquisition of tanker Alihuras
08-12-2009
STO implemented ERP

CHAIRMAN'S MESSAGE

RESULTS

This has been another successful year for State Trading Organization PLC. STO maintains its position as one of the leading trading company in the country. The company operates in several core products and geographic areas to enhance long term benefits from demographic and economic trends tending towards high quality products. Turnover increased by 4% to MRF 4.0 billion from MRF 3.8 billion (in 2009), despite the increased uncertainty in world economies.

I am most pleased to report an operating profit for the year ended 31st December 2010 to be MRF 165.1 million despite the major limitations within which the company had to operate. We have achieved this by optimizing our operations and resources, while keeping our commitment to keep the prices of basic food essential items at an affordable price.

OPERATIONAL FOCUS

The company places significant importance to maintain the company's dominant market presence in all key products and geographic markets. We are working towards taking advantage of significant growth opportunities by capital expenditure investments. This will be financed by temporary gearing to ensure the highest returns for the equity holders. These projects will bring in additional revenue and goodwill towards the company as it would create more jobs in various regions of the country.

PEOPLE FOCUS

Our staff has once again proven as the most valuable asset in achieving continued success. The STO group as a whole offers significant opportunities in employment, training and human resource development. The staff are delegated and deployed such that the company optimizes and provides greatest professional growth as well as corporate achievements.

OUTLOOK

With the increasing natural disasters occurring in various supply markets and world political turmoil in crucial energy source countries, we face unprecedented inflationary and cost pressures in the coming years. Our strategy is to maintain our commitment to provide essential food items at affordable prices while diversifying into new trendy profitable markets to ensure steady returns to our shareholders. The company's corporate good governance, philosophy and investment policies are perfectly attuned to meet the demands of the challenges and exploit growth opportunities.

"CORPORATE GOOD GOVERNANCE, PHILOSOPHY AND INVESTMENT POLICIES ARE PERFECTLY ATTUNED TO MEET THE DEMANDS OF THE CHALLENGES AND EXPLOIT GROWTH OPPORTUNITIES"

FAROOQ UMAR, CHAIRMAN

MANAGING DIRECTOR'S MESSAGE

2010 has been another challenging year for STO, mainly because of the severe shortage of foreign currency faced by the country. While the economy fared relatively well, aided by a booming tourism sector and a relatively good fish catch, there was an insufficient supply of foreign currency to fund the company's imports. Even with this limitation, the company performed well in terms of profitability and posted a net profit figure of MRF 124 million for the year ended 31 December 2010.

The company had a strong focus on cutting operational and overhead costs in order to increase profitability. A stringent screening process for all its purchases was in place in order to optimize the limited foreign currency that was available for importing all the goods and services. The company was also supported in this process by our major suppliers as they granted extended credit and more flexible payment terms in order to maximize our imports during the fiscal year.

ERP implementation project was successfully completed during the year as per the projected schedule. The system rolled-out to all the relevant departments including the stores, distribution centers, wholesale centre, procurement and finance. The extensive restructuring and the changes that were undertaken during the implementation were completed on schedule. With the ERP system in place the company will be able to operate more efficiently and effectively with stronger internal controls and better inventory control.

During 2010 the company faced a major challenge in undertaking the refined oil import and distribution business as the company lost the Jet A1 supply bid to Male' International Airport. The loss of this contract caused a significant reduction in the sales revenue as well as the foreign currency inflow through this contract. The company had to work hard to retain the local market share for the other oil products by carefully managing the logistics and the supply chain as efficiently as possible. Through this effort the company was able to maintain the same market share as the previous year.

In 2011 the company will strive to undertake more diversification activities in order to minimize impact of any unforeseen shocks that the different business units may face. In this regard, priority will be given to start the Hulhumale' 5-star hotel project. The company will also focus on effectively operating the north and south distribution centers. Improving the performance of all the subsidiary companies and associate companies would also be a high priority in order to maximize the group profits. The company will strive to adhere to its core values, which are; nation first, customer focus, employee wellbeing, leadership and social responsibility while maximizing our shareholder wealth.

I once again applaud the dedicated team of STO staff members for their commitment and hard work during the last fiscal year. I also would like to congratulate everyone in the company for their devotion and unfounded level of interest during the implementation of the ERP system. I also thank our customers, suppliers, bankers, especially the Maldives Monetary Authority (MMA) and our main shareholder the Government of Maldives represented by Ministry of Finance and Treasury for their enduring support.

MR. SHAHID ALI, MANAGING DIRECTOR

BOARD DIRECTORS' PROFILE

From left to right:
Top Row: Mr. Farooq Umar (Chairman), Mr. Mohamed Ahmed (Non-Executive Director), Mr. Shahid Ali (Managing Director), Mr. Ahmed Arif (Non-Executive Director)
Bottom Row: Mr. Arif Abdul Samad (Non-Executive Director), Mr. Masood Ali (Non-Executive Director), Ms. Sana Mansoor (Chief Financial Officer / Executive Director)

MR. FAROOQ UMAR
CHAIRMAN / NON-EXECUTIVE DIRECTOR

Mr. Farooq Umar, Ma. Aadhilleege has been the Chairman of STO from 20th November 2008, till date. His extensive experience in managing and developing businesses, has earned him recognition as a prominent business leader in Maldives. He is a successful entrepreneur and has over 20 years of experience in business management. His career spans across both public and private sectors.

MR. SHAHID ALI
MANAGING DIRECTOR/ EXECUTIVE DIRECTOR

Mr. Shahid Ali, Vaaruge, S. Hulhudhoo was appointed to the Board of STO on 20th November 2008, and was appointed as the Managing Director of the Company on 4th January 2009. Shahid had been a business and management consultant by profession and has over 15 years of experience in business management, finance, investment appraisals and project management. Prior to his appointment as Managing Director, Shahid had held various positions in the Government of Maldives, and has provided consultancy services to various private and public parties.

Shahid holds a Bachelor of Accounting (Hons) from International Islamic University, Malaysia, a Master of Management (Specializing in Project Management) from the Australian National University (ANU), Australia, and a Master of Business Administration (MBA) from the Australian National University (ANU), Australia.

MS. SANA MANSOOR
CHIEF FINANCIAL OFFICER/ EXECUTIVE DIRECTOR

Ms. Sana Mansoor, Ma. Manas, was appointed to the Board of STO on 20th November 2008, and she is currently the Chief Financial Officer of the Company. Sana first started working at STO on 7th May 1988. She served on the Board of STO subsidiary, STO Lanka Pvt Ltd and joint-venture, Maldives Structural Products Pvt Ltd. In addition to this, she currently serves on the Board of Maldives Stock Exchange Company Pvt Ltd and Maldives Securities Depository Company Pvt Ltd.

Sana is a Certified Practicing Accountant from CPA Australia and holds a Bachelor of Commerce (Account and Finance) from Griffith University, Australia. She is also a senior member of the CPA Maldives.

MR. AHMED ARIF
NON- EXECUTIVE DIRECTOR

Mr. Ahmed Arif, M. World Dream, was appointed to the Board of STO on 20th November 2008. He is also the Chairman of the Corporate Governance committee of STO. Arif served as the Chairman of the Board of Maldive Gas Pvt Ltd and Board director of Fuel Supplies Maldives Pvt Ltd. Arif encompasses wide experience in areas, such as leadership development, pricing, competitive advantages, internal control and operational efficiency. He has held various positions in the Government and private sector. Arif was the Managing Director of Olympia Pvt Ltd from 2000 till 2008.

MR. MOHAMED AHMED
NON- EXECUTIVE DIRECTOR

Mr. Mohamed Ahmed, Ma. Feymans, was appointed to the Board of STO on 20th November 2008. He is also the Chairman of the Remuneration and Nomination committee of STO. Mohamed is a pioneering entrepreneur who initiated the business of a poultry farm in K. Kuda Villingili. He has completed special trainings in interior design in Malaysia and the UK and has gained 17 years of experience in this field.

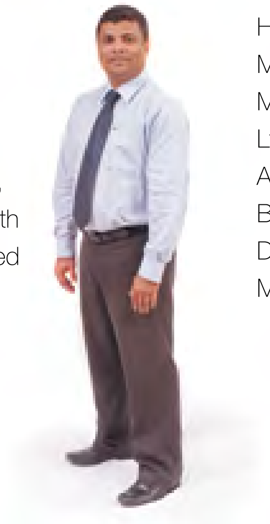
MR. MASOOD ALI
NON- EXECUTIVE DIRECTOR

Mr. Masood Ali, Happy Corner, S. Hulhudhoo, was first elected to the Board on 26th June 2008. He is also the only director elected by the public shareholders. He is also the charman of the audit committee of STO. Masood is currently the Manager of Customer Services of Dhivehiraajeyge Gulhun Pvt Ltd, the first telecommunications company of the Maldives. Masood has over 10 years of experience in management, marketing and customer relations. He is a member of Customer Services Institute of Australia. Masood's professional qualifications are in the areas of Customer Service and Marketing.

MR. ARIF ABDUL SAMAD
NON- EXECUTIVE DIRECTOR

Mr. Arif Abdul Samad, Male' Municipalty Dhaftharu, was elected to the Board on 20th January 2011. Arif is a Manager of Maldives Tourism Development Corporation Plc. Since 1995 Arif has filled various posts in Civil Service. Arif has a Bachelor's Degree in Tourism, History and Politics from University of South Pacific in Fiji, and a Master's Degree in Tourism Management from University of Westminster, UK.

EXECUTIVE TEAM'S PROFILE



MR. SHAHID ALI
MANAGING DIRECTOR

Mr. Shahid Ali was appointed as the Managing Director on 4th January 2009, and has been a Board Director since 20th November 2008. Shahid's profile is stated under the profile of the Directors.

MS. SANA MANSOOR
CHIEF FINANCIAL OFFICER – FINANCE

Ms. Sana Mansoor was appointed as the Chief Financial Officer on January 2009, and has been a Board Director since 20th November 2008. Sana's profile is stated under the profile of the Directors.

MR. IBRAHIM SHAREEF MOHAMED
GENERAL MANAGER - CORPORATE AND LEGAL AFFAIRS / INFORMATION COMMUNICATION TECHNOLOGY

Mr. Ibrahim Shareef Mohamed joined STO in 1986, and is currently in charge of Corporate & Legal Affairs and Information Communication Technology Department. Shareef served on the board of STO and held the position of Chairman of the Board for Allied Insurance Company of the Maldives Pvt Ltd and Maldive Gas Pvt Ltd. He has also been the Chairperson of GDh. Rayithunge Cooperative Society. Shareef Holds Master's in Shipping Management, from Humberside Polytechnic, UK.

MR. ASHRAF ALI
GENERAL MANAGER – ADMINISTRATION

Mr. Ashraf Ali joined STO in 1990 and is currently in charge of Administration Department. He served on the Board of Lafarge Maldives Pvt Ltd, and served as the Managing Director of Maldive Gas Pvt Ltd. Ashraf holds Master's in Business Administration from University of Ballarat, Australia and a Post Graduate Diploma from Chartered Institute of Marketing (CIM), UK.

MR. AHMED SHAHEER
GENERAL MANAGER – BUSINESS DEVELOPMENT / TRANSPORT

Mr. Ahmed Shaheer joined STO in 1994 and is currently in charge of Business Development Department and Transport Department. He served on the Board of Maldives Structural Products Pvt. Ltd. and Maldive Gas Pvt Ltd. Shaheer also served as the Chairman of the Board of Lafarge Maldives Pvt Ltd and Maldives Structural Products Pvt Ltd. Shaheer holds a Master's in Business Administration (International Trade) from University of Adelaide, Australia and Bachelor's in Business Administration (Marketing and Management) from University of Charles Stuart, Australia.

MS. FATHIMATH ASHAN
GENERAL MANAGER – HUMAN RESOURCES

Ms. Fathimath Ashan joined STO in 1994 and is currently incharge of Human Resources. She served as the company secretary of STO, the Board of Maldives National Oil Company Ltd and Allied Insurance Company of the Maldives Pvt Ltd. Ashan holds Master's in Business Administration from University of Lincoln and Bachelor of Arts with Honors (First Class) in Business and Information Technology from University of Coventry, UK.

MR. MOHAMED NABEEL ABDULLAH
GENERAL MANAGER – MARKETING

Mr. Mohamed Nabeel Abdulla joined STO in 1995 and is currently in charge of Marketing Department. He served as the Chairman of the Board of Directors of Lafarge Maldives Pvt Ltd and as a Board Director of Fuel Supplies Maldives Pvt Ltd. Nabeel holds Master's in Information Technology and Business from University of Lincolnshire and Humberside, UK and a Bachelor of Engineering with honors in Software Engineering from University of Shefield, UK.

DR. IBRAHIM MAHFOOZ
CHIEF INTERNAL AUDITOR

Dr. Ibrahim Mahfooz joined STO in 1996 and is the Chief Internal Auditor of the company since July 2010. Mahfooz holds a Doctorate in Business Administration from University of New Castle, Australia, MBA from Charles Stuart University, Australia and Bachelor's in Accounting and Finance from Oxford Brooks University, UK. He is also a member of Certified Fraud Examiners (CFE) USA, and Fellow Chartered Certified Accountants (FCCA) UK. He is also a senior member of CPA Maldives. Mahfooz served at Ernst& Young where he undertook various audit assignments in Maldives and Sri Lanka.

MR. AHMED NIYAZ
GENERAL MANAGER – LOGISTICS

Mr. Ahmed Niyaz joined STO in 1998 and is currently in charge of Logistics Department. Niyaz is also the Chairman of STO Recreation Club. Niyaz holds a Bachelor's in Engineering (Electrical & Electronic) from Northumbria University, UK.

MR. AHMED SHIFAN
GENERAL MANAGER – STORE OPERATIONS

Mr. Ahmed Shifan joined STO in 2004 and is currently in charge of Store Operations Department. He served as the Secretary of GDh. Rayyithunge Cooperative Society and on the Board of Fuel Supplies Maldives Pvt. Ltd. He also served in the Maldives National Defense Force. Shifan holds Master's in Business Administration with Honors from Auckland University of Technology, New Zealand and Bachelor of Science with Joint Honors (First Class) in Business Information Systems and Business Studies from Middlesex University, UK.

MR. ABDULLA SHAFEEU MAHMOOD
GENERAL MANAGER - PROCUREMENT

Mr. Abdulla Shafeeu joined STO in 2009 and is currently in charge of Procurement Department. Shafeeu served as the Company Secretary and Manager of Administration Department of Male' Water and Sewerage Company Ltd, and as the Head of Purchasing at Universal Enterprises Pvt Ltd. He also worked in KPMG Ford Rhode Thornton and Co. and Ministry of Planning, Human Resources and Environment. Shafeeu is a member of Certified Institute of Management Accountants (CIMA) and Chartered Management Institute (CMI) UK, and is a Senior Member of CPA Maldives and served as the President of CPA Maldives.

MS. AISHATH SHAFFANA RASHEED
COMPANY SECRETARY

Ms. Aishath Shaffana Rasheed joined STO in 2004 and was appointed as the General Manager in 2009 and is currently in charge of Company Secretariat. Shaffana is also the Company Secretary of STO. Shaffana holds a Bachelor's Degree in Business (Marketing and Management) from the Australian College of Business and Technology, Sri Lanka.

MR. ADAM AZIM
GENERAL MANAGER – MERCHANDIZING

Mr. Adam Azim joined STO in July 2010 and is currently in charge of Merchandizing Department. Previously Azim has worked as the Chief Financial Officer at Male' Water and Sewerage Company, Finance Manager and Deputy CEO of Island Beverages Company, and worked at Coopers & Lybrand, and Ernst& Young audit firms. Azim is currently a Board Director of Bank of Maldives Plc. Azim holds MBA from University of Nottingham, UK and BA Accounting Finance from University of East London. Azim is a member of Certified Institute of Marketing (CIM), UK and a Senior Member of CPA Maldives.

SENIOR MANAGEMENT PHOTOS

Mariyam Sadiq
Human Resource

Aiminath Shaayan Shahid
Marketing

Ismail Mukhthaba
Marketing

Fazly Faleel
ACMA (UK), CPA (US),ASCMA (SL)
Finance

Johnson Faviell Ivers Abeydheera
Finance

Abdulla Javid
Finance

Mohamed Nizam
Finance

Aishath Nahidha
Finance

Mariyam Nuzla
Corporate & Legal Affairs

Mariyam Paruveen Abdul Faththah
Corporate & Legal Affairs

Aishath Thaumeena
Corporate & Legal Affairs

Ismail Sodique
Corporate & Legal Affairs

Moosa Yoosuf
Administartion

Nasrulla Ali
Administration

Muslih Maseeh
Business Development

Ismail Ali Jaleel
Logistics

Ali Zahir Anees
Logistics

Aminath Seema
Logistics

Mohamed Muazzam Hassan
Logistics

Ahmed Rameez
Logistics

Umar Hussain
Logistics

Mariyam Nafeeha
Logistics

Hussain Sinan
Logistics

Captian Hassan Zareer
Transport

Abdul Wahid Moosa
Transport

Ahmed Abdullah
Transport

Ahmed Musthafa
Transport

Ibrahim Shareef
Internal Audit

Ibrahim Shifzan
Internal Audit

Musthafa Azmy
Information Communication Technology

Mohamed Shujau
Information Communication Technology

Ismail Mifrah
Information Communication Technology

Muslim Anees Hussain
Information Communication Technology

Mohamed Eman
Information Communication Technology

Ahmed Nashid
Procurement

Mariyam Waseema
Procurement

Hassan Sinaan
Procurement


Hussain Shiyan
Merchandizing


Aiminath Waheedha
Merchandizing


Aishath Azleena Ameen
Merchandizing


Aminath Juwaidha
Merchandizing


Hussain Sobaah
Merchandizing


Hamdhana Abdul Rahman Hussain
Merchandizing


Abdulla Imad
Store Operations

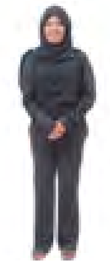

Abdulla Imad
Store Operations


Aminath Fazleen Store Operations


Mohamed Murad
Store Operations


Aishath Latheefa
Store Operations


Abdul Raheem Umar
Store Operations


Shuzaina Ismail
Store Operations


Ibrahim Ali Didi
Store Operations


Ibrahim Rasheed
Store Operations


Ibrahim Sadree
South Distribution Centre


Ibrahim shaheen
Store Operations


Ibrahim Naif
Store Operations


Ibrahim Ajmal
Store Operations


Mohamed Shakir
Store Operations


Mohamed Didi
Store Operations


Fathuhulla Ali
Store Operations


Abdul Matheen Mohamed
Store Operations


Ahmed Zameel
Store Operations


Mohamed Nizam
Store Operations


Arham Abdul Raheem
Store Operations

GROUP CHAIRMAN'S AND MANAGING DIRECTORS


AHMED MAZIN
CHAIRMAN
ALLIED INSURANCE COMPANY OF THE MALDIVES PVT LTD


ALI ARIF
CHAIRMAN
FUEL SUPPLIES MALDIVES PVT LTD


HAMDHY AGEEL
CHAIRMAN
MALDIVE GAS PVT LTD


ISMAIL SHAFEEQ
CHAIRMAN
MALDIVES STRUCTURAL PRODUCTS PVT LTD


ABDUL WAHID THAUFEEQ
MANAGING DIRECTOR
ALLIED INSURANCE COMPANY OF THE MALDIVES PVT LTD


ADAM SALEEM
MANAGING DIRECTOR
FUEL SUPPLIES MALDIVES PVT LTD


MOOSA HALEEM
MANAGING DIRECTOR
MALDIVE GAS PVT LTD


IBRAHIM RAFEEQ
MANAGING DIRECTOR
MALDIVES STRUCTURAL PRODUCTS PVT LTD


AHMED MUNEEZ
MANAGING DIRECTOR
STO MALDIVES (SINGAPORE) PTE LTD & MALDIVES NATIONAL OIL COMPANY LTD

DIRECTOR'S REPORT: BUSINESS REVIEW

GENERAL BUSINESS ENVIRONMENT

The global economic crisis of 2009 continued to have its negative impact on the economy in 2010 as well. The downturn was felt on the major industries of the country including trade, tourism and construction. The vitality of the general consumer market was hampered as well by the slowdown in the mainstay industries combined with rising general price levels.

