

**Ceylon Petroleum Corporation**

**2013**

**ANNUAL REPORT**

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## OUR VISION

To be the premier customer driven, environmental friendly enterprise in the petroleum and related industries in the region contributing towards the prosperity of our nation.



## OUR MISSION

To achieve excellence in petroleum refining, sales and marketing of high quality products through a loyal and efficient dealer network and by providing total solutions and services exceeding customer expectations, while utilizing a high technology base for growth and development of the enterprise by employee participation and innovation and maintaining high ethical norms in all its activities with highest concern for health, safety and environment and meet the expectations of the stakeholders.

# CORPORATE INFORMATION

**NAME OF THE ENTITY**  
Ceylon Petroleum Corporation

**LEGAL FORM**  
A Public Corporation incorporated under  
Ceylon Petroleum Corporation Act No. 28 of 1961

**BOARD OF DIRECTORS -  
CHAIRMAN**  
Mr. Tilak Collure (Since 10.08.2012 up to 31.07.2013)  
Mr. S. Amarasekara (Actg.) (w.e.f. 01.08.2013)

**MANAGING DIRECTOR**  
Mr. L.E. Susantha Silva

**DIRECTORS**  
Ms. Sandya Wijayabandara  
Dr. Hans Wijayasuriya  
Mr. H D B Saman Kumara  
Ms. M T I V Amarasekara (w.e.f. 21.02.2013)  
Mr. K H T Namal Sumanaratne (w.e.f. 24.04.2013)  
Ms. S Pushpa Wellappili (Resigned w.e.f. 07.02.2013)

**AUDITORS**  
The Auditor General

**REGISTERED OFFICE**  
609, Dr. Danister De Silva Mawatha, Colombo 9.

Telephone : 5455455  
Telegrams : "LANKA OIL"  
Cable : CEYPETCO  
Telex : 21235 CEPETCO CE  
Fax : 5455400  
E-mail : [cpcsec@ceypetco.gov.lk](mailto:cpcsec@ceypetco.gov.lk)  
Website : [www.ceypetco.gov.lk](http://www.ceypetco.gov.lk)

## **BANKERS**

People's Bank  
Bank of Ceylon  
Nations Trust Bank

Commercial Bank  
Hatton National Bank Ltd.

## SENIOR MANAGEMENT

S. Amarasekara

**Actg. Chairman**

L E Susantha Silva

**Managing Director**

N R R Jayasekara

**Refinery Manager**

S W Gamage

**Dy. General Manager (HR & Admn.)**

W SarathPerera

**Actg. Dy. General Manager (Finance)**

N R Amarasinghe

**Deputy Refinery Manager  
(Manufacturing & Operations)**

Ms. R T A Dabare

**Finance Manager**

C P Samaraweera

**Commercial Manager**

Maj. M.R.S.P. Samarasinghe

**Manager (Security)**

Ms. M S K Fernando

**Manager (Information Technology)**

S D S Rajapakse

**Supplies Manager**

G P K Wijekoon

**Manager (Engineering & Premises)**

Y M Thilakaratne

**Manager (Internal Audit)**

A R Abel

**Dy. General Manager (Marketing)**

G A S P Gunawardena

**Dy. General Manager (Planning & Dev.)**

L G M R Perera

**Dy. Refinery Manager (Elec. & Instru.)**

B H T Kulasekera

**Deputy Refinery Manager  
(Maintenance & Projects)**

Ms. R A K C Ariyaratne

**Chief Legal Officer**

Samantha PushpalalWithana

**Human Resource Manager**

M K Garusinghe

**Manager (Development)**

S M C P Samarakoon

**Marketing Manager (Retail)**

M A D Mallikarachchi

**Operations Manager (Aviation)**

W M K R B Wickramasinghe

**Manager (Agro Chemicals)**

A D W K Abeysekera

**Dy. Operations Manager  
( Sapugaskanda Terminal )**

## REPORT OF THE DIRECTORS

In accordance with Section 32(3) of the Ceylon Petroleum Corporation Act No. 28 of 1961, the Directors of the Ceylon Petroleum Corporation (CPC) have pleasure in presenting the Annual Report together with Audited Financial Statements for the year ended 31 December 2013.

### **Principal Activities**

The principal activities of the Corporation are importing, refining, selling and distributing petroleum products in Sri Lanka.

### **Subsidiary Company**

The provision of fuel storage and distribution facilities and provision of information technology services are principal activities of the subsidiary company – Ceylon Petroleum Storage Terminals Limited (CPSTL). 2/3<sup>ds</sup> of the share capital of CPSTL is owned by CPC. The CPSTL Board of Directors consists of 09 Directors, of which 03 Directors represent CPC.

### **Review of the Year's Performance**

The Chairman's Review at pages 13 to 22 deals with the year's performance of the Corporation.

### **Risks and Internal Controls**

The Board of Directors assumes overall responsibility for managing risks. For this purpose, the Board of Directors has instituted an effective and comprehensive system of Internal Controls in the Corporation. Internal control systems have been reviewed and redesigned to mitigate the risks the Corporation is exposed to, and to provide reasonable but not absolute assurance against material misplacement or loss. The Corporation's internal control systems provide Directors with reasonable assurance that assets are safeguarded, transactions are authorized and properly recorded and material errors and irregularities are either prevented or detected within a reasonable period of time to avoid recurrence. The Board of Directors is satisfied that a strong control environment is prevalent within the Corporation and that internal control systems are effective in safeguarding the assets of the Corporation.

### **Corporate Governance**

The Board of Directors is committed to maintaining an effective Corporate Governance structure and process. The financial, operational and compliance functions of the Corporation are directed and controlled effectively within the Corporate Governance practices. The procedures and practices

are in conformity with the Corporate Governance rules and regulations and are described in the Corporate Governance Report at page 28 to 33 of this report.

### **Human Resources**

The Corporation has recognized the valuable role of Human Resources in transforming its business mission and vision into reality. Accordingly several measures were taken to enhance its human resource capital and to optimize their contribution towards the achievement of corporate goals and objectives. Our Human Resources policy emphasizes on providing all categories of employees with adequate opportunities for continuous upgrading of their knowledge and skills through local and overseas training. Development of human capital to ensure availability of a high level technical and managerial capability within its human resources has become a priority objective for the Corporation.

### **Audit Committee**

Audit Committee consists of three members, all of whom are Non- Executive Independent Directors including the Chairman of the Audit Committee. The Manager–Internal Audit acts as Secretary to the Committee. The Committee operates within a clearly defined TOR (Terms of Reference) in terms of Public Finance Circular No. PF/PE 7 dated 15 March 2000.

### **Sub Committees**

Five sub Committees such as Senior Management Committee, Audit Committee, Technical Evaluation Committee, Procurement Committee and Weekly Stock Review Committee have been established to assist the Board of Directors to discharge its duties in an orderly manner. The details of the sub committees are described in the Corporate Governance Report at pages 28 to 33 of this report.

### **Accounting Policies**

The Accounting Policies adopted in the preparation of Financial Statements are given at pages 39 to 66 of the financial report. There have been no changes in the Accounting Policies adopted by the Corporation during the year under review.

### **Financial Performance**

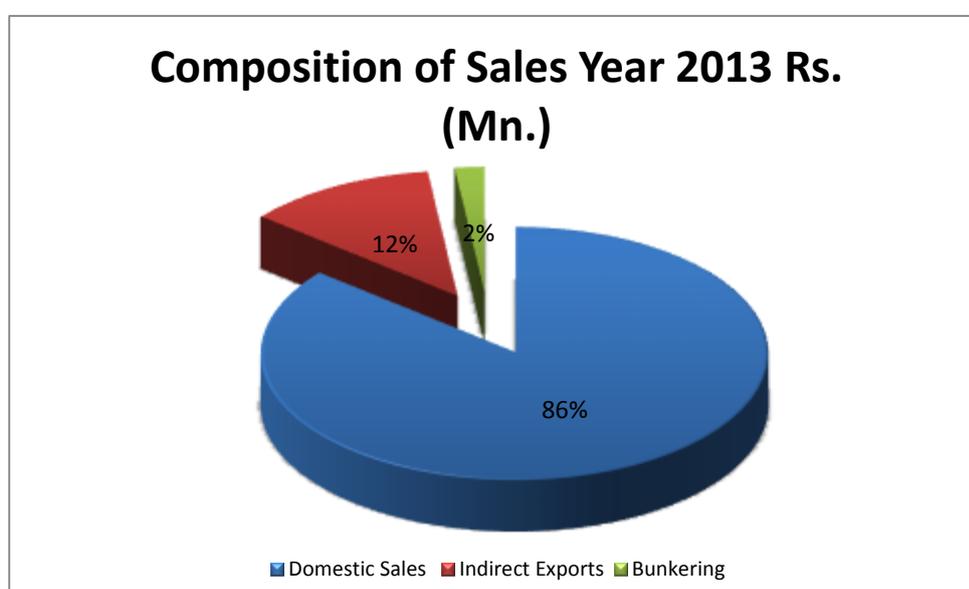
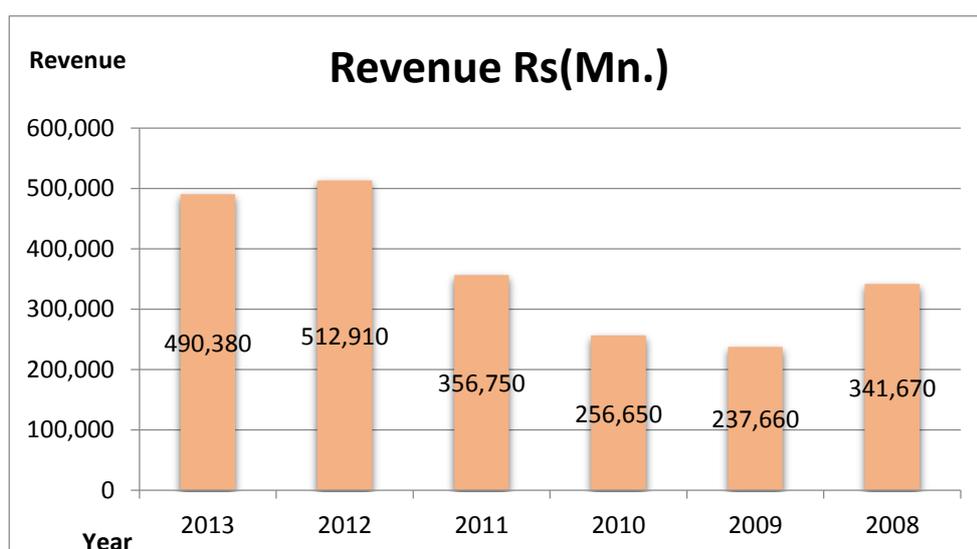
Financial Statements in this Annual Report represent the financial performance of Ceylon Petroleum Corporation for the year ended 31 December 2013.

## Revenue

Revenue generated from the sale of petroleum products such as Diesel, Petrol, Kerosene, Aviation Fuel and fuels for power generation is the main source of income of the Corporation.

The source of income of the subsidiary company are throughput charges and transport charges collected for the supply of petroleum products.

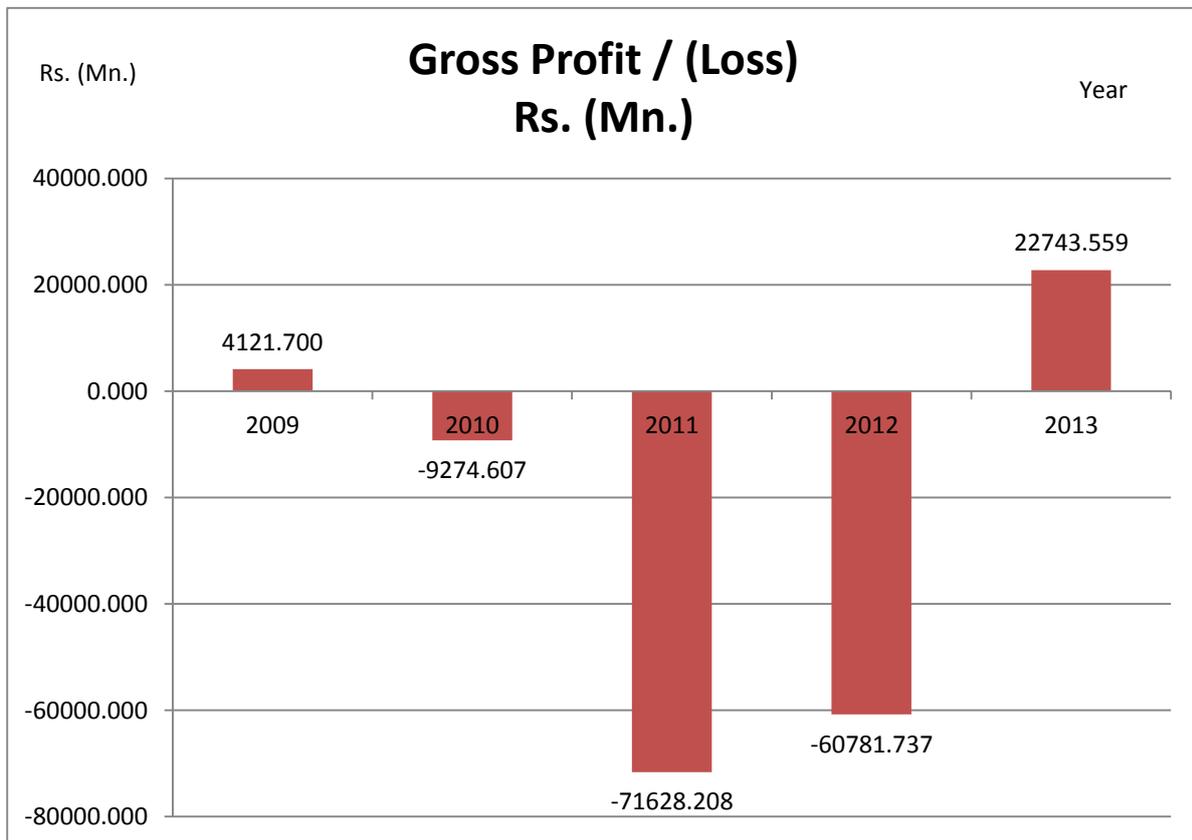
The turnover for the year had slid down to Rs. 490,381 Mn. from (Rs.512,910 Mn. in 2012). Sales quantities had dropped by 14% compared to the last year due to the reduction of use of Auto Diesel and Furnace Oil for power generation. Despite the reduction of sales quantities by 14%, the upward price revision made in February 2013 has resulted an achievement of 96% of revenue made in year 2012.



Turnover for the year ended 31 December 2013 has been derived from Domestic Sales 86.91%, Indirect Exports 12.33% and Bunkering 0.76%. Diesel, Petrol, Kerosene and Furnace Oil are the major components of the domestic sales.

**Gross Profit**

Disregarding all challenges encountered during the year, CPC has arrived at a new turning point of operation where the Corporation reached a gross profit during the year under review. Gross Profit for the year ended 31 December 2013 was Rs. 22,743.559 million compared to Gross loss of Rs.60,781.737 million in the previous year, an increase of Rs. 83,525.296 million recorded against year 2012.



The reduction of quantities sold for power generation at a subsidized price had contributed to a considerable growth of Gross Profit.

In addition, reduction of cost of sales by 18% made a considerable contribution to the healthy gross profit level. Slight reduction of fuel prices in international market compared to year 2012 and the

less & favorable exchange rate fluctuations caused to drop the cost of sales at a higher percentage than the reduction of sales.

### Other Operating Income

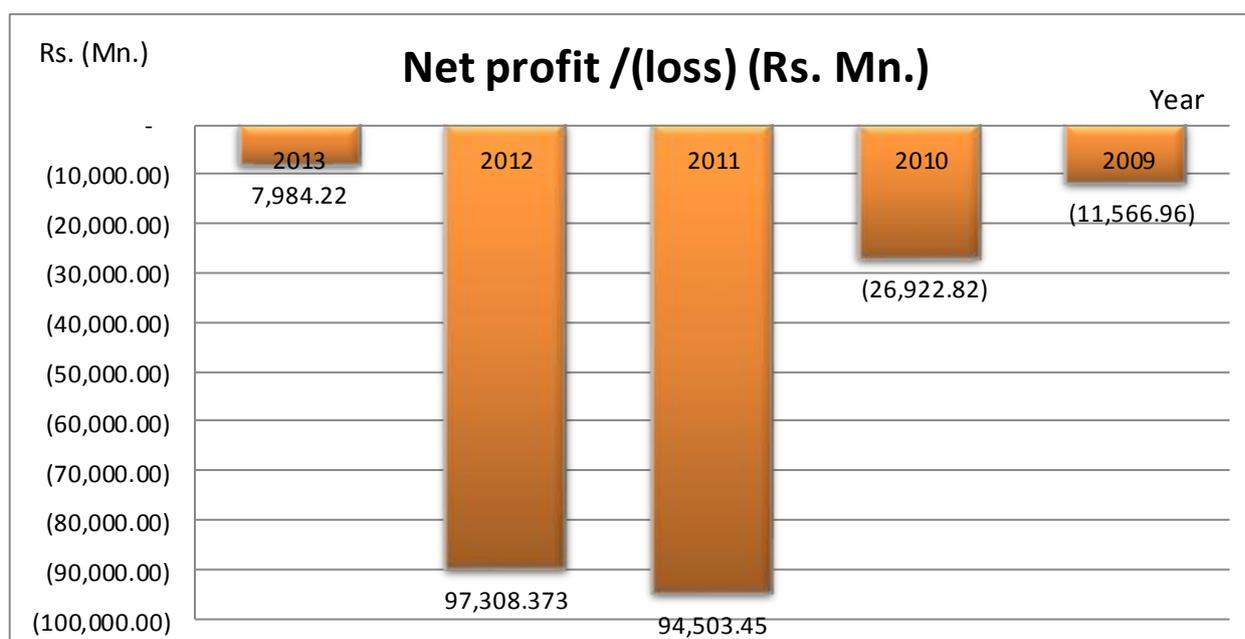
The Corporation's other Operating Income was Rs.373.99 million during the year which is a 31% increase over the previous year. Increase of staff loan interest, profit on sale of fixed assets and sale of scraps have had a substantial impact on the increase.

### Net Finance Income and Charges

There weren't much variations in the Finance Charge during the year compared to last year. However, Finance Income has decreased by 58% against the year 2012. CPC has made some settlements of foreign currency loans and has spent Rs.415 Mn. as capital expenditure. Considerable funds were allocated to meet the working capital requirements of the Corporation which had resulted a drop in Finance Income.

### Profit / Loss

The Corporation reported a loss amounting to Rs.7,984.225 Mn. in 2013 reflecting an improvement of 91.79% compared to the loss of Rs.97,308.373 Mn. recorded last year. However, due to the absence of cost reflective price level in petroleum products in line with international oil price movement, losses continued to remain at above level. Losses incurred in respect of the last five years are shown below.



Domestic retail prices of petroleum products were revised in 2013 due to escalating price situation in the international market. The domestic retail prices of Petrol, Auto Diesel, Super Diesel and Industrial Kerosene were increased by Rs.3/-, Rs.6/-, Rs.3/- and Rs.4/- per litre, respectively, with effect from 22 February 2013. When compared with total segmental loss for the year 2013, heavy losses incurred by CPC were due to sale of Auto Diesel, Fuel Oil and Naphtha being sold at highly subsidized rates for power generation. In addition, export sector also made a considerable impact on the loss of the Corporation.

Further, domestic retail prices of both categories of Furnace Oil (low Sulphur & High Sulphur) were increased by Rs. 25/- per Ltr. with effect from 01 April 2013. However, use of petroleum products for power generation purposes was significantly reduced due to heavy rains commenced in the month of April and in the subsequent months in the year 2013. The excess production of Furnace Oil and Naphtha at CPC's Refinery amounting to 121.21 MTS. and 52.42 MTS. respectively were exported and earned a revenue of Rs. 12,324.79 Mn. in 2013.

