



Ceylon Petroleum Corporation

2014

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 GOALS

1. Retain highest level of market share
2. Reach excellence in sales, marketing and operations to face a heavily competitive environment
3. Maintain an economically viable refining sector
4. Improve and maintain high level of professionalism at all levels of employees
5. Institute structural changes to improve productivity and management
6. Institute health, safety and environmental friendly measures to exceed the stipulated standards
7. Uphold the national and corporate social responsibilities for the betterment of the community
8. Ensure financial viability of the Corporation
9. Retain Sri Lankan control in the petroleum downstream sector

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. S. Amarasekara

MANAGING DIRECTOR

Mr. L.E. Susantha Silva

DIRECTORS

Mr. A H Sarath Wijesinghe

Dr. Hans Wijayasuriya

Ms. M T I Visakha Amarasekera

Mr. K H T Namal Sumanaratne

Mr. H D B Saman Kumara

AUDITORS

The Auditor General

REGISTERED OFFICE

609, Dr. Danister De Silva Mawatha, Colombo 9.

Telephone	:	+94 11 5455455
Telegrams	:	“LANKA OIL”
Cable	:	CEYPETCO
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E-mail	:	cpcsec@ceypetco.gov.lk
Website	:	www.ceypetco.gov.lk

BANKERS

People's Bank
Bank of Ceylon

Nations Trust Bank

Commercial Bank
Hatton National Bank Ltd.

SENIOR MANAGEMENT

Mr. S. Amarasekara

Actg. Chairman

Mr. L E Susantha Silva

Managing Director

Mr. N R R Jayasekara

Refinery Manager

Mr. S W Gamage

Dy. General Manager (HR & Admn.)

Mr. W Sarath Perera

Actg. Dy. General Manager (Finance)

Mr. E A S Edirisinghe

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

Ms. R T A Dabare

Finance Manager

Mr. A G D Bandara

Actg. Commercial Manager

Mr. S M C P Samarakoon

Marketing Manager

Mrs. M S R Fernando

Manager (Information Technology)

Mr. S D S Rajapaksha

Manager (Procurement & Stores)

Mr. G P K Wijekoon

Manager (Engineering & Premises)

Mr. N R Amarasinghe

**Deputy Operations Manager
(Technical Services)**

Mr. A R Abel

Dy. General Manager (Marketing)

Mr. G A S P Gunawardena

**Dy. General Manager
(Tec. Services & Corporate Affairs)**

Mr. 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 Pushpalal

Human Resource Manager

Mr. M K Garusinghe

Manager (Corp. Planning & Development)

Maj. M R S P Samarasinghe

Manager (Security)

Mr. M A D Mallikarachchi

Operations Manager (Aviation)

Mr. W M K R B Wickramasinghe

Manager (Agro Chemicals)

Mr. A D W K Abeysekera

**Deputy Operations Manager
(Sapugaskanda Terminal)**

Mr. Y M Thilakaratne

Manager (Internal Audit)

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 2014.

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^{ds} 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 15 to 23 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 29 to 34 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 page 29 to 34 of this report.

Accounting Policies

The Accounting Policies adopted in the preparation of Financial Statements are given at pages 40 to 56 of the financial report. There have been no changes in the Accounting Policies adopted by the Corporation during the year under review.

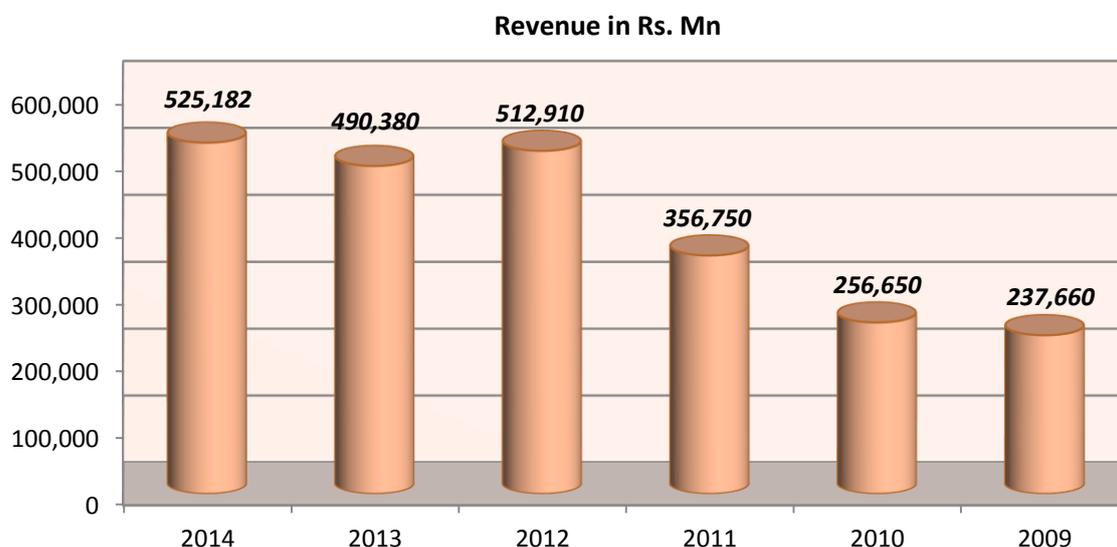
Financial Performance

Financial Statements in this Annual Report represent the financial performance of Ceylon Petroleum Corporation for the year ended 31 December 2014.

Revenue

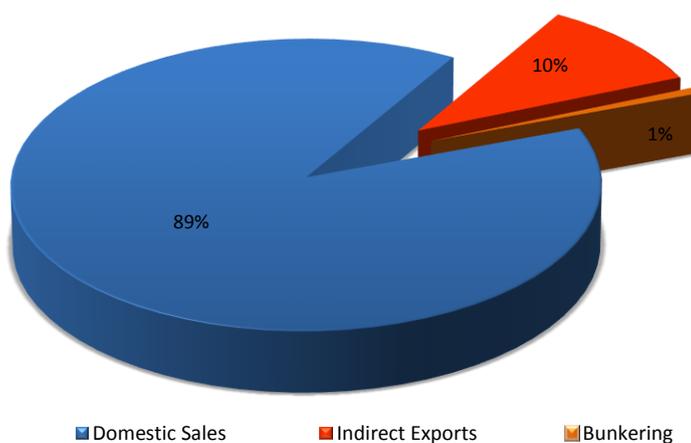
Revenue generated from the sale of petroleum products such as Diesel, Petrol, Kerosene, Aviation Fuel and fuels for power generation is the main source of income of the Corporation.

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



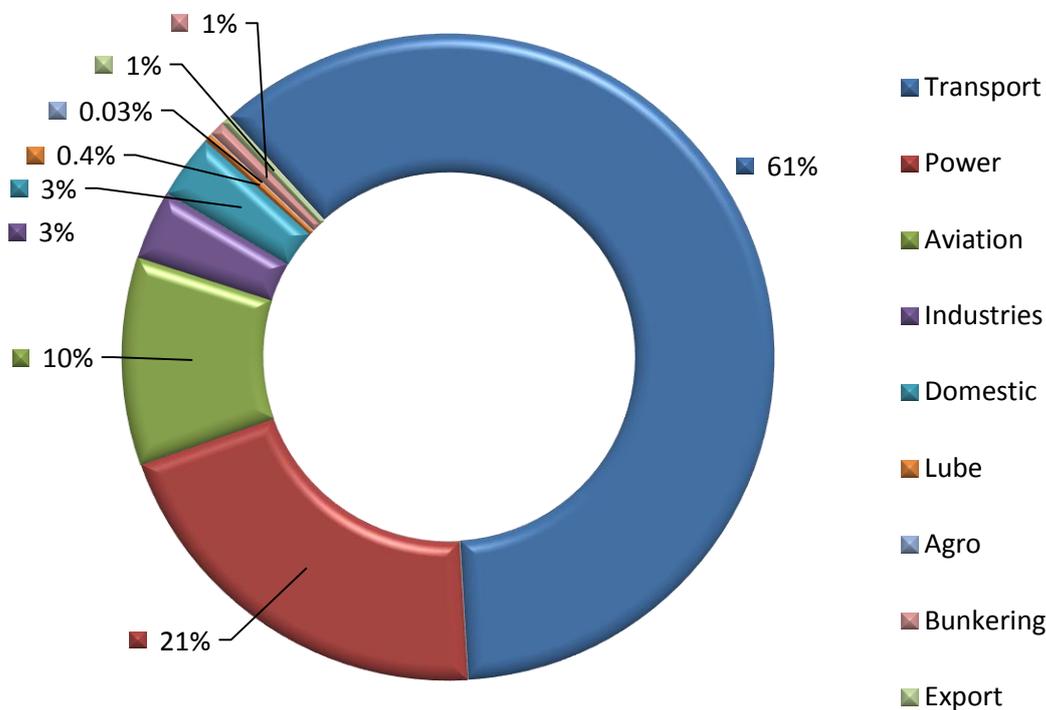
The turnover for the year had increased to Rs.525,182 Mn. from Rs.490,380 Mn. in the year 2013. Sales quantities had improved by 7% compared to the last year. This was mainly attributable to the increase of fuel consumption in power generation sector (68%) and aviation sector (4%).

Composition of Sales in Year 2014



Turnover for the year ended 31 December 2014 has been derived from Domestic Sales 89%, Indirect Exports 10% and Bunkering 1%. Diesel, Petrol, Kerosene and Furnace Oil are the major components of the domestic sales.

Segmental analysis of Revenue - 2014

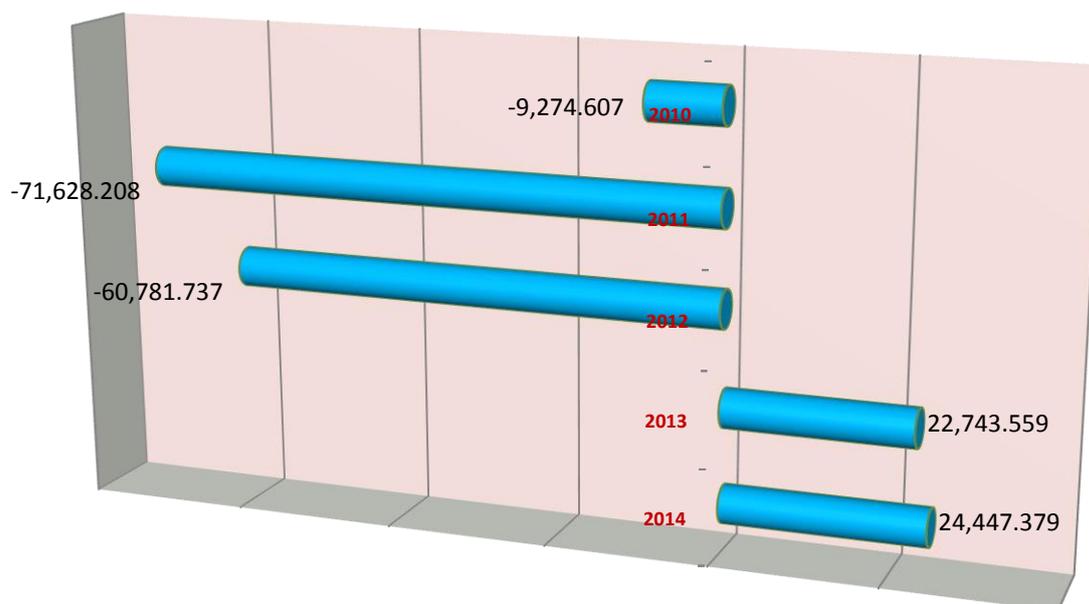


As a result of new vehicles imported, the demand for Petrol 95 Octane and Petrol 92 Octane was increased by 6% and 28% respectively. The demand for Auto Diesel was reduced by 1.5% and it was evident that many people had used modern vehicles which resulted in reduction for demand in Auto Diesel with the introduction of Lanka Super Diesel which is sulphur free environmental friendly fuel. The demand for Lanka Super Diesel compared with the year 2013 was increased by 28% and this was a positive improvement in both environmentally as well as vehicle efficiency.

Gross Profit

Further strengthening previous year results, CPC has increased gross profit during the year by 7.5%. Gross Profit for the year ended 31 December 2014 was Rs. 24,447.38 million compared to Gross Profit of Rs. 22,743.56 million in the previous year, an increase of Rs. 1,703.82 million recorded against year 2013.

Gross Profit / (Loss) in Rs. (Mn.)



The reduction of cost of sale in transportation sector contributed 59% to overall cost of sale, resulted achieving significant improvement in gross profit. Reduction of fuel prices in international market compared to year 2013 and the less & favourable exchange rate fluctuations caused jointly to improve the cost of sales at a higher percentage.

The Corporation improved its capacity utilisation and increased the output during 2014 with the usage of more suitable types of crude oil blends (Oman and Murban) at the refinery. Refinery yield of high end products, such as gasoline and diesel, improved during the year under review, showing a significant growth of 6.3% and 27.3%, respectively.

Other Operating Income

The Corporation's other Operating Income represents dividend income, rent income, staff loan interest and sundry income. Other operating income of the year was enhanced by 241% compared to the previous year largely due to effective revenue administration and dividend received from subsidiary company.

Investment income

Investment income represents interest income received from treasury bills, treasury bonds, resident foreign currency deposits, fixed deposits and interest received on overdue trade debtors. 18% growth was achieved compared to previous year largely due to efficiency in fund management, recovery of trade debts and effective administration of revenue and other funds.

Interest cost

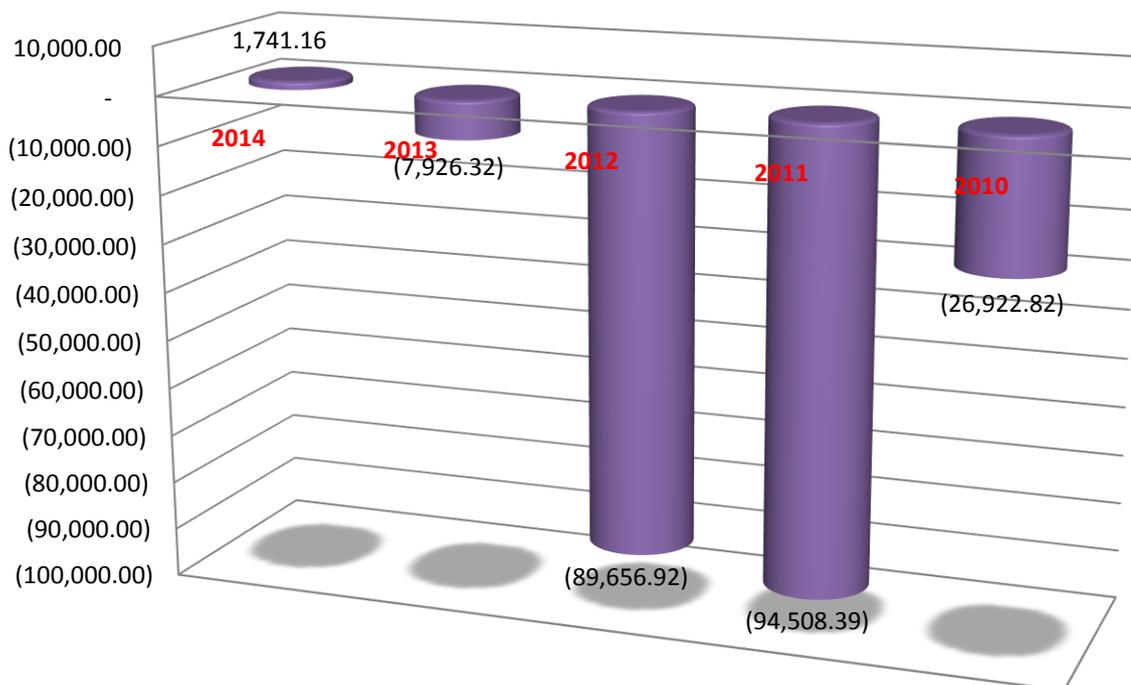
There was a significant reduction in the Finance Charge during the year compared to last year. Finance cost has decreased by 25%, amounting to Rs. 4,578.274 Mn. With the assistance of General Treasury and the line Ministry, CPC was able to negotiate interest rate reduction on foreign currency loans with the Bank of Ceylon and People's Bank. This resulted in improvement of net profit of the year. CPC paid interest cost of Rs.13,961 Mn to maintain foreign currency loans and made loan settlement of Rs. 440,378 Mn. This was a remarkable achievement compared with total revenue of Rs. 525,182 Mn. Nearly 84% of sales revenue was utilized for settlement of foreign currency loans in the year under review.

