POWERING UP SRI LANKA





CEYLON PETROLEUM CORPORATION

ANNUAL REPORT

2017



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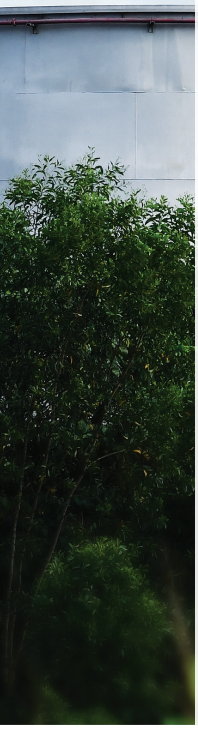
POWERING UP SRI LANKA

As Sri Lanka continues with its development agenda to become a sustainable country with a high quality of life, its energy needs have increased with each passing year. Petroleum products form a key segment of the total energy mix of the country. However, with no natural petroleum resources currently minable, the transport sector almost completely and the electricity sector secondarily have to obtain their fuels from the two players of which the larger is the Ceylon Petroleum Corporation (CPC).

Among other issues, the world is in crisis with respect to both energy and finance and coupled together they have severely impacted the performance of the energy sector in Sri Lanka and challenged the CPC to deliver petroleum products to the public under high fiscal pressure. In its efforts, it keeps uppermost, the fact that even small changes in prices can dramatically affect the lives and lifestyles of all of the people on the one hand and industry on the other. Taking cognizance of the sensitivity of the country's overall development agenda to the availability and cost of petroleum products, it has, over the last year had to take a lesser attractive year profit wise in order to ensure that undue pressure does not fall on the citizenry. It therefore continues, with commitment, care and foresight to keep sight of its mission to provide affordable fuels, knowing full well that if it fails the nation, the nation fails. Therefore, during the year under review, it looked beyond profits and determinedly executed its mandate to power up Sri Lanka!

CORPORATE INFORMATION





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, Colombo 09.
TELEPHONE	+94 11 5455455
TELEGRAM	"LANKA OIL"
CABLE	CEYPETCO
TELEX:	21235 CEYPETCO CE
FAX	+94 11 5455400
E-MAIL	cpcsec@ceypetco.gov.lk
WEBSITE	www.ceypetco.gov.lk
TAX PAYER IDENTIFICATION	409000053
VAT REGISTRATION NO.	409000053 - 7000
FINANCIAL YEAR	01 January to 31 December
CHAIRMAN	Mr. Dammika Ranatunga
MANAGING DIRECTOR	Mr. N R R Jayasekera
DIRECTORS	Mr. K A Vimalenthirarajah Mr. R A N Jayasundara Mr. A T Bandara Herath Mr. S Dhanatunge Mr. W S Perera
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, Nations Trust Bank

SENIOR MANAGEMENT TEAM

Mr. E A S Edirisinghe
Actg. Refinery Manager

Mr. V N Weerasooriya
Deputy General Manager
(Finance)

Mr. W M K R B Wickremasinghe
Deputy General Manager
(Marketing)

Mr. M A D Mallikarachchi
Deputy General Manager
(Technical Services & Corporate Affairs) (Acting)

Mr. S W Gamage
Deputy General Manager
(HR & Administration)

Mr. M K Garusinghe
Deputy General Manager
(Commercial & Supply Chain)

Mr. L G M R Perera
Deputy Refinery Manager
(Electrical & Instrument)

Mr. D M P Dissanayake
Deputy Refinery Manager
(Maintenance & Projects) (Acting)

MANAGEMENT TEAM

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)

TECHNICAL SERVICES & CORPORATE AFFAIRS

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

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

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

FINANCE

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

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

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

SECURITY & INVESTIGATIONS

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

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

Manager
(Marketing – Lubricant & Special Products)
Mr. G. M. U. W. Doloswala

Agro Chemicals

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

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

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

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

THE PURPOSE OF **OUR EFFORTS**

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 provide 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

- Retaining the highest level of market share
- Reach excellence in sales, marketing and operations in a competitive market
- Be the foremost contributor for Sri Lanka to become the energy hub of the region
- Improve and maintain high levels of professionalism at all levels of staff
- Institute structural changes to improve productivity and management
- Institute health, safety and environment friendly measures to exceed stipulated standards
- Uphold 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



FINANCIAL HIGHLIGHTS

OPERATING RESULTS

2013

Revenue	490,381
Cost of Sales	-464,374
Gross Margin	26,007
Net operating expenses and interest	-33,897
Profit/(Loss) before tax	-7,890

2014

Revenue	525,182
Cost of Sales	-499,956
Gross Margin	25,226
Net operating expenses and interest	-24,532
Profit/(Loss) before tax	694

2015

Revenue	376,734
Cost of Sales	-337,119
Gross Margin	39,615
Net operating expenses and interest	-59,501
Profit/(Loss) before tax	-19,886

2016

Revenue	423,061
Cost of Sales	-326,441
Gross Margin	96,620
Net operating expenses and interest	-27,067
Profit/(Loss) before tax	69,553

2017

Revenue	446,502
Cost of Sales	418,961
Gross Margin	27,541
Net operating expenses and interest	-24,174
Profit/(Loss) before tax	3,367

REVENUE



2016
Rs. Mn. 423,061



2017
Rs. Mn. 446,502

COST OF SALES



2016
Rs. Mn. 326,441



2017
Rs. Mn. 418,962

GROSS PROFIT



2016
Rs. Mn. 96,620



2017
Rs. Mn. 27,541

Sales of Petroleum Products - Quantities in Mn. Ltrs.

Year	LP 92	LAD	LK
2013	785.21	1,842.74	142.32
2014	831.36	2,077.16	138.51
2015	993.75	1,866.54	155.63
2016	1,123.33	2,216.64	167.41
2017	**1,210.23**	**2,269.11**	**198.09**

Segmental Profitability



Transport
Rs. Mn. (27,778)



Power Generation
Rs. Mn. 19,004



Aviation
Rs. Mn. 1,930



Industrial - Total
Rs. Mn. 3,795



Domestic
Rs. Mn. (5,201)



Bitumen
Rs. Mn. (13)



Lubricants
Rs. Mn. 162



Agro Chemical
Rs. Mn. (121)



Total Business Segments
Rs. Mn. (8,371)



Finance Income
Rs. Mn. 11,067



Other Operating Income (Net)
Rs. Mn. 670



Income tax
Rs. Mn. (1,898)



Profit for the Period
Rs. Mn. 1,470

Ratios

Ratio	2016	2017
Gross Profit Ratio	22.8%	6.2%
Operating Profit Ration	19.2%	1.74%
Net Profit Ratio	12.5%	0.3%
Return on Total assets	**27.76%**	0.7%

	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Profit/(Loss) for the year	1,469.627	53,027.081	3,999.545	54,439.000



CHAIRMAN'S MESSAGE

The petroleum sector had been experiencing a great deal of uncertainty during the last few years and, showed signs of recovery by the end of 2016. This global trend had its effect on the petroleum business of CPC and on the country as whole. During the recession, most of the large scale projects of exploration and development were delayed and the emerging increase in the demand for petroleum products had its impact on the local market as well, by way of an upward movement prices. The financial burden of the incremental prices had to be borne by CPC. As such, the corporation's overall performance was significantly affected by both a rise in import costs as well as a depreciation of the local currency. As a result, though CPC secured a 5% increase in revenue, there was a 97% drop in profits.