Aside the economic slowdown, the shortage of foreign currency presented a formidable challenge to conduct of business operations.

Fuel being the main import of the company and a vital product for the country, ensuring continuous supply of fuel in the face of hiking world prices strained the foreign currency issues faced by the company. Throughout 2010 fuel prices continued to escalate in the world market.

Towards the end of the year 2010, some of the major industries were headed towards recovery. Tourism industry rebounded in 2010, closing the year with highest number of tourist arrivals ever. And with the easing of mortgage credit availability, the construction industry started gaining back momentum. However, economic uncertainties surrounding price escalations and foreign exchange are likely to continue to overshadow consumer confidence and business performance in the immediate future.

FINANCIAL PERFORMANCE

COMPANY PERFORMANCE

2010 marked another challenging year for the company. While major accomplishments such as implementing the SAP ERP system were achieved, the company also faced many hurdles. At the beginning of the year the company lost the contract to supply jet fuel to Male' International Airport – a major revenue earner for the company. The impact of this loss is obscured by the effects due to the increase in fuel prices. The company has managed to re-secure this important contract in 2011, and the impact is expected to show in the performance of 2011.

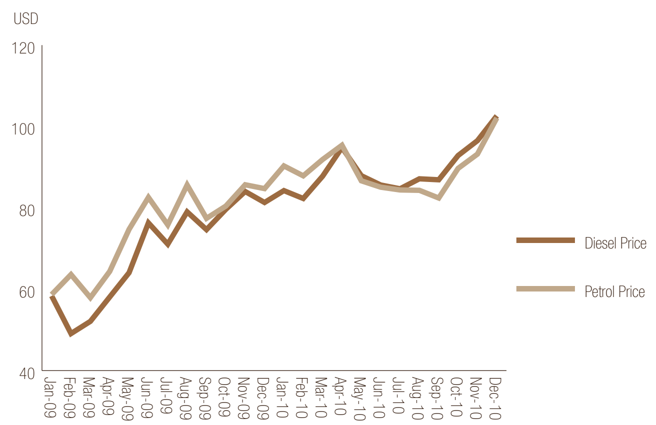
Another major achievement during the year was that STO won the bid for providing fuel to State Electric Company Limited (STELCO) when it was open for tender for the first time in 2010. STELCO is one of the key customers of the company and securing this tender will ensure progressive sales trends in this line of business for the current year.

In March of 2010, STO made a decision to buy the land that currently house STO Staple Foods warehouse. A multi-story warehouse complex is planned for this land of 39,876 sq.ft., and is expected to improve efficiency in warehouse management of the company. The purchase of the land was paid as a set off against the receivables, reducing the total amount receivable from the government by Rf230 million during the year.

As a step to further streamline its investments, STO sold back its loss making investment in Maldives Industrial Fisheries Company Limited amounting to 10% of the shares of MIFCO, at Rf19 million.

As expected, effects of the global fuel prices continued to affect the performance of the company during 2010. Despite the economically challenging times, the company registered a noteworthy profit for the year ended 31 December 2010 and celebrates a successful performance for that fiscal year.

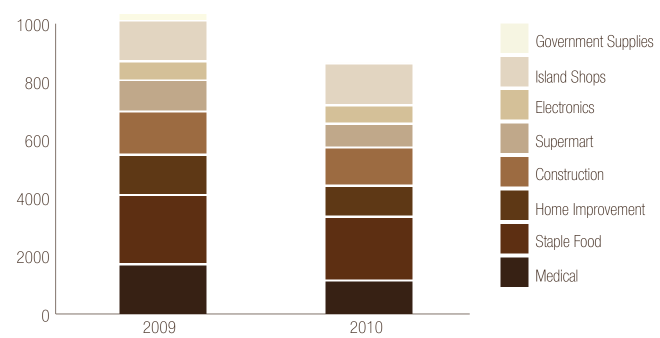
Monthly Average World Market Fuel Prices (per barrel)



Company's sales revenue increased by 4% to Rf4.0 billion during 2010 primarily due to increase in revenues in fuel and lubricants. The hiking world market fuel prices continued in 2010 which is being reflected in the financials of the company. In fact, except fuel and lubricants, revenue from all other lines of trade declined during the year. This trend can be attributable to general economic condition of the economy and difficulty in accessing foreign currency during the year. As in the previous year, the main components of the sales continued to be fuel and lubricants (80%), followed by staple foods, medical supplies and construction materials, together contributing 11 % of the revenue which attributes to 91% of the total revenue.

In order to minimize the negative effect from the drop in sales revenue of the non-fuel products, the company concentrated on making the operations of the company more efficient. As a result, there was a reduction in the overall cost of sales of the company which resulted in increasing the company's gross profit margin for 2010 to 12% as compared to 11% in 2009.

Comparision of Sales from Non-Fuel Products



Other operating income decreased from Rf40.8 million in 2009 to Rf36.6 million in 2010. The main reason for this decrease of Rf4 million is an extraordinary income from sale of asset in 2009, which does not appear in 2010.

During the year, selling and marketing costs and administrative expenses increased by 20% and 24% respectively. The primary contributors for this increase in the cost of operating the business were increase in cost of fuel and human resources. Fuel expenses increased by 130% to Rf25.0 million during the year (2009: Rf10.9 million) and employee benefits increased by 16% to Rf140.8 million (2009: Rf121. 8) during the year. This increase in the employee benefits costs was mainly due to the redundancy package of Rf 20 million offered with the implementation of the ERP software, SAP. In addition, bank charges increased by 88% to Rf11.1 million (2009: Rf5.9million), and transportation charges increased by 22% to Rf6.8 million (2009: Rf5.6milion).

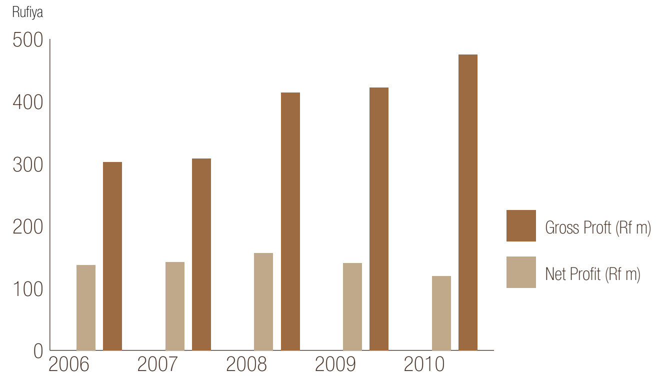
A significant cost cutting was achieved in advertising where a reduction of 69%, from Rf3.4 million to Rf1.0 million was registered during the year.

Due to the increase in cost of operations, the company registered a 6% reduction in the operating profit of Rf170 million in 2010 (2009: Rf180 million) for the year.

As expected, finance income and finance cost increased during the year, with a net finance cost of Rf46.2 million (2009: Rf38 million).

As a direct result of the increase in the cost of operations and financing, the company's net profit decreased by 15% to Rf118.9 million during the year (2009: Rf140.0 million). In spite of this decrease, the company improved its gross profit margin from 11% to 12%, and the net profit margin was maintained at 2009 levels, i.e. 3% in 2010 (2009: 3%). The graph below shows gross profit and net profit of the company from 2006 to 2010.

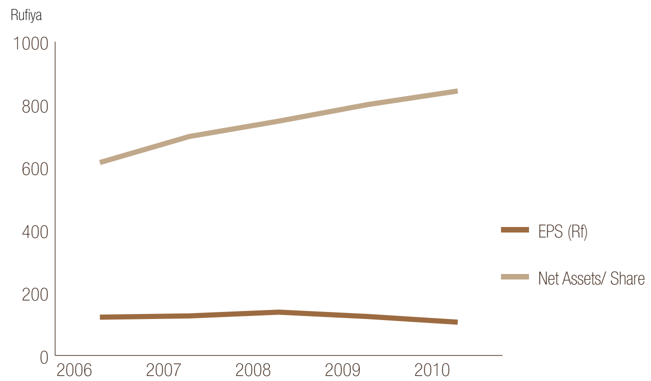
Gross Profit and Net Profit of the Company from 2006 to 2010



The overall financial position of the company improved during the year, with the net worth of the company having increased by 5% to Rf949.5 million in 2010. The major capital investment undertaken during the year included the purchase of land from the government.

Graph below shows net assets per share and EPS movements for the past 5 years.

Net Assets per Share and EPS movement - 2006 to 2010

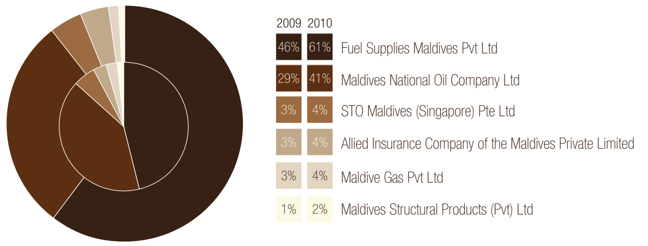


The current assets of the company was Rf1.5 billion, whilst the current liabilities were maintained at Rf1.3 billion during the year creating a healthy current ratio of 1.2:1 during the year. Gearing was maintained at about the same level as 2009.

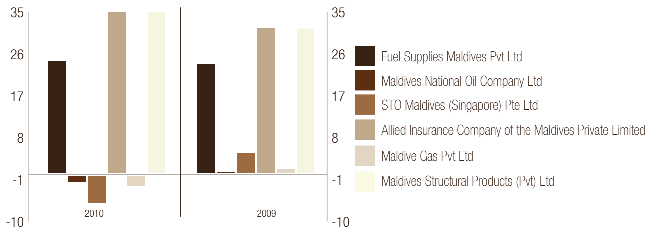
GROUP PERFORMANCE

Group revenue reduced in line with the STO PLC's revenue to Rf4.9billion in 2010. The graph below shows the revenue contribution of the group companies:

Sales Contribution from Group Companies - 2010 (outer) and 2009 (inner)

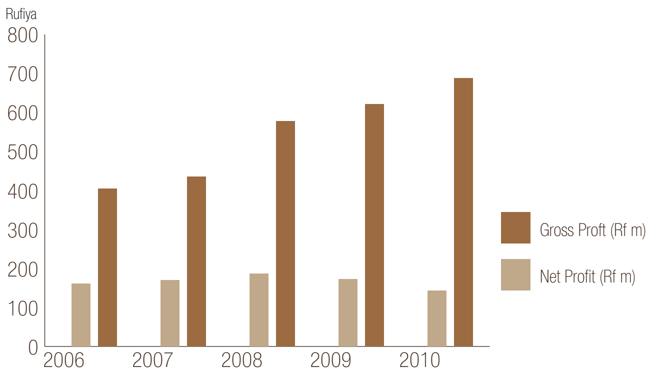


Profit Contribution from Group Companies - 2010 and 2009



The main contributor to group revenue, with 60% contribution is STO PLC. This is followed by Fuel Supplies Maldives with 24% and Maldives National Oil Company by 12%.

Gross Profit and Net profit Trends of STO Group, 2006-2010



The group gross and net profit for 2010 was Rf688.2 million and Rf143.0 million, respectively. The gross profit margin of the group increased to 15% (2009: 12%) and net profit margin was maintained at 3% (2009: 3%).

Group net worth increased to Rf1.12 billion in 2010, and continued the positive trend in increasing shareholder value in 2010.

SHARE PERFORMANCE

SHAREHOLDING STRUCTURE

As of 26thJune 2010, Government owned 83.6% of STO shares and the public owned 16.4%. Under Governments initiative to increase public's ownership in state owned enterprises, in 2010 Government opened members of Provided Fund to purchase STO shares from their savings in the fund. At the close of sale on 10thFebruary 2011, shareholding structure stood as shown below:

	No. of Shares	% owned
Government	919,867	81.62
Other shareholders	207,043	18.37
Total	1,126,910	100.00
Breakdown showing ownership of 'other shareholders'		
Individuals	82,541	7.32
Private companies	25,877	2.30
Public companies	2,500	0.22
Associations	16,180	1.44
Shares held at		
Maldives Securities Depository	79,945	7.09
Total other shareholders	207,043	18.37

STO's initial public offering (IPO) was in 2001, selling 26,040 shares to the public. In 2003, a second public issue of 60,870 shares was made. Furthermore, in 2009 and 2010, 113,012 shares of the government was sold to the public, in line with the government policy of divesting its shareholding in public companies.

At present, there is no private or public party, directly or indirectly, owning more than 5% of the shares of the company, other than the Government of Maldives.

SHARE MARKET PERFORMANCE

The number of STO's shares traded in the market in 2010 was 931, for a total value of Rf0.40 million, compared to 775 shares in 2009 for Rf0.49 million. The highest and lowest traded share prices were Rf600 and Rf400 respectively.

As at 31st December 2010, market capitalization had decreased to Rf551 million, from Rf676 million as at end of 2009.The main reasons for the decrease in market capitalization were due to the sale of government shares at lower than established market price and the general negative economic conditions of the country.

Table below summarizes the share price information of STO since its listing in 2001.

Year	Highest Price	Lowest Price	No. of Trades	No. of Shares Traded	Market Capitalization (RF million)
2002	750	585	13	93	-
2003	800	400	23	249	662
2004	1200	500	55	1442	1127
2005	1200	740	87	1749	862
2006	899	430	71	935	862
2007	770	500	12	280	766
2008	775	450	17	353	732
2009	760	600	46	775	676
2010	600	400	12	931	531

DIVIDENDS

Earnings per share for the year ended 31st December 2010 stands at Rf106, a decline of 14.5% over 2009. Dividend declared for the year 2009 was Rf68.

The onset of the global economic crisis in late 2008 had a substantial impact on company performance during the past two years.

Table below shows the earnings per share and dividend since 2001.

	2001	2002	2003	2004	2005
EPS	128	137	141	102	115
Dividend	105	118	110	70	55

	2006	2007	2008	2009	2010
EPS	122	126	138	124	106
Dividend	82	70	65	68	na

BUSINESS DEVELOPMENT & MARKETING

BUSINESS DIVERSIFICATION

As a strategy to diversify into the lucrative hospitality industry and to increase foreign currency earnings, the company took a decision to invest in tourist resort development in 2010. This was advertised during the year and 3 parties had expressed interest in working with STO on this venture. The company is currently in the process of evaluating the proposals submitted by these parties.

After numerous challenges in obtaining the required financing to develop the 5-star Radisson Hotel property at Hulhumale' due to the adverse economic condition faced in the past few years, the Company has gained positive indication of financing for the project after holding negotiations with various banks and other financial institutions. The construction of the hotel is expected to be completed in 2 years. Despite this, the company decided to take a prudential approach to the development of Double Tree project in Male', and has kept it on hold until economic situation improves.

As an avenue to aid development and facilitate growth of trade in the south, STO board decided to participate in the development of the S. Gan International Airport. This prospect that came as a public-private-partnership initiative from the Government, gave STO an opportunity to diversify its business and expand into a region other than Male'.

MARKETING INITIATIVES

To create brand awareness and loyalty, a marketing plan was developed and several advertising, direct marketing and public relation campaigns were carried out throughout the country during the year.

STO strongly identifies itself with the community under its corporate social responsibility (CSR) mission, and leverages its CSR programs to gain greater market presence, credibility and goodwill of the society. In this context, many products of STO were advertised through this initiative.

The company undertook many sales promotions during the year to attract sales and minimize the effect of economic downturn. Some of the more notable promotions carried out during the year include Ramadan Bazaar, Hitachi Blasts, Eid Sale, Philips Bridal Fair, Makita Junior Athletics Meet and YES Sales.

One of the major actions taken by STO during the year was the relocation of STO People's Choice Electronics to a new and modern showroom in STO Trade Centre. This enabled introduction of new electronic gadgets of brands such as Philips, Hitachi and Olympus into the Market.

In addition, STO's corporate website was rebuilt and the new website was launched on 1st October 2010. The main purpose of this initiative is to facilitate easy access to up-to-date information about the company and its activities to the shareholders and customers on a timely manner.

HUMAN RESOURCE DEVELOPMENT

STO recognizes that its most valuable assets are its employees. In addition to creating many job opportunities in the country, STO constantly strives to provide career advancement opportunities and a conducive working environment for its employees.