Details of the segmental loss of the year 2013 is noted below:-

Segment	2013	2012
	Loss – Rs. Mn.	
Transport – Supply of Diesel at subsidized rate	6,235	32,507
Power Generation – Supply of Naphtha and Fuel oil at subsidized rates	3,505	53,757
Aviation – Supply of Jet A-1 at highly subsidized rate	1,251	336
Industries – Supply of Fuel Oil and Industrial Kerosene	954	3,271
Domestic – Supply of LPG & Kerosene at subsidized prices	3,011	3,902
Farmer Community – Supply of Agro Chemicals	70	02
Export Sector – Naphtha & Fuel Oil	4,464	114

Despite the heavy losses incurred due to above reasons, the sale of Petrol, Super Diesel, Avgas, Bitumen and Solvents had contributed positively with a profit contribution of Rs.8,129 Mn. This together with other income received amounting to Rs.3,629 Mn. enabled the Corporation to limit its overall loss to Rs. 7,984 Mn. during the year.

The international crude oil prices slightly decreased during the year 2013. The average crude oil price (Oman/Dubai) decreased to US\$.110 per barrel in the year 2013 reflecting a 3% decrease compared to the year 2012. Even though there is a slight reduction in crude oil prices, the supply

uncertainties caused by political and economic disturbances in oil producing countries in the Middle East and North Africa exerted a high price level in crude oil. The average price of crude oil imported by CPC decreased by 4.3% to US\$ 110 per barrel in 2013.

However, CPC's refinery has been undergoing immense production constraints and technical difficulties due to non-availability of Iranian Light crude which is the best suited for use in the refinery in terms of the yield and refinery margin obtained from the refining process. As a result of ongoing US sanctions, the shift to other sources of crude oil such as Oman Export Blend, Murban, and Arabian Light resulted in a substantial reduction in the refinery margin causing an impact adversely on the profitability of locally refined products. Iranian sanctions have also led to the closure of the refinery on several occasions as suitable supplier of crude oil could not be identified despite much efforts being made by CPC/Ministry.

Even though the total consumption of petroleum products decreased due to the reduction of supply to Power Plants, public consumption of petroleum products has increased during the year 2013 reflecting an increased demand for transportation sector.

Details of profits / (losses) before Tax are given below:

	<b>2013</b>	<b>2012</b>
	<b>Rs. Mn.</b>	
Revenue	<b>518,152</b>	542,146
Less : Sales Taxes (Excise duty & NBT)	<b>(27,771)</b>	(29,236)
Net sales Revenue	<b>490,381</b>	512,910
Cost of Sales excluding of CID & PAL	<b>(441,345)</b>	(547,932)
Less : Import Taxes(CID & PAL)	<b>(26,293)</b>	(25,760)
Gross Profit / (Loss)	<b>22,743</b>	(60,782)
Other Operating Income	<b>374</b>	285
Selling & Distribution Expenses	<b>(11,965)</b>	(12,633)
Administrative Expenses	<b>(3,600)</b>	(5,801)
Financial Charges	<b>(18,540)</b>	(18,360)
Finance Income	<b>3,255</b>	7,721
Hedging Expenditure	<b>(214)</b>	(7,612)
Other Expenses	<b>(37)</b>	(127)
Loss before Tax	<b>(7,984)</b>	(97,308)

### **Operating Expenses**

The total operating expenses decreased to Rs. 34,105.251 Mn. during the year under review, when compared with the figure of Rs.36,793.511 Mn. recorded during the previous year. Reduction of terminal charges corresponding to the dropped power sector consumption gave a significant

favorable impact. Reduction of bank commission, reversal of deferred tax asset also made a positive contribution towards the reduction of Operating Expenses.

### Capital Expenditure

The total Capital Expenditure for the year was Rs. 4,023.521 Mn. as against Rs. 1,280.428 Mn. recorded in the year 2012.

### Property, Plant & Equipment

Movements in Capital Projects in Progress has contributed considerably to the increments in Property, Plant & Equipment. The details of Property, Plant & Equipment of the Corporation and their movements are given in Note 4 to the Financial Statements at page 58.

### Reserves and Total Equity

The negative equity capital had further deteriorated during the year to Rs. 236,528.740 Mn. as at 31.12.2013. The Cumulative losses since 2008 were the reason for negative equity position as at 31.12.2013. Movements of the equity are given in the Statement of Changes in Equity at page 37.

### Contributed Capital

The total Contributed Capital of the Corporation as at 31st December 2013 was Rs. 3,500 Mn. including investment made in the subsidiary company of Rs.2,500 Mn.

### Contribution to the Government

CPC is one of the largest tax contributor to the Government of Sri Lanka each year and the details of the tax contribution for the year under review is given below.

Type of contribution	2013	2012
	Rs. Mn.	
Value added tax	1,685	1,538
Excise duty	25,149	26,089
Port & airport development levy	15,823	20,810
Customs duty	10,187	9,735
Nation building tax	2,652	3,147
<b>Total</b>	<b>55,496</b>	<b>61,319</b>

## **Board of Directors**

The Board comprises of 07 Directors including the Chairman. The Directors of the Corporation during the year under review were:

Mr. Tilak Collure (Chairman) (Resigned w.e.f. 31.07.2013)

Mr. S. Amarasekara (Actg. Chairman) (w.e.f. 01.08.2013)

Mr. L.E. Susantha Silva (Managing Director)

Ms. SandyaWijayabandara

Dr. Hans Wijayasuriya

Mr. H D B Saman Kumara

Ms. M T I V Amarasekara (w.e.f. 21.02.2013)

Mr. Namal Sumanaratne (w.e.f. 24.04.2013)

Ms. S Pushpa Wellappili (Resigned w.e.f. 07.02.2013)

## **Directors' Interest in Contracts & Related Party Transaction**

The following Directors of the CPC continue to be the Directors of the Ceylon Petroleum Storage Terminals Limited (CPSTL) due to equity ownership.

1. Mr. L.E. Susantha Silva
2. Mrs. S. Wijayabandara
3. Mr. Bandula Saman Kumara

## **Compliance with Laws and Regulations**

The Corporation has not engaged in any activities contravening the applicable laws and regulations.

## **Statutory Payments**

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the Government and to employees have been made on time.

## **Going Concern**

The Board of Directors has prepared Corporate Business Plan with a view to improving the outlook of the Corporation to ensure strengthened commercial viability for the future. Accordingly, the Financial Statements are prepared based on a going concern basis.

### **Appointment of Auditors**

The Auditor General is the Auditor of the Corporation. He has been appointed in terms of the provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka.

For and on behalf of the Board of Directors



**S Amarasekara**

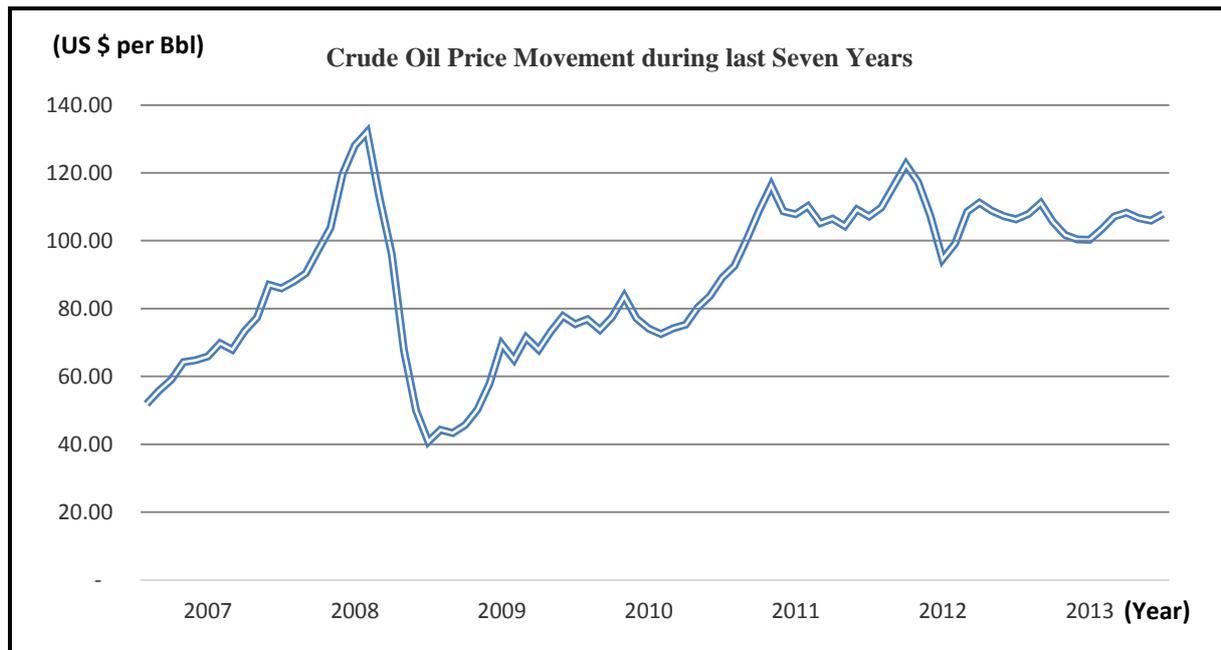
**ACTG. CHAIRMAN**

# CHAIRMAN'S REVIEW

## Introduction

### Overview of World Crude Oil Prices

The average international crude oil price of Oman/Dubai decreased to US Dollars 105 per barrel in 2013 reflecting a decrease of 3% compared to the previous year. Even though the price levels reduced slightly, supply uncertainties caused by political disturbance in oil producing countries in the Middle East and North Africa kept oil prices at high levels. Besides, the imposition of USA sanctions on Iran by the USA resulted in other importers facing liquidity issues and other shortages. The movement of the average Oman/Dubai Crude Oil price is outlined below.



### Outlining the Sri Lankan Economy

The Sri Lankan economy rebounded strongly in 2013 with an impressive annual GDP growth of 7.3 percent, while inflation which remained at single digit level for the fifth consecutive year, gradually declined further to reach mid single digits by the end of the year. This resulted in reducing wage pressures in the economy and also raising investor confidence. Improvements in economic and social infrastructure remained an integral part of the government's strategy to achieve sustained economic growth while ensuring that the benefits of growth trickle down through all regions of the country and all segments of the population. Per Capita Income has reached the historical value of US\$ 3,280 during the year. The year 2013 witnessed a marked improvement in the financial position of key public corporations. Looking ahead, the Sri Lankan economy is expected to continue its growth momentum in the medium term underpinned by increased investment, improved macroeconomic stability and improving global economic conditions. (Source: CBSL Annual Report – 2013)

## **Petroleum Industry of Sri Lanka**

Sri Lanka is a country which totally depends on the import of petroleum products. Petroleum products are one of the main intermediary products imported to Sri Lanka and the country has spent US\$ 4,308.20 Mn. to import petroleum products. However, there is a reduction in imports of 14.6% compared to year on year (Source: CBSL Annual Report – 2013).

## **The Corporation**

The average cost and freight (C&F) price of crude oil imported by CPC decreased by 4% to US Dollars 110 per barrel in 2013. The domestic retail prices of petroleum products were revised once in 2013 due to higher prices in the International market. This helped to limit the net loss incurred in the year amounting to Rs.7,984 Mn.

## **Major Milestones taken to Improve the Financial and Operational Health of CPC**

- Awarding of dealerships on competitive tender basis – The Corporation earned a considerable income from outlets which were granted to dealers without any income to CPC now awarded on rental basis.
- There are 47 new dealer owned dealer operated outlets opened during the year 2013 and three outlets were reactivated during the year.
- Awareness programs have been conducted to educate the dealers.
- Lanka Petrol 90 Octane was totally replaced with the product of Lanka Petrol 92 Octane.
- Extension of Petrol facility and Diesel facility for the existing outlets -  
There are 21 outlets that have been upgraded to filling stations. CPC has granted Lanka Petrol 95 Octane for 11 outlets and Lanka Super Diesel for 17 outlets.
- There was an increase in prices of petroleum products during the year, If not for this revision, our loss would have been greater than the loss of Rs. 7,984 Mn. reported in the year. Attempts were made with the assistance of the General Treasury and the Ministry of Petroleum Industries to recover the trade debts receivable from State Owned Departments and Commercial Enterprises.
- CPC negotiated with all the banks and reduced the exorbitant interest charged at a commercial rate.
- Action was taken to strengthen the Finance, Legal, Administration, and Retail Marketing Departments by employing professionally capable managers to improve operational and financial health of the Corporation.

- During the year under review, the refinery operated with minimum breakdowns and maintained 343 days operation in a satisfactory manner. Plant maintenance programme, cleaning of tanks and other activities were carried out which enabled the improvement of the storage capacity of petroleum products. This resulted in the supply of fuel at lesser cost compared with high costs on imported finished petroleum products prevailed in the year.
- **Engineering Design of Fuel Hydrant System & Aviation Fuel Storage Facilities and implementation of the Construction of the Airport Apron Fuel Hydrant System & associated facilities within the apron area at Mattala Rajapakse International Airport Mattala, Sri Lanka.**

The contract agreement with China Harbour Engineering Company Limited (CHEC) was signed in October 2011. The Engineering Design of the Fuel Farm, Fuel Hydrant System and associated facilities at the Mattala International Airport was completed in early 2012. The construction works relevant to the Fuel hydrant system under the airport apron area were completed in 2012 and the balance electrical and instrumentation works were completed in the first half of 2013.

- **Construction of Aviation Fuel Storage Facility and Fuel Hydrant System outside the apron area of the Mattala Rajapakse International Airport Mattala, Sri Lanka**

Contractor: Amana Pipeline Construction LLC [APC]

Contract Value: US\$ 31,251,584.02

The contract agreement with Amana Pipeline LLC was signed in June 2012.

- **Performance of the Tank Conversion Project at Sapugaskanda Mini Terminal**

The project is carried out by the Engineering Function of CPC with the contributions from the P&D Function of CPC for Engineering design (Tank modifications, Pump selection), preparation of specifications (Tank modifications, pumps, internal floating roof, piping work and other related equipment), preparation of Engineering drawings for tank modifications and provision of engineering assistance for installation of internal floating roofs. Majority of the work involved with this project are carried out utilizing CPC owned staff.

Conversion of two 6,250 cubic meter capacity tanks from diesel to gasoline including installation of internal floating roofs was completed in 2013. Installation of gantry equipment and cabling work are in progress.

- **Aviation Fuel Hydrant System at Proposed new Airport Apron E and Upgrading of Aviation Fuel Terminal Facilities at Bandaranaike International Airport, Katunayake.**

The technical study has been carried out by M/s Hansaconsult Ingenieuresellschaft mbH, Germany. Terms of Reference (TOR) has been prepared to call for an unsolicited offer (Technical evaluation) from M/s. Hansaconsult Ingenieuresellschaft mbH, Germany for the detailed design and the Hon. Attorney General's approval has been obtained for the TOR.

However, this process was on hold for some time until the Cabinet Decision was received by CPC granting approval to proceed with the project on 30 October 2013. In the meantime, a request has been made from the Ministry of Petroleum Industries to inform the Treasury to incorporate this in the same JICA fund and to assign the total scope of the CPC project within the Airport Authority of Sri Lanka (AASL) main contract. The Secretary Ministry of Petroleum Industries has already requested the Secretary, Ministry of Civil Aviation to include the CPC scope of work in the tender document of the AASL main contract as a separate BOQ item to be implemented by a single contractor enabling facilitating of the Airport Development Project funded by JICA.

- **Upgrading of Fuel Specifications Marketed in Sri Lanka**

The Standing Technical Specifications Committee has been reconstituted on 14 May 2012 with the approval of the Board of Directors of CPC. From the time of reconstitution, the committee has updated the specifications and the test methods of the following products;

1. Gasoline 90 RON
2. Gasoline 95 RON
3. Gas Oil 0.25% Max Sulphur
4. Gas Oil 0.05% Max Sulphur
5. High Sulphur Furnace Oil (Furnace Oil 1500 Sec)
6. Low Sulphur Furnace Oil (Furnace Oil 1500 Sec)
7. Special Boiling Point (SBP) solvent
8. Jet A-1

The Committee further prepared the specifications for the following products which will be introduced in the Sri Lanka market which is suitable for modern vehicle fleet;

1. Euro III Regular Gasoline
2. Euro V-VI Gasoline
3. Gasoline 92 UNL

CPC has already replaced the Gasoline 90 RON completely with Gasoline 92 with effect from 01 January 2014.

CPC has already purchased most of the new laboratory equipment recommended by the technical specifications committee during 2013. CPC has obtained the membership of ASTM and now is planning to take part in the Proficiency Testing Program of ASTM which will enable the refinery laboratory of CPC to enhance its reputation through standardization of its equipment and testing methods.

- **Pipeline linking Hambantota Seaport and Mattala Airport**

A request has been made from the Road Development Authority (RDA) to reserve a corridor for the proposed pipeline to be built linking Hambantota Jet A-1 Terminal and Mattala Airport. RDA has already assigned M/s China Harbour Engineering Company (CHEC) to incorporate the proposed aviation fuel pipeline into the feasibility carried out for the proposed expressway trace between the Hambantota Port and Mattala Airport.

- **Pipeline Between Muthurajawela and Aviation Terminal at Katunayake**

Management of CPC has recognized the future requirement of this pipeline to cater to the growing demand for Jet A-1 from the Katunayake Airport which is currently supplied through rail bogies and Road Bridges. The limited land availability and congestion in rail and road in the future will require this pipeline to be operational within the next three to four years. A concept paper is now being prepared by the D.G.M. (P&D) to obtain the approval of the Board of Directors of CPC and relevant Government Authorities.

- **Integrity Assessment of the Crude Oil SPBM**

CPC has taken the initiative to carry out an integrity assessment study of the Crude Oil SPBM through a competent consulting company in order to determine the status of the Buoy and associated facilities. Furthermore, the study includes the suitability of the Buoy and improvements required for the mooring of 180,000 Dwt capacity double hull tankers as the current restrictions on tanker specifications has limited the selection of Crude tankers having the cargo carrying capacity of 135,000 MT and above.

- **Lubricants**

The performance of the lubricant business has increased continuously during the year and the turnover for 2013 was Rs.1,872 million compared to Rs.1,796 million in previous year showing an increase of 5.8% during the year.

### **Financial Performance**

The Corporation took several initiatives to achieve significant improvement in financial and operational performance during the year. CPC has reached a Gross Profit level during the current year after operating at continued gross losses during the previous years.

The Corporation has continued to incur a net loss of Rs. 7,900 Mn. during the year which is a significant improvement of 91% compared to the year of 2012. The main contributory factors to the financial loss for the year were non-adjustment of fuel prices in line with international oil prices during the year, sale of Auto Diesel, and sale of Furnace Oil to CEB and Individual Power Producers at a subsidized rate and subsidy granted on kerosene.

The loss incurred by selling Furnace Oil & Naphtha for power generation and industries was Rs. 3,500 Mn. Loss due to concessions granted to the general public on account of Kerosene was Rs.2,400 Mn. Petrol, Super Diesel and Bitumen contributed positively to reduce the losses.

### **Corporate Governance**

The Corporation ensures the practice of the principles of corporate governance to achieve transparency, integrity and accountability in its functions which are vital for achieving core objectives of the Corporation with a strong environment friendly process and playing a pivotal role in national economy. Sub committees have been established by the Board of Directors to ensure the smooth functions of strategic business units of the Corporation.

An Audit Committee, which consists of three Non-Executive Board Members, review independently all strategic issues of the Corporation at regular meetings to achieve the objectives of bringing in par with global standards. As a part of corporate governance process, the internal controls, financial and operational transparency have been improved by strengthening Internal Audit Function of CPC. The Audit Committee reviews financial and operational activities of CPC.

## **Corporate Social Responsibility**

Corporate Social Responsibility continues to be our main focus of attention and all attempts are made to meet the needs of the entire country at the least possible cost to the consumer. We also guaranteed uninterrupted fuel supplies to Government institutions at any cost.

CPC has contributed a massive amount of Rs. 55,496 Mn. to the Government coffers as duties and taxes during the year 2013. CPC has supplied fuel for power generation purposes and Diesel for transportation sector at a heavily subsidized price which enabled to mitigate the impact on all economic activities due to external international oil price hikes.

## **Refinery**

The Refinery completed 44 years of successful operation on 7th August 2013. It had operated for 343.38 stream days and processed 1,643,218 metric tons of Crude Oil during the year. The crude oil throughput has increased by 2.94% compared to year 2012. The consumption of fuel oil and gas has dropped by 4% in quantity wise and 8% in terms of value. Owned use, processing, storage and handling losses were altogether 1.04% in year 2013 compared to 1.548% in year 2012. With all these facts, it proved that the Refinery has increased operating time efficiency of 94% of Crude Distiller Unit compared to 2012.