Profit / Loss

The Corporation reported a profit amounting to Rs. 1,741.16 Mn in 2014 reflecting an improvement of 122% compared to the loss of Rs. 7,926.323 Mn. recorded in the last year. However, due to the absence of cost reflective domestic retail price mechanism in line with international oil price movement caused to achieve a profit of Rs. 1,741.16 Mn in the year. Profit / Loss incurred in respect of the last five years are shown below.

Rs. (Mn.)

Net profit /(loss) (Rs. Mn.)



Domestic retail prices of petroleum products were revised in 2014 due to escalating price situation in the international market. The domestic retail prices of Petrol, Auto Diesel, Super Diesel and domestic Kerosene were decreased by Rs.12/-, Rs.10/-, Rs.12/- and Rs.25/- per litre, respectively, twice during

2014. When compared with total segmental loss for the year 2014, heavy losses incurred by CPC were due to sale of kerosene being sold at highly subsidized rates for domestic sector. 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) remain unchanged. However, use of petroleum products for power generation purposes was significantly increased due to drought conditions that prevailed during the first half of the year along with increase in demand for electricity in the country. Therefore, CPC could not generate excess production such as Furnace Oil and Naphtha, unlike in previous year. This resulted 79% reduction in export sale during the year of 2014.

Details of the segmental loss of the year 2014 is noted below:-

Segment	2014	2013
	Loss – Rs. Mn.	
Transport – Supply of Diesel at subsidized rate	5,759	6,235
Power Generation – Supply of Naphtha and Fuel oil at subsidized rates	1,377	2,321
Aviation – Supply of Jet A-1 at highly subsidized rate	1,387	1,251
Industries – Supply of Fuel Oil and Industrial Kerosene	140	476
Domestic – Supply of LPG & Kerosene at subsidized prices	3,146	2,885
Farmer Community – Supply of Agro Chemicals	57	70
Bunkering Sector-Diesel & Fuel Oil	1,632	-
Export Sector – Naphtha & Fuel Oil	3,426	-

Despite the heavy losses incurred due to above reasons, the sale of Petrol, Super Diesel, Fuel Oil (L/S), Fuel Oil 3500, Jet A-1 (Other than SL Airline & Mihin Lanka), Avgas, Bitumen and Solvents had contributed positively with a profit contribution of Rs.11,233 Mn. This together with other income received amounting to Rs.5,108 Mn. enabled the Corporation to earn overall marginal profit of Rs. 1,741 Mn. during the year.

The main contributory factor for the improvement in the financial position of CPC was the decline in global fuel prices during the second half of the year without a full adjustment of domestic fuel prices, resulting in a higher profit margin. Improved debt recovery also helped CPC to reduce outstanding trade receivables from government entities to Rs. 37,059.95 Million at end 2014 from Rs. 53,189.68 Million at end 2013. However, the reduction in the consumption of furnace oil by the Ceylon Electricity Board (CEB) due to greater hydro and coal power generation towards end 2014 had a negative impact on the profitability of CPC.

CPC refinery at Sapugaskanda contributes to approximately one third of petroleum oil requirement of the country. Refinery operation suffered a minor setback in the second quarter of 2014 in which it was forced to shut down for four weeks due to non-availability of crude oil as a result of the failure of the under buoy hose on the crude oil buoy.

In contrast to the previous year, the supply to Power Plants has increased significantly even though demand from transportation sector was stagnant during 2014, resulting overall increase of 7% in petroleum supply.

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

	2014	2013(Revised)
	Rs. Mn.	
Revenue	558,324	518,152
Less : Sales Taxes (Excise duty & NBT)	(33,142)	(27,771)
Net sales Revenue	525,182	490,381
Cost of Sales excluding of CID & PAL	(473,715)	(441,345)
Less : Import Taxes(CID & PAL)	(27,020)	(26,293)
Gross Profit / (Loss)	24,447	22,743
Other Operating Income	1,151	374
Kerosene Subsidy	2,715	-
Selling & Distribution Expenses	(11,533)	(11,965)
Administrative Expenses	(4,922)	(3,765)
Financial Charges	(13,962)	(18,540)
Finance Income	3,957	3,263
Other Expenses	(112)	(37)
Profit / (Loss) before Tax	1,741	(7,926)

Operating Expenses

The total operating expenses decreased to Rs. 30,417 Mn. during the year under review, when compared with the figure of Rs. 34,270 Mn. recorded during the previous year.

Significant drop in interest expense by Rs. 4,578 Mn was the prominent factor to reduce overall operating expenses during the year.

Capital Expenditure

The total Capital Expenditure for the year was Rs. 1,116.716 Mn. as against Rs. 4,023.521 Mn. recorded in the year 2013.

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 10 to the Financial Statements at page 58.

Reserves and Total Equity

The negative equity capital had reduced during the year to Rs.231,532.116 Mn. as at 31.12.2014. The Cumulative losses since 2008 were the reason for negative equity position as at 31.12.2014. Movements of the equity are given in the Statement of Changes in Equity at page 38.

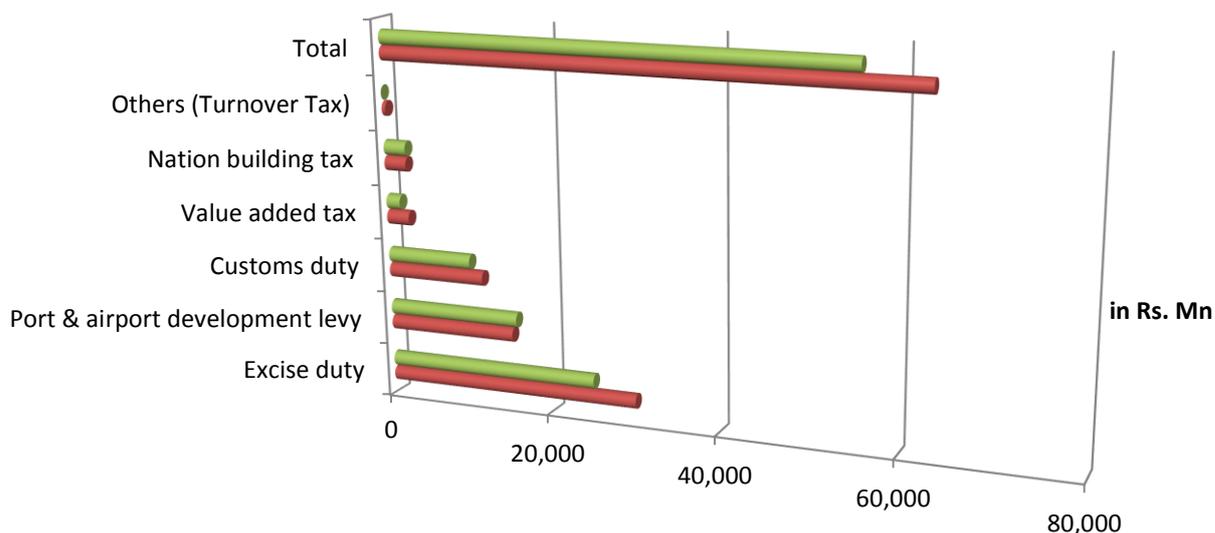
Contributed Capital

The total Contributed Capital of the Corporation as at 31 December 2014 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 contributors to the Government of Sri Lanka each year and the details of the tax contribution for the year under review is given below.

Contribution to the Government-2014 Vs 2013



	Excise duty	Port & airport development levy	Customs duty	Value added tax	Nation building tax	Others (Turnover Tax)	Total
■ 2013	25,149	15,823	10,187	1,685	2,652	0	55,496
■ 2014	30,205	15,289	11,730	2,741	2,652	447	63,064

Board of Directors

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

Mr. S Amarasekara (Actg. Chairman)
Mr. L E Susantha Silva (Managing Director)
Mr. A H Sarath Wijesinghe
Dr. S S Hans Wijayasuriya
Ms. M T I V Amarasekara
Mr. K H T Namal Sumanaratne
Mr. H. D. B. Saman Kumara

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. Mr. A H Sarath Wijesinghe
3. Mr. H. D. B. 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

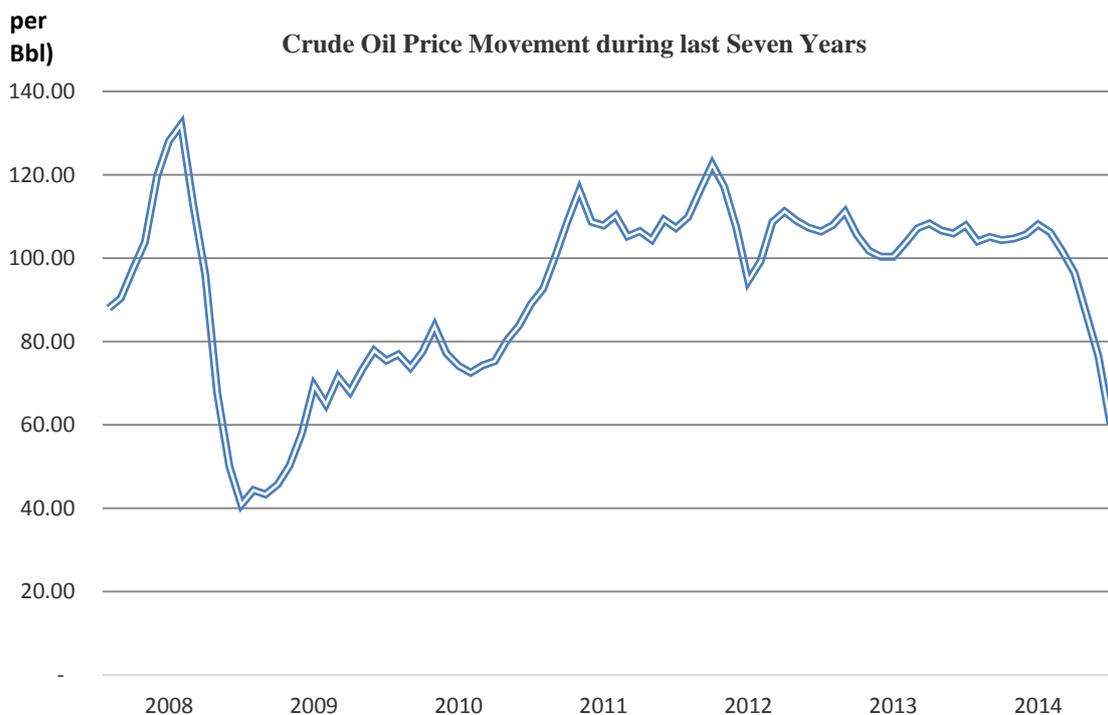
CHAIRMAN'S REVIEW

Introduction

Overview of World Crude Oil Prices

During the year under review CPC imported two types of crude oil and processed in Sapugaskanda Refinery. Out of 20 shipments imported in the year, Oman Export Blend crude accounted for 5 shipments and balance 15 shipments were for Murban Crude oil. Out of total imported crude oil, Murban represented for 10,370,111 BBLs (75%) whereas Oman Export Blend 3,387,767 BBLs (25%).

Official selling price of Adnoc (Murban Crude Oil) has steadily come down from January 2014 to December 2014. Imported price based on DES per Barrel has come down from US\$ 104.020 in the month of January 2014 to US\$ 60.245 per barrel in December 2014. However as per the behaviour of imported price, it was noteworthy to mention that Murban crude oil prices from January 2014 to September 2014 had slightly come down where as significant decrease in prices started from September to December 2014. Total foreign currency spent on crude oil has amounted to US\$ 1,442 Million in the year. Behaviour of crude oil prices imported by CPC can be depicted as follows.



Outlining the Sri Lankan Economy

In 2014, the Sri Lankan economy showed its resilience in the face of domestic as well as external challenges. Real GDP grew by 7.4 per cent in 2014, in comparison to the growth of 7.2 per cent in 2013. Accordingly, GDP per capita increased to US dollars 3,625 in 2014 from US dollars 3,280 in the previous year. The economy was driven by domestic consumption expenditure that constitutes the largest share of aggregate demand, while investments, particularly on construction, also provided an impetus to the economic expansion during the year. On the production side, the Industry and Services sectors continued to perform well, while adverse weather conditions dampened the performance of the Agriculture sector during the year. Inflation remained at single digit levels for the sixth consecutive year, with year-on-year and annual average inflation declining to 2.1 per cent and 3.3 per cent, respectively, by end 2014, from 4.7 per cent and 6.9 per cent, respectively, at end 2013. Prudent monetary policy as well as the considerable decline in global commodity prices in the second half of the year enabled the deceleration of inflation to low single digit levels during the year. (Source: CBSL Annual Report – 2014)

Petroleum Industry of Sri Lanka

As Sri Lanka does not produce petroleum, it has to import petroleum products which are required for the various purposes of the nation. In the year of 2014, the total cost of importation of petroleum products (Crude Oil and Refined products) amounted to Rs. 600 billion and it represented approximately 6.1 per cent of the Gross Domestic Products (GDP) of Rs. 9,785 billion in the year 2014 valued at current market prices. Further it was equal approximately to 24 per cent of the total imports of Rs. 2,535 billion in the year 2014.

The Corporation

Following the international price trends, the average price of crude oil imported by Ceylon Petroleum Corporation (CPC) also declined by 4.8 per cent to US dollars 104.825 per barrel in 2014 from US dollars 109.960 per barrel in 2013. In general, average crude oil import price is higher than the international Brent crude price due to the necessity of importing two types of crude oil to blend, to suit the specifications of the refinery that is designed to refine Iranian Light crude. Term contracts signed by CPC to ensure regular supplies of petroleum are another reason for the difference in prices. CPC's financial position improved in 2014 recording a turnaround from the loss position in 2013 by reporting a profit of Rs. 1.7 billion in 2014 compared to a loss of Rs. 7.9 billion in 2013.

The main contributory factors for the improvement in the financial position of CPC

- Considerable cost reduction in importation of crude oil in the year 2014
- Receipt of Rs. 96 Bn. from the institutional debtors which enabled to better management of cashflow hence reduction in borrowing cost.
- Renegotiation of bank interest from 7% to 5.5% from the two State Commercial Banks which resulted in reduction in interest cost of Rs.4.5 Bn.
- Entering into term contracts instead of spot purchases of petroleum products
- Effective management of CPC cash flows (investment income was increased by Rs.800 Mn.)
- Decision of the Government to grant subsidy for Kerosene for the year 2014 amounting to Rs. 2.7 Bn.
- 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 has improved capacity utilization rate to 73%. In the year 2014, actual crude oil processed amounted to 1,760,170 Metric Tons when compared to 1,643,218 Metric Tons in the year 2013

Major Projects Completed

- **Construction of Aviation Fuel Storage facility and Fuel Hydrant System (outside the Apron Area) of the Hambantota International Airport Project at Mattala, Sri Lanka**

Contract was awarded to Amana Pipeline Construction LLC [APC] to complete the project consisting three (03) numbers of vertical steel fuel storage tanks, piping systems, mechanical installations, electrical & instrument installation, civil works etc.....project cost amount to USD 31,251,584.02.