Shifting of global energy trends and the fossil fuels

While there is an increase in demand for energy, especially in the emerging economies of Asia, the global energy mix has shifted significantly towards cleaner renewable resources. CPC being a fully owned government enterprise with a paradigm shift has totally aligned towards the National Goals of sustainable development with the engagement of the society. The impact of that shift to the fossil fuel industry has been strong and there is an anticipation that it will become stronger in the near future. Over and above the volatility of petroleum prices, the global thrust to move away from the industrial age into the sustainable age has created cause for concern. While the CPC has executed its mandate to supply refined petroleum products, it has done its best to affirm its social responsibility by reducing carbon emissions.

However, future of the energy sector where there is a shift away from a depleting source to a renewable basket of resources have still not been adequately metricized and



leaves mission critical questions to be answered over the next few years with respect to the position and relevance of petroleum products in a sustainable world. The external dependencies mentioned above with respect to importation of fossil fuel and local currency strength, when coupled with the sustainability thrust have compounded difficult issues for the corporation.

A key step in this direction would be the adaptation of much needed price reforms that have been designed to adequately and equitably reflect all impacted parties including the general public.

Sri Lankan operating context

Central Bank statistics indicate a drop in growth of the overall economic growth, YoY from 4.5% to 3.1% for the year under review. CPC has immensely contributed to the national development by way of paying Rs. 146 Billion as taxes and supplying the fuel to the nation at subsidized prices.

Further, agriculture contracted by 0.8% as adverse weather conditions of 2016 spilled over into 2017. There had been a comparative stability of the rupee throughout the year. Government has taken measures to ease the pressure experienced in the first two months of the year under review through increasing overseas investments in the government securities market, increased conversion of export proceeds, and the disbursement of funds from the IMF. During the year under review, has improved the overall investor confidence.

Powering up Sri Lanka

The CPC being a key State Owned Strategic Enterprise (SoSE) plays a crucial, non-negotiable role in the development policies, regulations and metrics and the level to which the government can ease the burden on the lives of the citizens and facilitate growth in all sectors. Therefore, the CPC necessarily had to respond to market issues and weakening currencies without burdening

the public. This foundation policy and core values of the corporation resulted in very serious declines in profits during the year under review with tough decisions having to be made over the year.

The refinery processed 1,950,000 MT of crude oil during the year, up from 1,639,047 MT in the previous year. While the demand side increased by 11.01% for all fuel types including oil and gas, the costs were increased by a factor of 28% due to aforementioned externalities. The gap in refined products demand was filled through importation of finish products to ensure supply continuity to the nation.

There was a LKR 23 billion increase in revenue from LKR 422 billion to LKR 445 billion YoY due to increase in demand from all sectors with significant increases in demand from the power sector due to the lack of hydropower resulting from a prevalent drought. However, the overall drop in profits is of a serious concern and needs to be adequately addressed in the coming years.

Development Highlights

There had been several essential developments for CPC to fully engage in the petroleum sector while serving the citizens of Sri Lanka. CPC adapted a very transparent zero based budget mechanism, where the constant monitoring of financial indicators and taking initiatives to mitigate the adverse effects of the externalities mentioned above, taken on a quarterly basis. As a result, the projects at hand were energized facilitating the paradigm shift on sustainable development. Planning was carried out and procuring process was completed to commence the long outstanding project of installing filters at the Jet A-1 loading facility to meet the international operational requirements and thereby reducing the additional premium paid for the imported parcels of Jet Fuel. The revival of Bitumen blowing plant had been planned extensively by the Refinery to capture the bulk Bitumen market share of the country. The procurement phase of the CPC project at the Bandaranaike International Airport (BIA) fuel hydrant system planned in parallel with the expansion project of the Airport was expedited and managed to complete during the year.

The way forward

Our commitment is towards ensuring Sri Lanka's energy security and providing the consumers with a continuous supply of quality petroleum products. In this exercise, we are in the process of optimizing our value chain, improve the efficiency of the island wide network of filling stations and upgrading them to meet international standards. Additionally, we will improve and expand our refinery facilities while expediting the completion of the projects commenced in 2016 to revamp the pipelines running between the Colombo port and Kolonnawa storage facility.

Despite these efforts, CPC is fully cognizant of the volatile local and international business environment and the effect that the present crises in food, energy, climate and finance on the petroleum industry. Despite challenges compelling to make difficult choices, CPC is confident that it will consolidate its position and continue to be the pivot upon which the development of the country rests.

A Final note

The corporate team of CPC guided by the Managing Director worked tirelessly to achieve the set goals of CPC despite the pressure exerted by the internal and external environment, specifically from the developments in the global economic outlook. This corporate approach helped resolving of disputes and brought the best out of our formidable workforce and consolidated the inter-organizational relationships, thereby achieving the expected outcome.

I am very much thankful to my corporate team for the support extended to ensure the betterment of the corporation.