Even though refinery reached to above performance level, CPC's refinery has been undergoing immense production constrains and technical difficulties due to non-availability of Iranian Light crude which is the best suited for use in the refinery in terms of the yield and refinery margin obtained from the refining process. As a result of ongoing US sanctions, the shift to other sources of crude oil such as Oman Export Blend, Murban, and Arabian Light resulted in a substantial reduction in the refinery margin impacting adversely on the profitability of locally refined products. Iranian sanctions have also led to the closure of the refinery on several occasions as suitable supplier of crude oil could not import despite much efforts being made by CPC/Ministry.

## **Import of Crude Oil and Refined Products**

The Corporation has imported 1,743 Mn. metric tons of crude oil at a C&F cost of USD 1,414.811 Million. The average crude oil (C&F) cost is USD 110 per Bbl compared to USD 115 per Bbl. during the previous year. The demurrage charges for importing crude oil and refined products have reduced significantly compared to the last year.

Refined Bulk Products Imports were metric tons of 1.928 Mn. and cost was USD 1,851.355 Mn.

### **Services by Ceylon Petroleum Storage Terminal Limited (CPSTL)**

With the restructuring of CPC, the storage and operations of Kolonnawa and 12 regional bulk depots located island wide, data processing and distribution activities were segregated and were brought under the CPSTL.

CPSTL along with CPC hold regular stock review meetings with marketing companies, to monitor and ensure product availability to meet the country's demand. It recovers a Terminal Fee for the provision of storage and operation services, and specific charges for distribution and data processing services rendered to CPC.

### **Agrochemicals**

CPC continues its pricing policy of maintaining reasonable prices for Agro Chemicals used by Cultivators and Plantation Sector, thus making useful contribution towards lower production cost, thereby boosting production of local agriculture sector.

The current "Ceypetco" agro chemical product range consists of 5 Weedicides, 4 Fungicides and 7 Insecticides. The year 2013 was a challenging year for operation in agrochemicals since 5 of our major products had been banned during the year under review. To mitigate the above situation, steps have been taken to introduce new insecticide "Diazinon" instead of Carbofuran and a new fungicide of Captan 50% to our agrochemical product range. Disregarding all these challenges, we were able to achieve a turnover of Rs. 177.6 Mn. during the year.

Serious consideration has continuously being given to extend our product range to cover other agro based areas in the future and are planning to introduce new insecticides, systemic fungicides for paddy cultivation. We also plan to promote sales of Ceypetco by starting agro Sales Centers, which would be set up in Northern Province through Ceypetco Agro dealers. We are also planning to expand stores capacity in six sales centres and to give discounts to selected dealers and customers to improve the sales volume and expand district network.

### **Human Resource Development and Welfare**

The employee strength by the end of year 2013 was 2,574 (2,637 in 2012) in the permanent cadre and 83 (21 in 2012) in the casual cadre.

CPC has provided its employees and their families a Medical Assistance Scheme which is managed by the Thrift Society of the Corporation. The Corporation employs two Medical Officers on fulltime

basis to serve employees. The hospitalization costs incurred for indoor treatments was Rs.30 Mn. during the year under review. A monthly allowance of Rs. 250/= is also paid to all employees for outdoor medical treatment.

A gratuity equivalent to ½ month pay for every year of service is paid under the Gratuity Act and additional retirement and death benefits are paid out of Thrift Society funds. A Death Gratuity is also paid for death of an employee. Corporation also provided financial assistance to the CPC Employees' Sports Club with a view to encourage sports activities. It maintains four Holiday Homes outstation, exclusively for the usage of employees and their families. There are several loan facilities granted at concessionary interest rates to fulfill many necessities of the employees.

We have also allocated funds for training employees locally and abroad. Funds are also allocated for improving the knowledge of languages and computer literacy of employees to upgrade their working environment by sending them for post graduate Diplomas/Degrees and Rs.691,714/- was spent during the year.

The practice of awarding employees who have satisfactorily completed their services is as follows:

20 years	-	Rs. 10,000/=
25 years	-	Gold Coin of 2.5 sovereign
30 years	-	Rs. 20,000/=
35 years	-	Rs. 25,000/=
40 years	-	Rs. 40,000/=

During the year 105 employees were awarded.

Employees' children who are selected for government University education are awarded 21 scholarships as a welfare activity by the Corporation.

### **Environment Safety**

CPC being the market leader of petroleum products in the island and the owner of the only local refinery in the country, is fully aware of its obligations to minimize environmental pollution, and concerned about the environment safety in handling and usage of petroleum products.

## **Acknowledgement**

On behalf of the Board of Directors of the Ceylon Petroleum Corporation, I would like to thank all members of the CPC team, who whole heartedly supported in meeting the challenges faced by the Corporation during this period. I also thank the Hon. Minister of Petroleum Industries and his Ministry Officials, the Treasury, the Central Bank, our business partners and customers for their co-operation and support.



**S Amarasekera**

**ACTG. CHAIRMAN**

## STATEMENT OF VALUE ADDED

Rupees Million	2013		2012	
Turnover	518,177		542,146	
Bought in materials & services	(448,066)		(556,393)	
<b>Value Added</b>	<b>70,111</b>		(14,247)	
<b>Applied the following way</b>		%		%
<b>To pay employees</b>				
Wages & fringe benefits	3,572	5.09	2,865	(20.10)
<b>To pay providers of capital</b>				
Interest on loans	18,540	26.44	18,360	(128.87)
<b>To provide maintenance and expansion of assets</b>				
Depreciation	487	0.70	517	(3.63)
Retained Profit	(7,984)	(11.38)	(97,308)	683.00
<b>To pay Government</b>				
Taxes, Duties, Stamp duty and Contribution to the General Treasury	55,496	79.15	61,319	(430.40)
<b>Value Added</b>	<b>70,111</b>	<b>100.00</b>	(14,247)	100.00

## HIGHLIGHTS

<b>FINANCIAL</b>	<b>Unit</b>	<b>2013</b>	<b>2012</b>
Gross Revenue	Rs. Mn.	<b>490,381.492</b>	512,918.308
Gross Profit/(Loss)	Rs. Mn.	<b>22,743.559</b>	(60,781.737)
Operational Profit /(Loss)	Rs. Mn.	<b>7,552.148</b>	(78,930.266)
Finance Charges	Rs. Mn.	<b>18,539.848</b>	18,359.677
Profit /(Loss) before Tax	Rs. Mn.	<b>(7,732.818)</b>	(89,569.175)
Net Profit /(Loss) after Tax	Rs. Mn.	<b>(7,947.309)</b>	(89,569.175)
Capital and Reserves	Rs. Mn.	<b>(236,528.740)</b>	(228,544.515)
Long term Borrowings	Rs. Mn.	<b>1,350.850</b>	1,998.218
Capital Expenditure	Rs. Mn.	<b>4,023.521</b>	1,280.428
<b>IMPORTS</b>			
Crude oil Imports	Metric Tons	<b>1,743,489</b>	1,626,074
Refined Bulk Product imports	Metric Tons	<b>1,928,652</b>	2,778,654
C&F Value	Rs. Mn.	<b>460,351.806</b>	516,153.897
<b>OPERATIONS</b>			
Sales	Metric Tons	<b>3,692,023</b>	4,405.503
Refinery Throughputs	Metric Tons	<b>1,643.923</b>	1,596.918
<b>MARKETING</b>			
CPC owned	Number	<b>249</b>	248
Dealer owned	Number	<b>844</b>	795
Dealer controlled	Number	<b>44</b>	47
<b>EMPLOYEES</b>			
Number of employees at the year end	Number	<b>2,657</b>	2,658
Total Emoluments for the Year	Rs. Mn.	<b>3,520.253</b>	3,182.921
Value Added per Employee	Rs.	<b>1,324,897</b>	1,197.407

## RISK MANAGEMENT REPORT

**R**isk is an integral part of any business entity and any organization or industry is exposed to various risks. Type of risk encountered may vary from industry to industry and from organization to organization. Hence, it is a significant task to identify the Organization and Industry owned risk and their likelihood of occurrence.

Internal controls of the Corporation covers all policies and procedures which enables to detect, manage and prevent the relevant risks. Effective systems and procedures established by the Ceylon Petroleum Corporation Act No. 28 of 1961, Finance Act and other regulatory proceedings have also been designed to deal with operations and prevent irregularities and frauds.

### **Internal and External Audit**

Internal and external audit functions are critical in the risk management process. Internal and External Auditors examine financial systems and other operational segments as per the pre-determined policies & procedures and recommend remedial actions to manage any risks that they identify. Audit Committee established by the Board of Directors reviews the significant audit findings.

A brief sketch of the risks that the Corporation is exposed to and risk management measures taken in place are given below.

### **Economic Risk**

The economic conditions of the country are highly sensitive to the petroleum products. As a market leader as well as a government owned institute, some of petroleum products are supplied with the highly subsidized rate in order to meet social and economic circumstances rather than profitability. Small change in the price level of the products will have a major impact on the entire economy immediately. In order to mitigate adverse implications of economic risk, we are frequently deploying aggressive cost management initiatives so that we will be able to sell petroleum products at competitive prices which will enable to balance both profitability and other socio economic conditions.

## **Financial Risk**

Financial risk relates to the availability of financial resources for the smooth functioning of the Corporation. CPC ensures that cost-effective funding is available at all times while curtailing the negative impact of market fluctuations on net profit. The main risk exposures are foreign exchange, liquidity and interest rate.

## **Foreign Exchange Risk Management**

CPC currently purchases US\$. 150-200 Mn. approximately monthly, mainly from the two State banks to settle suppliers of crude and refined petroleum products. Its sales proceeds are mainly in Sri Lankan Rupees. Therefore, the Corporation is exposed to foreign currency risks. To mitigate this risk, all banks exchange rates quoted are monitored on a daily basis and Dollars were purchased not at the bankers quoted rate but at the market rate by monitoring market behaviors. As a result of this, CPC had obtained a substantial gain from this operation.

## **Liquidity Risk Management**

Liquidity risk is defined as the risk that the Corporation will encounter in meeting obligations associated with short term liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises when there is a possibility that the Corporation might not be able to meet its settlement obligations when they are due.

Several actions have been taken to strengthen the liquidity position of the Corporation. Investing in overnight repo, call deposits, term deposits, close dealing with dealers are main strategies of liquidity management. The Company has excellent relationships with the two state banks it deals with and enjoys substantial banking facilities.

Liquidity risk is further analyzed based on maturity analysis. That comprises expected cash inflows and outflows over a series of specified time period to determine the liquidity position of the Corporation and through continuous forecasts, the future cash requirements are ascertained.

## **Interest Rate Risk Management**

CPC is functioning with the short-term and long term borrowing facilities in order to meet liquidity and gearing requirements. The Corporation incurred a significant amount as interest and other financial charges. The Corporation is always investing in overnight repo, call deposits and term deposits to mitigate the interest rate risk in order to minimize the negative impact on the net income.

Successful discussions have been done with the two state banks and the General Treasury to maintain constant effective interest rate for all facilities offered.

### **Operational Risk**

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises from inadequate or lack of control over critical activities or the failure of systems and procedures of the Corporation. These risks are likely to occur in all activities of our business and may lead to both financial and reputational losses.

Petroleum products are highly interrelated with the lives of the general public of Sri Lanka and the small disoperation will result to a greater risk. CPC has recognized Operational Risk as a distinct and a controllable risk and taken steps to manage it in a structured manner. A proper operational risk management policy has been implemented in order to manage the operational risk. Some of the committees such as Procurement Committee and Tender Evaluation Committee are in function to mitigate the operational risk of the operation.

### **Supplier Risk**

CPC procurements for all its petroleum products are from the international market and due to the possible supply disruption, defectives and products without required technical standard create the supply risk to the Corporation. The Corporation has established sub committees such as Stock Review Committee, Procurement Committees and Tender Evaluation Committees to ensure the quality assurance and smooth supply chain.

### **Labour Risk**

Labour issues can affect quality of petroleum products and goodwill of the Corporation. Among other issues are the likelihood of labour related litigation and investing in time and resources in recruitment and training to build a competent workforce. Through Collective Agreements with the labour unions representing its workers, the Corporation makes every effort to ensure a motivated workforce at all times. These agreements sustain an equitable balance between the interests of employer and employee. Staff welfare and other benefit schemes provided to our employees are a key to maintain enthusiastic and energetic workforce.

## CORPORATE GOVERNANCE

Corporate governance embodies the principles of honesty, objectivity, integrity, transparency and ethics in carrying out operational activities of an Organization. Board of Directors is committed to the practice of strong corporate governance, revising governance practice to maintain the highest standards in the operation in the Corporation. The Corporation ensures to practice the principles of corporate governance to achieve transparency, integrity and accountability in its functions which are vital for achieving core objectives of a sustainable energy Corporation with a strong environment friendly process and playing pivotal role in national economy.

The Corporation adheres to the requirements of the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and Public Enterprises Guidelines for Good Governance issued by Department of Public Enterprises – Ministry of Finance in 2003.

### **Board of Directors**

The Board of Directors comprises seven members including Chairman and Managing Director. The Chairman, Managing Director and other Directors are appointed by Hon. Minister of Petroleum and Petroleum Development in accordance with the Ceylon Petroleum Corporation Act No. 28 of 1961 and subsequent amendments. One such Director is a representative of the General Treasury (Ministry of Finance & Planning). All Directors are Non-Executive Directors, except the Chairman and Managing Director.

Subject to reappointment, the Directors have initial tenures not exceeding a period of three years on the Board. In taking decisions, the Board obtains relevant information from corporate management and if required, obtains information from external professionals.

### **Responsibilities of the Board**

The Board's main responsibility is creating and delivering sustainable stakeholder value, within a strong corporate governance structure that maintains stakeholder confidence, business integrity and adhering to the statutory requirements. The Board endeavors to exercise effective control over the Corporation by formulating and implementing policies and ensuring their effective implementation. Directors dedicate themselves to the affairs of the Corporation by attending Board and Board subcommittee meetings and making decisions by circular resolutions. The Board makes every effort to ensure due compliance to good governance practices and makes objective assessment of the Company's performance and prospects.

Apart from the above, Board holds the responsibility for granting approval for Annual Financial Statements, the Annual Budgets, Corporate Plan, Action Plan and reviewing financial performance on regular basis. The Board oversees the granting of approvals relating to key appointments, staff promotions, major capital expenditure investments and credit facilities to Corporate Customers.

### **Board Meetings**

Regular Board meetings are held monthly, while special Board Meetings are convened as and when required. Senior Managers also attend meetings on invitations.

The Board Meetings are conducted on a formal agenda and Directors are provided with relevant comprehensive background information by Corporate Managements prior to meetings. Fourteen Board meeting were held during the year under review.

### **Compliance and Transparency**

The Ceylon Petroleum Corporation is committed to maintain transparency in all its dealings. The Corporation complies with new Sri Lanka Accounting Standards (SLFRS/LKAS) and relevant regulations to ensure accountability. The strong internal controls compliance, measures have been integrated in to the Corporation's daily operations in accordance with Finance Act No. 38 of 1971, financial statements are published annually and tabled in Parliament. Also in compliance with Finance Act, the Auditor General carries out the External Audit of the Corporation.

### **Corporate Management**

The Chairman/Managing Director manages the day-to-day affairs of the Corporation based on strategic direction, Policy formation and Procedures approved by the Board of Directors from time to time. Operations and main administration of CPC can be divided into two broader categories namely Refinery operations and Head Office operations including Regional Offices.

Refinery operation is headed by Refinery Manager who is assisted by Deputy Refinery Managers in different core technical areas such as Electrical, Chemical and Mechanical.

Each Function at Head Office level is headed by a Deputy General Manager or a Manager who assists the Chairman/ Managing Director in day-to-day functioning of the Corporation. The Corporate Managers are well qualified with academic degrees and relevant professional qualifications in their respective functional areas.

## **The Audit Committee**

### **Composition of the Audit Committee**

During the year under review, Corporation has conducted five (05) Audit committee meetings for which Non-Executive Directors were appointed by the Board of Directors as Committee members. At the 58<sup>th</sup> Audit Committee meeting, three Non-Executive Directors namely Dr. Hans Wijayasuriya (Chairman), Mrs. Sandya Wijayabandara and Miss. Pushpa Wellappili acted as Members of the Committee.

Commencing from 59<sup>th</sup> to 62 of Audit Committee meetings, three Non-Executive Directors namely Dr. Hans Wijayasuriya (Chairman), Mrs. Sandya Wijayabandara and Miss. Visakha Amarasekara acted as Members of the Committee.

The Audit Charter of the Committee has been prepared covering scope of responsibilities, authorities and specific duties stipulated in Treasury Circular issued in relation of conducting Audit Committees in Public Commercial Enterprises.

### **Tasks of Audit Committee**

The Committee reviews the adequacy, timing and existence of the internal control systems of the Corporation and in compliance on business operations, adequacy of disclosures in financial reporting system. It also ensures consistence of accounting policies adopted and compliance with the financial reporting system including SLFRS/LKAS used for preparation of financial statements. Apart from above, the Committee reviews the risks that the Corporation is exposed to and the actions taken to mitigate the risk and their effectiveness.

### **Meetings**

During the year under review, five (05) Audit Committee meetings have been conducted to discuss duties entrusted to them as noted above.

The members who have taken part in Audit Committee Meetings during the year are noted below:-

Serial No.	Date	Strength of Committee	No. of Members participated	Names of Members
58	08.01.2013	03	03	Dr. Hans Wijayasuriya (Chairman) Mrs. Sandya Wijayabandara Miss. Pushpa Wellappili
59	14.03.2013	03	03	Dr. Hans Wijayasuriya (Chairman) Mrs. Sandya Wijayabandara Miss. Visakha Amarasekara
60	02.07.2013	03	03	Dr. Hans Wijayasuriya (Chairman) Mrs. Sandya Wijayabandara Miss. Visakha Amarasekara
61	11.10.2013	03	03	Dr. Hans Wijayasuriya (Chairman) Mrs. Sandya Wijayabandara Miss. Visakha Amarasekara
62	19.12.2013	03	03	Dr. Hans Wijayasuriya (Chairman) Mrs. Sandya Wijayabandara Miss. Visakha Amarasekara

#### **Work Performed by the Audit Committee**

The Audit Committee has made several decisions and recommendations on strategic issues for submitting to Board of Directors for workable actions.

- Discussion of the Report of the Auditor General with the deficiencies highlighted in the Auditor General's Report were detailed to prevent repetitions and for taking corrective actions.
- Reviews the adequacy of internal control system with the management, Auditor General and Internal Auditors.
- Overseeing the financial reporting process to ensure the preparation and fair presentation of the financial statements.
- Identifying causes and effects for the losses incurred and detailed analysis and studies were carried out to propose or recommend immediate suitable actions for turning around the loss making units and improving other profitable ventures.
- Review of the Annual Internal Audit Program, significant audit findings and action plan.
- Identification of risks and the remedial actions for mitigating the risk to acceptable level.

### **Management Committee**

The Management Committee consists of two Non-Executive Directors and one of them is the Chairman of the Management Committee. The Management Committee sits once a month prior to monthly Board meeting to discuss all matters reported for Board of Directors. The Committee submits its report to the Board meeting for final approval. All Senior Managers, Head of Functions take part in Management Committee.

### **Stock Review Committee**

These are held weekly with the participation of CPSTL staff and representatives of CEB and IOC. The stock position is reviewed and the requirements for the three month future period is planned. Taking into account, the country requirement as against the Refinery production, the quantity to be imported is identified and shipments are planned taking into consideration of available tank storage capacity. Regular close monitoring enables the Corporation to ensure uninterrupted supply of fuel in the country.

### **Procurement Committees (PC) and Tender Evaluation Committees (TEC)**

The National Procurement Agency has issued a set of guidelines for the purchase of products, goods, services and works. The relevant TEC and the PC function under the guidelines issued by the NPA to ensure transparency, minimize delays and to obtain financially the most advantageous and qualitatively best services and supplies to CPC.

### **Financial Disclosures**

The Board of Directors is responsible presenting Financial Statements that provides a true and fair view of the Corporation. These statements are prepared in accordance with the requirements of Sri Lanka Financial Reporting Standards (LKAS/SLFRS), the Finance Act and the Corporation Act.

### **Internal Controls**

The Corporation is responsible for maintaining a sound system of internal controls and reviewing its effectiveness. The system is intended to safeguard the assets of the Corporation and to ensure that proper records are maintained and reliable information is produced. This responsibility covers all type of controls, including financial, operational and compliance controls as well as risk management. It is vital to state, however, that any system of internal control can ensure only reasonable and not absolute assurance that errors and irregularities will be presented or detected within a reasonable period of time.

