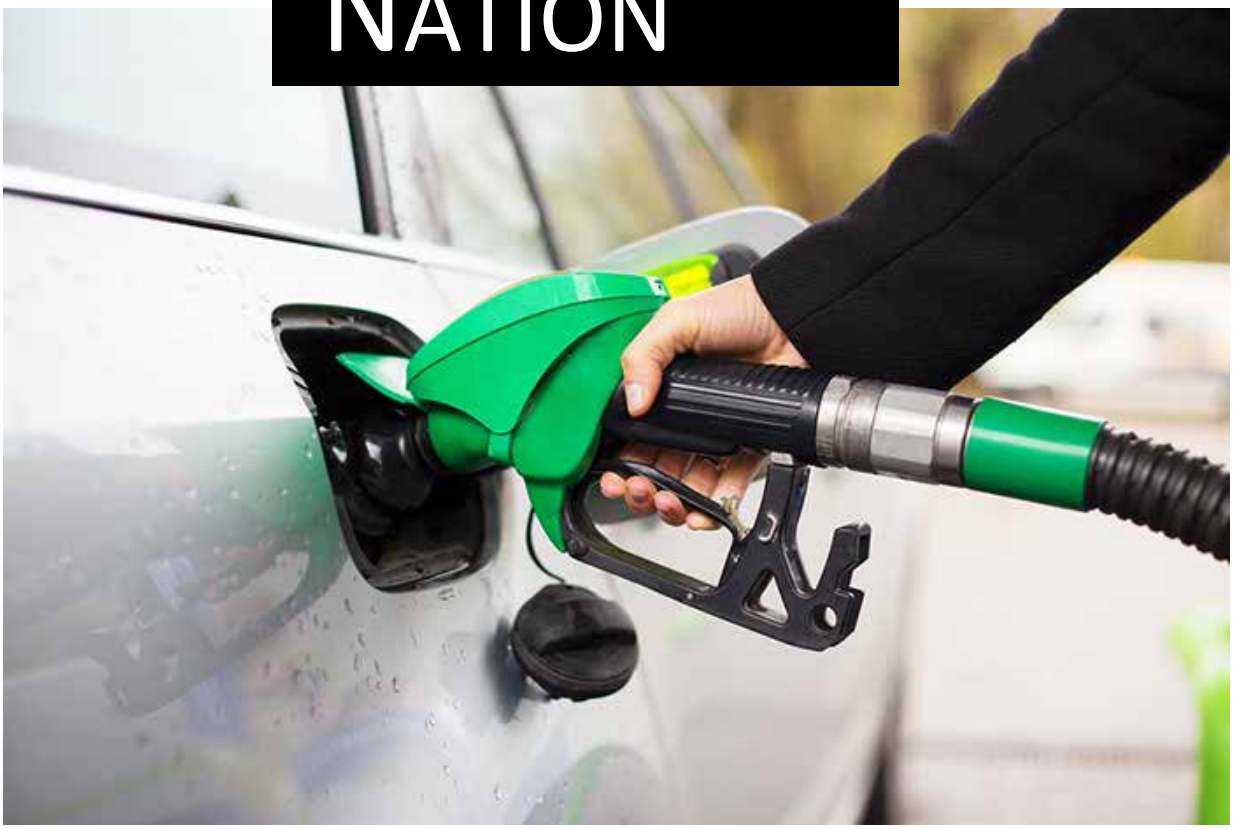
ENERGIZING THE NATION



Annual Report 2016

CEYLON PETROLEUM CORPORATION

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OUR APPROACH TO REPORTING

Energizing the nation

This is our second annual integrated report. We have adopted an integrated approach to reporting on our activities from last year by becoming more transparent on the Corporation's strategy, performance, governance and value creation.

Navigating our Annual Report

Integrated Report (IR)

A brief review of our strategy and business model, operating context, governance and operational performance.

Annual Financial Statements

Detailed analysis of our financial results, with audited financial statements, prepared in accordance with SLFRSs / LKASs.

REPORTING SCOPE AND BOUNDARY

This report provides information relating to Ceylon Petroleum Corporation's business model, operating context, material risks and opportunities, and governance and operational performance for the period 01 January 2016 to 31 December 2016. The report covers the performance of our strategic business units. In addition, we have published annual financial statements together with the audit report. The reporting process for all our reports has been guided by the principles and requirements contained in the Sri Lanka Accounting Standards (SLFRS / LKAS), Public Enterprises Guidelines for Good Governance and the Finance Act No. 28 of 1971.

OUR APPROACH TO MATERIALITY

This report provides information that we believe is of material interest to current and prospective stakeholders who wish to make an informed assessment of Ceylon Petroleum Corporation's ability to generate value over the short, medium and long term. We have sought to ensure that all the information in this report relates to matters affecting value creation at Ceylon Petroleum Corporation (CPC). Understanding our business (pages 4 to 5), our business model (page 6) and our activities and impacts across our value chain (pages 15 to 19) forms the basis for appreciating how CPC creates value and to identify the issues that impacts value. Our ability to create value is determined by our operating context (pages 15 to 19) and by our response to the resulting risks and opportunities (pages 30 to 35). Our performance (pages 20 to 29), our leadership team (pages 07 to 11), and our governance practices (pages 36 to 41) are also presented in this report. Additional information that may be of interest to stakeholders, is provided in our annual financial statements.

ASSURANCE

We use a combined assurance model to provide us with assurance obtained from management and from internal and external assurance providers. The Auditor General assured our Annual Financial Statements 2016 (see pages 90 to 124). Both of those processes inform our Integrated Report 2016, which contains both financial and non-financial indicators. Our Audit Committee provides internal assurance to the board on an annual basis on the execution of the combined assurance plan. The Audit Committee report is on pages 42 to 43.

Highlights

Zero work related fatalities

Highest profit earned in the decade

Profit earned Rs. 53 Bn

308 employees were trained

Locally refined production of 1,639,047 MT

Net Revenue Rs. 423 Bn

Up 12%

Contribution to the government

Rs. 146 Bn

DIRECTORS' RESPONSIBILITY

CPC board, supported by the Audit Committee, has taken overall responsibility and accountability for this report. Senior management, assisted by their team members, is responsible for the preparation and consolidation of this report. The board has collectively reviewed this report and confirms the integrity of the content therein. The board believes that this report is a balanced and appropriate presentation of the profile and performance of CPC. Upon recommendation from the Audit Committee, the board approved this report on 11.05.2018.

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements with respect to CPC's financial condition, results, operations and businesses. These statements and forecasts involve risk and uncertainty as they relate to events and depend on circumstances that occur in the future. There are various factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.

Name of the entity:
Ceylon Petroleum Corporation

Legal form:
A public corporation incorporated under Ceylon Petroleum Corporation Act No. 28 of 1961

Registered office:
609, Dr. Danister De Silva Mawatha, Col 09.
Telephone: +94 11 5455455
Telegram: "LANKA OIL"
Cable: CEYPETCO
Telex: 21235 CEPETCO CE
Fax : +94 11 5455400
E-mail: cpcsec@ceypetco.gov.lk
Website: www.ceypetco.gov.lk

Tax Payer Identification No. : 409000053

VAT Registration No. : 409000053 - 7000

Financial year: 01 January to 31 December

Board of directors as at 31 December 2016:
Mr. T G Jayasinghe (Chairman & Managing Director)
Mr. D C S Senevirathne
Mr. P Galhena
Mr. M G Jayasena
Mr. R Harischandra
Mr. K A Vimalenthirarajah
Mr. S Fernando

Subsidiary company:
Ceylon Petroleum Storage Terminals Limited, Oil Installation, Kollonnawa

Auditors:
The Auditor General

Bankers:
People's Bank, Commercial Bank, Bank of Ceylon, Hatton National Bank

OUR BUSINESS

STATE OWNED ENTERPRISE

2,562 EMPLOYEES IN 2016 (2015: 2,579)

DOMESTIC SALES
Rs. 440 Bn
2015: Rs. 369 Bn

EXPORT SALES
Rs. 35 Bn
2015: Rs. 44 Bn

CRUDE OIL PROCESSED
1,746,180 MT
2015: 1,692,074 MT

Who we are

CPC is the main petroleum products supplier to the nation. Our distribution channels are dispersed throughout the country enabling the nation to travel far afield. Our refinery operations are located at Sapuguskanda and the head office is in Colombo 9. CPC has a 2/3rd interest in Ceylon Petroleum Storage Terminals Limited (CPSTL). CPSTL stores and distributes the petroleum products.

What we do

As the principal petroleum products provider to the nation we make sure that the country gets their energy requirements smoothly. We refine crude oil and for the shortage we import petroleum products. Our main products include Petrol, Diesel, Kerosene, Naptha, Avtur, Fuel oil, LPG, SBP & Lubricants. As a state owned enterprise, we sell most of our products at subsidized prices in order to handle social and economic circumstances rather than to earn profits.

Being an employer of choice

Building lasting beneficial relationships is central to what we do. We are a preferred employer in the state sector. At the end of 2016 we employed 2,831 people – 2,562 permanent employees, 1 contractor and 268 learnerships.

VISION, MISSION AND GOALS

VISION

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

MISSION

To achieve excellence in petroleum refining, sales and marketing of high quality products through a dedicated team of professionals and 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 with total employee participation and innovation, by maintaining high ethical norms in all its activities with highest concern for health, safety and environment

GOALS

- Retain highest level of market share
- Reach excellence in sales, marketing and operations in the competitive market
- To be a foremost contributor for Sri Lanka to become an enegy hub in the region
- Improve and maintain high level of professionalism at all levels of employees
- Institute structural changes to improve productivity and management
- Institute health, safety and environmental friendly measures to exceed the stipulated standards
- Uphold the national and social obligations for the betterment of the community
- Become the major contributor to the economic growth of Sri Lanka
- Retain Sri Lankan control in the petroleum sector

OUR BUSINESS MODEL

Our Revenue

- Sales price (Highly subsidized prices determined by the government)
- Sales volume

Our Cost

- Global oil prices
- Exchange rate
- Labour
- Distribution
- Energy
- Capital expenditure
- Maintenance
- Tax
- Financing cost

Customer value proposition

Employee value proposition

Shareholder value proposition

Societal value proposition

Our activities

Primary activities

Importing – Primarily Crude oil
Refining – Crude oil into refined products
Storing – Crude oil & refined products
Distributing – to customers throughout the island

Support functions

Business Strategy
Technical services
People management
IT support
Corporate social investment

Our top ten risks

1. Economic risk
2. Commodity price risk
3. Safety risk
4. Market risk
5. Exchange rate risk
6. Interest rate risk
7. Liquidity risk
8. Credit risk
9. Supplier risk
10. Human resource risk

Our operating context issues impacting value creation

- Priced at subsidized rates
- Globally upward trend in the petroleum prices
- Movement in the exchange rate
- Shortage of oil refining capacity and storage
- Constraints faced to settle US Dollar loans obtained
- Dilapidated condition in the pipeline

OUR LEADERSHIP TEAM

The culture of a corporation and its ability to deliver on its strategic goals depends on the quality of its leadership. Our board of directors promotes sound corporate environment and provides leadership that makes this possible. Each board member is appointed on the basis of their specific skills and track records, to ensure that the board as a whole contributes to our performance and supports the Corporation in achieving its operational, social and environmental objectives.

Our Present Board of Directors

Mr. Dammika Ranatunga (Chairman)
(From 25.05.2017 to date)

Mr. K A Vimalenthirarajah
(From 19.11.2015 to date)
MBA (Project Mgt), MPhil (Public Economics), PG Dip in Dev Studies and Public Policy, PG Dip in International Affairs, LLB – OUSL, BA (Economics) (Hons) – Jaffna, Attorney-at-Low, Australian Computer Society Certification
Officer of the Sri Lanka Administrative Service
Alternative Director of Bank of Ceylon
Director of Sri Lanka Tourism Promotion Bureau
Director General of the Dept. of Trade and Investment Policy, Ministry of Finance
Former Minister Counselor / Director, Embassy of Sri Lanka, Beijing, China / Ministry of External Affairs
Country Director to the SAARC Development Fund
Member of Academic Syndicate of the Institute of Human Resource Advancement University of Colombo
Former Treasury Representative to the Public Servant Provident Fund Association
Former Sneior Asst. Sec. (IT & AR) / CIO, Ministry of Public Administration and Home Affairs
Former Asst. Program Manager, Capacity Development for Recovery Programmed of the United Nations Development Programme
Former Asst. Secretary, Foreign Funded Projects, Ministry of Eastern Development),
Former Asst. Secretary, Planning and Reconstruction, Ministry of Ports, Rehabilitation and Reconstruction
Former SLAS Cadet, Sri Lanka Institute of Development Administration
Former Samurdhi Manager, Divisional Secretariat – Vavuniya
Former Development Programme Assistant, District Secretariat - Vavuniya

Mr. A T Bandara Herath
(From 29.05.2017 to date)
Snr. Attorney-at-Law, LLB (Ceylon), Visharad Bhatkhande Diploma in Lucknow
Former Member of the Land Acquisition Board
Former Chairman of the Colombo Rent Board
Former Director and audit committee member of Sri Lanka Ports Authority

Mr. R A N Jayasundara
(From 29.05.2017 to date)
ICASL – Licentiate, HNDA, M AAT, Finance, Associate member of Finance, Auditing & Development Accountancy (UK)
Director of Ceylon Petroleum Storage Terminals Limited
Director of National Savings Bank (FMC)
Treasurer Sri Lanka - China Society
Treasurer Sri Lanka Council for the Blind
Treasurer Sri Lanka – Belgium Association
Former Deputy Finance Manager of Ceylon Petroleum Corporation

Mr. S Dhanatunge
(From 29.05.2017 to date)
Registered Managers Award Deg. in Mgt – City & Guild (UK), NVQ Level 4 in Community Care – City & Guild (UK), Dip in Project Mgt – London College (UK), Professional Packaging and Franchising – Packaging Store Inc. (USA), Dip in Mgt – OUSL, Dip in Computer Programming & Systems Design
Former Chairman of Ceylon Shipping Corporation Ltd.
Former Director of Ceylon Shipping Agency Pte. Ltd. Singapore
Member of Petroleum Resources Development Committee (PRDC)
Former Director of Lanka Coal Company Ltd.
Former Director of Magampura Port Management Company
Promoter / Shareholder of Vivanta Associates (Pvt) Ltd.
Director/General Manager – Mountain Hawk Packaging (Pvt) Ltd.
Former Managing Director/CEO of Admire Tours & Events (UK)Ltd., Middlesex
Former Registered Manager of Whiteheather Care Ltd. Weeley, Essex
Former Executive Assistant to CEO of International Cricket Council (ICC)-London
Former Director Administration and Head of Tour Organising – Sri Lanka Cricket
Former General Manager of MTL/Mountain Hawk (Pvt) Ltd
Former Director / General Manager of Mountain Hawk Packaging (Pvt) Ltd
Former Manager, Business Development of Mountain Hawk Express (Pvt) Ltd / A franchisee of FedEx Inc. USA
Former Market Analyst of Mercantile Credit Ltd.

Mr. W S Perera
(From 29.05.2017 to date)
B. Sc Geology (Special) - UOP
Coordinating Secretary to the Minister of Petroleum Resources Development
Actg. Managing Director of JCT Oil Bank
Former coordinating secretary to the Minister of Port and Shipping
Former research assistant, Ministry of Parliament Affairs
Former Science and Technology Officer, Ministry of Science and Technology

2016 Board of Directors

Mr. T G Jayasinghe (Chairman & Managing Director)
(From 12.10.2015 to 27.01.2017)
MSc (Regional Development Planning) – AIT - Thailand, Dip in Development Policy & Planning – UOW – UK, Dip in Regional Development Planning – UNCRD – Nagoya, BA (Ceylon), Sri Lanka Planning Service – Class I
Director of Ceylon Petroleum Storage Terminals Limited
Former Secretary, Finance Commission
Former Chairman of Tertiary & Vocational Education Commission
Former Vice Chairman of National Institute of Technical Education of Sri Lanka
Former Member of National Education Commission
Former Project Director of Southern Province Rural Development Project
Former Deputy Chief Secretary of Planning and Monitoring

Mr. D C S Senevirathne
(From 12.10.2015 to 23.05.2017)
Dip in Production, Dip in Bus. Mgt
Chairman / Managing Director of Ceylon Petroleum Storage Terminals Limited
Chairman / Managing Director of SMS Holdings Private Limited
Chairman / Managing Director of The Greenery Company Private Limited
Chairman / Managing Director of Black Diamond Security Private Limited
Chairman / Managing Director of SMS Plantations Private Limited
Chairman / Managing Director of SMS Realities Private Limited

Mr. P Galhena
(From 12.10.2015 to 22.05.2017)
Reading for Ph.D - Colombo, FCMA (UK), CIM Passed finalist, BBA (Hons)(2nd Class) - Colombo, MBA (Merit) - Colombo, Finalist of ICASL
Chairman of AAICO Property Development Limited
Commission member of Public Utilities Commission of Sri Lanka
Board director of Housing Development Finance Corporation Bank
Director of Titan Packaging Private Limited

Former Chairman of Sri Lanka Sustainable Energy Authority
Former Chairman of National Gem & Jewelry Authority of Sri Lanka
Former Chairman of Ceylon Shipping Corporation Limited
Former Chairman of Sri Lanka Handicraft Board – Laksala
Former Director of Lanka Coal Limited
Former Director of GSMB Technical Services Private Limited

Mr. M G Jayasena
(From 12.10.2015 to 02.03.2017)

Mr. R Harischandra
(From 12.10.2015 to 28.05.2017)

Mr. J Dias
(From 21.01.2016 to 03.03.2016)

Mr. S Fernando
(From 17.03.2016 to 23.05.2017)

Senior Management Team

Managing Director (Acting)
Mr. N R R Jayasekera
BSc Eng. (Mechanical Engineering), MBA, C.Eng., MIE(SL)

Oil Refinery
Refinery Manager (Acting)
Mr. E A S Edirisinghe
BSc Eng. (Chemical Engineering), C.Eng. (Chemical), MIE(SL), MSLEMA

Deputy Refinery Manager (Maintenance & Projects) (Acting)
Mr. D M P Dissanayake
BSc Eng. (Mechanical Engineering) Hons., LLB Hons., C.Eng., MIE(SL), Attorney-at-law

Deputy Refinery Manager (Electrical & Instrument)
Mr. L G M R Perera
BSc Eng. (Electronics & Telecommunication Engineering) Hons.

Deputy Refinery Manager (Technical Services)
Mr. C. Weerasekera
BSc (Eng.), C.Eng., MIE (SL)

Finance
Deputy General Manager (Finance)
Mr. V N Weerasooriya
B.Sc. (USJP), MBA (PIM), ACA, FCMA, ASA (Aus)

Snr. Finance Manager
Ms. M C D Perera
ACA, BCom (Sp) Hons

IT Function
Manager (Information Technology)
Mrs. M S R Fernando
BSc (Computer Science) Hons. – Colombo, MIT (IT Management)– Colombo, EMBA - Colombo

Legal
Chief Legal Officer
Ms. R A K C Ariyaratne
Attorney-at-law, Post Attorney Diploma in International Law

Manager (Operations – Stocks & Terminal operations) (Acting)
Mr. N B M P Jeewasiri

Secretariat
Assistant Manager (Secretariat) (Acting)
Mr. A B Koralegedera
Human Resources
Deputy General Manager (HR & Administration)
Mr. S W Gamage
MBA - PIM-USJP, MSc - WAU-Holland, BSc - Ruhuna, PG Dip B&FA - CASL, Assoc. M (CIPD-UK), FCPM

Manager (Human Resources)
Mr. K W S Pushpalal
BA (Political Science) Sp. Hons – Colombo, Certified professional member of AHRI – Australia, ACPM

Marketing
Deputy General Manager (Marketing)
Mr. W M K R B Wickremasinghe
MBA - Colombo, BSc (Chemistry) - UOP, M.I.Chem.C, CMSLIM

Manager (Marketing)
Mr. W D L C Abeygunawardana
BSc (Bus. Admin) – USJP, PGDM (Mgt) - Wayamba

Manager (Marketing – Lubricant & Special Products) (Acting)
Mr. M M Thilakarathna

Commercial & Supply Chain
Deputy General Manager (Commercial & Supply Chain)
Mr. M K Garusinghe
BSc - Colombo, MSc (Maritime Affairs) - WMU – Sweden, MBA - PIM-USJP, MICS (UK), MISMM, EDBA - Colombo, Dip in Professional Shipping - Norway

Commercial Manager
Mr. W K S Gunawardhane
MSc (Maritime Affairs) - WMU – Sweden, MSc (Mgt & IT) - Kelaniya, BSc. (Mathematics) Sp. (2nd class upper) - Kelaniya, MSLIM

Security & Investigations
Manager (Security & Investigation)
Maj. M R S P Samarasinghe RWP RSP
PG Dip in Conflict Resolution & Peace Preparedness, Dip in HRM

Technical Services & Corporate Affairs
Deputy General Manager (Technical Services & Corporate Affairs) (Acting)
Mr. M A D Mallikarachchi
BSc Eng. (Production), MPMI, MIE(SL)

Procurement and Stores
Manager (Procurement & Stores)
Mr. S D S Rajapakse
BSc Eng. (Mechanical), C.Eng., PG Dip in Industrial Engineering, Dip in Supplies & Materials Manager

Aviation Operations
Manager (Aviation - Operations) (Acting)
Mr. R Vijayakumar
EDBA - Colombo

Engineering & Premises
Manager (Engineering & Premises)
Mr. G P K Wijekoon
BSc Eng. (Civil Engineering), AMIE (SL), PG Dip in Structural Engineering Designs

Agro Chemicals
Manager (Agro Chemicals)
Mr. B S S Perera
MSc (Crop Science) - UOP, BSc (Agriculture) - UOP

Shipping
Manager (Shipping)
Mr. P A U R Karunaratne
BSc (Physical Science) – Colombo, Dip in General Management – NIBM, PG Certificate of Training in Management - PIM, Certificate in Shipping & Clearance – ISMM

Internal Audit
Manager (Audit)
Mr. R A T I Ranasinghe
ACA, CGMA, ACMA (UK), BSc (Bus Admin) – Sp - USJP

CHAIRMAN'S REVIEW

It is my pleasure to present the Ceylon Petroleum Corporation's Integrated Annual Report for the year ended 31 December 2016

This has been a year of continuing global uncertainty, both in respect of the economic environment and political environment, as well as market volatility. This situation has affected our business, as much as it has impacted on businesses around the world. The fact that this has been the most inspiring year in the last decade in the CPC's history earning the highest net profit after tax of Rs 53 Billion despite those conditions is testimony to the resilience of our operations. This will allow us to focus even more than ever before to assist the country in achieving security of fuel supply.

Doing business amidst global volatility

Stability and business world don't go together - booms and busts; rebounds and reversals are the pattern. Global oil industry is in transition. Demand for energy is increasing from developing economies, particularly within Asia, with the rapid growth and improving prosperity. On the other hand, the global energy consumption is decelerating with the relentless drive to improve energy efficiency and the energy mix is shifting towards cleaner, lower carbon fuels, driven by environmental needs and technological advances. CPC also have paid attention to this dual challenge of supplying the refined petroleum products to the nation while reducing carbon emissions.

CPC cannot control the volatility of the global petroleum prices. And as the premier petroleum provider of the country, the prices were not increased with the global prices. As a result CPC had incurred losses on petrol 92, petrol 95 and kerosene. However, in order to make sure the business continuity, we need to recognise and be ready to address the implications of this volatility across our value chain activities and in our longer-term investment decisions. CPC is looking forward to implement a cost reflective pricing mechanism with a view to minimize losses.

Sri Lankan operating context

According to the Central Bank, economic growth in 2016 was 4.4% which is less than the previous year due to the unfavourable weather conditions and sluggish global economic recovery. Inflation recorded an annual average of 4% mainly due to the adverse impact of weather related disruptions, tax adjustments and rising international commodity prices. The overall depreciation of the rupee against the US dollar was 3.83 percent in 2016. Broadened tax base exerted pressured on CPC's cost structure. During 2016, market interest rates showed an upward trend causing tight finance cost to CPC. Nonetheless, CPC managed to cut its finance cost by reducing its borrowings.

Energizing the nation

Our business operation is a critical function as petroleum products is one of the key drivers for the Government's growth agenda, which influence the country's cost of living and ensure smooth operation of the day –to-day lives.

Our response to the price volatilities in the global market without passing that burden to the public decreased our profitability. The decisions we have had to take, guided by our values, have been difficult. During the year under review the locally refined production was 1,639,047 MT and the country's demand gap was filled by importing refined products ensuring an uninterrupted supply of energy to the nation.

During the year, CPC supplied petroleum products worth Rs. 423 Bn and it is 12% more than the previous year. With the reduction in cost of sales coupled with the sales increase Gross profit rocketed by 143.89% compared to last year. I am very delighted with the CPC's results this year as it earned the highest profit for the decade amounting to Rs. 53 Bn. Not stopping from there we have taken a further step by transferring a part of the profit to our parent, the Government of Sri Lanka, as dividends amounting to Rs. 10 Bn. In addition we contributed Rs. 137 Bn as taxes and special fee to the government's consolidated funds. Decrease in the negative net assets position as at the year end was Rs. 43 Bn.

Into the future

CPC will continue to pursue its endeavor of energizing the nation with an uninterrupted supply of petroleum products to the entire country. We will have more developmental projects which seek to alleviate our value chain. CPC is planning to automate its filling stations, paying special attention to differently able individuals, added with enhanced sanitary facilities. As a long term solution we intend to fully renovate the refinery at Sapugaskanda. Establishing a new refinery close proximity to our existing refinery is also in our minds. The pipelines running from Colombo port to Kollonnawa was started to renovate in February 2016 after forty years and we expects to finish this soon.

The outlook for the year ahead is one in which we expect the upturn in the petroleum prices in the international market to continue. I believe, however, that the decisions the Corporation has taken this year, and the decisive action plans management is implementing, will see CPC through the current challenges.

Appreciation

I wish to express my sincere gratitude to our Managing Director and the management team for the enormous contribution made in achieving this historical profit. I remain confident that CPC will pull through the challenges in the economy, primarily because of the quality of its people, at all levels across the Corporation. This is demonstrated by the nature of the work performed at our operations, as well as in the quality of the relationships that CPC has fostered with government authorities, customers, suppliers and broader stakeholder community. My special appreciation also goes to the Hon. Minister, Hon. Deputy Minister and other

officials of the Ministry of Petroleum Resources Development for their continuous support and assistance.

In closing, I would like to extend particular appreciation to my fellow board members for their consistent stewardship and wisdom in guiding the Corporation into a profit making situation. I am confident that CPC will deliver on its ambitious and decisive action plans, and ensure the Corporation's resilience over the short, medium and long term.

Thank You

Dammika Ranatunga
Chairman
Date 11.05.2018

OUR OPERATING CONTEXT AND STRATEGY

This has been a particularly vibrant and nourishing year for CPC, earning the highest profit in the past decade amidst the tough operating context placing profound pressure on our business model. The declining oil prices in the global market and the growing expectations of our key stakeholders heightened the CPC's profitability.

ENERGIZING THE NATION

Increased revenue

Rs. 423 Bn (2015: Rs. 377 Bn)

Reduced cost of sales

Rs. 326 Bn (2015: Rs. 337 Bn)

Reduced borrowings

Rs. 194 Bn (2015: Rs. 268 Bn)

Improving our profitability by controlling cost

Rs. 53 Bn (2015: Loss of Rs. 21 Bn)

Loss per 1 liter of 95 Octane Petrol

Rs. 8.92

Cost reflective pricing strategy will balance the CPC's profitability and will reduce the negative net assets position.

IN THE JOURNEY TO ENERGIZE THE NATION

We have identified six key issues in our operating context that have important implications for our business model:

- Priced at subsidized rates
- Globally upward trend in the petroleum prices
- Movement in the exchange rate
- Shortage of oil refining capacity and storage
- Constraints faced to settle US Dollar loans obtained
- Dilapidated condition in the pipeline

Priced at subsidized rates

Domestic prices for petroleum products are determined by the government

In the modern world petroleum products have become essential products and as the oil prices largely influence the country's cost of living, domestic prices for petroleum products are determined by the government at subsidized rates. Therefore the CPC has forgone their profitability for the betterment of the entire nation.