- **Installation of Sampling Pump and associated Piping system and Wagon side, Bandaranayke International Airport**

The project was for construction of one (01) pump, piping systems, mechanical installation, electrical installation, etc..... The main objective of this project was to introduce close fuel sampling system replacing former open sampling system converted to JIG compliant aviation fuel industry standard system. Minimize product contamination, product wastage, reduction of man hours in sampling process, reduction in health hazard and efficiency increase in product unloading are the benefits derived from this project.

- **Summary of projects carried out by Engineering & Premises Function during the year 2014**

No.	Project	Value Rs. (Mn)
1	Improvements to Bowser Parking at Sapugaskanda Terminal	8.69
2	Balance work of Drum Yard for Lubricant at Muthurajawela	16.92
3	Construction of store Visitor's Hut & Customer Service Hut at Muthurajawela	2.01
4	Construction of store building at Muthurajawela	7.5
5	Excavation cable trench for Gasoline distribution at Sapugaskanda.	1.03
6	Construction of Locker Room at Sapugaskanda	6.33
7	Supply of Areal work platform for Head Office	2.45
8	Renovation to Office Building at Ratmalana	3.1
9	Internal decorations at Ministry Office	3.05
	Total	51.08

Lubricants

Presently, CPC has the 2nd largest lubricant business market share estimated around 11% under the trade name of "Hyrax-Ceypetco" and it has become a profitable business for CPC.

The performance of the lubricant business has increased continuously during the year and the turnover for 2014 was Rs. 2,131 million compared to Rs. 1,872 million in previous year showing an increase of 13.8% during the year. In order to increase lubricant sales, following steps were taken to enhance Hyrax-Ceypetco brand.

- I. Introduced new sales strategies & sales targets to the outlets, stockists, area supervisors and area offices.
- II. Appointed new stockists and re-arrange them to ensure product availability in the market.
- III. Increase the storage facility at Muthurajawela Lubricant Sales and Storage complex.
- IV. Conducted series of awareness programs for the outlet managers, pumpers, service station owners, mechanics, boat owners, boat mechanics and general public to improve their product knowledge.

- V. Carried out mass media propaganda and series of road shows in Western & Southern province to make aware lubricant products and boost brand image of Hyrax Ceypetco Lubricants among current & potential customers.

Financial Performance

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

The Corporation has achieved net profit during 2014 after six consecutive years. CPC was able to achieve net profit of Rs. 1,741.16 Mn which was the remarkable achievement after six years continuous loss making position.

The main contributory factors to the financial profit for the year were decrease in price of crude oil in international market, decrease of finance cost by Rs.4,578 Million and improvement of efficiency in the procurement process of petroleum products of the Corporation.

The loss incurred by selling products for domestic and industrial sector has been compensated by products sold to power generation sector. Diesel consumption increased considerably during the first four months of 2014 mainly due to increase of thermal power generation. Meanwhile, with the improved coverage of rural electrification program, use of kerosene for the purpose of lighting as declined by 3.2% in the current year compared with 11.9% in the previous year.

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, reviews 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 (CSR) 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.

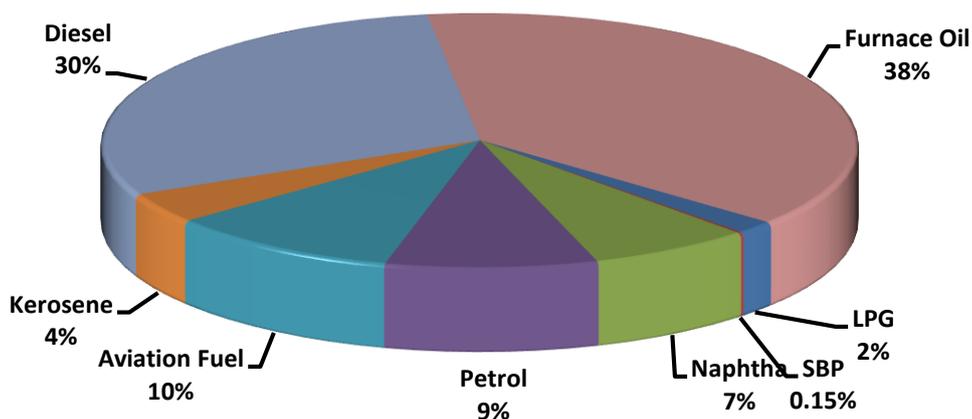
CPC has contributed a massive amount of Rs. 63,064 Mn. to the Government coffers as duties and taxes during the year 2014. CPC has supplied fuel for power generation purposes and Diesel for transportation sector at a heavily subsidized price which enabled to mitigate the impact on all economic activities due to external international oil price hikes.

During the year under review, very important change over to petroleum products which directly contribute to the well-being of the people were made by the CPC and the CPSTL. Introduction of Petrol of 92 Octane in place of Petrol of 90 Octane and Lanka Super Diesel Four Star (10ppm) in place of Lanka Super Diesel of 500ppm took place with effect from 1st January 2014 and 22nd August 2014 respectively. Also an alternative mix of crude oil appropriate for refinery operations was found through testing of number of samples as a solution for the problems faced owing to sanctions of USA against Iran.

Refinery

The Refinery completed 45 years of successful operation on 7th August 2014. It had operated for 334.67 stream days and processed 1,760,170 metric tons of Crude Oil during the year. The crude oil throughput has increased by 6.93% compared to year 2013. The consumption of fuel oil and gas has dropped by 0.8% in quantity wise and 3.46% in terms of value. Owned use, processing, storage and handling losses were altogether 1.2% in year 2014 compared to 1.04% in year 2013. With all these facts, it proved that the Refinery has increased operating time efficiency of 92% of Crude Distiller Unit compared to year 2013.

Refinery Production in 2014 (Percentage)



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 1,824 Mn. metric tons of crude oil at a C&F cost of USD 1,442.169 Million. The average crude oil (C&F) cost is USD 105 per Bbl compared to USD 110 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 2,073,865 and cost was USD 2,021 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. Ban imposed on 5 major products during 2013 continued 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. 179.76 Mn in 2014 compared to Rs. 177.6 Mn. in year 2013.

Management has implemented following key initiatives to face environmental challenges and capture the market during the year 2014.

- I. Disposal of expired agrochemical & contaminated packing waste such as cardboard Polythene and cotton waste etc..
- II. Initiate steps have been taken to automate the Agrochemical Plant with modern machineries.
- III. Tender has been called for water treatment plant.

Human Resource Development and Welfare

The employee strength by the end of year 2014 was 2,668 (2,657 in 2013) in the permanent cadre and 80 (83 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.27 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 fulfil 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.2,840,300/- 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 74 employees were awarded.

Employees' children who are selected for government University education are awarded 17 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	2014		2013(Restated)	
Turnover	558,324		518,177	
Bought in materials & services	(475,195)		(448,066)	
Value Added	83,129		70,111	
Applied the following way				
		%		%
To pay employees				
Wages & fringe benefits	3,727	4.5%	3,572	5.1%
To pay providers of capital				
Interest on loans	13,962	16.8%	18,540	26.4%
To provide maintenance and expansion of assets				
Depreciation	635	0.8%	487	0.7%
Retained Profit	1,741	2.1%	(7,984)	(11.4%)
To pay Government				
Taxes, Duties, Stamp duty and Contribution to the General Treasury	63,064	75.9%	55,496	79.2%
Value Added	83,129	100.0%	70,111	100.0%

HIGHLIGHTS

FINANCIAL	Unit	2014	2013 (Restated)
Gross Revenue	Rs. Mn.	525,182.094	490,381.492
Gross Profit/(Loss)	Rs. Mn.	24,447.379	22,743.559
Operational Profit /(Loss)	Rs. Mn.	11,857.999	7,387.657
Finance Charges	Rs. Mn.	13,961.574	18,539.848
Profit /(Loss) before Tax	Rs. Mn.	1,853.658	(7,889.407)
Net Profit /(Loss) after Tax	Rs. Mn.	1,741.160	(7,926.323)
Capital and Reserves	Rs. Mn.	(231,532.117)	(236,466.744)
Long term Borrowings	Rs. Mn.	703.481	1,350.850
Capital Expenditure	Rs. Mn.	1,116.716	4,023.521
IMPORTS			
Crude oil Imports	MT '000	1,824	1,743
Refined Bulk Product imports	MT '000	3,385	2,907
C&F Value	Rs. Mn.	187,760	182,064
OPERATIONS			
Sales	Metric Tons	3,967,738	3,692,023
Refinery Throughputs	Metric Tons	1,760,170	1,643,923
MARKETING			
CPC owned Filling Stations	Numbers	249	249
Dealer owned Filling Stations	Numbers	874	844
Dealer controlled Filling Stations	Numbers	44	44
EMPLOYEES			
Number of employees at the year end	Numbers	2,668	2,657
Total Emoluments for the Year	Rs. Mn.	3,727.230	3,520.253
Value Added per Employee	Rs.	1,397,102	1,324,897

RISK MANAGEMENT REPORT

Risk 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 analysed 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 the 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 endeavours 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 into 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 four (04) Audit committee meetings for which Non-Executive Directors were appointed by the Board of Directors as Committee members. At the 63rd Audit Committee meeting, three Non-Executive Directors namely Dr. Hans Wijayasuriya (Chairman), Mrs. Sandya Wijayabandara and Mr. A. H. S. Wijesinghe acted as Members of the Committee.

Commencing from 63rd to 66th of Audit Committee meetings, three Non-Executive Directors namely Dr. Hans Wijayasuriya (Chairman), Ms. Sandya Wijayabandara and Ms. Visakha Amarasekere acted as Members of the Committee. From 64th to 66th Audit Committee meetings, Mr. K. H. T. N. Sumanaratne also joined as a Member 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, four (04) 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	Names of Members
63	22.04.2014	03	Dr. Hans Wijayasuriya (Chairman) Miss. Visakha Amarasekere Mr. A. H. S. Wijesinghe
64	28.08.2014	04	Dr. Hans Wijayasuriya (Chairman) Miss. Visakha Amarasekere Mr. K. H. T. N. Sumanaratne Mr. A. H. S. Wijesinghe
65	22.10.2014	04	Dr. Hans Wijayasuriya (Chairman) Miss. Visakha Amarasekere Mr. K. H. T. N. Sumanaratne Mr. A. H. S. Wijesinghe
66	19.12.2014	04	Dr. Hans Wijayasuriya (Chairman) Miss. Visakha Amarasekere Mr. K. H. T. N. Sumanaratne Mr. A. H. S. Wijesinghe

Work Performed by the Audit Committee

The Audit Committee has made number of discussions and made recommendations on key strategic issues faced by CPC and submitted workable solution to the Board of Directors.

During the year internal audit programme focused on following broader areas and suggested an improvement required.

- Identification of lapses when granting loans to employees.
- Duties and responsibilities of CPC in calibrating and stamping dispensing pumps.
- Possibility of implementing flow meters for bowser loading disregarding the tongue level.
- Losses incurred disregarding the volume variation due to temperature and compensation for evaporation.
- Vulnerability of the SAP system used and lack of security control at CPSTL.
- Business Continuity Plans and Disaster Recovery Plans identified due to the failure of Under Hose Buoy.
- Lapses in fire & safety requirements at Sapugaskanda Terminal including the report on near miss incident reported while maintenance work is being carried out.
- Identified control lapses and action required at Sapugaskanda.
- Non-compliance observed when granting loans to employees for purchasing vehicles.
- Control lapses identified when carrying out year-end physical verifications.
- Uncontrolled Bulk Stock returns identified at terminals and depots and raising the accountability of CPSTL on permitting the loads to some other dealer as practice.

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 Technical 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 types 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 programs 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

	Note	CPC		GROUP	
		2014 Rs. Mn.	2013 Restated Rs. Mn.	2014 Rs. Mn.	2013 Restated Rs. Mn.
For the year ended 31st December					
Revenue	1	525,182.094	490,381.492	527,168.712	490,966.235
Cost of Sales	2	(500,734.715)	(467,637.933)	(507,613.357)	(474,080.094)
Gross Profit		24,447.379	22,743.559	19,555.355	16,886.141
Other Operating Income	3	1,098.797	321.978	1,556.261	452.324
Kerosene Subsidy	4	2,715.000	-	2,715.000	-
Income on Investment Property	5	51.823	52.015	51.823	52.015
Selling & Distribution Expenses	6	(11,532.812)	(11,965.252)	(1,760.156)	(1,600.652)
Administrative Expenses	7	(4,922.187)	(3,764.642)	(8,100.510)	(6,824.850)
Operating Profit		11,857.999	7,387.657	14,017.773	8,964.978
Finance Cost	8	(13,961.574)	(18,539.848)	(13,961.574)	(18,539.848)
Finance Income	9	3,957.234	3,262.784	3,985.931	3,287.303
Loss before Income Tax		1,853.658	(7,889.407)	4,042.130	(6,287.567)
Income Tax /ESC expense		-		(275.168)	(216.017)
Profit /(Loss) for the year		1,853.658	(7,889.407)	3,766.961	(6,503.584)
OTHER COMPREHENSIVE INCOME					
Net Gain/(loss) on available -for- sale Financial assets		-	(14.500)	-	(14.500)
Re-measurement gain/(loss) on Retirement Benefit plan		(112.498)	(22.416)	(152.495)	(64.452)
Other comprehensive loss for the year		(112.498)	(36.916)	(152.495)	(78.952)
Total comprehensive loss for the year		1,741.160	(7,926.323)	3,614.466	(6,582.536)
Less : Non controlling interest				(624.435)	(447.929)
Profit/(Loss) for the year		1,741.160	(7,926.323)	2,990.032	(7,030.465)

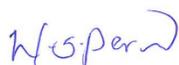
The Notes appearing on pages 57 to 69 form an integral part of the Financial Statement

STATEMENT OF FINANCIAL POSITION

As at 31st December 2014	Note	CPC			GROUP		
		31.12.2014	31.12.2013	01.01.2013	31.12.2014	31.12.2013	01.01.2013
		Rs. Mn.	Restated Rs. Mn.	Restated Rs. Mn.	Rs. Mn.	Restated Rs. Mn.	Restated Rs. Mn.
ASSETS							
Non - Current Assets							
Property, Plant & Equipment	10	13,591.468	13,110.644	9,572.201	30,879.893	31,083.696	28,627.947
Investment Property	10.3	25.362	26.166	26.970	25.362	26.166	26.970
Intangible Assets	10.5	-	-	-	47.358	139.293	229.429
Investment in Subsidiary	11	5,000.000	5,000.000	5,000.000	-	-	-
Non - Current Financial Assets	12	43.626	43.626	58.126	43.626	43.626	58.126
Trade and Other Receivables	13	3,406.923	4,365.812	6,884.044	2,549.808	4,365.812	14,682.463
		22,067.379	22,546.248	21,541.341	33,546.046	35,658.593	43,624.935
Current Assets							
Inventories	14	63,770.066	65,036.294	62,193.919	64,138.159	65,432.534	62,554.390
Trade & Other Receivables	13	62,354.116	86,029.691	110,629.953	63,695.436	87,778.309	104,489.763
Income Tax Recoverable		889.328	721.543	246.990	889.328	1,006.962	628.057
Short Term Investment		11,994.697	6,801.651	-	11,994.697	6,801.651	-
Cash and Cash Equivalents	15	21,474.788	6,134.526	11,623.634	23,380.517	11,388.052	12,085.561
		160,482.994	164,723.705	184,694.496	164,098.137	172,407.508	179,757.771
Total Assets		182,550.373	187,269.953	206,235.837	197,644.184	208,066.101	223,382.706
EQUITY AND LIABILITIES							
Capital and Reserves							
Contributed Capital	16	3,500.000	3,500.000	3,500.000	3,500.000	3,500.000	3,500.000
Capital Reserve	17	4,992.686	4,992.686	4,992.686	4,992.686	4,992.686	4,992.686
Retained Earnings		(240,024.803)	(244,959.430)	(237,033.107)	(231,859.647)	(238,043.145)	(231,012.680)
Non controlling interest		-	-	-	6,582.577	5,958.142	5,510.214
Total Equity		(231,532.116)	(236,466.744)	(228,540.421)	(216,784.384)	(223,592.316)	(217,009.780)
Non - Current Liabilities							
Retirement Benefits Liability		663.950	538.109	546.935	2,006.254	1,755.131	1,652.777
Deferred tax		-	-	-	492.982	394.660	366.065
Loans & Borrowings	18	703.481	1,350.850	1,998.218	2,590.131	3,725.301	4,521.422
		1,367.431	1,888.959	2,545.153	5,089.367	5,875.092	6,540.264
Current Liabilities							
Trade and Other Payables	19	164,280.022	194,269.480	220,897.351	160,355.644	197,545.714	221,665.585
Current portion of Loans & Borrowings	18.1	647.369	647.369	647.369	1,135.168	1,135.169	-
Short Term Borrowings	20	247,787.669	226,760.199	210,515.694	247,787.669	226,931.750	212,015.945
Provision for Deemed Dividend		-	170.691	170.691	-	170.691	170.691
Income Tax Payable		-	-	-	60.720	-	-
		412,715.059	421,847.739	432,231.105	409,339.201	425,783.325	433,852.222
Total Equity and Liabilities		182,550.373	187,269.953	206,235.837	197,644.184	208,066.101	223,382.706

The Notes appearing on pages 57 to 69 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 2014 and its profit for the year then ended.