The Internal Audit Department of the Corporation is entrusted to review all internal control procedures and their adequacy and regular recommendation for improvements of internal controls.

### **Internal Audit**

The Audit Committee reviews and decides the scope of internal audit process which is established to assess the effectiveness of the financial and operational procedures and controls. The Internal Audit Department is headed by a professionally qualified Chartered Accountant. Annual Audit Plans were implemented to assess the internal controls, understanding risk areas of individual functions and evaluating the management control functions using compliance and substantive tests.

In addition to the audit assignments during the year under review the Internal Audit has also focused on the following areas :

- Identification of risk related to the areas of product losses, revenue losses and continuation of information system.
- Analysis of resource utilization of the Corporation and identification of barriers to maximize the efficiency of strategic business units.
- Identification of weaknesses in the existing procedures and proposals of actions to overcome and strengthen the control.
- Reviewed and monitored the progress of Action Plan on major issues highlighted by the Internal Audit.
- Reviewed the information system mechanism used by CPC to assess the adequacy of policies and procedures required to manage an Enterprise Resource Planning (ERP)
- Identification and direction of training requirements on the Enterprise Resource Planning and the level of management support.
- Discussion of Auditor General's Reports and replies to Audit Queries.
- Periodic Review of Annual Audit Plan and the Performance of Internal Audit Function based on actual works carried out.

### **Relationship with the General Treasury & Central Bank**

The Corporation is closely associated with the Central Bank of Sri Lanka (CBSL) and the General Treasury and obtains their activities when managing Corporation's treasury operations. The Corporation also seeks advice and guidance for major expansion programmes and borrowings.

# FINANCIAL STATEMENTS

- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Changes in Equity
- Statement of Cash Flow
- Notes to the Financial Statement

# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December	Note	CPC		GROUP	
		2013 Rs. Mn.	2012 Rs. Mn.	2013 Rs. Mn.	2012 Rs. Mn.
Revenue	1	490,381.492	512,910.308	490,966.235	514,546.562
Cost of Sales	2	(467,637.933)	(573,692.045)	(474,085.894)	(580,519.808)
<b>Gross Profit/(Loss)</b>		<b>22,743.559</b>	<b>(60,781.737)</b>	<b>16,880.341</b>	<b>(65,973.246)</b>
Other Operating Income	3	321.978	246.328	452.324	543.118
Income on Investment Property	3.1	52.015	38.976	52.015	38.976
Selling & Distribution Expenses	3.2	(11,965.252)	(12,633.096)	(1,600.652)	(2,773.532)
Administrative Expense	3.3	(3,600.151)	(5,800.737)	(6,660.359)	(8,801.501)
<b>Operating Profit/(Loss)</b>		<b>7,552.148</b>	<b>(78,930.266)</b>	<b>9,123.669</b>	<b>(76,966.185)</b>
Finance Charges	3.4	(18,539.848)	(18,359.678)	(18,539.848)	(18,360.200)
Finance Income	3.5	3,254.882	7,720.769	3,279.401	7,592.272
<b>Loss before Income Tax</b>		<b>(7,732.818)</b>	<b>(89,569.175)</b>	<b>(6,136.778)</b>	<b>(87,734.112)</b>
Income Tax expense				(216.017)	(75.914)
<b>Loss after Tax before extra ordinary activities</b>		<b>(7,732.818)</b>	<b>(89,569.175)</b>	<b>(6,352.795)</b>	<b>(87,810.026)</b>
Less: Hedging Expenses		(214.491)	(7,611.600)	(214.491)	(7,611.600)
<b>Loss for the year after extra ordinary activities</b>		<b>(7,947.309)</b>	<b>(97,180.775)</b>	<b>(6,567.286)</b>	<b>(95,421.626)</b>
<b>OTHER COMPREHENSIVE INCOME</b>					
Loss on investment		(14.500)	(51.500)	(14.500)	(51.500)
Acturial Loss		(22.416)	(76.098)	(64.452)	(76.098)
<b>Other comprehensive loss for the year</b>		<b>(36.916)</b>	<b>(127.598)</b>	<b>(78.952)</b>	<b>(127.598)</b>
<b>Total comprehensive loss for the year</b>		<b>(7,984.225)</b>	<b>(97,308.373)</b>	<b>(6,646.238)</b>	<b>(95,549.224)</b>
Less : Non controlling interest				(445.995)	(586.383)
<b>Profit/(Loss) for the year</b>		<b>(7,984.225)</b>	<b>(97,308.373)</b>	<b>(7,092.233)</b>	<b>(96,135.607)</b>

The Notes appearing on pages 40 to 67 form an integral part of the Financial Statement

# STATEMENT OF FINANCIAL POSITION

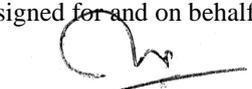
As at	Note	CPC		GROUP	
		31.12.2013 Rs. Mn.	31.12.2012 Rs. Mn.	31.12.2013 Rs. Mn.	31.12.2012 Rs. Mn.
<b>ASSETS</b>					
<b>Non - Current Assets</b>					
Property, Plant & Equipment	4	13,110.644	9,572.201	31,083.696	28,627.947
Investment Property	4.5	26.166	26.970	26.166	26.970
Intangible Assets	4.7	-	-	139.293	229.428
Investment in Subsidiary	5.1	5,000.000	5,000.000	-	-
Other Investments	5.2	38.626	53.126	38.626	53.126
Investments in Fixed Deposits		5.000	5.000	5.000	5.000
Trade and Other Receivables - More than one year	6	34,841.091	16,110.986	34,841.091	14,682.463
Deferred Tax Asset		-	-	-	-
		<b>53,021.527</b>	<b>30,768.283</b>	<b>66,133.872</b>	<b>43,624.935</b>
<b>Current Assets</b>					
Inventories	7	65,032.200	62,189.825	65,428.440	62,550.296
Trade & Other Receivables - Due within one year	6	55,331.858	101,403.011	57,080.476	104,303.415
Income Tax Recoverable		713.641	246.990	999.059	628.057
Investments in Fixed Deposits	5.3	6,801.651	-	6,801.651	-
Cash and Cash Equivalents	8	6,134.526	11,623.634	11,388.052	12,085.561
		<b>134,013.876</b>	<b>175,463.460</b>	<b>141,697.678</b>	<b>179,567.329</b>
<b>Total Assets</b>		<b>187,035.403</b>	<b>206,231.743</b>	<b>207,831.550</b>	<b>223,192.264</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and Reserves</b>					
Contributed Capital	9	1,000.000	1,000.000	1,000.000	1,000.000
Shares Held in C. P. S. T. L		2,500.000	2,500.000	2,500.000	2,500.000
Capital Reserve	10	4,992.686	4,992.686	4,992.686	4,992.686
Reserve on consolidation		-	-	2,485.643	2,485.643
Retained Earnings		(245,021.426)	(237,037.201)	(240,716.589)	(233,748.588)
Non controlling interest		-	-	5,895.239	5,387.128
<b>Total Equity</b>		<b>(236,528.740)</b>	<b>(228,544.515)</b>	<b>(223,843.021)</b>	<b>(217,383.131)</b>
<b>Non - Current Liabilities</b>					
Retirement Benefits Liability		538.109	546.935	1,755.131	1,652.777
Deferred tax		-	-	394.660	366.065
Interest Bearing Loans & Borrowings	11	1,350.850	1,998.218	3,725.301	4,521.422
		<b>1,888.959</b>	<b>2,545.153</b>	<b>5,875.092</b>	<b>6,540.265</b>
<b>Current Liabilities</b>					
Trade and Other Payables	12	194,096.925	220,897.351	197,561.868	221,848.494
Interest Bearing Loans & Borrowings	13	227,407.568	211,163.063	228,066.919	212,015.945
Provision for Deemed Dividend Tax Expense		170.691	170.691	170.691	170.691
		<b>421,675.184</b>	<b>432,231.105</b>	<b>425,799.479</b>	<b>434,035.130</b>
<b>Total Equity and Liabilities</b>		<b>187,035.403</b>	<b>206,231.743</b>	<b>207,831.550</b>	<b>223,192.264</b>

The Notes appearing on pages 40 to 67 form an integral part of the Financial Statement. These Financial Statement give a true and fair view of the state of affairs of Ceylon Petroleum Corporation and the Group as at 31st December 2013 and its loss for the year then ended.



W Sarath perera  
**ACTG. DY. GENERAL MANAGER (FINANCE)**

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

  
S. Amarasekara  
**ACTG. CHAIRMAN**



R T A Dabare  
**FINANCE MANAGER**

  
L E Susantha silva  
**MANAGING DIRECTOR**

## STATEMENT OF CHANGES IN EQUITY

	Contributed Shares held Capital Rs. Mn.	in CPSTL	Reserve Rs. Mn.	Insurance Reserve Rs. Mn.	Reserve on Consolidation Rs. Mn.	Retained Earnings Rs. Mn.	Shareholders fund Rs. Mn.	Non controlling Interest Rs. Mn.	Total Equity Rs. Mn.
<b>Balance as at 31st December 2010</b>	1,000.000	2,500.000	4,992.686	619.432	2,485.643	(46,051.496)	(34,453.735)	3,957.423	(30,496.312)
<b>Comprehensive income</b>									
Loss for the year						(93,297.165)	(93,297.165)		(93,297.165)
Other comprehensive income for the year						(146.803)	(146.803)		(146.803)
<b>Total comprehensive income for 2011</b>						(93,443.968)	(93,443.968)		(123,940.280)
Addition during the year									
Surplus during the year				0.776		635.108	635.884		635.884
Transferred to retained earnings/Reversal				(620.208)		620.208			
<b>Balance as at 31 December 2011</b>	1,000.000	2,500.000	4,992.686	-	2,485.643	(138,240.148)	(124,776.176)	4,487.162	(122,774.657)
<b>Comprehensive income</b>									
Loss for the year				-		(96,008.009)	(96,008.009)		(96,008.009)
Other Comprehensive income						(127.598)	(127.598)		(127.598)
Adjustments						627.167	627.167		627.167
<b>Total comprehensive income for 2012</b>				-		(95,508.440)	(95,508.440)		(95,508.440)
<b>Balance as at 31st December 2012</b>	1,000.000	2,500.000	4,992.686	-	2,485.643	(233,748.588)	(222,770.259)	5,387.128	(217,383.131)
<b>Comprehensive income</b>									
Profit/ Loss for the year						(7,092.233)	(7,092.233)	445.995	(6,646.238)
Consolidation adjustment in 2012						124.232	124.232	62.116	186.348
<b>Total comprehensive income for 2013</b>				-		(6,968.001)	(6,968.001)	508.111	(6,459.890)
<b>Balance as at 31st December 2013</b>	1,000.000	2,500.000	4,992.686	-	2,485.643	(240,716.589)	(229,738.260)	5,895.239	(223,843.021)

The Notes appearing on pages 40 to 67 form an integral part of the Financial Statement

## STATEMENT OF CASH FLOW

For the year ended 31st December	Notes	CPC		GROUP	
		2013 Rs. Mn.	2012 Rs. Mn.	2013 Rs. Mn.	2012 Rs. Mn.
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash generated from operations	14	5,152.809	(50,699.387)	11,611.005	(49,807.884)
Interest Paid		(18,539.848)	(18,359.678)	(19,195.078)	(19,084.230)
Retiring Gratuity Paid		(65.859)	(39.000)	(143.538)	(102.938)
Income Tax /WHT paid		(466.651)	689.623	(466.651)	574.622
<b>Net Cash Generated from Operating activities</b>		<b>(13,919.549)</b>	<b>(68,408.442)</b>	<b>(8,194.263)</b>	<b>(68,420.429)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from Sale of Property, Plant & Equipment		23.728	15.762	36.589	16.098
Acquisition of Property, Plant & Equipment		(4,023.521)	(1,280.428)	(4,080.894)	(1,356.747)
Income from Investment		0.007	0.003	0.007	0.003
Interest Received		3,254.882	2,413.145	3,279.401	2,472.059
Investment in fixed deposits		(6,801.651)	-	(6,801.651)	
<b>Net Cash Used in Investing Activities</b>		<b>(7,546.556)</b>	<b>1,148.482</b>	<b>(7,566.548)</b>	<b>1,131.413</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Loans obtained during the period				339.047	1,135.400
Repayment of Long Term Loans		7,231.628	62,539.945	6,172.419	61,480.735
Non controlling interest				-	
<b>Net Cash From/(Used in) Financing Activities</b>		<b>7,231.628</b>	<b>62,539.945</b>	<b>6,511.465</b>	<b>61,480.735</b>
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>		<b>(14,234.477)</b>	<b>(4,720.016)</b>	<b>(9,249.346)</b>	<b>(4,672.888)</b>
Cash & Cash Equivalents at Beginning of the Year		6,935.086	11,655.102	7,031.931	11,704.819
Cash & Cash Equivalents at End of the Year	8	<b>(7,299.391)</b>	<b>6,935.086</b>	<b>(2,217.415)</b>	<b>7,031.931</b>

The Notes appearing on pages 40 to 67 form an integral part of the Financial Statement

## SIGNIFICANT ACCOUNTING POLICIES

### 1. CORPORATE INFORMATION

#### 1.1 General

The Ceylon Petroleum Corporation is a Public Corporation incorporated under the Ceylon Petroleum Corporation Act No. 28 of 1961 and domiciled in Sri Lanka. The registered office of the Corporation is located at No. 609, Dr. Danister De Silva Mawatha, Colombo 09.

#### 1.2 Principal Activities and Nature of Operations

The principle activities of the Corporation are refining, selling & distributing and exploring Petroleum products in Sri Lanka

#### 1.3 Parent Entity and Ultimate Parent Entity & Subsidiary Company

The Corporation is under the purview of the Ministry of Petroleum Industries. In the opinion of the Directors, the Corporation's ultimate parent undertaking and controlling party is the Government of Sri Lanka. Ceylon Petroleum Storage Terminals Ltd. (CPSTL) – 2/3 of its shares are owned by CPC.

#### 1.4 Date of Authorization for Issue

The Consolidated Financial Statements of the Ceylon Petroleum Corporation for the year ended 31 December 2013 were authorized for issue in accordance with a resolution of the Board of Directors on 07<sup>th</sup> March 2014.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Basis of Preparation

The Financial Statements are prepared under the historical cost basis (except revaluation) in accordance with Sri Lanka Accounting Standards (SLFRSs / LKASs) introduced by Institute of Chartered Accountants of Sri Lanka and in accordance with the provisions of the Finance Act No. 38 of 1971.

### **2.1.1 Basis of Consolidation**

The CPC's Financial Statements comprise the consolidation of the financial statements of the Ceylon Petroleum Storage Terminal Limited (CPSTL) which is an integral to the CPC as CPC owns 2/3<sup>rd</sup> of shares of CPSTL. The group financial statements comprise consolidation of CPC's financial statements with that of CPSTL.

### **2.1.2 Accounting Standards issued but not adopted**

(a) New Standards, amendments and interpretations issues but not effective for the financial year beginning 1 January 2012 and not early adopted:

(i) SLFRS 13, 'Fair Value Measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across SLFRSs.

(ii) SLFRS 9, 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. SLFRS 9 replaces the parts of LKAS 39, that relate to the classification and measurement of financial instruments. SLFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortized cost. The determination is made at initial recognition and classification depends on the entity's business model.

(iii) SLFRS 12, 'Disclosures of interests in other entities' including the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates etc.

There are no other SLFRSs that are not yet effective that would be expected to have a material impact on the Corporation.

### **2.1.3 Statement of Compliance**

The Financial Statements of Ceylon Petroleum Corporation have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs / LKASs) issued by the Institute of Chartered Accountants of Sri Lanka and the provisions of the Finance Act No. 38 of 1971 and subsequent amendments thereto.

### **2.1.4 Going Concern**

These financial statements are prepared on the assumption that the corporation is a going concern i.e. as continuing in operation for the foreseeable future. It is therefore assumed that the corporation has neither the intention nor the necessity of liquidating or of curtailing materially the scale of its operation even though the corporation has suffered a loss of Rs 7,092 Million and a negative equity position of Rs 223,843 Million as per the draft financial statements prepared for the year ended 31<sup>st</sup> December ,2013. The General Treasury has provided Treasury Guarantee on behalf of CPC to become the foreign currency loans of US\$ 1,000 million for Bank of Ceylon and US\$ 650 million for People's Bank. All Letter of Credits are operated through BOC & People's Bank.

### **2.1.5 Comparative Information**

As discussed in 2.1, with the adoption of Sri Lanka Accounting Standards (SLFRS / LKASs).the comparatives have been adjusted where necessary to conform with the change in the presentation in the current year.

## **2.2 Summary of Significant Accounting Judgments, Estimates and Assumptions**

The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed below:

### **Pension obligation (gratuity)**

The present value of the pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions used in

determining the cost of pension including the discount rate. Any change in these assumptions will impact the carrying amount of pension obligation.

The management determines the appropriate discount rate at the end of each year. This is the interest rate that should be used in determining the present value of estimated future cash flows expected to be required to settle the pension obligation. In determining the discount rate, management considers the interest rates of government bonds in the absence of deep market for corporate bonds in Sri Lanka.

Other key assumptions for pension obligation are based on current market conditions.

### **Impairment of available-for-sale equity instruments**

The Corporation follows the guidance of LKAS 39 to determine when an available-for-sale equity instrument is impaired. This determination requires significant judgment. In making this judgment, the management evaluates among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

## **2.3 Summary of Significant Accounting Policies**

### **2.3.1 Foreign Currency Transactions**

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

### **2.3.2 Taxation**

#### **Current Tax**

Tax expenses for the period comprise the current and deferred tax. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax

laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto. However, during the current year, no tax liability has arisen due to loss making position of the Corporation and five year tax holiday granted with effect from year of assessment 2011/12.

### **Deferred Taxation**

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

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

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

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

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

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

### **Sales Tax**

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

Sales tax recoverable and payable in respect of taxation authorities is included as a part of receivable and payables in the Balance Sheet.

### **2.3.3 Borrowing Costs**

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sell, are added to the costs of those assets until such time as the assets are substantially ready for their intended use or sale.

### **2.3.4. Inventories**

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

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

Raw Materials	- At purchase cost on first-in-first-out basis
Finished Goods	- At the cost of direct materials, direct labour and an appropriate proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing Costs.
a) Refined Products	
b) Imports	- At purchase cost on first-in-first-out basis
Work-in-progress	
a) Refined Products	- At the cost of direct materials, direct labour and an appropriate proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs.
b) Imports	- At purchase cost on first-in-first-out basis
Other Finished Goods	- At purchase cost on weighted average basis
Consumables & Spares	- At purchase cost on weighted average basis

### **2.3.5 Trade and Other Receivables**

Trade receivables are amounts due from customers for selling fuel. Trade receivable are recognized initially at fair value and subsequently measured at amortized cost using effective interest method.

Other receivables and dues from Related Parties are recognized at cost less provision for impairment.

### **2.3.6 Cash and Cash Equivalents**

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

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts.

Investment with short maturities i.e. three months or less from the date of acquisition is also treated as cash equivalent.

### **2.3.7 Property, Plant & Equipment**

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

Land and buildings are measured at cost less depreciation on buildings.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

### **2.3.8 Measurement**

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost of purchase directly attributable to the acquisition of the asset or construction or valuation together with any incidental expenses thereon.

The cost of self-constructed assets included the cost of materials and direct labour or any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located.

### **2.3.9 Cost Model**

CPC applies cost model to plant & equipment and records at cost of purchase or construction together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

### **2.3.10 Subsequent Costs**

The cost of replacing part of an item of property, plant & equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow into the CPC and its cost can be reliably measured.

### 2.3.11 Restoration Costs

The cost incurred on repairs and maintenance of property, plant & equipment in order to restore or maintain future economic benefits is charged to Income Statement as incurred.

### 2.3.12 De-recognition

The carrying amount of an item of property, plant & equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant & equipment is included in the Income Statement when the item is derecognized.

### 2.3.13 Depreciation

CPC provides depreciation on straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets.

Provisioning for depreciation of property, plant & equipment is made on pro-rata basis.

The depreciation is calculated on a straight-line basis over the useful life of the assets.