Loss incurred by CPC due to subsidized price is illustrated below;

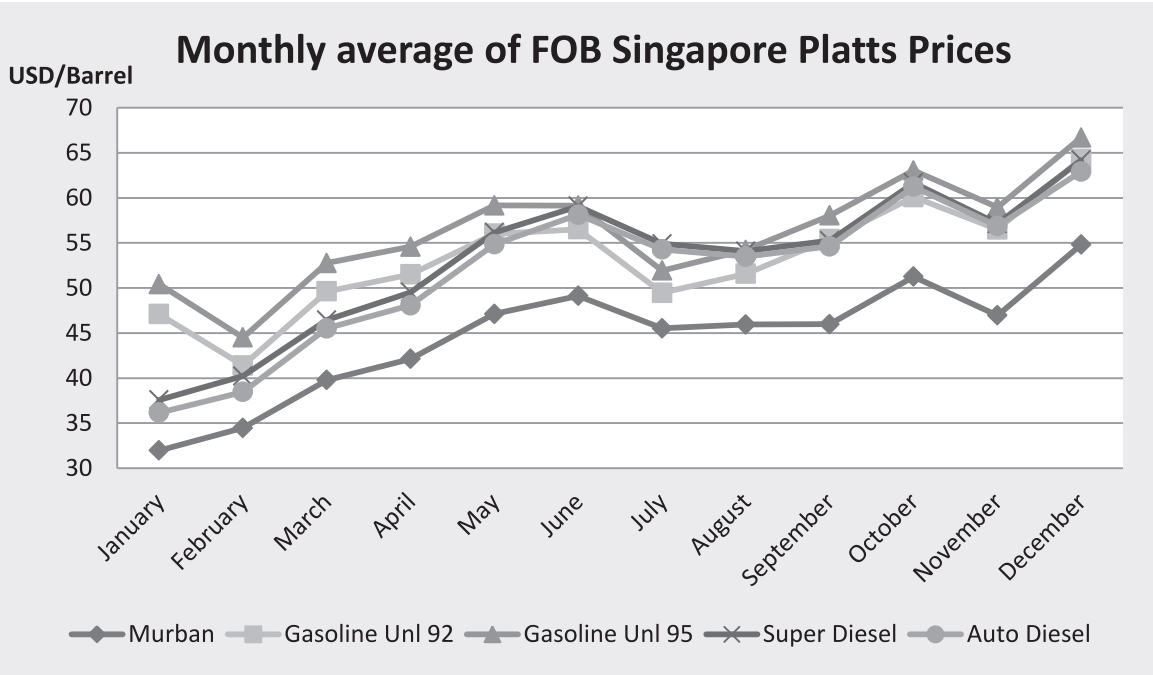
Product	Subsidized price (Rs.)	Loss per liter (Rs.)	Total Loss (Rs. Mn)	Subsidy received from the government
Petrol 92	117.00	7.34	8,251	Nil
Petrol 95	128.00	8.92	1,291	Nil
Kerosene (domestic)	49.00	17.81	2,982	Nil

Implications for value	How to win
Selling petroleum products at subsidized prices has a significant negative impact on revenue, profitability and cash flows. **When CPC face cash flow problems it drags its profitability further down with interest bearing borrowings.**	1. Prompt government to introduce a cost reflective, transparent fuel pricing mechanism 2. Negotiate with the Government to obtain the subsidy entitlement as per the section 17 of the Finance Act No.38 of 1971. 3. Control expenditure

Globally upward trend in the petroleum prices

CPC is a price taker in the global market

Since Sri Lanka does not have petroleum resources, we have to import petroleum products from the global market. Further it does not have enough storage capacity to store fuel when the global market price of petroleum products is down. For that reason CPC is highly sensitive to price volatilities in the global market.



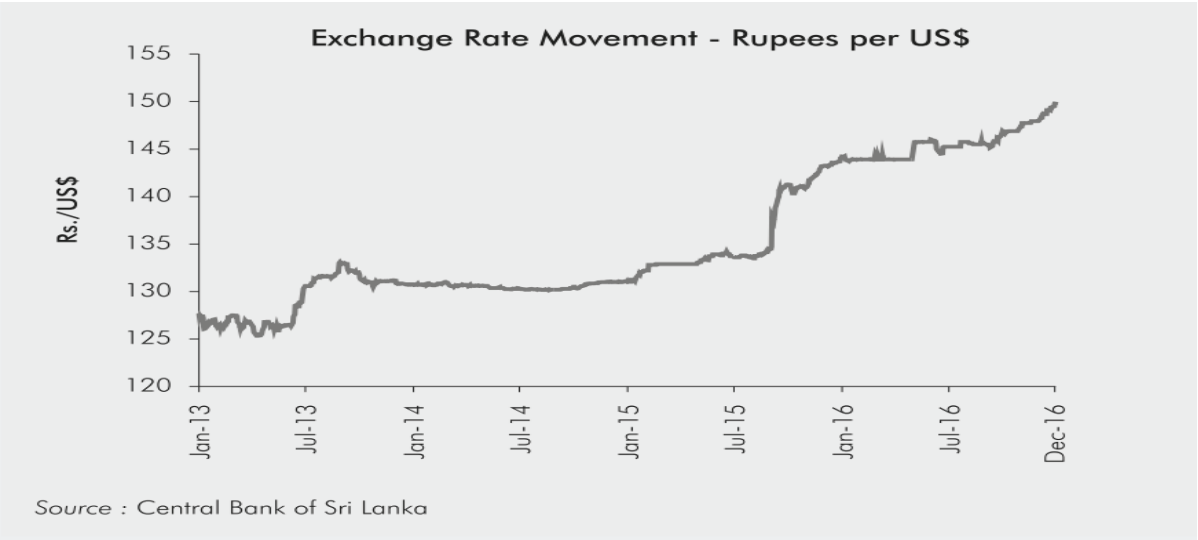
This year Murban FOB Abu Dhabi price increased by 71%, from 2016 January average price of US$ 31.965/barrel to US$ 54.817/barrel in December, exerting pressure on CPC's cost of sales. Super Diesel and Auto Diesel have also increased by 71% and 74% respectively in the same period. The prices remain under upward pressure in the near term and it is unclear where the top of the market is or how long it will have an upward trend.

Implications for value	How to win
High prices have put margins and cash under pressure. We are a price-taker in the global market and have a much smaller impact to the market.	1. Increase the storage capacity to store petroleum products when prices are down in the global market. 2. Government renewed the Sri Lanka's petroleum exploration efforts with the plan to develop and produce natural gas. If the gas commercialisation process is successful, it is expected to use domestic gas and to reduce the imported distillate.

Movement in the exchange rate

CPC is one of a main importer in Sri Lanka

CPC functions based on the petroleum products imported and the exchange rate movements severally affect the profitability. During 2016 as a whole, the rupee recorded a depreciation of 3.83% against the US Dollar (2015: 9.03%). During the year CPC incurred a loss of Rs. 8,829 Mn (2015: Rs. 32,841.59 Mn) due to the depreciation in the rupee value against foreign currencies. Furthermore CPC was allowed to purchase US Dollars only from two state-owned commercial banks and it was restricted to purchase US Dollars at competitive rates from other licensed commercial banks.



Implications for value	How to win
Depreciation of rupee value has a significant negative impact on profitability and cash flows because CPC has to settle import bills and foreign currency loans at a higher exchange rate. **Inability to purchase US Dollars at competitive rates increases the loss from exchange rate.**	1. Settle the foreign currency loans obtained through the subsidy receivable from the government 2. Enable CPC to purchase US Dollars at competitive rates through negotiations with all commercial banks.

Shortage of oil refining capacity and storage

Nature of the petroleum product requires different storages for different products

Crude oil and refined products require different types of tanks to store different fuel products. With the growing demand for petroleum products current tank capacity and refining capacity is insufficient pressuring for an upgraded refinery operation and extra storage capacity. Adding more, when the global prices were down, CPC would have stored more petroleum products as a proactive action for future demand. Financial constraint is the main challenge to this.

Loss incurred by exporting excess bottom products generated through refinery process is illustrated below;

Product	Loss per liter (Rs.)	Total Loss (Rs. Mn)
Fuel oil 800'	19.71	727
Naphtha	18.54	1,580

Constraints faced to settle US Dollar loans obtained

CPC does not have the freedom to settle the US Dollar loans obtained at its discretion

In order to meet financial challenges CPC had to seek financial support by obtaining loans. However, it is facing various constrains both internally and externally. Lack of funds to settle the loans are the biggest challenge CPC encounters. Even though CPC has funds situations like insufficient US Dollars in the market, impact to the country's exchange rate obstructs the loan settlement. Consequently CPC has to pay more interest dragging the financial problem and the negative net assets position more serious.

	Rs. Mn	Remarks
Finance expense	11,404.537	Expenses incurred on fund providers
Finance income	8,374.112	Interest earned by investing excess cash
Interest earning Investments	63,626.178	Investments made from excess cash
Interest bearing borrowings	193,987.471	Funds obtained to address financial problem

Implications for value	How to win
Outstanding loans adversely impact the profitability and not settling the installments on time further deteriorate the profitability by accumulating additional interest expense.	1. Negotiate with the Government to settle US Dollar loans against the subsidy elements receivable from the Government 2. Negotiate with banks to reduce interest rates 3. Effective treasury management 4. Negotiate with banks and Treasury to convert the US Dollar loans into Sri Lankan Rupee 5. Request autonomy to settle the US Dollar loans in the best interest to CPC

Dilapidated condition in the pipeline

Dilapidated pipelines causes high demurrages

Cross country pipelines are used to discharge the imported petroleum products from port to terminals. Dilapidated condition in these pipelines compels CPC to maintain a low pressure when discharging cargo resulting heavy congestions at berth. Consequently the average time taken to discharge cargo is more than the standard time causing CPC to incur huge demurrages.

Implications for value	How to win
Demurrages adversely impact the profitability by increasing the import cost while damaging the image of CPC.	1. Clearing cargo using shipping guarantee / bank indemnity in absence of original shipping documents. 2. In case of supplier's fault of providing documents in time, the demurrage cost involved is informed to the Commercial Function to recover the same from the supplier.

DELIVERING ON OUR STRATEGY: PERFORMANCE SUMMARY

CPC's full year results are very remarkable despite the challenging market conditions existed globally. 12.32% increase in revenue coupled with 3.17% reduction in the cost of sales contributed to the unprecedented profit of Rs. 53 Bn.

ENERGIZING THE NATION

Increased gross profit

Rs. 97 Bn (2015: Rs. 40 Bn)

Reduced loss from exchange rate movement

Rs. 9 Bn (2015: Rs. 33 Bn)

Reduced negative net assets

Rs. 186 Bn (2015: Rs. 229 Bn)

The volatility in the global oil prices over the past year has been a significant factor for CPC

Depreciation of the rupee against US Dollar

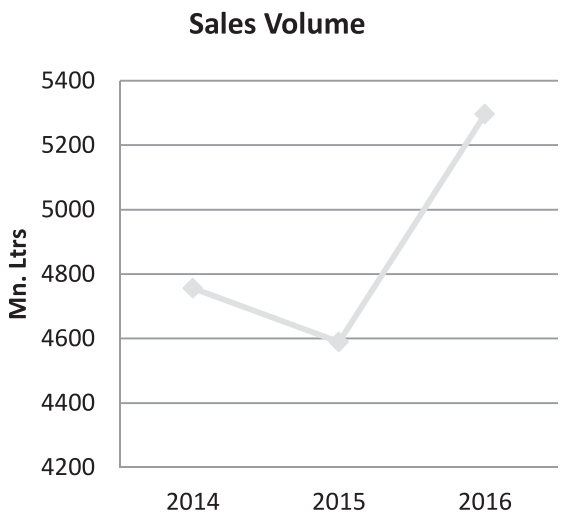
3.83%

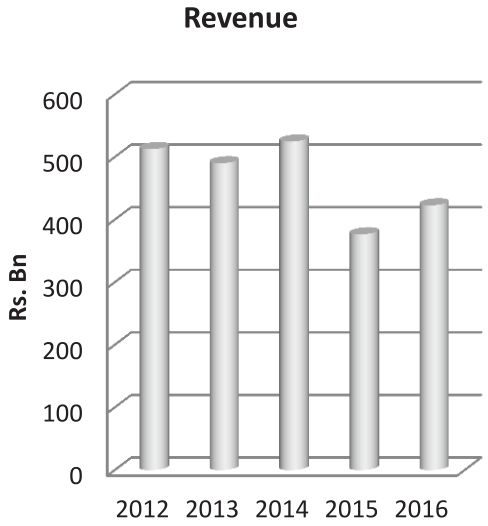
Converting the US Dollar loans to Rupee loans will reduce the loss from the exchange rate.

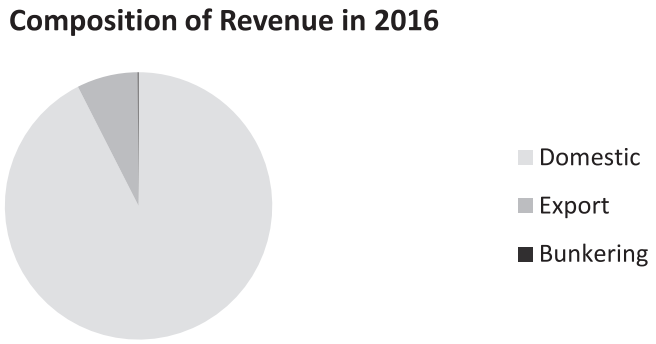
SHAREHOLDER VALUE PROPOSITION

Revenue

Revenue is derived by selling petroleum products domestically, through export and from the bunkering business. In the year under review, domestic sales remained the dominant income source and it was 19.14% higher than 2015 boosted by the market demand. It is worthwhile to note that the domestic petroleum prices remained stable during the year under review even though there were price volatilities in the global market. When the domestic sales have increased, revenue from exports and bunkering have come down by 21% and 65% respectively. On the other hand, sales taxes have increased by 37.68%.







Domestic petroleum prices

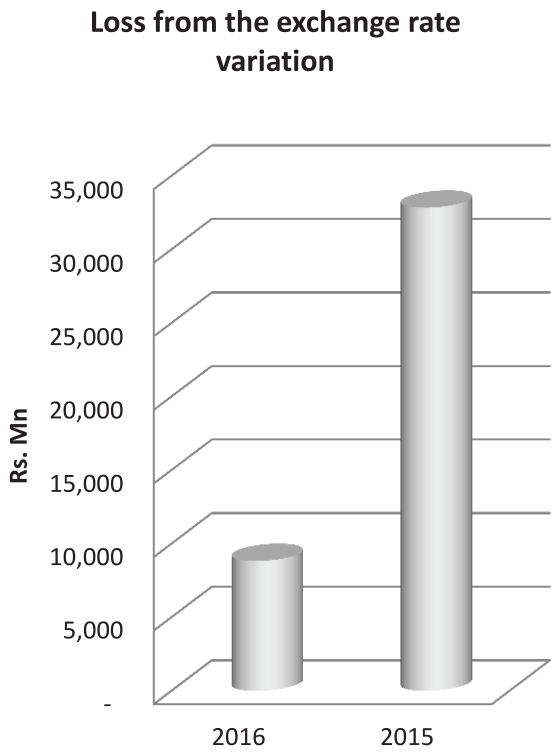
Product	As at 01.01.2014	Revised in Sept 2014	Revised in Dec 2014	Revised in Jan 2015	Revised in July 2015	Revised in Nov 2015	As at 31.12.2016
Petrol-90/92	162.00	157.00	150.00	117.00	-	-	117.00
Petrol -95	170.00	165.00	158.00	128.00	-	-	128.00
Auto Diesel	121.00	118.00	111.00	95.00	-	-	95.00
Super Diesel	145.00	140.00	133.00	110.00	-	-	110.00
Kerosene (Domestic)	106.00	86.00	81.00	59.00	-	49.00	49.00
Fuel Oil-800	92.20	-	-	82.20	80.00	-	80.00
Fuel Oil-1500	90.00	-	-	80.00	-	-	80.00
Fuel Oil-3500	90.00	-	-	80.00	-	-	80.00

Other Income

Kerosene subsidy income is the main other income source amounting to Rs. 2,982 Mn. It is the subsidy receivable from the government for selling Kerosene below its cost. This subsidy is recognized on accrual basis. However, CPC did not receive any subsidy for the losses incurred in the year 2016. During the year CPC earned a dividend income of Rs. 293 Mn which received mainly from its subsidiary CPSTL.

Exchange Rate Variation

During the year the exchange rate variation loss encountered by CPC was Rs. 8,829 Mn and this is 73% less than the previous year. Depreciation of the Sri Lankan Rupee against foreign currency is the reason for this loss since CPC import petroleum products. In 2016 Sri Lankan Rupee depreciated averagely by 3.83% against the US Dollar (2015: 9.03%).



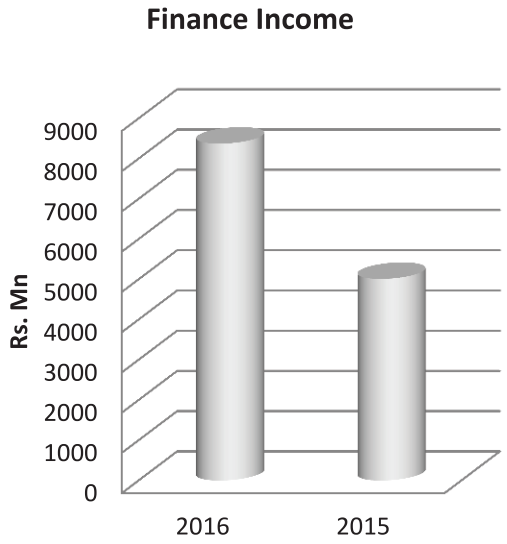
Our strategies

During the year CPC implemented various strategies to maximize the profit earned;

- ✓ With effective treasury management CPC was able to reduce its finance cost by Rs. 3.6 Bn
- ✓ Excess cash were invested in interest yielding sources while ensuring that CPC will not go into a bank overdraft. As a reult finance income increased by Rs. 3.4 Bn and no bank overdraft interest was incurred.
- ✓ Transparent import procurement process enabled CPC to import quality petroleum products at the lowest price.
- ✓ CPC was able to cater the increased demand from the power generation sector earning a profit of Rs. 32 Bn. Sales revenue has increased by 112% compared to the last year.
- ✓ CPC prices were competitive in the international market reflecting an increase in demand despite the cost reflective price used in the aviation sector.
- ✓ Clearing cargo using the shipping guarantee / bank indemnity without waiting till the original shipping documents.
- ✓ Tax payable and customs duty amounting to Rs. 9.88 Bn were settled by setting-off the trade receivable from three forces, police and department of Railways.

Finance Income

Finance income has improved by 67% compared to 2015. Investment income from Treasury Bonds, Fixed deposits and Call Deposits contributed to this improvement with the buildup of investments in those instruments.



Finance Expense

During the year CPC incurred a finance expense of Rs. 11.4 Bn and it is 24% less than the previous year. CPC is striving hard to reduce this cost and it is commendable to note that CPC manage its funds effectively without incurring any overdraft interest this year also. Interest on long term loans have decreased by Rs. 10.63 Bn with the settlement of loans. During the year CPC was able to settle the Treasury (Exim Bank) loan which commenced repayments in 2004. Its interest rate was 12% per annum. Interest from foreign currency bank loans has also trimmed down by Rs. 3,635 Mn with the decrease in the related borrowings. During the year 2016 CPC repaid its loans by Rs. 71,200 Mn whereas in 2015 it obtained loans for a value of Rs. 16,049 Mn.

Income tax expense

There is a drastic increase in the income tax expense due to the drastic improvement in the profitability. With the prevailing tax law, CPC had to pay Rs. 12,186 Mn as tax on taxable income and Rs. 4,340 Mn as tax on distributable profit.

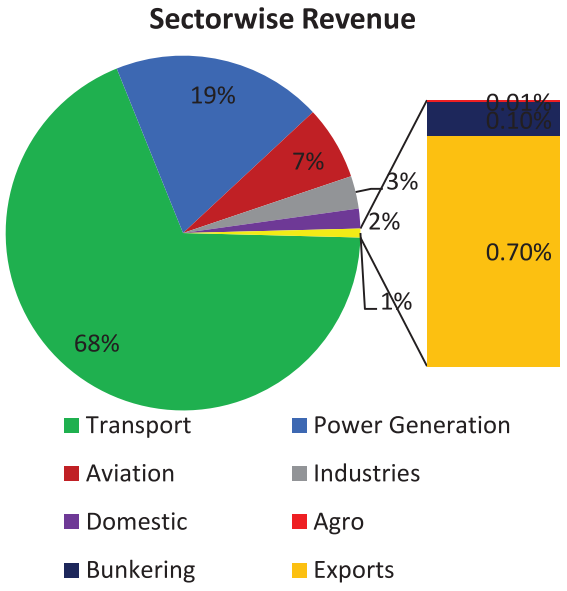
Profitability

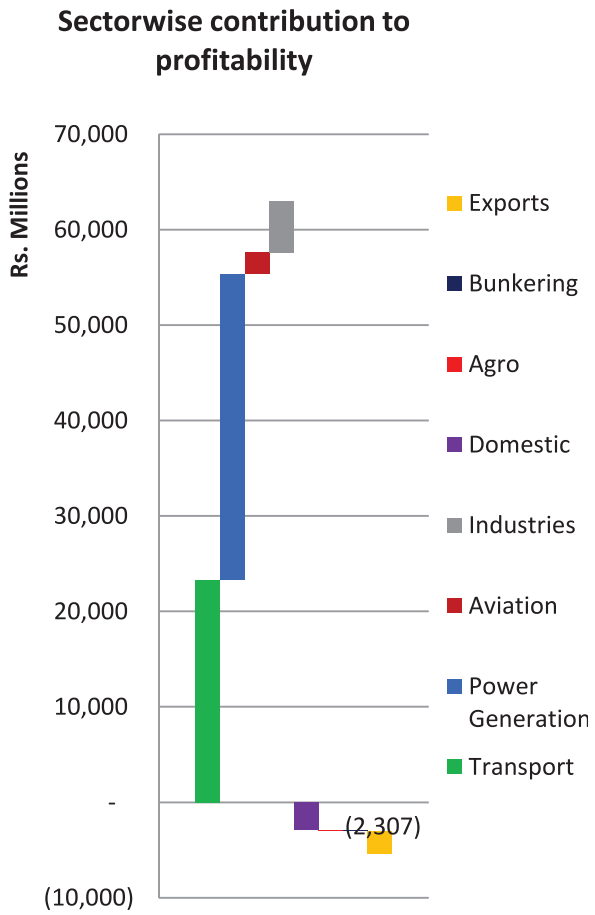
	2016	2015
Gross profit margin	23%	11%
Operating profit margin	19%	7%
Net profit margin	13%	(5%)

There is a positive improvement in the profitability ratios compared to 2015. While the revenue improved by 12.32%, cost of sales have dropped by 3.17%. Reduction in the petroleum prices in the international market compared to 2015 positively impacted the CPC. The gross profit earned was adequate to cover up the expenses this year and CPC distributed Rs. 10,000 Million to the Treasury as dividends.

Segmental Analysis

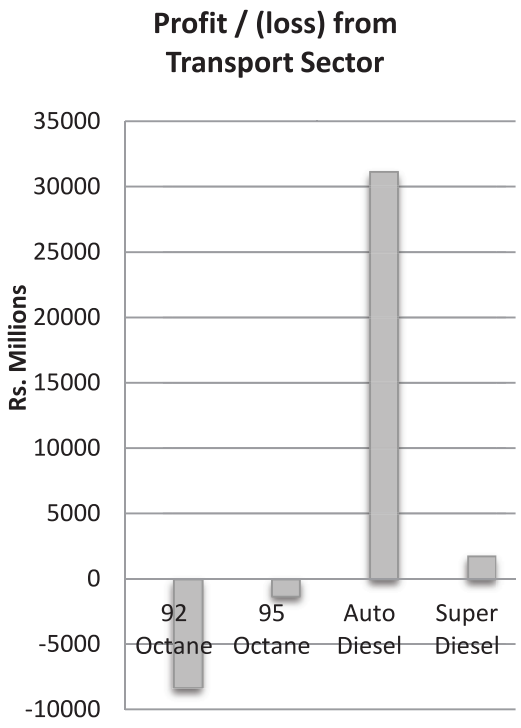
For management purpose CPC has divided its operations into eight main categories and the performance of those units in the year 2016 is summarized below.





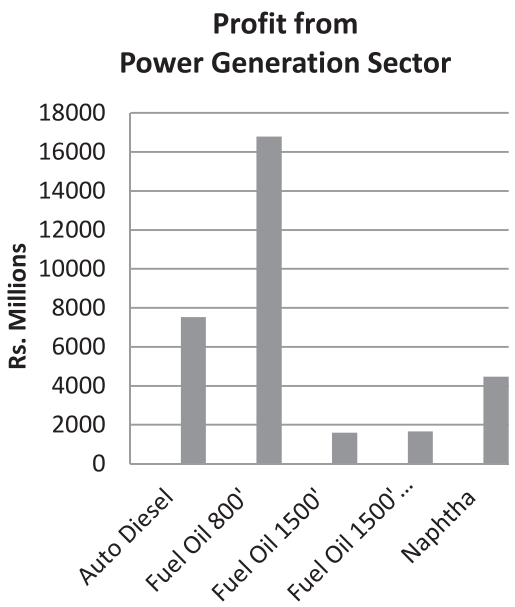
Transport sector

Transport sector is the highest income generator in the CPC. During the year it generated an income of Rs. 325 Bn and it is Rs. 24 Bn more than 2015. General public's preference to use private vehicles coupled with the static sales price magnified the demand. 95 Octane Petrol consumption and Lanka Super Diesel consumption has reported a growth of 34.99% and 35.05% respectively with the import of more and more luxury vehicles. Shift in the consumer's preference for emission free fuel is also a contributory factor for this increase in demand.



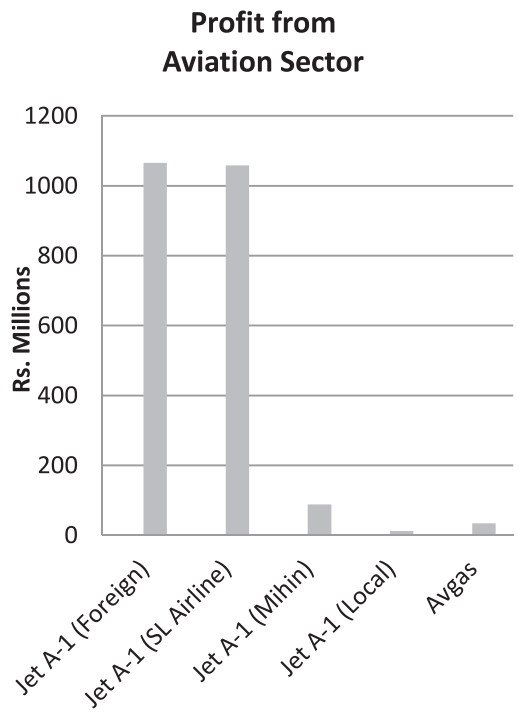
Even though there is an increase in demand in all four products, CPC ended up with a loss by selling Petrol as the selling price is inadequate to cover up import cost and other related expenses. The necessity of a cost reflective pricing formula is well revealed here.

Power sector



Power sector remained the second highest income generator of CPC earning an income of Rs. 91 Bn. On the other hand, this year it was the highest contributor to the profitability earning a profit of Rs. 32.04 Bn. Demand for auto diesel has skyrocketed by 334% earning a profit of Rs. 7.53 Bn and it is Rs. 7.01 Bn more than last year. Fuel oil 800' demand has also increased by 156% compared to last year and the profit earned is Rs. 16.78 Bn. This profit is nearly 5 times more than the last year profit. Income from Naphtha is Rs. 12.9 Bn earning a profit of Rs. 4.46 Bn. It is commendable to note that CPC was able to supply the increased demand from power sector without any interruptions.

Aviation sector



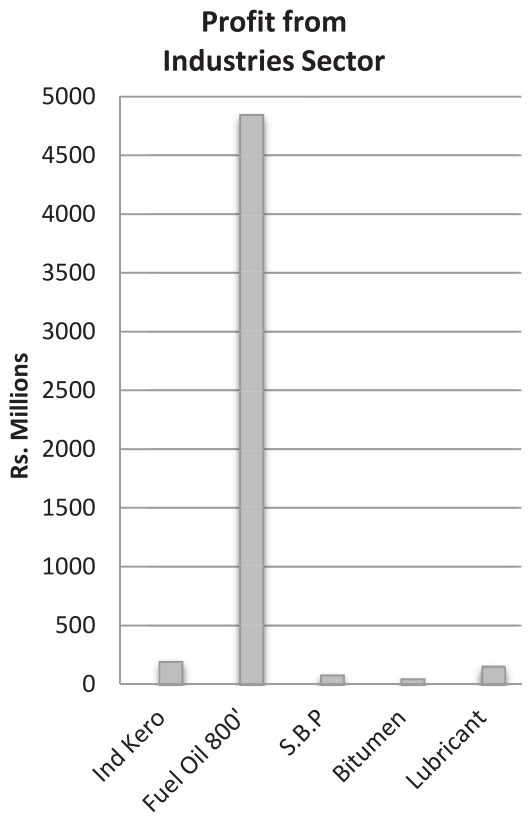
During the year aviation sector earned an income of Rs. 32.04 Bn and achieved a profit of Rs. 2.26 Bn. With the introduction of the cost refelctive pricing method prices of Jet A-1 and Avgas has decreased inline with the

Segmental Analysis

Sector	Sales Revenue (Rs. Mn)	Profit / (Loss) (Rs. Mn)	Remarks
Domestic	8,587	(2,891)	Subsidized Selling Price announced by the Government
Agro	41	(90)	High staff cost and offer the product at low prices
Bunkering	479	(66)	Sale of fuel oil below the cost
Exports	3,314	(2,307)	Sale of fuel oil and naphtha below the cost
Transport	325,380	23,298	
Power Generation	91,073	32,038	
Aviation	32,041	2,258	
Industries	14,136	5,351	

international oil prices. Nonetheless, the sales quantity has increased indicating the competitiveness of the prices quoted using the price formula in the international market. The demand for Jet-A1 from local customers are increasing and there is an opportunity to enhance it furhter with the boom of toursim industry.