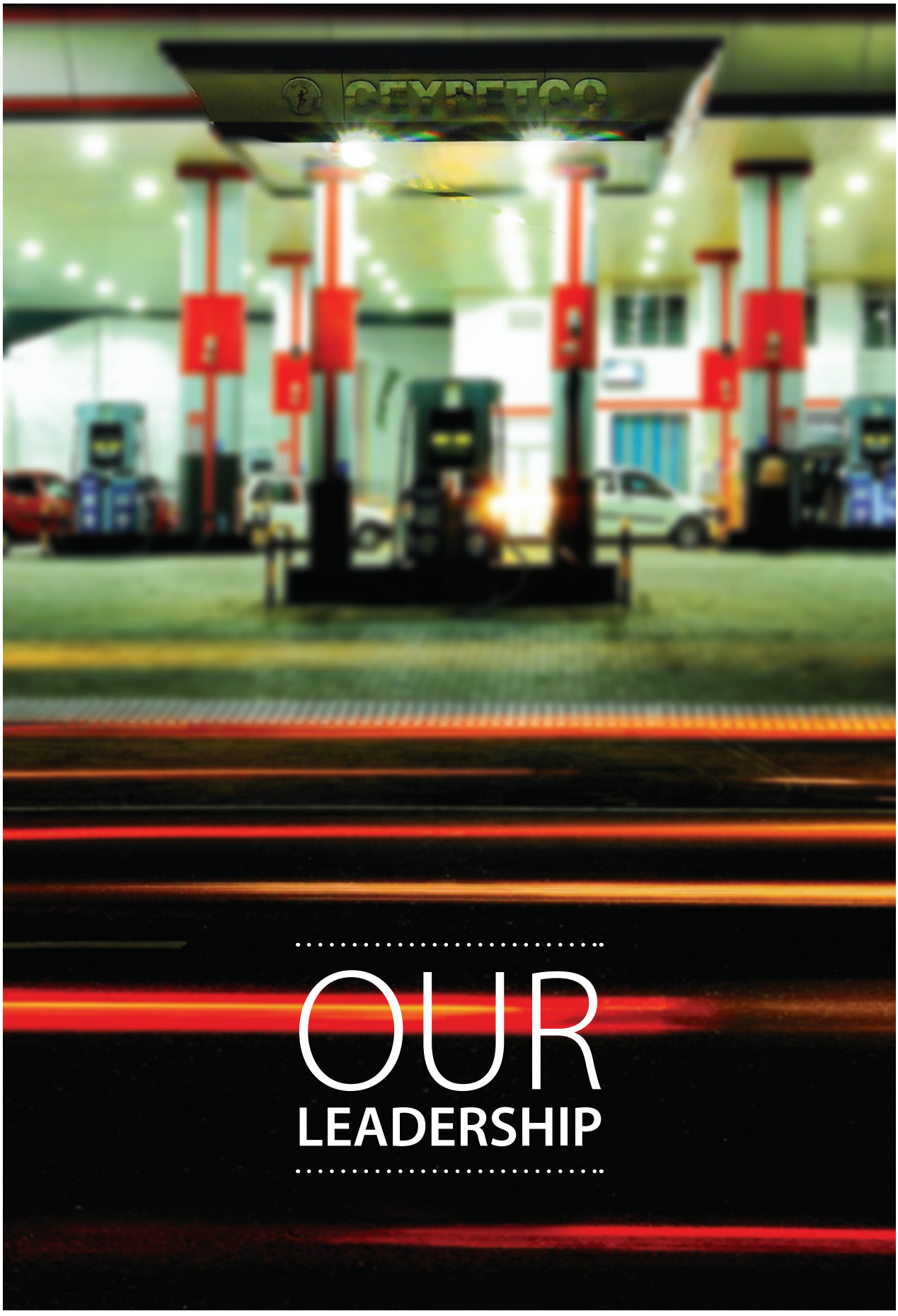
At all times we were guided and mentored by the Hon. Minister, Hon. Deputy Minister and officials of the Ministry of Petroleum Resources Development and we extend our sincere thanks for their support and dedication for the development of the corporation.

Finally, my appreciation to my formidable, experienced and highly capable fellow board members for their superb stewardship. The year under review was one of the toughest in recent times and without their assistance, it would not have been possible to keep the CPC operating as a viable state enterprise. With all of this priceless human capital, I am confident that we will be able to face the challenges ahead of us and strengthen CPC in the coming years.

Thank You



Dammika Ranatunga



OUR LEADERSHIP



Mr. R A N Jayasundara
Director

Mr. N R R Jayasekera
Managing Director

Mr. Dammika Ranatunga
Chairman



Mr. K A Vimalenthirarajah
Director

Mr. W S Perera
Director

Mr. A T Bandara Herath
Director

Mr. S Dhanatunge
Director

THE BOARD OF DIRECTORS



Mr. Dammika Ranatunga
Chairman

Mr. Dammika Ranatunga commenced his career in Information Technology in 1981 and he has over 37 years of work experience with a range of professional expertise. In 1987, he moved to Singer Sri Lanka as a Promotions Manager (Sales & Marketing) where he served until 1996. In 1996, he was appointed as the first Chief Executive Officer of the Board of Control for Cricket in Sri Lanka (BCCSL), responsible for the development of the Corporate Strategic Plan which focused on transforming the BCCSL into the result oriented organization it is today, operating under the now branded Sri Lanka Cricket name.

In 2001-2013 while in USA he was employed as a Sales Consultant, Internet Sales Manager, Internet Sales Director and finally as a Sales & e-Commerce Director.

Mr. Ranatunga is also an all-round sportsman who excelled in cricket and athletics. He has played for the Sri Lanka National Team at Test and One Day levels. His experience and expertise in the game of Cricket were instrumental in him being appointed the first CEO of Sri Lanka Cricket, a post he held for a period of 5 years.

On his return to his Motherland earlier in this decade, he was appointed the Chairman of the Sri Lanka Ports Authority. He was the Chairman/Managing Director of Sri Lanka Port Management Consultancy Services Ltd., Jaya Container Terminals Ltd. and Magampura Port Management Company (Pvt) Ltd.

Today, he heads the Ceylon Petroleum Corporation and Ceylon Petroleum Storage Terminals Limited, key enterprises under the Ministry of Petroleum Resources Development which is responsible for oversight of the country's energy supply via crude oil and refined petroleum products import, storage and refining of crude oil as well as sale of refined petroleum products. It is also responsible for the maintenance of petroleum and petroleum product storage and transport facilities as well as for developing the country's possible natural gas and crude oil reserves.



Mr. N R R Jayasekera
Managing Director

Mr. Jayasekera has a bachelors in Mechanical Engineering from the University of Peradeniya and an MBA from the Open University of Sri Lanka. He is also a chartered engineer and a member of the Institute of Engineers of Sri Lanka. In addition, he has been professionally trained in Refinery Maintenance at ADNOC Refineries (Ruwais and Um-al-Nar), Abu Dhabi, Maintenance Management at Stockholm Sweden, In-plant Training and Personnel Development at Manheim, Germany among other similar international training programs.

While he spend a substantial component of his career at the CPC, during the period 1992-1995, he held the position of Fuel Engineer at the Ministry of Water and Electricity at Ras Abu Aboud Power Station in Doha, Qatar.

At the commencement of his career he was first an instructor at the Faculty of Engineering at the University of Peradeniya and then a Mechanical Engineer at the Sugar Factory of Kantalai. Subsequently he joined the CPC refinery in 1981 as a mechanical engineer and has served the corporation for 37 years. Subsequently, he was promoted to Deputy Engineering Manager (Plant Equipment), Engineering Manager (Maintenance), Deputy Refinery Manager (Maintenance and Projects) and Refinery Manager before his present appointment as the Managing Director of the CPC.



Mr. K A Vimalenthirarajah
Director

Mr. Vimalenthirarajah's first degree is in Economics from the University of Jaffna. He also has an MBA in project management, an MPhil in public economics, a PD diploma in development studies and public policy, a PG diploma in International Affairs, a bachelors in laws from the Open University of Sri Lanka and attorney-at-law. He holds Australian Computer Society Certification and he is an officer of the Sri Lanka Administrative Service. He is also a Member of the Academic Syndicate of the Institute of Human Resources Advancement of the University of Colombo.