Depreciation rates are as follows:-

Category of Assets	Percentage
Freehold Land	Nil
Buildings	2.5
New Head Office Building	2
Refinery Tanks & Pipelines	2.5
Refinery Plant & Machinery	10
Other Location Tanks	2.5 or 5
Other Location Pipelines	10 or 20
Plant & Machinery	10 or 20
Browsers & Tank Lorries	20
Vans & Coaches	25
Fur/Fittings & Office Equip upto 31/12/98	100
Fur/Fittings & Office Equip wef 31/12/99	33 1/3
SPM Facility – Tank Farm	2.5
- Pipelines	5
- Buoy	10

### **2.3.13 Capital Work in Progress**

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalization.

### **2.3.15 Impairment of non-financial assets**

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

For the purpose 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

### **2.3.16 Borrowing Costs**

Borrowings are recognized initially at fair value, (net of transaction cost incurred). Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the comprehensive income statement over the period of borrowings using the effective interest method.

Fees paid on the establishment of a loan facility are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility which it relates.

## **2.3.17 INVESTMENTS**

### **2.3.17.1 Investment in Subsidiaries**

Investments in Subsidiaries are accounted under the cost method of accounting in CPC's Financial Statements in accordance with the Sri Lanka Accounting Standard on Consolidated and Separate Financial Statements.

Accordingly, investments in Subsidiaries are stated in the CPC's Balance Sheet at cost, less impairment losses, if any.

### **2.3.18 Investment Properties**

#### **2.3.18.1 Basis of Recognition**

Investment property is property that is held to earn rentals or for capital appreciation or both and the future economic benefits that are associated with the investment property but not for sale in the ordinary course of business.

#### **2.3.18.2 Measurement**

Investment property is accounted for under cost method in the Financial Statements. Accordingly, after recognition as an asset, the property is carried at its cost, less accumulated depreciation and impairment losses.

#### **2.3.18.3 Depreciation**

Depreciation is provided on a straight-line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal.

#### **2.3.18.4 De-recognition**

Investment properties are derecognized when disposed of, or permanently withdrawn from use because no future economic benefits are expected. Transfers are made to and from investment property only when there is a change in use.

### **3. PROVISIONS & LIABILITIES**

#### **3.1 Provisions**

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

#### **3.2 Provision of Gratuity**

A provision is made in the financial statement for retirement gratuities from the first year of service for all employees. The liability recognized in the balance sheet in respect of gratuity is the present value of the obligation at the end of the reporting period. CPC has calculated the retirement benefits costs using the projected unit credit method as recommended in LKAS -19. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds, in the absence of a deep market for corporate bonds in Sri Lanka.

Actuarial gains / losses arising from experienced adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognized immediately in the comprehensive income statement.

#### **3.3 Defined Contribution Plans – Employees’ Provident Fund & Employees’ Trust Fund**

Employees are eligible for Employees’ Provident Fund Contributions and Employees’ Trust Fund contributions in line with the respective statutes and regulations. The Corporation contributes 15% and 3% of gross emoluments of employees to Employees’ Provident Fund and Employees’ Trust Fund respectively.

### **3.4 Capital Reserve**

Specific amounts received from Government Consolidated Fund and the net value of restructuring sale proceeds which eventually form the issued capital of the successor to Ceylon Petroleum Corporation are credited to a Capital Reserve.

### **3.5 Insurance Reserve**

An amount equivalent to the actual cost of insurance on imports which are not insured with a third party while in transit is credited to insurance reserve.

### **3.6 Trade payables**

Trade payables are obligations to pay the suppliers of the Corporation in the ordinary course of the business. Payables are recognized initially at fair value and subsequently measured at amortized cost.

### **3.7 Financial Instruments**

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Corporation classifies its financial instruments in the following categories:

**(i) Available-for-sale investments**

Available for sales investments are non-derivatives that are either designated in this category or not classified in any of the other category. The Corporation's available for sale assets comprise investments in equity securities, (both listed and non-listed) other than those qualifying as cash equivalents.

**(ii) Loans and receivable**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables comprise trade receivables, staff loans and cash equivalents, and are included in both current and non-current assets. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to

reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

**(iii) Financial liabilities at amortized cost**

Financial liabilities at amortized cost include trade payables, bank debt and long term debt. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payable to fair value (please refer 2.3.5 and 4.6 for recognition and measurement).

**Impairment of financial assets**

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. The criteria used to determine if objective evidence of an impairment loss include:

- (i) significant financial difficulty of the obligor;
- (ii) delinquencies in interest of principle payment; and
- (iii) It becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If such evidence exists, the Corporation recognizes an impairment loss, as follows:

- (i) financial assets carried at amortized cost : The loss is the difference between the amortized cost of the loan or receivables and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- (ii) Available for sale financial asset: The impairment loss is a difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of comprehensive income. This amount represents the loss in accumulated other comprehensive income that is re-classified to net income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Impairment losses on available for sale equity instruments are not reversed.

#### **4. INCOME STATEMENT**

##### **4.1 Revenue Recognition**

Revenue is the gross inflow of economic benefits during the period arising in the course of ordinary activities of an entity when those inflows result in equity, other than increases relating to contribution from equity participants.

Revenue is measured at the fair value of consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

##### **4.2 Sale of Goods**

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

##### **4.3 Interest Income & Expenses**

Interest expenses and income are recognized on accrual basis.

##### **4.4 Dividends**

Dividend Income is recognized when the shareholders' right to receive the payment is established.

##### **4.5 Rental Income**

Rental income is accounted for on a straight-line basis over the lease terms.

##### **4.6 Profit/(Loss) from Sale of Property, Plant & Equipment & Other Income**

Profit/loss arising from sale of property, plant & equipment is recognized in the period in which the sale occurs and is classified as other income.

##### **4.7 Gains or Losses arising from Investment Securities**

Gains or losses arising from the sale of equity shares and financial instruments accounted for on the date on which the transaction takes place.

#### **4.8 Operating Expenses**

All the expenses payable are recognized on accrual basis in the Income Statement to the period to which they relate.

### **5. CONTINGENT LIABILITIES, COMMITMENTS & LITIGATION**

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

Current litigation mainly involves the recovery process wherein the CPC files cases against the defaulting customers with a view to recover debt through judicial process.

Litigation also includes worker disputes before the labour tribunals and other agencies like Human Rights Commission, Parliamentary Ombudsman amicably settled or mostly decided in favour of the CPC. Except for the disclosures made in Hedging transactions, CPC is of the opinion that they will not cause any material impact on the financial stability of the CPC and therefore, no related provisions are made.

There are three cases filed by CPC in relation to tax related matters as briefly noted below:-

- (i) Deemed Dividend Tax matters relating to Year of Assessment 1997/98 are pending before Court of Appeal with regard to the basis of computation of Deemed Dividend Tax.  
Decision of the Board of Review was that Deemed Dividend tax shall be computed on the book profit of the Corporation. CPC appealed against the decision of Board of Review.
- (ii) CPC has filed a case in Court of Appeal against the decision given by the Board of Review. Decision of Board of Review was that liability of Turnover Tax for sale of bunker oil for the quarters ending 31.02.1994 to 31.12.1997 for export sales which cannot be considered.
- (iii) There is an appeal pending before Tax Appeal Commission with regard to basis of computation of Deemed Dividend Tax for the year 2007/08.

## 6. DIRECTOR'S INTEREST IN CONTRACTS

No Directors has direct or indirect interest in the contracts with the CPC & CPSTL except for the disclosures noted below :-

CPC has appointed following three Directors to the Board of CPSTL of which CPC has two third of share interest.

Mr. L E Susantha Silva	- Director
Mr. B Saman Kumara	- Director
Mrs. SandyaWijayabandara	- Director

Mr. L E Susantha Silva is a Director of Housing Development of Finance Corporation (HDFC).

CPSTL is a company which is engages in storage and distribution of liquid petroleum products within Sri Lanka. CPC has paid throughput charges amounting to Rs. 8.4 Bn. in the year 2013 to CPSTL. The Director's fees are paid in terms of the provisions in the Public Enterprises Circular No. PED 58 dated 29 April 2011.

## 7. HEDGING TRANSACTIONS

### **Standard Chartered Bank vs. CPC**

Standard Chartered Bank (SCB) instituted proceedings against Ceylon Petroleum Corporation (CPC) in the Commercial High Court of London against CPC. The Commercial High Court of London was the agreed forum in terms of the ISDA Master Agreement signed between CPC & SCB. SCB claimed the between 12 December 2008 and 14 August 2009 CPC became liable to make nine payments to SCB and ordered CPC to pay US\$ 166,476,281 plus costs of £ 2,967,546 by 08 August 2011. In September 2011, CPC filed an Appellant's Notices setting out grounds for appeal against the judgment in appeal. On 31 October CPC paid £ 500,000 into Court by way of security for SCB's costs of the Appeal. On 27<sup>th</sup> July, the English Court of Appeal delivered the Judgment in favour of SCB. On the advice given by the counsels of CPC and the Hon. Attorney General, an application for permission to appeal to the Supreme Court of England was made on behalf of CPC.

Hon. Attorney General (AG) by letter dated 20.02.2013 informed that SCB through their lawyers has informed the AG that they are willing to settle the claim against CPC by accepting a sum of US\$60 Mn in full and final settlement and also stated that AG was of the view that it may be advantageous to the CPC to enter in to this settlement given that the outcome of the appeal to UK Supreme Court was uncertain.

The CPC Board resolved to accept the settlement proposal and Cabinet approval too was granted 04.04.2013 for CPC to enter into the draft deed with SCB. Clearance from the Hon. Attorney General was also obtained for the proposed Deed of Settlement as decided by the Cabinet.

In consultation with the Treasury, approval was obtained by CPC in terms of Section 16 of the Financial Act No.38 of 1971 and Section 24(ii) (e) of the CPC Act No.28 of 1961 to borrow US\$60 Mn. from the People's Bank in order to pay this amount to SCB as full and final settlement under the draft Deed of Settlement. As per the approval of the Board of Directors and the Cabinet of Ministers, US\$ \$60 Mn was paid to SCB under the Deed of Settlement entered between the parties.

The Draft Deed of Settlement was entered onto by CPC on 29 May 2013. The payment of US\$ 60 Mn under the above Deed was remitted to SCB on 03 June 2013.

**8. EVENTS AFTER THE BALANCE SHEET DATE**

Where necessary, all the material events after the Balance Sheet date have been considered and appropriate adjustments/disclosures have been made in the Financial Statements.

**9. DIRECTOR'S RESPONSIBILITY STATEMENT**

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

	CPC 2013 Rs. Mn	CPC 2012 Rs. Mn	GROUP 2013 Rs. Mn	GROUP 2012 Rs. Mn
<b>1. REVENUE</b>				
Sale of Petroleum Products	490,381.492	512,910.308	490,528.617	512,910.308
Terminal Charges & Other Income	-	-	437.618	1,636.254
	<b>490,381.492</b>	<b>512,910.308</b>	<b>490,966.235</b>	<b>514,546.562</b>
<b>2. COST OF SALES.</b>				
As Per Gross Margin	463,990.551	540,114.897	463,996.620	540,114.897
Operation Loss/Gain	383.616	324.297	383.616	324.297
Exchange Variation (Crude/Bulk)	3,263.767	33,252.851	3,263.767	33,253.812
Direct Expenses & others			6,441.892	6,826.802
	<b>467,637.933</b>	<b>573,692.045</b>	<b>474,085.894</b>	<b>580,519.808</b>
<b>3. OTHER OPERATING INCOME</b>				
Dividend Income	0.007	0.003	0.007	0.003
Sundry Income	289.214	239.709	411.523	518.139
Rent Income	32.757	6.616	40.794	24.976
	<b>321.978</b>	<b>246.328</b>	<b>452.324</b>	<b>543.118</b>
<b>3.1 INCOME ON INVESTMENT PROPERTY</b>				
Flower/ Thurstan & Rental Filling Station	<b>52.015</b>	<b>38.976</b>	<b>52.015</b>	<b>38.976</b>
<b>3.2 SELLING &amp; DISTRIBUTION EXPENSES</b>				
Selling And Distribution Cost	10,336.419	11,159.293	836.987	1,299.729
Aviation Cost	1,264.878	1,077.129	399.710	1,077.129
Depreciation	363.955	396.674	363.955	396.674
	<b>11,965.252</b>	<b>12,633.096</b>	<b>1,600.652</b>	<b>2,773.53</b>
<b>3.3 ADMINISTRATIVE EXPENSES</b>				
Administrative Cost	3,600.151	5,800.737	6,660.359	8,801.501
	<b>3,600.151</b>	<b>5,800.737</b>	<b>6,660.359</b>	<b>8,801.501</b>
<b>3.4 FINANCE CHARGES</b>				
Interest on Long Term Loans	82.416	188.769	82.416	188.769
Interest on Bank Overdrafts	37.898	0.35	37.898	0.35
Interest on Foreign Bills Payables & Other Bank Loans	18,419.534	18,170.557	18,419.534	18,170.557
Others		-	0.000	0.522
	<b>18,539.848</b>	<b>18,359.678</b>	<b>18,539.848</b>	<b>18,360.200</b>
<b>3.5 FINANCE INCOME</b>				
Treasury Bill Interest Income	917.616	2,394.101	942.135	495.065
Interest on R.F.C. A/C	18.707	19.044	18.707	19.044
Interest on Credit invoice	65.944	187.411	65.944	1,957.950
Interest CEB/IPP/Aviation Customers	2,252.615	5,120.213	2,252.615	5,120.213
	<b>3,254.882</b>	<b>7,720.769</b>	<b>3,279.401</b>	<b>7,592.272</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 4. PROPERTY, PLANT & EQUIPMENT

Cost	CPC						GROUP
	Land & Buildings	Vested Property	Plant, Mach & Equip	SPM Facility	Motor Vehicles	Furn/Fittings Off. Equip & Other Assets	
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
<b>Bal as at 01/01/2013</b>	3,227.526	1.016	4,015.381	2,142.422	385.017	1,894.327	38,768.838
Additions	27.641		254.573		98.638	34.104	465.373
Disposals			(1.357)		(4.986)	(1.992)	(34.855)
<b>Bal as at 31/12/2013</b>	<b>3,255.167</b>	<b>1.016</b>	<b>4,268.597</b>	<b>2,142.422</b>	<b>478.669</b>	<b>1,926.439</b>	<b>39,199.356</b>
<b>4.2 Depreciation</b>							
Bal as at 01/01/2013	313.142	0.389	3,111.455	1,290.634	234.671	1,286.814	14,345.128
Charge for the Year	66.762	0.008	272.408		22.663	124.252	1,624.638
Disposals			(1.357)		(4.986)	(1.992)	(34.855)
<b>Bal as at 31/12/2013</b>	<b>379.904</b>	<b>0.397</b>	<b>3,382.506</b>	<b>1,290.634</b>	<b>252.348</b>	<b>1,409.074</b>	<b>15,934.911</b>
<b>Net Book Value as at 31.12.2013</b>	<b>2,875.263</b>	<b>0.619</b>	<b>886.091</b>	<b>851.788</b>	<b>226.321</b>	<b>517.365</b>	<b>23,264.444</b>
<b>Net Book Value as at 31.12.2012</b>	2,914.384	0.627	903.926	851.788	150.346	607.513	24,423.710

## 4.3 Assets and Capital Project in Progress

	CPC		GROUP	
	2013 Rs.Mn	2012 Rs.Mn	2013 Rs.Mn	2012 Rs.Mn
Refinery Expansios projet(SOREM)	837.454	809.102	837.454	809.102
Buildings	18.163	15.888	18.163	15.888
Plant & Machinery	2,197.081	15.004	2,197.081	15.004
Storage Facility	168.539	2,185.169	168.539	2,185.169
Re-structuring of Filling Stations	3.736	3.736	3.736	3.736
Others	4,528.225	1,114.717	4,594.279	1,175.338
	<b>7,753.198</b>	<b>4,143.615</b>	<b>7,819.252</b>	<b>4,204.237</b>
<b>4.4 Net Book Values</b>				
Property Plant & Equipment	5,357.446	5,428.585	23,264.444	24,423.710
Assets & Capital Projects in Progress	7,753.198	4,143.615	7,819.252	4,204.237
<b>Total Carrying Amount of Property , Plant &amp; Equipments</b>	<b>13,110.644</b>	<b>9,572.201</b>	<b>31,083.696</b>	<b>28,627.947</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 4.5 Investment Property

	CPC		GROUP	
	2013 Rs.Mn	2012 Rs.Mn	2013 Rs.Mn	2012 Rs.Mn
<b>Gross carrying amount</b>				
<b>Cost</b>				
Balance as at 1.1.	33.570	32.344	33.570	32.344
Add: Additions	-	1.226	-	1.226
Balance as at 31.12	<u>33.570</u>	<u>33.570</u>	<u>33.570</u>	<u>33.570</u>
<b>Depreciation</b>				
Balance as at 1.1.	6.600	5.653	6.600	5.653
Add: Charge for the year	0.804	0.947	0.804	0.947
Balance as at 31.12	<u>7.404</u>	<u>6.600</u>	<u>7.404</u>	<u>6.600</u>
<b>Net Book Value</b>				
	<u><b>26.166</b></u>	<u><b>26.970</b></u>	<u><b>26.166</b></u>	<u><b>26.970</b></u>

No fair value carried out at the balance sheet date and step will be taken to obtain professional valuation in 2013.

## 4.6 The useful lives of the assets is estimated as follows

	2013	2012
Freehold Land	Nil	Nil
Buildings	40 Years	40 Years
New Head Office building	50 Years	50 Years
Refinery Tanks & Pipelines	40 Years	40 Years
Refinery Plant & Machinery	10 Years	10 Years
Other Location Tanks	40 or 20 Years	40 or 20 Years
Other Locations Pipelines	10 or 5 Years	10 or 5 Years
Plant & Machinery	10 or 5 Years	10 or 5 Years
Browsers & Tank Lorries	5Years	5Years
Vans & Coaches	4Years	4Years
Furniture/Fittings & Office Equipments up to 31.12.1998	Fully	Fully
Furniture/Fittings & Office Equipments up to 31.12.1999	3 Years	3 Years
SPM Facility - Tank Farm	40 Years	40 Years
- Pipelines	20Years	20Years

## 4.7 Intangible Assets

	Sap ERP User ERP Project	Automation of License	Offshore Pipelin Project	Total
<b>Cost of Valuation</b>				
Balance at 1st January 2013	410.974	9.380	37.794	458.148
Additions	1.522			1.522
Transfers	-	-	-	-
As at 31st December 2013	<u>412.497</u>	<u>9.380</u>	<u>37.794</u>	<u>459.670</u>
<b>Accumulative Depreciation and Impairment</b>				
As at January 2013	226.317	0.482	1.921	228.720
Charge for the Year	91.658			91.658
Transfers	-			-
As at 31st December 2013	<u>317.975</u>	<u>0.482</u>	<u>1.921</u>	<u>320.377</u>
<b>Net Book Value</b>				
As at 31st December 2013	<u><b>94.522</b></u>	<u><b>8.898</b></u>	<u><b>35.873</b></u>	<u><b>139.293</b></u>
As at 31st December 2012	<u><b>184.657</b></u>	<u><b>8.898</b></u>	<u><b>35.873</b></u>	<u><b>229.428</b></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 5. INVESTMENTS

	CPC		GROUP	
	2013 Rs .Mn	2012 Rs .Mn	2013 Rs .Mn	2012 Rs .Mn
<b>5.1 Non-Current</b>				
<b>a) Investment in Associated Company</b>				
<b>Unquoted</b>				
Ceylon Petroleum Storage Terminals Ltd.	5,000.000	5,000.000	-	-
Additions to Investments	-	-	-	-
	<b>5,000.000</b>	<b>5,000.000</b>	<b>0.000</b>	<b>0.000</b>
<b>b) Other Investments -Available for sale investments</b>				
<b>Quoted</b>				
Lanka Cement Ltd.	47.500	99.000	47.500	99.000
5,000,000 Ordinary Shares of Rs.10/= each fully paid				
Fair value transfer to equity	(14.500)	(51.50)	(14.500)	(51.500)
	<b>33.000</b>	<b>47.500</b>	<b>33.000</b>	<b>47.500</b>
<b>Unquoted</b>				
<b>Associated News Papers of Ceylon Ltd.</b>				
61,206 Ordinary Shares of Rs.10/= each fully paid.	0.539	0.539	0.54	0.539
<b>Lanka Leyland Ltd.</b>				
100 Ordinary Shares of 10/= each fully paid.	0.001	0.001	0.00	0.001
<b>International Coop/Petroleum association</b>				
5,499 Shares of Us \$ 100/= each fully paid Incorporated in USA	5.086	5.086	5.09	5.086
	<b>5.626</b>	<b>5.626</b>	<b>5.626</b>	<b>5.626</b>
<b>5.2 Total</b>	<b>38.626</b>	<b>53.126</b>	<b>38.626</b>	<b>53.126</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 6. TRADE & OTHER RECEIVABLE