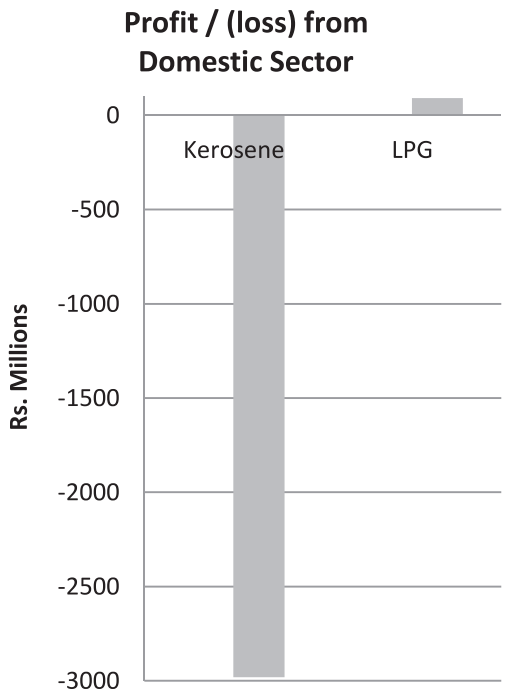
Industries Sector



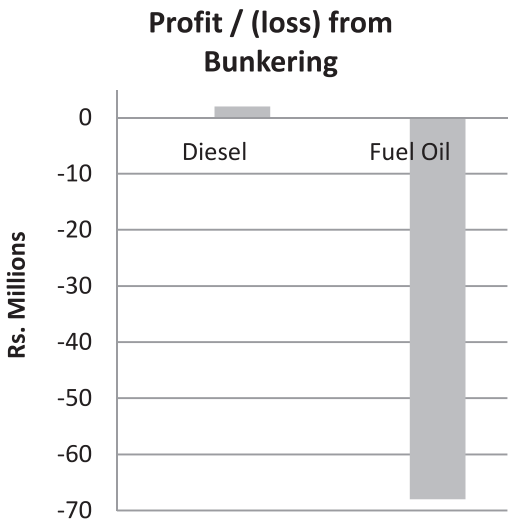
This sector is the third highest contributor to the profitability. Income from industries sector was Rs. 14.14 Bn and it was 5.48% less than the previous year. Decrease in quantity demanded for industrial kerosene and S.B.P. is a one reason for this decrease. Drop in sales prices of industrial kerosene, Fuel oil 800', S.B.P. and Bitumen also caused revenue to shrink. Nevertheless, the profit earned from industries sector was Rs. 5.3 Bn and it is 244% higher than 2015 profitability. Fuel oil 800' is the main contributor to this sector and it earned a profit of Rs. 4.8 Bn. During the year, fuel oil 1500' sales were nill to the industries sector whereas it earned Rs. 3.7 Bn in the previous year. However, that last year sale ended up with a loss of Rs. 270 Mn and this year it was a saving to CPC. It is commendable to mention that the bitumen sale have produced a profit of Rs. 56 Mn although it was loss making in 2015. Increase in the quantity sold and the priced above the cost are the main factors for this profitability.

Domestic Sector

Domestic sector continued to make losses with the provision of kerosene at a highly subzidized price. Quantity sold has increased by 7.57% but the revenue has decreased by 11.09%. Price reduction to Rs. 49 made in Novemeber 2015 impcated the 2016 entire year although that decrease impacted 2015 revenue after November 2015. The loss was less than the previous year due to the drop in the international petroleum prices. LPG sale have droped to Rs. 589 Mn. Conversely profit has increased to Rs. 92 Mn with the reduction in cost of sales.



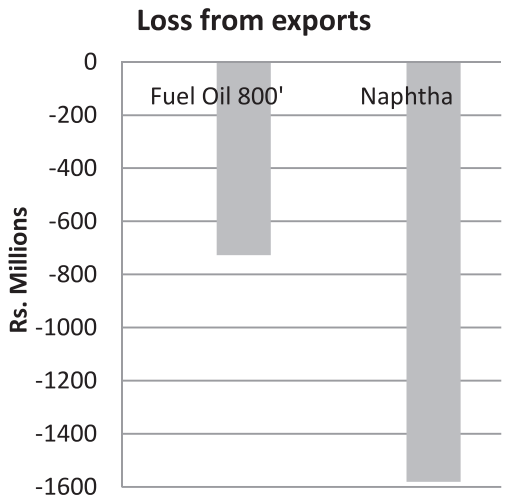
Bunkering



Revenue earned from bunkering was Rs. 479 Mn which is 65% less than the previous year. This year bunkering operation ended up with a loss of Rs. 66 Mn since the fuel oil sale was done for a loss. However, in 2015 CPC managed to sell fuel oil above the cost. Sale of diesel wiped out the loss to some extent but the gain is negligable.

Export sector

This year the loss from the export sector decreased to Rs. 2.31 Bn whereas the loss was Rs. 6.17 Bn in 2015. Increase in the power sector demand for Naphtha and fuel oil restrained CPC from exporting fuel oil and naphtha at a loss. Still the CPC had to export the excess fuel oil and Naphtha for a loss due to the insufficient storage capacity.



Agro Sector

Performance of the agro sector was not satisfactory in this year. The income earned was Rs. 41 Million and the loss was Rs. 90 Million. Income has dropped by 73.55% and as a result loss has decreased by 13.92%. The policy adopted by the agro sector is to supply agro chemicals at reasonable prices as a state owned enterprise to cater to the market demand in the agriculture sector with the objective of boosting the country's agriculture production at low cost.

Our 2016 performance

During the year we have satisfactorily completed many of the important projects.

- ✓ Replacement of Pump Unit at refinery
- ✓ Erection of an Additional Jet A1 Tank
- ✓ Completed Mattala International Airport, Head office new stores building & Muthurajawela Lubricant stores networking project
- ✓ Bio metric based centralized attendance system at Katunayaka, orugodawatta & Water Intake
- ✓ Developed centralized invoicing and stock management system for island wide lubricant dealers
- ✓ Storage capacity at the refinery has been increased with the addition of new five tanks
- ✓ Purchased and installed the automated bottle filling machine for agrochemical function
- ✓ Gantry control room was modified to get more space for new control panels
- ✓ Purchase of a water tube type boiler

Financial position of the Corporation

Assets

Assets mainly consisting of trade and other receivable, inventories and investments have decreased by 4% compared to 2016 with the settlement of loans. Inventories have dropped by 13.55% mainly the crude oil stock and the finished products stock. Cash and cash equivalents have decreased by 71.45%. On the other hand short term investments have increased by Rs. 15.36 Bn while the borrowings have decreased. Trade receivables have increased by Rs. 14.53 Bn compared to last year. Rise in the outstanding amount from CEB is the main reason for this.

Liabilities

Liabilities, both current and non-current, have decreased by Rs. 51 Bn compared to 2015. Borrowings have decreased by Rs. 74 Bn leading to a reduction in the finance expense. During the year CPC was able to end the Exim loan which had been repaying since 2004 at an interest rate of 12% per annum. However, the trade and other payable have increased by 14.4% and the main outstanding liability is foreign bills amounting to Rs. 139.81 Bn.

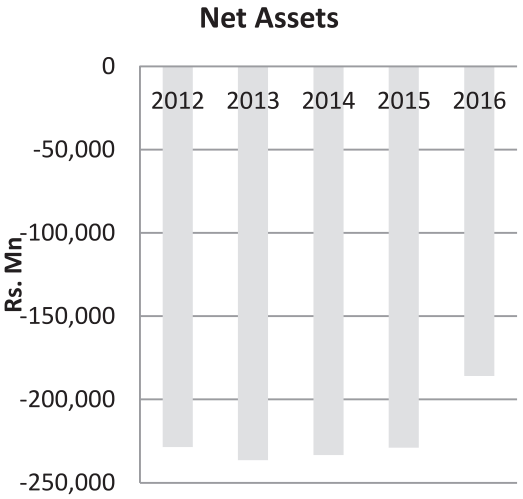
Equity

Negative net assets position of the Corporation degenerated by 18.84% YOY with the laudable profit earned. Moreover CPC proudly distributed dividends amounting to Rs. 10 Bn to the General Treasury despite the fact that there are subsidy receivables from the General Treasury.

We would have done better

CPC was able to achieve a total comprehensive income of Rs. 53 Bn amidst the following constraints;

- ✓ Sale of petroleum products at highly subsidized rates which are determined by the Government
- ✓ Non-existence of a cost reflective pricing mechanism
- ✓ Domestic retail prices were revised down in January 2015 and prices were not revised thereafter even though the global oil prices increased.
- ✓ Not receiving the subsidy element receivable from the Government for the sales made at subsidized prices as per the section 17 of the Finance Act No. 38 of 1971
- ✓ Loss from the depreciation in the exchange rate is Rs. 9 Bn
- ✓ Taxes and special fees paid to the Government was Rs. 137 Bn
- ✓ Finance expenses incurred was Rs. 11 Bn arising from the borrowings taken to cover the financial constraints faced
- ✓ Lack of a mechanism to settle the loans obtained from the state owned banks through the subsidy receivable from the Government
- ✓ Exported excess furnace oil and naphtha at a loss since the CPC does not have enough storage facility
- ✓ Production of bottom products from the refinery operations more than the required quantity exerted pressure to sell those products at a loss.
- ✓ CPC has to incur demurrages since the average time taken to discharge cargo from port to terminals is more than the standard time due to the low pressure maintained in the dilapidated cross country pipelines.



CPC ran into a negative net assets position since 2008 with the non-receipt of the subsidy element from the government. CPC used to get the subsidy element till 2007. Had the CPC got this subsidy continuously, we would not have face financial difficulties and run into a debt situation. Interest bearing bank loans obtained to resolve financial liabilities worsen the financial performance of CPC.

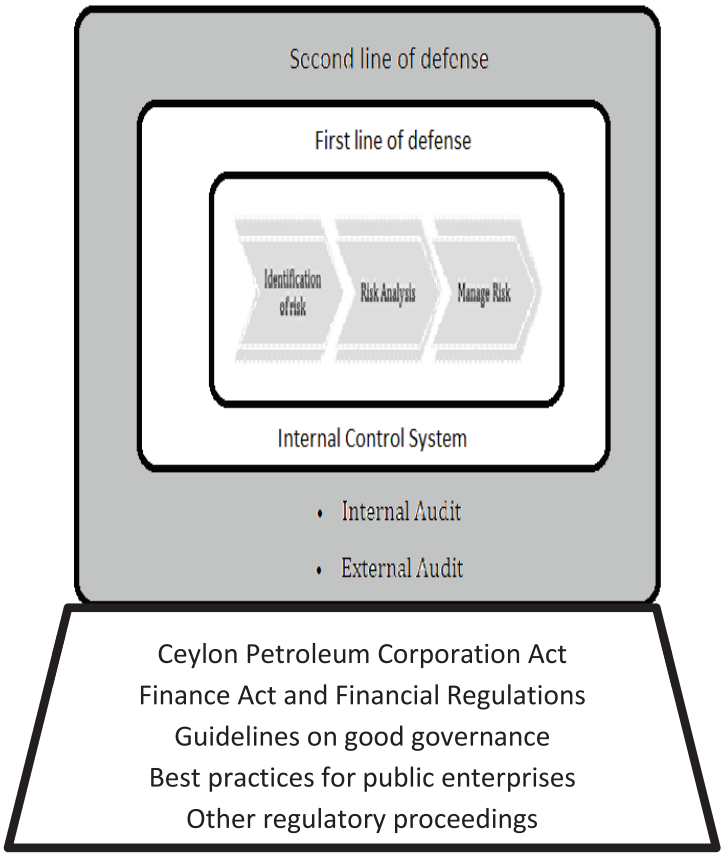
RISK MANAGEMENT REPORT

Risk management has become a part and partial of CPC's operations as the country's largest petroleum products provider in this robust social and economic environment.

The purpose of risk management is to;

- protect the Corporation from being vulnerable to the environment, market and internal delinquencies
- duly balance growth and risk
- guarantee long-lasting existence
- protect our employees, customers, general public and Crporation's assets from negative events such as fire or accidents

CPC's risk management framework



CPC's Risk management framework is developed to proactively identify the key risks affecting the Corporation and manage those risks effectively after analyzing them with a view to ensure smooth supply of energy to the Nation. It enables the Corporation to perform its future activities in a consistent and controlled manner leading to effective planning and decision making.

CPC's risk management process is reinforced by two solid lines of defense;

1. internal control system
2. Internal and external audits

Ceylon Petroleum Corporation Act No. 28 of 1961, Finance Act No. 38 of 1971, Financial Regulations, Guidelines on good governance, Best practices for public enterprises and various other regulations establish a solid foundation to the CPC's risk management framework.

1. Internal control system

Corporation has a comprehensive system of internal controls with clearly defined policies and procedures designed according to the above mentioned acts. It enables the corporation to detect, manage and prevent the risks associated with CPC.

2. Internal and External Audit

Internal and external audit functions play a vital role in the risk management process. Internal and external auditors examine the design and effectiveness of the financial and

other operational systems in order to recommend remedial actions and improvements to manage the risks they identify. Audit Committee established by the Board of Directors reviews the significant audit findings and the management responses.

Strategies to manage risk

The strategies the Corporation applies to manage the risks depends on the type and the severity of the risk. Once a risk is identified, CPC will either;

- Avoid the possibility of occurring, or
- Transfer the risk to another party, or
- Accept the consequences of the risk and budget for it.

Governance Structure of CPC

The effectiveness of the Corporation's risk management framework is backed by a well-defined governance structure.

The apex responsibility of the risk management lies with the Board of Directors headed by the Chairman and is reinforced by other governance committees, both at Board and Executive levels. Those committees function with clearly defined roles and responsibilities.

CPC's governance framework is illustrated in the page 36 under the Corporate Governance report.

Risks exposure to CPC

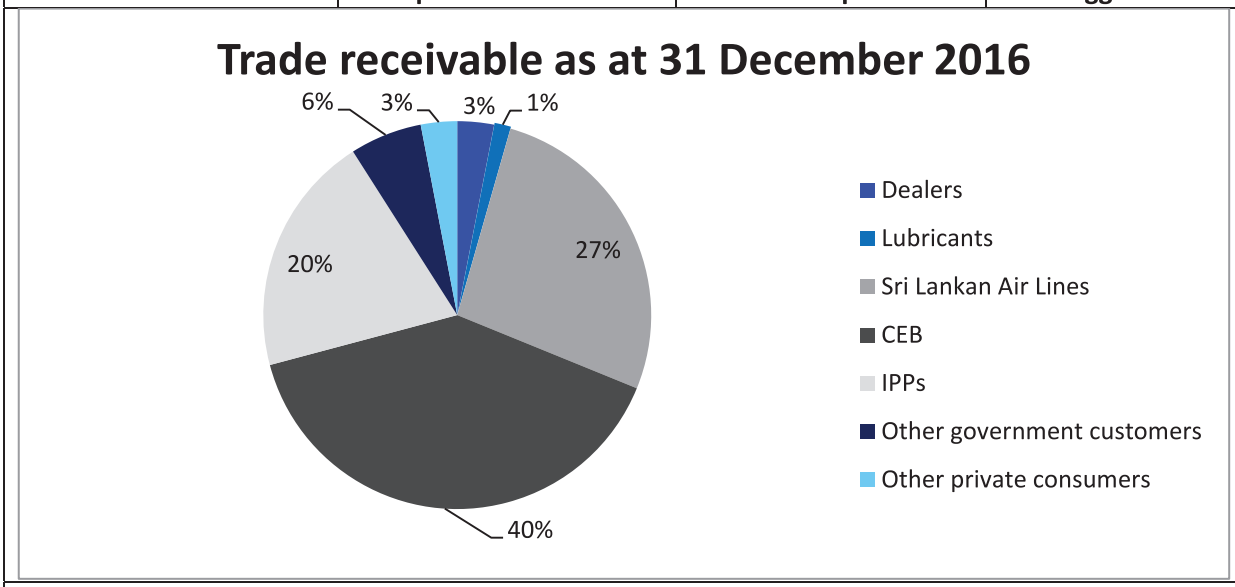
A brief description of the risks that the Corporation is exposed to and risk management measures taken are given below along with any suggestions to mitigate the risk further.

Risk	Impact from the risk	Risk response	Suggestions
Economic Risk			
Country's inflation rate exerts pressure to the Corporation. As the market leader in providing petroleum products as well as a government owned institute, some of petroleum products are supplied with highly subsidized rates in order to meet social and economic circumstances rather than to earn profits. Slight changes in the petroleum prices impact the entire economy drastically.	Negative economic factors such as inflation rate increases the cost while reducing the revenue crashing the profits.	Frequently deploys aggressive cost management initiatives enabling CPC to sell petroleum products at competitive prices aiming to balance both the profitability of the Corporation and socio economic conditions in the Country.	Introduce a cost reflective pricing mechanism

Risk	Impact from the risk	Risk response	Suggestions
Commodity price risk			
Crude oil and other petroleum products are imported since Sri Lanka does not have those resources. Prices of those products are determined by the suppliers, where CPC cannot influence them.	Increase in global oil prices negatively impacts cost of sales, margins and cash position.	Stock Review Committee continuously monitors the country's stock requirement and global oil prices and purchase stocks in the most cost effective way.	• Introduce a cost reflective pricing mechanism • Increase the storage capacity to store stocks when prices are down in the global market.
Production risk			
Crude oil is processed to get the locally refined production.	Quality of the output and the wastages impacts the profitability.	Refine the crude oil by utilizing the maximum possible capacity and available technology	• Upgrade the refinery operations • Increase the storage capacity to store the output.
Operational risk			
Internal processes and systems affect the productivity of CPC's operations.	Ineffective controls and failure of systems lead to excessive wastages including time which negatively impacts the profitability. Further it negatively impacts the smooth supply of petroleum products to the market distressing the entire nation.	• Clearly defined policies and procedures are in place including an operational risk management policy • On-going assessments are conducted by the Internal Audit Department to identify the failures in the internal control systems. • Various committees such as Procurement Committee and Tender Evaluation Committee are in function to mitigate the operational risk associated with the Corporation. • CPC adheres to the Acts and regulations it governs	Controls and systems need to be updated by making use of the latest technology enabling to compete with the private sector.
Safety risk			
Petroleum products are highly inflammable and they need to be handled by following the safety standards	Not following safety standards affects the business operations while impairing human lives and properties.	• Policies and procedures on health and safety are in place • Regular trainings are provided to employees.	Training should be provided continuously to all employees.

Risk	Impact from the risk	Risk response	Suggestions
Market risk			
CPC encounters competition mainly from the Private sector.	Changes in the customer attitude with the competition and economic conditions affects the revenue, margins and cash position of CPC	• Diversify the product portfolio • Entering into agreements with the customers. • Increased collection from debtors	Further improve the credit collection including the receivables from the government related institutions.
Human resources risk			
Human resources are essential to ensure smooth supply of fuel to the nation. Attract, train and retain best capable employees while avoiding human resources related litigations are the risks faced by CPC	Inappropriate labor pool adversely affects the operational efficiencies leading to high cost and low profits. Further it affects the quality of petroleum products and reputation of CPC. Litigations against human resources are an unnecessary cost to CPC.	• Train employees • Collective agreements with labor unions which sustain an equitable balance between the interests of CPC and employees. • Staff welfare and other benefit schemes ensure employee retention.	Introduce performance based reward and promotion system
Information technology risk			
Reliable information is crucial to make accurate decisions and using the latest information technology is needed to compete in the market.	Lack of information, incorrect information and data security can leads to inaccurate decision making and it may consume more time distressing the profitability.	• CPC uses the SAP system to record its transactions. • Provide IT training to users	• Take full control over the SAP system administration rights to CPC
Exchange rate risk			
CPC's revenue is mostly transacted in Sri Lankan Rupees while cost of petroleum products and loan repayments are largely paid in US Dollar.	Depreciation in the US Dollar against the Sri Lankan Rupee increases the exchange rate loss negatively affecting the profitability and cash position.	Exchange rates quoted by all banks are monitored on a daily basis and Dollars were purchased not at the banks quoted rate but at the market rate after monitoring market behaviors.	• Give the autonomy to purchase US Dollars at competitive rates from any licensed commercial banks, instead of limiting to purchase only from two sate owned commercial banks • Convert the US Dollar loans to Sri Lankan Rupee
Interest rate risk			
CPC borrows funds to ensure smooth flow of petroleum products to the country when they	Interest charged on borrowings unfavorably impacts CPC's profitability through	Reduced the foreign currency loan interest rate to 5% from 5.5% in the year 2015.	• Government should settle the subsidy element without a delay

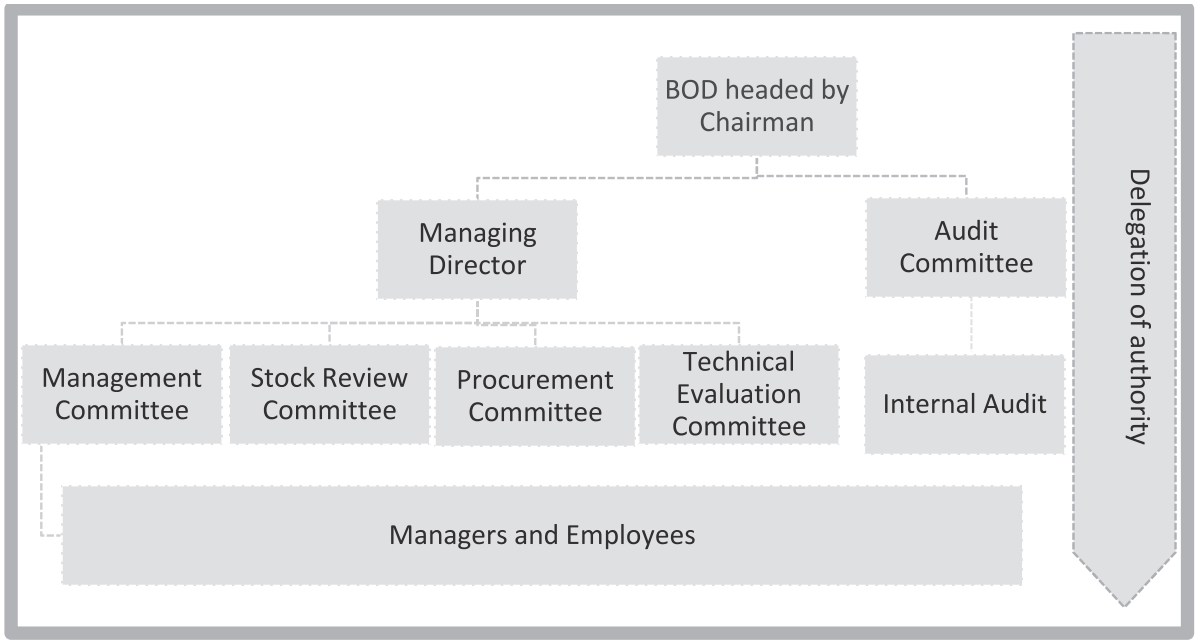
Risk	Impact from the risk	Risk response	Suggestions
are unable to generate funds internally.	interest expense and financial charges.		• Government can embark certain amount of bank borrowings by way of subsidy element receivable
Liquidity Risk			
Inability to meet the Corporation's obligations in a timely manner as and when they are due is the liquidity risk.	Paying additional interests when it is unable to settle on time negatively impacts the interest cost, cash flow and liability position. Further the inability to quickly trade an asset obstructs the expected profitability.	• Corporation's liquidity position is consistently monitored and ascertains future liquidity requirements • Corporation has arranged diversified funding strategies through cordial relationships maintained with banks and the General Treasury • Excess cash are invested appropriately by balancing the Corporation's profitability and liquidity position	Further enhance the collection from debtors including the government institutions.
Credit risk			
Credit risk arises as CPC sells its products on credit basis. ***1. Default risk*** Default risk is the potential losses arising from a default of a customer. ***2. Concentration risk*** Concentration risk stems from high lending exposure to a particular customer, sector or product.	If any customer fails to fulfill his contractual obligations to CPC and defaults or delays his payment it may lead to cash flow problems and negatively impact the profitability.	• CPC's receivables are well diversified with number of product categories offered to different sectors. • CPC sets-off the receivable from government institutions against a part of taxes and duties payable to the government	Further reduce the credits given to government institutions since nearly 72% of the trade receivables as at 31 December 2016 are from government related establishments exerting pressure to follow up on recovery.

Risk	Impact from the risk	Risk response	Suggestions
			
Environment risk			
Prevailing political, legal and social contexts influence CPC's operations.	Changes in the political, legal and social environment alter the decisions taken by CPC which indirectly affects the profitability.	• Regularly review the regulatory compliances • Maintaining cordial relationships with stakeholders who influence social and economic stability	Further be proactive to face environment risk.
Supplier risk			
Petroleum products are imported from the international market and suppliers exert pressure on CPC on following aspects; ***1. Quality risk*** Product's defects and products without required technical standards create quality risk ***2. Dependency risk*** Reliance on major suppliers and supply disruptions cause dependency risk.	Low quality products and inability to deliver products on time damages the Corporation's image causing to lose customers and revenue.	The Corporation has established sub committees such as Stock Review Committee, Procurement Committees and Tender Evaluation Committees to ensure the quality and smooth supply of goods and services including petroleum products.	Enhance cordial relationships with the suppliers.

CORPORATE GOVERNANCE

Sound corporate governance provides a strong foundation to protect stakeholder value, Corporation's resources and to achieve strategic growth objectives. Independent review by the Committee of Public Enterprises (COPE) and the interest placed by the general public over the operations and activities of CPC is the key in driving compliance, in embedding the highest levels of integrity and ultimately in ensuring good governance.

Governance framework



CPC Board

Board of Directors is the main driving force of the Corporation who makes decisions on strategic, financial and reputational matters. Ceylon Petroleum Corporation Act No. 28 of 1961 sets out the parameters for the board to function and ensures good corporate governance. Further it sets out the roles and responsibilities of the directors, including the composition and tenure of the directors. The Corporation's board of directors is appointed by the Minister of Petroleum Resources Development. Out of the board members, one director is a representative of the General Treasury and one director is a representative of the Ministry of Petroleum Resources Development. During the year 2016 all directors were non-executive except the Chairman / Managing Director. In response to the concerns made by external auditors, CPC appointed two separate persons as the chairman and managing director in the year 2017.

Summarized biographies of all directors outlining their qualifications and experiences are included on pages 7 to 10 of this report.

Director	Directorship status	Appointment Date	Resignation Date
Mr. T G Jayasinghe (Chairman / Managing Director)	Executive director	12/10/2015	27.01.2017
Mr. D C S Senavirathna	Non – executive director	12/10/2015	23.05.2017
Mr. J Dias	Non – executive director	21/01/2016	03.03.2016
Mr. K A Vimalenthirarajah	Non – executive director	19/11/2015	N/A
Mr. P Galhena	Non – executive director	12/10/2015	22.05.2017
Mr. R Harischandra	Non – executive director	12/10/2015	28.05.2017
Mr. M G Jayasena	Non – executive director	12/10/2015	02.03.2017
Mr. S Fernando	Non – executive director	17/03/2016	23.05.2017

Board attendance during 2016

Regular Board meetings are held monthly, while special Board Meetings are assembled as and when required. Senior Managers 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. During the year 17 board meetings were held. The table below shows each director's attendance at the board meetings.

Director	Mr. T G Jayasinghe (Chairman / Managing Director)	Mr. D C S Senavirathna	Mr. J Dias	Mr. K A Vimalenthirarajah	Mr. P Galhena	Mr. R Harischandra	Mr. M G Jayasena	Mr. S Fernando
21/01/2016	√	√	√	√	√	√	√	NA
16/02/2016	√	√	√	√	√	√	√	NA
02/03/2016	√	√	√	√	√	√	√	NA
29/03/2016	√	√	R	√	√	√	√	√
01/04/2016	√	√	R	√	√	√	√	√
25/04/2016	√	√	R	√	√	√	√	√
17/05/2016	√	√	R	E	√	√	√	√
07/06/2016	√	E	R	√	√	√	√	√
29/06/2016	√	E	R	√	√	√	√	√
15/07/2016	√	E	R	√	√	√	√	√
11/08/2016	√	√	R	√	√	√	√	√
26/08/2016	√	√	R	E	√	√	√	√
20/09/2016	√	√	R	√	√	√	√	√
11/10/2016	√	√	R	√	√	√	√	√
31/11/2016	√	√	R	√	√	√	√	√
22/11/2016	√	√	R	√	√	√	E	√
15/12/2016	√	√	R	E	√	√	√	E
No. of Meetings: 17	17/17	14/17	3/3	13/17	17/17	17/17	16/17	13/14

√ - Attended
NA – Not Appointed
R – Resigned
E - Excused

Directors' independence

According to the Ceylon Petroleum Corporation Act No. 28 of 1961, the Directors have initial tenures not exceeding a period of three years on the Board subject to reappointment. Before making decisions, the Board explores relevant information from corporate management and if required, from external professionals. The Corporate management is responsible to provide appropriate information to the Board on time enabling the Board to efficiently discharge their responsibilities.

The Role of the Board

The overall responsibility and accountability for the success and sustainability of the Corporation is vested with the board. Its role is focused primarily on exercising sound leadership towards the Corporation's strategic directions and overall performance, while safeguarding the best interests of stakeholders.

Role of the Board

The overall responsibility and accountability for the success and sustainability of the Corporation is vested with the board. Its role is focused primarily on exercising sound leadership towards the Corporation's strategic directions and overall performance, while safeguarding the best interests of all stakeholders.

The board is also responsible for the achievement of the Corporation's vision. In executing this responsibility, the board has ultimate accountability for realizing CPC's strategy, overseeing its operating performance and financial results, as well as being the ultimate custodian of CPC's corporate governance framework. Adding more, they are responsible to comply with statutory requirements and ethical standards.