As of 31st December 2010, out of the 1005 employees working in the company, 818 or 81%were Maldivians and 187 or 19% were expatriates. Over 95% of the expatriate staff is employed at unskilled manual jobs.

Number of staff employed in the Company from 2007 – 2010 are shown below. During the past four years the percentage of Maldivians increased by 24% while foreign staff numbers have reduced by 4%.

	2007 Local	2008 Foreign	2009 Local	2010 Foreign	Local	Foreign	Local	Foreign
No. of staff at the beginning of the year	658	180	684	195	704	210	819	191
No. staff terminated/resigned	136	44	125	32	105	51	198	59
No. of staff recruited	162	59	145	47	220	32	197	55
No. of staff at the end of the year	684	195	704	210	819	191	818	187

TRAINING AND DEVELOPMENT

During the year over 274 staff were trained by the company. 8 staff were given opportunities to undertake long-term training in Maldives and overseas during the year. As at end of 2010, a total of 23 staff were undergoing long-term training abroad in a variety of disciplines.

STAFF INCENTIVES

STO recognizes the importance of motivating and retaining its most productive and skilled employees. Therefore, STO constantly strives to maintain its remuneration packages at par with the market. In order to motivate staff to attain higher levels of productivity, an incentive bonus of 3% of the company's annual net profit is distributed among the staff if predetermined company performance targets were achieved. Additionally, all employees are provided generous health insurance packages by the company.

Due to the major restructuring brought about by the introduction of SAP ERP system, and the subsequent redundancy package offered, the staff turnover increased to 25% during the year. (2009: 15%).

STAFF WORKING ENVIRONMENT

STO engaged in many activities to create and maintain a conducive working environment for its employees. Among these were building dedicated prayer rooms, pantries and toilets dedicated for staff in all its premises. In addition, to ensure health and safety standards are achieved in the working environment, international standards were adopted, especially in premises that handle oil and staple foods and medical items.

STAFF RECREATION

As an initiative to instill team spirit and improve coordination, STO Recreation Club organized a number of annual sports events which includes futsal, carom, volley, billiard, in addition to taking part in the inter-office competitions. STO's women's team became the runner-up club in the Club Maldives Futsal tournament held during the year.

CORPORATE GOVERNANCE

The prime responsibility of the Board of Directors of STO is to manage the company in a fair, transparent and responsible manner and to ensure sustainable growth and create value for its investors.

STO is a company operating in compliance with the Companies Act 10/96, Corporate Governance Code (CGC) and Securities (Continuous Disclosure of Issuers) Regulation of the Capital Market Development Authority, Listing Rules of the Maldives Securities Depository, Securities Act, and the Company's Memorandum of Association and Article of Association. STO strives to adhere to the principles of corporate governance in all its dealings.

BOARD DIRECTORS

The composition of the Board of Directors of the company is determined by the shareholding structure and the Articles of Association of the company. The Board comprises of 7 Directors, 6 of which are appointed by the Government of Maldives, and 1 elected by the public shareholders.

The current composition of the Board, date of appointment and duration are shown below.

Name	First date of appointment	Duration (till 31 March 2011)
Mr Farooq Umar	20 November 2008	2 years 4 months
Mr Shahid Ali	20 November 2008	2 years 4 months
Ms Sana Mansoor	20 November 2008	2 years 4 months
Mr Ahmed Arif	20 November 2008	2 years 4 months
Mr Mohamed Ahmed	20 November 2008	2 years 4 months
Mr Masood Ali	26 June 2008	2 years 9 months
Mr Arif Abdul Samad	20 January 2011	2 months

Ms. Raheema Saleem, who was appointed to the Board on 12th June 2008, served the Board till 2010 Annual General Meeting held on 24th June 2010.

While there are 7 members of the Board including the Chairman and Managing Director, 2 of them are executive directors, and 5 are non-executive independent directors. In line with the requirement of CGC, the Chairman and the Managing Director are two different people. The Chairman and Managing Director's roles and resposibilities are stated in the Company's Article corporate governance code and their charters respectively.

The Board held 33 meetings during the year, and Directors' attendance is as follows:

Name	Position		Attendance	%
Mr Farooq Umar	Chairman	Non-executive	33/33	100
Mr Shahid Ali	Managing Director	Executive	33/33	100
Ms Sana Mansoor	CFO/Director	Executive	32/33	97
Mr Ahmed Arif	Director	Non-executive	31/33	94
Ms Raheema Saleem	Director	Non-executive	18/18	100
Mr Mohamed Ahmed	Director	Non-executive	32/33	97
Mr Masood Ali	Director	Non-executive	33/33	100

Like previous years, Board of Directors underwent several training programs such as finance for directors and executive management, attending the annual internal audit forum, and 3-day MBA program.

BOARD COMMITTEES

In keeping with CGC, the Board has established two sub-committees; a Nomination and Remuneration Committee and an Audit Committee. In addition, a Corporate Governance and Compliance Committee have been established to strengthen corporate governance. All committees function around designated mandates.

One of the directors of the Board appointed at the AGM of 2010 was removed from the Board within a week of the appointment. This meant that 1 board position was vacant until the appointment of Mr. Arif Abdul Samad on 20th January 2011. Due to this, some difficulties were experienced in conducting committee meetings.

NOMINATION AND REMUNERATION COMMITTEE

The Nomination Committee and the Remuneration Committee has been combined as one committee, as given that there are only 7 Directors on the Board, overlap of the two committees is inevitable.

The responsibilities of the Nomination and Remuneration Committee are:

- Recommending appropriate remuneration and incentive plans for Directors and MD
- Establishing criteria for identification of suitable candidates for Board membership
- Reviewing performance of the Board and individual Directors

- Reviewing Company's remuneration policies and incentive plans
- Establishing policy on conflict of interest for Directors and Executive Management and monitor implementation of the policy.

The Nomination and Remuneration Committee consists of 3 members. A total of 6 meetings of the committee were held in 2010. Committee membership and attendance are as follows:

Name	Position	Attendance	%
Mr Mohamed Ahmed	Chairperson	6/6	100
Mr Ahmed Arif	Member	5/6	83
Mr Farooq Umar	Member	6/6	100

Since 6 of the 7 Board members are appointed by the Government as per the current shareholding structure, there is limited role for this committee in appointment of directors to the Board. However, in order to ensure the capacity of the Board remains strong, the Committee developed a policy on directors' performance evaluation and advised the government on selection criteria ideal for board membership.

Major activities undertaken by the Nomination and Remuneration Committee during the past year include; establishing a policy for performance evaluation of directors, establishing a policy for evaluation of potential candidates for Board Directors, establishing a remuneration policy for Board directors and other employees of the company, reviewing the remuneration packages of selected senior positions and made recommendations to the Board, and evaluating candidates for the Director to be voted by public shareholders.

AUDIT COMMITTEE

In compliance with CGC, members of the Audit Committee, including the Chairman has educational background and/or experience in the fields of accounting/ finance and business.

The main responsibilities of the Audit Committee are to assist the Board to:

- Ensure the integrity of the financial statements of the Company
- Ensure the independence and credentials of independent auditors
- Review performance of the internal audit function and independent auditors
- Ensure effective internal control systems are in place to safeguard company's assets
- Ensure compliance to statutory requirements and ethical standards

Major activities undertaken by the Audit Committee during the past year include; investigating and taking actions on issues raised under the whistleblower policy, undertaking process audits, reviewing of the audit plan and audit charter and approving the budget of the audit department.

Audit Committee constitution and Chair changed after AGM 2010. Prior to AGM 2010 the committee was chaired by Ms. Raheema Saleem and constituted 4 members. After the AGM, Mr. Masood Ali became the Chairman and the number of members was reduced to 3.

A total of 10 meetings of the committee were held in 2010. Committee membership and attendance are as follows:

Name	Position	Attendance	%
Raheema Saleem	Chairperson	9/9	100
Masood Ali	Member	9/10	90
Ahmed Arif	Member	8/10	80
Mohamed Ahmed	Member	10/10	100

CORPORATE GOVERNANCE AND COMPLIANCE COMMITTEE

Corporate Governance and Compliance Committee was established by the Board of Directors as a step to improve corporate governance within the company. The Committee constitute of 3 members.

The main responsibilities of the Corporate Governance and Compliance Committee are:

- Establishing corporate governance guidelines to enable better governance within the company
- Establishing better orientation program for the new directors of the board
- Reviewing the adequacy of board and sub-committee charters
- Establishing a policy for effective distribution of dividends
- Ensuring business ethical standards are maintained in all transactions of the company

Major activities undertaken by the Committee during the past year include; commencement of work to align STO CGC with CMDA CGC and an induction program for the directors, reviewing Board and sub-committee charters, commencement of work on establishing a dividend policy, and reviewing of the corporate governance issues of its subsidiaries.

Two meetings of the committee were held in 2010. Committee membership and attendance are as follows:

Name	Position	Attendance	%
Ahmed Arif	Chairperson	2/2	100
Mohamed Ahmed	Member	2/2	100
Masood Ali	Member	1/2	50

DIRECTORS' REMUNERATION

Directors are paid a monthly remuneration of Rf10,000 and a fee of Rf500 per sitting. Directors are also entitled to medical insurance. Board Committee members are paid a fee of Rf500 per committee sitting. In addition, the Chairman is entitled to an allowance of Rf10,000 and a phone allowance of Rf1,000 in order to facilitate the Chairman to discharge his responsibilities.

In 2010, a total of Rf8.3 million was paid as Directors' and senior executives' remuneration. This is a 14.5% increase in comparison to 2009.

DECLARATION OF INTEREST

All Directors and Executives have declared and signed 'conflict of interest and disclosure statements'. In conformity with the Public Finance Act, Directors and Executives have declared business ownership interests.

Policy on declaration of interest was endorsed by the Board during the year. Under this policy, Directors and Executive Team declared their interests and in cases that may result in conflict of interest, the company sought approvals from the Anti-Corruption Commission, as required by the Public Finance Act.

The Directors did not make any contracts, direct or indirect transactions conflicting with the company.

DIRECTORS' SHAREHOLDING

Directors' shareholding as at 31st December 2010 is as follows:

Name	No. of Shares
Farooq Umar	5
Shahid Ali	40
Sana Mansoor	100
Masood Ali	5

DIRECTORS' PERFORMANCE EVALUATION

A performance evaluation of Board of Directors, Chairman, Managing Director and Company Secretary was carried out before the Annual General Meeting of 2010, in order to assess their performance. In light of these evaluations, the Board was able to align future direction of the company, streamline how Board meetings are conducted and improve the effectiveness of the compliance and follow-up processes. In addition, decisions were made to improve director training, preparation for Board meetings and strengthen the process of decision making within the Board.

In addition, an audit was conducted by KPMG Ford Rhodes and Thornton to assess the compliance by the Board to the CGC. Some of the recommendations by the auditors include strengthening performance evaluation of the Board and sub-committees, establishing a remuneration policy for the Board, and improvement of declaration of interest by the Board. In light of these recommendations, measures were taken to improve the governance of the company. Some of these measures included drafting a policy and procedure to evaluate board and sub-committee performance and an evaluation was undertaken based on this policy. In addition, a remuneration policy and a policy on declaration of interest was formulated and approved by the Board.

MANAGEMENT

The management of the company constitutes of Managing Director, Executive Team and Managers. An introduction of the Executive Team and Managers are included in a separate section of this report.

The responsibilities of the Board and the Management are defined in the Articles of Association and the Corporate Governance Code of the Company. Board of Directors obtains its information on the performance and actions of the company by means of its management team.

CODE OF CONDUCT

Employee Handbook that establishes the code of conduct of the employees was published during 2010. The Handbook was compiled taking into account provisions in the Employment Act and in consultation with experts in the field. The main reason for establishing a written code of conduct was to instill good principles of corporate governance within the working environment and employee behavior.

INTERNAL AUDIT

The internal audits during the year were conducted by the Internal Audit Department of STO, Ernst & Young and KPMG Ford Rhode Thornton & Co. Dr. Ibrahim Mahfooz, H. Elpaso was appointed as Chief Internal Auditor during the year.

The Internal Audit Department reports functionally to the Audit Committee and administratively to the Managing Director. During the year, Internal Audit Department Charter was redrafted and efforts were made to strengthen the core functions of the department.

EXTERNAL AUDIT

With the approval of the shareholders, PriceWaterhouseCoopers (PWC) was appointed for a third term as the external auditors for 2010 for a fee of USD25,000. The Internal Audit Department and Audit Committee evaluated the proposals of external auditors for 2011 as well.

CMDA CGC allows consecutive 5 years for an audit firm to conduct audits.

INTERNAL CONTROLS

As with previous years, considerable accomplishments were made in 2010 in strengthening internal controls. In discharging its responsibility to establish proper internal control environment within the company, the Board of Directors relies on the Audit Committee and the Internal Audit Department.

Amongst the most important measures to improve the internal control system of the company was the implementation of the SAP ERP system in the company. This system enabled centralized functioning of the company and improved efficiency of the general management of the organization. SAP enabled creation of levels of approvals and authority in different functions with password protection, ensuring better control over resource utilization and allocation within the organization.

In addition, a number of process audits were conducted during the year, including the processes within the departments and outlets, and recommendations were made to improve the existing systems. In addition, reviews were conducted to ascertain the level of implementation of the key recommendations of 2009 audit.

Several policies were formulated and implemented during the year, with the purpose of standardizing and streamlining processes. Policies implemented during the year include:

- Remuneration Policy – structure of salary and allowances for Board Directors and employees of the company.
- Credit Card Policy – procedures on who is allowed to and how to use corporate credit card. The main purpose of this policy is to enable better control over company's financial assets.
- Directors Evaluation Policy – procedures and standards for evaluation of performance of the Board of Directors.
- Cash Handling Policy – procedures for cash collection and cash payments.
- Declaration of Interest Policy – procedures and policy on how to declare interest of Board of Directors and Executive Team of the company.
- Policies that were improved – some existing policies were reviewed and enhanced during the year. Among these were the procurement policy and rental guidelines.

MECHANISM TO RAISE CONCERNS

According to the CGC, Board of Directors should introduce a mechanism for ensuring that an appropriate process is put in place to enable employees or Management to raise any concerns that they have, whether on a confidential basis or otherwise, of any non-compliance or fraud or other misdemeanor within the company. STO has implemented Fraud Policy, and Whistle blower policy to enable any concerned party to raise concerns to the management and the Board.

In addition, the company has also implemented a Disciplinary and Grievance Committee that looks after the concerns raised by staff on personnel issues.

STATUTORY FEES AND ZAKATH

STO has paid all fees payable to the pertinent authorities on or before their due dates, including company registration fee, annual custody fee, annual listing fee, depository fee, etc. In addition, STO has paid Rf4.9 million as Zakath for the past year.

FINANCIAL STATEMENTS

Financial statements for the year ended 31st December 2010 were prepared in accordance with the International Financial Reporting Standards.

In line with Corporate Governance Code, the financial statements have been certified by the Chief Financial Officer and the Managing Director of the company.

DECLARATION

The Board of Directors, Executives and Staff have exerted tremendous effort to ensure that the Company was run in accordance with the principles of corporate governance. Special care has been taken to ensure adherence to CGC, Listing Rules, Securities Act and the Companies Act.

Every effort was made to strengthen STO, and to ensure transparency, fairness and diligence in all respects, with the ultimate purpose of protecting and promoting shareholder interests and Company assets.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY REPORT (CSR)

From its inception to date STO has been fulfilling a very important social responsibility mission: to supply medicine, staple foods and fuel at an affordable price to the public. As the Company's business has expanded and improved over the years, it has also expanded its horizon of corporate social responsibility. In order to further its CSR commitment, national interest and social responsibility have been ingrained into the Company's Core Values.

STO's CSR mission spans across 4 main areas — society, market, staff and environment — and in the year 2010 STO has made contributions in each.

SOCIETY

STAPLE FOODS, MEDICINE AND FUEL

In order to ensure uninterrupted supply of reliable and affordable supply of staple foods, medicine and fuel products for public consumption STO improved storage capacity of these products across the country.

BLOOD DONATION PROGRAM

An initiative of STO Medicals in association with Maldives Doctors Association, the program has run successfully for 4 years. During 2010, over 150 people donated blood via the program. Further, the program was introduced in HDh. Kulhudhufushi in 2010.

SPONSORSHIPS AND FINANCIAL ASSISTANCE

In the year 2010, STO continued to award sponsorships and financial incentives to social and economic development activities initiated by various individuals and institutions. The areas STO provided assistance during the year included youth, children, elderly, government institutes, private groups and sports clubs.

MARKET

PRICE STABILIZATION

STO made an extra effort to maintain a healthy supply of basic food items in the market during periods where there were supply constraints, especially during the month of Ramadan, in order to maintain prices at reasonable levels for consumers. STO also played a key role in price stabilization and sustained supply of other products such as groceries and cooking oil during this time.

INTRODUCING QUALITY PRODUCTS

STO strives to always carry quality products that customer's appreciate. As such STO adheres to local and international standards and terms of the products that are procured and storage and distribution of those products.

STAFF

STO values staff as the most valuable asset to the organization. Details of staff incentives and development activities are described in relevant section of this report.

ENVIRONMENT

To ensure that the products sold at STO outlets are environment friendly, the company embarked on importing environment friendly products and has discontinued importing products that contain harmful products to the environment. For example, Nippon paint introduced to the Maldivian market by STO is a lead free, safe paint. Similarly, the diesel supplied by STO has very low sulfur component. And electrical products sold by STO are energy efficient products.

In addition, to minimize wastage and save energy, energy efficient equipment is used in the office. Staff is constantly reminded on minimizing wastage in electricity and water consumption and awareness programs are conducted to facilitate its practice.

SUBSIDIARY COMPANY REPORTS

FUEL SUPPLIES MALDIVES PVT LTD

FSM was established in 2000 with the aim of distributing fuel at affordable prices throughout the Maldives. Currently, STO owns 99.99% of FSM and the remaining 0.01% is held by Maldives National Oil Company Ltd.

BOARD OF DIRECTORS

The composition of the Board as of 31 December 2010 was as follows:

Name	Position
Mr. Ali Arif	Chairperson
Mr. Adam Saleem	Director / MD
Ms. Aishath Saadhu	Director
Mr. Mohamed Naiz	Director

In 2010 a total of 7 Board meetings were held. Two Committees operate within the board; the Audit Committee and the Remuneration and Nomination committee.