During his illustrious career he has held a number of key state positions. He is an Alternative Director of the Bank of Ceylon and a Director of the Sri Lanka Tourism Promotions Bureau. He was a former Director General of the Department of Trade and Investment Policy as well as the Ministry of Finance. He was a former ministerial counselor / director at the Embassy of Sri Lanka in Beijing China as well as a Country Director of the SAARC Development Fund. He was a former treasury representative to the Public Servant Provident Fund Association, former Senior Assistant Secretary (IT&AR) / CIO, Ministry of Public Administration and Home Affairs, form Assistant Program Manager of the capacity development ofr recovery program of the United Nations Development Program, former Assistant Secretary Planning and Reconstruction at the Ministry of Ports, Rehabilitation and Reconstruction, a former SLAS cadet of the Sri Lanka Institute of Development Administration, a former Samurdhi Manager for the Vavuniya Divisional Secretariat and a former development program assistant at the same district secretariat.



Mr. R A N Jayasundara
Director

Mr. Jayasundara is a Licentiate of the ICASL and HNDA, a member of the AAT, and an associate member of the Finance, Auditing & Development Accountancy (UK)

He is the Director of the Ceylon Petroleum Storage Terminals Limited, a Director of the National Savings Bank (FMC), Treasurer of the Sri Lanka-China Society, Treasurer of the Sri Lanka Council for the Blind and the Treasurer of the Sri Lanka – Belgium Association. He is also the former Deputy Finance Manager of the Ceylon Petroleum Corporation.



Mr. A T Bandara Herath
Director

Mr. Herath is a Senior Attorney-at-Law with an LLB from Sri Lanka. He also has an aesthetic bent having a Visharad Diploma from Bhatkhande, Lucknow. He is a former member of the Land Acquisition Board, former Chairman of the Colombo Rent Board and a former Director and audit committee member of the Sri Lanka Ports Authority.



Mr. S Dhanatunge
Director

Mr. Dhanatunge has a degree in Management from City & Guilds (UK), an NVQ level 4 qualification in Community Care again from City & Guilds (IK), a Diploma in Project Management from the London College (UK), Diploma in Management from the Open University of Sri Lanka, Extensive training at the staff training college of Central Bank of Srl Lanka on Market Research, Project Evaluation, Formulation & Implementation and a Diploma in Computer Programming and Systems Design and Diploma in Professional Packaging and Franchising from Packaging Store Inc (USA).

He is the former Chairman of the Ceylon Shipping Corporation Limited, former Director of the Ceylon Shipping Agency (Pvt). Ltd, Singapore, Currently serving Member of the Petroleum Resources Development Committee (PRDC) and former Director of Lanka Coal Company Limited. Additionally, he was former Director of Magampura Port Management Company, a Promoter / Shareholder of Vivanta Associates (Pvt) Ltd., former Managing Director/ CEO of Admire Tours & Events (UK)Ltd., Executive Assistant to CEO of International Cricket Council (ICC) at Lords, a former Director Administration and Head of Tour Organizing for Sri Lanka Cricket, a former General Manager of MTL/Mountain Hawk (Pvt) Ltd, a former Director / General Manager of Mountain Hawk Packaging (Pvt) Ltd. A former Manager, Business Development of Mountain Hawk Express (Pvt) Ltd., which is a franchisee of FedEx Inc. USA and a former Market Analyst for Mercantile Credit Ltd.



Mr. W S Perera
Director

Mr. Perera holds a bachelors in Geology from the University of Peradeniya. He is the Coordinating Secretary to the Minister of Petroleum Resources Development and acting Managing Director of JCT Oil Bank. He is a former coordinating secretary to the Minister of Port and Shipping, a former research assistant, Ministry of Parliament Affairs and a former Science and Technology Officer of the Ministry of Science and Technology.

SENIOR MANAGEMENT TEAM



Mr. E A S Edirisinghe

Acting Refinery Manager

Mr. Edirisinghe has a bachelors in Chemical Engineering, a Charter in Chemical Engineering and is a member of the Institute of Engineers of Sri Lanka and a member of the Sri Lanka Energy Managers Association.

He joined CPC in 1988 for a stint of four years before joining Saudi Aramco Oil Refinery at Yanbu, Saudi Arabia as a Blending Specialist Engineer for a period of two years. He rejoined the CPC in 1996 in the same capacity he held before until he was promoted to Deputy Manager Technical Services (Process) in 2002. He was subsequently promoted to the position of Deputy Manager Technical Services (Projects) in 2005, Manager Operations in 2009 and Deputy Refinery Manager (Manufacturing & Operations) in 2014. He is currently the acting Refinery Manager of the CPC.







Mr. V N Weerasooriya

Deputy General Manager (Finance)

Mr. Weerasooriya obtained a bachelors in Business Administration from the University of Sri Jayawardhanapura and an MBA from the Post Graduate Institute of Management of the same university. He is a fellow of the Institute of Chartered Accountants of Sri Lanka, an associate member of CPA (ASA) and a fellow of the CMA (FCMA).

He commenced his career at B.R. De Silva & Co, Chartered Accountants in 1994 as an Audit Clerk and Tax Supervisor. Subsequently, he worked as an accountant for Microcells Limited, Finance Manager for the Institute of Bankers of Sri Lanka, Management Accountant for Tuwade Brothers, Group Finance and Administration Manager for Vcom International, Group Finance Manager for Nkar Travels and Tours Limited, Finance and Administrative Manager for Fez Freez Private Limited in Melbourne, Australia. Finance Manager for Hunter & Company PLC before joining the CPC as Deputy General Manager of Finance in 2017.

He oversees all accounting and finance related activities, treasury management, tax and insurance, budgeting and compliance, drafting accounting and financial policies in line with government regulations and reporting norms and in directing the ministry to obtain various types of approvals for the activities of the CPC.

Mr. S W Gamage

Deputy General Manager (HR & Administration)

Mr. Gamage holds a bachelor's degree in biological sciences from the University of Ruhuna and subsequently obtained a master's in Science from Wageningen Agricultural University in the Netherlands. He also holds an MBA from the University of Sri Jayawardhanapura, a Postgraduate Diploma in Business and Financial Administration and a Postgraduate Certificate in Training and Management from the Postgraduate Institute of Management of the University of Sri Jayawardhanapura. He is also an Associate Member of the Chartered Institute of Personnel and Development (CIPD-UK).

He joined the CPC in 1991 as a management trainee and marks twenty seven years of continuous service to the corporation working in a number of managerial positions. He commenced his career in the aviation function of the CPC at the Bandaranaike International Airport and served as a "Shell-UK" certified and qualified officer in aircraft refueling operations at international airports.

In the year 2009, he was promoted to his present position of Deputy General Manager Human Resources and Administration.