The Board of Directors may delegate to any Director or employee any of its powers or duties and every delegate appointed shall exercise or perform the power or duty delegated to him subject to the general or special directions of the Board of Directors. The Board endeavors to exercise effective system of internal controls over the Corporation by formulating and implementing policies and ensures their effective implementation. The board members directly communicate with internal and external auditors and all members of the senior management team.

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.

Sub committees

The board is supported by the audit committee through which it executes some of the main board's duties. Additionally four sub-committees are in place, namely management committee, stock review committee,

procurement committee and technical evaluation committee.

The Audit Committee

The Audit committee plays an independent role from management with accountability to the board. The Audit committee comprises of non-executive directors as determined by the board. The composition, role played, number of meetings and the attendance of the Audit Committee is elaborated in the Audit Committee Report on pages 42 & 43 of this Annual Report.

Management Committee

During the year, the Management Committee consisted of either two or three Directors and one of them is the Chairman of the Committee. Head of Functions also take part in the meetings. The committee met three times during the year under review to discuss matters that will be reported to the Board of Directors. The Committee submits its report to the Board meeting for final approval.

Composition and attendance during the year

Committee Member	15/02/2016	26/05/2016	08/08/2016	No. of meetings: 3
Mr. A.J.D. Dias	√	R	R	1/1
Mr. P. Galhena	√	√	√	3/3
Mr. R. Harischandra	√	A	√	2/3
Mr. T.G. Jayasinghe	NA	√	√	2/2
Mr. S. Fernando	NA	√	√	2/2
Mr. N.R.R. Jayasekera	√	E	√	2/3
Mr. S.W. Gamage	√	√	√	3/3
Mr. G.A.S.P. Gunawardena	√	√	A	2/3
Mr. M.K. Garusinghe	√	√	√	3/3
Mr. W.S. Perera	√	√	√	3/3
Mr. W.M.K.R.B. Wickramasinghe	√	√	√	3/3
Mr. S.P. Withana	√	√	√	3/3
Ms. R.A.K.C. Ariyaratne	√	√	√	3/3
Mr. K.D.G.N.I Saparamadu	√	√	A	2/3

√ - Attended A – Absent R – Resigned
E – Excused NA – Not Appointed

Stock Review Committee

Stock review committee assesses the stock requirement for the next three months after analyzing the present stock position. It meets weekly with the participation of CPSTL, IOC, PUFCL and CEB representatives. Quantities to import and shipments are planned after paying attention to the forecasted demand in the country, the refinery production capabilities and the tank storage capacity. This regular close monitoring process enables the Corporation to function smoothly with uninterrupted supply of fuel in the country while minimizing the import, refining and holding cost.

Procurement Committee (PC) and Technical Evaluation Committees (TEC)

The National Procurement Agency (NPA) has issued a set of guidelines to purchase products, goods, services and works. TEC and PC function under the guidelines issued by the NPA to ensure transparency, to minimize delays and to obtain financially the most advantageous and qualitatively best services and supplies to CPC. Technical Evaluation Committee pays attention to the technical aspects of the purchases while procurement committee takes care of the other aspects of a purchase.

At CPC following procurement committees are functioning based on the value of purchase.

- Department procurement committee
- Ministry procurement committee
- Cabinet appointed procurement committee
- Project procurement committee
- Regional procurement committee

Relations with the parent

The Corporation's business continuity depends on cordial and meaningful engagement with all its stakeholders. CPC recognizes the importance of promoting mutual understanding between the Corporation and its stakeholders. In the opinion of the Directors, the Corporation's ultimate parent undertaking and controlling party is the Government of Sri Lanka. The Corporation closely associates with the Ministry of Petroleum Resources Development, the General Treasury and the Central Bank of Sri Lanka (CBSL) to manage the Corporation's operations. The Corporation also seeks advice and guidance for major expansion programs and funding from those institutions. Chairman / managing director is the key contact person to deal with the government and such communications are done both verbally and in writing. CPC provides all the legally required and other relevant information in the best possible way to the Government.

Internal Controls

An effective system of internal controls is essential for the Corporation to function smoothly. The system is intended to safeguard the assets of the Corporation and to ensure that proper records are maintained and reliable information is produced. The internal control system covers all types of controls, including financial, operational and compliance controls together with risk management. Practically, the internal control system manages the CPC's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

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

Internal Audit

The Internal Audit Department is led by a professionally qualified Chartered Accountant. Audit Plans approved by the Audit Committee were in existence to assess the internal controls, to identify risk areas and to verify the completeness of transactions. Additionally they are assigned to carry out special investigations with the objective of providing observations and recommendations to the management. Identification of risks related to the areas of product losses and revenue losses, discussion of Auditor General's report with the replies to audit queries and periodic review of the audit plans with the actual work carried out are the other functions performed by the Internal audit.

Corporate Management

The Chairman / Managing Director manages the regular affairs of the Corporation based on the strategic direction, policies formed and procedures approved by the Board of Directors from time to time. Operations and main administration of CPC can be divided into two broad categories namely Refinery operations and Head Office operations including Regional Offices.

Refinery operation is headed by the Refinery Manager who is assisted by Deputy Refinery Managers in different core technical areas such as Electrical & Instruments, Manufacturing & Operations, Maintenance & Projects and Technical Services.

For better management, head office is divided in to several functions and each function 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 balanced with skills, experience and qualified with academic degrees and relevant professional qualifications in their respective functional areas. Summarized biographies of senior management outlining their qualifications are included on pages 10 to 11 of this report.

Compliance and Transparency

Complying with all applicable legislation, regulations, standards, best practices and codes is integral to the success and sustainability of the Corporation. CPC's corporate governance is structured by the guidelines published in 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 the Department of Public Enterprises – Ministry of Finance in 2003. Board of Directors is committed to comply with those requirements safeguarding strong corporate governance practices.

The Ceylon Petroleum Corporation is committed to maintain transparency in all its activities. The Corporation complies with Sri Lanka Accounting Standards (SLFRS/LKAS) and relevant regulations to ensure accountability. The internal control system is integrated into the Corporation's daily operations in accordance with Finance Act No. 38 of 1971. Financial statements are published annually and tabled in the Parliament. In compliance with the Finance Act, the Auditor General carries out the External Audit of the Corporation.

AUDIT COMMITTEE REPORT

Audit committee of CPC is a subcommittee of the Board of Directors. It corroborates the Board in accomplishing its overseeing responsibilities while providing an independent assessment of the financial reporting and risk management process. Non-executive directors, who possess the relevant qualifications and experience, were appointed to the Audit committee by the Board of Directors and it is accountable to the Board.

Key Responsibilities of the Audit Committee

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

Followings are the key responsibilities of the Audit Committee;

- Review the adequacy, timing and existence of the internal control systems
- Monitor compliances in business operations
- Review the financial statements in order to ensure the adequacy of disclosures in financial reporting system.
- Ensure the consistency of accounting policies adopted and compliance with the financial reporting regulations including Sri Lanka Accounting Standards.
- Review the risks that the Corporation is exposed to, the actions taken to mitigate the risk and their effectiveness.
- Discuss and approve the audit plan for the year

Audit Committee Meetings and the composition

The Audit Committee Meetings are conducted on a formal agenda and members are provided with relevant comprehensive background information by the Senior Management prior to meetings. Deputy General Managers and Managers attend the Audit Committee meetings by invitation to get clarifications.

Four audit committee meetings were held during the year under review and the composition and attendance of the committee members at the meetings were as follows;

Committee Member	Mr. K A Vimalenthirarajah	Mr. P Galhena	Mr. R Harischandra	Mr. S Fernando	Committee strength
21/03/2016	√	√	E	NA	2/3
22/06/2016	√	E	√	NA	2/3
26/09/2016	√	√	√	E	3/4
27/12/2016	√	√	√	√	4/4
No. of meetings: 4	4/4	3/4	3/4	1/2	

√ - Attended E – Excused NA – Not Appointed

Mr. K A Vimalenthirarajah was the Chairman of the Audit Committee. The brief profiles of the Audit Committee members are given on Page 7 to 10. Their individual and collective knowledge and experience on business acumen, finance,

legal and risk management are mingled together when performing their duties.

Key activities carried out by the Audit Committee during the year

Key duties discharged during the year under review include;

- Reviewed the adequacy of the internal control system with the management, Auditor General and Internal Auditors.
- Discussed the internal audit reports issued and observations thereon.
- Discussed the key strategic issues faced by the Corporation
- Reviewed and passed the Annual Internal Audit Plan for the year 2017.

Internal Audit

Internal audit implements the Annual Audit Plan approved by the Audit Committee. Its functions includes among other things;

- Assess internal controls
- Identify risk areas
- Verify the accuracy and completeness of transactions
- Carry out special investigations to provide observations and recommendations to the management about various important matters
- Discuss Auditor General's report and replies to audit queries
- Periodic review of the annual audit plan and the performance of the internal audit function

Matters identified during the audit process are highlighted by raising audit queries to responsible parties.

Summary of the activities carried out by the Internal Audit during the year

During the year under review the Committee executed its duties as follows;

- Discussed the Financial Statements for the year ended 31 December 2015
- Reviewed the adequacy of the internal control system and communicated the weaknesses to respective parties.
- Discussed the internal audit reports with the Audit Committee
- Discussed the Auditor General's report on Financial Statements.
- Monitored the fuel oil transfers at Hambantota
- Involved in pre audit activities
- Organize Audit Committee Meetings

Conclusion

The Audit Committee is of the opinion that although internal control system of the Corporation provides a reasonable assurance that the affairs of the Corporation are managed in accordance with the approved policies of the Corporation, it is required to take measures including internal checks and balances to address certain issues as recommended by the Audit Committee.

K A Vimalenthirarajah
Chairman – Audit Committee
Colombo
Date 11.05.2018

REPORT OF THE DIRECTORS

The Board of Directors of Ceylon Petroleum Corporation has pleasure in presenting the Annual Report together with the Audited Financial Statements of the Corporation and its group for the year ended 31 December 2016, in accordance with Section 32(3) of the Ceylon Petroleum Corporation Act No. 28 of 1961. This report was approved by the Board of Directors on 11.05.2018.

The Ceylon Petroleum Corporation is a state owned business enterprise incorporated under the Ceylon Petroleum Corporation Act No. 28 of 1961. This is managed by a Board of Directors.

The registered office of the Corporation is situated at No. 609, Dr. Danister De Silva Mawatha, Colombo 09.

The Audited Financial Statements included in this Annual report have been prepared and presented with the relevant disclosures 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.

Vision, Mission and Corporate Goals

The Corporation's Vision, Mission and Corporate Goals are provided on page 05 of this annual report. In achieving its vision and mission, all directors and employees conduct their activities in accordance with the highest level of ethical standards and integrity.

Principal Activities

The principal activities of the Corporation are importing, refining and selling petroleum products in Sri Lanka. The Corporation also exports some of its petroleum products.

Subsidiary Company

CPC has a one subsidiary, Ceylon Petroleum Storage Terminals Limited (CPSTL), with a share ownership of 2/3. The principal activities of CPSTL are provision of fuel storage and distribution facilities and provision of information technology services.

Review of the Year's Performance

A review of the operations of CPC during the financial year 2016 and the results of those operations are contained in the Chairman's Review on pages 12 to 14 and Performance of the Corporation on pages 20 to 29. These reports form an integral part of the Annual Report.

Financial Statements of the Corporation and the Group

The Audited Financial Statements of Ceylon Petroleum Corporation and its group for the year ended 31 December 2016 duly signed by

the Deputy General Manager (Finance), Finance Manager and approved by the Board of Directors of the Corporation are given on pages 51 to 89 and form an integral part of the Annual Report.

Director's Responsibility for Financial Reporting

The Board of Directors is responsible for the preparation of the Financial Statements of the Group and Corporation, which reflects a true and fair view of the state of affairs of the Corporation and of the Group. The directors are of the view that the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flow, Significant Accounting Policies and Notes thereto appearing on pages 51 to 89 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Finance Act No. 38 of 1971.

Auditors' Report

Auditor of the Corporation, Auditor General, audited the Corporation's Financial Statements as well as the Consolidated Financial Statements for the year ended 31 December 2016, and the Report of the Auditor General issued thereon is given on pages 90 to 124 as required by the Section 31 of the Ceylon Petroleum Corporation Act No. 28 of 1961.

Significant Accounting Policies and Changes during the year

During the year under review, there were no changes in the accounting policies adopted, which were consistent with those adopted in the previous financial year as required by the Sri Lanka Accounting Standard No. 01 on 'Presentation of Financial Statements'. Significant accounting polices together with the notes adopted in preparation of Financial Statements of the Group and the Corporation is given on pages 55 to 89.

Financial Results

	2016	2015
	Rs. Bn	Rs. Bn
Revenue	**475.05**	**414.50**
Less : Sales Taxes (Excise duty & NBT)	(51.99)	(37.77)
Net sales Revenue	**423.06**	**376.73**
Cost of Sales excluding CID & PAL	(260.44)	(283.48)
Less : Import Taxes(CID & PAL)	(66.00)	(53.64)
Gross Profit	**96.62**	**39.61**
Other Operating Income	0.61	0.37
Kerosene Subsidy	2.98	3.86
Selling & Distribution Expenses	(14.41)	(13.40)
Administrative Expenses	(4.38)	(3.59)
Heding expenses	-	(3.86)
Financial Charges	(11.40)	(15.05)
Finance Income	8.37	5.01
Exchange rate variation	(8.83)	(32.84)
Profit / (Loss) before Tax	**69.55**	**(19.89)**

Revenue & Profit

Above table presents a summary of the Financial Results of the Corporation for the year ended 31 December 2016 with comparative figures.

Details of the segmental loss for 2016 are presented below;

Segment	2016 Rs. Bn	Reason for the loss
Transport 92 Octane petrol	8.27	• Retail prices are at subsidized rates • Increase in custom duty, Excise Duty and PAL • Depreciation of LKR against US Dollar • Upward trend in the prices of petroleum products in the international oil market
95 Octane petrol	1.29	
Domestic Kerosene	2.98	• Selling at a subsidized price
Agro Agro chemicals	0.9	• High staff cost • Retail prices are at reasonable prices with a view to maintain a low production cost in the country's agriculture production
Bunkering Fuel oil	0.68	• Selling fuel oil at a loss
Exports Fuel oil 800' Naphtha	0.73 1.58	• Since the local demand was low CPC was compelled to export at low prices due to lack of storage capacity.

Taxation

As per the Inland Revenue Act No. 10 of 2006 and the amendments thereto, the corporation was exempted in paying income taxes on profits and income for a period of 5 years commencing from the tax year 2011/12, if twenty five percent of the gross profit was paid as dividend to the Government. However, from 2016 onwards the Corporation is liable to pay income tax at 12% on qualified exports, 28% on balance taxable income and 25% on distributable profits.

Special Fee

During the year 2014, the General Treasury instructed CPC to pay Rs. 10 Bn as a special fee and requested to charge that fee as an expense of Rs. 250 Mn for the year 2014, Rs. 750 Mn for the year 2015 and Rs. 1,000 Mn per annum for the period 2016 to 2024 to the Income Statement.

Property, Plant & Equipment

The details of Property, Plant & Equipment of the Corporation and its group are given in Note 08 to the Financial Statements on page 70.

Contributed Capital

The total Contributed Capital of the Corporation as at 31 December 2016 was Rs. 28,487 Mn. The details of the Contributed Capital are given in Note 16 to the Financial Statements on page 75.

Reserves

A summary of the Corporation's reserves is given below;

	2016 Rs. Bn	2015 Rs. Bn
Capital Reserve	4.99	4.99
Retained Earnings	(219.33)	(262.46)

Movements of the equity are given in the Statement of Changes in Equity on page 54.

Directors

The names of the Directors who comprised the Board of Directors of the Corporation as at 31 December 2016 are given below;

Name of the director	Executive / Non Executive Status
T G Jayasinghe (Chairman & MD)	Executive Director
D C S Senevirathne	Non-Executive Director
M G Jayasena	Non-Executive Director
P Galhena	Non-Executive Director
R Harischandra	Non-Executive Director
K A Vimalenthirarajah	Non-Executive Director
S. Fernando	Non-Executive Director

The names of the Directors who are currently holding offices are;

Name of the director	Executive / Non Executive Status
D Ranatunga (Chairman)	Executive Director
Mr. N R R Jayasekera (Managing Director)	Executive Director
K A Vimalenthirarajah	Non-Executive Director
R A N Jayasundara	Non-Executive Director
S Dhanatunga	Non-Executive Director
W S Perera	Non-Executive Director
A B Herath	Non-Executive Director

Directors' Meetings

Details of the directors' meetings which comprises of Board meetings and Audit Committee meetings are presented on pages 36 to 41.

Directors' attendance at the meetings held during the year is given on page 37 of the Annual Report.

Directors' Remuneration

Directors' emoluments paid during the year are as follows;

	2016 Rs. Mn	2015 Rs. Mn
Directors' emoluments	1.76	2.49

Directors' Interest in Contracts

Directors' interests in contracts with the Corporation, both direct and indirect, are disclosed in Note 29 to the Financial Statements on page 88.

Risk Management and System of 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. Specific steps taken by the Corporation in managing risk are detailed in the Risk Management Report on page 30 to 35.

Corporate Governance

Directors' Declarations

The Board of Directors declares that-
(a) The Corporation complied with all applicable laws and regulations in conducting its business and has not engaged in any activity contravening the relevant laws and regulations;

(b) The Directors have declared all material interests in contracts involving the Corporation;

(d) The business is a going concern with supporting assumptions and the Board of Directors has reviewed the Corporation's Corporate / Business plans and is satisfied that the Corporation has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Corporation and its Group are prepared based on the going concern concept, and

(e) The directors have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained a reasonable assurance of their effectiveness and successful adherence herewith.

The procedures and practices in conformity with the Corporate Governance rules and regulations are described in the Corporate Governance Report on pages 36 to 41 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.

Outstanding Litigations

In the opinion of the Directors and the Corporation's lawyers, pending litigations against the Corporation disclosed under Note 26 of the Financial Statements will not cause any material impact on the financial stability of the Corporation or on its future operations.

Compliance with Laws and Regulations

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

Environmental Protection

The Corporation has used its best endeavors to comply with the relevant environmental laws and regulations.

Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to all relevant regulatory and

statutory authorities have been made on time with the available financial capabilities.

Events after the Statement of Financial Position Date

No event of material significance that require adjustments to the Financial Statements, other than those disclosed in Note 27 to the Financial Statements on page 84 has occurred subsequent to the date of the Statement of Financial Position.

Going Concern

The Board of Directors has prepared the Corporate Plan with a view to improve the outlook of the Corporation, to enhance the operations and 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. The auditor's remuneration for the audit shall be determined in accordance with the section 31 of the Ceylon Petroleum Corporation Act No. 28 of 1961.

Auditors' Remuneration and Interest in Contracts with the Corporation

The Auditors were paid Rs. 2.11 Mn for the year ended 31 December 2016 as audit fees by the Corporation.

As far as the Directors are aware, the Auditors do not have any other relationship or interest in contracts with the Corporation or with its Subsidiary.

Acknowledgement of the Contents of the Report

As required by the Section 32(3) of the Ceylon Petroleum Corporation Act No. 28 of 1961, the Board of Directors does hereby acknowledge the contents of this Annual Report.

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

D. Ranatunga
Chairman
Colombo
Date 11.05.2018

FINANCIAL STATEMENTS

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Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER	Note	CPC 2016 Rs. Mn	CPC 2015* (Restated) Rs. Mn	Group 2016 Rs. Mn	Group 2015* (Restated) Rs. Mn
Revenue	2	423,061.051	376,734.487	423,443.612	377,261.652
Cost of Sales		(326,440.767)	(337,118.644)	(332,651.704)	(343,301.815)
Gross Profit		**96,620.284**	**39,615.843**	**90,791.908**	**33,959.837**
Other Operating Income	3	3,588.439	4,233.981	3,772.090	4,744.234
Selling & Distribution Expenses		(14,411.946)	(13,401.137)	(2,590.776)	(2,740.758)
Administrative Expenses		(4,383.873)	(3,591.512)	(8,448.049)	(7,169.492)
Operating Profit	4	**81,412.904**	**26,857.175**	**83,525.172**	**28,793.821**
Exchange Rate Variation		(8,828.798)	(32,841.590)	(8,828.798)	(32,841.590)
Finance Income	5	8,374.112	5,011.670	8,464.482	5,037.480
Hedging Expenses		-	(3,864.375)	-	(3,864.375)
Finance Expenses	6	(11,404.537)	(15,048.660)	(11,571.312)	(15,048.660)
Profit /(Loss) before tax		**69,553.681**	**(19,885.780)**	**71,589.544**	**(17,923.324)**
Income tax Expense	7	(16,526.602)	(634.384)	(17,150.545)	(921.369)
Profit/(Loss) for the year		**53,027.081**	**(20,520.164)**	**54,439.000**	**(18,844.693)**
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified to Profit or Loss:					
Re-measurement gain/(loss) on Retirement Benefit plan	18	120.866	(167.186)	364.729	(299.648)
Tax on Other Comprehensive Income		-	-	(33.409)	
Items that are or may be reclassified subsequently to profit or loss:					
Net Gain/(loss) on available -for- sale Financial assets	10.1	(10.000)	6.500	(10.000)	6.500
Other comprehensive income / (expense) for the year		110.866	(160.686)	321.320	(293.148)
Total comprehensive Income/(expense) for the year, net of tax		**53,137.946**	**(20,680.850)**	**54,760.320**	**(19,137.841)**
Total Comprehensive Income attributable to :					
Owners of the entity		53,137.946	(20,680.850)	54,110.625	(19,652.177)
Non-Controlling interests		-	-	649.695	514.336
		53,137.946	**(20,680.850)**	**54,760.320**	**(19,137.841)**

* Certain numbers shown here do not correspond to the 2015 financial statements and reflect adjustments made as detailed on Note 25.

The notes appearing on pages 55 to 89 form an integral part of the Financial Statements.

Statement of Financial Position

AS AT 31 DECEMBER	Note	CPC 2016 Rs.Mn.	CPC 2015* (Restated) Rs.Mn.	Group 2016 Rs.Mn.	Group 2015* (Restated) Rs.Mn.
ASSETS					
Non - Current Assets					
Property, Plant & Equipment	**8**	13,505.655	13,871.821	30,305.510	30,525.314
Investment Property	**8.3**	41.575	43.022	41.575	43.022
Intangible Assets	**8.4**	-	-	7.609	17.350
Investment in Subsidiary	**9**	5,000.000	5,000.000	-	-
Non-Current Financial Assets	**10**	35,595.461	36,725.282	35,595.461	36,725.283
Trade & Other Receivables	**11**	10,326.708	11,675.654	10,768.432	11,389.949
		64,469.399	67,315.779	76,718.588	78,700.918
Current Assets					
Inventories	**13**	35,476.885	41,035.111	35,888.223	41,363.947
Trade & Other Receivables	**11**	48,397.974	26,859.315	52,446.899	30,564.156
Short term Investments	**14**	28,065.844	12,704.860	28,065.844	12,704.859
Cash and Cash Equivalents	**15**	14,579.410	51,058.236	17,034.827	51,806.202
		126,520.114	131,657.522	133,435.793	136,439.164
Total Assets		**190,989.513**	**198,973.301**	**210,154.381**	**215,140.082**
EQUITY AND LIABILITIES					
Capital and Reserves					
Contributed Capital	**16**	28,487.125	28,487.125	28,487.125	28,487.125
Capital Reserve	**17**	4,992.686	4,992.686	4,992.686	4,992.686
Retained Earnings		(219,326.658)	(262,464.604)	(209,094.494)	(253,270.777)
Non Controlling Interest		-	-	7,616.937	7,096.913
Total Equity		(185,846.847)	(228,984.793)	(167,997.746)	(212,694.053)
Non - Current Liabilities					
Retirement Benefits Obligation	**18**	753.561	861.114	1,987.632	2,414.251
Deferred Tax	**23**	-	-	1,005.757	544.863
Loans & Borrowings	**19**	265.858	341.817	1,176.909	1,740.668
		1,019.419	1,202.931	4,170.298	4,699.782
Current Liabilities					
Trade and Other Payables	**20**	182,095.327	159,171.227	179,661.102	155,054.462
Current portion of Loans & Borrowings	**19.1**	37.980	361.664	525.780	857.619
Short term Borrowings	**21**	193,683.634	267,222.272	193,794.948	267,222.272
		375,816.940	426,755.163	373,981.829	423,134.353
Total Equity and Liabilities		**190,989.513**	**198,973.301**	**210,154.381**	**215,140.082**

*Certain numbers shown here do not correspond to the 2015 financial statements and reflect adjustments made as detailed on Note 25.

The notes appearing on pages 55 to 89 form an integral part of the Financial Statements.

These Financial Statements give a true and fair view of the state of affairs of Ceylon Petroleum Corporation as at 31st Dec 2016 and its profit for the year then ended.

V.N.Weerasooriya
DY. GENERAL MANAGER (FINANCE)

M C D Perera
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,

Dammika Ranatunga
CHAIRMAN

K A Vimalenthirarajah
DIRECTOR

Statement of Cash flows

For the year ended 31 December	Note	2016 Rs.Mn.	2015* (Restated) Rs.Mn.	2016 Rs.Mn.	2015* (Restated) Rs.Mn.
CASH FLOWS FROM OPERATING ACTIVITIES	**24**	68,415.926	24,772.897	72,468.682	24,916.837
				-	
Interest Paid	**6**	(11,404.537)	(15,048.660)	(11,579.468)	(15,048.660)
Retiring Gratuity Paid	**18**	(122.286)	(68.623)	(234.210)	(167.891)
Income Tax /WHT paid		(2,357.487)	(409.006)	(2,526.976)	(409.006)
Net Cash Generated from/(used in) Operating activities		54,531.617	9,246.608	58,128.029	9,291.280
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Property, Plant & Equipment		42.332	36.151	93.603	44.463
Acquisition of Property, Plant & Equipment	**8**	(477.658)	(972.115)	(1,391.070)	(1,162.087)
Dividends income		292.502	0.004	0.002	0.004
Interest Received	**5**	8,374.112	5,011.670	8,464.482	5,037.480
Investment in Treasury Bonds		1,183.072	(27,761.865)	1,183.072	(27,761.865)
Investment in Fixed Deposits		(15,424.235)	300.704	(15,424.235)	300.704
				-	
Net Cash Used in Investing Activities		(6,009.875)	(23,385.451)	(7,074.146)	(23,541.301)
CASH FLOWS FROM FINANCING ACTIVITIES					
Capital Infusion		-	24,987.125	-	24,987.125
Dividend Paid		(10,000.000)	-	(10,162.500)	-
New loans obtained/Repayment of Loans		(71,200.033)	16,048.986	(71,973.537)	14,997.932
Net Cash From/(Used in) Financing Activities		(81,200.033)	41,036.111	(82,136.037)	39,985.057
Net Increase/(Decrease) in Cash & Cash Equivalents		(32,678.292)	26,897.268	(31,082.154)	25,735.036
Cash & Cash Equivalents at the Beginning of the Year		44,700.416	17,803.148	45,448.382	19,713.346
Cash & Cash Equivalents at the End of the Year	**15**	**12,022.125**	**44,700.416**	**14,366.228**	**45,448.382**

* Certain numbers shown here do not correspond to the 2015 financial statements and reflect adjustments made as detailed on Note 25.

The notes appearing on pages 55 to 89 form an integral part of the Financial Statements.

Statement of Changes in Equity

CPC

	Contributed Capital	Capital Reserves	Revenue Reserves	Total Equity
	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.
As at 1 Jan 2015	**3,500.000**	**4,992.686**	**(240,749.436)**	**(232,256.750)**
Prior period adjustments (Note 25)			(1,034.318)	(1,034.318)
Re-stated balance as at 1 Jan 2015	**3,500.000**	**4,992.686**	**(241,783.754)**	**(233,291.068)**
Profit for the year *			(20,520.164)	(20,520.164)
Other Comprehensive Income			(160.686)	(160.686)
Treasury Bond issued for Capital Improvements *	24,987.125	-	-	24,987.125
Re-stated balance as at 31 Dec 2015	**28,487.125**	**4,992.686**	**(262,464.604)**	**(228,984.793)**
Profit for the year	-	-	53,027.081	53,027.081
Other Comprehensive Income			110.866	110.866
Dividend paid			(10,000.00)	(10,000.00)
As at 31 Dec 2016	**28,487.125**	**4,992.686**	**(219,326.658)**	**(185,846.847)**

Group

	Contributed Capital	Capital Reserves	Revenue Reserves	Shareholders Fund	Non Controlling Interest	Total Equity
	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.
As at 1 Jan 2015	**3,500.000**	**4,992.686**	**(232,584.282)**	**(224,091.596)**	**6,582.577**	**(217,509.019)**
Prior period adjustments (Note 25)			(1,034.318)	(1,034.318)	-	(1,034.318)
Re-stated balance as at 1 Jan 2015	**3,500.000**	**4,992.686**	**(233,618.600)**	**(225,125.914)**	**6,582.577**	**(218,543.337)**
Profit for the year *			(19,403.183)	(19,403.183)	558.490	(18,844.693)
Other Comprehensive Income for the year			(248.994)	(248.994)	(44.154)	(293.148)
Treasury Bond issued for Capital Improvements *	24,987.125	-	-	24,987.125	-	24,987.125
Re-stated balance as at 31 Dec 2015	**28,487.125**	**4,992.686**	**(253,270.777)**	**(219,790.966)**	**7,096.913**	**(212,694.053)**
Profit for the year	-	-	53,896.412	53,896.412	542.588	54,439.000
Other Comprehensive Income for the year			214.213	214.213	107.107	321.320
Dividend paid			(10,000.000)	(10,000.000)	(162.500)	(10,162.500)
Consolidation adjustment for 2015			65.658	65.658	32.829	98.487
As at 31 Dec 2016	**28,487.125**	**4,992.686**	**(209,094.494)**	**(175,614.683)**	**7,616.937**	**(167,997.746)**

* Certain numbers shown here do not correspond to the 2015 financial statements and reflect adjustments made as detailed on Note 25.