AUDITORS

The external auditor of the Company is PriceWaterhouseCoopers. The company has established an internal audit department during the year.

INTERNAL CONTROL

In order to improve the internal control system of the company internal audits of the outlets were conducted and policies were reviewed during the year.

HUMAN RESOURCES

At the end of 2010 FSM had 260 employees, of which 80% were Maldivians.

FSM's senior management team consists of 14 members, comprising mostly of graduates in business, marketing, management, maritime and fuel.

SOCIAL RESPONSIBILITY

Due to the nature of its business, FSM is extremely cautious towards the environment and safety of its workers and the public. FSM also has a CSR agenda to help the community through which financial, material and other assistance were extended to the community.

BUSINESS REVIEW

The main business of FSM is distribution and sale of fuel and providing bunkering service to vessels. Some of the activities undertaken in order to expand the services of FSM and improve the service quality are as follows:

- Constructed a barge at the Thilafushi Boatyard using own staff for own use;
- Introduction of a better quality meter and commencement of using it at "Noomas" barge;
- Introduced a meter calibration as a value added service to the clients.

MALDIVES NATIONAL OIL COMPANY LTD

Maldives National Oil Company (MNOC) was established in 2003. STO holds 99.99% of shares of MNOC, and 0.01% is held by Allied Insurance Company of the Maldives Pvt. Ltd.

BOARD OF DIRECTORS

The composition of the Board up until 1st October 2010 was as follows:

Name	Position
Mr. Hassan Zareer	Chairperson
Mr. Ahmed Muneez	Director / MD
Ms. Leena Zahir Hussain	Director

The composition of the Board as of 31st December 2010 was as follows:

Name	Position
Mr. Abdulla Saeed	Chairperson
Mr. Ahmed Muneez	Director / MD
Ms. Hissan Hussain	Director

In 2010, a total of 3 Board meetings were held. Separate sub-committees do not operate within the Board due to its small size.

HUMAN RESOURCES

At the end of 2010, MNOC had a total of 3 staff, of which 2 were Maldivians.

BUSINESS

MNOC's business is oil trading with other countries.

AUDITORS

Ernst & Young was the external auditors of the Company in 2010.

STO MALDIVES (SINGAPORE) PTE LTD

STO Maldives (Singapore) was established in 2002 with 99.99% STO ownership.

BOARD OF DIRECTORS

The composition of the Board up until 25th October 2010 was as follows:

Name	Position
Ms. Mariyam Sheeneez Shakir	Director/Acting Chairperson
Mr. Ahmed Muneez	Director / MD

The composition of the Board as of 31st December 2010 was as follows:

Name	Position
Mr. Abdulla Saeed	Chairperson
Mr. Ahmed Muneez	Director / MD
Ms. Hissan Hussain	Director

In 2010, a total of 3 Board meetings were held. Separate sub-committees do not operate within the Board due to its small size.

BUSINESS REVIEW

The main business of STO Maldives (Singapore) is to manage banking and cargo operations for shipments of Maldives National Oil Company as well as STO.

HUMAN RESOURCES

At the end of 2010, the Company had a total of 4 staff, of which 2 were Maldivians.

AUDITORS

SS Lee and Co. was the external auditors of the Company in 2010.

MALDIVE GAS PVT LTD

Maldive Gas was established in 1999 with the aim of supplying cooking gas to the people at affordable prices. STO holds 90% share in Maldive Gas and the remaining 10% is owned by Champa Oil and Gas Pvt Ltd.

BOARD OF DIRECTORS

The composition of the Board as of 31st December 2010 was as follows:

Name	Position
Mr. Hamdhee Ageel	Chairperson
Mr. Moosa Haleem	Director
Ms. Nasira Moosa	Director
Ms. Aishath Shazly	Director
Mr. Abdulla Saleem Abdul Sattar	Director

In 2010, a total of 17 Board meetings were held. Two Committees operate within the board; the Audit Committee and the Remuneration and Nomination committee.

AUDITORS

Ernst & Young was the external auditors of the Company in 2010.

INTERNAL CONTROL

The internal audit department reviewed the internal policies and processes in order to strengthen the internal control.

HUMAN RESOURCES

At the end of 2010 Maldive Gas had a total of 133 employees, of which 51% were Maldivians.

SOCIAL RESPONSIBILITY

An agreement to supply gas to other atolls was signed with the province offices in order to facilitate a regular supply of gas to the atolls. Apart from this, Maldive Gas has supplied oxygen gas to all Health Centers in the country as a social cause since 2003.

BUSINESS REVIEW

The main business of the company is the import, distribution and sale of cooking gas and oxygen. The steps taken to improve the quality of service include:

- Installation of an evacuation system to minimize the gas cylinders that has to be left aside due to damage
- Agreements were signed with seven more resort for the direct distribution of cooking gas
- A sixth pick up was brought in for the distribution of gas on land.
- Increased the size of the LPG storage in Thilafushi and a project was initiated to repair the pipelines.
- Restructured the company and streamlined the works of the departments
- Improved the quality of the infrastructure of Information Technology

ALLIED INSURANCE COMPANY OF THE MALDIVES PVT LTD

Allied Insurance Company of the Maldives Pvt Ltd was established in 1985, as the pioneering company that introduced insurance services in the Maldives. STO holds 99.99% of the shares of Allied Insurance, and balance 0.01% is held by Maldives National Oil Company Ltd.

BOARD OF DIRECTORS

The Board of Allied Insurance Company comprises of 5 Directors, inclusive of 1 Executive Director and 4 Non-Executive Directors. In 2010 the Board changed twice, and the composition of the Board as of 31 December 2010 was as follows:

Name	Position
Mr. Ahmed Mazin	Chairperson
Mr. Abdul Wahid Thawfeeg	Director / MD
Ms. Fathimath Razeena	Director
Ms. Aminath Nashia	Director
Mr. Mohamed Faisal	Director

In 2010, a total of 8 Board meetings were held. Two Committees operate within the board; the Audit Committee and the Remuneration and Nomination committee.

AUDITORS

KPMG Ford Rhode Thornton was the external auditors of the Company in 2010.

INTERNAL CONTROLS

The Company established internal audit in order to strengthen and monitor the internal controls and a credit control section was established under the finance department. Furthermore, in order to systematize the operations of the Company, a data management system was implemented.

HUMAN RESOURCES

By the end of 2010, Allied Insurance Company employed a total of 109 staff, of which 98% were Maldivians.

The senior management of the company comprises of 10 members among whom most are trained and experienced in the fields of business, marketing and insurance.

THE BUSINESS

The main insurance products in the business of the company are Marine Policies, Commercial Insurance Policies, Personal Health Insurance Policies and Life Insurance Policies.

In 2010, a special attention and focus was given to develop the growth of the company business. The works done in this regard during the last year include:

- A new product targeted towards individuals called "Individual Health Insurance Policy" was introduced. The product was introduced after studying the market activities and tailoring it for customer needs.
- MMA certified insurance agents were trained and appointed in order to improve the quality of service.

CSR programs and activities include:

- Allied Insurance Company was one of the main sponsors of the MNBC One telecast of the 2010 FIFA World Cup
- A policy was formulated and a public awareness campaign was carried out when the insurance of land vehicles was made mandatory
- "Life and Health Festival" road show organized to increase health awareness among the public

Other main events of the year include:

- Celebrated the 25th anniversary of the company and presented shield of achievement to exemplary staff in recognition of their service
- The corporate office was moved to a more spacious office space at Fen Building to facilitate the expansion of business

The corporate office was moved to the Fen Building to facilitate the expansion of business

MALDIVES STRUCTURAL PRODUCTS PVT LTD

Maldives Structural Products Pvt Ltd (MSP) was established in 2000, as a fifty-fifty joint venture company of STO PLC and Rainbow Investments Pvt Ltd, with the aim of producing and supplying quality roofing sheets and related products at affordable prices to the people of Maldives.

BOARD OF DIRECTORS

The composition of the Board as of 31st December 2010 was as follows:

Name	Position
Mr. Ismail Shafeeg	Chairperson
Mr. Ibrahim Rafeeq	Director / MD
Mr. Mohamed Imad	Director
Ms. Hawwa Zahira	Director

In 2010, a total of 4 Board meetings were held. Separate sub-committees do not operate within the Board due to its small size.

HUMAN RESOURCES

At the end of 2010, the Company had a total of 19 staff, of which 58% were Maldivians.

BUSINESS REVIEW

The Company imports steel from abroad, and produces and distributes quality roofing sheets and related products. The company has claimed a leadership position in supplying a quality product at an affordable price.

FINANCIAL STATEMENTS 2010

STATE TRADING ORGANIZATION PLC

pwc

Independent auditor's report

To the Shareholders and Board of Directors of State Trading Organization Plc

1. We have audited the accompanying consolidated financial statements of State Trading Organization Plc and its subsidiaries which comprise the balance sheet as at 31 December 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting standards, requirements of the Companies Act, No. 10/96, of the Republic of Maldives and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

4. Property, plant and equipment in the Company's balance sheet include renewable energy plants with a carrying amount of MRf 27,023,262 at 31 December 2010. The renewable energy plants are not in operation and had not generated any revenue during the year. The Company is in the process of negotiation the sale of these plants with utility companies which are yet to be finalized. The above indicate that the renewable energy plants are impaired, in accordance with IAS 36, 'Impairment of assets'. Pending finalization of negotiations for the sale the Company has not carried out an impairment review on the renewable energy plants to determine the impairment write down that should be applied to the amount recorded in the balance sheet at 31 December 2010. Therefore, we are unable to satisfy ourselves as to the carrying amount of renewable energy plants included in property, plant and equipment as at the balance sheet date.

Opinion

5. In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion in paragraph 4, the consolidated financial statements present fairly, in all material respects, the financial position of State Trading Organization Plc and its subsidiaries as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Companies Act No.10/96, of the Republic of Maldives.

PricewaterhouseCoopers

CHARTERED ACCOUNTANTS

15 May 2011

DATE

STATE TRADING ORGANIZATION PLC

FINANCIAL STATEMENTS – 31 DECEMBER 2010

CONSOLIDATED BALANCE SHEET

(All amounts in Maldivian Rufiyaa unless otherwise stated)

		Group		Company	
		As at 31 December			
	Note	2010	2009	2010	2009
ASSETS					
Non-current assets					
Property, plant and equipment	6	642,493,854	423,516,090	507,962,614	294,917,633
Intangible asset	7	45,483,947	5,853,591	40,397,482	-
Investments in subsidiaries	8	-	-	116,249,935	116,249,935
Investments in associates	9	4,160,192	4,002,342	10,567,267	10,567,267
Investment in joint venture	10	-	-	4,700,000	4,700,000
Available for sale investment	11	32,684,938	48,056,800	32,684,938	48,056,800
Trade and other receivables	13	-	997,330	-	997,330
		724,822,930	482,426,153	712,562,236	475,488,965
Current assets					
Inventories	12	318,305,007	445,662,426	275,539,022	392,125,037
Trade and other receivables	13	921,009,400	1,042,018,572	769,651,685	989,526,133
Reinsurance contracts	15	82,321,349	130,157,077	-	-
Investment held to maturity	16	42,904,097	21,894,631	-	-
Cash and cash equivalents	17	583,027,746	467,048,776	466,035,754	385,440,399
		1,947,567,599	2,106,781,482	1,511,226,461	1,767,091,569
Total assets		2,672,390,529	2,589,207,636	2,223,788,697	2,242,580,534
EQUITY					
Capital and reserves attributable to equityholders of the Company					
Share capital	18	56,345,500	56,345,500	56,345,500	56,345,500
Share premium		27,814,500	27,814,500	27,814,500	27,814,500
Currency translation reserve	20	372,643	441,483	-	-
Claim equalization reserve	19	8,043,015	5,366,087	-	-
General reserves		313,115,325	289,334,485	313,115,325	289,334,485
Fair value reserves		28,941,426	23,684,408	28,941,426	23,684,408
Retained earnings		683,170,495	642,714,020	523,283,358	504,789,879
		1,117,802,904	1,045,700,483	949,500,109	901,968,772
Minority interest	21	5,788,628	6,603,023	-	-
Total equity		1,123,591,532	1,052,303,506	949,500,109	901,968,772
LIABILITIES					
Non- current liabilities					
Borrowings	23	-	8,293,667	-	7,967,000
Deferred revenue	22	1,718,320	-	-	-
Current liabilities					
Trade and other payables	22	641,188,573	571,378,530	565,271,285	526,640,394
Insurance contracts	24	160,245,535	125,315,709	-	-
Borrowings	23	745,646,569	831,916,224	709,017,304	806,004,368
Total liabilities		1,548,798,998	1,536,904,130	1,274,288,589	1,340,611,762
Total equity and liabilities		2,672,390,529	2,589,207,636	2,223,788,697	2,242,580,534

These financial statements were approved by the Board of Directors on 5th May 2011.

Sanal Mansoor
Chief Financial Officer

Farooq Umar
Chairman

Shahid Ali
Managing Director

Masood Ali
Director

The notes on pages 42 to 75 are an integral part of these consolidated financial statements.

STATE TRADING ORGANIZATION PLC

FINANCIAL STATEMENTS – 31 DECEMBER 2010

CONSOLIDATED INCOME STATEMENT

(All amounts in Maldivian Rufiyaa unless otherwise stated)

		Group		Company	
		Year ended 31 December			
	Note	2010	2009	2010	2009
Sales	25	4,742,312,415	4,981,707,397	4,015,107,365	3,844,618,705
Cost of sales	28	(4,054,142,854)	(4,360,915,202)	(3,539,797,179)	3,423,060,306)
Gross profit		688,169,560	620,792,195	475,310,186	421,558,399
Other operating income	27	55,517,302	47,583,589	36,675,312	40,803,248
		743,686,862	668,375,784	511,985,498	462,361,647
Selling and marketing costs	28	(237,927,612)	(191,943,876)	(180,059,988)	(149,625,843)
Administrative expenses	28	(268,861,631)	(227,265,325)	(158,878,995)	(129,463,577)
Other operating cost	28	(3,902,332)	(3,673,227)	(3,087,998)	(2,990,017)
Operating profit		232,995,287	245,493,356	169,958,517	180,282,210
Financial income	30	10,256,448	18,364,691	42,033,091	45,628,882
Financial cost	30	(95,538,231)	(87,962,063)	(88,197,326)	(83,704,629)
Finance cost - net	30	(85,281,783)	(69,597,372)	(46,164,235)	(38,075,747)
Share of profit / (loss) of associates	9	157,850	(1,567,827)	-	-
Profit before zakat		147,871,354	174,328,157	123,794,282	142,206,463
Zakat	31	(4,890,084)	(2,182,183)	(4,890,084)	(2,182,183)
Profit after zakat		142,981,271	172,145,974	118,904,198	140,024,280
Attributable to:					
Equityholders of the Company		143,544,123	169,912,290	118,904,198	140,024,280
Minority interest	21	(562,852)	2,233,684	-	-
		142,981,271	172,145,974	118,904,198	140,024,280
Earnings per share for profit attributable to the equityholders of the Company during the year (expressed in Rf per - basicshare)		127	151	106	124

The notes on pages 42 to 75 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(All amounts in Maldivian Rufiyaa unless otherwise stated)

		Group		Company	
		Year ended 31 December			
	Note	2010	2009	2010	2009
Cash flows from operating activities					
Cash generated from operations	34	478,046,213	454,351,898	365,215,233	359,092,599
Interest paid		(83,417,012)	(82,117,983)	(76,537,529)	(78,916,039)
Zakat paid		-	(4,302,937)	-	(4,302,937)
Net cash generated from / (used in) operating activities		394,629,201	367,930,978	288,677,704	275,873,623
Cash flows from investing activities					
Purchases of property, plant and equipment	6	(57,146,436)	(135,355,300)	(25,926,778)	(122,231,637)
Purchases of intangible assets	7	(41,322,648)	-	(41,082,185)	-
Purchase of shares in subsidiary		-	(29,324,864)	-	(32,583,185)
Sales proceed from fixed assets	34	574,618	47,867	15,700	5,675,070
Loan realisation		997,327	-	7,499,931	7,892,313
Loan granted during the year		-	-	(9,500,000)	-
Investment in treasury bills	16	(21,009,466)	(14,927,874)	-	-
Interest received		10,239,283	16,224,806	8,867,469	15,835,531
Dividends received	30	-	2,057,094	33,165,623	29,793,351
Net cash used in investing activities		(107,667,322)	(161,278,271)	(26,960,240)	(95,618,557)
Cash flows from financing activities					
Proceeds from borrowings		1,455,525,952	3,095,625,832	1,451,688,119	3,095,625,832
Repayment of borrowings		(1,615,652,075)	(2,866,301,129)	(1,613,199,041)	(2,854,404,986)
Dividends paid to Company's shareholders		(76,419,588)	(146,164,575)	(76,168,046)	(145,143,670)
Net cash (used in) / generated from financing activities		(236,545,711)	83,160,128	(237,678,968)	96,077,176
Net increase in cash, cash equivalents and bank overdrafts		50,416,168	289,812,835	24,038,495	276,332,241
Cash, cash equivalents and bank overdrafts at beginning of year	17	177,257,484	(112,555,351)	119,107,928	(157,224,313)
Cash, cash equivalents and bank overdrafts at end of the year	17	227,673,652	177,257,484	143,146,423	119,107,928

The notes on pages 42 to 75 are an integral part of these consolidated financial statements.

STATE TRADING ORGANIZATION PLC
FINANCIAL STATEMENTS – 31 DECEMBER 2010
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY – COMPANY

(all amounts in Maldivian Rufiyaa)

	Notes	Share capital	Share premium	General reserve	Faire value reserve	Retained earnings	Total
Balance at 1 January 2009		56,345,500	27,814,500	289,334,485	30,541,388	438,014,749	842,050,622
Profit for the year		-	-	-	-	140,024,280	140,024,280
Net fair value gain, on available-for-sale investments		-	-	-	(6,856,980)	-	(6,856,980)
Dividends	33	-	-	-	-	(73,249,150)	(73,249,150)
Balance at 31 December 2009		56,345,500	27,814,500	289,334,485	23,684,408	504,789,879	901,968,772
Balance at 1 January 2010		56,345,500	27,814,500	289,334,485	23,684,408	504,789,879	901,968,772
Profit for the year		-	-	-	-	118,904,198	118,904,198
Net fair value gain, on available-for-sale investments	11	-	-	-	5,257,018	-	5,257,018
Transfer to general reserve		-	-	23,780,840	-	(23,780,840)	-
Dividends	33	-	-	-	-	(76,629,880)	(76,629,880)
Balance at 31 December 2010		56,345,500	27,814,500	313,115,325	28,941,426	523,283,358	949,500,109

The notes on pages 42 to 75 are an integral part of these financial statements.