	CPC		CPC		GROUP		GROUP	
	2013		2012		2013		2012	
	Rs. Mn With in one Year	Rs. Mn After one Year	Rs. Mn With in one Year	Rs. Mn After one Year	Rs. Mn With in one Year	Rs. Mn After one Year	Rs. Mn With in one Year	Rs. Mn After one Year
Trade Receivables	53,147.185		97,378.525	-	53,945.433		97,763.121	-
Other Receivables	1,585.849	32,338.40	3,251.512	13,684.29	157.740	32,338.40	3,280.734	12,255.76
Deposits	13.685	260.13	12.297	697.32	300.808	260.13	12.297	697.32
Advance	375.128		499.601	-	375.128	-	591.565	
Prepayments	178.206		221.211	-	178.206	-	221.211	-
Loans & Advances to Employees	31.806	2,242.56	39.865	1,729.38	2,126.114	2,242.56	2,434.487	1,729.38
	<b>55,331.858</b>	<b>34,841.091</b>	<b>101,403.011</b>	<b>16,110.986</b>	<b>57,083.428</b>	<b>34,841.091</b>	<b>104,303.415</b>	<b>14,682.463</b>

## 7. INVENTORIES

	CPC		GROUP	
	2013 Rs.Mn	2012 Rs.Mn	2013 Rs.Mn	2012 Rs.Mn
Crude Oil	24,231.471	13,955.461	24,231.471	13,955.461
Other Raw material	909.535	1,002.053	909.535	1,002.053
Finished Products	37,869.639	45,577.306	37,869.639	45,577.577
Other Materials & Supplies	2,363.479	1,997.516	2,931.560	2,529.557
Less: Provision for Non Moving Items	(341.924)	(342.511)	(513.765)	(514.352)
	<b>65,032.200</b>	<b>62,189.825</b>	<b>65,428.440</b>	<b>62,550.296</b>

## 8. CASH AND CASH EQUIVALENTS

### Components of Cash and Cash Equivalents

Cash & Bank Balances	6,134.526	11,623.634	11,385.099	12,085.561
	<b>6,134.526</b>	<b>11,623.634</b>	<b>11,385.099</b>	<b>12,085.561</b>

Cash and cash equivalents include the following for the purpose of the statement of cash flows:

Cash and cash equivalents	6,134.526	11,623.634	11,385.099	12,085.561
Bank overdrafts	(8,365.51)	-	(8,537.06)	(365.08)
	<b>(2,230.984)</b>	<b>11,623.634</b>	<b>2,848.037</b>	<b>11,720.479</b>
Add/Less: Adjustment for foreign currency translation	(5,068.406)	(4,688.55)	(5,068.406)	(4,688.55)
	<b>(7,299.390)</b>	<b>6,935.086</b>	<b>(2,220.369)</b>	<b>7,031.931</b>

## 9. CONTRIBUTED CAPITAL

Initial Contribution in Pursuance of Section 23 of Act No 28 of 1961	10.000	10.000	10.000	10.000
Voted by Appropriation Act no 23 of 1964	4.000	4.000	4.000	4.000
Voted by Appropriation Act no 15 of 1967	20.000	20.000	20.000	20.000
Contribution to Capital in 1976	60.000	60.000	60.000	60.000
Contribution to Capital in 1979	13.110	13.110	13.110	13.110
Contribution to Capital in 1980	10.710	10.710	10.710	10.710
Total Contributed by Govt. of Sri Lanka	117.820	117.820	117.820	117.820
Transferred from General Reserve in 1987	750.000	750.000	750.000	750.000
Transferred from Retained Profits in 1987	132.180	132.180	132.180	132.180
	<b>1,000.000</b>	<b>1,000.000</b>	<b>1,000.000</b>	<b>1,000.000</b>

( No authorized capital has been fixed by the Parliament.)

## NOTES TO THE FINANCIAL STATEMENTS

	CPC		GROUP	
	2013	2012	2013	2012
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
<b>10. CAPITAL RESERVE</b>				
Balance as at 01 <sup>st</sup> January	4,992.686	4,992.686	4,992.686	4,992.686
Balance as at 31 <sup>st</sup> December	<b>4,992.686</b>	<b>4,992.686</b>	<b>4,992.686</b>	<b>4,992.686</b>

\* In 2003, the transfer of assets to CPSTL had been done at book values. Subsequently it had been decided to record the above transaction based on the values that had been agreed upon in the process of privatization. The effect of the above transaction had been adjusted under net re-structuring sales proceeds.

### 11. INTEREST BEARING LOANS & BORROWINGS

#### 11.1 L.T. Loans not assigned to CPSTL

Treasury (A.D.B) Loan - (Interest 14.0% p.a.) repayable in forty 1/2 yearly installments of Rs.37.977 Mil each commencing July '01.

#### 11.2 L.T. Loans assigned to CPSTL

Treasury (Exim Bank) Loan - (Interest 12.0 p.a %) repayment commencing Oct. 2004 in 24 equal 1/2 yearly installments of final Loan value

#### 11.4 Peoples Bank Term Loan

	493.736	569.695	493.736	569.695
	857.114	1,428.523	857.114	1,428.523
	-	-	2,374.451	2,523.204
	<b>1,350.850</b>	<b>1,998.218</b>	<b>3,725.301</b>	<b>4,521.422</b>

### 12. TRADE & OTHER PAYABLES

Foreign Bills Payable

Other Creditors

- Amount due to Inland Revenue & Custom Dept.

- Accrued Expenses

- Refundable Deposits & Others

- Amount due to Related Parties

- Payable to SCB

	179,457.390	189,355.413	179,457.390	189,355.413
	1.016	2,213.257	223.588	2,213.257
	1,260.938	3,338.666	2,216.130	3,456.338
	11,397.417	16,943.900	11,419.523	18,311.032
	1,980.164	1,434.516	4,245.237	900.854
	0.000	7,611.600	0.000	7,611.600
	<b>194,096.925</b>	<b>220,897.351</b>	<b>197,561.868</b>	<b>221,848.494</b>

### 13. INTEREST BEARING LOANS AND BORROWINGS WITHIN 01 YEAR

Bank & Other loans

- Wholly Repayable within one year

- Bank Overdrafts

	219,042.059	211,163.063	219,529.859	211,650.863
	8,365.509	-	8,537.060	365.082
	<b>227,407.568</b>	<b>211,163.063</b>	<b>228,066.919</b>	<b>212,015.945</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 14. CASH GENERATED FROM OPERATIONS

	CPC		GROUP	
	2013 Rs.Mn	2012 Rs.Mn	2013 Rs.Mn	2012 Rs.Mn
Profit/(Loss) before tax from continuing operations	(7,984.225)	(97,308.373)	(6,388.19)	(95,473.31)
<b>Adjustment for :</b>			-	-
Depreciation	485.882	516.994	1,624.43	1,672.827
Amortisation			91.66	84.597
Foreign Currency Translation	(379.872)	(3,656.660)	(379.87)	(3,656.660)
Investment Income	0.007	(0.003)	0.01	(0.003)
Interest Received	(3,254.882)	(2,413.145)	(3,279.40)	(2,472.059)
Adjustment to Market Value( Quoted Share)	14.500	51.500	14.50	51.500
Provision for Stores Non Moving Items		21.602	-	21.602
Provision for Bad & Doubtful Debts & Recoveries	(0.511)	(0.396)	(0.51)	(0.396)
Interest Expenses	18,539.848	18,359.678	19,195.08	19,084.230
Interest on gratuity			77.08	-
Provision for Retirement Obligation	57.032	(40.731)	126.78	274.635
Provision for impairment- Staff Loans			(2.98)	0.820
Provision for impairment- debtors			120.53	-
(Profit)/Loss on Sale of Property, Plant & Equipment	(23.728)	(1.130)	(36.59)	(1.466)
Platinum Reserve		97.520	-	97.520
<b>Operating Profit/(Loss) before Working Capital changes</b>	<b>7,454.051</b>	<b>(84,373.144)</b>	<b>11,162.523</b>	<b>(80,316.164)</b>
Changes in Working Capital				
(Increase)/ Decrease in Inventories	(2,842.375)	(25,230.461)	(2,878.144)	(25,219.390)
(Increase)/ Decrease in Trade and Other Receivable	27,341.560	5,039.874	25,418.555	3,038.106
Increase/ (Decrease) In Trade and Other Payables	(26,800.426)	53,864.343	(22,091.929)	52,689.564
<b>Cash Generated from/ (Used in) operating activities</b>	<b>5,152.809</b>	<b>(50,699.388)</b>	<b>11,611.005</b>	<b>(49,807.884)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 15. RELATED PARTY TRANSACTIONS

Six Directors of the CPC (as noted below) continue to be the Directors of the Ceylon Petroleum Storage Limited (CPSTL) due to equity ownership.

1. L.E. Susantha Silva
2. Major General M R W De Soyza
3. Mrs. S. Wijayabandara
4. Mr. Bandula Saman Kumara
5. Mrs. R.M.D.K. Ratnayake
6. Mr. M. Wijayagunewardena

Primary objective of CPSTL is to provide Storage and transport activities and provision of IT services. During the year under review CPC has paid Throughput charges of R. Rs. 8,366.62 Mn. (2012- Rs..9,443.96 Mn) and transport charges of Rs. 1,997.98 Mn. (2012- Rs. 1,549.66 Mn.) to CPSTL.

### 16. FINANCIAL RISK FACTORS

The Corporation's activities expose to a variety of financial risks; market risk (including currency risk, interest rate risk), credit risk and liquidity risk & price risk. Risk management is carried out by management under policies approved by Board of Directors. Management identifies and evaluates the financial risks with reference to the operations of the Corporation. The Corporation's overall risk management programs seek to minimize potential adverse effects on the Corporation's financial performance.

The principal financial instruments of the Corporation comprise of short term fixed deposits, money market investments, US Dollar deposits and cash. The main purpose of these finance instruments is to improve and maintain liquidity of the Corporation and to maximize financial return on the invested funds. The Corporation has various other financial instruments such as trade receivables and trade payables which arise directly from its business activities.

#### (a) Market risk

##### (i) Foreign exchange risk

When the Corporation imports the petroleum products and is exposed to foreign exchange risk arising from currency exposure, primarily with respect to US dollars. The Corporation's functional currency is LKR in which most of the domestic transactions are denominated, and all other currencies are considered as foreign currencies for reporting purposes. Certain bank balances, trade receivables and trade payables are denominated in foreign currencies.

The Corporations' financial statements which are presented in LKR, are affected by foreign exchange fluctuations through both translation risk and transaction risk. The changes in foreign currency exchange rates affect the cost of materials, purchases and services obtained from various parties in foreign currencies. In particular, continuous depreciation of the LKR against the US\$ and other foreign currencies has direct impact on the operating and financial result through its impact on cost of imported petroleum products and other purchases.

As at 31 December 2012, if LKR had depreciated by 1% against USD with all other variables held constant, will result in foreign exchange loss of LKR 3,991,994,046.

**(ii) Interest rate risk**

Interest rate risk of the Corporation arises mainly from the borrowings and investment in the form of Repo and term deposits. In the case of supplier interest rate varies largely from prevailing market rates. Foreign currency loans obtained through two state commercial banks are at negotiated rates of interest. The Corporation analyses the interest exposure on a continuous basis and monitors London Inter Banking Offer Rate (LIBOR) and money market rates.

**(b) Credit risk**

Credit risk is the risk of financial loss to the corporation, if a customer fails to meet its contractual obligations. Most of the Corporation's customers are not independently rated, therefore the quality of customers is considered by taking into account its financial position, past experience and other qualitative factors. Corporation has established a credit policy under which each new customer is analyzed individually for credit worthiness before the credit limit is granted. Customers who fail to meet the corporations' credit policy may transact with the corporation only on cash basis.

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

**(c) Liquidity risk**

Cash flow planning and forecasting is performed by the Finance division of the Corporation. Finance division continuously monitors funds available to meet its various financial liabilities and optimum utilization of excess short term financial resources for better yields.

Surplus cash held over and above balance required for working capital management is invested in interest bearing financial instruments such as savings accounts and short term repo investments/ time deposits. At the reporting date, the Corporation held liquid assets (time deposits) of Rs.4,055.87 Mn. that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Corporation non-derivative liabilities into relevant maturity grouping based on the remaining period at the balance sheet date to contractual maturity date.

	<b>December 2013 (Rs.Mn.)</b>			
	<b>Less than 03 Months</b>	<b>03 months to 2 years</b>	<b>3-5 years</b>	<b>Over 5 years</b>
Bank Borrowings	227.407	-	-	-
Long term Debt	-	685.348	437.623	227.878

#### **(d) Price Risk**

The corporation is exposed to the commodity price risk of petroleum products & other raw materials imported from overseas countries in US Dollars and other currencies. Cost reflective price mechanism is not in place in deciding domestic retail sales prices of petroleum products in line with international oil price movements. The Corporation regularly holds weekly stock review meetings at which future product requirements are discussed and planned for the required future importation. At the same time the corporation continuously interacts with the General Treasury by giving financial information of Petroleum products to make suitable timely managerial decisions.

### **17. CAPITAL MANAGEMENT**

Primary objective of the capital management is to ensure for Safeguard Corporation's ability to ensure going concern status in order to provide returns for equity share holders and benefits to other stake holders. The Corporation had sustained a loss of Rs. 7,924.225 Million (without tax adjustments ) for the current year and had a negative net asset position of Rs. 236,528.740 million as at end of the year 2013 due to accumulated losses for last five years. The external auditors have mentioned that the corporation's ability to continue as going concern without the financial assistance from the government of Sri Lanka and other financial institutions was doubt full.

The heavy losses incurred by the Corporation are largely depend on the sale of Auto Diesel, Kerosene and Naphtha at highly subsidized rates as retail price is determined by the government. To cover up such losses as per the sec. 17 Of Finance Act No. 38 of 1971, the Corporation is entitled to receive subsidy by the government. If the subsidies are received Corporation's negative net asset position could be overcome.

## TEN YEAR SUMMARY

### DOMESTIC SALES OF BULK PRODUCTS

(Rupees Mn.)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>(A) VALUE</b>										
Petrol	28,761.37	28,633.66	36,677.34	46,579.62	66,433.73	60,055.14	65,157.91	90,498.78	117,600.05	132,397.75
Auto Diesel	74,520.99	78,104.77	92,474.65	113,737.17	151,070.45	119,046.26	122,360.42	165,800.16	246,441.20	216,419.74
Super Diesel	1,711.53	725,285	349.805	467.764	885.25	866.145	1,170.27	1,587.58	3,539.87	4,151.77
Kerosene	7,775.14	11,430.28	13,209.91	12,459.33	14,000.05	9,754.54	10,711.00	12,804.33	18,099.54	16,803.23
Furnace Oil	20,135.72	30,165.89	36,421.65	43,941.11	66,220.15	33,157.15	35,792.02	49,990.51	84,790.17	60,651.35
<b>Total</b>	<b>132,904.73</b>	<b>149,059.89</b>	<b>179,133.35</b>	<b>217,184.99</b>	<b>298,609.63</b>	<b>222,879.22</b>	<b>235,191.62</b>	<b>320,681.36</b>	<b>470,470.83</b>	<b>430,423.84</b>

### (B) QUANTITY - Thousand Metric Tons

Petrol	350.30	334.10	367.60	382.10	383.75	415.67	484.26	563.37	618.67	640.35
Auto Diesel	1,583.30	1,330.10	1,335.30	1,449.70	1,371.32	1,427.33	1,422.12	1,848.66	1,930.40	1,559.06
Super Diesel	31.60	11.70	4.70	5.40	7.19	8.55	11.37	14.07	22.10	24.89
Kerosene	171.80	178.00	196.60	168.50	151.31	150.69	165.11	146.88	142.86	126.12
Furnace Oil	771.70	972.80	911.10	985.20	994.55	1,095.73	1,004.50	1,092.82	1,187.08	751.09
<b>Total</b>	<b>2,908.70</b>	<b>2,826.70</b>	<b>2,815.30</b>	<b>2,990.90</b>	<b>2,908.11</b>	<b>3,097.97</b>	<b>3,087.35</b>	<b>3,665.80</b>	<b>3,901.11</b>	<b>3,101.51</b>

### (C) RETAIL SELLING PRICES IN PETROLEUM

(Colombo Spot Price in Rs. Per Litre as at 31st December)

Super Petrol	70.00	80.00	95.00	92.00	120.00	115.00	115.00	125.00	159.00	162.00
Auto Diesel	44.00	50.00	92.00	60.00	70.00	73.00	73.00	76.00	115.00	121.00
Super Diesel	49.30	55.30	65.30	65.30	85.30	88.30	88.30	98.30	142.00	145.00
Kerosene	25.50	30.50	48.00	48.00	50.00	51.00	51.00	61.00	106.00	106.00
Furnace Oil										
Furnace Oil 800"	24.70	31.40	44.40	44.40	33.90	34.90	40.00	52.20	92.20	92.20
Furnace Oil 1500"	24.30	30.30	43.30	43.30	31.70	32.70	40.00	50.00	65.00	90.00
Furnace Oil 3500"	22.00	28.00	41.00	41.00	25.00	26.00	40.00	50.00	65.00	90.00

### INCOME & EXPENDITURE

Gross Income(less Taxes)	121,540.00	161,852.00	196,767.00	238.36	341.67	236,332.00	256,329.16	356,442.36	512,910.31	490,381.49
<b>Income from Investment</b>	-	-	-	-	-	-	-	-	-	-
Cost of Sales	106,750.00	144,501.00	187,231.00	221,724.00	338,514.00	233,250.00	265,603.76	428,070.57	573,692.05	467,637.93
Margin	14,789.00	17,350.00	9,536.00	16,641.00	1,835.04	3,082.00	(9,274.61)	(71,628.21)	(60,781.74)	22,743.56
Working & Establishment Expenses including Interest	10,344.00	7,510.00	7,621.00	12,657.00	16,570.00	15,424.77	17,648.21	22,875.24	34,034.29	30,513.29
Hedging Expenses	-	-	-	-	-	-	-	-	7,611.60	214.49
Profit/(Loss) Before Tax	4,445.00	9,840.00	(1,915.00)	3,984.00	(14,735.00)	(12,342.64)	(26,922.82)	(94,503.45)	(97,308.37)	(7,984.23)