The notes appearing on pages 55 to 89 form an integral part of the Financial Statements.

Notes to the Financial Statements

1.1 CORPORATE INFORMATION

General

Ceylon Petroleum Corporation (the 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.

Principal activities and nature of operations

Entity	Principal activity
Ceylon Petroleum Corporation	Importing, refining, and selling of Petroleum Products in Sri Lanka.
Subsidiary Ceylon Petroleum Storage Terminal Limited	Storage and distribution of petroleum products

Parent entity and the ultimate controlling party

The Corporation is under the purview of the Ministry of Petroleum Resources Development. In the opinion of the Directors, the Corporation's ultimate parent undertaking and controlling party is the Government of Sri Lanka.

Date of authorization for issue

The Financial Statements of Ceylon Petroleum Corporation and its Group for the year ended 31 December 2016 were authorized for issue in accordance with a Resolution of the Board of Directors on 21st December 2017.

Statement of compliance

The Financial Statements of Ceylon Petroleum Corporation and its Group, which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of cash flows and Notes to the Financial Statements (the 'financial statements') 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.

1.2 BASIS OF PREPARATION

The Financial Statements have been prepared on an accrual basis and under the historical cost basis except for Available-For-Sale financial assets that have been measured at fair value and defined benefit obligation which is measured at the present value of the obligation.

Presentation & functional currency

The Financial Statements are presented in Sri Lankan Rupees, which is the functional currency, and all values are rounded to the nearest million except when otherwise indicated.

Materiality and aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

Basis of consolidation

The consolidated financial statements as at and for the year ended 31 December 2016 comprise the Corporation and its Subsidiary (together referred to as the 'Group').

Subsidiaries are those entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. CPC owns 2/3rd of shares of Ceylon Petroleum Storage Terminal Limited (CPSTL) and CPC consider CPSTL as its subsidiary.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the above three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) of the subsidiary are attributed to the equity holders of the parent of the Group and to the non-controlling interests.

The financial statements of the subsidiary are prepared in compliance with the Group's accounting policies unless otherwise stated and they have a common financial year which ends on 31 December.

Intra-group balances and transactions, income and expenses are eliminated in preparing the consolidated financial statements.

1.3 ACCOUNTING POLICIES

Changes in Accounting Policies

The Accounting policies adopted are consistent with those used in the previous years.

Comparative Information

The presentation and classification of the financial statements of previous years have been amended, where relevant for better presentation and to be comparable with those of the current year.

Going Concern

These financial statements are prepared on the assumption that the CPC & its Group is a going

concern i.e. as continuing in operation for the foreseeable future. It is therefore assumed that CPC has neither the intention nor the necessity of liquidating or of curtailing materially the scale of its operation even though the corporation and the group have a negative equity position of Rs. 185,847 Million and Rs. 167,998 Million respectively as per the financial statements prepared for the year ended 31st December 2016.

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 and assumptions. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual experience and results may differ from these judgments and estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized prospectively. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are described in the relevant notes as follows:

- Defined Benefit Obligations – Gratuity : Note No. 1.4.9
- Impairment of financial assets : Note No. 1.4.11
- Useful lives of Property, Plant and Equipment : Note No. 1.4.5
- Deferred taxation : Note 1.4.2

1.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.4.1 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be measured reliably. 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.

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.

Interest income & expenses

For all financial instruments measured at amortized cost, interest expenses and income are recorded using the effective interest rate method and recognized on accrual basis.

Dividends

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

Rental income

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

Profit / (Loss) from sale of property, plant & equipment

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

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.

Kerosene subsidy

As per the section 17 of Finance Act No. 38 of 1971 and the letter Ref. TTIP/1/83(1)T dated 04.12.2014 issued by the Secretary to the Treasury, CPC is eligible for subsidy on sales of kerosene below its cost. Subsidy is recognized on an accrual basis.

Other Income

Other income is recognized on an accrual basis

1.4.2 Expenditure recognition

All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the Income Statement for the period.

Taxation

Tax expenses for the period comprise the current and deferred tax.

(i) Current 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 based on 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.

(ii) Deferred Taxation

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

Deferred income tax liabilities are recognized for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of 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 reporting date and reduced to the extent that it is no longer

probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

(iii) 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. When receivables and payables that are stated with the amount of sales tax included the net amount of sales tax recoverable from or payable to, the taxation authorities is included as a part of receivables and payables in the Statement of Financial Position.

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. All other borrowings costs are expensed in the period they occur.

1.4.3 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 reporting 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. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

1.4.4 Current versus Non-Current Classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- Expected to be realized or intended to sold or consumed in normal operating cycle

- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current assets

A liability is current when it is:

- Expected to be settled in normal operating cycle
- Held primarily for the purpose of trading
- Due to be settled within twelve months after the reporting period.

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax liabilities are classified as non-current liabilities.

1.4.5 Property, Plant & Equipment

Property, plant and equipment are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value.

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 together with any incidental expenses thereon.

The cost of self-constructed assets included the cost of materials and direct labor 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 and borrowing costs of qualifying assets. Such cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria are met.

Cost Model

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

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 Group and its cost can be reliably measured.

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.

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. The gain or loss arising from de-recognition of an item of property, plant

& equipment is included in the Income Statement when the item is derecognized.

Depreciation

Land is not depreciated as it is deemed to have an indefinite life. Group provides depreciation on straight-line basis over the periods appropriate to the estimated useful lives of different types of assets commencing from the date available to use. Depreciation ceases on the date that the asset is derecognised.

The Group reviews annually the estimated useful lives, residual values and method of depreciation of Property, Plant and Equipment based on factors such as business plan and strategies, expected level of usage and future developments using management judgment.

The estimated useful life of assets is as follows:

Assets	Years
Buildings	35 - 50 Years
Tanks	20 - 40 Years
Piplelines	5 - 40 years
Plant & Machinery	5 - 10 Years
Gantries & Pumps	10 - 15 years
Vehicles	4 - 5 Years
Furniture, Fittings & Office Equipments	3 - 10 Years
Buoy	10 years
SPM Facility - Tank Farm	40 Years
Aviation facility Mattala - Fuel Hydrent	40 Years
Fuel hydrant System	40 Years
Internal Road network & Fences	20 years
Metering& Electrical System	10 years
Firefighting system	10 years
Other Assets	08 years
Muthurajawela - PLEM	10 years

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

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.

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 asset's 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 impairment at each reporting date.

1.4.6 Investments

Investment in Subsidiary

Investment in Subsidiary is stated at cost, less impairment losses, if any.

Investment Properties

Basis of Recognition

Investment property is property that is held to earn rentals or for capital appreciation or both

but not for sale in the ordinary course of business.

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.

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.

De-recognition

Investment properties are derecognized once disposed 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.

1.4.7 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. NRV is assessed with reference to market conditions and prices existing at the reporting date and in the light of recent market transactions.

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 a) Refined Products b) Imports	 - At the cost of direct materials, direct labor and an appropriate proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs. - At purchase cost on first-in-first-out basis
Work-in-progress a) Refined Products b) Imports	 - At the cost of direct materials, direct labor and an appropriate proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs. - 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

1.4.8 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.

1.4.9 Provisions & Liabilities

Provisions

Provisions are recognized when the Group 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 Group 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.

Defined Benefit Obligations - Gratuity

The liability recognized in the Statement of Financial Position in respect of gratuity is the present value of the obligation at the end of the reporting period using the projected unit credit method. The present value of the defined benefit obligation depends on number of factors that are determined on an actuarial basis using number of assumptions. These assumptions used in determining the cost for gratuity include the discount rate, expected staff turnover and salary increment rate. Any change in these assumptions will impact the carrying amount of gratuity 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 defined benefit 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 defined benefit obligation are based on current market conditions.

Provision has been made for retirement gratuities from the beginning of service for all permanent employees, in conformity with LKAS 19 - Employee Benefits. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. This is not an externally funded defined benefit plan.

Actuarial gains and losses are charged or credited in other comprehensive income in the period in which they arise.

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 and records as an expense in the income statement in the periods during which services are rendered by employees.

1.4.10 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.

1.4.11 Financial Instruments

Financial assets and liabilities are recognized at fair value when the Group becomes a party to the contractual provisions of the instrument. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial instruments at fair value through profit or loss) are added to or deducted from the fair value of the financial instrument, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial instruments at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or the Group 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 Group classifies its financial instruments in the following categories:

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables comprise trade receivables, staff loans and cash equivalents, and are included in both current and non-current assets. Loans and receivables are subsequently measured at amortized cost using the effective interest rate method less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

(ii) Held to Maturity Investment

The Financial Assets with fixed or determinable payment and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them till maturity.

After initial measurements held to maturity investments are measured at amortized cost using effective interest rate method less any impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The CPC's Held to Maturity investments comprise Treasury Bonds that are held with the intention to hold them till maturity.

(iii) Available-for-sale investments (AFS)

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). AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss. Fair values for quoted equity investment are determined directly by reference to the public price quoted in the active market.

(iv) Financial liabilities at amortized cost

Financial liabilities at amortized cost include trade and other payables, loans & borrowings and short term borrowings.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs those are an integral part of the EIR. The EIR amortization is included in finance costs in the income statement.

Impairment of financial assets

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

Significant financial difficulty of the debtor;

Delinquencies in interest or principle payments;

It becomes probable that the borrower will enter bankruptcy or other financial reorganization; and

Observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evident that the assets are 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, operational and financing cash flows.

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 cumulative impairment loss is the 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.

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.

The Group follows the guidance of LKAS 39 to determine when an available-for-sale equity instrument is impaired.

1.5 CONTINGENT LIABILITIES, LITIGATION & COMMITMENTS

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 Statement of Financial Position but are disclosed, unless they are remote.

1.6 ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following SLFRS have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these Financial Statements. Those SLFRS will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future financial statements.

a) SLFRS 9 - Financial Instruments: Classification and Measurement

SLFRS 9, as issued, reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets.

This standard is effective for annual periods commencing on or after 01 January 2018.

b) SLFRS 15- Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. This standard is effective for the annual periods beginning on or after 01 January 2018.

The Corporation will adopt these standards when they become effective. Pending the completion of detailed review, the financial impact is not reasonably estimable as at the date of publication of these Financial Statements.

1.7 NEW INLAND REVENUE ACT

New Inland Revenue Bill has been passed by the Parliament on 07 September 2017 and it will be effective from 01 April 2018. This Act will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future financial statements.

The Corporation will comply with this Act when it becomes effective. Pending the completion of detailed review, the financial impact is not reasonable estimable as at the date of publication of these Financial Statements

2. REVENUE	CPC 2016 Rs. Mn	CPC 2015 Rs. Mn	Group 2016 Rs. Mn	Group 2015 Rs. Mn
Domestic	439,454.172	368,847.714	439,454.172	368,399.502
Export	35,117.794	44,279.605	35,117.794	44,279.605
Bunkering	478.988	1,368.369	478.988	1,363.413
Terminal Charge & Others	-	-	382.561	980.332
Total Sales	475,050.954	414,495.688	475,433.515	415,022.852
Less : Excise Duty & NBT	(51,989.903)	(37,761.201)	(51,989.903)	(37,761.200)
Net Revenue	**423,061.051**	**376,734.487**	**423,443.612**	**377,261.652**

3. OTHER OPERATING INCOME	CPC 2016 Rs. Mn	CPC 2015 Rs. Mn	Group 2016 Rs. Mn	Group 2015 Rs. Mn
Income on Investment Property	38.634	47.590	38.634	47.590
Kerosene Subsidy	2,982.000	3,860.000	2,982.000	3,860.000
Staff Loan Interest	161.980	173.181	477.960	530.949
Rental Income	18.512	12.251	21.089	56.030
Proft/(loss) on disposal of PPE	36.414	20.212	87.659	28.524
Profit on Sale of Filling Station equipment	15.429	16.642	15.429	16.642
Dividend Income	292.502	0.004	0.002	0.004
Sundry Income	42.968	104.100	149.317	204.495
	3,588.439	**4,233.981**	**3,772.090**	**4,744.234**

4.OPERATING PROFIT	CPC 2016 Rs. Mn	CPC 2015 Rs. Mn	Group 2,016.000 Rs. Mn	Group 2015 Rs. Mn
Operating Profit stated after charging the following expenses				
Directors' emoluments	1.762	2.487	9.114	2.487
Auditors' remuneration	2.108	1.000	3.874	1.000
Depreciation (Note 8)	642.800	758.605	749.721	698.950
Advertising Expenses	37.491	30.057	37.491	30.057
Legal charge & Other Professional fee	125.467	67.119	125.467	67.119
Disallowed VAT	1,345.762	1,280.392	1,345.762	1,280.392
Special Fee to General Treasury	1,000.000	750.000	1,000.000	750.000
Bad Debt/Write-off	-	8.405	-	8.405

5. FINANCE INCOME	CPC 2016 Rs. Mn	CPC 2015 Rs. Mn	Group 2016 Rs. Mn	Group 2015 Rs. Mn
			-	
Interest Income onTreasury Bills, Fixed Deposits and Call Deposits	4,142.347	2,930.491	4,232.716	2,956.301
Interest Income on R.F.C. A/C	0.883	1.045	0.883	1.045
Interest Income on Credit invoice & Overdue trade debts	26.748	42.664	26.748	42.664
Interest Income on CEB/IPP/Aviation debtors	676.857	1,105.732	676.857	1,105.732
Interest Income on Treasury Bonds	3,527.277	931.738	3,527.277	931.738
	8,374.112	**5,011.670**	**8,464.482**	**5,037.480**

6. FINANCE EXPENSES	CPC 2016 Rs. Mn	CPC 2015 Rs. Mn	Group 2016 Rs. Mn	Group 2015 Rs. Mn
Interest on Long Term Loans	50.513	61.147	217.288	61.147
Interest on Foreign Currency Bank Loans	11,340.254	14,975.672	11,340.254	14,975.672
Other Finance Cost	13.770	11.841	13.770	11.841
	11,404.537	**15,048.660**	**11,571.312**	**15,048.660**

7.TAX EXPENSE	CPC 2016 Rs. Mn	CPC 2015 Rs. Mn	Group 2016 Rs. Mn	Group 2015 Rs. Mn
Current tax:				
Current income tax	12,186.470	634.384	12,401.254	746.274
Under provision of previous years	-	-	45.782	28.308
Tax on distributable profit	4,340.132	-	4,340.132	94.906
Deferred tax:				
Origination and reversal of temporary differences - Income statement	-	-	363.38	51.881
Income tax expense - income statement	**16,526.602**	**634.384**	**17,150.545**	**921.369**
Income tax expense - Other Comprehensive Income	**-**	**-**	**33.409**	**-**
Total income tax expense	**16,526.602**	**634.384**	**17,183.955**	**921.369**

A reconciliation between current tax charge and profit before tax is given below:

Accounting profit before tax	**69,553.681**	**(19,885.780)**	**71,589.544**	**(17,923.324)**
			-	-
Add: Disallowable expenses	1,086.100	858.445	2,363.373	2,078.744
Less: Allowable expenses & exempt income	(3,309.971)	(2,689.360)	(4,495.215)	(3,886.062)
Adjusted trade profit	**67,329.811**	**(21,716.694)**	**69,457.702**	**(19,730.642)**
Less: Utilisation of tax losses	(23,563.094)	(1,380.693)	(24,410.830)	(2,001.046)
Add: Tax losses for the year	-	25,363.045	-	25,363.045
Taxable income	**43,766.717**	**2,265.659**	**45,046.872**	**3,631.358**
Income tax charged at				
28%	12,136.716	**634.384**	12,136.716	**634.384**
Concessionary rates	49.754		264.538	**111.890**
Under provision of previous years	-	-	45.782	28.308
Tax on distributable profit	4,340.132	-	4,340.132	94.906
Deferred tax charge to income statement	-	-	363.378	51.881
Origination and reversal of temporary differences - OCI	-	-	33.409	-
Income tax expense	**16,526.602**	**634.384**	**17,183.955**	**921.369**

The corporation was exempted in paying income taxes on profits and income for a period of 5 years, commencing from the tax year 2011/12 if, twenty five percentum of the gross profit was paid as dividend to the Government, as per the Inland Revenue Act No. 10 of 2006 and the amendments thereto.

However, the Department of Inland Revenue is contesting the income tax exemptions claimed, as the Corporation did not pay any dividend to the Government. Assetments have been issued to the years of assessments 2011/12, 2012/13, 2013/14 and 2014/15 to the values of Rs. 65,115,350, Rs. 91,665,432, Rs. 99,942,556 and Rs. 723,091,623 respectively. CPC has made valid appeals for those assessments.

8. PROPERTY, PLANT & EQUIPMENT	Land & Building	Vested Property	Plant, Mach & Equip.	SPM Facility	Motor Vehicles	Furn/Fittings, Off. Equip & Other Assets	Capital Work in Progress	CPC Total	Group Total
	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn	Rs.Mn		Rs.Mn
8.1.Cost									
Bal as at 01/01/2016	4,436.351	1.016	8,747.344	2,142.422	851.790	2,163.890	3,494.321	21,837.133	49,443.830
Additions/Transfers	56.329		2,289.298		151.143	45.125	(2,064.237)	477.658	1,391.069
Consolidation adjustments for 2015									-
Disposals	(0.019)		(6.266)		(13.251)	(4.823)		(24.358)	(118.599)
									-
Bal as at 31/12/2016	**4,492.661**	**1.016**	**11,030.376**	**2,142.422**	**989.683**	**2,204.191**	**1,430.084**	**22,290.433**	**50,716.300**
8.2 Depreciation									
Bal as at 01/01/2016	573.626	0.397	4,209.625	1,290.634	338.794	1,552.235	-	7,965.311	18,884.598
Charge for the Year	112.730		526.115		134.640	64.422	-	837.907	1,638.847
Disposals			(0.367)		(13.251)	(4.823)	-	(18.441)	(112.656)
									-
Bal as at 31/12/2016	686.357	0.397	4,735.372	1,290.634	460.184	1,611.834	-	8,784.778	20,410.789
NBV as at 31.12.2016	**3,806.304**	**0.619**	**6,295.003**	**851.788**	**529.499**	**592.358**	**1,430.084**	**13,505.655**	**30,305.510**
Cost as at 31.12.2015	4,436.351	1.016	8,747.344	2,142.422	851.790	2,163.890	3,494.321	21,837.133	49,409.912
Acc.Dep as at 31.12.2015	573.626	0.397	4,209.625	1,290.634	338.794	1,552.235	-	7,965.311	18,884.598
NBV as at 31.12.2015(Re-stated)	**3,862.724**	**0.619**	**4,537.719**	**851.788**	**512.996**	**611.654**	**3,494.321**	**13,871.821**	**30,525.314**

As per the valuations carried out by the Valuation Department market value of the lands and buildings of the Corporation was Rs. 12,658 Mn.

8.3 INVESTMENT PROPERTY	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Cost				
Bal at the beginning of the year (Restated)	57.891	37.607	57.891	37.607
Add: Additions / Transfers	-	20.285	-	20.285
Bal as at the end of the year	57.891	57.891	57.891	57.891
Depreciation				
Bal at the beginning of the year (Restated)	14.869	9.879	14.869	9.879
Add: Transfer from PPE		3.543		3.543
Add: Charge for the year	1.447	1.447	1.447	1.447
Bal as at the end of the year	16.316	14.869	16.316	14.869
Net Book Value	**41.575**	**43.022**	**41.575**	**43.022**

Investment property consists of properties located at Thurstan Road, Flower Road & Filling Stations given on rent.

Description	Fair Value Rs.Mn
No.80, Flower Road, Colombo 07	40.000
No.22/1, Thurstan Road, Colombo 03	
Filling Stations	18.283

Fair value of the investment properties was based on the valuations carried out in the years 2012 and 2016 by the Valuation Department, who are independent valuers not connected with the Corporation.

8.4 INTANGIBLE ASSETS	Group ERP System Rs.Mn	Group SAP License Rs.Mn	Group Automation System Rs.Mn	Group Total Rs.Mn
Cost /Carrying value				
At the beginning of the year	412.497	9.380	37.793	459.670
Additions/Transfers	-	-	-	-
At the end of the year	**412.497**	**9.380**	**37.793**	**459.670**
Amortisation				
At the beginning of the year	411.410	6.111	24.600	442.320
Charge for the Year	0.304	1.876	7.560	9.741
At the end of the year	411.714	7.987	32.160	452.061
Carrying value				
As at 31.12.2016	**0.783**	**1.393**	**5.633**	**7.609**
As at 31.12.2015	**1.040**	**4.216**	**12.094**	**17.350**

9.INVESTMENT IN SUBSIDIARY	CPC 2016 Holding %	CPC 2015 Holding %	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Ceylon Petroleum Storage Terminals Ltd.	66.67%	66.67%	5,000.000	5,000.000	-	-
			5,000.000	**5,000.000**	**-**	**-**

10.NON CURRENT FINANCIAL ASSETS	Note	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Quoted equity investments	10.1	29.500	39.500	29.500	39.500
Unquoted equity investments	10.2	5.626	5.626	5.626	5.626
Non equity investments	10.3	35,560.335	36,680.156	35,560.335	36,680.157
		35,595.461	**36,725.282**	**35,595.461**	**36,725.283**

10.1.Quoted equity investments	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Lanka Cement PLC				
5,000,000 Ordinary Shares of Rs.10/= each fully paid	39.500	33.000	39.500	33.000
Adjustment for fair value changes	(10.000)	6.500	(10.000)	6.500
	29.500	**39.500**	**29.500**	**39.500**

10.2.Unquoted equity investments	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Associated News Papers of Ceylon Ltd.				
61,206 Ordinary Shares of Rs.10/= each	0.539	0.539	0.539	0.539
Lanka Leyland Ltd.				
100 Ordinary Shares of 10/= each	0.001	0.001	0.001	0.001
International Cooperative Petroleum association				
5,499 Shares of Us $ 100/= each fully paid				
Incorporated in USA	5.086	5.086	5.086	5.086
	5.626	**5.626**	**5.626**	**5.626**

The unquoted investments classified as available for sale investments are carried at cost.
The maximum exposure to credit risk at the reporting date is the carrying value of equity securities classified as availablefor sale.
None of the financial assets classified as available for sale is either past due or impaired.

10.3.Non equity investments	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Investment in Fixed Deposits	5.000	5.000	5.000	5.000
Investment in Treasury Bonds	35,555.335	36,675.156	35,555.335	36,675.157
	35,560.335	**36,680.156**	**35,560.335**	**36,680.157**

11 . TRADE & OTHER RECEIVABLE	CPC 2016 Current Rs.Mn	2016 Non-Current Rs.Mn	2015 Re-stated Current Rs.Mn	2015 Re-stated Non-Current Rs.Mn
Trade Receivables	33,262.256		18,734.682	
Other Receivables	6,804.863	0.667	3,859.510	286.372
Deposits & Prepayments	1,315.836	7,372.314	1,291.124	8,687.995
Advance	6,971.339		2,924.956	
Loans & Advances to Employees	43.681	2,953.727	49.044	2,701.287
	48,397.974	**10,326.708**	**26,859.315**	**11,675.654**

An exchnage variation (gain) of Rs. 307,063,541/- has been recognized in the financial statements for the year 2015 on the conversion of settlement of Rs. 7,900,000,000 by Sri Lankan Airlines Limited (SLA) into US Dollars. As per the continuous discussions with SLA, has been agreed to share this exchange variation equally between SLA and the Corporation. Accordingly, the matter has been forwarded by both SLA and the Corporation to the relevant line ministries in order to take necessary approvals from the Cabinet of Ministers.

	Group 2016 Current Rs.Mn	2016 Non-Current Rs.Mn	2015 Re-stated Current Rs.Mn	2015 Re-stated Non-Current Rs.Mn
Trade Receivables	34,404.904	-	18,539.259	-
Other Receivables	6,804.863	0.667	5,273.516	7,969.288
Deposits & Prepayments	2,301.942	7,372.314	1,293.132	719.374
Advance	6,971.339	-	2,924.956	-
Loans & Advances to Employees	1,963.851	3,395.451	2,533.294	2,701.287
	52,446.899	**10,768.432**	**30,564.156**	**11,389.949**

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

	CPC 2016 Rs.Mn	2015 Re-stated Rs.Mn
Balance as at 1st January	52.099	45.272
Less: Amount Recovered	-	(1.391)
Less: Amount write off	(1.092)	(0.001)
Add: Provision for the year	(1.386)	8.219
Balance as at 31st December	**49.621**	**52.099**

12 Financial instruments Financial Assets by category	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Loans & Receivables				
Trade and other receivables	38,476.763	21,467.349	41,981.305	23,685.259
Placements with banks	27,149.417	11,725.182	27,149.417	11,725.182
Cash in hand and at bank	14,579.410	51,058.236	17,034.827	51,806.202
Available for sale Financial Assets			-	-
Quoted & Unquoted Equity Investments	35.126	45.126	35.126	45.126
Held to Maturity			-	-
Investments in treasury bonds	36,476.761	37,659.833	36,476.761	37,659.833
TOTAL	**116,717.477**	**121,955.727**	**122,677.437**	**124,921.603**

Financial Liabilities by category	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Financial Liabilities at amotised cost				
Borrowings	193,987.471	267,925.753	195,497.637	270,106.264
Trade and other payables	146,061.828	133,852.746	143,480.550	140,744.649
TOTAL	**340,049.300**	**401,778.499**	**338,978.187**	**410,850.913**

12.1Fair value of Financial Instruments

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are classified as financial instruments in the financial statements

CPC		Carrying Amount		Fair value	
As at 31 December		2016	2015	2016	2015
		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Financial assets					
Non Current Financial assets					
Quoted equity investments	12.1.1	29.500	39.500	29.500	39.5
Unquoted equity investments	12.1.2	5.626	5.626	5.626	5.626
Investement in Fixed Deposits	12.1.3	5.000	5.000	5.000	5.000
Investement in Tresury Bonds	12.1.1	35,555.335	36,675.156	32,758.459	36,056.856
Trade & Other receivables	12.1.4	38,476.763	21,467.349	38,476.763	21,467.349
Short term investments					
Bank deposits	12.1.3	27,144.417	11,720.182	27,144.417	11,720.182
Government bonds	12.1.1	921.426	984.677	912.937	986.56
Cash and cash equivalents	12.1.4	14,579.410	51,058.236	14,579.410	51,058.236
Total		**116,717.477**	**121,955.727**	**113,912.112**	**121,339.314**
Financial liabilities					
Loans & borrowings	12.1.3	303.838	703.481	303.838	703.481
Trade & other payables	12.1.4	146,061.828	133,852.746	146,061.828	133,852.746
Short term borrowings	12.1.4	193,683.634	267,222.272	193,683.634	267,222.272
		340,049.300	**401,778.499**	**340,049.300**	**401,778.499**

12.1.1 Fair value of investments in quoted equity and treasury bonds are based on price quoted in the market at the reporting date

12.1.2 Fair value of unquoted equity investments carried at cost are assumed to equal its fair value considering the materiallity of the investment

12.1.3 Investment in deposits and loans & borrowings are evaluated by the Group based on parameters such as interest rates, creditworthiness of the bank, and the risk characteristics of the instrument. As at 31 December 2016, the carrying amounts of deposits, loans & borrowings are not materially different from their fair values.

12.1.4 Cash and cash equivalents, trade & other receivables, trade & other payables and short term borrowings approximate their carrying amounts largely due to the short-term maturities of these instruments.

13.INVENTORIES	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Crude Oil	11,099.275	12,336.721	11,099.275	12,336.721
Other Raw material	1,455.355	870.473	1,455.355	870.473
Finished Products	18,921.623	24,647.197	18,926.799	24,647.197
Intermediate Product	1,392.528	846.270	1,390.817	846.270
Other Materials & Supplies	3,009.276	2,732.212	3,549.874	3,061.048
Less: Provision for Slow Moving Items	(401.172)	(397.761)	(533.896)	(397.761)
	35,476.885	**41,035.111**	**35,888.223**	**41,363.947**

14.SHORT TERM INVESTMENTS	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Bank Deposits	27,144.417	11,720.182	27,144.417	11,720.182
Government Bonds	921.426	984.677	921.426	984.677
	28,065.844	**12,704.860**	**28,065.844**	**12,704.859**

15.CASH AND CASH EQUIVALENTS	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Components of Cash and Cash Equivalents				
Cash at Bank and in hand	14,579.410	51,058.236	17,034.827	51,806.202

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

	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Cash and cash equivalents	14,579.410	51,058.236	17,034.827	51,806.202
Bank overdrafts (Note 21)	-	(2,738.249)	(111.314)	(2,738.249)
	14,579.410	**48,319.987**	**16,923.513**	**49,067.953**
Add/Less: Adjustment for foreign currency translation	(2,557.285)	(3,619.571)	(2,557.285)	(3,619.571)
	12,022.125	44,700.416	14,366.228	45,448.382

16.CONTRIBUTED CAPITAL	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
As at 1st Jan	28,487.125	3,500.000	28,487.125	3,500.000
Treasury Bond Issued for Capital Improvements by the General Treasury	-	24,987.125	-	24,987.125
As at 31st Dec	**28,487.125**	**28,487.125**	**28,487.125**	**28,487.125**

No authorized capital has been fixed by the Parliament.