STATE TRADING ORGANIZATION PLC
FINANCIAL STATEMENTS – 31 DECEMBER 2010
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY – GROUP

(All amounts in Maldivian Rufiyaa unless otherwise stated)

	Notes	Share capital	Share premium	Claim equalization reserve	General reserve	Faire value reserve	Currency translation reserve	Retained earnings	Total	Minority interest	Group total
		Attributable to equityholders									
Balance at 1 January 2009		56,345,500	27,814,500	2,729,182	289,334,485	30,541,388	305,185	548,687,785	955,758,025	34,818,211	990,576,236
Profit for the year								169,912,290	169,912,290	2,233,684	172,145,974
Purchase of shares in subsidiary	7	-	-	-	-	-	-	-	-	(30,448,872)	(30,448,872)
Translation gain during the year		-	-	-	-	-	136,298	-	136,298	-	136,298
Net fair value loss, on available-for-sale investments	11	-	-	-	-	(6,856,980)	-	-	(6,856,980)	-	(6,856,980)
Transfer to claim equalization reserve	19	-	-	2,636,905	-	-	-	(2,636,905)	-	-	-
Dividends	33	-	-	-	-	-	-	(73,249,150)	(73,249,150)	-	(73,249,150)
Balance at 31 December 2009		56,345,500	27,814,500	5,366,087	289,334,485	23,684,408	441,483	642,714,020	1,045,700,483	6,603,023	1,052,303,506
Balance at 1 January 2010		56,345,500	27,814,500	5,366,087	289,334,485	23,684,408	441,483	642,714,020	1,045,700,483	6,603,023	1,052,303,506
Profit for the year		-	-	-	-	-	-	143,544,123	143,544,123	(562,852)	142,981,271
Translation gain during the year		-	-	-	-	-	(68,840)	-	(68,840)	-	(68,840)
Net fair value gain, on available-for-sale investments	11	-	-	-	-	5,257,018	-	-	5,257,018	-	5,257,018
Transfer to general reserve		-	-	-	223,780,840	-	-	(23,780,840)	-	-	-
Transfer to claim equalization reserve	19	-	-	2,676,928	-	-	-	(2,676,928)	-	-	-
Dividends	33	-	-	-	-	-	-	(76,629,880)	(76,629,880)	(251,543)	(76,881,423)
Balance at 31 December 2010		56,345,500	27,814,500	8,043,015	313,115,325	28,941,426	372,643	683,170,495	1,117,802,904	5,788,628	1,123,591,531

STATE TRADING ORGANIZATION PLC
FINANCIAL STATEMENTS – 31 DECEMBER 2010
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 **General information**

State Trading Organization Plc. (the "Company") is a Company incorporated and domiciled in the Republic of Maldives as a public limited liability Company since 2001 under the Companies Act No.10 of 1996, with its registered office at Boduthakurufaanu Magu, Maafannu, Male' 20345, Republic of Maldives. The Company is a listed Company in the Maldives Stock Exchange. The main business of the Company is importing and trading of various types of consumable and industrial goods.

The consolidated financial statements of the Group for the year ended 31st December 2010 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in the associates and jointly controlled entities.

2 **Summary of significant accounting policies**

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

2.1 **Basis of preparation**

The financial statements of State Trading Organization Plc have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements are prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

2.2 **Consolidation**

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the combination are measured initially at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Inter-Company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and minority interests

Minority interest is that portion of the profit or loss and net asset of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation.

The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. A loss on the transaction is recognised immediately if it provides evidence of a reduction in the net realisable value of current assets, or an impairment loss. Joint ventures' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The primary segments of the Group are as follows:

i) Trading
ii) Gas
iii) Insurance service
iv) Fuel, lubricant & crude oil
v) Structural product
vi) Other

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Maldivian Rufiyaa which is the Group's functional and presentation currency.

2.4 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where hedge accounting is applied.

Transaction differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are, included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.

(ii) income and expenses for each income statement are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions): and

(iii) Exchange differences arising from the translation of the net investment in foreign operations, are taken to currency translation reserve. They are released into the income statement upon disposal.

On consolidation, exchange differences arising from the translation of the net investments in foreign operations and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign currency are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

All property, plant and equipment, which are initially recorded at historical cost, is stated at cost less depreciation. Cost includes the transfer value of the assets, or their purchase cost, or the cost of construction, together with any incidental expenses of acquisition.

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

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, commencing from the month in which the assets were purchased upto the date of disposal, as follows:

Leasehold buildings	Over the lease period
Freehold buildings	5-20 years
Plant and machinery	3-20 years
Vessels and fleet	5-15 years
Motor vehicles	4-5 years
Air conditioners	3-4 years
Office equipment	3-5 years
Furniture and fixtures	3-5 years
Other assets	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Buildings constructed on leasehold land and improvements made to leasehold premises are amortised over the unexpired period of the lease.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.6 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Goodwill on acquisition of associates is included in 'Investments in associates'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life of five years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development cost recognised as assets are amortised over their estimated useful life of five years.

(c) Impairment of intangible assets

"Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.
"

2.8 Financial assets

A financial asset is any asset that is an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or liabilities with another entity under conditions that are potentially favourable to the entity.

The Group classifies its financial assets in the following categories: held to maturity instruments, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Held to maturity investments

These investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than those that the entity upon initial recognition designates as at fair value through profit or loss, those that the entity designates as available for sale and those that meet the definition of loans and receivables.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets as trade and other receivables except for maturities greater than 12 months after the balance sheet date.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of them within 12 months of the balance sheet date.

(d) Recognition of financial asset

When a financial asset is recognised initially, an entity shall measure it at its fair value plus transactions cost that are directly attributable to the acquisition or issue of the financial asset. Loans and receivables shall be measured at amortised cost using the effective interest method.

Held to maturity investments shall be measured at amortised cost using the effective interest method.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, shall be measured at cost.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

"The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle except in Maldives Gas Private Limited, which is on first-in-first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and selling expenses.

2.10 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'selling and marketing costs'.

2.11 Cash and cash eqivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.12 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

"Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to purchase of properties, plant and equipment are included in current liabilities as deferred government grants and are credited to the income statement on a straight line basis over the expected useful lives of the related asset.

2.13 Employee benefits

Amounts contributed by the Group to the employee's provident fund under a voluntary or a compulsory scheme are treated as a staff cost.

2.14 Share capital

Ordinary shares are classified as equity.

2.15 Insurance contracts and investment contracts – classification

The Group issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk.

(a) Recognition and measurement

Insurance contracts and investment contracts are classified, depending on the duration of risk and whether or not the terms and conditions are fixed.

(i) Short term insurance contracts

These contracts are property and short-duration non life insurance contracts.

Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earning caused by the inability to use the insured properties in their business activities (business interruption cover).

For these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability. Premiums are shown before reduction of commission.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred upto the balance sheet date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

(ii) Long-term insurance contracts with fixed and guaranteed terms

These contracts insure events associated with human life (for example, death) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

Benefits are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions.

The liabilities are recalculated at each balance sheet date using the assumptions established at inception of the contracts.

(b) Re-insurance commission

As it accrues unless collectibility is in doubt.

(c) Deferred policy acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the life of the contracts as follows:

- For property, casualty and short-duration life insurance contracts, DAC is amortised over the terms of the policies as premium is earned;

- For long-term insurance contracts with fixed and guaranteed terms, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities.

(d) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses as well as investment income from the assets banking such liabilities are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and subsequently by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

(e) Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts in this note are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as long term receivables that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in Note 2.7.

(f) Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets. These processes are described in Note 2.7.

As set out in (a) above, long-term insurance contracts with fixed terms are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margin for adverse deviation) are used for the subsequent measurement of these liabilities.

Any DAC written off as a result of this test cannot be subsequently reinstated.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated after adjusting the interest accrued, repayments of principal and interest. Interest on borrowings are recognised on accrual basis.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date or if the borrowings are only repayable on the availability of net cash flows of the Company and such availability is not anticipated for at least 12 months after the balance sheet date.

2.17 Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligations.

2.18 Taxation

(a) Current taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the country where the Group's subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income taxes

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

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

a) Sale of goods

Sales of goods are recognised when a group entity has delivered products to the customer; the customer has accepted the products and collectibles of the related receivables are reasonably assured.

(b) Sale of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known to management.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate method.

(d) Dividend income

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

(e) Rental income

Rental income is recognised on accrual basis.

2.20 Leases

(a) The Company is the lessee

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) The Company is the lessor

Assets leased to third parties under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

2.21 Dividend distribution

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

2.22 Critical accounting estimates and judgments

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

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Board of Directors on specific areas, such as foreign exchange risk, credit risk and the liquidity risk.

(a) Market risk - Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in currencies other than Maldivian Rufiyaa and mainly in United State Dollars. As at the balance sheet date, the Group has approximately US$ 67,292,971 (2009 : US$ 99,847,542) as foreign currency liabilities, whereas foreign currency committed available credit line amounted to US$ 52,707,029 (2009: US$ 39,458,536) as at the same date.

STO has bought US$ 17,875,000 from Housing Development Finance Corporation (HDFC) by paying equivalent Rufiyaa at 1 US$ = Mrf 12.85. The Company has entered into a SWAP agreement with HDFC by which STO Plc is obliged to sell equal amount of US$ at a rate of 1 US$ = MRf 12.85 to honour the US$ requirement of HDFC. As at the balance sheet date US$ 16,581,103 is the outstanding commitment.

The management has taken the following steps to mitigate the exposure of currency risk on payments in foreign currencies. By doing so, the Group has managed to settle all the foreign currency liabilities without default in the past.

Ministry of Finance and Treasury (MOFT) approves United States Dollar sales through Maldives Monetary Authority (MMA) for imports made by the Group based on the quarterly import statement submitted to MOFT by the Group.

Payment are made by Maldivian Rufiyaa for some of the overseas vendor by mutual arrangement with the vendor.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of services are made to customers with an appropriate credit history.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain liquidity by keeping committed credit facilities.

(d) Interest rate risk

The Group's exposure to interest rate risk relates to its bank and other borrowings which are on fixed and floating rate terms, and this risk is reviewed on an ongoing basis. At the balance sheet the Group did not have in place any instruments to hedge its exposure to interest rate risk.

3.2 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The principal risk that the Company faces under its insurance contracts is that the actual claim payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from period to period from the estimated.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

The reinsurance arrangements include excess, and catastrophe coverage. In addition to the above, individual policies of a larger sum assured have additional reinsurance protection.

Sources of uncertainty in the estimation of future claim payments

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries.
The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprise a provision for incurred but not reported claims (IBNR), a provision for reported claims not yet paid and a provision for unexpired risks at the balance sheet date.

3.3 Long-term insurance contracts

(a) Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as AIDS or SARS) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

At present, these risks do not vary significantly in relation to the location of the risk insured by the Company. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. Medical selection is also included in the Company's underwriting procedures, with premiums varied to reflect the health condition and family medical history of the applicants. The Company reinsures the excess of the insured benefit for standard risks (from a medical point of view) under an excess of loss reinsurance arrangement.

Insurance risk for contracts disclosed in this Note is also affected by the contract holders' right to pay reduced or no future premiums and to terminate the contract completely. As a result, the amount of insurance risk is also subject to contract holder behaviour. On the assumption that contract holders will make decisions rationally, overall insurance risk can be assumed to be aggravated by such behaviour. For example, it is likely that contract holders whose health has deteriorated significantly will be less inclined to terminate contracts insuring death benefits than those contract holders remaining in good health. This results in an increasing trend of expected mortality, as the portfolio of insurance contracts reduces due to voluntary terminations.

3.3 Long-term insurance contracts

The Company has factored the impact of contract holders' behaviour into the assumptions used to measure these liabilities.

(b) Sources of uncertainty in the estimation of future benefit payments and premium receipts

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in contract holder behaviour.

The Company uses appropriate base table of standard mortality.

(c) Process used to decide on assumptions

"For long-term insurance contracts with fixed and guaranteed terms, estimates are made in two stages. At inception of the contract, the Company determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. These assumptions are used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions. These assumptions are 'locked in' for the duration of the contract."

Subsequently, new estimates are developed at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered ('unlocked') to reflect the latest current estimates; no margin is added to the assumptions in this event. As a result, the effect of changes in the underlying variables on insurance liabilities and related assets is not symmetrical. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant enough deteriorations in estimates have an impact.

The assumptions used for the insurance contracts disclosed in this Note are as follows:

- Mortality

  An appropriate base table of standard mortality is chosen depending on the type of contract.

- Morbidity

  The rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the Company's own experience.

- Persistency

  An investigation into the Company's experience over the most recent year is performed, and statistical methods are used to determine an appropriate persistency rate. Persistency rates vary by product type and policy duration. An allowance is then made for any trends in the data to arrive at a best estimate of future persistency rates that takes into account the effective contract holders' behaviour.

- Investment returns

  Investment returns affect the assumed level of future benefits due to the contract holders and the selection of the appropriate discount rate. The Company's primary assumptions on investment returns relate to the following components:

  Risk-free rates: the risk-free rates are the gross yields to redemption of benchmark government securities. For the current valuation, the rate is 4%.

- Renewal expense level

  The current level of expenses is taken as an appropriate expense base.

(d) Sensitivity analysis

For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment.

3.4 Property insurance contracts

Frequency and severity of claims

The Company has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claims payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from fire, accident or tsunami.

Property insurance contracts are subdivided into four risk groups: fire, accident, marine cargo and marine hull. The insurance risk arising from these contracts is not concentrated in any of the territories in which the Company operates, and there is a balance between commercial and personal properties in the overall portfolio of insured buildings. The Company does not underwrite property insurance contracts outside Maldives.

3.5 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends payable to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings and trade and other payables, as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

The gearing ratios at 31 December 2010 and 31 December 2009 were as follows:

	Group		Company	
	2010	2009	2010	2009
Total borrowings	1,548,798,998	1,536,904,130	1,274,288,589	1,340,611,762
Less: Cash and cash equivalents (Note17)	(583,027,746)	(467,048,776)	(466,035,754)	(385,440,399)
Net debt	965,771,251	1,069,855,354	808,252,835	955,171,363
Total equity	1,123,591,532	1,052,303,506	949,500,109	901,968,772
Total capital	2,089,362,783	2,122,158,860	1,757,752,943	1,857,140,135
Gearing	46%	50%	46%	51%

The gearing ratio of the Company in 2010 has reduced compared to 2009 due to reduction in borrowing and increase in the retained earnings.

The gearing ratio of the group in 2010 has reduced compared to 2009 due to increase in cash and cash equivalents and retained earnings.

3.6 Fair value estimation

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Comparatives

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

5 Segment information

The segment results for the year ended 31 December 2009 are as follows:

	Trading	Gas	Insurance service	Fuel, lubricant and crude oil	Structural products	Unallocated	Group Total
Revenue	1,115,497,823	84,130,688	67,002,938	3,701,022,412	14,053,536	-	4,981,707,397
Segment Results							
Operating profit before financing cost	174,706,835	7,626,515	23,487,217	31,947,568	7,725,222	-	245,493,356
Net financing costs	(65,806,845)	(2,595,660)	-	89,575	(1,284,442)	-	(69,597,372)
Share of loss from associate	-	-	-	-	-	-	(1,567,827)
Profit before zakat	106,717,806	5,030,855	23,487,217	32,037,142	6,440,780	-	174,328,157
Zakat	(2,182,183)	-	-	-	-	-	(2,182,183)
Minority interest	-	-	-	-	-	-	(2,233,684)
Profit for the year							169,912,290

The segment results for the year ended 31 December 2010 are as follows:

	Trading	Gas	Insurance service	Fuel, lubricant and crude oil	Structural products	Group Total
Revenue	1,034,865,306	107,405,853	97,529,055	3,490,840,759	11,671,441	4,742,312,415
Segment Results						
Operating profit before financing cost	168,981,058	1,138,025	24,145,398	31,129,427	7,601,380	232,995,287
Net financing costs	(79,303,456)	(6,766,544)	-	1,553,507	(765,290)	(85,281,783)
Share of profit from associate	-	-	-	-	-	157,850
Profit before zakat	89,677,602	(5,628,519)	24,145,398	32,682,934	6,836,090	147,871,354
Zakat	(4,890,084)	-	-	-	-	(4,890,084)
Minority interest	-	-	-	-	-	562,852
Profit for the year						143,544,123

5 Segment information (continued)

The segment assets and liabilities at 31 December 2009 and capital expenditure for the year then ended are as follows:

	Trading	Gas	Insurance service	Fuel, lubricant and crude oil	Structural products	Group Total
Assets	1,948,849,551	109,277,608	234,426,950	263,897,061	32,756,466	2,589,207,636
Liabilities	1,269,897,127	43,187,131	149,019,212	67,734,742	7,065,918	1,536,904,130
Capital expenditure	122,231,637	3,857,126	1,194,463	8,015,623	56,452	135,355,300
Depreciation	47,245,069	8,795,105	1,344,095	11,243,510	779,700	69,407,479

The segment assets and liabilities at 31 December 2010 and capital expenditure for the year then ended are as follows:

	Trading	Gas	Insurance service	Fuel, lubricant and crude oil	Structural products	Group Total
Assets	1,917,139,998	111,165,841	307,148,693	297,654,199	39,281,798	2,672,390,529
Liabilities	1,269,795,137	45,548,892	223,644,363	338,669	9,471,937	1,548,798,998
Capital expenditure	306,355,916	7,317,762	5,541,688	18,495,929	56,452	337,767,746
Depreciation	52,162,885	9,224,202	1,244,362	13,592,932	759,799	76,984,179