Mr. D M P Dissanayake

Deputy Refinery Manager (Maintenance & Projects) (Acting)

Mr. Dissanayake has a bachelors in Mechanical Engineering, is a chartered engineer and a member of the Institute of Engineers of Sri Lanka. He also holds a bachelors in Laws and is an Attorney-at-Law.

He joined the CPC in 1988 as a mechanical engineer at the CPC refinery. During his three decade long career at the CPC refinery, he held the positions of Deputy Engineering Manager, Engineering Manager (Mechanical), Senior Engineering Manager (Maintenance and Projects), and, finally, from 2016 onwards, as the Acting Deputy Refinery Manager (Maintenance and Projects).





Mr. M A D Mallikarachchi

Deputy General Manager
(Technical Services & Corporate Affairs) (Acting)

Mr. Mallikarachchi has a bachelors in engineering (Production) from the University of Peradeniya and is a member of the Project Management Institute of USA as well as an Associate Member of the Institute of Engineers, Sri Lanka. He also has also participated in a number of post-graduate training programs related to management and leadership at leading local and international academic, professional and industrial facilities.

He counts more than 17 years of experience in the oil and gas industry in various disciplines such as Aviation Fuel Operations Management, Aviation Fuel Quality Assurance, Project Quality Assurance related to construction projects such as offshore oil platforms & subsea pipelines, Project Management & Contract Administration related to Aviation fuel farms & fuel hydrant systems, Verification of Engineering & Process Designs, Maintenance Management and HSE awareness.

He started his career at the Jinasena Group as an engineer in 1996 before joining Interbatch Porcelain Pvt. Limited as an assistant mechanical engineer. He joined CPC in 1999 as a mechanical engineer and was assigned to the Kolonnawa terminal. Subsequently he held various positions at the CPC including Mechanical Engineer (Aviation Refuelling Station) as well as Project Engineer (Fuel Hydrant Systems Project) for the Aviation Function of the CPC at the Bandaranaike airport, Deputy Manager of Aviation Operations, Project Manager Aviation Fuel Farm, Manager Aviation Operations and finally, since 2017 as the Acting Deputy General Manager for Technical Services and Corporate Affairs.

Mr. M K Garusinghe

Deputy General Manager
(Commercial & Supply Chain)

Mr. Garusinghe obtained a bachelors in Science from the University of Colombo and a masters in Maritime Affairs from the World Maritime University, Malmo, Sweden. He also holds an MBA from the University of Sri Jayewardenepura, Sri Lanka. He is a Member of the Institute of Chartered Shipbrokers (MICS) U.K), and a Corporate Member of the Institute of Supply & Material Management (MISMM), Sri Lanka.

He is at present, the Deputy General Manager, Commercial and Supply chain.



Mr. L G M R Perera

Deputy Refinery Manager
(Electrical & Instrument)

Mr. Perera holds a bachelor degree in Electronics & Telecommunication Engineering from University of Moratuwa. He started his career at CPC Refinery as an Instrument Engineer in 1992.He has more than 25 years experience in the field of process control instrumentations and held various positions in the Instrument Department. In his present position as Deputy Refinery Manager (Electrical & Instruments), he is heading Electrical, Instrument & Materials Departments of the Refinery.



Mr. W M K R B Wickremasinghe

Deputy General Manager
(Marketing)

Mr. Wickremasinghe holds a bachelors in science from the University of Peradeniya as well as an MBA from the University of Colombo. He is also a member of the Institute of Chemistry, Ceylon and a Certified Member of the Sri Lanka Institute of Marketing. In addition, he has obtained professional training in HR Leadership Management Excellence from South Africa, Business Conduct- The Logistics and Marketing Partnership from United Kingdom, Surface Treatments with Additives -Avecia United Kingdom, Rheological Modifiers in Surface Coatings from Aqualon, Singapore.

From 1999-2008 worked as Senior Product Manager of Chemical Industries (Colombo) Limited, formally ICI where his key activities were the importing, storing and marketing of industrial Raw Materials to industries in Sri Lanka and manufacturing and marketing of emulsion polymers. He also has deep practical experience in budgeting the financial capital and overhead expenses, experience in Balanced Score Card implementation, monitoring, research and development aspects of of emulsion plants.

In his current position as DGM-Marketing at the CPC, he is tasked with controlling and coordinating the Marketing Operations of CPC including domestic fuel markets, Agro Chemical Function, Bitumen, Lubricants and Special Products Functions and subunits of Customer Care & Corporate Communication Unit & Service Station Equipment Workshop. Additional responsibilities include creating the required business environment by making relevant changes to face the challenges in business environment in achieving the Corporation plans and objectives of CPC.

THE DYNAMICS OF **OUR BUSINESS**



Primary Activities

- Importing – Primarily Crude oil, Refinined Products
- Refining – Crude oil into refined products Storing – Crude oil & refined products Distributing – to custom ers throughout the island

Support functions

- Business Strategy
- Technical services
- People management
- IT support
- Corporate social investment