17.CAPITAL RESERVE	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Balance as at 31st December	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 transactions based on the values that had been agreed upon in the process of privatization. The effect of this had been adjusted under capital reserve.

18.RETIREMENT BENEFIT OBLIGATION	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Balance as at 01st January	845.526	648.362	2,398.663	1,990.666
Less: Payments made during the year	(122.286)	(68.623)	(401.713)	(167.891)
	723.240	579.739	1,996.950	1,822.775
Add: Current service cost	40.761	40.628	105.981	129.441
Interest cost	94.838	57.974	233.841	146.799
Actuarial (gain)/loss	(120.866)	167.186	(364.729)	299.648
	737.973	845.526	1,972.045	2,398.663
Add: Benefit China Bay /LLL/NYLON/CPSTL Employees	15.588	15.588	15.588	15.588
Balance as at 31 st December	**753.561**	**861.114**	**1,987.632**	**2,414.251**
Expenses on retirement benefit obligation				
Income Statement				
Current service cost	40.761	40.628	105.981	129.441
Interest cost	94.838	57.974	233.841	146.799
	135.599	**98.601**	**339.823**	**276.240**
Other Comprehensive income				
Actuarial (gain)/loss	(120.866)	167.186	(364.729)	299.648
	(120.866)	**167.186**	**(364.729)**	**299.648**
The principal actuarial assumptions used were as follows :				
Expected Salary increment	1%	1%		
Expected Staff turnover	4.4%	3.8%		
Interest /Discount Rate	13%	10%		
Retirement age	60 years	60 years		
No. of employees	2577	2579		

18.1 Sensitivity of actuarial assumptions used

The following table demonstrates the sensitivity to a possible change in key assumptions employed with all other variables held constant in the Retirement Benefit Obligations measurement as at 31December 2016. The sensitivity of the Statement of Financial Position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment on the profit or loss and Retirement Benefit Obligation for the year.

Assumption	Change in the assumption	CPC Sensitivity effect on Income statement 2016 Rs.Mn.	CPC Sensitivity effect on Retirement Benefit Obligation 2016 Rs.Mn.
Discount Rate @13%	Increased by 1% point	(36.321)	(36.321)
	Decreased by 1% point	26.406	26.406
Salary Increment @ 1%	Increased by 1% point	30.101	30.101
	Decreased by 1% point	(40.040)	(40.040)

19.LOANS & BORROWINGS	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
L.T. Loans not assigned to CPSTL				
Treasury (A.D.B) Loan	265.858	341.817	265.858	341.817
Peoples Bank	-	-	911.051	1,398.851
	265.858	**341.817**	**1,176.909**	**1,740.668**
19.1. CURRENT PORTION OF LOANS & BORROWINGS				
L.T. Loans not assigned to CPSTL				
Treasury (A.D.B) Loan	37.980	75.959	37.980	75.959
L.T. Loans assigned to CPSTL				
Treasury (Exim Bank) Loan	-	285.705	-	285.705
Peoples Bank	-	-	487.800	495.955
	37.980	**361.664**	**525.780**	**857.619**

19.2.Loans Repayable within five years from 31st December is as foll	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Amount due within 2 years	75.959	437.623	1,051.559	1,715.238
Amount due within 3-5 years	227.878	265.858	651.130	883.049
	303.838	**703.481**	**1,702.689**	**2,598.287**

The carrying values of borrowings are considered to be the fair value.

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

(b)Treasury (Exim Bank) Loan - (Interest 12 .0 p.a %) repayment commencing Oct. 2004 in 24 equal 1/2 yearly installments of final Loan value

20.TRADE & OTHER PAYABLES	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Foreign Bills Payable	139,805.406	121,662.975	139,805.406	122,751.071
Other Creditors			-	
- Amount due to Inland Revenue & Custom Dept.	36,033.499	25,318.481	36,180.551	25,896.710
- Accrued Expenses	4,967.092	10,455.853	1,250.427	4,684.150
- Refundable Deposits & Others	1,289.330	1,733.918	2,424.718	1,722.531
	182,095.327	**159,171.227**	**179,661.102**	**155,054.462**

Amount due to Inland Revenue & Custom Dept. includes the excise duty, NBT and income tax payable. Refundable VAT is included under other receivables.

21.SHORT TERM BORROWINGS	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Bank & Other loans			-	
- Wholly Repayable within one year	193,683.634	264,484.023	193,683.634	264,484.023
- Bank Overdrafts	-	2,738.249	111.314	2,738.249
	193,683.634	**267,222.272**	**193,794.948**	**267,222.272**

Borrowings are guaranted by a Treasury indeminity of US$ 1,550 Mn issued to Bank of Ceylon & Peoples Bank on behalf of CPC.
Short term loans are obtained to finance import bills payable to the suppliers.
The interest rate applicable is 5.5% p.a.

22.EMPLOYEES	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
22.1 Staff Cost				
Salaries & Wages	4,109.662	3,905.211	9,213.139	8,557.779
Defined Contribution Plan	443.150	358.952	892.698	772.247
Defined benefit obligation (Note 18)	14.733	265.787	(24.906)	575.888
	4,567.545	**4,529.950**	**10,080.931**	**9,905.914**

22.2 No. of Employees		
Administration & Marketing	1,238	1,140
Manufacturing	908	1,020
Security	431	419
	2,577	**2,579**
22.3 Contract & Casual Employees	1	2

23.Deferred Tax-CPC

CPC has carried forward tax losses amounting to Rs 249,279 Mn (2015 Rs.272,842 Mn) which are available to set-off against the future tax profits. Deferred tax assets not accounted on these lossess amounts to Rs. 69,798 Mn (2015 Rs.76,396 Mn)

23.1 Deferred Tax-Group	Group	
	2016	2015 Re-stated
	Rs.Mn	Rs.Mn
Balance at the beginning of the period	544.863	492.982
Consolidation adjustments for 2015	64.107	-
Origination and reversal of temporary difference - Income Statement	363.378	51.881
Other Comprehensive income	33.409	-
Balance at the end of period	**1,005.757**	**544.863**
Defferred tax assets	(241.366)	(315.773)
Deferred tax liability	1,247.123	860.636
Net deferred tax liability	**1,005.757**	**544.863**

23.2 Recognized deferred tax assets and liabilities	2016-Rs.Mn.		2015-Rs.Mn.	
	Temporary difference	Deferred tax Liability/(Asset)	Temporary difference	Deferred tax Liability/(Asset)
Deferred tax liability				
Property, Plant & Equipment & Intangible assets	9,103.086	1,247.123	8,606.367	860.637
Deferred tax assets				
Inventories	(132.724)	(18.183)	(195.55)	(19.55)
Provisions	(184.952)	(25.338)	(172.058)	(17.206)
Employee benefit plan	(1,234.071)	(169.068)	(1,553.14)	(155.31)
Tax loss	(210.045)	(28.776)	(1,236.988)	(123.699)
	7,341.294	**1,005.757**	**5,448.634**	**544.863**

24.CASH FLOWS FROM OPERATING ACTIVITIES	CPC 2016 Rs.Mn	CPC 2015 Re-stated Rs.Mn	Group 2016 Rs.Mn	Group 2015 Re-stated Rs.Mn
Profit/(Loss) before tax	**69,553.681**	**(19,885.780)**	**71,589.544**	**(17,923.324)**
Adjustment for :				
Depreciation	839.354	717.818	1,640.295	1,542.721
Amortisation	-	-	9.741	30.007
Foreign Currency Translation	1,062.286	52.042	1,062.286	52.042
Dividend Income	(292.502)	(0.004)	(0.002)	(0.004)
Interest Income	(8,374.112)	(5,011.670)	(8,464.482)	(5,037.480)
allowance for impairment			(39.054)	36.044
Interest Expenses	11,404.537	15,048.660	11,571.312	15,048.660
Provision for Retirement Obligation	135.599	98.601	339.823	276.240
(Profit)/Loss on Sale of Property, Plant & Equipment	(36.414)	(20.212)	(87.660)	(28.524)
	-	-	-	-
Operating Profit/(Loss) before Working Capital changes	**74,292.430**	**(9,000.544)**	**77,621.803**	**(6,003.618)**
Changes in Working Capital				
(Increase)/ Decrease in Inventories	5,558.227	22,546.642	5,475.724	22,585.899
(Increase)/ Decrease in Trade and Other Receivable	(20,189.713)	16,293.162	(21,261.227)	13,353.763
Increase/ (Decrease) In Trade and Other Payables	8,754.984	(5,066.363)	10,632.381	(5,019.207)
Cash Generated from/ (Used in) operating activities	**68,415.926**	**24,772.897**	**72,468.682**	**24,916.837**

Following comparative figures were restated in accordance with LKAS 8 Changes in Accounting Policies, Changes in Accounting Estimates and Errors.

25.1 Reconciliation of the Statement of Comprehensive Income for the year ended 31/12/2014

			CPC		Group	
	Note	Adjustment	Previously Reported	Re-stated	Previously Reported	Re-stated
		Rs.Mn.	*Rs.Mn.*	*Rs.Mn.*	*Rs.Mn.*	*Rs.Mn.*
Revenue			525,182.094	525,182.094	527,168.712	527,168.712
Cost of Sales			(499,955.539)	(499,955.539)	(506,834.181)	(506,834.181)
Gross Profit			25,226.555	25,226.555	20,334.531	20,334.531
Other Operating Income	25.5.1	(0.025)	3,506.475	3,506.450	3,963.939	3,963.914
Selling & Distribution Expenses	25.5.2	59.655	(11,532.812)	(11,473.157)	(1,760.156)	(1,700.501)
Administrative Expenses	25.5.3	42.431	(5,154.127)	(5,111.696)	(8,332.450)	(8,290.019)
Operating Profit			12,046.090	12,148.152	14,205.863	14,307.925
Exchange Rate variation			(967.489)	(967.489)	(967.489)	(967.489)
Finance Income	25.5.4, 25.5.5 & 25.5.6	(537.525)	4,030.057	3,492.532	4,058.754	3,521.229
Finance Expenses			(13,979.634)	(13,979.634)	(13,979.634)	(13,979.634)
Profit before tax			**1,129.025**	**693.561**	**3,317.495**	**2,882.031**
Tax Expenses	25.5.7	(598.854)	-	(598.854)	**(275.168)**	(874.022)
Profit after tax			**1,129.025**	**94.707**	**3,042.327**	**2,008.009**
OTHER COMPREHENSIVE INCOME						
Re-measurement gain/(loss) on Retirement Benefit plan			(112.498)	(112.498)	(152.495)	(152.495)
Other comprehensive expense for the year			(112.498)	(112.498)	(152.495)	(152.495)
Non Controlling Interest		-	-	-	**(624.435)**	**(624.435)**
Total comprehensive Income /(Expense) for the year		**(1,034.318)**	**1,016.527**	**(17.791)**	**2,265.397**	**1,231.079**

25.2 Reconciliation of the Statement of Financial position as at 01/01/2015

			CPC		Group	
	Note	Adjustment	Previously Reported	Re-stated	Previously Reported	Re-stated
		Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.
ASSETS						
Non - Current Assets						
Property, Plant & Equipment	25.5.2 & 25.6.1	57.289	13,591.470	13,648.759	30,879.895	30,937.184
Investment Property	25.6.1	2.37	25.362	27.728	25.362	27.728
Intangible Assets					47.358	47.358
Investment in Subsidiary			5,000.000	5,000.000	-	-
Non-Current Financial Assets	25.5.4	(85.96)	10,027.557	9,941.594	10,027.557	9,941.594
Trade & Other Receivables			12,047.778	12,047.778	11,190.663	11,190.663
		(26.308)	40,692.167	40,665.859	52,170.835	52,144.527
Current Assets						
Inventories			63,581.753	63,581.753	63,949.846	63,949.846
Trade & Other Receivables	25.5.4 & 25.5.6	(438.836)	43,120.185	42,681.349	44,457.037	44,018.201
Income Tax Receivable	25.5.5 & 25.5.7	(637.769)	962.151	324.382	962.151	324.382
Short term Investments	25.5.6	26.189	11,994.697	12,020.886	11,994.697	12,020.886
Cash and Cash Equivalents	25.5.1	(0.025)	21,474.788	21,474.763	23,384.985	23,384.960
		(1,050.441)	141,133.573	140,083.132	144,748.716	143,698.275
Total Assets		**(1,076.749)**	**181,825.740**	**180,748.991**	**196,919.551**	**195,842.802**
EQUITY AND LIABILITIES						
Capital and Reserves						
Contributed Capital			3,500.000	3,500.000	3,500.000	3,500.000
Capital Reserve			4,992.686	4,992.686	4,992.686	4,992.686
Retained Earnings	25.1	(1,034.318)	(240,749.436)	(241,783.754)	(232,584.282)	(233,618.600)
Non Controlling Interest					6,582.577	6,582.577
Total Equity		(1,034.318)	(232,256.750)	(233,291.068)	(217,509.019)	(218,543.337)
Non - Current Liabilities						
Retirement Benefits Liability			663.950	663.950	2,006.255	2,006.255
Deferred Tax			-	-	492.982	492.982
Loans & Borrowings			703.481	703.481	2,590.131	2,590.131
			1,367.431	1,367.431	5,089.368	5,089.368
Current Liabilities						
Trade and Other Payables	25.5.3	(42.431)	164,280.022	164,237.591	160,416.364	160,373.933
Current portion of Loans & Borrowings			647.369	647.369	1,135.168	1,135.168
Short term Borrowings			247,787.669	247,787.669	247,787.669	247,787.669
		(42.431)	412,715.059	412,672.628	409,339.202	409,296.771
Total Equity and Liabilities		**(1,076.749)**	**181,825.740**	**180,748.991**	**196,919.551**	**195,842.802**

25.3 Reconciliation of the Statement of Comprehensive Income for the year ended 31/12/2015

			CPC		Group	
	Note	Adjustment	Previously reported	Re-stated	Previously reported	Re-stated
		Rs.Mn.	*Rs.Mn.*	*Rs.Mn.*	*Rs.Mn.*	*Rs.Mn.*
Revenue			376,734.487	376,734.487	377,261.652	377,261.652
Cost of Sales			(337,118.644)	(337,118.644)	(343,301.815)	(343,301.815)
Gross Profit			39,615.843	39,615.843	33,959.837	33,959.837
Other Operating Income			4,233.981	4,233.981	4,744.234	4,744.234
Selling & Distribution Expenses	25.5.2	216.764	(13,617.901)	(13,401.137)	(2,957.522)	(2,740.758)
Administrative Expenses	25.5.3	(27.947)	(3,563.565)	(3,591.512)	(7,141.545)	(7,169.492)
Operating Profit			26,668.358	26,857.175	28,605.003	28,793.821
Exchange Rate variation			(32,841.590)	(32,841.590)	(32,841.590)	(32,841.590)
Finance Income	25.5.4, 25.5.5 & 25.5.6	101.323	4,910.347	5,011.670	4,936.157	5,037.480
Hedging Expenses			(3,864.375)	(3,864.375)	(3,864.375)	(3,864.375)
Finance Expenses			(15,048.660)	(15,048.660)	(15,048.660)	(15,048.660)
Profit before tax			**(20,175.920)**	**(19,885.780)**	**(18,213.464)**	**(17,923.324)**
Tax Expenses	25.5.7	924.879	**(1,559.263)**	(634.384)	**(1,846.248)**	(921.369)
Profit /(Loss) after tax			**(21,735.183)**	**(20,520.164)**	**(20,059.712)**	**(18,844.693)**
OTHER COMPREHENSIVE INCOME						
Re-measurement gain/(loss) on Retirement Benefit plan			(167.186)	(167.186)	(299.648)	(299.648)
Net Gain/(loss) on available -for sales Financial assets			6.500	6.500	6.500	6.500
Other comprehensive expense for the year			(160.686)	(160.686)	(293.148)	(293.148)
Non Controlling Interest		-	-	-	**(514.336)**	**(514.336)**
Total comprehensive Expense for the year		**1,215.019**	**(21,895.869)**	**(20,680.850)**	**(20,867.196)**	**(19,652.177)**

25.4 Reconciliation of Statement of Financial position as at 31/12/2015

			CPC		Group	
ASSETS	Note	Adjustment	Previously Reported	Re-stated	Previously Reported	Re-stated
Non - Current Assets			Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.
Property, Plant & Equipment	25.5.2 & 25.6.1	257.955	13,613.866	13,871.821	30,267.359	30,525.314
Investment Property	25.6.1	18.464	24.558	43.022	24.558	43.022
Intangible Assets					17.350	17.350
Investment in Subsidiary			5,000.000	5,000.000	-	-
Non-Current Financial Assets	25.5.4, 25.5.8 & 25.6.2	(124.122)	36,849.405	36,725.282	36,849.405	36,725.283
Trade & Other Receivables			11,675.654	11,675.654	11,389.949	11,389.949
		152.297	67,163.483	67,315.779	78,548.620	78,700.918
Current Assets						
Inventories			41,035.111	41,035.111	41,363.947	41,363.947
Trade & Other Receivables	25.5.4 & 25.5.6	(269.279)	27,128.594	26,859.315	30,833.435	30,564.156
Short term Investments	25.5.4 & 25.5.6	(17.057)	12,721.916	12,704.860	12,721.916	12,704.859
Cash and Cash Equivalents	25.5.1	(0.025)	51,058.261	51,058.236	51,806.227	51,806.202
		(286.361)	131,943.882	131,657.522	136,725.525	136,439.164
Total Assets		**(134.064)**	**199,107.365**	**198,973.301**	**215,274.145**	**215,140.082**
EQUITY AND LIABILITIES						
Capital and Reserves						
Contributed Capital	25.5.8	(12.875)	28,500.000	28,487.125	28,500.000	28,487.125
Capital Reserve			4,992.686	4,992.686	4,992.686	4,992.686
Retained Earnings	25.1 &25.3	180.701	(262,645.305)	(262,464.604)	(253,451.478)	(253,270.777)
Non Controlling Interest					7,096.913	7,096.913
Total Equity		167.826	(229,152.619)	(228,984.793)	(212,861.879)	(212,694.053)
Non - Current Liabilities						
Retirement Benefits Liability			861.114	861.114	2,414.251	2,414.251
Deferred Tax					544.863	544.863
Loans & Borrowings			341.817	341.817	1,740.668	1,740.668
		-	1,202.931	1,202.931	4,699.782	4,699.782
Current Liabilities						
Trade and Other Payables	25.5.3, 25.5.5 & 25.5.7	(301.890)	159,473.117	159,171.227	155,356.351	155,054.462
Current portion of Loans & Borrowings			361.664	361.664	857.619	857.619
Short term Borrowings			267,222.272	267,222.272	267,222.272	267,222.272
		(301.890)	427,057.053	426,755.163	423,436.242	423,134.353
Total Equity and Liabilities		**(134.064)**	**199,107.365**	**198,973.301**	**215,274.145**	**215,140.082**

25.5	Nature of the Prior period adjustment	2014 Rs. Mn	2015 Rs. Mn	Total Rs. Mn
25.5.1	Correction of funds received on closure of City Bank Account credited to Sundry income	(0.025)	-	(0.025)
25.5.2	Reversal of overprovided depreciation on Aviation Fuel Storage facility and Fuel hydrant System at Mattala Airport	59.655	216.764	276.419
25.5.3	Adjusting the overprovision on EPF & ETF payable balances reversed in 2015 in the year 2014 and adjusting the provisions made on PAYE payable balances and 25 years contribution ceremony expenses.	42.431	(27.947)	14.484
25.5.4	Correction of overstated Interest income on Treasury Bond	(350.242)	(42.341)	(392.583)
25.5.5	Notional Tax adjustment for Interest adjustment on treasury bonds	(38.915)	(4.705)	(43.620)
25.5.6	Recognizing the interest on Fixed Deposits adjusted in the year 2014 for the year 2015	(148.368)	148.368	-
25.5.7	Income tax provision made in 2015 for the years 2012, 2013 and 2014 recorded in 2014 and adjusted the income tax provision of 2014 according to restated profit.	(598.854)	924.879	326.025
25.5.8	Recording the treasury bond received at discounted value as per the instructions received from the General Treasury	-	(12.875)	(12.875)
				167.826

25.6 Reclassifications

Following classification of the financial statements of previous year have been amended, where relevant for better presentation and to be comparable with those of the current year.

	Reclassification	Previously classified	2014 Rs. Mn	2015 Rs. Mn	Total Rs. Mn
25.6.1	Investment property	Property, Plant & Equipment	2.37	16.10	18.46
25.6.2	Short term investment	Non current financial assets	-	39.00	39.00
25.6.3	Administrative expenses	Special Fee	250.00	750.00	1,000.00

26. CONTINGENT LIABILITIES, COMMITMENTS & LITIGATIONS

CONTINGENT LIABILITIES

The contingent liability of the CPC as at 31st December 2016 relates to following;

Claims for Demurrages for shipments amounts to US$ 3,887,935.

However, the above liabilities would be recognized in the financial statements based on the subsequent negotiations /arbitration process taken place after the reporting date.

Except for the above there were no any other material contingent liabilities existing at the date of statement of financial position.

COMMITMENTS

The material commitments of the CPC as at 31st December 2016 relates to following;

Commitments to the Banks

The Corporation established Letter of Credits (L/C) valuing Rs.13,474 Mn and Rs. 3,264 Mn (USD 88.795 & USD 21.513) at Bank of Ceylon and People's Bank respectively in relation to import of crude & refined petroleum products during the year for which procurement will be made subsequent to the year end.

Pending Litigations at the reporting date

There were 243 unsettled legal cases as at 31st December 2016 noted below.

Type of Legal Cases	No of Cases	
	CPC	**Group**
Labour Tribunal Cases	01	05
Magistrate's Court Cases	06	14
District Court Cases	111	120
High Court Cases	16	17
Court of Appeal Cases	13	15
Supreme Court Cases	19	23
Human Rights Commission	24	24
Department of Labor	27	28

Out of the above cases following case is considered material to CPC;

Commercial Bank has filed a case in the Commercial High Court, Colombo against CPC claiming US$8,648,300 with interest and other cost for the hedging transaction.

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

27. EVENTS AFTER THE REPORTING DATE

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

28. FINANCIAL RISK MANAGEMENT

The Corporation's activities expose to a variety of financial risks; market risk (including currency risk, interest rate risk), credit risk, liquidity risk and 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 fixed deposits, government securities, 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 it 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 following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Corporation's profit before tax due to changes in the fair value of USD denominated liabilities.

	Value as at 31 Dec 2016 USD. Mn	Year end exchange rate	Change in exchange rate	Effect on profit before tax* Rs. Mn
Loans and Borrowings (USD)	1,276.38	151.744	1% Increase	(1,936.84)
Trade and other payable (USD)	926.74	151.744	1% Increase	(1,406.27)

* The effect on the profit before tax is the result of a change in the fair value of related liability denominated in US Dollars, where the functional currency is Sri Lankan Rupee.

Financial statements of the Corporation 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 investments in the form of government securities and fixed deposits. In the case of supplier credit, 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. The 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 yielding financial instruments such as savings accounts and short term repo investments/ time deposits. At the reporting date, the Corporation held cash and cash equivalents of Rs. 14,579 Mn and other short term deposits of Rs. 28,066 Mn that are expected to readily generate cash inflows for managing liquidity risk.

The table below shows the Corporation's non-derivative liabilities into relevant maturity grouping based on the remaining period at the reporting date to contractual maturity date.

December 2016 (Figures on LKR Million)					
	Less than 3 months	**3 months to 12 months**	**1 – 2 years**	**3-5 Years**	**Over 5 years**
Bank borrowings	48,421	145,263			
Long term debt			76	228	-
	48,421	**145,263**	**76**	**228**	-

(d) Price Risk

The corporation is exposed to the commodity price risk of petroleum products (both Crude & Finished 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.

29. DIRECTORS' INTEREST IN CONTRACTS & RELATED PARTY TRANSACTIONS

Compensation of key management personnel

	CPC	
	2016	2015 Re-stated
	Rs.Mn	Rs.Mn
Short term Benefits	1.762	2.487

Board of Directors are considered as key management personnel. No Diretors has direct or indirect interest in the contracts with CPC & CPSTL except CPC has appointed Mr.T.G.Jayasinghe, Chairman / Managing Director to the Board of CPSTL and Mr. D.C.S. Senevirathne, Chairman / Managing Director of CPSTL has been appointed as a Director of CPC

Following transactions were carried out with related parties

Transaction	2016	2015 Re-stated
	Rs.Mn	Rs.Mn
Sales & Services rended to related parties		
Subsidiary		
Ceylon Petroleum Storage Limited	452.532	499.772
Other related parties		
Ministry of Petroleum Industries	19.600	24.300
	472.132	524.072
Services received from related parties		
Subsidiary		
Ceylon Petroleum Storage Limited	11,835.401	10,667.359
	11,835.401	10,667.359
Settlement of Loan assigned to related parties		
Subsidiary		
Ceylon Petroleum Storage Limited	285.705	571.409
Amount due from related parties*		
Subsidiary		
Ceylon Petroleum Storage Limited	302.870	495.603
Other related parties		
Ministry of Petroleum Resources Development	8.145	12.416
	311.015	508.019
Amount due to related parties*		
Subsidiary		
Ceylon Petroleum Storage Limited	3,589.441	5,828.676

* Amounts are classified as trade and other receivables and trade and other payables, respectively

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free. There have been no guarantees provided or received for any related party receivables or payables.

30. CAPITAL MANAGEMENT

Primary objective of capital management is to maintain an optimum capital structure and maintain going concern status while safeguarding key stakeholders' interests. The Corporation & its group were able to earn Rs. 53,138 Mn as current year's profit and retain it to reduce the negative net assets position. However, as at 31st December 2016 CPC still had a negative net asset position of Rs. 185,846 Mn (Group: Rs. 167,998 Mn) due to accumulated losses incurred since year 2008. The external auditors have mentioned in their audit report that the Corporation's ability to continue as going concern without the financial assistance from the government of Sri Lanka is doubtful.

The heavy losses incurred by the Corporation are largely due to the sale of petroleum products 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 given to the Corporation, its negative net asset position could be overcome.

AUDITOR GENERAL'S REPORT

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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல. / My No. } POE/A/CPC/1/16/01 මගේ අංකය / உமது இல. / Your No. } දිනය / திகதி / Date } 07 March 2018

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 2016 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 CPC and its Subsidiary (CPSTL) for the year ended 31 December 2016 comprising the statements of financial position as at 31 December 2016 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 CPC in terms of Section 14(2)(c) of the Finance Act appear in this report. I was assisted by a firm of chartered accountants in public practice to carry out the audit of the financial statements of the Subsidiary.

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.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව, . - இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை.- No. 306/72, Polduwa Road, Battaramulla, Sri Lanka
+94-11-2887028-34 +94-11-2887223 oaggov@sltnet.lk www.auditorgeneral.gov.lk

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 CPC'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 CPC'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 qualified 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 – CPC

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 2016 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 2016 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) In consolidation of the financial statements, the intercompany transactions should be eliminated. However, the elimination of a difference of Rs. 39.66 million and Rs.1,104.15 between the amount receivable from and payable to Ceylon Petroleum Storage Terminals Limited (CPSTL) respectively shown in the financial statements of the CPC and the correspondent amounts shown in the financial statements of CPSTL had not been done. The details are given below.

Item	Amount as per the financial statements of the CPC	Amount as per the financial statements of the CPSTL	Difference
	Rs. Million	Rs. Million	Rs. Million
Amount Receivable form CPSTL/ Payable to CPC	302.87	263.21	39.66
Amount Payable to CPSTL/ Receivable form CPC	3,589.44	4,693.59	1,104.15

(b) A qualified opinion had been expressed on the financial statements of the CPSTL for the year under review based on the following matters.

i. Ceylon Petroleum Corporation Thrift Society Limited (Thrift Society) pays retirement benefits and medical benefits to the employees of Ceylon Petroleum Storage Terminals Limited (CPSTL) (Members). The Thrift Society pays an additional half months' salary for every year of service to its members at the time of retirement. Accordingly, Thrift Society is an arrangement whereby CPSTL provides post- employment benefits to its employees and qualify as a post-employment benefit plan as per the Sri Lanka Accounting Standard LKAS 19 Employment Benefits. CPSTL has not actuarially valued and accounted for the above retirement benefit plan as per LKAS 19.

ii. Trade and Other Receivables included an amount receivable from Ceylon Petroleum Corporation amounting to Rs. 4,857.2 million. Based on the confirmation received from Ceylon Petroleum Corporation, the above amount includes a disputed amount of Rs.652 million (2015: Rs.336 million) for which only an allowance of Rs.163.5 million (2015: Rs.163.5 million) has been made as impairment. Accordingly the provision for impairment is understated by Rs.489 million (2015:Rs173 million)

iii. As per the Inland Revenue Bill passed by the Parliament on 07 September 2017 the applicable tax rate for the Company with effect from 01 April 2018 would be 28 percent. The provisions of the bill will become effective once it receives the certification of the Hon. Speaker. Any impact that may arise due to the provisions of this Bill has not been disclosed in these financial statements.