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



M.C.D.Perera
SENIOR DEPUTY FINANCE MANAGER

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,


J.R. Wickramasinghe
Chairman & Managing Director

STATEMENT OF CHANGES IN EQUITY

	Contributed Capital Rs. Mn.	Shares held in CPSTL	Capital 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.
As at 1st Jan 2013	1,000.000	2,500.000	4,992.686	2,485.643	(233,624.356)	(222,646.027)	5,449.244	(217,196.783)
Adjustment for Prior period error corection-CPC					4.094	4.094	-	4.094
Adjustment for Prior period error corection-CPSTL					121.939	121.939	60.97	182.909
Gain on Consolidation				(2,485.643)	2,485.643	-		-
Re-stated balance as at 1st Jan 2013	1,000.000	2,500.000	4,992.686	0.000	(231,012.680)	(222,519.994)	5,510.214	(217,009.780)
Re stated Loss for the year					(7,030.465)	(7,030.465)	447.929	(6,582.536)
Re-stated balance as at 31st December 2013	1,000.000	2,500.000	4,992.686	0.000	(238,043.145)	(229,550.459)	5,958.142	(223,592.316)
Comprehensive income								
Profit for the year					3,142.527	3,142.527	624.435	3,766.961
Other comprehensive income for the year					(152.495)	(152.495)		(152.495)
Reversal of Deemed Dividend Provision					170.691	170.691	-	170.691
Kerosene Subsidy					3,022.775	3,022.775	-	3,022.775
Total comprehensive income for 2014					6,183.498	6,183.498	624.435	6,807.932
Balance as at 31st December 2014	1,000.000	2,500.000	4,992.686	0.000	(231,859.647)	(223,366.961)	6,582.577	(216,784.384)

The Notes appearing on pages 57 to 69 form an integral part of the Financial Statement

STATEMENT OF CASH FLOW

For the year ended 31st December	Notes	CPC		GROUP	
		2014 Rs. Mn.	2013 Rs. Mn.	2014 Rs. Mn.	2013 Rs. Mn.
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	21	12,449.312	5,152.809	10,875.649	11,611.005
Interest Paid		(13,961.574)	(18,539.848)	(14,384.351)	(19,195.078)
Retiring Gratuity Paid		(64.187)	(65.859)	(143.028)	(143.538)
Income Tax /WHT paid		(167.784)	(474.554)	(167.784)	(474.552)
Net Cash Generated from Operating activities		(1,744.234)	(13,919.549)	(3,819.514)	(8,202.163)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Property, Plant & Equipment		16.216	23.728	21.006	36.589
Acquisition of Property, Plant & Equipment		(1,116.716)	(4,023.521)	(1,325.867)	(4,080.894)
Income from Investment		437.501	0.007	-	0.007
Interest Received		3,957.234	3,262.784	3,985.931	3,287.302
Short Term Investment		(5,193.046)	(6,801.651)	(5,193.046)	(6,801.651)
Net Cash Used in Investing Activities		(1,898.811)	(7,546.556)	(2,511.976)	(7,558.647)
CASH FLOWS FROM FINANCING ACTIVITIES					
Loans obtained during the period				-	339.047
New Loans obtained /Repayment of Loans		28,745.610	7,231.628	28,257.810	6,172.419
Net Cash From/(Used in) Financing Activities		28,745.610	7,231.628	28,257.810	6,511.465
Net Increase/(Decrease) in Cash & Cash Equivalents		25,102.565	(14,234.476)	21,926.319	(9,249.345)
Cash & Cash Equivalents at Beginning of the Year		(7,299.390)	6,935.086	(2,217.415)	7,031.931
Cash & Cash Equivalents at End of the Year	15	17,803.175	(7,299.390)	19,708.905	(2,217.415)

The Notes appearing on pages 57 to 69 form an integral part of the Financial Statement

SIGNIFICANT ACCOUNTING POLICIES

1. CORPORATE INFORMATION

1.1 General

Ceylon Petroleum Corporation is a Public Corporation incorporated under 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 Group are refining, selling & distributing, Import & Export of 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. 2/3 shares of Ceylon Petroleum Storage Terminals Ltd. (CPSTL) are owned by CPC.

1.4 Date of Authorization for Issue

The Financial Statements of Ceylon Petroleum Corporation and its group for the year ended 31 December 2014 were authorized for issue in accordance with a Resolution of the Board of Directors on 27th February 2015.

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 the Institute of Chartered Accountants of Sri Lanka with effect from 01 January and in accordance with the provisions of the Finance Act No. 38 of 1971. These are the Corporation's first annual financial statements prepared in accordance with SLFRSs / LKASs.

The financial statements have been prepared in compliance with SLFRSs / LKASs. . The Corporation has consistently applied the accounting policies used in the preparation of its opening SLFRS statement of financial position.

The Financial Statements are presented in Sri Lankan Rupees and all values are rounded to the nearest million except where otherwise indicated.

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 2/3rd 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 group is a going concern i.e. as continuing in operation for the foreseeable future. It is therefore assumed that the group has neither the intention nor the necessity of liquidating or of curtailing materially the scale of its operation even though the group has made a Profit of Rs 2,990 Million and a negative equity position of Rs 216,784 Million as per the financial statements prepared for the year ended 31st December, 2014.

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 derecognition 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
Aviation Facilities at Mattala Airport	
-Fuel hydrant System	2.5
-Tanks	20
Pipelines	5
Gantries & Pumps	10

2.3.14 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 No. 26 (Revised 2005) 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 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.

3.6 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 asset. 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.

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.

In addition to the above, there is a case pending at Supreme Court against CPC and there are four cases before the High Court relating to import of Petroleum products and there are two Arbitrations before the Arbitration Tribunal in relation to Crude Oil import treated matter .CPC

is of the opinion that they will not cause any material impact on the financial stability of the CPC and therefore, no related provision are made.

There were 203 unsesttle court cases against CPC and 37 unsesttle court cases against CPSTL as at end of the year 2014.The details are given below:

Type of case	No of cases against CPC	No of cases against CPSTL
Labour Department Inquiry	22	06
Industrial Court Attribution	09	-
Labour Tribunal	03	06
Human Right Commission	23	-
Commercial Arbitration	02	-
Magistrate Court	03	03
District Court	111	13
High Court	11	05
Court of Appeal	13	04
Supreme Court	06	-
Total	203	35

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
Mr. A. H. S. Wijesinghe	- Director

Mr. L E Susantha Silva is a Non-Executive Director of Housing Development of Finance Corporation (HDFC) and Open University of Sri Lanka.

CPSTL is a company which engages in storage and distribution of liquid petroleum products within Sri Lanka. CPC has paid throughput charges amounting to Rs. 8.56 Bn. in the year 2014 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. EVENTS AFTER THE BALANCE SHEET DATE

All the material events after the Balance Sheet date, if any and where necessary have been considered and appropriate adjustments/disclosures have been made in the Financial Statements.

8. 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 2014 Rs. Mn	CPC 2013 Rs. Mn	GROUP 2014 Rs. Mn	GROUP 2013 Rs. Mn
1. REVENUE				
Sale of Petroleum Products	525,182.094	490,381.492	525,182.094	490,381.492
Terminal Charges & Other Income	-	-	1,986.618	584.743
	525,182.094	490,381.492	527,168.712	490,966.235
2. COST OF SALES.				
As Per Gross Margin	498,966.998	463,990.551	498,966.998	463,990.551
Operation Loss/Gain	800.228	383.616	800.228	383.616
Exchange Variation (Crude/Bulk)	967.489	3,263.767	967.489	3,263.767
Direct Expenses & others			6,878.642	6,442.161
	500,734.715	467,637.934	507,613.357	474,080.094
3. OTHER OPERATING INCOME				
Dividend Income	437.500	0.007	437.500	0.007
Staff Loan Interest	504.206	199.806	738.430	199.806
Rent Income	50.009	46.674	45.636	54.712
Profit on sales of Filling station equipment	25.940	21.689	30.730	21.689
Sundry Income	81.142	53.801	303.965	176.110
	1,098.797	321.978	1,556.261	452.324
4. KEROSEN SUBSIDY				
For the year 2014	2,715.000		2,715.000	-
	2,715.000	-	2,715.000	-
5. INCOME ON INVESTMENT PROPERTY				
Flower / Thurstan Road Building & Rental Filling Station	51.823	52.015	51.823	52.015
6. SELLING & DISTRIBUTION EXPENSES				
Selling And Distribution Cost	9,808.893	10,336.419	956.317	836.987
Aviation Cost	1,345.368	1,264.878	425.288	399.710
Deprecation	378.551	363.955	378.551	363.955
	11,532.812	11,965.252	1,760.156	1,600.652
7. ADMINISTRATIVE EXPENSES				
Administrative Cost	3,172.033	3,764.642	6,350.356	(6,284.850)
VAT on Sales of Assrts -2003	1,303.291	-	1,303.291	-
Turnover Tax on Bunker fuel sold to LMS	446.863	-	446.863	-
	4,922.187	3,764.642	8,100.510	(6,284.850)
8. FINANCE CHARGES				
Interest on Long Term Loans	71.782	82.416	71.782	82.416
Interest on Bank Overdrafts	30.346	37.898	30.346	37.898
Interest on Foreign Bills Payables & Other Bank Loans	13,156.730	18,419.534	13,156.730	18,419.534
Loss on Treasury Bond	702.717	-	702.717	-
	13,961.574	18,539.848	13,961.574	18,539.848
9. FINANCE INCOME				
Treasury Bill Interest Income	1,222.395	925.518	1,222.395	950.037
Intrest on Deposits			28.697	
Interest on R.F.C. A/C	1.801	18.707	1.801	18.707
Interest on Credit invoice	115.698	65.944	115.698	65.944
Interest CEB/IPP/Aviation Customers	1,961.930	2,252.615	1,961.930	2,252.615
Intrest on Treasury Bonds	655.409	-	655.409	-
	3,957.234	3,262.784	3,985.931	3,287.303

NOTES TO THE FINANCIAL STATEMENTS

10. PROPERTY, PLANT & EQUIPMENT

Cost	CPC							GROUP
	Land & Buildings	Vested Property	Plant, Mach & Equip	SPM Facility	Motor Vehicles	Furn/Fittings Off. Equip & Other Assets	Total	
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Bal as at 01/01/2014	3,255.167	1.016	4,268.001	2,142.422	478.249	1,926.439	12,071.294	39,198.340
Additions	1,063.252		4,282.908		38.828	225.548	5,610.536	5,828.416
Disposals			(2.099)		(2.426)		(4.525)	(11.427)
							-	
Bal as at 31/12/2014	4,318.419	1.016	8,548.810	2,142.422	514.651	2,151.987	17,677.305	45,015.329
4.2 Depreciation								
Bal as at 01/01/2014	379.904	0.397	3,381.909	1,290.634	251.928	1,409.074	6,713.847	15,933.894
Charge for the Year	92.595		417.518		31.757	92.385	634.256	1,528.035
Disposals			(0.462)		(2.426)		(2.888)	(9.748)
Bal as at 31/12/2014	472.499	0.397	3,798.965	1,290.634	281.259	1,501.459	7,345.215	17,452.181
Net Book Value as at 31.12.2014	3,845.920	0.619	4,749.845	851.788	233.392	650.528	10,332.090	27,563.147
Net Book Value as at 31.12.2013	2,875.263	0.619	886.091	851.788	226.321	517.365	5,357.446	23,264.444
Net Book Value as at 01.01.2013	2,914.384	0.628	903.296	851.788	150.346	607.512	5,428.585	24,423.710

10.1 Assets and Capital Project in Progress

	CPC			GROUP		
	31.12.2014	31.12.2013	01.01.2013	31.12.2014	31.12.2013	01.01.2013
	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn
Refinery Expansio project(SOREM)	837.628	837.454	809.102	837.628	837.454	809.102
Buildings	126.275	18.163	15.888	126.275	18.163	15.888
Plant & Machinery	2,119.661	2,197.081	15.004	2,119.661	2,197.081	15.004
Storage Facility	70.024	168.539	2,185.169	70.024	168.539	2,185.169
Re-structuring of Filling Stations	3.736	3.736	3.736	3.736	3.736	3.736
Others	102.054	4,528.225	1,114.717	159.421	4,594.279	1,175.338
	3,259.378	7,753.198	4,143.616	3,316.745	7,819.252	4,204.237

10.2. Net Book Values

Property Plant & Equipment	10,332.089	5,357.446	5,428.585	27,563.147	23,264.444	24,423.710
Assets & Capital Projects in Progress	3,259.378	7,753.198	4,143.616	3,316.745	7,819.252	4,204.237
Total Carrying Amount of Property , Plant & Equipments	13,591.467	13,110.644	9,572.201	30,879.893	31,083.696	28,627.947

NOTES TO THE FINANCIAL STATEMENTS

10.3 Investment Prperty

	CPC			GROUP		
	31.12.2014	31.12.2013 Restated	01.01.2013 Restated	31.12.2014	31.12.2013 Restated	01.01.2013 Restated
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn
Gross carrying amount						
Cost						
Balance as at 1.1.	33.570	33.570	32.344	33.570	33.570	32.344
Add: Additions	-	-	1.226	-	-	1.226
Balance as at 31.12	33.570	33.570	33.570	33.570	33.570	33.570
Depreciation						
Balance as at 1.1.	7.404	6.600	5.653	7.404	6.600	5.653
Add: Charge for the year	0.804	0.804	0.947	0.804	0.804	0.947
Balance as at 31.12	8.208	7.404	6.600	8.208	7.404	6.600
Net Book Value	25.362	26.166	26.970	25.362	26.166	26.970

No fair value carried out at the balance sheet date and step will be taken to obtain professional valuation in 2015.