Our Revenue Generation

- Transport
- Power
- Aviation
- Domestic
- Industry
- Export





Factors that contribute to our Costs

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

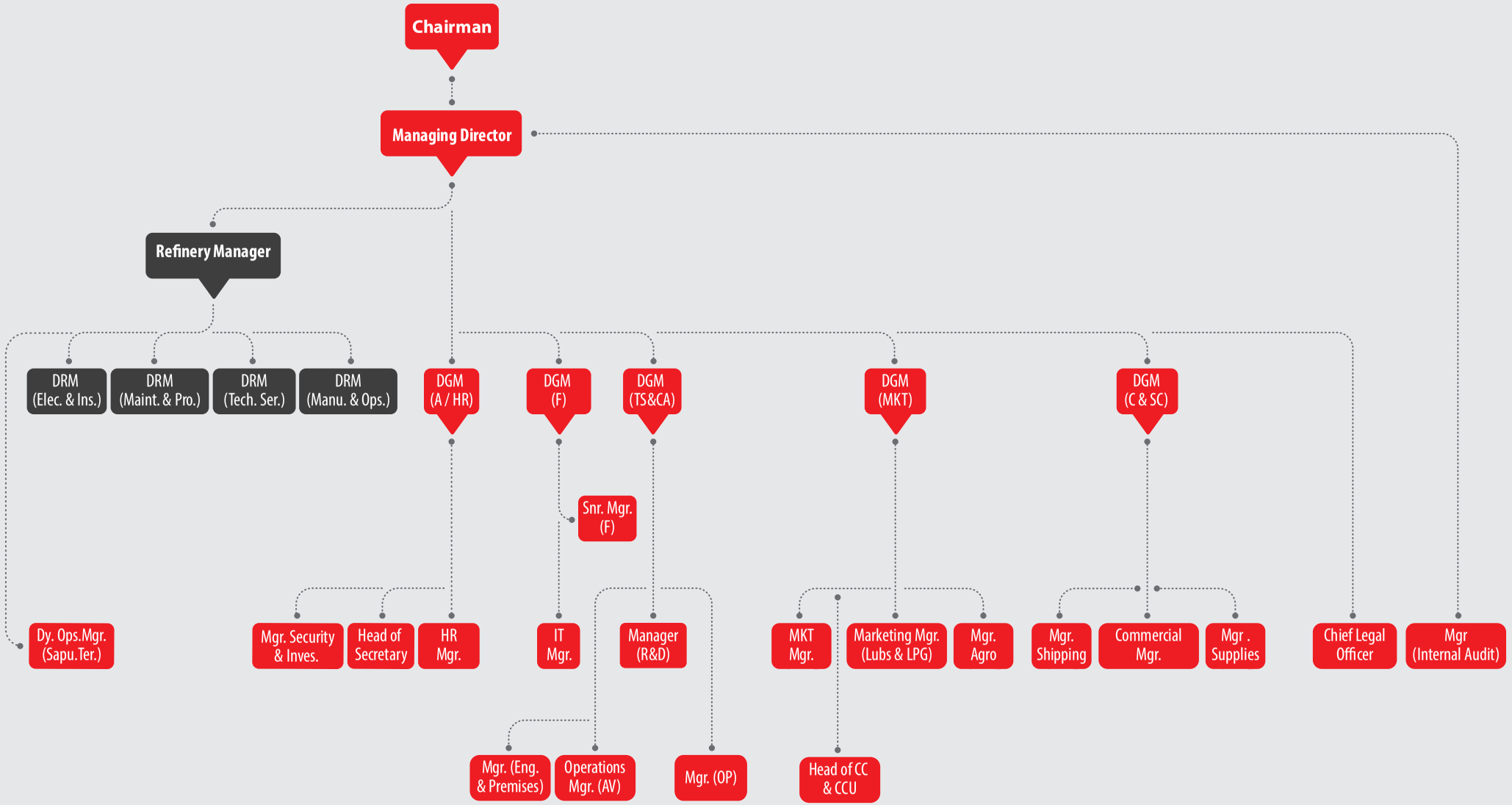
Our top ten risks

- Economic risk
- Commodity price risk
- Safety risk
- Market risk
- Exchange rate risk
- Interest rate risk
- Liquidity risk
- Credit risk
- Supplier risk
- 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

ORGANIZATIONAL STRUCTURE





MANAGEMENT REVIEW

The operating environment

As per official data released by the Department of Census and Statistics (DCS), Sri Lanka's real GDP growth decelerated further during 2017 to 3.1 per cent, from the growth of 4.5 per cent recorded in 2016.Agriculture related activities recorded a contraction of 0.8 per cent against the backdrop of adverse weather conditions that continued from 2016, while a slowdown in economic activity in both services and industrial sectors was observed.

The external value of the Sri Lankan rupee remained relatively stable in 2017 under a more market based exchange rate policy implemented by the central bank during the year. The depreciation pressure on the rupee, which prevailed particularly during the first two months of 2017, moderated thereafter with increased foreign investment to the government securities market and the CSE, and the increase in the conversion of export proceeds. The depreciation pressure on the rupee further eased from May onwards with the receipt of the proceeds

Sri Lanka's external sector improved gradually in 2017 with higher foreign exchange inflows.

from the foreign currency term financing facility and disbursements of two tranches of the IMF-EFF program, which helped improve investor confidence.

Sri Lanka's external sector improved gradually in 2017 with higher foreign exchange inflows earnings from the export of merchandise goods recorded a notable double digit growth in 2017, partly supported by the reinstatement of the European Union's Generalized System of Preferences plus (EU GSP+) facility, and strong institutional and policy support. However, higher than expected expenditure on imports, particularly on fuel and rice imports, to manage the impact of disruptive weather conditions, as well as imports of gold, caused an expansion in the trade deficit during the year.

Expenditure on imports increased considerably in 2017, mainly due to higher imports related to inclement weather conditions and the firming of international commodity prices. Expenditure on imports of fuel increased by 38.2 per cent to US dollars 3,428 million during the year owing to the increase in import volumes of fuel led by higher demand from the domestic power generation sector as a result of dry weather in catchment areas as well as high oil prices in the international market. In this respect, in accordance with the fiscal consolidation process of the government, automatic pricing mechanisms for fuel is slated to be one of the priority areas.



PETROLEUM PRICES

Petroleum Prices in Sri Lanka

Price reforms for petroleum products have been a long-standing policy issue in Sri Lanka due to its direct impact on the cost of living and the cost of production as well as on the overall macroeconomic stability. The petroleum sector of Sri Lanka is dominated by the Ceylon Petroleum Corporation (CPC), a strategically important state-owned business enterprise, which accounts for approximately 86 per cent of the retail market share. Sri Lanka depends heavily on imported petroleum products to meet the primary and secondary energy requirement of the country. Moreover, as a small net-oil importing country, Sri Lanka is a price taker in the global market. Due to the high impact of petroleum prices on the cost of production, and thereby the cost of living, setting of petroleum prices has always been a politically sensitive issue in the country. However, non- adjustment of retail fuel prices to reflect their costs has seriously challenged the financial viability of the CPC on numerous occasions while creating macroeconomic imbalances and in fact lowering consumer welfare. Non-cost reflective prices have resulted in high fiscal costs associated with fuel subsidies, large contingent liabilities of the government, excessively high import bills and balance of payments issues, weakening of state-banks' balance sheets through heavy borrowings by the CPC as well as sub-optimal resource allocation and inefficient subsidy targeting. With the view of ensuring the financial viability of the CPC and reducing fiscal costs of fuel subsidies, in January 2002, the government implemented a cost-reflective pricing formula, which was in effect during 2002 and 2003.

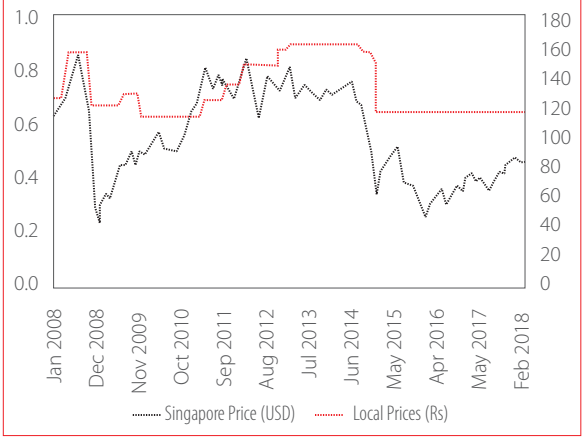
Fuel prices have shown large fluctuations in global markets in the past decade, although the prices for petroleum products were not adjusted in the domestic market to reflect the movements in the global market. If the domestic prices reflect the total cost of the product, i.e., volume-weighted average cost of the imported and locally refined product including taxes, the passthrough of prices is said to be complete. The cost of petroleum products comprises Cost, Insurance and Freight (CIF) price, terminal charges for storage and bulk distribution, transport costs, exchange rate variation cost, financing costs and personnel and overhead costs of the CPC. However, passthrough of global oil price fluctuations into the domestic market has been incomplete in the past, and any gains or losses of this process were allowed to reflect in the CPC's balance sheet.