6 Property, plant and equipment - Company

	Freehold land	Building	Plant and machinery	Vessels and fleet	Motor vehicles	Air conditioners	Office equipments	Furniture and fittings	Other assets	Capital work-in - progress	Total
At 1 January 2009											
Cost	-	338,135,911	73,492,221	62,624,387	29,415,088	2,593,039	12,949,290	2,511,268	4,998,874	13,774,264	540,494,342
Accumulated depreciation	-	(198,723,841)	(32,144,802)	(47,668,648)	(23,990,981)	(2,108,727)	(11,102,317)	(2,316,563)	(2,487,580)	-	(320,543,459)
Net book amount	-	139,412,070	41,347,419	14,955,739	5,424,107	484,312	1,846,973	194,705	2,511,294	13,774,264	219,950,883
Year ended 31 December 2009											
Opening net book amount	-	139,412,070	41,347,419	14,955,739	5,424,107	484,312	1,846,973	194,705	2,511,294	13,774,264	219,950,883
Additions	-	9,480,751	1,703,259	75,895,720	39,500	893,008	880,788	615,518	1,369,410	31,353,684	122,231,637
Disposals	-	-	(1,662)	-	-	(3,236)	(12,764)	(576)	(19,667)	-	(37,905)
Depreciation charge (Note 28)	-	(22,358,057)	(7,801,492)	(12,239,920)	(2,305,245)	(313,432)	(1,078,062)	(190,480)	(940,296)	-	(47,226,983)
Closing net book amount	-	126,534,764	35,247,524	78,611,539	3,158,362	1,060,652	1,636,935	619,167	2,920,741	45,127,948	294,917,633
At 31 December 2009											
Cost	-	346,514,325	75,190,493	126,976,014	29,454,588	3,472,826	13,722,734	3,106,191	6,316,470	45,127,948	649,881,590
Accumulated depreciation	-	(219,979,561)	(39,942,969)	(48,364,475)	(26,296,226)	(2,412,174)	(12,085,799)	(2,487,024)	(3,395,729)	-	(354,963,957)
Net book amount	-	126,534,764	35,247,524	78,611,539	3,158,362	1,060,652	1,636,935	619,167	2,920,741	45,127,948	294,917,633
Year ended 31 December 2010											
Opening net book amount	-	126,534,764	35,247,524	78,611,539	3,158,362	1,060,652	1,636,935	619,167	2,920,741	45,127,948	294,917,633
Additions	239,256,000	7,181,858	350,728	5,161,385	-	201,579	9,471,945	409,747	376,289	2,773,248	265,182,778
Disposals	-	-	-	-	-	-	(10,903)	-	-	-	(10,903)
Depreciation charge (Note 28)	-	(19,866,115)	(7,912,004)	(19,506,407)	(1,704,953)	(359,852)	(1,132,488)	(359,801)	(1,285,273)	-	(52,126,893)
Closing net book amount	239,256,000	113,850,506	27,686,247	64,266,518	1,453,410	902,379	9,965,489	669,113	2,011,757	47,901,196	507,962,614
At 31 December 2010											
Cost	239,256,000	348,240,064	75,541,220	132,137,399	29,454,588	3,674,405	23,178,979	3,515,938	6,692,759	47,901,196	909,592,547
Accumulated depreciation	-	(234,389,558)	(47,854,973)	(67,870,882)	(28,001,178)	(2,772,026)	13,213,490)	(2,846,825)	(4,681,002)	-	(401,629,934)
Net book amount	239,256,000	113,850,506	27,686,247	64,266,518	1,453,410	902,379	9,965,489	669,113	2,011,757	47,901,196	507,962,614

6 Property, plant and equipment - Group
(All amounts in Maldivian Rufiyaa unless otherwise stated)

	Land	Building	Leasehold buildings	Plant and machinery	Vessels and fleet	Motor vehicles	Air conditioners	Office equipments	Furniture and fittings	Other assets	Capital work-in- progress	Total
At 1 January 2009												
Cost	-	345,294,126	21,786,486	132,760,004	115,637,305	40,031,020	3,905,583	20,451,132	5,810,317	47,438,084	30,610,045	763,724,102
Accumulated depreciation	-	(201,242,818)		(51,707,318)	(65,582,144)	(28,651,588)	(3,606,183)		(4,098,884)	(24,123,740)	-	(405,983,730)
			(10,263,910)					(16,707,145)				
Net book amount	-	144,051,308	11,522,576	81,052,686	50,055,161	11,379,432	299,400	3,743,987	1,711,433	23,314,344	30,610,045	357,740,372
Year ended 31 December 2009												
Opening net book amount	-	144,051,308	11,522,576	81,052,686	50,055,161	11,379,432	299,400	3,743,987	1,711,433	23,314,344	30,610,045	357,740,372
Additions	-	7,851,984	1,351,065	1,758,961	76,625,741	657,752	939,213	3,642,980	1,637,510	4,816,306	36,073,789	135,355,300
Transfer	-	-	2,386,260	-	4,421,555	-	-	(6,073)	(1,502)	-	(6,774,983)	25,257
Exchange difference	-	-	-	-	-	-	-	17,850	3,897	-	-	21,747
Disposals	-	-	-	(1,662)	(78,712)	(100,800)	(3,236)	(14,455)	(576)	(19,667)	-	(219,107)
Depreciation charge (Note 28)	-	(22,737,779)	(1,887,590)	(10,729,674)	(20,603,483)	(3,640,589)	(582,951)	(2,605,865)	(502,710)	(6,116,838)	-	(69,407,479)
Closing net book amount	-	129,165,513	13,372,311	72,080,311	110,420,262	8,295,795	652,426	4,778,424	2,848,052	21,994,145	59,908,851	423,516,090
At 31 December 2009												
Cost	-	352,043,774	25,523,811	134,513,978	185,140,508	40,688,772	4,831,575	23,978,611	7,427,679	52,112,945	59,908,851	886,170,504
Accumulated depreciation	-	(222,878,261)		(62,433,667)	(74,720,246)	(32,392,977)	(4,179,149)		(4,579,627)	(30,118,800)	-	(462,654,414)
			(12,151,500)					(19,200,187)				
Net book amount	-	129,165,513	13,372,311	72,080,311	110,420,262	8,295,795	652,426	4,778,424	2,848,052	21,994,145	59,908,851	423,516,090
Year ended 31 December 2010												
Opening net book amount	-	129,165,513	13,372,311	72,080,311	110,420,262	8,295,795	652,426	4,778,424	2,848,052	21,994,145	59,908,851	423,516,090
Additions	239,256,000	7,181,858	262,968	350,728	5,251,978	736,000	264,804	11,263,997	881,185	8,943,805	22,009,113	296,402,436
Transfer	-	-	7,884,956	379,705	14,152,096	-	-	(360,635)	-	(135,114)	(21,973,117)	(52,109)
Exchange difference	-	-	-	-	-	-	-	(13,396)	(3,271)	-	-	(16,667)
Disposals	-	-	(181,248)	-	-	-	(160,831)	(29,638)	-	-	-	(371,717)
Depreciation charge (Note 28)	-	(20,245,837)	(2,189,807)	(10,897,445)	(29,000,219)	(3,057,859)	(626,334)	(3,081,601)	(824,499)	(7,060,579)	-	(76,984,179)
Closing net book amount	239,256,000	116,101,533	19,149,180	61,913,298	100,824,118	5,973,936	130,065	12,557,151	2,901,468	23,742,258	59,944,847	642,493,854
At 31 December 2010												
Cost	239,256,000	353,769,512	33,665,565	135,244,411	204,255,483	41,123,270	4,539,995	34,567,731	8,254,398	59,606,259	59,944,847	1,174,227,471
Accumulated depreciation	-	(237,667,979)	14,516,385)	(73,331,113)	(103,431,366)	(35,149,333)	(4,409,930)	(22,010,580)	(5,352,931)	(35,864,001)	-	(531,733,617)
Net book amount	239,256,000	116,101,533	19,149,180	61,913,298	100,824,118	5,973,936	130,065	12,557,151	2,901,468	23,742,258	59,944,847	642,493,854

6 Property, plant and equipment (continued)

Group

a) The buildings of State Trading Organization Plc. have been constructed on lands belonging to the Government of Maldives for which a rental of MRf. 3 per sq.ft. per month is paid . There is no lease agreement and accordingly no definite period of lease is identified. Under these circumstances, the Directors have considered it is prudent to provide depreciation in accordance with Accounting Policy 2.5.

b) The value of fully depreciated property, plant and equipment at the balance sheet date amounted to MRf 242,469,121 (December 2009: MRf 201,839,838).

c) Depreciation expense of MRf 76,984,179 (December 2009: MRf 69,407,479) has been charged to administrative expenses.

d) Fuel Supplies Maldives Private Limited, a wholly owned subsidiary has acquired a bowser and two vessels under finance lease agreements. At the end of lease periods, company has the option to purchase those items. The net carrying value of lease assets as at 31st December 2010 is MRf 10,165,502 (2009:MRf 10,805,700).

e) Borrowings from Seylan Bank and HSBC are secured on STO trade center building and Oil tanks and Funadhoo infrastructure respectively.

Company

a) The buildings of State Trading Organization Plc. have been constructed on lands belonging to the Government of Maldives for which a rental of MRf. 3 per sq.ft. per month is paid . There is no lease agreement and accordingly no definite period of lease is identified. Under these circumstances, the Directors have considered it is prudent to provide depreciation in accordance with Accounting Policy.

b) The value of fully depreciated property, plant and equipment at the balance sheet date amounted to MRf 215,305,938 (December 2009: MRf 181,066,538).

c) Depreciation expense of MRf 52,126,893 (December 2009: MRf 47,226,983) has been charged to administrative expenses.

d) Borrowings from Seylan Bank and HSBC are secured on STO trade center building and Oil tanks and Funadhoo infrastructure respectively.

7 Intangible assets

	Group Goodwill	Software implementation	Total	Company
1st January 2009				
Cost	-	5,102,451	5,102,451	-
Accumulated amortization	-	(1,383,586)	(1,383,586)	-
Net book amount	-	3,718,865	3,718,865	-
Year ended 31 December 2009				
Opening net book amount	-	3,718,865	3,718,865	-
Addition	3,155,217	-	3,155,217	-
Amortization charges (Note 28)	-	(1,020,491)	(1,020,491)	-
Closing net book amount	3,155,217	2,698,374	5,853,591	-
At 31 December 2009				
Cost	3,155,217	5,102,451	8,257,668	-
Accumulated amortization	-	(2,404,077)	(2,404,077)	-
Net book amount	3,155,217	2,698,374	5,853,591	-
Year ended 31 December 2010				
Opening net book amount	3,155,217	2,698,374	5,853,591	-
Addition	-	41,322,648	41,322,648	41,082,185
Transfer from fixed assets	-	42,662	42,662	-
Amortization charge (Note 28)	-	(1,734,954)	(1,734,954)	(684,703)
Closing net book amount	3,155,217	42,328,730	45,483,947	40,397,482
At 31 December 2010				
Cost	3,155,217	46,467,761	49,622,978	41,082,185
Accumulated amortization	-	(4,139,031)	(4,139,031)	(684,703)
Net book amount	3,155,217	42,328,730	45,483,947	40,397,482

a) The Group had capitalised the implementation of premeia software in 2008 and ERP software in 2010.

b) Amortisation charge of MRf 1,734,954 (2009 : MRf 1,020,491) have been charged in expenses for administration.

c) On 1 March 2009, the Group acquired the 33.33% of share capital of Fuel Supplies Maldives Pvt Ltd, making it a wholly owned subsidiary.

Details of the net assets acquired are as follows:

Total purchase consideration	32,583,185
Fair value of total net assets	(30,448,872)
Transferred from Minority interest	1,020,904
Goodwill	3,155,217

8 Investments in subsidiaries

The principal subsidiary undertakings, which are incorporated in Republic of Maldives and unlisted, are as follows:

Name of the company	% of interest hold	Company 2010	2009
Maldive Gas Private Limited	90%	61,200,000	61,200,000
Allied Insurance Company of the Maldives Private Limited	99.99%	807,000	807,000
STO Maldives (Singapore) Pte Limited	99.99%	1,459,750	1,459,750
Fuel Supplies Maldives Pte Limited	99.99%	42,783,185	42,783,185
Maldives National Oil Company Ltd	99.99%	10,000,000	10,000,000
		116,249,935	116,249,935

9 Investments in associate

	Group		Company	
	2010	2009	2010	2009
Beginning of the year	4,002,342	5,570,169	10,567,267	10,567,267
Share of profit / (loss)	157,850	(1,567,827)	-	-
End of the year	4,160,192	4,002,342	10,567,267	10,567,267

State Trading Organization Plc has acquired 10,567,267 shares, at a price of MRf 1/- each on 8th of January 2002, in Lafarge Maldives Cement Private Limited which represents 25% of the shareholding of that company. The principal activity of the company is trading of cement.

The summarised financial information of the following associate, which is incorporated in Republic of Maldives and unlisted, is as follows:

	Assets	Liabilities
At 31 December 2009		
Lafarge Maldives Cement Private Limited	35,924,876	19,915,505
At 31 December 2010		
Lafarge Maldives Cement Private Limited	35,375,053	18,734,284
	Revenues	**Profit / (loss)**
At 31 December 2009		
Lafarge Maldives Cement Private Limited	54,590,367	(6,271,307)
At 31 December 2010		
Lafarge Maldives Cement Private Limited	61,851,553	631,398

10 Investment in joint venture

	2010	2009
Maldives Structural Products Pvt Ltd	4,700,000	4,700,000

State Trading Organization Plc has acquired 47,000 shares at a price of MRf 100/- each on 31st December 2001 in Maldives Structural Products Private Limited which represents 50% of the shareholding of the company. The company engaged in the business of manufacturing and trading of structural products.

The amounts given represent the Company's 50% of share of assets and liabilities and results of the joint venture. They are included in the balance sheet and income statement.

	Group's interest in joint venture company	
	2010	2009
Assets		
Non- current assets	1,597,099	2,356,897
Current assets	40,992,842	34,233,935
	42,589,940	36,590,832
Liabilities		
Current liabilities	(9,471,937)	(7,065,918)
Net assets	33,118,004	29,524,913
Income	36,281,146	41,093,579
Expenses	(26,562,515)	(32,282,371)
Profit for the year	9,718,632	8,811,208

There are no contingent liabilities relating to the Group's interest in the joint venture as at the balance sheet date.(2009: MRf 3,071,217).

11 Available-for-sale investments

	Group		Company	
	2010	2009	2010	2009
At the beginning of the year	48,056,800	55,995,295	48,056,800	55,995,295
Revaluation surplus / (loss) transferred to equity	5,257,018	(6,856,980)	5,257,018	(6,856,980)
Loss on disposal of investment	(1,205,306)	(1,081,515)	(1,205,306)	(1,081,515)
Disposal of investment	(19,423,574)	-	(19,423,574)	-
At the end of the year	32,684,938	48,056,800	32,684,938	48,056,800

Marketable equity securities are measured at fair value annually at the close of business on 31 December. For investments traded in active markets, fair value is determined by reference to Stock exchange quoted bid prices. There were no disposal on available-for-sale investments in 2010 and 2009. Other investments (unlisted securities) are stated at cost less impairment since the fair value of those shares cannot be measured reliably.

Available-for-sale financial assets are classified as non-current assets, unless they are expected to be realised within twelve months of the balance sheet date or unless they will need to be sold to raise operating capital.

Available-for-sale financial assets consist of the equity securities in the following entities and investment made in G.Dh Atoll Rayyithunge Cooperative Society.

	Group		Company	
	2010	2009	2010	2009
Maldives Industrial Fisheries Company Ltd	-	43,100,100	-	43,100,100
G.Dh Atoll Rayyithunge Cooperative Society	4,500,000	4,500,000	4,500,000	4,500,000
Bank of Maldives Plc	32,684,938	27,427,920	32,684,938	27,427,920
Maldives Stock Exchange Company Private Limited	1,600,000	1,600,000	1,600,000	1,600,000
Madivaru Holdings Pvt Ltd	709,148	709,148	709,148	709,148
	39,494,086	77,337,168	39,494,086	77,337,168
Less: Provision for loss on impairment	(6,809,148)	(29,280,368)	(6,809,148)	(29,280,368)
	32,684,938	48,056,800	32,684,938	48,056,800

12 Inventories

	Group		Company	
	2010	2009	2010	2009
Roofing sheets (raw materials)	3,413,075	7,256,005	-	-
Food stock	3,656,349	75,584,790	3,656,349	75,584,790
Fuel and lubricants	158,162,158	243,069,597	121,319,130	198,903,313
Home improvement and electronics	58,922,790	38,751,207	58,922,790	38,751,207
Construction materials	34,089,821	55,728,472	34,089,821	55,728,472
Pharmaceuticals	57,045,276	23,371,757	57,045,276	23,371,757
Spare parts	8,380,871	4,370,256	2,672,592	127,011
Retail shops	23,175,077	24,330,799	23,175,077	24,330,799
Others	17,648	17,648	-	-
	346,863,065	472,480,531	300,881,035	416,797,349
Less : Provision for non / slow moving inventories	(28,558,057)	(26,818,105)	(25,342,013)	(24,672,312)
	318,305,007	445,662,426	275,539,022	392,125,037

Provision for non / slow moving inventories

	Group		Company	
	2010	2009	2010	2009
Balance as at 1st January	26,818,105	19,622,557	24,672,312	17,726,764
Provision made during the year	5,175,692	7,195,548	4,105,441	6,945,548
Inventory written off against provision	(3,435,740)	-	(3,435,740)	-
Balance as at 31st December	28,558,057	26,818,105	25,342,013	24,672,312

13 Trade and other receivables

	Group		Company	
	2010	2009	2010	2009
Trade receivables	348,658,766	343,481,212	104,782,991	155,452,806
Due from policyholders	55,426,526	40,987,722	-	-
	404,085,292	384,468,934	104,782,991	155,452,806
Less: Provision for impairment of trade receivables	(57,988,913)	(46,542,995)	(16,452,764)	(17,412,911)
Trade receivables - net	346,096,378	337,925,939	88,330,226	138,039,895
Advances, prepayments and deposits	125,210,453	111,009,880	119,153,645	105,322,859
Receivables from related parties (Note 37)	246,682,720	450,942,790	410,433,090	616,344,775
Loans granted to related companies (Note 37)	664,888	1,662,215	3,662,284	1,662,215
Other receivables (Note 14)	220,845,047	166,364,503	166,562,529	150,944,260
	593,403,109	729,979,388	699,811,547	874,274,109
Less: Provision for impairment of receivables	(18,490,088)	(24,889,425)	(18,490,088)	(21,790,541)
	574,913,021	705,089,963	681,321,459	852,483,568
Total trade and other receivables	921,009,400	1,043,015,902	769,651,685	990,523,463
Less: Non current portion of loans given to related companies	-	(997,330)	-	(997,330)
Current portion	921,009,400	1,042,018,572	769,651,685	989,526,133

a) There is no concentration of credit risk with respect to trade receivables, as the Company has a large number of customers of different background and business.

b) Trade and other receivables are short term in nature and their carrying amounts approximate their fair value.

c) Receivables from related parties are unsecured, interest free and have no fixed repayment terms. Accordingly these amounts have been shown as due within one year.

d) Loans given by the Company to related companies represent an unsecured loan to Lafarge Maldives Cement Private Limited at an interest rate of 9% per annum, repayable in twenty four semi-annual installments from 15th June 2000 to 15th December 2011 and loan to Maldive Gas Private Limited at an interest rate of 9.5% per annum repayable in 12 monthly installments. As at balance sheet date outstanding loan balances due from Larfarge Maldives cement pvt ltd and Maldive gas private limited were MRf 664,888 and MRf 2,997,396 respectively.