2.2.2 Financial Statements of the CPC

2.2.2.1 Negative Net Assets Position of the CPC

Attention is drawn to the matter that even the operations of the CPC had resulted in an after tax net profit of Rs. 53,027 million and a total comprehensive income of Rs. 53,137 million for the year 2016, had a negative net assets position of Rs. 185,847 million as at the end of the year under review. The negative impact of exchange rate variation for the year under review, and heavy losses incurred by the Corporation due to Hedging transactions taken place during the previous years had also caused to that negative net assets position. Even though the financial performance of the Corporation had improved during the year under review, the heavy losses sustained during the previous years had resulted to retain further negative net assets position of the CPC.

2.2.2.2 Compliance with Sri Lanka Accounting Standards (LKAS)

The following observations are made.

(a) LKAS 19 – Employee Benefits

According to the accounting policy No. 1.3 disclosed with the financial statements, the Corporation had computed the expenditure for retirement benefits 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-sized Entities. However, the actuarial valuation method should be used for the calculation of retirement benefit obligation. Accordingly, it was observed that the requirements in the Standard had not been followed in the computation of provision for gratuity.

(b) LKAS 24 – Related Party Disclosures

Related party involvement between the Corporation and key management personnel had not been properly disclosed in the financial statements.

2.2.2.3 Accounting Deficiencies

The following observations are made.

(a) The validity period of 581 cheques valued at Rs 989.9 million which issued but not presented for payments had been elapsed as at 31 December 2016. Further, a cheque issued in the name of the Director General of Customs on 28 June 2016 for Rs.972.25 million had been included in the above un-presented cheques. However, the CPC had failed to make proper accounting treatments in this regard. Hence, both cash and relevant liability accounts had been understated by similar amount.

(b) In amalgamation, inter Branch transactions should be eliminated. However, a balance in Inter-Branch trade and other receivable of Rs. 1,397,300 was observed in the financial statements as at the end of the year under review. Therefore, balance of trade and other receivable shown in the financial statements had been overstated by similar amount. Hence, the accuracy and completeness of recording and settlement of Inter Branch Accounts is critically doubt in audit.

(c) An amount aggregating Rs. 924,879,000 had been provided in the financial statements of the year 2015 as income tax for the years of assessment from 2011/2012 to 2014/2015. However, according to the information made available for audit, the actual income tax for the said period including penalties totaling Rs.157,439,252 thereon was Rs. 1,409,169,766. Accordingly, the provision made for unpaid income tax in the financial statements of the year 2015 appears to be understated by Rs. 484,290,530.

(d) According to the information made available for audit, an additional assessment of Rs.1,703,895,425 was imposed by the Department of Inland Revenue on unpaid

Nation Building Tax (NBT) relating to the years 2015 and 2016. However, only a total sum of Rs. 410,300,842 was provided as NBT in the financial statements for the year under review. Accordingly, provision made for unpaid NBT in the financial statements of the year 2016 appears to be understated by Rs.1,293,594,583.

(e) According to the detailed schedule furnished to audit, the total expenditure on demurrages for the year 2016 was Rs. 353,737,477 which comprised with accrued amount of Rs. 173,504,644 and paid amount of Rs. 180,232,833. However, as per the financial statements for the year under review, only Rs. 173,504,644 had been charged.

(f) CPC had paid Rs. 10,000 million to the General Treasury as special fee on the request of the General Treasury in 2014 and accounted for as receivable instead of being charged against income for the year 2014. Accordingly, Rs. 250 million, Rs. 750 million and Rs. 1,000 million had been charged against income for the years 2014, 2015 and 2016 respectively. As a result, the net operating income of the respective years had been understated by similar amounts. It was further observed that the erroneous accounting treatment had violated the fundamental accounting principles.

(g) Interest of Rs. 6.7 million computed on the value of unsettled invoices of the Sri Lankan Airlines Ltd totaling Rs. 160.5 million for the year under review had not been brought to accounts and as a result, both accrued interest and interest income for the year under review had been understated by same amount.

2.2.2.4 Un-reconciled Differences

The following observations are made.

(a) As per the books of account of the CPC, the net amount payable to CPCTSL at the end of the year under review was Rs. 7,600,745. However, as per the balance confirmation from CPCTSL, it was Rs. 42,460,782. Therefore, an un-reconciled difference of Rs.34,860,037 was observed between those two records.

(b) Un-reconciled differences of Rs. 177 million and Rs. 400.9 million were observed between the charges for storage and distribution of oil (i.e. terminal charges, transport charges and interest payment etc.) shown in the financial statements of the CPC and CPSL for the year 2016 and 2015 respectively.

(c) According to the financial statements for the year 2016, the medical expenditure for the year under review was Rs 38,579,072 whereas, according to the detail schedule made available to audit it was Rs. 57,951,039. Therefore, an unexplained difference of Rs 19,371,967 was revealed in audit.

(d) According to the confirmation of the year end balances, sums of US$ 22.77 million and US$ 8.65 million had to be paid by the CPC to the People's Bank and the Commercial Bank PLC respectively relating to the Hedging transactions taken place in respect of procurement of oil during the period of 2007 to 2009. However, it had not been brought to the accounts of the CPC.

2.2.2.5 Lack of Evidence for Audit

The following observations are made.

(a) Value Added Tax (VAT)

Value Added Tax (VAT) aggregating Rs.623,573,943 including Rs.326,394,420 Rs.124,733,322 and Rs.172,446,201 had been recorded as VAT recoverable, refundable VAT and VAT on local purchases respectively under other receivable in the statement of financial position at the end of the year under review. However, the reasons for this had not been furnished to audit. Further, the VAT recoverable amounting to Rs.326,394,420 had continuously been recognized as other receivable since 2010 without being cleared. Moreover, the tax invoices and other relevant supporting documents were not made available to verify the refundable VAT of Rs. 124,733,322.

Further, according to the books of accounts of the CPC, the VAT on Local Purchases amounting to Rs. 172,446,201 had been generated during the year under review. However, there was no recorded recoverable VAT or carried forward VAT in the VAT returns submitted to the Department of Inland Revenue by the CPC for the year under review and the tax invoices of the year under review were also not made available for audit.

(b) According to the financial statements of the CPC, the total VAT recoverable and net Nations Building Tax (NBT) payable as at the end of the year under review was Rs.623,573,943 and Rs.1,803,656,120 respectively. However, these were shown as Rs.29,528,455 and Rs. 2,831,220,633 respectively in the records maintained by the

Department of Inland Revenue. Hence, an un-reconciled difference of Rs. 594,045,488 and Rs.1,027,564,513 respectively were observed among those figures. Further, the total VAT payable balance shown in the records of the Department of Inland Revenue at the end of the year under review was Rs. 3,336,528,365. However, no payable balance is shown in the financial statements of the year under review. The reasons for these had not been furnished to audit.

(c) As per the statement of financial position there was neither receivable nor payable balance relating to Economic Services Charges (ESC) at the end of the year under review. However, as per the records of Department of Inland Revenue, the total ESC payable balance at the end of the year under review was Rs.55, 800,000. Therefore, the accuracy and completeness of the record of financial statements in relation to the ESC is doubt in audit.

(d) According to the statement of financial position of the Corporation, the net income tax recoverable balance at the end of the year under review was Rs. 3,959,861,589. However, as per the records of Department of Inland Revenue, it was a receivable balance of Rs. 6,443,430,012. Therefore, the total outstanding amount shown in the statement of financial position had been differed by Rs. 10,403,291,601 and therefore, the reliability, accuracy and completeness of the figure in the statement of financial position at the end of the year under review was in doubt.

(e) According to the statement of the financial position of the Corporation, the custom duty payable was Rs. 5,119,928,266 whereas, according to the records of Sri Lanka Customs, it was Rs. 5,707,652,279. Therefore, a difference of Rs. 587,724,013 was observed between those two records as at 31 December 2016.

(f) Income Tax amounting to Rs. 1,511,857,999 had been shown in the statement of financial position at the end of the year under review under other receivables and its composition is as follows.

	Amount Rs.
Other Receivable - Department of Inland Revenue	376,000,065
Other Receivable - Department of Inland Revenue Department of Customs	1,135,857,934
Total	**1,511,857,999**

The following observations are also made in this regard.

(i) Neither overpayment nor carried forwarded tax balance had been appeared in any tax return submitted to the Department of Inland Revenue.

(ii) The reason why those figures classified under other receivable without directly classified as receivable from the Department of Inland Revenue was not clear to the audit.

(iii) It was observed that the amount of Rs. 376,000,065 had continuously been shown as other receivable in the statement of financial position since 1998. The reason for continuation of such a balance for a so longer period without being settled was not clear to the audit.

(iv) The above mentioned other receivable balance of Rs. 1,135,857,934 which had been carried forwarded year by year since 2012 without any review could not be satisfactorily verified due to unavailability of relevant information.

Therefore, I am not in a position to satisfactorily verify the reliability, accuracy, valuations and completeness of the above mentioned receivable balances aggregating Rs. 1,511,857,999 in audit due to absence of sufficient evidence.

(g) According to the financial statements, the accrued interest expense as at 31 December 2016 was Rs. 313,820,185. However, according to the ledger, it was a net figure of Rs 12,146,081 which comprises with 04 debit balances aggregating Rs.1,617,112 and 31 credit balances aggregating Rs. 13,763,193. Further, this balance has been accumulating since 2010 and it could not be able to satisfactorily verify the accuracy, existence and completeness of this expense due to lack of supporting information.

2.3 Accounts Receivable and Payable

Total trade receivable as at 31 December 2016 was Rs 33,387 million and it comprised with balances of Rs. 24,136.8 million and Rs. 9,250.2 million due from Government institutions and private institutions respectively. The total dues as at the end of the year under review had increased by 78 per cent with compared to the previous year outstanding balance of Rs.18,787 million. The age analysis thereon is given below.

Type of Customer	Total	Age Analysis					
		Less than one year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Dealers	1,016,605,312	990,626,244	(599,010)	8,971,155	1,282,138	1,138,177	15,186,606
Aviation	9,263,688,816	9,257,815,945	217	38,391	1,803,327	1,617,303	2,413,630
Power Plants	19,996,044,020	19,007,529,141	8,582,378	226,321,671	753,610,829	-	-
Government Customers	2,002,371,035	1,312,981,324	31,856,507	480,596,958	61,454,860	49,270,208	66,211,176
Private Consumers	628,092,693	316,810,088	23,670,804	21,653,010	22,533,993	25,412,079	218,012,717
Agro Chemical	17,001,940	7,782,211	1,997,458		50,322	49,815	7,122,133
Others	462,891,297	458,684,841	-	-	-	106,198	4,100,258
Total	**33,386,695,115**	**31,352,229,797**	**65,508,355**	**737,581,182**	**840,735,471**	**77,593,782**	**313,046,522**

The following observations are also made in this connection.

(a) Interest Charges on Overdue Balances

(i) The Corporation is charging interest from customers who are having outstanding balances exceeding the credit periods. However, a proper system had not been designed, implemented and maintained by the Corporation to calculate the interest due to ineffective decision taken by the Board to control the unnecessary dragging of the payment for an unforeseen period.

(ii) It has been reiterated in previous audit reports that there were errors due to manual calculation of interest and therefore suggested to use the introduced SAP system. However, favorable actions had not been taken by the Corporation to rectify such control weaknesses and such errors had been observed in the year under review too.

(iii) Interest had not been charged on balance of Rs. 31,207,680 outstanding from Provincial Road Development Authority of Western Province since 2015.

(b) Agreements of Fuel Supply

(i) The CPC had not entered into formal agreements, especially, with 17 major customers whose outstanding balance represent Rs. 27,636 million or 82 per

cent of the total debtor balance as at 31 December 2016. Therefore, the default risk is very high due to lack of legal right to the Corporation, if any, complication arisen at the settlement.

(ii) A sum of Rs.7.9 billion had been paid by the Sri Lankan Air Lines Ltd on 30 September 2015 in local currency as settlement of the outstanding balance prevailed at that date ignoring the billing currency i.e. US$. Thereafter, the Corporation had converted that amount into US$ at the rate prevailed on that date and necessary adjustments had been made in its books of accounts, accordingly. Subsequently, the Sri Lankan Air Lines Ltd. had made a request to the CPC not to treat the exchange gain of Rs. 307,063,541 on that transaction as an income and consider the entire amount (including the exchange gain) as the final settlement. Accordingly, it was revealed that non-availability of firm conditions on such issues in the credit agreement entered into between two parties had critically impacted to the settlements.

Further, the Corporation had agreed to share the previously recognized exchange gain approximately Rs. 154 million, equally. However, no adjustments had been made in the financial statements in this regard.

(iii) It was observed that the petroleum products had continuously been supplied to the customers despite their long outstanding balances. Selling petroleum products to Sri Lanka Transport Board – Jaffna, Road Development Authority and Ministry of petroleum development having long outstanding balances of Rs.3,964,634, Rs. 90,002,930 and Rs. 6,243,570 respectively can be cited as examples.

(c) Short Term Loans

The following observations are made in relation to the Short Term Foreign Currency Loans (STFCL) obtained by the CPC.

(i) According to the age analysis, the credit period granted on behalf of loans amounting to Rs 76,488.442 million (USD 504.062 million) or 39 per cent of such total loans had been expired at the end of the year under review. Of that, 52 per cent was in arrears over a period nearly one year as at 31 December 2016. Those short term foreign currency loans had been granted

by the Peoples Bank during the period from 01 October 2015 to 31 December 2015.

(ii) The Corporation had to incur an additional cost approximately Rs. 3,416 million as interest due to non-settlement of such loans within the agreed period. That additional cost was only for the short term foreign currency loans where the credit period exceeded over 01 year as at 31 December 2016. However, the total cost of the late settlement of such loans would further increase if calculation is done for the entire period of delay. Further, it was observed that there were short term investments of Rs. 63,763 million available as at the beginning of the year under review which generated lesser return than the above mentioned loan interest rate.

The Managing Director of the Corporation status as follows in this regard. "*The Bank was not in a position to purchase sufficient quantity of USD to settle foreign currency loans granted by them*".

Accordingly, existing a proper evaluation for selection of borrowing source and availability of proper settlement plan to honor the conditions of the loan, especially to mitigate the impact of higher interest cost and loss due to depreciation of currency was in doubt.

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

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

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Public Enterprises Circular No. PED/12 of 2 June 2003 - Guidelines for Good Governance.	
(i) Guideline 3.2	At least one industry expert had not been included in the Board of Directors of the CPC.

(ii) Guideline 7.4.4	It is essential that a Training Committee, a Subcommittee of the Senior Management Committee, should evaluate the training needs of the enterprise, to enable the human resources of the enterprise to keep abreast of changes, both locally and abroad to improve employee productivity. Further, such Committee should formulate procedures relating to selection of individuals for local/ foreign training. However, no such mechanism had been in operation.
(iii) Guideline 9.14	The Scheme of Recruitments and Promotions (SOR) of the CPC other than A Grade officials had not been approved by the Department of Management Services (MSD).
(iv) Guideline 9.3.1	The CPC had not maintained proper succession plan to mitigate the risk of filling vacancies in the posts of senior management level.
(v) Guideline 9.5.1	A training budget should have been prepared and the amount allocated for training should be determined in consultation with the Training Committee. However, no such training budget had been prepared by the CPC up to date.
(vi) Guideline 9.5.4	Internally generated funds of a commercial corporation or Government grants should not be utilized for foreign training, unless specific approval is obtained from the Secretary to the Treasury. However, it was not observed in audit that the specific approvals had been

		obtained by the CPC in accordance with the Guideline.
(b)	Finance Circular No. 124 of 24 October 1997 of the Ministry of Finance and Planning.	Covering up duties of a vacant post should be limited to a period of 03 months. However, 14 officers had been assumed for cover up duties of the vacant posts including 08 posts in Grade A such as Manager (Investigation), Manager Marketing (Retails), Management Assistance Regional Manager (Central) etc. for the period ranging 07 months to 3 years as at 31 December 2016.
(c)	Department of Public Enterprises Circular No. FP/06/35/02/01 of 04 November 2013 and No. PED 03/2016 of 29 April 2016.	The CPC had borne the Pay As You Earn (PAYE) tax of its employees amounting to Rs. 152,690,099 without deducting it from their personal emoluments for the year under review.
(d)	Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 396	According to the sample selected, 1,619 cheques to the total value of Rs. 3,652.74 million had been issued but not presented to the Banks as at 31 December 2016 for a longer period. However, actions had not been taken to clear those outstanding cheques even up to 27 July 2017.

3 Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the CPC for the year under review had resulted in a pre-tax net profit of Rs. 69,553.681 million as against the pre-tax net loss of Rs. 19,885.780 million for the preceding year, thus indicating an accretion of Rs.89,439.461 million in the financial results. The stable of import cost due to untiring of oil prices in the international market, the growth of sales in the domestic market as a result of increase of demand, decline the depreciation trend of Lanka Rupee against the United

States Dollar in the year 2016 and the decrease of financial expenditure as compared with the previous year had been caused to this surplus. In addition to the pre-tax profit of Rs.69,553.681 million, the contribution of the CPC to the Country during the year under review was Rs. 153,184 million and it was Rs. 100,175 million in the previous year.

3.2 Analytical Financial Review

3.2.1 Profitability

The operations of the CPC had resulted in a markup of 29.6 per cent for the year under review thus indicating an improvement of 17.85 per cent as compared with the markup of 11.75 per cent in the preceding year. Similarly, the gross profit for the year under review had increased by Rs. 57,004 million or 144 per cent as compared with the corresponding gross profit of Rs. 39,616 million in the preceding year. These improvements are summarized and shown below.

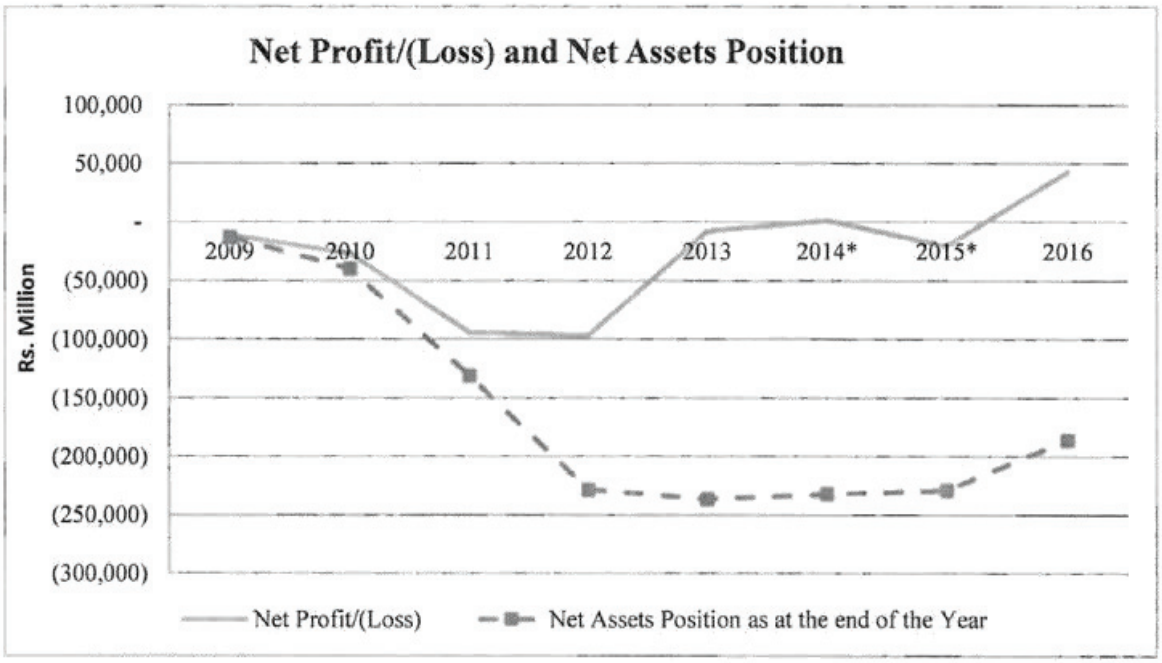
Description	For the year ended 31 December		Variance {Favorable/ (Adverse)}	
	2016	2015 Restated		
	Rs. million	Rs. million	Rs. million	Percentage
Revenue	423,061	376,734	46,327	12
Cost of Sales	(326,441)	(337,118)	10,677	3
Gross Profit	**96,620**	**39,616**	57,004	144
Other Income	3,589	4,234	(645)	(15)
Selling and Distribution Expenses	(14,412)	(13,401)	(1,011)	(7.5)
Administration Expenses	(4,384)	(3,592)	(792)	(22)
Operating Profit	**81,413**	**26,857**	54,556	203
Exchange Rate Variation	(8,829)	(32,841)	24,012	73
Finance Expenses	(11,404)	(15,049)	3,645	24
Finance Income	8,374	5,011	3,363	67
Hedging Expenses	-	(3,864)	3,864	100
Profit/(Loss) Before Income Tax	**69,554**	**(19,886)**	**89,440**	**450**

3.2.2 Net Profit/(Loss) Vs. Net Assets

The net profit/ (loss) and the net assets position of the CPC for the year 2016 and previous seven years are depicted in the table and the chart given below.

Year	Net Profit/(Loss)	Net Assets Position as at the end of the Year
	Rs. million	Rs. million
2011	(94,357)	(131,236)
2012	(97,181)	(228,545)
2013	(7,889)	(236,467)
2014*	1,129	(232,257)
2015*	(20,681)	(228,985)
2016	53,027	(185,847)

* Restated



3.2.3 Significant Accounting Ratios

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

Ratios	2016	2015 (Restated)
Profitability Ratios		
Gross Profit Ratio (GP) (%)	22.84	10.52
Operating Profit Ratio (%)	19.24	7.13
Net Profit/(Loss) Ratio (NP) (%)	12.53	(5.45)
Liquidity Ratios		
Current Assets Ratio (Number of times)	0.34:1	0.31:1
Quick Assets Ratio (Number of times)	0.24:1	0.21:1
Working Capital (Rs. million)	(249,297)	(295,098)
Investment Ratios		
Return on Assets (ROA) (%)	27.82	(10.4)

The following observations are made in this regard.

(a) The gross profit ratio and the net profit ratio had improved by 12.33 per cent and 17.98 per cent respectively during the year under review as compared with the previous year.

(b) The negative working capital position of the CPC in 2016 had improved by 6 per cent as compared with the previous year. The main contributory factors for this positive condition were increase of trade and other receivables, short term investments and decrease in borrowings.

4 Operating Review

4.1 Performance

(a) The domestic retail prices of petroleum products had been revised upward continuously up to September 2014 in order to address the financial difficulties of the CPC. In the meantime, the domestic retail prices of petroleum products had been reduced twice during 2014 and 2015 as international oil prices had continued to be on a declining trend. However, the above price revisions had not reflected the actual reductions in international market prices in full as no price revision had been taken place since then. Moreover, the CPC had continuously sustained losses from following petroleum products during the year under review and previous four years.

Sector	Net Losses Sustained for the Year				
	2016	2015	2014	2013	2012
	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million
Power Generation					
Fuel Oil 1500	-	252	299	1,240	34,959
Industrial & Domestic					
Fuel Oil 1500	-	262	69	350	2,003
Domestic Kerosene	2,982	3,860	2,715	2,449	3,525
Export					
Naphtha	1,580	827	1,799	-	-
Fuel Oil	727	5,346	1,627	-	-
Bunkering					
Fuel Oil	68	-	-	-	-

Further, the CPC had incurred losses of Rs. 8,251 million and Rs. 1,291 million from petrol 92 Octane and 95 Octane respectively in the year under review as shown below.

Profitability on Petroleum Products (per liter) for the year 2016

Product	Selling Price per Liter	Sales Price Net of Dealer Margin per Liter	Cost of Sales per Liter	Gross Profit per Liter	All Taxes Included in the Total Cost per Liter	Total Cost per Liter	Net Profit/ (Loss) per Liter	Total Net Profit/ (Loss) for the year
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs. Mn.
Petrol 95	128.00	124.15	95.29	28.86	67.87	133.06	**(8.91)**	(1,291)
Petrol 92	117.00	113.49	84.29	29.20	57.89	120.84	**(7.35)**	(8,251)
Auto Diesel	95.00	92.83	60.37	32.46	17.22	76.02	**16.81**	31,128
Super Diesel	110.00	107.20	66.46	40.74	24.93	83.62	**23.58**	1,761
Kerosene	49.00	47.77	56.38	(8.61)	-	65.59	**(17.82)**	(2,982)*

* Kerosene loss of Rs. 2,982 million has been accounted in the financial statements as a subsidy receivable from the General Treasury.

(b) The agreement entered into between a private Gas Company and CPC in respect of selling liquid petroleum gas had been expired on 20 October 2006. As reported in the previous audit reports, the CPC has been supplying liquid petroleum gas to that Company continuously without entering into a fresh agreement or renewing the earlier agreement. In addition to that, the CPC supplies liquid petroleum gas to the other private Company without entering into an agreement.

4.2 Management Weaknesses

The following observations are made.

(a) Enterprise Resource Planning (ERP) System - It was observed that there was no any agreement or a Memorandum of Understanding among the CPC, 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) Collection of Monthly Utilized Fee (MUF)

According to the Board Decision number 38/1140 dated 29 October 2013, the Board has approved to charge a Monthly Utilized Fee (MUF) from all Corporation Owned Dealer Operated (CODO) Filling Stations and Treasury Owned Dealer Operated (TODO) Filling Stations with effect from 01 January 2014. However, MUF shall be charged from the dealers who are paying Monthly Occupational Rental (MOR) with immediate effect. Accordingly, MUF shall be calculated as 35 per cent of the average monthly commission out of average monthly commission earned during the previous year (12 months period). Further, a rebate had been granted to small scale dealers to sustain them as per the following basis.

Monthly Commission Category	Rebate percentage
Less than Rs. 500,000	70
Rs. 500,001 - Rs. 1,000,000	50
Rs. 1,000,001 - Rs. 1,500,000	25
Above Rs. 1,500,001	0

After considerable delay, over 13 months, the Marketing Manager (Retail) had notified to the Board, by Board Paper No. 16/1154 dated 11 December 2014 that *"the implementation of this scheme with effect from 01 January 2014 was not possible due to the delay caused in preparing the agreements. The finalization of the CODO agreement is on the verge of completion and once it is finalized, the marketing function is expected to implement this scheme with all CODO/TODO dealers"*.

However, the Board had granted their approval to amend those agreements on 16 February 2016 wide the Decision No. 11/1179 but actions had not been taken to charge MUF from the dealers in both categories as mentioned above (MUF had been charged only 11 out of 248 dealers in 2016) up to 31 October 2017. As a result, over Rs 300 million per annum had been lost to the CPC since the year 2014 due to non-implementation of the said Board Decision.

(c) Medical Assistant Scheme (MAS)

According to the information available with audit, Ceylon Petroleum Corporation Thrift Society Limited (CPCTSL) had been registered on 31 December 1981 under the Section 123(3) (a) of the Society Ordinance and has been operating as a Not-for-Profit Organization (Non-Governmental Organization) as per the definition provided in the Sri Lanka Statement of Recommended Practice for Not-for-Profit Organization. All permanent employees of both CPC and CPSTL are the members of CPCTSL. The principal objectives of CPCTSL are to provide retiring benefits, financial assistance to the next of kin in the event of death of members, financial assistance to the members in the event of death of eligible family members, financial assistance to the members under the medical benefit scheme and loans provide to the members.

The following major benefits had been provided to the employees of the CPC and CPSTL by the CPCTSL as its members.

1. Payment of retirement benefits (half month salary for each completed year of service)
2. Conduct of MAS on behalf of CPC and CPSTL.

It was stated in the meeting minute of the CPCTSL dated 23 February 2016, the inability to continue the MAS due to a net deficit of CPCTSL which contribute to a

negative accumulated reserves amounting to Rs. 1,473,714,266 at the end of the year 2015. Then, according to the Board Decision No. 08/1186 dated 11 August 2016, the approval was granted to continue the management of MAS by the CPC with effect from 01 July 2016 and to bear the cost for providing basic entitlement by the CPC for a period of six months or until a suitable medical insurance provider is selected.

The following observations are made in relation to the MAS.

(i) Requested information was not provided to audit by the CPC even two reminders had been issued after the information called on 19 July 2017 regarding the CPCTSL. The reasons for not giving requested information about the relationship and transactions with the CPCTSL are questionable to audit.

(ii) According to the Board Decision No. 08/1186 dated 11 August 2016, even the management of Medical Assistant Scheme should be continued by the CPC with effect from 01 July 2016, audit was not observed any policy or procedure to manage Medical Assistant Scheme up to date. Further, medical bills amounting to Rs 41,237,505 had been claimed by the CPCTSL from the CPC relating to the period after the 01 July 2016 which is contrary to such Board Decision.

(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 these 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 Chairman of the CPC stated in this regard as follows.

"Action has been taken to call tenders to construct two new transfer lines having diameters of 18" and 14" respectively. These lines will be starting from Dolpin Tanker Birth (DTB) (with two new loading arms) and end up at Kolonnawa oil installation of CPSTL. In addition, the 12" line which is currently under repairs will also be completed, once the segment where horizontal drillings are needed to be done is carried out."

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 had not been implemented even in the year under review. The current position of the Cross country pipelines – Fuel lines from Colombo Port to Kolonnawa Depot is shown below.