# TEN YEAR SUMMARY

(Rupees Mn)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>CAPITAL STRUCTURE</b>										
<b>Capital Employed</b>										
Capital	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	3,500.00	3,500.00	3,500.00
Reserves	1,984.10	11,673.40	10,065.90	12,567.80	(2,416.40)	(14,038.05)	(40,951.63)	(134,824.14)	(232,044.52)	(240,028.74)
L/T Liabilities	7,699.90	19,113.40	16,705.00	13,728.20	10,908.40	32,779.06	28,478.19	27,646.49	1,998.22	1,350.85
Gratuity Provision	700.40	377.40	514.30	541.40	566.50	735.20	746.34	626.68	546.94	538.11
<b>Total</b>	<b>11,384.40</b>	<b>32,164.20</b>	<b>28,285.40</b>	<b>27,837.40</b>	<b>10,058.50</b>	<b>20,476.21</b>	<b>(10,727.10)</b>	<b>(103,050.98)</b>	<b>(225,999.36)</b>	<b>(234,639.78)</b>
<b>Represented</b>										
Fixed Assets, Including work in Progress	4,450.70	4,512.70	4,460.90	4,374.60	4,624.00	5,041.00	8,280.08	8,850.37	9,599.17	13,136.81
Investment	2,176.10	2,535.60	2,553.10	2,546.90	2,541.90	2,541.90	2,541.90	5,041.88	5,058.13	5,043.63
Net Current Assets	4,757.60	25,115.90	21,271.50	20,915.90	2,892.60	12,214.67	(28,938.69)	(458,601.64)	(240,656.66)	(252,820.00)
<b>Total</b>	<b>11,384.40</b>	<b>32,164.20</b>	<b>28,285.50</b>	<b>27,837.40</b>	<b>10,058.50</b>	<b>19,797.57</b>	<b>(18,116.71)</b>	<b>(444,709.39)</b>	<b>(225,999.36)</b>	<b>(234,639.56)</b>
<b>SUMMARISED CASH FLOW STATEMENT</b>										
Cash Flow from Operating	4,444.84	9,839.81	(1,915.03)	3,984.18	(14,735.03)	(12,342.64)	(26,922.82)	(94,508.39)	(97,308.37)	7,984.23
Adjustment for Items not involving Movement of cash	776.81	841.68	1,431.85	1,928.20	1,922.02	4,986.48	5,778.64	(10,854.12)	12,935.23	15,438.28
Operating Profit/(Loss) before Working Capital	5,221.64	10,681.49	(483.18)	5,912.38	(12,813.00)	(7,356.16)	(21,144.18)	(83,654.28)	(84,373.14)	7,454.05
<b>Change in Working Capital</b>										
(Increase)/Decrease in inventories	(5,157.40)	(4,066.37)	(9,184.44)	(13,321.53)	8,673.83	5,962.16	(15,922.08)	4,328.93	(25,230.46)	(2,842.38)
(Increase)/Decrease in Trade and Other Receivables	789.61	(3,434.62)	(2,852.64)	(13,098.77)	(32,409.85)	(9,365.38)	(5,283.96)	(35,784.66)	5,039.87	27,341.56
(Increase)/Decrease in Trade and Other Payables	2,862.13	(1,838.77)	11,099.33	23,813.34	39,946.80	57,438.63	25,211.64	21,399.69	53,864.34	(26,800.43)
Les Gratuity/Tax and Interest Paid	(880.77)	(2,072.72)	(5,613.11)	(3,268.48)	(4,625.38)	(4,871.60)	6,858.90	(9,000.57)	(17,709.06)	19,072.36
Cash Generating From Operational Activities	2,835.22	(730.98)	(7,034.05)	36.94	(1,227.61)	41,807.64	(24,169.25)	(102,756.33)	(68,408.44)	(13,919.55)
Cash Used in Investing Activities	246.17	317.93	662.03	1,165.99	40.61	(308.56)	(3,376.18)	(643.96)	1,148.48	(7,546.56)
Cash from/(Used in) Financing Activities	1,050.68	13,020.88	(2,478.14)	(3,326.04)	(1,001.41)	(21,339.77)	(4,379.07)	119,016.51	62,539.95	7,231.63
Net (Decrease)/Increase in cash & Cash Equivalents	4,132.07	12,607.83	(8,850.16)	(2,123.11)	(2,188.41)	20,159.31	(31,924.50)	15,616.22	(4,720.01)	(14,234.48)
Cash & Cash Equivalents at beginning of the year	4,193.75	8,325.82	20,933.65	12,083.50	9,960.39	7,771.98	27,963.38	(3,961.12)	11,656.10	6,935.09
Cash & Cash Equivalents at end of the year	8,325.82	20,938.65	12,083.50	9,960.39	7,771.98	27,931.29	(3,961.12)	11,655.10	6,935.09	(7,299.39)



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கணக்காய்வாளர் தலைமை அறிபுதி திணைக்களம்  
**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය  
எனது இல. }  
My No. }

EH/B/CPC/1/13/01

ඔබේ අංකය  
உமது இல. }  
Your No. }

දිනය  
திகதி }  
Date }

8 April 2015

The Chairman  
Ceylon Petroleum Corporation

**Report of the Auditor General on the Financial Statements of the Ceylon Petroleum Corporation (CPC) and the Consolidated Financial Statements of the Corporation and its Subsidiary for the year ended 31 December 2013 in terms of Section 14(2)(c) of the Finance Act, No. 38 of 1971**

The audit of financial statements of the Ceylon Petroleum Corporation (CPC) and the consolidated financial statements of the Corporation and its Subsidiary for the year ended 31 December 2013 comprising the statements of financial position as at 31 December 2013 and the statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 31 of the Ceylon Petroleum Corporation Act, No. 28 of 1961. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2) (c) of the Finance Act appear in this report. The financial statements of the Subsidiary were audited by a firm of Chartered Accountants in public practice appointed by the Board of Directors of the respective Subsidiary. A detailed report in terms of Section 13(7) (a) of the Finance Act will be issued in due course.

**1.2 Management's Responsibility for the Financial Statements**

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

**1.3 Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 -1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain

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අංක 306/72, පොල්දො පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - - இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka

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reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the 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 Corporation'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 financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**1.4 Basis for Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

**2 Financial Statements**

**2.1 Qualified Opinion**

**(a) Qualified Opinion – Corporation**

In my opinion, except for the effects of the matters described in paragraph 2.2.2 of this report, the financial statements give a true and fair view of the financial position of the Ceylon Petroleum Corporation as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**(b) Qualified Opinion – Group**

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the consolidated financial statements give a true and fair view of the financial position of the Ceylon Petroleum Corporation and its Subsidiary as at 31 December 2013 and their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.



## **2.2 Comments on Financial Statements**

### **2.2.1 Group Financial Statements**

The following observations are made.

- (a) The auditors of the Ceylon Petroleum Storage Terminal Ltd (CPSTL), the Subsidiary of the Corporation having two third of shares, had expressed a qualified opinion on the financial statements for the year 2013 based on the followings matters.
  - (i) Even though excess terminal charges refundable to the Corporation and Lanka Indian Oil Company (LIOC) amounting to Rs. 1,065,397,574 and Rs. 120,238,623 respectively had been outstanding since 2008, no action had been taken to settle these amounts.
  - (ii) Related party confirmations received from the Corporation and LIOC were not in agreement with the amounts reflected in the ledger. Further, dues from the Corporation and LIOC amounting to Rs. 221.34 million and Rs. 3.35 million had been disputed.
- (b) A sum of Rs. 461,046,341 receivable from the Subsidiary, which had been included in trade and other receivables for more than one year as at 31 December 2013, had not been eliminated in consolidation, and as a result, the trade and other receivables shown in the group financial statements for more than one year had been overstated by similar amount.

### **2.2.2 Financial Statements of the Corporation**

**2.2.2.1 Going Concern of the Corporation** – I draw attention to the matter that the Corporation had sustained net loss of Rs. 7,984 million for the year 2013 and had a negative net assets position of Rs. 236,529 million at the end of the year under review, and also, the negative impact of Hedging transactions taken place in 2012 had caused to increase the net loss of the Corporation. Even though the net loss of the year under review had decreased up to Rs. 7,984 million as compared with the net loss of Rs. 97,308 million for the previous year, occurring heavy losses since 2008 had resulted to further erosion of the net assets position of the Corporation. Thus, the ability of the Corporation to continue as a going concern without the financial assistance from the Government is doubtful.

#### **2.2.2.2 Non-compliance with Sri Lanka Accounting Standards (LKAS)**

The following observations are made.

- (a) According to the Sri Lanka Accounting Standards applied before 01 January 2012, the Group should have recognized the gain on acquisition of the CPSTL (Subsidiary) in



- profit or loss immediately. However, the business acquisition related gains of Rs. 2,485.6 million had not been recognized in profit or loss in accordance with Sri Lanka Accounting Standards and instead it had been shown continuously as a reserve in the consolidated statements of financial position of the Group since 2010.
- (b) According to the Accounting Policy No. 3.2 referred in the financial statements, the Corporation had computed the retirement benefit costs by applying the **projected unit credit method** using the software issued by the Institute of Chartered Accountants of Sri Lanka, which had been permitted to use only for small and medium scale enterprises (SME). Accordingly, the requirement of provision for gratuity in terms of **LKAS 19 – Employee Benefits** had not been followed.
  - (c) According to the information made available, it was observed that there were 216 unsettled court cases as at the end of the year under review, and out of that 112 cases with expected amounts of Rs. 36,948,819, US dollars 13,309,645 and GBP 90,812 were against the Corporation and 18 cases were filed by the Corporation against the outsiders with expected amounts of Rs. 5,643,991,774, US Dollars 5,175,203 and GBP 13,901. Further, out of above mentioned 216 court cases, 189 cases were remained unsettled up to the date of this report. However, only three (3) cases filed by the Corporation against the outsiders had been disclosed under the Accounting Policies to the financial statements. Therefore, it was observed that an appropriate provisions or disclosures for legal obligations as at the end of the year under review had not been made in the financial statements as required by **LKAS 37 – Provisions, Contingent Liabilities and Contingent Assets**.

### 2.2.2.3 Accounting Deficiencies

The following observations are made.

- (a) The stock of platinum (precious metal) used to prepare new catalysts, which was an integral component of the platformer unit of the Refinery, had represented a negative (credit) balance of Rs. 21,463,682 as at 31 December 2013 due to changing the accounting policy for valuation of platinum stock by the Corporation which had not been separately disclosed in the financial statements and making inappropriate adjustments to the balance of previously revalued amount of platinum stocks. Hence, the year-end balance of stocks shown in the financial statements had not been fairly reflected and the actual impact could not be ascertained due to unavailability of information for audit.
- (b) The Corporation had utilized the oil stock of Rs. 7,346,782 owned by the LIOC and it had been deducted from the other receivables as at the end of the year under review. As a result, the other receivables as well as the balance of oil stock shown in the financial statements had been understated by similar amount.



- (c) A sum of Rs. 383,114,031 payable to the Central Bank of Sri Lanka (CBSL) in respect of expenditure incurred for Hedging transactions of the Corporation and salaries payable to the employees of the Corporation amounting to Rs. 3,565,829 had been inappropriately included under the amounts payable to related parties. Further, a sum of Rs. 50 million of legal fees reimbursed to the CBSL on Hedging transactions had erroneously been accounted as legal fees for the year under review without being posted to the CBSL payable account. As a result, the payable balance to the CBSL and the legal fees shown in the financial statements had been overstated by similar amount.
- (d) Dividend receivable from the Subsidiary amounting to Rs. 875 million had not been taken into the accounts of the Corporation, and as such, it had not been considered in consolidation as well.
- (e) A difference of Rs. 796 million was observed between the outstanding balance shown in the financial statements of the Corporation as receivables from the Ceylon Electricity Board (CEB) and the corresponding balance shown in the financial statements of the CEB as payable to the Corporation. However, the CEB had refused for charging a sum of Rs. 766 million as interest for delay in payments, which had been included in the above balance, and ignoring that dispute the Corporation had accounted for it as receivable.

#### 2.2.2.4 Unreconciled Differences

The following unreconciled differences were observed.

- (a) Differences of Rs. 2,196.19 million and Rs. 3,371.95 million were observed between the related party balances shown in the financial statements of the Corporation and the corresponding balances shown in the financial statements of the Subsidiary for the years ended 31 December 2012 and 2013 respectively.

Similarly, sums of Rs. 2,297.82 million and Rs. 652.28 million of differences were observed between the financial statements of the Corporation and the Subsidiary in respect of the services for oil storage and distribution for the years ended 31 December 2012 and 2013 respectively.

- (b) Balances shown in the financial statements of the Bank of Ceylon and the People's Bank as at 31 December 2013 had not been tallied with the corresponding balances shown in the financial statements of the Corporation. Accordingly, the differences of Rs. 1,202 million and Rs. 34 million respectively were observed between those financial statements.



### 2.2.2.5 Accounts Receivable and Payable

Total trade receivables as at 31 December 2013 was Rs. 53,189,676,188 including Rs.15,415,734,805 and Rs. 37,773,941,383 due from government institutions and private institutions respectively, and out of that a sum of Rs. 339,877,818 had been outstanding for more than 2 years.

The details of the outstanding balances of the Corporation as at 31 December 2013 as compared with the previous year are given below.

Category	Total dues as at 31 December	
	2013	2012
	Rs.	Rs.
Dealers	1,017,123,765	947,723,789
Aviation	34,725,218,564	29,887,871,353
Power Plants – CEB	7,154,095,254	27,823,749,142
Power Plants - Private	5,412,175,605	17,064,591,449
Government Consumers	2,617,900,530	20,776,542,402
Private Consumers	1,709,489,885	574,893,541
Agro Chemical	23,639,740	26,534,377
Lubricant	527,351,340	535,322,865
Others	2,681,505	74,544
<b>Total</b>	<b>53,189,676,188</b>	<b>97,637,303,460</b>

The following observations are also made in this regard.

- Out of total outstanding balance of Rs. 53,189,676,188 as at 31 December 2013, a sum of Rs. 280,420,496 was outstanding for more than 3 years and out of which several customers having outstanding balance of Rs. 231,027,426 had been continuously supplied petroleum products.
- As highlighted in my previous years audit reports, the Corporation had provided the credit facilities to two aviation customers without obtaining bank guarantees. The management's view on this regard was "there was no any credit risk as *Petronas* (an aviation customer) was a government owned Aviation Company settling its dues without any dispute". Nevertheless, the Corporation had made a full provision for the outstanding balance of Rs. 3,603,910 receivable from this company in the financial statements of the year under review.



- (c) Instances of providing credit facilities exceeding bank guarantee during the under review to four aviation customers were observed. The extent of granting credit facilities exceeding the bank guarantees was between the ranges of 50 per cent to 121 per cent.
- (d) The Corporation had provided the special credit facilities to a 5-Day Credit Dealer based on a special credit facilities provided during the war season and another 5-Day Credit Dealer based on a special request made by him without proper approval. Further, these credit facilities had been extended to a power plant customer on an agreement. However, continuation of these facilities over a longer period without considering the present environmental changes and obtaining the required approvals was in question to audit. Total amount outstanding from those customers as at 31 December 2013 was Rs. 1,863.7 million.
- (e) According to the Board decision taken on 08 August 2006 and the letter dated 24 March 2008 of the Senior Deputy Finance Manager (Revenue) of the Corporation, an interest rate of 24 per cent per annum is required to be charged to the customers having overdue balances. However, the System Application and Products (SAP) system of the Enterprise Resource Planning (ERP) system introduced and implemented by the Subsidiary, which used by the Corporation for data processing and monitoring of stock levels, does not facilitate to calculate the interest charges on unsettled invoices over the credit period. Therefore, the Corporation had used to calculate the interest manually on unsettled invoices and to update the SAP System. Accordingly, it was observed that a proper system had not been designed, implemented and maintained by the Corporation to ensure the accuracy and completeness of interest charges on overdue balances.
- (f) Petroleum products had continuously been supplied to defaulted Cheque on Delivery (COD) customers on hard cash basis until the settlement of the balances outstanding which reflects poor credit control. For instance, the value of defaulted COD in 2013 and 2012 were Rs. 64,942,385 and Rs. 58,399,795 respectively. There were 1,489 instances of cheque returns valued at Rs. 1,413,402,939 during the year 2013 as compared with 1,579 instances valued at Rs.1,388,713,962 during the year 2012, which was noted as an excessive amount. It was revealed that customers had used this practice to manage their own working capital due to lack of proper control in this regard.
- (g) Out of the total trade receivables of Rs. 53,189.7 million as at 31 December 2013, a sum of Rs. 44,556.5 million due from 856 debtors had not been confirmed their balances. Further, a difference of Rs. 821.4 million was observed between the ledger balances and the balances confirmed by debtors. However, a statement of reconciliation or management explanation for the differences was not furnished to audit.



**2.2.2.6 Hedging Transactions**

According to the Hedging transactions, the Corporation was cited as a party in the arbitration proceeding pertaining to hedging contracts entered into with several commercial banks. As such, a sum of US Dollars 60 million (Rs. 7,612 million) had been paid to the Standard Chartered Bank (SCB) on 3 June 2013 under the Deed of Settlement entered into between the parties. According to the information made available, the total losses incurred by the Corporation as at 31 August 2014 including legal and other charges was Rs. 9,780 million.

In addition to that, the Central Bank of Sri Lanka had paid a sum of Rs. 378.7 million up to 31 December 2014 for the services obtained from the foreign layers who appeared in the arbitration proceedings initiated by the Deutsche Bank against the Government of Sri Lanka. However, this position and the amount had not been disclosed in the financial statements of the Corporation.

**2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions**

The following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>
(a) Section 3.2 of the Public Enterprises Circular No. PED/12 of 2 June 2003 on Public Enterprises Guidelines for Good Governance	The Board of Directors of the Corporation had not been included a member in the field of Petroleum industry.
(b) Finance Circular No. 124 dated 24 October 1997 of the Ministry of Finance and Planning	Even though, covering up duties of a vacant post should be limited to a period of 03 months, 16 employees had been appointed for covering duties of vacant posts for the period ranging 02 months to 02 years at the end of the year under review.

**3 Financial Review**

**3.1 Financial Results**

According to the financial statements presented, the operation of the Corporation for the year under review had resulted in a pre-tax loss of Rs. 7,733 million as compared with the corresponding pre-tax loss of Rs. 89,569 million for the preceding year, thus indicating an improvement of Rs. 81,836 million in the financial results. The main reasons for this improvement are summarized and shown below.



Description	For the year ended 31 December		Change Favorable/ (Unfavorable)	Percentage
	2013	2012		
	Rs. million	Rs. million		
Revenue	490,381	512,910	(22,529)	(4.4)
Cost of Sales	(467,638)	(573,692)	106,054	18.5
<b>Gross Profit/(Loss)</b>	<b>22,743</b>	<b>(60,782)</b>	<b>83,525</b>	<b>137.4</b>
Other Income	374	285	89	31.2
Selling and Distribution Expenses	(11,965)	(12,633)	668	5.29
Administration Expenses	3,600	5,801	2,201	37.9
<b>Operating Profit</b>	<b>7,552</b>	<b>(78,930)</b>	<b>86,482</b>	<b>109.6</b>
Finance Charges	(18,540)	(18,360)	(180)	(1)
Finance Income	3,255	7,721	(4,466)	(57.8)
<b>Loss Before Income Tax</b>	<b>(7,733)</b>	<b>(89,569)</b>	<b>81,836</b>	<b>91.4</b>
Hedging Expenses	(214)	(7,612)	7,398	97.2
<b>Loss for the Year</b>	<b>(7,984)</b>	<b>(97,308)</b>	<b>89,324</b>	<b>91.8</b>

The operations of the Corporation had resulted in a markup of 4.86 per cent for the year under review thus indicating an improvement of 15.45 per cent in financial results as compared with the negative markup of 10.59 per cent in the preceding year. Similarly, the gross profit for the year under review had increased by Rs. 83,525 million or 137 per cent as compared with the corresponding gross loss of Rs. 60,782 million in the preceding year. The increase in domestic sales prices of some petroleum products such as Petrol (Octane 92 and 95), Lanka Auto Diesel, Industrial Kerosene, and the decrease in quantity of domestic sales of loss making products such as Lanka Kerosene, Lanka Furnace Oil (3500), and Aviation Turbine Fuel-Loc, etc. had mainly attributed for the improvement in the financial results of the Corporation for the year under review.

The operations of the Subsidiary of the Corporation during the year under review had resulted in a pre-tax net profit of Rs. 1,596 million as compared with the corresponding pre-tax net profit of Rs. 2,193 million in the preceding year, thus indicating a decrease of Rs. 597 million in the financial results.

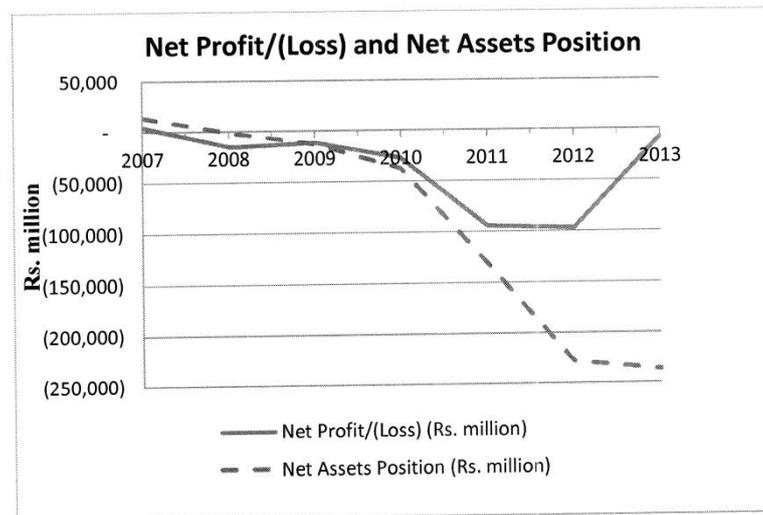
### 3.2 Analytical Financial Review

The following observations are made.