14 Other receivables

	Group		Company	
	2010	2009	2010	2009
Government employee credit scheme	58,888,497	54,002,550	58,888,497	54,002,550
Less: unmatured interest	(3,544,235)	(3,416,031)	(3,544,235)	(3,416,031)
Inter-company transaction	-	(44,318)	-	(44,318)
Provision for impairment on credit scheme	(3,606,507)	(3,165,312)	(3,606,507)	(3,165,312)
	51,737,756	47,376,889	51,737,756	47,376,889
Subsidy receivable	46,556,623	85,318,109	46,556,623	85,318,109
Staff advances and other loans	2,946,394	3,603,724	2,363,029	2,632,105
Advances paid for custom duty	809,971	5,239,000	809,971	5,239,000
Miscellaneous receivables	118,794,304	24,826,781	65,095,151	10,378,157
	220,845,047	166,364,503	166,562,529	150,944,260

The Company received 2008 subsidy amounted to MRf 39,886,225 in 2009. However current year subsidy receivable consists of only September, October, November and December 2010.

15 Reinsurance contracts

	Group		Company	
	2010	2009	2010	2009
Re-insurers' share of insurance liabilities	41,640,524	96,373,531	-	-
Unearned premium	40,680,825	33,783,546	-	-
	82,321,349	130,157,077	-	-

16 Investments held to maturity

	Group		Company	
	2010	2009	2010	2009
Investments in treasury bills	42,904,097	21,894,631	-	-

The Group has invested Rf 42,904,097 (2009 : Rf 21,894,631) in Treasury Bills issued by the Maldives Monetary Authority for a maturity value of Rf 43,000,000 (2009 : Rf 22,000,000) at the rate of interest ranging from 5% to 5.5% p.a (2009 : 6% to 6.25% p.a) with the maturity period of 90 - 180 days.

17 Cash and cash equivalents

	Group		Company	
	2010	2009	2010	2009
Cash at bank and in hand	582,501,379	466,559,492	466,035,754	385,440,399
Short term bank deposit	526,367	489,284	-	-
	583,027,746	467,048,776	466,035,754	385,440,399

The weighted average effective interest rate on short-term bank deposit was 3.25% (December 2009– 3.75%).

Cash and bank balances include the following for the purpose of cash flow statement:

	Group		Company	
	2010	2009	2010	2009
Cash and cash equivalents	583,027,746	467,048,776	466,035,754	385,440,399
Bank overdraft (Note 23)	(355,354,095)	(289,791,292)	(322,889,331)	(266,332,471)
	227,673,652	177,257,484	143,146,423	119,107,928

18 Share capital

	Number of shares	Ordinary shares	Share premium	Total
At 1 January 2009	1,126,910	56,345,500	27,814,500	84,160,000
At 31 December 2009	1,126,910	56,345,500	27,814,500	84,160,000
At 1 January 2010	1,126,910	56,345,500	27,814,500	84,160,000
At 31 December 2010	1,126,910	56,345,500	27,814,500	84,160,000

The total authorised number of ordinary shares are 1,155,555 shares (2009: 1,155,555 shares), with a par value of MRf 50 per share (2009: MRf 50 per share). All issued shares are fully paid.

19 Claim equalization reserve

Reserve for claim equalization represents 12% of the operating profit before taking into account other operating income of the current year, which was created to meet abnormally high claims in future in the financial statements of Allied Insurance Company of the Maldives Private Limited.

	Group		Company	
	2010	2009	2010	2009
Balance as at 1st January	5,366,087	2,729,182	-	-
Amount utilised during the year	-	-		
Transfer during the year	2,676,928	2,636,905	-	-
Balance as at 31st December	8,043,015	5,366,087	-	-

20 Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statement of foreign subsidiary.

21 Minority interest

	2010	2009
At beginning of year	6,603,023	34,818,211
Add: Share of net results of subsidiaries	(562,852)	2,233,684
Less: dividends paid	(251,543)	-
Disposal of share in subsidiaries	-	(30,448,872)
At end of the year	5,788,628	6,603,023

22 Trade and other payables

	Group		Company	
	2010	2009	2010	2009
Trade payables	477,653,163	498,818,914	453,875,560	403,937,577
Payables to related parties (Note 37)	6,498,701	15,738,349	21,378,513	84,570,352
Accrued expenses	27,596,858	21,277,087	23,483,138	17,906,600
Dividend payable	4,147,109	3,685,275	4,147,109	3,685,275
Other payables	125,292,742	31,858,905	62,386,966	16,540,590
Deffered revenue	1,718,320	-	-	-
Total trade and other payables	642,906,893	571,378,530	565,271,285	526,640,394
Less: Non current portion (Deferred revenue)	(1,718,320)	-	-	-
	641,188,573	571,378,530	565,271,285	526,640,394

Other payables of the Group consist of MRf 1,048,484 (2009 : MRf 1,248,051) advance received for rent, MRf 4,409,322 (2009 : MRf 386,874) advances from customers, MRf 40,932,170 (2009 : MRf 3,047,775) foreign aid, MRf 8,017,212 (2009 : MRf 6,615,935) provident funds payables, MRf 1,272,250 (2009 : MRf 1,340,300) other deposits, MRf 1,403,111 (2009 : MRf 1,029,739) retention payable, MRf 7,072,268 (2009 : MRf 2,182,183) zakath payable, MRf 133,384 (2009 : 3,080,648) premium received in advance, MRf 10,085,915 (2009 : MRf 10,293,825) cylinder deposits, MRf 48,356,241 (2009 : nil) claims payable to national social protection agency and MRf 2,562,385 (2009 : MRf 2,633,575) other miscellaneous payables.

Deferred revenue:

Deferred revenue are related to registration fees received from customers for the initial purchase of gas cylinders. On receipt of the registration fees, they are included in the liabilities as deffered revenue and are credited to income statement as revenue on a straight line basis over 5 years.

23 Borrowings

	Group 2010	Group 2009	Company 2010	Company 2009
Non-current				
Finance lease liabilities	-	336,242	-	-
Interest in suspense	-	(9,575)	-	-
	-	326,667	-	-
Other borrowings	-	7,967,000	-	7,967,000
	-	8,293,667	-	7,967,000
Current				
Finance lease liabilities	336,242	2,622,685	-	-
Interest in suspense	(9,575)	(169,650)	-	-
	326,667	2,453,035	-	-
Bank borrowings	378,160,975	539,671,897	378,160,972	539,671,897
Other borrowings	7,967,001	-	7,967,001	-
Devolved letter of credits	3,837,832	-	-	-
Bank overdraft (Note 17)	355,354,095	289,791,292	322,889,331	266,332,471
	745,646,569	831,916,224	709,017,304	806,004,368
Total borrowings	745,646,569	840,209,891	709,017,304	813,971,368

The Company has obtained a revolving credit facility of US$ 4 million (MRf 51,400,000) at an annual interest rate of 9 % from Seylan Bank Plc for working capital requirements. This is required to be settled within 90 days commencing from the date of disbursement of funds and continue to be revolved. The STO Trade Centre has been mortgaged against this facility.

The Company has obtained an import credit loan facility of US$ 35 million (MRf. 449,750,000) from HSBC Male' branch at an annual interest rate of 11.3% for working capital requirements. This loan requires to be settled within 90 days commencing from the date of disbursement of funds. The loan is secured by stock and receivables in the Company.

The Company has obtained an import credit loan facility of US$ 30 million (MRf. 385,500,000) from HSBC Hongkong branch at an annual interest rate of LIBOR+4% for working capital requirements. This is required to be settled within 90 days commencing from the date of disbursement of funds. The loan is secured by an government guarantee.

The Company has obtained a import credit loan of US$ 1,118,946 /- (MRf 14,378,463 /-) from Nations Trust Bank Plc at an annual interest rate of 6 % for working capital requirements. This is required to be settled within 90 days commencing from the date of disbursement of funds. The loan is secured by STO trade centre.

The Company has obtained a loan of US$ 3,100,000/- (MRf 39,835,000/-) from Ministry of Finance and Treasury in 2008 at an annual interest rate of 8% to purchase fuel from Singapore Petroleum Corporation. The loan is repayable within 30 installments on the end of each month with a grace period of 6 months.

Bank overdraft in Habib Bank Limited is secured by guarantee of Government of Maldives.

Bank overdraft in Maldives Structural Products Private Limited is secured by hypothecation of all buildings, machinery, equipment and stock including leasehold rights of 31,020 sq.ft. of land leased from the Government of Maldives and corporate guarantees of Rainbow Enterprises Private Limited and State Trading Organization Plc.

The Company has obtained trade financing facility of US$ 40 million from Islamic Trade Finance Corporation (Jeddah) at an annual profit mark up of 6.25%. This loan requires to be settled within 90 days commencing from the date of disbursement of funds. As at balance sheet date the loan facility was unutilised.

The exposure of the Company's borrowings are as follows:

Total borrowings:

	Group 2010	Group 2009	Company 2010	Company 2009
-At fixed rates	503,590,855	832,536,398	466,961,589	806,297,875
-At floating rates	242,055,715	7,673,493	242,055,715	7,673,493
	745,646,569	840,209,891	709,017,304	813,971,368

The effective interest rates at the balance sheet date were as follows:

	Group 2010	Group 2009	Company 2010	Company 2009
Bank overdraft				
- State Bank of India	9.50%	9.50%	9.50%	9.50%
- Others	8.80%	8.50%	8.80%	8.50%
Bank borrowings				
-Bank of Maldives Plc	8.50%	8.50%	8.50%	8.50%
-Nation Trust Bank Limited	8.50%	8.50%	8.50%	8.50%
-Seylan Bank Limited	NYPR+2.5% or min 7.5%	NYPR+2.5% or min 7.5%	NYPR+2.5% or min 7.5%	NYPR+2.5% or min 7.5%
-HSBC (Male')	11.03%	8.50%	11.03%	8.50%
-HSBC (Hongkong)	LIBOR + 4%	9.00%	LIBOR + 4%	9.00%
-Habib Bank Limited	8.50%	8.50%	8.50%	8.50%
- State Bank of India	9.00%	9.00%	9.00%	9.00%
-Ministry of Finance and Treasury	8.00%	8.00%	8.00%	8.00%

The carrying amount and the fair value of the non-current borrowings are as follows:

	Carrying amount 2010	Carrying amount 2009	Fair value 2010	Fair value 2009
Borrowings	-	8,293,667	-	7,341,354

The fair values are based on cash flows discounted using a rate based on the borrowing rate of nil (2009: 8.5%).

Maturity of non current borrowing (excluding finance lease liabilities):

	Group 2010	Group 2009	Company 2010	Company 2009
Between 1 and 2 years	-	7,967,000	-	7,967,000
Between 2 and 5 years	-	-	-	-
	-	7,967,000	-	7,967,000

Finance lease liabilities - minimum lease payments

	Group 2010	Group 2009	Company 2010	Company 2009
Not later than 1 year	336,242	2,622,685	-	-
Later than 1 year and not later than 5 years	-	336,241	-	-
	336,242	2,958,926	-	-
Future finance charges on finance leases	(9,575)	(179,225)	-	-
Present value of finance lease liabilities	326,667	2,779,701	-	-
Representing lease liabilities :				
-current	326,667	2,453,035	-	-
-non current	-	326,666	-	-
	326,667	2,779,701	-	-

The Group has acquired two vessels under finance lease agreements entered with Maldives Finance Leasing Company Private Limited on 30th September 2006, repayable in 56 monthly installments which includes installment of Rf 201,745 for the first 8 installments, installment of Rf 268,993 from 9 to 48 installments and installment of Rf 67,248 from 49 to 56 installments commencing 26th October 2006. The Group mortgaged one of its vessels (Mt Koamas) as security for the lease facilities obtained.

24 Insurance contracts

	Group		Company	
	2010	2009	2010	2009
Claims reported and loss adjustment expenses	64,367,033	58,353,878	-	-
Unearned Premiums	94,983,121	66,826,700	-	-
Valuation premium	895,381	135,131	-	-
Total insurance liabilities, gross	160,245,535	125,315,709	-	-

25 Sales

Sales, which represent income from various operations, are made up as follows:

	Group		Company	
	2010	2009	2010	2009
Retail and wholesale	814,428,730	1,115,497,823	797,360,643	965,100,107
Insurance (Note 26)	97,529,055	67,002,938	-	-
Gas	107,405,853	84,130,688	-	-
Structural Products	11,671,441	14,053,536	-	-
Fuel and lubricants	3,711,277,335	3,701,022,412	3,217,746,722	2,879,518,598
	4,742,312,415	4,981,707,397	4,015,107,365	3,844,618,705

Analysis by companies

	Group	
	2010	2009
State Trading Organization Plc	4,015,107,365	3,844,618,705
Allied Insurance Company of the Maldives Private Limited (Note26)	114,618,710	78,614,961
STO Maldives (Singapore) Pte Ltd	17,235,804	150,657,288
Maldive Gas Pvt Ltd	107,575,613	93,812,653
Fuel Supplies Maldives Pvt Ltd	1,594,566,928	1,274,382,871
Maldives National Oil Company Ltd	769,279,731	1,117,639,448
Maldives Structural Products (Pvt) Ltd	36,281,146	41,093,579
	6,654,665,297	6,600,819,505
Less : Inter-company transactions	(1,912,352,882)	(1,619,112,108)
	4,742,312,415	4,981,707,397

26 Net insurance premium revenue and fee income

	2010	2009
Long term insurance contracts with fixed terms		
- premium receivable	3,416,978	1,445,953
- change in unearned premium provision	(1,151,568)	(484,097)
Premium revenue arising from insurance contracts issued	2,265,410	961,856
Short term insurance contracts		
- premium receivable	198,440,577	135,470,136
- change in unearned premium provision	(27,004,853)	(1,510,178)
Premium revenue arising from insurance contracts issued	171,435,724	133,959,958
Reinsurance contracts		
Long term reinsurance contracts with fixed terms		
- premium payable	(174,500)	(309,000)
Premium revenue ceded to reinsurers on insurance contracts	(174,500)	(309,000)
Short term reinsurance contracts		
- premium payable	(100,655,147)	(74,225,688)
- change in unearned premium provision	6,897,279	(5,689,843)
Premium revenue ceded to reinsurers on insurance contracts issued	(93,757,869)	(79,915,531)
Net insurance premium revenue	79,768,766	54,697,283
Reinsurance commission	34,849,944	23,917,678
Fee income	34,849,944	23,917,678
Total income	114,618,710	78,614,961
Less : Inter-company transactions	(17,089,655)	(11,612,023)
	97,529,055	67,002,938

27 Other operating income

	Group		Company	
	2010	2009	2010	2009
Profit on disposal of property, plant and equipment	202,901	-	4,797	5,637,166
Income from vessels and fleets	2,800,680	2,753,288	2,800,680	2,753,288
Fines and claims received	5,004,082	15,087,903	4,653,077	14,489,098
Rent income	15,157,428	13,229,824	18,064,853	16,767,103
Discounts received	2,066,477	429,673	884,452	-
Service charge on handling Japanese food aids	-	620,054	-	620,054
Miscellaneous income	30,285,733	15,462,847	10,267,453	536,539
	55,517,302	47,583,589	36,675,312	40,803,248

28 Expenses by nature

	Group		Company	
	2010	2009	2010	2009
Depreciation (Note 6)	76,984,179	69,407,479	52,126,893	47,226,983
Employment benefit expenses (Note 29)	208,293,668	184,929,112	140,864,739	121,842,364
Materials consumed	41,283,019	179,357,123	-	-
Amortisation charge (Note 7)	1,734,954	1,020,491	684,703	-
Operating lease rentals	2,422,414	692,955	-	-
Directors' remuneration	3,337,119	3,826,019	1,165,560	1,083,000
Cost of sales	4,010,998,383	4,179,640,170	3,539,797,179	3,423,060,306
Transportation	7,647,432	6,576,317	6,837,912	5,605,809
Vessel and fleet expenses	8,413,951	9,307,237	8,413,951	9,307,237
Advertising costs	4,718,245	6,288,183	1,066,048	3,426,321
Agents commission	8,364,769	2,917,317	2,461,895	-
Audit fees	627,377	550,328	319,250	300,690
Accounting and legal charges	1,403,817	1,013,479	468,623	-
Provision for bad and doubtful debts	11,756,145	5,421,695	-	288,637
Bad debts written off	2,617,017	793,662	2,617,017	793,662
Provision for non / slow moving inventories	5,175,692	7,195,548	4,105,441	6,945,548
Impairment of investments	1,205,306	1,081,515	1,205,306	1,081,515
Fuel expenses	42,531,631	24,145,343	25,010,068	10,861,889
Rental expenses	12,800,988	12,148,558	10,063,771	10,456,191
Telephone, electricity and water charges	19,203,049	15,566,809	11,522,238	8,803,489
Bank charges	11,971,694	6,984,958	11,126,131	5,931,475
Insurance expenses	-	-	6,429,800	4,324,756
Repair and maintenance	22,573,158	17,673,723	14,767,679	8,232,799
Other selling and distribution costs	18,277,853	16,795,198	14,292,739	14,773,936
Other expenses	40,492,570	30,464,411	26,477,216	20,793,136
	4,564,834,429	4,783,797,630	3,881,824,159	3,705,139,743
Classified as:				
- cost of sales	4,054,142,854	4,360,915,202	3,539,797,179	3,423,060,306
- selling and marketing costs	237,927,612	191,943,876	180,059,988	149,625,843
- administrative expenses	268,861,631	227,265,325	158,878,995	129,463,577
- other operating expenses	3,902,332	3,673,227	3,087,998	2,990,017
	4,564,834,429	4,783,797,630	3,881,824,159	3,705,139,743