10.4 The useful lives of the assets is estimated as follows

	2014	2013
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
Bowsers & 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	20 Years	20Years
Aviation Facilities at Mattala Airport		
Fuel Hydrant System	40 Years	-
Tanks	5Year	-
Pipeline	20 Years	-
Grantries & Pumps	10 Years	-

10.5 Intangible Assets

	ERP Project	Sap ERP User License	Automation of Offshore Pipeline Project	Total
	Cost of Valuation			
Balance at 1st January 2014	412.497	9.380	37.794	459.670
Additions				
Transfers	-	-	-	-
As at 31st December 2014	412.497	9.380	37.794	37.794
Accumulative Depreciation and Impairment				
As at January 2014	308.539	2.358	9.480	320.377
Charge for the Year	91.935			91.935
Transfers				
As at 31st December 2014	400.474	2.358	9.480	412.313
Net Book Value				
As at 31st December 2014	12.022	7.022	28.313	47.358
As at 31st December 2013	103.958	7.022	28.313	139.293
As at 1st January 2013	184.657	8.898	35.873	229.428

NOTES TO THE FINANCIAL STATEMENTS

	CPC			GROUP		
	31.12.2014	31.12.2013	01.01.2013	31.12.2014	31.12.2013	01.01.2013
	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn
11. INVESTMENTS						
Investment in Associated Company						
Unquoted						
Ceylon Petroleum Storage Terminals Ltd.	5,000.000	5,000.000	5,000.000	-	-	-
Additions to Investments	-	-	-	-	-	-
	5,000.000	5,000.000	5,000.000	-	-	-

		CPC			GROUP		
		31.12.2014	31.12.2013	01.01.2013	31.12.2014	31.12.2013	01.01.2013
		Rs.Mn	Restated Rs.Mn	Restated Rs.Mn	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn
12. NON CURRENT FINANCIAL ASSETS							
Quated equity investments	12.1	33.000	33.000	47.500	33.000	33.000	47.500
Unquoted equity investments	12.2	5.626	5.626	5.626	5.626	5.626	5.626
Non equity investments	12.3	5.000	5.000	5.000	5.000	5.000	5.000
		43.626	43.626	58.126	43.626	43.626	58.126
12.1.Quated equity investments							
Lanka Cement Ltd.		47.500	47.500	99.000	47.500	47.500	99.000
5,000,000 Ordinary Shares of Rs.10/= each fully paid							
Fair value transfer to equity		(14.500)	(14.500)	(51.500)	(14.500)	(14.500)	(51.500)
		33.000	33.000	47.500	33.000	33.000	47.500
12.2.Unquoted equity investments							
Associated News Papers of Ceylon Ltd.							
61,206 Ordinary Shares of Rs.10/= each fully paid.		0.539	0.539	0.539	0.539	0.539	0.539
Lanka Leyland Ltd.							
100 Ordinary Shares of 10/= each fully paid.		0.001	0.001	0.001	0.001	0.001	0.001
International Coop/Petroleum association							
5,499 Shares of Us \$ 100/= each fully paid Incorporated in USA		5.086	5.086	5.086	5.086	5.086	5.086
		5.626	5.626	5.626	5.626	5.626	5.626
12.3.Non equity investments							
Investment in Fixed Deposits		5.000	5.000	5.000	5.000	5.000	5.000
		5.000	5.000	5.000	5.000	5.000	5.000

NOTES TO THE FINANCIAL

	CPC					
	31.12.2014		31.12.2013		01.01.2013	
	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
13 . TRADE & OTHER RECEIVABLE						
Trade Receivables	36,879.361	-	53,147.185		97,378.53	4,457.345
Other Receivables	12,045.620	857.64	1,593.196	1,863.125	3,251.512	697.321
Deposits	24.818	51.94	13.685	260.127	12.297	
Advance	3,091.563	-	375.128		499.601	
Prepayments	278.561	-	178.206		221.211	
Loans & Advances to Employees	50.262	2,497.35	31.806	2,242.560	39.865	1,729.378
Available for sales -Investments	9,983.931	-	30,690.486		9,226.94	
	62,354.116	3,406.923	86,029.692	4,365.812	110,629.953	6,884.044

	GROUP					
	31.12.2014		31.12.2013		01.01.2013	
	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	44,443.092		53,945.429	-	97,763.12	
Other Receivables	3,491.119	0.52	165.088	1,863.125	3,467.08	12,255.764
Deposits	228.218	51.94	297.858	260.127	12.30	697.32
Advance	3,091.563	-	375.128	-	591.57	
Prepayments	278.561	-	178.206	-	221.21	
Loans & Advances to Employees	2,178.951	2,497.35	2,126.114	2,242.560	2,434.49	1,729.38
Available for sales -Investments	9,983.931	-	30,690.486	-		
	63,695.436	2,549.808	87,778.309	4,365.812	104,489.763	14,682.463

All non-current receivables are due within five years from the end of the reporting period.

The fair values of staff loans (except for distress loans) are initially recognized at fair value by discounting the cash flows using the market based interest rate of 10%.

As of 31 December 2014, CPC's trade receivable of Rs. 45.272 Mill. were impaired. The amount of the impairment provision was Rs. 3.234 as at 31 Dec 2014. The ageing of these trade receivables is as follows.

	CPC		
	31.12.2014	31.12.2013	01.01.2013
	Rs.Mn	Restated Rs.Mn	Restated
2 to 3 years			
4 to 5 years	4.635	5.291	5.291
Over 5 years	2.118	2.76	2.76
	38.520	34.44	34.44
	45.272	42.491	42.491

Movement on the provision for impairment of trade receivables are as follows.

	CPC		
	31.12.2014	31.12.2013	01.01.2013
		Restated	Restated
Balance as at 1st January	42.491	43.002	43.002
Less: Amount Recovered	(0.426)	(5.793)	(5.793)
Less: Amount write off	(0.027)	(0.010)	(0.010)
Add: Provision for the year	3.234	5.291	5.291
Balance as at 31st December	45.272	42.491	42.491

NOTES TO THE FINANCIAL

	CPC			GROUP		
	31.12.2014	31.12.2013	01.01.2013	31.12.2014	31.12.2013	01.01.2013
	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn
14. INVENTORIES						
Crude Oil	16,731.368	24,231.471	13,955.461	16,731.368	24,231.471	13,955.461
Other Raw material	934.465	909.535	1,002.053	934.465	909.535	1,002.053
Finished Products	43,716.072	37,870.141	45,577.316	43,716.072	37,870.141	45,577.577
Other Materials & Supplies	2,768.295	2,389.175	2,023.202	3,334.592	2,957.256	2,533.651
Less: Provision for Non Moving Items	(380.134)	(364.028)	(364.113)	(578.338)	(535.869)	(514.352)
	63,770.066	65,036.294	62,193.919	64,138.159	65,432.534	62,554.390

	CPC			GROUP		
	31.12.2014	31.12.2013	01.01.2013	31.12.2014	31.12.2013	01.01.2013
	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn
15. CASH AND CASH EQUIVALENTS						
Components of Cash and Cash Equivalents						
Cash & Bank Balances	21,474.788	6,134.526	11,623.634	23,380.517	11,388.052	12,085.561
	21,474.788	6,134.526	11,623.634	23,380.517	11,388.052	12,085.561
Cash and cash equivalents include the following for the purpose of the statement of cash flows:						
Cash and cash equivalents	21,474.788	6,134.526	11,623.634	23,380.517	11,388.052	12,085.561
Bank overdrafts	-	(8,365.51)	-	-	(8,537.06)	(365.08)
	21,474.788	(2,230.984)	11,623.634	23,380.517	2,850.991	11,720.479
Add/Less: Adjustment for foreign currency translation	(3,671.613)	(5,068.406)	(4,688.548)	(3,671.613)	(5,068.41)	(4,688.548)
	17,803.175	(7,299.390)	6,935.086	19,708.904	(2,217.415)	7,031.931

	CPC			GROUP		
	31.12.2014	31.12.2013	01.01.2013	31.12.2014	31.12.2013	01.01.2013
	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn
16. CONTRIBUTED CAPITAL						
Initial Contribution in Pursuance of Section 23 of Act No 28 of 1961	10.000	10.000	10.000	10.000	10.000	10.000
Voted by Appropriation Act no 23 of 1964	4.000	4.000	4.000	4.000	4.000	4.000
Voted by Appropriation Act no 15 of 1967	20.000	20.000	20.000	20.000	20.000	20.000
Contribution to Capital in 1976	60.000	60.000	60.000	60.000	60.000	60.000
Contribution to Capital in 1979	13.110	13.110	13.110	13.110	13.110	13.110
Contribution to Capital in 1980	10.710	10.710	10.710	10.710	10.710	10.710
Total Contributed by Govt. of Sri Lanka	117.820	117.820	117.820	117.820	117.820	117.820
Transferred from General Reserve in 1987	750.000	750.000	750.000	750.000	750.000	750.000
Transferred from Retained Profits in 1987	132.180	132.180	132.180	132.180	132.180	132.180
	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000	1,000.000
(No authorized capital has been fixed by the Parliament.)						
1/3 rd of CPSTL Company Shares held by the General Treasury was transferred to CPC after Cabinet decision.	2,500.000	2,500.000	2,500.000	2,500.000	2,500.000	2,500.000
	3,500.000	3,500.000	3,500.000	3,500.000	3,500.000	3,500.000

NOTES TO THE FINANCIAL

	CPC			GROUP		
	31.12.2014	31.12.2013	01.01.2013	31.12.2014	31.12.2013	01.01.2013
	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn
17. CAPITAL RESERVE						
Balance as at 01 st January	4,992.686	4,992.686	4,992.686	4,992.686	4,992.686	4,992.686
Balance as at 31 st December	4,992.686	4,992.686	4,992.686	4,992.686	4,992.686	4,992.686

* 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.

	CPC			GROUP		
	31.12.2014	31.12.2013	01.01.2013	31.12.2014	31.12.2013	01.01.2013
	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn
18. LOANS & BORROWINGS						
L.T. Loans not assigned to CPSTL						
Treasury (A.D.B) Loan - (Interest 14.0% p.a.) repay yearly installments of Rs.37.977 Mil each commencing July ' 01.	417.777	493.736	569.695	417.777	493.736	569.695
L.T. Loans assigned to CPSTL						
Treasury (Exim Bank) Loan - (Interest 12 .0 p.a %) Oct. 2004 in 24 equal 1/2 yearly installments of final Loan value	285.705	857.114	1,428.523	285.705	857.114	1,428.523
Peoples Bank Term Loan				1,886.649	2,374.451	2,523.204
	703.482	1,350.850	1,998.218	2,590.131	3,725.301	4,521.422

18.1 CURRENT PORTION OF LOANS & BORROWINGS						
	CPC			GROUP		
	31.12.2014	31.12.2013	01.01.2013	31.12.2014	31.12.2013	01.01.2013
	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn
L.T. Loans not assigned to CPSTL						
Treasury (A.D.B) Loan	75.959	75.959	75.959	75.959	75.959	-
L.T. Loans assigned to CPSTL						
Treasury (Exim Bank) Loan	571.410	571.410	571.409	571.410	571.410	-
Others				487.800	487.800	
	647.369	647.369	647.368	1,135.169	1,135.169	-

	CPC			GROUP		
	31.12.2014	31.12.2013	01.01.2013	31.12.2014	31.12.2013	01.01.2013
	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn
19. TRADE & OTHER PAYABLES						
Foreign Bills Payable	143,445.125	179,457.390	189,355.413	143,445.125	179,457.390	189,355.413
Other Creditors						
- Amount due to Inland Revenue & Custom Dept	824.289	97.912	2,213.257	970.677	223.588	2,213.257
- Accrued Expenses	1,019.542	1,260.938	2,901.165	1,799.208	2,199.976	3,274.029
- Refundable Deposits & Others	13,666.605	11,859.756	16,943.900	13,673.505	11,419.523	18,311.032
- Amount due to Related Parties	5,324.460	1,593.484	1,872.016	467.129	4,245.237	900.254
- Amount due to SCB	-	-	7,611.600	-	-	7,611.600
	164,280.022	194,269.480	220,897.351	160,355.644	197,545.714	221,665.585

	CPC			GROUP		
	31.12.2014	31.12.2013	01.01.2013	31.12.2014	31.12.2013	01.01.2013
	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn	Rs.Mn	Restated Rs.Mn	Restated Rs.Mn
20. SHORT TERM BOROWINGS						
Bank & Other loans						
- Wholly Repayable within one year	247,787.669	218,394.690	210,515.694	247,787.669	218,394.690	211,650.863
- Bank Overdrafts	-	8,365.509	-	-	8,537.060	365.082
	247,787.669	226,760.199	210,515.694	247,787.669	226,931.750	212,015.945

Short term loans are obtained to finance import bills payable to the suppliers. The interest rate at the beginning of the year was 7.5% .During the year under reviewed, the interest rate were revised to 6% and 5.5%.

NOTES TO THE FINANCIAL STATEMENTS

	CPC		GROUP	
	2014 Rs.Mn	2013 Rs.Mn	2014 Rs.Mn	2013 Rs.Mn
21. CASH GENERATED FROM OPERATIONS				
Profit/(Loss) before tax from continuing operations	1,741.160	(7,926.323)	3,889.635	(6,336.086)
Adjustment for :				
Depreciation	635.060	485.882	1,528.839	1,624.430
Amortisation			91.935	91.658
Foreign Currency Translation	1,396.794	(379.872)	1,396.794	(379.872)
Investment Income	(437.501)	0.007	-	0.010
Interest Received	(3,957.234)	(3,262.784)	(3,985.931)	(3,287.302)
Adjustment to Market Value(Quoted Share)		14.500	-	14.500
Provision for Bad & Doubtful Debts & Recoveries	2.781	(0.511)	2.781	(0.511)
Interest Expenses	13,961.574	18,539.848	14,384.351	19,195.078
Interest on Gratuity			85.191	77.080
Provision for Retirement Obligation	190.028	57.032	268.963	126.780
Provision for impairment- Staff Loans			0.369	(2.977)
Provision for impairment- debtors			3.067	120.533
(Profit)/Loss on Sale of Property, Plant & Equipment	(14.580)	(23.728)	(19.370)	(36.589)
Subsidy Received	3,022.775		3,022.775	-
Operating Profit/(Loss) before Working Capital changes	16,540.857	7,504.051	20,872.467	11,206.725
Changes in Working Capital				
(Increase)/ Decrease in Inventories	1,266.228	(2,842.375)	1,294.375	(2,878.144)
(Increase)/ Decrease in Trade and Other Receivable	24,631.682	27,341.560	25,898.877	25,418.555
Increase/ (Decrease) In Trade and Other Payables	(29,989.456)	(26,850.426)	(37,190.070)	(22,136.130)
Cash Generated from/ (Used in) operating activities	12,449.312	5,152.810	10,875.649	11,611.005

	CPC	GROUP
	2014 Rs.Mn	2014 Rs.Mn
22. FINANCIAL INSTRUMENT BY CATEGORY		
Assets as per the Statement of Financial Position		
Trade and other receivables excluding pre-payments and advances	52,406.984	52,891.189
Available for sale investment(including quoted and non-quoted)	43.626	43.626
Investments in Fixed deposits	11,994.697	11,994.697
Investment in Treasury bonds	9,983.931	9,983.931
Cash in hand and at Banka	21,474.788	23,380.517
	95,904.026	98,293.960
Liabilities per the Statement of Financial Position		
Borrowings	249,138.5200	251,512.969
Trade & Other Payables excluding non financial liabilities	164,280.0220	160,355.6442
Balance as at 31 st December	413,418.5420	411,868.6132

NOTES TO THE FINANCIAL STATEMENTS

23. EXPLANATION ON RESTATEMENT OF FINANCIAL STATEMENTS

Parent company

Revaluation Reserve amounting to Rs.25.696 Mn. has been erroneously credited to Platinum stock, and provision for Finished goods loss of Rs.21.602mn. Has been erroneously debited to provision for Finished goods in the year 2012.