During 2011 to 2014, petroleum prices were exorbitantly high in the global markets. However, the government did not allow a full passthrough of oil prices during this period, resulting in a deterioration of the financial performance and an accumulation of heavy losses by the CPC. By end 2017, the accumulated losses of the CPC amounted to Rs.218.7 billion.

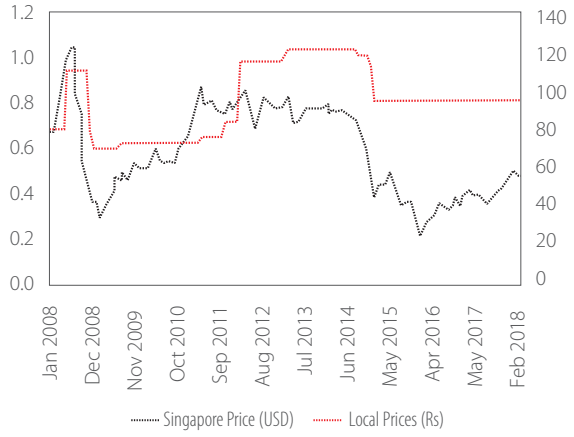
Global oil prices have been on a rising trend since February 2016 due to OPEC and non-OPEC oil producing countries limiting oil production. However, domestic retail oil prices of the CPC remained unchanged since 2015, except for the reduction in kerosene prices in early 2017. Due to this non-adjustment of domestic petroleum prices, despite the gradual increase in global oil prices local retail petroleum prices remain significantly lower compared to most countries.

International Prices vs Local Retail Prices

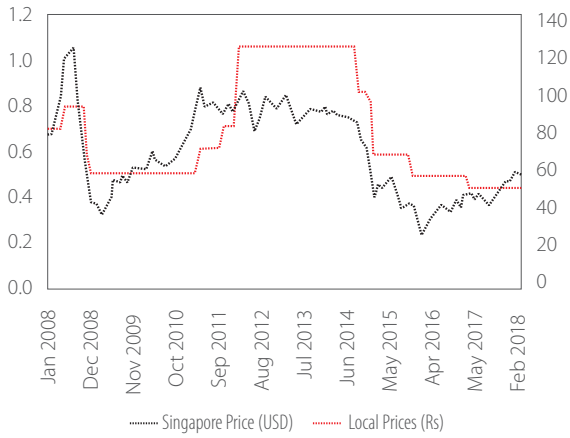
Petrol 92 Octane



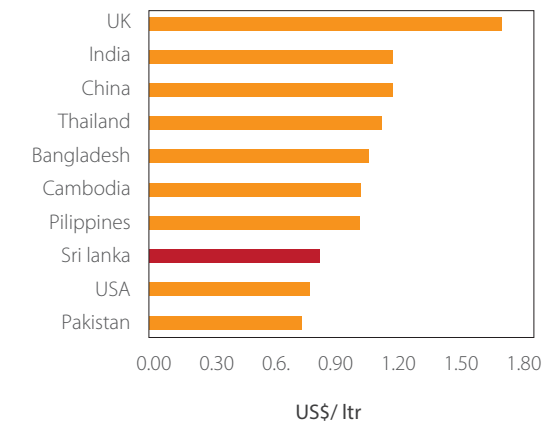
Auto Diesel



Kerosene

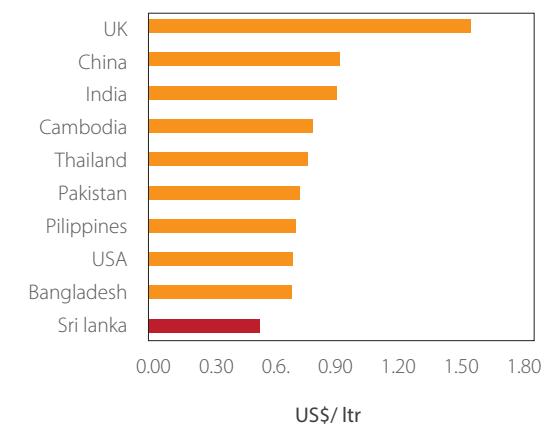


Petrol



Source: globaloilprices.com

Diesel



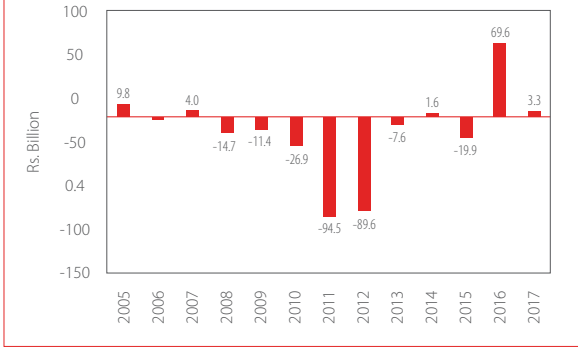
Economic Implications of Administered Fuel Prices

Consumer subsidies are generally determined as the differential of the full cost reflective price and the determined price. The full cost reflective price, which consists of the sum of supply cost, transportation cost, profit margins and taxation, is the total cost of the product. In the absence of any pricing machanism, the difference between sales revenue and the total cost provides the basis for estimating fuel subsidies in Sri Lanka.

Product	Net Sales Revenue (Rs. Per liter)	Total Cost (Rs. Per liter)	Subsidy (Rs. Per liter)	Quantity (mn,ltr)	Total Subsidy (Rs. Mn)
Petrol 92 Octane	113.00	126.44	13.44	1,210.2	16,265
Petrol 95 Octane	123.72	137.03	13.31	170.6	2,377
Auto Diesel	92.46	97.46	5	1,871.8	9,352
Super Diesel	106.75	104.31	-	-	-
Auto Diesel for Electricity	95.00	95.41	0.41	397.3	162
Kerosene	42.85	70.48	27.63	198.1	5,474

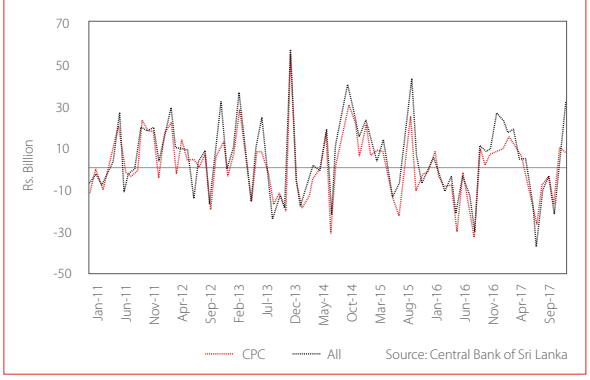
Notably, aforementioned petroleum products, except super diesel and auto diesel for electricity, are sold at subsidised prices. Kerosene has the largest subsidy cost per litre, followed by petrol and diesel. However, given the large volume sold, petrol contributed the most to the burden of subsidy during 2017.