29 Employee benefit expense

	Group		Company	
	2010	2009	2010	2009
Salaries and wages	113,371,105	100,285,005	59,384,578	53,512,311
Staff welfare	5,760,249	4,023,123	4,264,380	2,054,217
Foreign staff expenses	-	4,864,693	-	4,864,693
Staff medical expenses	291,698	246,905	16,973	14,595
Bonus, overtime and allowances	65,413,664	69,610,909	54,692,120	57,889,605
Employee redundancy expenses	20,069,961	2,434,474	20,069,961	2,077,636
Other staff related expenses	3,386,990	3,464,003	2,436,728	1,429,307
	208,293,668	184,929,112	140,864,739	121,842,364

30 Finance income and costs

	Group		Company	
	2010	2009	2010	2009
Finance cost				
Interest expense:				
- bank borrowings	(48,208,201)	(50,101,384)	(47,131,153)	(49,032,991)
- bank overdrafts	(29,871,887)	(27,276,949)	(23,873,687)	(25,289,536)
- other borrowings	(5,336,924)	(4,739,650)	(5,532,689)	(4,593,512)
Foreign exchange loss	(12,121,219)	(5,844,080)	(11,659,797)	(4,788,589)
	(95,538,231)	(87,962,063)	(88,197,326)	(83,704,629)
Finance income				
Interest income on loans granted	1,978,891	852,129	640,559	526,964
Interest income on government credit scheme	5,964,926	7,029,109	5,964,926	7,029,109
Interest income on fixed deposits	2,295,467	7,931,219	2,261,985	7,867,109
Foreign exchange gain	17,165	82,791	-	-
Dividends on investments	-	2,057,094	33,165,623	29,793,351
Discounts on treasury bills	-	412,349	-	412,349
	10,256,448	18,364,691	42,033,091	45,628,882
Net finance cost	(85,281,783)	(69,597,372)	(46,164,235)	(38,075,747)

31 Zakat

	Group		Company	
	2010	2009	2010	2009
Beginning of the year	2,182,183	4,302,937	2,182,183	4,302,937
Provided during the year	4,890,084	2,182,183	4,890,084	2,182,183
Payment during the year	-	(4,302,937)	-	(4,302,937)
End of the year	7,072,267	2,182,183	7,072,267	2,182,183

32 Earnings per share

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

	Group		Company	
	2010	2009	2010	2009
Profit attributable to equityholders of the Company	143,544,123	169,912,290	118,904,198	140,024,280
Weighted average number of ordinary shares in issue	1,126,910	1,126,910	1,126,910	1,126,910
"Basic earnings per share (Rf per share)"	127	151	106	124

33 Dividends per share

At the Annual General Meeting on 24 June 2010, a dividend in respect of 2009 of Rf 68 per share (2008: declared dividend Rf 65 per share) amounting to a total of Rf 76,629,880 (2008: declared Rf 73,249,150) was declared and approved by the shareholders and accounted for in shareholders' equity as an appropriation of retained earnings in the year ended 31 December 2010.

34 Cash generated from operations

	Group		Company	
	2010	2009	2010	2009
Profit before zakat	147,871,354	174,328,157	123,794,282	142,206,463
Adjustments for:				
- Depreciation (Note 6)	76,984,179	69,407,479	52,126,893	47,226,983
- Amortization (Note 7)	1,734,954	1,020,491	684,703	-
- Interest income (Note 30)	(10,239,283)	(16,224,806)	(8,867,469)	(15,835,531)
- Interest expense (Note 30)	83,417,012	82,117,983	76,537,529	78,916,039
- Dividend income (Note 30)	-	(2,057,094)	(33,165,623)	(29,793,351)
- Impairment losses of investment held for sale (Note11)	-	1,081,515	-	1,081,515
"- Share of result of associates (Note 9)"	(157,850)	1,567,827	-	-
-Profit on disposal of property, plant and equipment (see below)	(202,901)	171,240	(4,797)	(5,637,166)
-Property, plant and equipment transfers (Note 6)	9,447	(25,257)	-	-
- Loss on disposal of shares (Note 11)	1,205,306	-	1,205,306	-
-Currency translation differences	(52,173)	114,551	-	-
Changes in working capital				
- Inventories	127,357,419	(80,044,227)	116,586,015	(66,420,679)
- trade and other receivables	(50,987,523)	(42,333,522)	3,039,420	(77,131,651)
- Trade and other payables	101,106,272	265,227,560	33,278,973	284,479,976
Cash generated from operations	478,046,213	454,351,898	365,215,233	359,092,599

Non-cash transactions

The principal non cash transaction are the acquisition of freehold land (Note 5) amounted to MRf 239,256,000 against the amounts due from Ministry of Finance and Tresury on account of STELCO.

Investment in the shares of Maldives Industrial Fisheries Company Ltd have been disposed off to the Ministry of Finance and Treasury for an agreed amount of MRf 19,423,574. which is included in the receivables from Ministry of Finance and Treasury as at the year end.

In the cash flow statement, proceeds from sale of property and equipment comprise:

	Group		Company	
	2010	2009	2010	2009
Net book amount (Note 6)	371,717	219,107	10,903	37,903
Profit / (loss) on disposal of property & equipment	202,901	(171,240)	4,797	5,637,166
	574,618	47,867	15,700	5,675,070

35 Contingencies

Contingent liabilities

Guarantees

(i) State Trading Organization Plc has issued corporate guarantees to the following banks for the facilities obtained by subsidiary companies.

	Name of Banks	2010	2009
Maldives Structural Product Pvt Ltd			
- overdraft	Bank of Maldives	3,212,500	3,212,500
- letter of credit	Bank of Maldives	38,550,000	38,550,000
Maldives National Oil Company Ltd			
- letter of credit	Society General Singapore	771,000,000	771,000,000
Fuel Supplies Maldives Pvt Ltd			
- overdraft	State Bank of India Male'	30,000,000	30,000,000
Maldives Gas Pvt Ltd			
- overdraft	State Bank of India Male'	8,000,000	8,000,000
- letter of credit	State Bank of India Male'	8,673,750	8,673,750
		859,436,250	859,436,250

(ii) Two policyholders have filed suits in civil court claiming insurance compensation which were not accepted by Allied Insurance Company of the Maldives Private Limited. The Company is waiting for final hearing. In the event the court holds in favour of the policyholders, the Group will need to recognise liabilities in respect of these claims.

(iii) A supplier has made a claim for demurrage charges of Rf 2,531,595, which has not been accepted by the Maldives National Oil Company Limited. The directors of the Company are of the view that the delay in clearance of oil shipment was on account of delay in issuance of delivery clearance by the supplier. Therefore the Company is not liable for demurrage charges. Negotiations are in progress with the supplier and in the event the Company accepts the demurrage liability, the Group will need to recognise this liability in respect of the demurrage claim.

There were no other material contingent liabilities which require adjustments to / or disclosure in the financial statements as at the balance sheet date other than those disclosed above.

Contingent assets

There were no material contingent assets recognized at the balance sheet date.

36 Commitments

Capital commitments

	Group		Company	
	2010	2009	2010	2009
Capital expenditure contracted as of the balance sheet date but not yet incurred.	28,343,070	24,419,832	26,645,167	24,419,832

There were no other material capital commitments recognized at the balance sheet date.

Operating lease commitments

	Group		Company	
	2010	2009	2010	2009
Not later than 1 year	2,808,023	-	-	-
Later than 1 year and not later than 5 years	6,613,596	-	-	-
Later than 5 years	907,844,880	909,879,110	906,528,950	906,528,950
	917,266,499	909,879,110	906,528,950	906,528,950

The Company has entered into an agreement with Hulhumale Development Corporation Limited on 31st July 2007 for developing, operating and managing a five star tourist hotel in Hulhumale.

Maldives Structural Products Private Limited has entered into a leasing agreement with the Government of Maldives in respect of the office premises and factory land at Island of Thilafushi, and the lease period of years 25 years is due to expire by 2025. The office rental agreement is cancellable by two months notice from either party and factory land agreement is cancellable by six months notice by the Company and two years notice by the lessor (Government of Maldives).

Financing lease commitments

	Group		Company	
	2010	2009	2010	2009
Not later than 1 year	326,666	2,453,035	-	-
Later than 1 year and not later than 5 years	-	326,666	-	-
Later than 5 years	-	-	-	-
	326,666	2,779,701	-	-

37 Related party transactions

(a) The following transactions were carried out, on commercial terms and conditions, with related parties:

	2010	2009
Allied Insurance Company of the Maldives Pvt Ltd		
(Subsidiary Company)		
- sale of goods	165,117	-
- services obtained	(13,155,538)	(9,208,458)
- rent received	1,005,231	573,452
- dividends received	9,299,938	5,849,961
STO Maldives (Singapore) Pte Ltd		
(Subsidiary Company)		
- purchases of oil	-	(150,098,616)
- rent received	-	-
Maldives National Oil Company Ltd		
(Subsidiary Company)		
- sale of goods	28,597,929	-
- purchases of oil	(69,813,645)	(178,967,397)
- advances granted	470,876	-
- rent received	308,400	308,400
Maldives Gas Pvt Ltd		
(Subsidiary Company)		
- sale of goods	111,279	223,435
- purchases of goods	(156,837)	(274,331)
- rent received	535,273	514,907
- dividends received	2,263,885	-
- interest on advance	365,415	362,432
Fuel Supplies Maldives Pvt Ltd		
(Subsidiary company)		
- sale of fuel	1,696,836,781	1,214,898,227
- purchases of fuel	(74,710,637)	(25,509,579)
- dividends received	18,358,800	15,870,296
- rent received	1,058,521	1,697,029
Koodoo Fisheries Maldives Ltd		
(Government undertaking)		
- sale of goods	49,664,914	-
- purchases of foreign currency	52,042,500	-
Felivaru fisheries		
(Government undertaking)		
- purchases of foreign currency	12,850,000	-
Maldives Structural Product Pvt Ltd		
(Joint venture company)		
- sale of goods	5,200	21,745
- purchases of goods	(49,219,410)	(54,080,086)
- dividends received	3,243,000	6,016,000
Lafarge Maldives Cement Pvt Ltd		
(Associate company)		
- purchases of goods	(35,128,082)	(42,565,398)
- sales of goods	93,444	56,735
- services rendered	-	109,200
- interest on advance	89,757	164,560
Maldives Industrials Fisheries Company Ltd		
(Investee company)		
- sale of goods	47,785,682	27,445,999
- purchases of goods	(5,761,011)	(7,261,577)

	2010	2009
Ensis Fisheries Pvt Ltd		
(Related party of subsidiary)		
- services rendered	-	406,853
G.Dh Atoll Rayyithunge Cooperative Society		
(Investee society)		
- sales of goods	-	4,312,319
- rent received	-	451,238
Ministry of Finance and Treasury		
(Majority shareholder)		
- loan settlements	(15,933,949)	(15,934,000)
- loan interest paid	(1,327,829)	(2,602,549)
- food subsidy income	120,315,785	139,635,007
- dividends paid	63,035,184	67,600,000
- proceeds received by issuance of part of the shares held by MOFT	-	9,931,600
State Electric Company(STELCO)		
(company owned by MOFT)		
- purchases of goods	(5,655,069)	(6,530,159)
- sales of goods	632,188,395	523,398,310
Indhira Gandhi Memorial Hospital		
(Government undertaking)		
- purchases of goods	(148,241)	(77,833)
- sales of goods	50,750,308	63,887,250
Department of Medical Services		
(Government undertaking)		
- purchases of goods	-	-
- sales of goods	14,277,385	39,503,042
Rainbow Enterprises Private Limited		
(Co-venturer of a Joint venture company)		
- purchases of goods	(187,837)	(238,734)
- sales of goods	-	13,969,565
Mr. Abdul Rasheed Ahmed		
(Former Director)		
- sales of goods	-	6,091,312

(b) Key management compensation

For the year ended 31 December 2010, the total remuneration of the directors for the Group was MRf 3,337,119 (2009: MRf 3,826,019).

(c) Year-end balances arising from sale / purchase of goods and services

	Group		Company	
	2010	2009	2010	2009
Receivables from related parties (Note 13):				
STO Maldives (Singapore) Pte Ltd	-	-	5,476,000	4,618,875
Maldives Gas Pvt Ltd	-	-	4,906,587	60,354
Fuel Supplies Maldives Pvt Ltd	-	-	177,635,681	167,826,117
Allied Insurance Company of the Maldives Pvt Ltd	-	-	1,116,024	14,483,381
Rainbow Enterprises Pvt Ltd	29,308,233	18,063,150	-	-
Maldives National Oil Company Ltd	-	-	4,498,912	1,250,033
G.Dh Atoll Rayyithunge Cooperative Society	831,492	735,309	831,492	735,309
Ensis Fisheries Private Limited	315,415	296,290	-	-
Maldives Industrials Fisheries Company Ltd	32,952,549	20,516,428	32,693,362	16,980,383
Ministry of Finance and Treasury	52,697,390	269,816,891	52,697,390	269,816,891
Mr Abdul Rasheed Ahmed	-	941,290	-	-
Koodoo Fisheries Maldives Ltd	11,560,726	-	11,560,726	-
State Electric Company(STELCO)	67,906,715	34,576,418	67,906,715	34,576,418
Indhira Gandhi Memorial Hospital	51,100,092	56,029,634	51,100,092	56,029,634
Department of Medical Services	-	49,967,380	-	49,967,380
Lafarge Maldives Cement Pvt Ltd	10,109	-	10,109	-
	246,682,720	450,942,790	410,433,090	616,344,775

Receivables from related parties are unsecured, interest free and have no fixed repayment terms. Accordingly these amounts have been shown as due within one year.

Payables to related parties (Note 22):

	Group		Company	
	2010	2009	2010	2009
Lafarge Maldives Cement Pvt Ltd	3,168,960	1,838,052	3,168,960	1,838,052
Maldives Structural Product Pvt Ltd	3,308,142	3,834,365	6,616,284	7,668,730
Allied Insurance Company of the Maldives Pvt Ltd	-	-	3,771,012	-
Maldives National Oil Company Ltd	-	-	2,249,869	64,865,512
Ministry of Finance and Treasury	-	9,931,600	-	9,931,600
STO Maldives (Singapore) Pvt Ltd	-	-	2,068,686	266,458
Rainbow Enterprises Pvt Ltd	21,600	134,332	-	-
Fuel Supplies Maldives Pvt Ltd	-	-	3,497,689	-
Maldives Gas Pvt Ltd	-	-	6,013	-
	6,498,701	15,738,349	21,378,513	84,570,352

(d) Loans to related companies (Note 13):

	Group		Company	
	2010	2009	2010	2009
Beginning of the year	1,662,215	2,659,542	1,662,215	9,554,528
Loans advanced during the year	-	-	9,500,000	-
Loans repayments received	(997,327)	(997,327)	(7,499,931)	(7,892,313)
End of the year	664,888	1,662,215	3,662,284	1,662,215

COMPANY INFORMATION

NAME OF THE COMPANY

State Trading Organization PLC

COMPANY REGISTRATION NUMBER

C186/2001

LEGAL FORM

A public listed company with limited liability. Incorporated as a government company, Athireemaafannu Trading Account, on 20 December 1964 and was renamed as State Trading Organization on 09 June 1979. On 14 August 2001, State Trading Organization became a public limited company.

STOCK EXCHANGE LISTING

Ordinary shares of the company are listed in the Maldives Stock Exchange.

BOARD OF DIRECTORS

Mr. Farooq Umar - Chairman
Mr. Shahid Ali - Managing Director
Ms. Sana Mansoor
Mr. Ahmed Arif
Mr. Masood Ali
Mr. Mohamed Ahmed
Mr. Arif Abdul Samad

AUDIT COMMITTEE

Mr. Masood Ali - Chairman
Mr. Ahmed Arif
Mr. Mohamed Ahmed
Mr. Arif Abdul Samad

NOMINATION AND REMUNERATION COMMITTEE

Mr. Mohamed Ahmed - Chairman
Mr. Arif Abdul Samad
Mr. Ahmed Arif

CORPORATE GOVERNANCE COMMITTEE

Mr. Ahmed Arif - Chairman
Mr. Masood Ali
Mr. Mohamed Ahmed

COMPANY SECRETARY

Ms. Aishath Shaffana Rasheed

AUDITORS

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BANKERS

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Bank of Maldives Plc, Male'
BNP Paribas, Singapore
Habib Bank Limited, Male'
HSBC, Male'
Nations Trust Bank, Colombo
Seylan Bank, Colombo
Societe Generale Bank, Singapore
State Bank of India, Male'

SHAREHOLDING STRUCTURE

	No. of shares	@ Rf. 50/-	%
Government	919,867	45,993,350	81.6
Public	207,043	352,150	18.4
Total	1,126,910	56,345,500	100.0
Authorized Capital (Rf)		100,000,000	
Paid-up capital (Rf)		56,345,500	
Premium		27,814,500	

REGISTERED ADDRESS

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ACKNOWLEDGEMENTS

The Board of Directors is thankful to the customers, suppliers, bankers, auditors of the Company for their continued support and patronage. The Directors are grateful to the Management and Staff of the Company for their invaluable work and dedication.

The Company recognizes the assistance extended by the Government Authorities, the Maldives Monetary Authority and other state institutions.

The Directors wish to congratulate and thank all the shareholders and those who invested in the Company for their confidence and unwavering support.

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