Further during the year 2013, Legal Expenses relating to 2012 amounting to RS.50 Mn. Has been erroneously debited to Legal expenses without being debited to the provision account and Notional credit on Treasury bill interest income amounting to Rs. 7.902Mn has been omitted.

Subsidiary Company

During the year 2010, company has erroneously recorded Rs.65.275Mn payable to Lightens Contractors Malaysia, twice in the system and in the year 2012 Rs.117.633 Mn. Payable to transport vendors was again recorded tice under sundry creditors.

Transport expenses was overstated by Rs.5.799Mn during the year 2013 in the books of subsidiary

These errors has been corrected retrospectively in accordance with LKAS 8 Changes in Accounting policies, Changes in Accounting estimates and errors.

	CPC 31.12.2013 Rs.Mn.	CPC 1.1.2013 Rs.Mn.	GROUP 31.12.2013 Rs.Mn.	GROUP 1.1.2013 Rs.Mn.
23.1 Reconciliation of Share Holders Equity				
Balance Reported as per the previous Financial Statements	(236,528.740)	(228,544.515)	(223,843.021)	(217,383.131)
Adjustment of Platinum Reserve erroneously credited to stock in 2012	25.696	25.696	25.696	25.696
Adjustment of Provision for Finished Goods Loss erroneously credited to stock in :	(21.602)	(21.602)	(21.602)	(21.602)
Adjustment of Legal expenses erroneously debited to Legal expenses in 2013	50.000	-	50.000	-
Adjustment of Notional Credit on Treasury Bill interest income in 2013	7.902	-	7.902	-
Adjustment of retained earnings for consolidation in 2012			-	186.348
Adjustment for over recording of trade payable in 2010 & 2012	-	-	182.909	182.909
adjustment of over recording of trade payable in 2013			5.799	-
Restated balance	<u>(236,466.744)</u>	<u>(228,540.421)</u>	<u>(223,592.317)</u>	<u>(217,009.780)</u>
Inventories				
Balance reported as per the previous financial statements	65,032.200	62,189.825	65,428.44	62,550.30
Adjustment of Platinum Reserve erroneously credited to stock in 2012	25.696	25.696	25.70	25.70
Adjustment of Provision for Finished Goods Loss erroneously credited to stock in :	(21.602)	(21.602)	(21.60)	(21.60)
Restated balance	<u>65,036.294</u>	<u>62,193.919</u>	<u>65,432.534</u>	<u>62,554.390</u>
Income Tax Receivable				
Balance reported as per the previous financial statements	713.641	246.990	999.059	628.057
Adjustment of Notional Credit on Treasury Bill interest income in 2013	7.902	0.000	7.902	0.000
	<u>721.543</u>	<u>246.990</u>	<u>1006.962</u>	<u>628.057</u>
Trade & Other Payables				
Balance reported as per the previous financial statements	194,096.926	220897.351	197,561.87	221,848.49
Adjustment of Legal expenses erroneously debited to Legal expenses in 2013	(50.00)	-	(50.00)	-
Adjustment for over recording of trade payable in 2010 & 2012			(182.91)	(182.91)
adjustment of over recording of trade payable in 2013			(5.80)	
	<u>194,046.926</u>	<u>220,897.351</u>	<u>197,323.16</u>	<u>221,665.59</u>
Add: Changes in the Comparative information (Note)	222.554		222.55	-
	<u>194,269.480</u>	<u>220,897.351</u>	<u>197,545.714</u>	<u>221,665.585</u>

Note

In previous accounts Payables to fisheries department & product payable to L.I.O.C has been grouped under Trade receivables more than one year & less than one year now corrected.

NOTES TO THE FINANCIAL STATEMENTS

23.2 Reconciliation of Comprehensive Income

	Previously reported balance	Adjustment	Restated balance	Previously reported balance	Adjustment	Restated balance
	<i>Rs. Mn</i>			<i>Rs. Mn</i>		
Less						
Dealer Discount						
Revenue	490,381.492	-	490,381.492	490,966.235	-	490,966.235
Cost of Sales	(467,637.933)	-	(467,637.933)	(474,085.894)	(5.799)	(474,080.094)
Gross Profit	22,743.559	-	22,743.559	16,880.341	(5.799)	16,886.141
Other Operating Income	321.978	-	321.978	452.324	-	452.324
Income On Investment Property	52.015	-	52.015	52.015	-	52.015
Selling & Distribution Expenses	(11,965.252)	-	(11,965.252)	(1,600.652)	-	(1,600.652)
Administrative Expenses	(3,814.642)	(50.000)	(3,764.642)	(6,874.850)	(50.000)	(6,824.850)
Operating Profit	7,337.658	(50.000)	7,387.657	8,909.178	(55.80)	8,964.978
Finance Cost	(18,539.848)	-	(18,539.848)	(18,539.848)	-	(18,539.848)
Finance Income	3,254.882	(7.902)	3,262.784	3,279.401	(7.902)	3,287.303
Profit/(Loss) before tax	(7,947.308)	(57.902)	(7,889.407)	(6,351.269)	(63.701)	(6,287.567)
Income Tax	-	-	-	(216.017)	-	(216.017)
	(7,947.308)	(57.902)	(7,889.407)	(6,567.286)	(63.701)	(6,503.585)
OTHER COMPREHENSIVE INCOME						
Net Gain/(loss) on available -for- sale Financial assets	(14.500)	-	(14.500)	(14.500)	-	(14.500)
Re-measurement gain/(loss) on Retirement Benefit plan	(22.416)	-	(22.416)	(64.452)	-	(64.452)
Other comprehensive loss for the year	(36.916)	-	(36.916)	(78.952)	-	(78.952)
Total comprehensive Profit/(Loss) for the year	(7,984.224)	(57.902)	(7,926.323)	(6,646.238)	(63.701)	(6,582.536)
Less ; Non controlling interest	-	-	-	(445.995)	1.934	(447.929)
Profit/(Loss) for the year	(7,984.224)	(57.902)	(7,926.323)	(7,092.233)	(61.768)	(7,030.465)

23.3 Reconciliation of Cash Flow Statement

There are no material differences between the Company's statement of cash flows previously presented and the statement of cash flows presented after the error correction, except the changes in below figures.

However there is no net effect on the cash flow due to the change.

	Previously reported balance	Adjustment	Restated balance	Previously reported balance	Adjustment	Restated balance
	<i>Rs. Mn</i>			<i>Rs. Mn</i>		
Net Operating Profit before Tax	(7,984.225)	(57.902)	(7,926.323)	(6,388.19)	(52.10)	(6,336.087)
Interest income	(3,254.882)	7.902	(3,262.784)	(3,279.40)	7.90	(3,287.302)
Increase/(Decrease)Trade and other payables	(26,800.426)	50.000	(26,850.426)	(22,091.93)	44.201	(22,136.130)
	(38,039.533)	0.000	(38,039.533)	(31,759.519)	0.000	(31,759.519)

NOTES TO THE FINANCIAL STATEMENTS

24. RELATED PARTY TRANSACTIONS

Three 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. Mrs. S. Wijayabandara
3. Mr. Bandula Saman Kumara

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 Rs. 7,688 Mil. (2013- Rs. 8,367 Mil.) and transport charges of Rs. 2,084 Mill. (2013- Rs. 1,998 Mil.) to CPSTL.

25. 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.

(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 repo investment of Rs. 17,065 Mn and other liquid assets (time deposits) of Rs. 2,206.67 Mn that are expected to readily generate cash inflows for managing liquidity risk.

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

December 2014 Figures on LKR Million					
Type \ Category	Less than 3 months	3 – 12 months	1 – 2 years	3-5 Years	Over 5 years
Bank borrowings	66,251	182,183			
Long term debt			438	228	38

(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.

27. 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 profit of Rs. 1,754 Mil (without tax adjustments) for the current year and had a negative net asset position of Rs. 231,532 Mil as at end of the year 2014 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.	2005	2006	2007	2008	2009	2010	2011	2012	2013(Restated)	2014
(A) VALUE										
Petrol	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	140,885.02
Auto Diesel	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	244,407.04
Super Diesel	725,285	349,805	467,764	885.25	866.145	1,170.27	1,587.58	3,539.87	4,151.77	5,104.32
Kerosene	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	15,365.55
Furnace Oil	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	70,020.50
Total	149,059.89	179,133.35	217,184.99	298,609.63	222,879.22	235,191.62	320,681.36	470,470.83	430,423.84	475,782.43

(B) QUANTITY - Thousand Metric Tons

Petrol	334.10	367.60	382.10	383.75	415.67	484.26	563.37	618.67	640.35	687.33
Auto Diesel	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	1,757.39
Super Diesel	11.70	4.70	5.40	7.19	8.55	11.37	14.07	22.10	24.89	30.98
Kerosene	178.00	196.60	168.50	151.31	150.69	165.11	146.88	142.86	126.12	121.78
Furnace Oil	972.80	911.10	985.20	994.55	1,095.73	1,004.50	1,092.82	1,187.08	667.51	722.30
Total	2,826.70	2,815.30	2,990.90	2,908.11	3,097.97	3,087.35	3,665.80	3,901.11	3,017.92	3,319.78

(C) RETAIL SELLING PRICES IN PETROLEUM PRODUCTS

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

Super Petrol	80.00	95.00	92.00	120.00	115.00	115.00	125.00	159.00	162.00	150.00
Auto Diesel	50.00	92.00	60.00	70.00	73.00	73.00	76.00	115.00	121.00	111.00
Super Diesel	55.30	65.30	65.30	85.30	88.30	88.30	98.30	142.00	145.00	133.00
Kerosene	30.50	48.00	48.00	50.00	51.00	51.00	61.00	106.00	106.00	81.00
Furnace Oil 800"	31.40	44.40	44.40	33.90	34.90	40.00	52.20	92.20	92.20	92.20
Furnace Oil 1500"	30.30	43.30	43.30	31.70	32.70	40.00	50.00	65.00	90.00	90.00
Furnace Oil 3500"	28.00	41.00	41.00	25.00	26.00	40.00	50.00	65.00	90.00	90.00

INCOME & EXPENDITURE

Gross Income(less Taxes)	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	525,182.09
Income from Investment	-	-	-	-	-	-	-	-	-	-
Cost of Sales	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	500,734.72
Margin	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	24,447.38
Working & Establishment Expenses including Interest	7,510.00	7,621.00	12,657.00	16,570.00	15,424.77	17,648.21	22,875.24	34,034.29	30,632.97	22,706.22
Hedging Expenses	-	-	-	-	-	-	-	7,611.60	-	-
Profit/(Loss) Before Tax	9,840.00	(1,915.00)	3,984.00	(14,735.00)	(12,342.64)	(26,922.82)	(94,503.45)	(97,308.37)	(7,889.41)	1,741.16

TEN YEAR SUMMARY

Rupees Mn	2005	2006	2007	2008	2009	2010	2011	2012	2013(Restated)	2014
CAPITAL STRUCTURE										
Capital Employed										
Capital	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	3,500.00
Reserves	11,673.40	10,065.90	12,567.80	(2,416.40)	(14,038.05)	(40,951.63)	(134,824.14)	(232,044.52)	(239,966.74)	(235,032.12)
L/T Liabilities	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	703.48
Gratuity Provision	377.40	514.30	541.40	566.50	735.20	746.34	626.68	546.94	538.11	663.95
Total	32,164.20	28,285.40	27,837.40	10,058.50	20,476.21	(10,727.10)	(103,050.98)	(225,999.36)	(234,577.79)	(230,164.69)
Represented										
Fixed Assets, Including work in Progress	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	13,616.83
Investment	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	5,043.63
Net Current Assets	25,115.90	21,271.50	20,915.90	2,892.60	12,214.67	(28,938.69)	(458,601.64)	(240,656.66)	(252,758.23)	(248,825.14)
Total	32,164.20	28,285.50	27,837.40	10,058.50	19,797.57	(18,116.71)	(444,709.39)	(225,999.36)	(234,577.79)	(230,164.69)
SUMMARISED CASH FLOW STATEMENT										
Cash Flow from Operating	9,839.81	(1,915.03)	3,984.18	(14,735.03)	(12,342.64)	(26,922.82)	(94,508.39)	(97,308.37)	(7,926.32)	1,741.16
Adjustment for Items not involving Movement of cash	841.68	1,431.85	1,928.20	1,922.02	4,986.48	5,778.64	(10,854.12)	12,935.23	15,430.37	14,799.70
Operating Profit/(Loss) before Working Capital changes	10,681.49	(483.18)	5,912.38	(12,813.00)	(7,356.16)	(21,144.18)	(83,654.28)	(84,373.14)	7,504.05	16,540.86
Change in Working Capital										
(increase)/Decrease in inventories	(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)	1,266.23
(increase)/Decrease in Trade and Other Receivables	(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	24,631.68
(increase)/Decrease in Trade and Other Payables	(1,838.77)	11,099.33	23,813.34	39,946.80	57,438.63	25,211.64	21,399.69	53,864.34	(26,850.43)	(29,989.46)
Les Gratuity/Tax and Interest Paid	(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	14,193.55
Cash Generating From Operational Activities	(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)	(1,744.23)
Cash Used in Investing Activities	317.93	662.03	1,165.99	40.61	(308.56)	(3,376.18)	(643.96)	1,148.48	(7,546.56)	(1,898.81)
Cash from/(Used in) Financing Activities	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	28,745.61
Net (Decrease)/Increase in cash & Cash Equivalents	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)	25,102.57
Cash & Cash Equivalents at beginning of the year	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	(7,299.39)
Cash & Cash Equivalents at end of the year	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)	17,803.17



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கணக்காய்வாளர் தலைமை அநிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No. }

EH/B/CPC/1/14/01

ඔබේ අංකය
உமது இல.
Your No. }

දිනය
திகதி
Date }

03 November 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 2014 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 2014 comprising the statements of financial position as at 31 December 2014 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



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 2014 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 2014 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 interests, had expressed a qualified opinion on the financial statements for the year under review based on the following matter.

The audited financial statements of the Ceylon Petroleum Corporation Thrift Society Limited for the year ended 31 December 2014 had not been received even up to 31 August 2015. However, according to the audited financial statements for the year ended 31 December 2013, the Company had recorded a negative unrestricted reserve balance of Rs. 1,254,783,349 which resulted in negative accumulated reserves of Rs.580,812,190. Nevertheless, the Company had stated that the activities would not be affected by the above negative reserve position, and the Company was able to continue its activities for the foreseeable future.