(a) Capital Erosion of the Corporation

The net profit/(loss) and the net assets position of the Corporation for the year 2013 and previous six years are depicted in the table and the chart given below.

Year	Profit/(Loss)	Net Assets Position as at the end of the Year
	Rs. Mn	Rs. Mn
2007	3,984	13,568
2008	(14,952)	(1,416)
2009	(11,353)	(13,038)
2010	(26,923)	(39,952)
2011	(94,503)	(131,324)
2012	(97,308)	(228,545)
2013	(7,984)	(236,529)



The main contributory factors for the continuous financial losses and capital erosion of the Corporation were revealed as inefficiency of refinery operations with low margin, poor yields and frequent stoppages, and as a result importation of refined petroleum products to meet the demand of the country, export of Naphtha and Furnace Oil 1500, the provision of fuel to Sri Lankan Airlines Ltd and Mihin Lanka (Pvt.) Ltd at concessionary rates which



were lower than the contract customer price, heavy losses incurred on Hedging transactions, Corporation's increased borrowings from the banking sector to finance its oil bills, inefficiencies in procurement process of petroleum products, provision of furnace oil at subsidized rate to Ceylon Electricity Board (CEB), lack of proper stock level maintenance program and storage facilities, payment of demurrages etc.

Domestic retail prices of petroleum products had been revised upward in 2011, 2012 and 2013 in order to address these financial difficulties of the Corporation. At the meantime, the prices of both high sulfur and low sulfur fuel oil, used by the Ceylon Electricity Board for power generation had been increased by Rs. 25 per liter reaching the prices at Rs. 90 and Rs. 100 per liter respectively with effect from 01 April 2013. Major changes made by the Corporation in retail prices of petroleum products during the year 2013 with compared to the previous year are as follows.

Petroleum Products	Price per Liter (Effective Date)		Price Increase (per Liter) During the Year			
	14 Dec. 2012	22 Feb. 2013	2012		2013	
	Rs.	Rs.	Rs.	Percentage	Rs.	Percentage
Petrol 95 Octane	167.00	170.00	12.00	7.7	3.00	1.8
Petrol 90/92 Octane	159.00	162.00	22.00	16.1	3.00	1.9
Lanka Auto Diesel	115.00	121.00	31.00	36.9	6.00	5.2
Lanka Super Diesel	142.00	145.00	35.70	33.6	3.00	2.1
Lanka Industrial Kerosene	111.00	115.00	35.00	46.1	4.00	3.6

(b) Significant Accounting Ratios

According to the information made available some of the important ratios of the Corporation for the year under review and the preceding year are given below.

Ratios	2013	2012
<b>Profitability Ratios</b>		
Gross Profit Ratio (GP) (%)	4.64	(11.85)
Operating Profit Ratio (%)	1.54	(15.39)
Net Profit Ratio (NP) (%)	(1.63)	(18.97)
<b>Liquidity Ratios</b>		
Current Assets Ratio (Number of times)	0.32:1	0.41:1
Quick Assets Ratio (Number of times)	0.16:1	0.26:1
Working Capital (Rs. million)	(287,661)	(256,768)



### Investment Ratios

Return On Assets (ROA) (%)	(4.27)	(47.18)
Return On Capital Employed (ROCE) (%)	(3.38)	(42.58)

The following observations are made in this regard.

- (i) The gross profit ratio and the net profit ratio for the year under review had been improved by 139 per cent and by 91 per cent respectively as compared with the previous year. The increase of selling prices of petroleum products in 2013 as mentioned above and decrease of crude oil import cost in line with international price trends was mainly attributed for this improvement.
- (ii) The current asset ratio as well as the quick asset ratio had changed downward as compared with the previous year. Accordingly, the working capital position of the Corporation in 2013 had been further eroded as compared with the previous year. The main contributory factors for this decline were decrease of cash and cash equivalents and increase of the interest bearing loans and borrowings.

## 4 Operating Review

### 4.1 Performance

According to the Annual Report of the Central Bank of Sri Lanka for the year 2013, the total cost of importation of petroleum products (Crude Oil and Refined products) for the year 2013 was Rs. 535 billion and representing approximately 6.2 per cent of the Gross Domestic Product (GDP) of Rs. 8,674 billion in the year 2013 valued at current market prices. Further, it represented approximately 23 per cent of the total imports of Rs. 2,323 billion in the year 2013. According to the information made available to audit, the total contribution made by the Corporation for the above mentioned importation was Rs. 460 billion.

Even though the average price of crude oil imported had been declined and the domestic retail prices of petroleum products had been revised upward, the Corporation had continuously sustained losses from following petroleum products. Details are as follows.



Sector	Total Profits/(Losses) for the year ended 31 December		
	2013 Rs. million	2012 Rs. million	2011 Rs. million
<b>Transport</b>			
Lanka Auto Diesel	(6,235)	(29,654)	(62,045)
<b>Power Generation</b>			
Naphtha	(1,081)	(1,048)	(798)
Fuel Oil - 3500	(1,184)	(8,718)	(9,206)
Fuel Oil - 1500	(1,231)	(23,223)	(18,313)
Fuel Oil - 1500 (L/S)	(9)	(11,733)	(5,764)
<b>Aviation</b>			
Avteur - International	(1,251)	122	114
<b>Industries</b>			
Fuel Oil - 1500	(350)	(2,003)	(4,248)
Fuel Oil - 800	(333)	(904)	(1,790)
Ind. Kerosene	(126)	(364)	(832)
Lubricant Oil & Grease	(271)	46	217
<b>Domestic</b>			
LP Gas (K.G)	(436)	(377)	(224)
Kerosene	(2,449)	(3,525)	(6,886)
<b>Farmers</b>			
Agro Chemicals	(70)	(2)	(5)
<b>Export</b>			
Naphtha	(976)	(43)	(675)
Furnace 1500	(2,690)	(70)	(329)
<b>Bunkering</b>			
Diesel	(67)	-	-
Fuel Oil 1500	(729)	-	-

The above table presents the loss making products of the Corporation for the year 2013 with compared to previous two years. Accordingly, it was revealed that, other than Avteur – International in Aviation Sector, Lubricant Oil and Grease in Industries Sector, and Diesel and Fuel Oil 1500 in Bunkering Sector, all other products had been making losses continuously, while losses in Export sector had drastically increased in the year 2013 as compared with the previous year.

#### 4.2 Management Inefficiency

The following observations are made.

##### (a) Enterprise Resource Planning (ERP) System

No proper evaluation of the risk involved in linking the Corporation data base to Enterprise Resource Planning (ERP) system developed by the Ceylon Petroleum Storage Terminal Ltd (CPSTL) with the assistance of the parent company of the



Lanka Indian Oil Company (LIOC), the major industry competitor of the Corporation, had been made by the Corporation. Since the Corporation has to commit significant amount of its resources (both capital and human) for this purpose, a proper and in-depth analysis of the impacts that would arise through this system integration should have been made with the assistance of experts in the field of Enterprise Resource Planning System. Further, it was observed that there was no any agreement or a Memorandum of Understanding (MoU) between the Corporation, CPSTL and LIOC with regard to their individual responsibilities under this Project before implementation. It was also important to have an agreement/MoU as a precautionary measure, taking into account the significant outlay of capital and human resources utilized by the Corporation, to be compatible with the ERP System introduced by the CPSTL.

**(b) Provision of Fuel to Sri Lankan Airlines Ltd (SLA) and Mihin Lanka (Pvt) Ltd at Concessionary Rates**

Even though Sri Lankan Airlines Ltd. (SLA) and Mihin Lanka (Pvt) Ltd. were contract customers, the Corporation had incurred losses of Rs. 669.77 million, Rs.456.6 million and Rs. 2,009.68 million during the years of 2011, 2012 and 2013 respectively, on sale of Aviation Turbine Fuel to the above companies at extraordinary concessionary prices. Details are as follows.

Name of the Company	Loss incurred by the Corporation during the Year					
	2013		2012		2011	
	US \$ Mn	Rs. Mn	US \$ Mn	Rs. Mn	US \$ Mn	Rs. Mn
SriLankan Airlines Ltd	14.10	1,866.39	3.29	423.97	5.47	627.16
Mihin Lanka (Pvt.) Ltd	1.08	143.29	0.25	32.58	0.38	42.61
<b>Total</b>	<b>15.18</b>	<b>2,009.68</b>	<b>3.54</b>	<b>456.55</b>	<b>5.85</b>	<b>669.77</b>

Despite providing fuel at concessionary prices to those two companies, the settlement of outstanding fuel bills were very poor due to their weak financial performance i.e. as per the Annual Report of the Central Bank of Sri Lanka for the year 2013, Sri Lankan Airlines Ltd recorded an operational loss of Rs. 28.6 billion meanwhile Mihin Lanka recorded an operating loss of Rs. 1.5 billion in 2013. Trend of growing the outstanding balances since 2010 is given below.



Name of the Company	Outstanding Balance as at 31 December			
	2013	2012	2011	2010
	Rs. million	Rs. million	Rs. million	Rs. million
SriLankan Airlines Ltd	29,519.68	25,890.12	12,351.43	541.54
Mihin Lanka (Pvt.) Ltd	4,313.68	3,416.10	1,227.02	361.24

More than 64 per cent of total trade receivables amounting to Rs. 53,190 million as at 31 December 2013 were represented the trade receivables from above two companies. However, despite the weak financial performance of these companies, the Corporation had increased the credit limits as at 31 December 2013 from Rs. 28 billion to Rs. 35 billion for SriLankan Airlines Ltd and from Rs. 3.6 billion to Rs. 5 billion for Mihin Lanka (Pvt.) Ltd.

**(c) Increase of Borrowings from the Banking Sector**

The Corporation had increased its borrowings from the banking sector to finance its oil bills and it had also resulted to increase the losses and negative net assets position of the Corporation. Further, it was observed that the Corporation had continuously incurred huge finance cost during last consecutive four years as depicted below and shows an increasing trend.

Year	Bank Borrowings for the year ended 31 December	Annual Loss from Ordinary Activities	Finance Cost	Finance Cost as a Percentage of Loss from Ordinary Activities
	Rs. million	Rs. million	Rs. million	%
2010	168,020	26,923	6,859	26
2011	310,060	94,503	9,001	10
2012	399,520	89,569	18,360	21
2013	406,850	7,733	18,540	240

The Corporation had exceeded the indemnity limits fixed by the General Treasury to the commercial banks on behalf of the Corporation to secure the foreign currency loans as shown below.



Name of the Bank	Outstanding Amount as at 31 December 2013		Security – General Treasury Indemnity		Exceeded Amount over the Security	
	US \$ million	Rs. million	US \$ million	Rs. million	US \$ million	Rs. Million
Bank of Ceylon	1,811	239,617	900	119,106	911	120,511
People's Bank	1,318	174,415	650	86,021	668	88,394

The Chairman of the Corporation stated in this regard as follows.

*“Non-receipt of subsidy to cover up financial losses as per Section 17 of Finance Act, No. 38 of 1971 is the main reason for erosion of equity capital and negative net asset position. This situation was informed to the Secretary to the Ministry of Finance & Planning. However, interest rate reduction was granted to CPC due to General Treasury intervention in the year 2013. Further, the Government has agreed to provide Rs. 100 Bn. as equity finance in the budget 2015.”*

**(d) Pipeline Network for Oil Transportation**

The pipelines installed several decades back to transport of finished petroleum products such as petrol, diesel, kerosene and furnace oil from the Colombo Port to the Kolonnawa Petroleum Installation are in a state of repair and it was revealed that some of them have already been abandoned due to its' deteriorated condition beyond repairs. Renovation and modernization of those pipelines have been a very urgent need, as a large quantity of the national requirement of the petroleum products is being carried into Kolonnawa fuel Storage Terminal through those deteriorated pipelines. The possibility of paralyze the whole country with a severe fuel crisis due to transporting the imported finished petroleum products through those deteriorated pipelines could not be ruled out in audit.

The Muthurajawela installation is fed through a Single Point Buoy Mooring (SPBM) facility located in the mid sea about 6 km from the shore and 7.2 km from Muthurajawela Terminal and there was no alternative supply source in case of rough sea conditions or when the SPBM facility is under maintenance. At the same time, there was no linkage between the Muthurajawela Terminal and Kolonnawa Installation for inter-terminal product transfers and, which had also hampered the optimum utilization of those terminals due to those constraints.

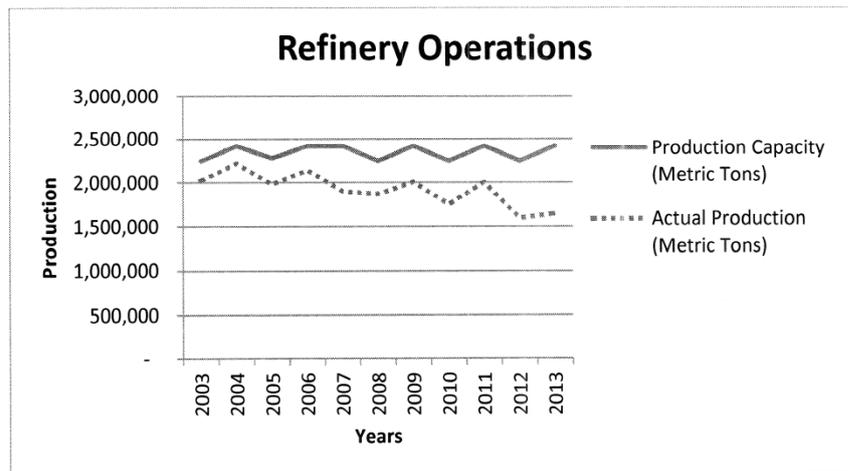
Even though, the approval of the Cabinet of Ministers for the implementation of “Cross Country Pipeline Project” had been granted on 13 September 2012, it has not yet been implemented.

### 4.3 Operating Inefficiencies

Approximately one third of the country demand of petroleum products are met from the Corporation owned refinery located at Sapugaskanda. The lower refinery yields and operational failures associated with the delays in modernization and lack of expansion of the refinery had negatively affected to the financial performance of the Corporation.

Even though the volume of crude oil refined (intake) by the Corporation had increased to 1,643,218 metric tons in 2013 as compared with 1,596,058 metric tons in 2012, the processing levels had not reached the production capacity of 6,900 tons per stream day or 2,415,000 metric tons in the year 2013. The Crude Oil intake for the year 2013 and previous ten years as compared with the production capacity for the respective years is as follows.

Year	Quantity of Crude Oil Intake (processed) for the Production (MT)		Difference	
	Available Capacity	Actual Utilization	Quantity (MT)	Percentage
2013	2,415,000	1,643,218	771,782	31.96
2012	2,242,500	1,596,058	646,442	28.83
2011	2,415,000	2,003,607	411,393	17.03
2010	2,242,500	1,752,716	489,784	21.84
2009	2,415,000	2,005,915	409,085	16.94
2008	2,242,500	1,870,237	372,263	16.60
2007	2,415,000	1,899,079	515,921	21.36
2006	2,415,000	2,140,132	274,868	11.38
2005	2,277,000	1,977,751	299,249	13.14
2004	2,415,000	2,216,646	198,354	08.21
2003	2,242,500	2,023,605	218,895	09.76



The existing 45 years old refinery, which was commissioned in 1969, is not able to cater the increasing demand of petroleum products in the country and this refinery is operating with low margin when compared with the modern world refineries operating with advanced technologies including facilities to produce petroleum products at lower cost whereby maximizing the refinery operating efficiency. However, the Corporation was not yet able to implement the proposed Sapugaskanda Oil Refinery Expansion and Modernization (SOREM) Project in order to ensure that petroleum products are supplied to the market in a cost effective manner.

#### 4.4 Matters in Contentious Nature

Excess terminal charges paid to the Ceylon Petroleum Storage Terminal Ltd during the year 2009 to 2013 amounting to Rs. 1,065.4 million and shown in the financial statements of the Company had not been brought to the accounts of the Corporation as the Company had not taken a decision to pay back that amount to the Corporation.

#### 4.5 Assets Management

The following assets had been lying idle since the acquisition of those assets.

(a) Halgaha Kumbura Land at Wanathamulla

This land had been acquired by spending Rs.10.6 million for the purpose of LP Gas Project and a Playground.

(b) Mahena Land

According to the correspondence made available, the Corporation had paid a sum of Rs. 0.625 million for the acquisition of this land. However, this land had not been





The following observations are made in this connection.

- (a) Out of 713 vacant posts, 34 per cent represent the vacancies existed in the senior staff level (including Commercial Manager and Deputy General Manager - Marketing) and running the entity having such a huge vacancies without any impact to its main operational activities was questionable to audit.
- (b) Ten posts in all categories have been filled on contract basis and the Chief Internal Auditor had been acting in the post of Deputy General Manager (Finance) since mid of 2011.
- (c) Adequate actions had not been taken to fill the vacancies existed by 31 December 2013.

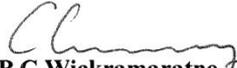
**5. Budgetary Control**

Significant variances were observed between the budgeted and the actual income and expenditure for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

**6. Systems and Controls**

The deficiencies observed in systems and controls during the course of audit were brought to the notice of the Corporation from time to time. Special attention is needed in respect of the following areas of control.

- (a) Trade and Other Receivables
- (b) Trade and Other Payables
- (c) Accounting and Financial Management
- (d) Procurement
- (e) Utilization of Resources
- (f) Human Resources Management
- (g) Assets Management

  
**W.P.C. Wickramaratne**  
**Acting Auditor General**

## GLOSSARY OF FINANCIAL TERMS

**Cash Equivalents** - Short term investments readily convertible to known amounts of cash subject to insignificant risk of changes in value.

**Contingent Liabilities** - Conditions or situations at the Balance Sheet date, the financial effects of which are to be determined by future events which may or may not occur.

**Current Ratio** - Measures the number of times current liabilities be recouped with available current assets.

**Debtors to Turnover** - Measure of the credit extended to customers (i.e average debt settlement period if stated in days)

**Deferred Income** - Income yet to be realized or realized but not recognized as income.

**Interest Cover** - Measures the extent to which interest charges be covered by profit before Tax.

**Liquid Ratio** - Measures the number of times current assets be recouped with available current liabilities.

**Post Balance Sheet Events** - Significant events that occur between the Balance Sheet date and the date on which financial statements are authorized for issue.

**Provisions** - Liability of uncertain timing or amount.

**Related parties** - Parties who could control or significantly influence the Financial and operating decisions/policies of the Corporation.

**Segments** - Constituent business units grouped in terms of nature and similarity of operations.

**Working Capital** - Capital required for financing the day-to-day operations (current assets less current liabilities).

## ABBREVIATIONS

<b>Avn</b>	-	Aviation
<b>Bbl</b>	-	Barrel (Basic unit in international petroleum sales)
<b>bps</b>	-	Basis points
<b>BTR</b>	-	Bulk Transfer
<b>CEB</b>	-	Ceylon Electricity Board
<b>CIF</b>	-	Cost Insurance Freight
<b>CPC</b>	-	Ceylon Petroleum Corporation
<b>EPF</b>	-	Employees Provident Fund
<b>ETFB</b>	-	Employees Trust Fund Board
<b>FIFO</b>	-	First in First Out
<b>FOB</b>	-	Free on Board
<b>FOREX</b>	-	Foreign Exchange
<b>GOSL</b>	-	Government of Sri Lanka
<b>ICPA</b>	-	International Coop/Petroleum Association
<b>Int</b>	-	Interest
<b>CPSTL</b>	-	Ceylon Petroleum Storage Terminals Ltd.,
<b>LIOC</b>	-	Lanka Indian Oil Corporation Ltd.,
<b>LMS</b>	-	Lanka Marine Services (Pvt.) Ltd.,
<b>LPG</b>	-	Liquid Petroleum Gas
<b>Ltr</b>	-	Litre (Basic unit in domestic Petroleum sales)
<b>MOU</b>	-	Memorandum of Understanding
<b>NDB</b>	-	National Development Bank
<b>OPEC</b>	-	Oil Producing and exporting Countries
<b>PERC</b>	-	Public Enterprise Reforms Commission
<b>SPBM</b>	-	Single Point Buoy Mooring Facility
<b>TT</b>	-	Turnover Tax
<b>VAT</b>	-	Value Added Tax
<b>VRS</b>	-	Voluntary Retirement Scheme