Diameters of the Line (Inches)	Product	Current Position
10	Gas Oil	Working condition
10	Other White Oil	Not Working
10	Naphtha Oil	Not Working
12	Naphtha Oil	Not Working. The CPSTL is replacing the line
14	Fuel Oil	Working condition

According to the records of the CPC, total cost incurred by the CPC due to Pipe Line Transferring (PLT) Leakages and Demurrage Chargers was amounting to Rs.1,096,304,695 which comprise PLT variation loss of Rs. 922,800,051 and Demurrage Chargers loss of Rs. 173,504,644 respectively for the year under review

too and, both losses have been arisen mainly due to the issues in the Pipelines. Even these matters have continuously been pointed out in my previous audit reports; favorable actions had not been taken by the management of the CPC to mitigate the loss due to issues in the Pipelines.

(e) Trincomalee Tank Farm

The Tank Farm contained of 100 Oil Tanks, each having a capacity of 12,500 cubic meters (m^3) (10,000 MT) and other associated facilities, had been constructed in 1930. The land with an extent of 358,553 hectares belonged to the Tank Farm had been given on lease basis by the Government of Sri Lanka to the Commissioners of the Lord High Admiralty of the British Government for a period of 999 years before gaining independence to Sri Lanka. In 1961 at the request of the Government of Sri Lanka, the CPC had paid Sterling Pounds 250,000 in three installments and taken over the possession of Land, Tank Farm, Buildings and other equipment with effect from 01 April 1964. Nevertheless, no legal documents had been obtained from the Government for the above land.

In 2003, the Government of Sri Lanka had signed a MOU with Lanka Indian Oil Company (LIOC) to lease out the storage facilities and the land for a period of 35 years and lease agreement should be executed within 6 months from the date of the agreement. However, the CPC had not yet entered into any lease agreement.

In 1942 one oil tank had been totally destroyed by the war. Out of remained 99 oil tanks, 14 tanks are currently used by the LIOC and balance 85 tanks had been abandoned. During the Visit of Prime Minister of India to Sri Lanka in March 2015, it had been agreed that Lanka IOC and Ceylon Petroleum Corporation would jointly develop the China Bay upper tank farm. The Cabinet approval was granted to hand over the operation of the tank farm to the joint venture formed by the CPC and LIOC on 13 July 2016 and the Cabinet Committee on Economic Management (CCEM) held on 13 July2016 had granted the approval to appoint a consultant to development mechanism for a joint venture.

The Chairman of the CPC states in this regard as follows.

"This issue on how to utilize the Trincomalee tank farm had been discussed with a view to provide a solution to the storage constrains faced by CPC at Kollonawa installation. However, it has been brought to the notice of CPC that the ownership of these tanks at Trincomalee is yet to be decided as per the bi-lateral agreement between India and Sri

Lanka. CPC has planned to modify 16 tanks and to deliver fuel from Trincomalee to the nearby areas which will directly help to reduce the risk of product shortage in the country and a reduction of distribution cost. Once the approval is given CPC to own and operate few tanks, CPC is ready to go ahead with the commencement of the project of pipeline laying and related modifications within few months".

(f) Service Agreement between the CPC and CPSTL

A service agreement between the CPC and CPSTL was not made available, and therefore, a proper understanding of the services provide by each organization has not clearly been defined. Further, the CPC had not properly designed and implemented monitoring policies and procedures, including performance indicators, to ensure the provision of petroleum products in required quality and quantity by the CPSTL.

(g) Stock Review Committee

The Stock Review Committee consisted of members from the CPC, CPSTL, JCT Oil Bank and Lanka Indian Oil Company, Ceylon Electricity Board (CEB) and an officer from the line Ministry and its meetings are held in every week. However, The CPC had not maintained proper records relating to the stock levels, i.e. re-order level, maximum level, minimum level, and re-order quantity etc. in each petroleum product. The order quantity of petroleum products was decided solely based on the Stock Quantity Maintenance Report submitted by the CPSTL and no other document with regard to the maintenance of stocks of petroleum products had been submitted to the Stock Review Committee. However, it was revealed that, since the introduction of SAP system in 2010, the CPC was unable to extract data to produce required stock related reports.

(h) Utilization of Muthurajawela Terminal

Even it had continuously been reported in the previous audit reports, the Muthurajawela Terminal still had not been optimally used in issuing petroleum products. Accordingly, the following benefits had not accrued to the CPC from the investment made.

- Savings port charges
- Shortening lay time of vessels
- Reducing demurrage charges

- Savings delivery costs
- Reducing human resource costs
- Savings delivery loss at the point of discharging of fuel through pipelines
- Reducing traffic congestions in delivering fuel by bowsers.

4.3 Fisheries Coupon System

With the intention of reducing the negative consequences on fisheries industry resulted by revising the fuel prices, the CPC with the collaboration of the Department of Fisheries and Aquatic Resources had initiated a programme to give a fuel subsidy to the owners of the fisheries boats with effect from March 2012. The subsidy coupons had been distributed among the owners of the fisheries boats by the Department of Fisheries and Aquatic Resources, and it had been stopped from September 2013. The CPC had selected dealers to distribute fuel for fisheries coupons and accordingly, the fisheries boat owners had obtained fuel by producing the coupons from that selected regional dealers. The CPC had settled the due amounts to dealers when they submitted such fisheries coupons to the CPC. Accordingly, the amount incurred by the CPC had been reimbursed from the General Treasury through the Department of Fisheries and Aquatic Resources. The following observations are made.

(a) According to the information made available, the amount paid by the CPC up to 31 December 2016, to the dealers with regard to the fisheries coupon programme was Rs. 4,367,320,839 (As at 31 December 2015 was Rs.4, 371,312,889). However, the CPC had reimbursed a sum of Rs.4, 549,775,000 from the General Treasury in three installments.

(b) Although a sum of Rs. 182,454,161 had been excessively reimbursed by the CPC, it was not settled to the General Treasury even to date.

(c) The following deficiencies were observed with regard to the fisheries subsidy distribution process of the CPC.

(i) Allowable amount of fuel for the fisheries coupons had not been obtained by the fisheries boats owners and instead, they had obtained only the amount of fuel equivalent to the face value of the coupons (subsidy) from dealers.

(ii) There were instances that the fisheries boats owners had obtained cash from dealers by discounting fuel coupons instead of purchasing fuel, and the dealers had submitted those coupons to the CPC and got reimbursed the total amount of the value of the coupons.

(iii) There were instances that the amounts over the reimbursable had been credited to the distributors' accounts. According to the test check a sum of Rs. 9,759,350 had been credited to the distributors' accounts over the amount reimbursable as at 31 December 2015. However, a part of such over reimbursements had been settled later.

(iv) In some instances that the money had been credited to dealers' accounts without obtaining the fisheries coupons and later they had provided coupons to set off such amounts. In one of such instance, a sum of Rs. 24,310,000 had been credited to the distributors' accounts and within a period ranging from 01 to 12 months, the CPC had settled that amount by journal entries using coupons received subsequently.

(d) Instances of selection of unsuitable dealers for distribution of fuel for fisheries coupons had been observed. For instance, a filling station located in Hakmana area, which was 24 km away from the coastal area in Matara, had been selected for distribution of fuel for fisheries coupons.

(e) There was a difference of Rs. 85,878,751 between the actual value of the fisheries coupons issued to the fisheries boats owners and the value of coupons submitted by the dealers to the CPC for settlement.

(f) According to the test check carried out on the amount of fuel bills settled to a dealer, the following deficiencies were observed.

(i) According to the fisheries coupons procedure of the Department of Fisheries and Aquatic Resources, the dealers were not allowed to issue fuel to the fisheries boat owners of other districts. Even though the filling station of the above mentioned dealer had been located in Trincomalee District, he had obtained fisheries coupons from the fisheries boat owners of Mullaitivu and Jaffna Districts at discounted prices (without issuing fuel), and submitted to the CPC for the settlement of fuel bills. Accordingly, fisheries coupons

amounting to Rs. 17,508,875 had been submitted to the CPC for settlement but, it had not been settled by the CPC. Further, some other fisheries coupons amounting to Rs. 6,281,250 had been retained by him as at 30 June 2016 because the Corporation had rejected to accept them.

(ii) As per the internal audit investigation conducted in this regard, it was revealed that the CPC had paid a sum of Rs. 2,658,015 to the above dealer on fraudulent coupons presented by him. However, the CPC had not initiated any investigation against the responsible officers in this regard.

4.4 Hedging Transactions

As per the audit examination carried out pertaining to the hedging transactions taken place in respect of procurement of oil during the period of 2007 to 2009, the total loss incurred to the country on those transactions as at 31 December 2016 was Rs. 14,028 million.

The following observations are also made in this regard.

(a) The CPC was cited as a party in the arbitration proceeding pertaining to hedging contracts entered into with several Commercial Banks and a sum of US$ 60 million (Rs. 7,713 million) had been paid to the Standard Chartered Bank (SCB) on 3 June 2013 and a sum of US$ 27 million (Rs.3,881 million) had been paid to the Deutsch Bank AG on 04 August 2016 under the Deed of Settlement entered into between the parties. According to the information made available, the total loss incurred by the CPC as at 31 December 2016 was Rs. 13,641 million.

(b) The Central Bank of Sri Lanka had incurred legal expenses amounting to Rs. 941.2 million on the Hedging Transactions of the CPC and out of that a sum of Rs. 370.6 million had been incurred by the Central Bank of Sri Lanka and a sum of Rs. 567.5 million had been reimbursed to the Central Bank of Sri Lanka by the CPC from the year 2011 to the year 2014. However, an amount of Rs 3.1 million had not been reimbursed as at 31 December 2016.

(c) Moreover, the Commercial Bank had filed a case at the Commercial High Court, Colombo against the CPC claiming US$ 8,648,300.

(d) A formal investigation had been initiated against the then DGM (Finance) of the CPC who had sent on compulsory leave since 2008, and his service has been

terminated on 04 August 2016. However, no any other investigation had been initiated by the CPC against the persons who were responsible for those transactions.

4.5 Payment of Penalty

As reported in my previous year's audit report, the CPC had paid a sum of Rs. 57,736,913 to the Department of Customs on 20 June 2014 to settle the amount outstanding since 2002 for the purpose of commencing of bunkering operations and on the basis of reimburse that amount from the General Treasury. However, the Department of Customs had identified that this payment was made as a penalty. The following observations are made in this regard.

(a) The amount paid by the CPC had not been reimbursed by the General Treasury or the bunker business even up to the date of this report.

(b) According to the information made available, it was observed that 50 per cent of the above payment or a sum of Rs. 28,868,456 had been shared among the custom officers, and other 20 per cent or a sum of Rs. 11,547,383 had been allocated to the Custom Officers' Welfare Fund.

(c) Even though there was an opportunity to set off that amount since these two institutions are Government institutions, the CPC had not made an appeal in accordance with the provisions in Sections 154 and 165 of the Customs Ordinance.

4.6 Operating Inefficiencies

4.5.1 Refinery Operations

The existing 47 years old refinery, which was commissioned in 1969, is a basic refinery and 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 refineries operating with advanced technologies including facilities to produce petroleum products at lower cost and capabilities to upgrade bottom products to high value products such as petrol and diesel, whereby maximizing the refinery operating efficiency. However, the CPC was unable 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. Even though preliminary feasibility study had been completed and the required land (35 acres) had been acquired for this purpose, the CPC was unable to initiate the project yet due to insufficient financial strength to invest for this project. Total

cost of the project was estimated at US$ 2.1 billion with a payback period of less than 8 years, and the Net Present Value (NPV) of the project would be US$ 1,535 million. Further, the expenditure incurred by the CPC amounting to Rs. 837 million, which had been included in the assets and capital projects in progress under the property, plant and equipment as at 31 December 2016, was observed as an uneconomic transaction.

4.5.2 Supervision of Filling Stations

Even though the Department of Measurement Units, Standards and Services (MUSSD) and the CPC should take action to seal the dispensing pumps after checking the accuracy of calibration, it had revealed that this task had not been carried out in regular manner. As a result, it was observed in audit that in most of the instances the fuel had been issued to less than required limit of 0.25 through the dispensing pumps.

It was further observed that the supervision of filling stations had not sufficiently been done by the area supervisors i.e. no regular visit to the filling stations by area supervisor for a longer period of time, not taken action to adjust the broken air pump for a longer period of time, not properly monitored the daily sales records and not properly completed the Retail Outlet Inspection Report etc.

4.6 Assets Management

The following assets had been lying idle since the acquisition.

(a) **Halgaha Kumbura Land at Wanathamulla:** This land had been acquired for Rs.10.6 million for the purpose of establishing a LP Gas Project and a Playground. However, this land had not been utilized for the intendant purpose and it had been occupied by more than 700 squatters.

(b) **Mahena Land:** Aaccording to the correspondence made available, the CPC had acquired that land for a sum of Rs. 0.625 million, and it had not been accounted for. However, that land had been utilized by the previous owner even after the acquisition in 1986.

(c) **Investments:** The caring value of the investments made in quoted and unquoted shares of four companies as at 31 December 2016 was Rs. 35.125 million. However, no dividend since longer period had been received to the CPC by the companies. Further the evidence was not available to assure the existence of the International Cooperative Petroleum Association having investment value of Rs. 5 million.

4.7 Resources Released to other Institutions

In contrary to the instructions of the Circulars, particularly, the Public Enterprises Circular No. PED/12 of 02 June 2003 on Public Enterprise Guidelines for Good Governance and the Public Enterprises Circular No.21 of 08 January 2004, and the Letters No. CSA/PI/40 of 04 January 2006 and No. CS/1/17/1 of May 2010 issued by His Excellency the President, the CPC had released the following resources to other institutions and incurred a considerable amount of money for payment of remuneration and other allowances on behalf of released employees and payment of fuel and maintenance expenses for released vehicles. Details are shown below.

	Amount spent by the CPC			Number of Resources Released		
	2016	2015	2014	2016	2015	2014
	Rs.	Rs.	Rs.			
Human Resources	8,531,754	3,452,737	46,261,907	9	11	56
Vehicles	20,613	641,375	3,695,910	2	3	7
Total	**8,552,367**	**4,094,112**	**54,070,868**	**11**	**14**	**63**

4.8 Human Resources Management

The following observations are made.

(a) Filling the Vacancies

Although the approved cadre of the CPC as at 31 December 2016 was 3,284, the vacancies as at that date was 722 or 22 per cent of the approved cadre. Out of those vacancies, 135 posts or 30 per cent was in senior staff level including Deputy General Manager (Technical Services & Corporate Affairs), Deputy Refinery Manger (Maintenance & Projects), Chief Internal Auditor etc. Accordingly, the key positions of Top Management of the CPC were vacant for the period ranging between 7 to 46 months. In addition, the post of the Manager (Secretariat/Secretary to Board) has been vacant since 2012. Therefore, the reason to not taken favorable actions to fill the vacancies in key positions of the top management for longer period is questionable in audit.

(b) Recruitments in 2016

According to the information provided to the Committee on Public Enterprises (COPE) by letter No MPRD/IA/2/6 (i) dated 04 April 2017 with a copy to the Auditor General, it had been mentioned that 98 persons had had been recruited

during the year 2016 by CPC even the total recruitments were only 94. Accordingly, seventeen (17) recruitments were not mentioned while twenty one (21) recruitments had been overstated relating to all three Grades in the report submitted to the COPE. Therefore, the accuracy of the information provided to the COPE is doubt to the audit.

(c) Advertising the Notice for Recruitments.

According to the Revision 3 of Criteria and Marking Scheme for Recruitments and Promotions (the Board approved as 01/1163 of 26/05/2015), all internal and external advertisements should be released under functions of Human Recourses Management with the signature of Chairman or Managing Director for Grade A-1 or higher grade vacancies and under the signature of DGM (HR & Admin) or HR Manager for all the other grades of A -2 and below.

The following observations are also made in this regard.

(i) Several vacancies had been advertised in the official website of the CPC contrary to the above Scheme. Further, most of the advertisements published in the website had been uploaded and removed on verbal instructions made directly by then Chairman of the CPC to the Data Analysist (IT Division) without any reference even to the Manager (IT).

(ii) Even though the vacancies were uploaded in the website, those advertisements had not been displayed in the website for reasonable period as enable to seem and applied. It was observed in audit that some advertisements had been displayed in the website for less than three or five hours. Therefore, it had prevented the equal opportunities to apply for suitable citizen of the country to the above posts.

(iii) According to the Newspaper advertisement published on 29 February 2016 in a Sinhala Newspaper, the CPC had made an announcement by stating that all future vacancies of the CPC will be published in the official website of the CPC. However, advertisements for recruitment had been removed from the website before closing date of applications. For example, the advertisement for recruitment of General Labour had been removed on 04 July 2016 although the closing date was 13 July 2016.

(d) Recruitment of Management Assistants (Accounts & Audit)

The CPC had recruited 19 Management Assistants (Accounts & Audit) on 01 January 2017. The following observations are made in this regard.

(i) Those management assistants had been recruited without prior approval of the Department of Management Services (MSD).

(ii) The written examination had not been held as mentioned in the Scheme of Recruitments and Promotions (SORAP) for B 3 Grades.

(iii) Then Chairman of the CPC had informed the Human Resource Manager through Deputy General Manager (HRM & Admin) by his letter dated 02 October 2016, to recruit the candidates to the above post only by holding an interview. However, according to the Gazette Notification No. 1840/34 of 11 December 2013 and SORAP of the CPC, a written examination should be held for the external recruitment to the post of Management Assistants.

(iv) The documentary evidence was not made available for audit in order to ascertain whether five year experience in relevant field of an organization have been obtained or not by the selected candidates as requested by the SORAP of the CPC.

(v) It was observed that, two service certificates from different organizations had been given by an applicant for a particular period. Further, it was not sure that the service letters provided by the candidates had been verified by the CPC.

(vi) According to SORAP, the academic and professional qualifications should be verified from the relevant institutes within first six months after the recruitment. However, it has not been done even up to the date of audit on 30 October 2017.

(e) Recruitment of General Labours

According to the information provided, 6,853 applicants had been applied for the above post and only 156 had been selected to call for interview. However, the basis followed for short listing the candidates was not made available to audit. Further, a written examination had not been held even it had been stated in the advertisement published for recruitment. The Managing Director of the CPC had stated in this regard as follows.

"The CPC had received 6853 applications as at 13.07.2016, the closing date. Since it is not practical to consider such huge applications to fill 18 Nos. of vacancies, as instructed by the former Chairman/ MD, the applications received during the first 4 days which was 156 were considered for the interview since there was no other practical solution."

(f) Training

An approved Foreign Training Policy and Guidelines had not been introduced by the CPC even up to the date of this report. Therefore, it was observed that, the CPC had followed an irregular basis for selection of officers for both local and foreign training programs. According to the letter No. MPRD/ADM/15/02/40(com) dated 29 March 2017 from Ministry of Petroleum Recourses Development (MPRD), there were several issues relating to the foreign training and advised the management of the CPC to rectify those issues.

4.9 Transactions of Contentious Nature

4.9.1 Fund Transfer to the General Treasury

As per the request made by the Ministry of Finance, a total sum of Rs. 20,000 million had been paid by the CPC to the General Treasury in 2014 and 2016 by Rs. 10,000 million in each year.

The CPC had been instructed by the Director General of the Department of Public Enterprises by his letter dated 30 December 2014 to charge the above mentioned Rs. 10,000 million paid in 2014 as an expenditure of Rs. 250 million for the year 2014, Rs. 750 million for the year 2015 and Rs. 1,000 million per annum for the period 2016 to 2024. However, without considering the financial impact of the above mentioned accounting treatment, the CPC had fully adhered to the instructions given by the General Treasury.

The secretary to the MPRD had been informed by the Director General of the Department of Public Enterprises by his letter number PE/RE/SP/2016 dated 16 December 2016 to instruct the CPC to remit Rs. 10,000 million to the Consolidated Fund very early to enable the General Treasury to issue Bonds to strengthening the balance sheet of the CPC in 2017 by a similar amount. The way of strengthening the financial position of the CPC as per the proposal of the Treasury by taking off of its cash in a situation of running the business at

negative net assets position of Rs. 186 billion would be further deteriorated instead of strengthening the financial position.

After several communications between the CPC and Department of Public Enterprises about the accounting treatment of the above transactions, finally, the CPC had been instructed in October 2017 to treat it as dividend paid to the government from the profit of the year 2016 and also instructed to pay the remaining taxes if any based on the profit of the year 2016 in three years in equal monthly installments.

5 Accountability and Good Governance

5.1 Internal Audit

Internal audits provide important services to the management of any organization. These include detecting and preventing fraud, testing internal controls, and monitoring compliance with organization policy and government regulations. Therefore, internal audit functions provide a vital role in the development of the organization. The following observations are made in this connection.

(a) Out of 42 approved cadres, 09 posts or 21 per cent of the approved cadre were in vacant as at 31 December 2016. Of them 07 posts or 54 per cent was in senior staff level.

(b) Although the Chief Internal Auditor is directly responsible to the Board of the CPC, according to the organization chart available for audit, the Chief Internal Auditor is directly responsible to the Managing Director of the CPC.

(c) Due to above, it was observed that the internal audit functions of the CPC had gradually inactivated since mid of the year 2011.

5.2 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.

Major Areas	Observations
(a) Personnel Administration	Failure to get the approval for the Scheme of Recruitment (SOR).
(b) Financial Control	Utilisation of funds for the execution of the main objectives of the Corporation. Utilization of funds for the execution of the main objectives of the Corporation had not been carried out adequately.
(c) Trade and Other Receivables	There were weaknesses in controls over the collection of dues in time and mitigation of the default risk.
(d) Procurement	Complying with the provisions of the National Procurement Guidelines
(d) Utilization of Resources	Complying with the Circular instructions in deploying the resources.
(e) Control over Information Systems	Prevailing opportunities to the officers to access and pass journal entries for previous years in the SAP system in the current year. Hence, the ability to amend other modules too in the SAP systems could not be ruled out in audit. Further, the duplicate customers' accounts had been created in the SAP system. Hence, there is a possibility to damage the internal control mechanism of the CPC and allow to misuse the credit limits, credit period and related controls over the debtors

W.P.C. Wickramaratne
Auditor General (Acting)

DECADE AT A GLANCE

	2007	2008	2009	2010	2011	2012	2013	2014 (Restated)	2015 (Restated)	2016
DOMESTIC SALE OF BULK PRODUCTS										
(A) VALUE - Rupees Mn.										
Petrol	46,580	66,434	60,055	65,158	90,499	117,600	132,398	140,885	127,879	145,476
Auto Diesel	113,737	151,070	119,046	122,360	165,800	246,441	216,420	244,407	174,984	206,545
Super Diesel	468	885	866	1,170	1,588	3,540	4,152	5,104	5,998	8,006
Kerosene	12,459	14,000	9,755	10,711	12,804	18,100	16,803	15,366	9,831	8,605
Furnace Oil	43,941	66,220	33,157	35,792	49,991	84,790	60,651	70,021	34,841	52,971
Total	217,185	298,609	222,879	235,191	320,682	470,471	430,424	475,783	353,533	421,603
(B) QUANTITY - Thousand Metric Tons										
Petrol	382	384	416	484	563	619	640	687	838	965
Auto Diesel	1,450	1,371	1,427	1,422	1,849	1,930	1,559	1,757	1,579	1,875
Super Diesel	5	7	9	11	14	22	25	31	47	63
Kerosene	169	151	151	165	147	143	126	122	130	138
Furnace Oil	985	995	1,096	1,004	1,093	1,187	668	722	512	626
Total	2,991	2,908	3,099	3,086	3,666	3,901	3,018	3,319	3,106	3,667
(C) RETAIL SELLING PRICES IN PETROLEUM PRODUCTS										
(Colombo Spot Price in Rs. Per Litre as at 31st December)										
Petrol - 92 Octane	92.00	120.00	115.00	115.00	125.00	159.00	162.00	150.00	117.00	117.00
Auto Diesel	60.00	70.00	73.00	73.00	76.00	115.00	121.00	111.00	95.00	95.00
Super Diesel	65.30	85.30	88.30	88.30	98.30	142.00	145.00	133.00	110.00	110.00
Kerosene	48.00	50.00	51.00	51.00	61.00	106.00	106.00	81.00	49.00	44.00
Furnace Oil 800"	44.40	33.90	34.90	40.00	52.20	92.20	92.20	92.20	80.00	80.00
Furnace Oil 1500"	43.30	31.70	32.70	40.00	50.00	65.00	90.00	90.00	80.00	80.00
Furnace Oil 3500"	41.00	25.00	26.00	40.00	50.00	65.00	90.00	90.00	80.00	-
OPERATING RESULTS										
Revenue	238,364	341,670	237,663	256,329	356,442	512,910	490,381	525,182	376,734	423,061
Cost of Sales	(222,763)	(334,849)	(232,271)	(269,316)	(420,227)	(540,439)	(464,374)	(499,956)	(337,119)	(326,441)
Gross Margin	15,601	6,821	5,392	(12,987)	(63,785)	(27,529)	26,007	25,226	39,615	96,620
Net operating expenses and interest	(11,617)	(21,557)	(16,745)	(13,936)	(30,572)	(62,041)	(33,897)	(24,532)	(55,637)	(27,067)
Hedging expenses	-	-	-	-	-	(7,612)	-	-	(3,864)	-
Profit/(Loss) before tax	3,984	(14,736)	(11,353)	(26,923)	(94,357)	(97,182)	(7,890)	694	(19,886)	69,553

Rupees Mn	2007	2008	2009	2010	2011	2012	2013	2014 (Restated)	2015 (Restated)	2016
Equity & Liabilities										
Capital	1,000	1,000	1,000	1,000	3,500	3,500	3,500	3,500	28,487	28,487
Reserves	12,568	(2,416)	(14,038)	(38,369)	(134,736)	(232,045)	(239,967)	(236,791)	(257,472)	(214,334)
L/T Liabilities	13,728	10,908	32,779	28,478	27,646	1,998	1,351	703	342	266
Gratuity Provision	541	567	735	746	626	547	538	664	861	754
Total	27,837	10,059	20,476	(8,145)	(102,964)	(226,000)	(234,578)	(231,924)	(227,782)	(184,827)
Represented by										
Fixed Assets, Including WIP	4,374	4,624	5,041	8,280	8,850	9,599	13,136	13,676	13,915	13,547
Investment	2,547	2,542	2,542	2,542	5,042	5,058	5,044	14,942	41,725	40,595
Net Current Assets	20,916	2,893	12,893	(18,967)	(116,856)	(240,657)	(252,758)	(260,542)	(283,422)	(238,969)
Total	27,837	10,059	20,476	(8,145)	(102,964)	(226,000)	(234,578)	(231,924)	(227,782)	(184,827)
SUMMARISED CASH FLOW STATEMENT										
Net Cash flow from / (used in) Operating Activities	37	(1,228)	41,840	(24,169)	(102,756)	(68,408)	(13,920)	(1,817)	9,247	54,532
Net Cash flow from / (used in) Investing Activities	1,166	41	(309)	(3,376)	(644)	1,148	(7,547)	(1,826)	(23,385)	(6,010)
Net Cash flow from / (used in) Financing Activities	(3,326)	(1,001)	(21,340)	(4,379)	119,017	62,540	7,232	28,745	41,036	(81,200)
Net increase / (Decrease) in cash & Cash Equivalents	(2,123)	(2,188)	20,191	(31,924)	15,617	(4,720)	(14,235)	25,102	26,897	(32,678)
Cash & Cash Equivalents at beginning of the year	12,084	9,961	7,772	27,963	(3,961)	11,656	6,936	(7,299)	17,803	44,700
Cash & Cash Equivalents at the year end	9,961	7,772	27,963	(3,961)	11,656	6,936	(7,299)	17,803	44,700	12,022
ACCOUNTING RATIOS										
Profitability Ratios										
Gross Profit Ratio	6.5%	2.0%	2.3%	-5.1%	-17.9%	-5.4%	5.3%	4.8%	10.5%	22.8%
Net Profit Ratio	1.2%	-4.4%	-4.9%	-10.5%	-26.5%	-18.9%	-1.6%	0.0%	-5.3%	16.4%
Operating Ratios										
Cost to Income ratio	97.9%	102.6%	102.7%	109.4%	121.8%	108.9%	97.8%	97.7%	93.0%	80.9%
Inventory T/O Ratio	6.65	9.34	8.13	8.04	10.70	10.89	7.30	7.77	6.44	8.53
Interest Cover	2.28	(3.66)	(1.39)	(2.93)	(9.48)	(3.88)	0.57	1.05	(0.32)	7.10
Liquidity Ratios										
Current assets Ratio	1.22	0.98	1.06	0.82	0.58	0.43	0.39	0.34	0.31	0.34
Quick Ratio	0.64	0.69	0.86	0.57	0.45	0.28	0.24	0.19	0.21	0.24

GLOSSARY OF FINANCIAL TERMS

Accounting Policies – The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual Basis – Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Cash Equivalents - Short term highly liquid investments readily convertible to known amounts of cash which are subject to insignificant risk of changes in value

Contingent Liabilities - Conditions or situations existing on the Statement of Financial Position date, where the financial effects will be determined by future events which may or may not occur.

Current Ratio - Measures the number of times current liabilities are 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)

Events after the Reporting Period - Significant events that occur after the Statement of Financial Position date and the date on which financial statements are authorized for issue

Fair Value – The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Interest Cover - Measures the extent to which interest charges are covered by profit before interest and tax.

Provisions - Liability of uncertain timing or amount

Related Parties - Parties where one party has the ability to control or significantly influence the other party in making financial and operating decisions / policies

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).