- (b) In addition to the above qualification, the auditors of the CPSTL had drawn attention to the followings matters:
- (i) As disclosed in note 4 to the financial statements, the Memorandum of Understanding (MOU) for the common user facility entered into between the Ceylon Petroleum Corporation, Lanka Indian Oil Company PLC and the Ceylon Petroleum Storage Terminals Limited had expired on 31 December 2008. Nevertheless, the renewal or extension of the MOU had not been finalized and the income and expenses as stated in the MOU had been accounted in the financial statements after considering the conditions in the aforesaid MOU and any subsequent changes which had been approved by the Board of Directors of the CPSTL. In the absence of a valid MOU, uncertainty existed that a finalized MOU at a future date could be implemented with a retrospective effect, in which case the reported results could be materially misstated.
- (ii) According to the Note - 14.1 to the financial statements, based on the confirmations received, the amounts due from related parties were disputed by Rs. 135 million for which an allowance for impairment had been made in the financial statements.
- (iii) As described in Note 5 to the financial statements, the CPSTL had incurred a loss of Rs. 473.82 million (Loss for the year 2013 was Rs. 526 million) from transportation of petroleum products and earned a gain of Rs. 150.08 million (Loss for the year 2013 was Rs. 117.76 million) on loan interest reimbursements.



- (c) Out of the disputed balance mentioned in paragraph 2.2.1(b) (ii) above, a sum of Rs.129 million was still receivable from the Ceylon Petroleum Corporation.
- (d) Intercompany receivable and payable balances as at 31 December 2014 between the Corporation and the CPSTL had not been separately disclosed in the consolidated financial statements.

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 a negative net assets position of Rs. 231,532 million at the end of the year under review, although the operations of the Corporation had resulted in a pre-tax net profit of Rs. 1,854 million for the year under review. Further, the negative impact of heavy losses incurred by the Corporation due to Hedging transactions taken place in 2012 had caused to increase the net losses for previous years. Even though the financial performance of the Corporation had improved during the year under review, the heavy losses sustained since 2008 had led to a negative net assets position continuously. Thus, the ability of the Corporation to continue as a going concern without the financial assistance from the Government is in doubtful.

2.2.2.2 Non-adhering with Sri Lanka Accounting Standards (LKAS)

The following observations are made.

(a) LKAS 1 – Presentation of Financial Statements

A sum of US Dollars 121.17 million receivable from Sri Lankan Airlines Ltd. had been converted to a loan on 05 July 2012 at the interest rate of 4 per cent plus LIBOR in USD terms, payable quarterly within 4 years, in order to settle the outstanding balance of trade receivables to the Corporation by them. However, the relevant current and non-current assets portions of that loan balance as at 31 December 2014 had not been shown separately in the financial statements as specified in the Standards.

(b) LKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors.

Dividends declared by the CPSTL prior to the year 2012 amounting Rs. 437.5 million, which had not been brought to the accounts of the Corporation, had been treated as an other operating income of the year under review instead of being treated as prior period items.

(c) LKAS 19 – Employee Benefits

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 is permitted to use only for small and medium scale enterprises (SME). Accordingly, the requirement of provision for gratuity in terms of the Standard had not been followed.

(d) LKAS 37 – Provisions, Contingent Liabilities and Contingent Assets

- (i) According to the information made available, it was observed that there were 203 unsettled Court cases as at the end of the year under review, and out of that, 108 cases were filed by the outsiders against the Corporation claiming of Rs. 40,519,746, US Dollars 21,990,231, GBP 12,595 and Euro 74,817, while 14 cases were filed by the Corporation against the outsiders claiming of Rs. 5,464,489,715 and US Dollars 352,794. Further, out of the above mentioned 203 Court cases, 197 cases were remained unsettled up to 30 June 2015. However, only seven (7) cases filed by the outsiders against the Corporation had been disclosed (without amounts claimed) under the Accounting Policies to the financial statements. Accordingly, 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 the Standards.
- (ii) In terms of general conditions of the agreements entered into between the Corporation and suppliers of petroleum products, the successful bidder was fully responsible to deliver the cargo within the agreed laycan period and any failure to comply with that, the supplier was liable for a penalty of 0.04 per cent of the DES value per day for each day of delay. Accordingly, a penalty of US Dollars 383,537.7 equivalent to Rs. 50,074,682 had been imposed to the petroleum suppliers during the year under review by the Corporation. However, the necessary accounting treatments in the books of accounts of the Corporation for those penalties or required disclosures in the financial statements had not been made as required by the Standards.

2.2.2.3 Accounting Deficiencies

The following observations are made.

- (a) When compared the income on services for oil storage and distribution amounting to Rs. 10,185.5 million shown in the financial statements of the CPSTL with the corresponding expenditure (throughput and transport charges) amounting to Rs.9,772.6 million shown in the financial statements of the Corporation, a difference of Rs. 412.9 million was observed. However, in consolidation process, only a sum of Rs. 9,772.6 million had been eliminated without being reconciled these two amounts, and as a result, the terminal charges and other income shown in the consolidated comprehensive income statement for the year under review had been overstated by Rs. 412.9 million.

Further, the terminal charges amounting to Rs. 1,065.4 million paid excessively by the Corporation to the CPSTL during the period from 2005 to 2007, had not been recognized as receivable in the respective financial statements of the Corporation and a decision taken in 2014 to recover that amount from the terminal charges payable to the CPSTL. However, it had been erroneously credited to the terminal charges expenditure account of the year under review. As a result, the operating profit of the year under review had been overstated by similar amount.

Moreover, the adjustments made in the financial statements of the Corporation for the terminal charges amounting Rs. 1,065.4 million as referred above had not been adjusted in the financial statements of the CPSTL and as such, the intercompany transactions would have not been eliminated in the group financial statements.

- (b) According to the information made available for audit, it was observed that a sum of US Dollars 1,795,798.7 had been claimed by the fuel suppliers as demurrages and of that, a sum of US Dollars 1,398,764.8 equivalent to Rs. 182,622,732 had been agreed to be paid by the Corporation in the year 2014. However, this obligation had not been recognized in the financial statements of the Corporation for the year under review, which resulted to overstate the profit of the year under review while understating the trade and other payable balance as at 31 December 2014 by Rs. 182,622,732. Further, the contingent liability relating to the balance amount of demurrages claimed by the fuel suppliers, but not finalized by the Corporation at the end of the year 2014, had not been disclosed in the financial statements.
- (c) Amounts due to related parties and accrued expenses shown in the financial statements of the Corporation had been understated and overstated each by Rs. 281 million respectively due to a classification error.
- (d) When analysis of the trade receivable and payable balances shown in the individual financial statements of the Corporation and the Ceylon Electricity Board (CEB) in respect of fuel supply and purchases as at 31 December 2014, a difference of Rs. 9,112,147 was observed between those figures. It was observed that this was due to shortage in delivery of fuel to the CEB. Further, action had yet not been taken to adjust this in the financial statements of the Corporation after proper investigation.
- (e) Commitments to the Banks on Letter of Credits (LCs) and Acceptance relating to the importation of petroleum products as at 31 December 2014 aggregating US Dollars 1,033 million equivalent Rs. 137,843 million had been omitted in the financial statements of the Corporation.

2.2.2.4 Accounts Receivable and Payable

Total trade receivables as at 31 December 2014 was Rs. 37,059,955,539 including Rs. 6,077,704,933 and Rs. 30,982,250,606 due from government institutions and private institutions respectively.



The details of the outstanding balances¹² of the Corporation as at 31 December 2014 as compared with the previous year are given below.

Category	Total Receivables as at 31 December	
	2014	2013
	Rs.	Rs.
Dealers	729,257,403	1,017,123,765
Aviation	22,938,329,447	34,725,218,564
Power Plants – CEB	3,087,458,385	7,154,095,254
Power Plants – Private	2,013,089,325	5,412,175,605
Government Consumers	2,990,246,548	2,617,900,530
Private Consumers	529,231,709	1,709,489,885
Agro Chemical	24,549,928	23,639,740
Lubricant	529,665,978	527,351,340
Bunkering Business	1,664,776,859	-
Estate	1,123,496	-
Export	2,552,226,462	-
Others	-	2,681,505
Total	37,059,955,539	53,189,676,188

The following observations are made in this regard.

- Instances of providing credit facilities exceeding bank guarantee values during the year under review to twenty one 2-day credit dealers (due to delays in banking of cheques by the terminals and depots), four power plant customers and eight aviation customers were observed.
- 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. The total amount of special credit facilities provided during the year under review and the outstanding amount as at 31 December 2014 were Rs. 52,704.5 million and Rs. 23,948 million respectively.
- 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 CPSTL, 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 charges 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.

2.2.2.5 Hedging Transactions

The following observations are made in this regard.

- (a) 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 and 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 December 2014 including the travelling expenses of Rs. 5,261,827 was Rs. 9,780 million.
- (b) The Central Bank of Sri Lanka (CBSL) had incurred the legal expenses of Rs. 570.6 million with regard to Hedging transactions of the Corporation and out of that a sum of Rs. 567.5 million had already been reimbursed to the CBSL during the period from the year 2011 to 2014. In addition to that, the CBSL had paid a sum of Rs. 378.7 million up to 31 December 2014 for the services obtained from the foreign lawyers who had appeared in the arbitration proceedings initiated by the Deutsche Bank against the Government of Sri Lanka.

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

The following instances of non-compliances with Laws, Rules, Regulations and Management Decisions, etc. were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(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, 29 employees, appointed for covering up duties, had worked in those vacant posts



for the period ranging 05 months to 04 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 net profit of Rs. 1,854 million as against with the pre-tax net loss of Rs. 7,889 million in the preceding year, thus indicating an improvement of Rs. 9,743 million in the financial results. Accounting of kerosene subsidy amounting to Rs. 2,715 million as an income of the year under review and the decrease of finance cost by Rs. 4,578 million, improvement of efficacy in the procurement process of petroleum products of the Corporation, etc. were the main reasons 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. 2,188 million as compared with the corresponding pre-tax net profit of Rs. 1,602 million in the preceding year, thus indicating an increase of Rs.587 million in the financial results.

3.2 Analytical Financial Review

The following observations are made.

(a) Profitability

The operations of the Corporation had resulted in a markup of 4.88 per cent for the year under review thus indicating an improvement of 0.02 per cent in financial results as compared with the markup of 4.86 per cent in the preceding year. Similarly, the gross profit for the year under review had increased by Rs. 1,703 million or 7.5 per cent as compared with the corresponding gross profit of Rs. 22,744 million in the preceding year. These improvements are summarized and shown below.

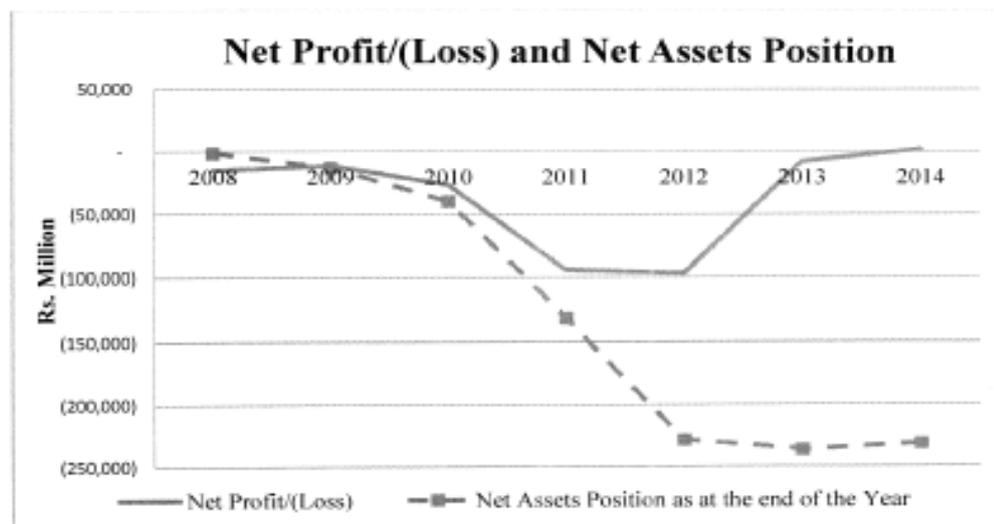
Description	For the year ended 31 December		Change [Favorable/ (Unfavorable)]	Percentage
	2014	2013		
	Rs. million	Rs. million	Rs. million	
Revenue	525,182	490,381	34,801	7.1
Cost of Sales	(500,735)	(467,638)	(33,097)	(7.1)
Gross Profit	24,447	22,744	1,703	7.5
Other Income	3,866	374	3,492	934

Selling and Distribution Expenses	(11,533)	(11,965)	432	3.6
Administration Expenses	(4,922)	(3,765)	(1,157)	(30.7)
Operating Profit	11,858	7,388	4,470	60.5
Finance Charges	(13,962)	(18,540)	4,578	24.7
Finance Income	3,957	3,262	695	21.3
Profit/(Loss) Before Income Tax	1,854	(7,889)	9,743	123.5

(b) Net Profit/(Loss) Vs Net Assets

The pre-tax net profit/ (loss) and the net assets position of the Corporation for the year 2014 and previous six years are depicted in the table and the chart given below.

Year	Pre-tax Profit/(Loss)	Net Assets Position as at the end of the Year
	Rs. Mn	Rs. Mn
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	(7,926)	(236,467)
2014	1,741	(231,532)



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 at the price below the refined cost, 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 and incurred huge interest costs thereon, inefficiencies in procurement process of petroleum products, provision of fuel (Furnace Oil and Naphtha) at subsidized rate to Ceylon Electricity Board (CEB), lack of proper fuel stock levels, poor maintenance of storage facilities, payment of demurrages to the suppliers, depreciation of the Rupee value continuously against the US Dollar, etc.

Even though the domestic retail prices of petroleum products had been revised upward continuously up to September 2014 in order to address these financial difficulties of the Corporation, the prices had been reduced twice during the year under review in line with decrease of international fuel price. However, effective pricing strategy reflecting the international oil price movements and aligning with Government objectives had not been designed and implemented by the Corporation. Major changes made by the Corporation in retail prices of petroleum products during the year 2014 are as follows.

Petroleum Products	Price per Liter with effect from		
	23 Feb. 2013	23 Sep. 2014	05 Dec. 2014
	Rs.	Rs.	Rs.
Petrol 95 Octane	170.00	165.00	158.00
Petrol 92 Octane	162.00	157.00	150.00
Lanka Auto Diesel	121.00	118.00	111.00
Lanka Super Diesel	145.00	140.00	133.00
Lanka Kerosene	106.00	86.00	81.00
Lanka Industrial Kerosene	115.00	115.00	110.00

(c) Significant Accounting Ratios

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

Ratios	2014	2013
Profitability Ratios		
Gross Profit Ratio (GP) (%)	4.66	4.64
Operating Profit Ratio (%)	2.26	1.51
Net Profit Ratio (NP) (%)	0.35	(1.61)
Liquidity Ratios		
Current Assets Ratio (Number of times)	0.39:1	0.39:1
Quick Assets Ratio (Number of times)	0.23:1	0.24:1
Working Capital (Rs. million)	(252,233)	(257,124)
Investment Ratios		
Return on Assets (ROA) (%)	0.95	(4.23)

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 0.02 per cent and by 1.95 per cent respectively as compared with the previous year.
- (ii) The working capital position of the Corporation in 2014 was slightly stronger as compared with the previous year. The main contributory factors for this enhancement were increase of short term investments and cash and cash equivalents, and decrease of the trade and other payables.

4 Operating Review

4.1 Performance

According to the Annual Report of the Central Bank of Sri Lanka for the year 2014, the total cost of importation of petroleum products (Crude Oil and Refined products) for the year 2014 was Rs. 600 billion and it representing approximately 6.1 per cent of the Gross Domestic Product (GDP) of Rs. 9,785 billion in the year 2014 valued at current market prices. Further, it represented approximately 24 per cent of the total imports of Rs. 2,535 billion in the year 2014.

Even though the average price of crude oil imported had been declined and the domestic retail prices of petroleum products had been revised upward (up to September 2014), the Corporation had continuously sustained gross loss from following petroleum products.



Sector	Gross Losses Sustained for the Year			
	2014	2013	2012	2011
	Rs. Million	Rs. Million	Rs. Million	Rs. Million
Power Generation				
Naphtha	413	1,081	1,048	798
Domestic				
LP Gas (K.G)	312	436	377	224
Kerosene	1,775	2,449	3,525	6,886
Export				
Naphtha	1,700	976	43	675
Furnace 1500	1,530	2,690	70	329
Bunkering				
Diesel	168	67	-	-
Fuel Oil 1500	1,123	729	-	-
Fuel oil 3500	19	-	-	-

At the meantime, the Corporation had continuously sustained net losses from the following petroleum products as compared with the previous years.

Sector	Net Losses Sustained for the Year		
	2014	2013	2012
	Rs. Million	Rs. Million	Rs. Million
Transport Sector			
Diesel	5,759	6,235	29,654
Power Generation			
Fuel Oil 1500	299	1,240	34,959
Naphtha	1,078	1,081	1,047
Aviation			
Jet Fuel	1,387	1,251	475
Industrial & Domestic			
Industrial Kerosene	71	126	364
Fuel Oil 1500	69	350	2,003
Domestic Kerosene	2,715	2,449	3,525
LP Gas	431	436	482
Export			
Naphtha	1,799	-	-
Fuel Oil	1,627	-	-



Bunkering

Diesel	240	-	-
Fuel Oil 1500	1,392	-	-

The above tables present the loss making products of the Corporation for the year 2014 as compared with previous two years. Accordingly, it was observed that, all the above mentioned products, other than export and bunker operation commenced in 2014, had been making losses continuously, and all of such losses had adversely impacted to the financial performance and the financial position of the Corporation.

4.2 Management Inefficiency

The following management inefficiencies were observed.

(a) Enterprise Resource Planning (ERP) System

It was observed that there was no any agreement or a Memorandum of Understanding (MoU) among the Corporation, Ceylon Petroleum Storage Terminal Ltd (CPSTL) and Lanka Indian Oil Company (LIOC) with regard to their individual responsibilities in respect of the involvement of the Enterprise Resource Planning (ERP) System introduced by the CPSTL, and as such this system is not adequately utilized, especially for the fuel stock reviewing purposes.

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

Even though SriLankan 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, Rs. 2,009.68 million and Rs. 1,903.38 million during the years of 2011, 2012, 2013 and 2014 respectively, on sale of Aviation Turbine Fuel to the above companies at extraordinary concessionary prices. The details are given below.

Name of the Company	Loss incurred by the Corporation during the Year			
	2014	2013	2012	2011
	Rs. Million	Rs. Million	Rs. Million	Rs. Million
SriLankan Airlines Ltd	1,762.27	1,866.39	423.97	627.16
Mihin Lanka (Pvt.) Ltd	141.11	143.29	32.58	42.61
Total	1,903.38	2,009.68	456.55	669.77

Despite providing fuel at concessionary prices to those two companies, the settlement of outstanding fuel bills were also 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 2014, the SriLankan Airlines Ltd had recorded an operational loss of Rs. 29 billion meanwhile the Mihin Lanka (Pvt.) Ltd had recorded a marginal operating profit of Rs. 652 million. The trend of the outstanding balances since 2010 is given below.

Name of the Company	Outstanding Balance as at 31 December				
	2014	2013	2012	2011	2010
	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. million
SriLankan Airlines Ltd	20,900.35*	29,519.68*	25,890.12*	12,351.43	541.54
Mihin Lanka (Pvt.) Ltd	1,338.73	4,313.68	3,416.10	1,227.02	361.24

*The outstanding loan balance of Rs. 14,726.6 million, Rs. 10,020 million and Rs. 6,391 million as at 31 December 2012, 2013 and 2014 respectively as mentioned in paragraph 2.2.2(a) above had been included in these balances.

More than 60 per cent of the total trade receivable balance of Rs. 37,060 million as at 31 December 2014 was represented the trade receivable balance outstanding from the above mentioned two aviation companies.

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

"As Sri Lankan Airlines Ltd. and Mihin Lanka (PVT) Ltd. are national carriers, supply of fuel continued on the instructions of the Government."

(c) Increase of Borrowings from the Banking Sector

The Corporation had obtained its borrowings from the Banking sector in order to finance its oil bills and it had also resulted to decrease profits and sustain negative net assets position of the Corporation. Further, it was observed that the Corporation had continuously incurred huge finance cost during the last consecutive five years due to maintaining the significant amount of borrowings as depicted below.

Year	Bank Borrowings for the year ended 31 December	Finance Cost
	Rs. Million	Rs. Million
2010	168,020	6,859
2011	310,060	9,001
2012	399,520	18,360
2013	406,850	18,540
2014	376,607	13,962

The Chairman of the Corporation stated in this regard as *“non-receipt of subsidy to cover up financial losses is a major contributory factor for borrowings from the banking sector.”*

(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 the 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 paralyzing the whole country with a severe fuel crisis due to transporting the imported finished petroleum products through those deteriorated pipelines cannot 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, 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.

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



"CPSTL is entrusted with replacement and maintenance of pipeline structures. There are three pipelines which are used for transferring products from Colombo Port to Kolonnawa Installation. 14" line is dedicated for transferring black oil and other two lines are 12" dia. and 10" dia. respectively. Out of these two, 12" dia. line was badly deteriorated over the past period. In the year 2015, this pipeline was refurbished by 50% and balance work is being carried out. As a result of this, no pipeline leakage is reported in the year 2015. 10" dia. white oil line is in sound condition. However, a fresh Cabinet approval was received to enhance the diameter of existing white oil pipeline and replacement of existing pipeline infrastructure. Action will be taken to replace such lines in future.

Integration of Muthurajawela Terminal and Kolonnawa Installation would be considered in future capital projects listed in 2015 – 2020 capital budget under CPSTL."

(e) Fisheries Coupon System

Fisheries coupon system had been introduced in the year 2012 by the Government and it had been implemented by the Department of Fisheries and Aquatic Resources in collaboration with the Ceylon Petroleum Corporation and the General Treasury in view of facilitate the fishermen to purchase fuel at affordable prices. However, the expected outcome of that programme could not be able to achieve due to poor control over implementation of that coupon system. Therefore, The Government had stopped that system in September 2013 due to misuse and malpractices done by the fishermen, fuel dealers and certain other persons involved in implementation of the system. Some of such deficiencies observed in audit are given below.

- (i) A sum of Rs. 23,790,125 claimed by the dealers had been hold by the Corporation due to various reasons such as fraudulent coupons attached with the claims, dual claiming, etc.
- (ii) The Corporation had reimbursed a sum of Rs. 3,049,375 to the dealers based on duplicated and fraudulent coupons.
- (iii) A sum of Rs. 1,090,175 had been paid to a dealer in excess of the amount claimed during the period from 20 July 2012 to 30 April 2013.
- (iv) An amount of Rs. 176,091,436 had been excessively reimbursed to the Corporation by the Department of Fisheries and Aquatic Resources on 31 December 2013. However, this was not settled even up to end of the year under review, and it had been included under the trade and other payables in the financial statements of the Corporation for the year under review.

(f) **Bunkering Business**

The loss incurred from issuing of fuel oil 1500, which generated through the crude oil processing system of the Refinery to licensed bunker brokers during the year under review was Rs. 1,276.6 million and the amount receivable from those brokers as at 31 December 2014 was Rs. 1,664.8 million. The following observations are made in this regard.

- (i) There was no proper plan to handle this product more economically to avoid the losses to the Corporation. The loss incurred in 2014 by selling of 54,796 Metric Tons and 44,138 metric tons to local and foreign customers were Rs. 1,276.6 million (loss per Metric Ton was Rs. 23,296) and Rs. 3,219.2 million (loss per Metric Ton was Rs. 72,936) respectively.
- (ii) Any marketing promotions for improving the bunkering fuel business had not been carried out.

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

“CPC was forced to sell bunker fuel in the export market due to low demand in the country, especially for fuel oil was not used for power generation. During the year 2014, international finished petroleum product prices had drastically come down. But, CPC was able to sell the excess fuel oil at MOPS + premium ranging from US\$ 26 – 30 per Metric Ton. However, international market fuel oil price was based on discount on MOPS. Failure to upgrade CPC refinery is a major reason for producing furnace oil. Since the cost of locally refined furnace oil is higher, a loss was reported. This speaks of urgent necessity of the refinery modernization.

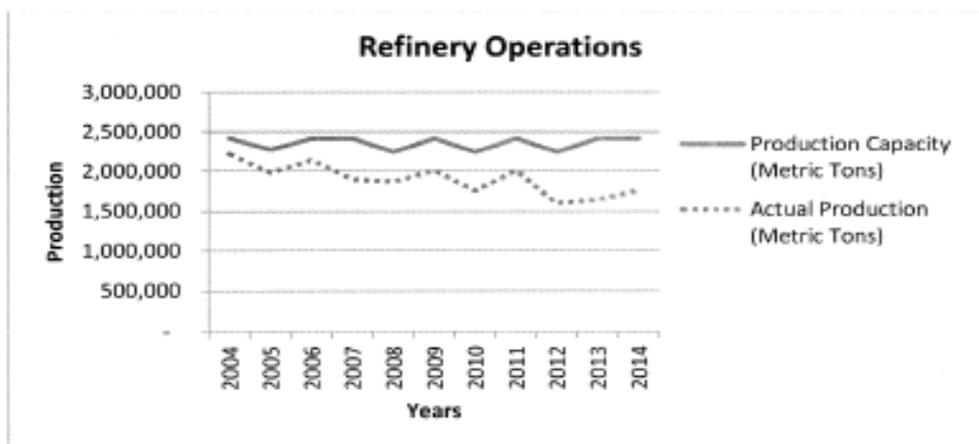
Without Refinery modifications, cost of locally refined fuel oil cannot be reduced.”

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 1,760,170 metric tons in 2014 as compared with 1,643,218 metric tons in 2013, 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 2014 too. The Crude Oil intake for the year 2014 and previous ten years as compared with the production capacity for the respective years are shown in the following table and chart.

Year	Quantity of Crude Oil Intake (processed) for the Production		Capacity Under Utilized	
	Available Capacity (MT)	Actual Utilization (MT)	Quantity (MT)	Percentage
2014	2,415,000	1,760,170	654,830	27.12
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



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 the petroleum products are supplied to the market in a cost effective manner. Moreover the expenditure incurred by the Corporation amounting to



Rs. 837.6 million for this project up to 31 December 2014 was observed as an uneconomic transaction.

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

"We are processing different crude mixes (Murban + Oman Blend) in different periods which will lead to changes of the maximum capacity of processing.

Refinery had to be closed down on one occasion during the year 2014 for a total period of one month due to shortage of crude supply with the SPBM hose failure. Furthermore, there were two regenerations for nearly another one month with low throughput operation during this year.

However, Refinery needs to be modified at the earliest to avoid some failures of old equipment and to avoid frequent regenerations while enhancing the profitability and operational flexibility."

4.4 Matters in Contentious Nature

The following observations are made.

- (a) Incurring a sum of Rs. 6,146,110 in December 2014 for the purchasing of food items to distribute among the people in Pannala area just before the Presidential Election with the approval of the Chairman as recommended by the Managing Director could not be considered as authorized and regular payment. Further, the relevancy of such payment to the Corporation was also not ensured in audit.
- (b) Ceylon Electricity Board (CEB) had not complied with the conditions that agreed to settle all the outstanding balance within 14 days with effect from 30 September 2013, and accordingly, the Corporation had charged a nominal interest rate at three month Treasury Bills rate plus 0.5 per cent for the overdue invoiced value with effect from 20 April 2013. But, the CEB had not recognized that amount as payable.
- (c) Even though the Corporation sells fuel to the CEB for power generation since several years, a formal agreement or MOU between those two parties in order to ensure the smooth operation of the individual institutions had not been entered.
- (d) The General Treasury had agreed to settle the kerosene subsidy receivable from the Government by setting off the custom duty payable to the Government by the Corporation for the year under review. Accordingly, a sum of Rs. 3,022,774,886 had been settled as a part payment of kerosene subsidy receivable for the period of 2008 – 2013 against the custom duty payable by Corporation for the year 2014. However, the balance of kerosene subsidy due from the General Treasury for the period 2008 to 2013 had not been recognized as receivable in the financial statements. Further,



recognizing the kerosene subsidy of Rs. 2,715 million of as an income of the year 2014 without having substantial evidence for receiving is not prudent.

- (e) The Corporation had paid the Pay As You Earn (PAYE) Tax amounting to Rs. 104 million for the year 2014 out of its own funds on behalf of its employees in contrary to the instructions of the Section 3.2 of the Public Enterprises Circular No. PED/12 of 2 June 2003 on Public Enterprises Guidelines for Good Governance, and the Public Enterprises Circular No. 02/2013 dated 11 September 2013.

4.5 Assets Management

The following assets had been lying idle since the acquisition.

- (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. However, this land is occupied by more than 700 squatters.
- (b) Mobile LPG Filling Plant - An LP Gas filling equipment having a filling capacity of 60 tons of LP Gas to 13.5kg LPG Cylinders in 10 hours was purchased by the Corporation in the year 2009 at a cost of Rs. 24 million for commissioning of retail business of LPG. Nevertheless, the Corporation had not initiated commercial operations up to 31 August 2015, and that asset had remained idle since then.
- (c) Mahena Land – Even though, according to the correspondence made available the Corporation had paid a sum of Rs. 0.625 million for acquisition of Mahena land, it land had not been accounted for, and is being utilized by the previous owner since the acquisition in 1986.
- (d) Investments - The caring value of the investment made in quoted and unquoted shares of four companies as at 31 December 2014 was Rs. 38.63 million. However, no dividend since longer period had been received to the Corporation thereon. Further, the Corporation does not aware the existence of the International Cooperative Petroleum Association having investment value of Rs. 5 million.

4.6 Resources Released to Other Institutions

The Section 8.3.9 of the Department of Public Enterprises Circular No. PED/12 of 2 June 2003 on Public Enterprises Guidelines for Good Governance is not permitted to incur expenditure or deploy its resources under any circumstances, on behalf of the line Ministry or any other Government Institution. However, the Corporation had released 51 employees (including three employees in senior staff level and eighteen employees in secondary staff level) and seven vehicles to outside parties and incurred over a sum aggregating Rs. 50 million as remuneration and maintenance expenses during the year 2014.

4.7 Human Resources Management

The following observations are made in this connection.

- (a) Out of the total approved cadre of 3,284 of the Corporation for the year under review, 622 posts or 19 per cent were in vacant as at 31 December 2014 and out of that, 23 per cent was in the senior staff level. Accordingly, running the entity's operations efficiently having such a huge number of vacancies was questionable to audit.
- (b) Seven posts in all categories had been filled on contract basis, and the Chief Internal Auditor had been acting in the post of Deputy General Manager (Finance) since the mid of 2011 due to the former Deputy General Manager (Finance) has been on compulsory leave since 11 February 2009 subject to the decision of a disciplinary inquiry which had been held regarding the Hedging transactions.
- (c) Adequate actions had not been taken to fill the vacancies as at 31 December 2014.

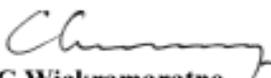
5 Budgetary Control

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

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