P& L before taxes



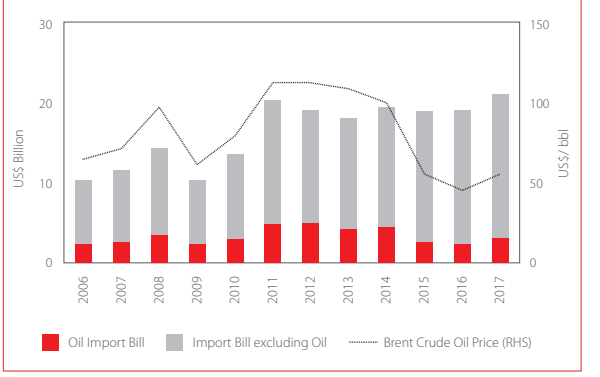
There are no formal budgetary provisions for financing petroleum subsidies resulting from determined prices being below cost-recovery levels, and accordingly, the CPC tends to bear part of the subsidy costs by reporting heavy financial losses over the years. Consequently, the CPC has to rely on bank borrowing to cover losses and meet liquidity requirements. Heavy borrowing by CPC affects the balance sheets of the state-banks and drive credit growth, and thereby complicates monetary policy operations of the Central Bank. At the same time, the government has to provide guarantees to support the CPC's borrowings raising the contingent liabilities of the government.

Monthly Change in Commercial Banks Credit to CPC vs. All Public Corporations



Prices that do not reflect the true cost of production will lead to sub-optimal decisions related to production and demand. If the domestic prices do not reflect the rising global prices, demand for petroleum products will not adjust accordingly, leading to excessive increase in the import bill, creating external imbalances.

Brent Crude Oil Price and Import Bill



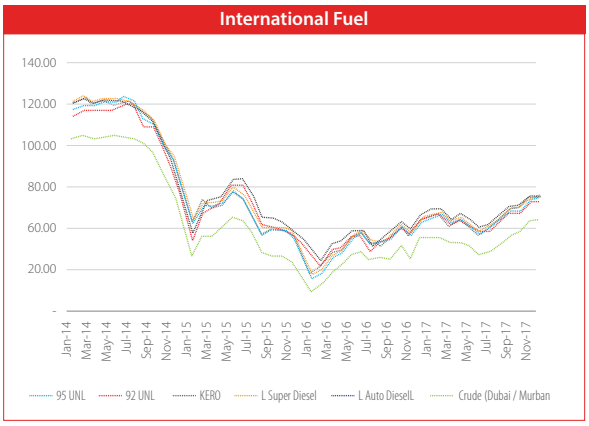
There are many emerging market economies that do not fully passthrough changes in international petroleum prices to domestic retail prices. This non-adjustment of retail prices leads to adverse consequences on CPC. Fuel taxes are often an efficient and equitable source of tax revenues that avoid possible higher distortionary taxes elsewhere in the economy. In addition, in countries like Sri Lanka where direct tax revenue collection is low, fuel taxes could be deemed as an effective source of revenue to be used for road infrastructure developments by the government. In addition, excessive use of non-renewable energy sources, particularly fossil fuels, causes a diversity of high cost environmental effects.

Global Situation

While there is a possibility of a spike in oil prices in the next 5-10 years due to the hiatus of investment in major projects since 2014, the industry may find itself challenged to meet increasing demand. While uncertainty will be welcomed by traders who stayed away during the price plunge, an increase in trading activity may also drive oil prices significantly up over the next three to five years.

While the focus of action in on OPEC and the USA other regions may also become key players in the coming years. In that respect, it may be worth noting that the investment environment is improving in Latin America and in Mexico, energy reform is opening doors for nontraditional operators to establish their footprint within the country.

According to PWC, over the coming years, corporate strategic objectives will increasingly focus on sustainable profitability, differentiated capabilities will become a key factor for future success, new business models and forms of partnership will emerge, portfolios will be reviewed for coherence and resilience as new business models evolve, companies will explore new forms of technology deployment and finally, innovative approaches will be utilized to recruit and retain talent essential for long-term success.



Snapshot of the year under review

The year under review has been particularly challenging with a significant drop in profits.

Way Forward

International Monetary Fund (2017) identifies five broad lessons learnt from different country experiences to make the reform a success: formulate an integrated reform strategy, protect the most vulnerable, build broad public support, refrain from ad hoc adjustments that do not address the root of the problem, and move gradually when feasible.

These are key lessons to be followed in Sri Lanka as well, in the inevitable implementation of a cost reflective pricing mechanism for domestic fuel prices. Implementation of a cost reflective pricing mechanism also needs to be extended to other utilities as well, to ensure the financial viability of the relevant state-owned business enterprises.

The global feeling can be summed up by the phrase "Optimistic but Extremely Cautious". While the industry has survived a few tough years as a result of weak demand and low prices, strategic decision making and planning for the future remains difficult. While the sector is emerging from these trials and there is hope, there is also the equal necessity to be mindful of the risk.

While oil prices are recovering and Brent Crude was up to about USD 50 per barrel, it is still a long way away from the USD 115 high watermark of 2011. Therefore, even as companies explore new development, the upstream oil sector must be careful and mindful. In the near future, the recent oil price gains — which are due to a rebalancing of supply and demand

fundamentals, partly accelerated by OPEC's recent decision to cut production — are expected to remain in place. That expectation is behind a number of positive industry forecasts: According to Barclays's latest E&P Spending Survey, oil and gas industry capital expenditures are expected to increase by as much as 7 percent in 2017.

KEY INDICATORS

6% increase in revenue

from LKR 423 Billion to LKR 446 Billion YoY

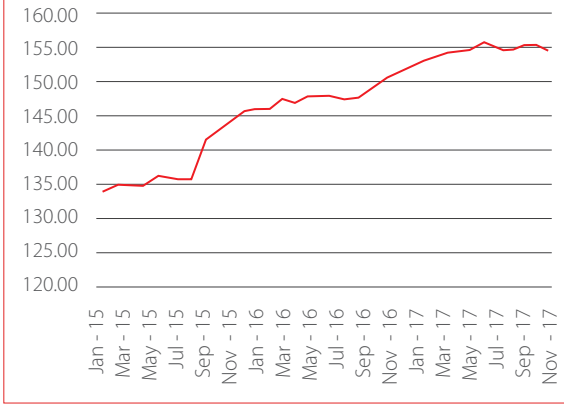
The demand side increase by 6% (approximately LKR 23 billion) during the year under review in all sectors with the power sector demand seeing a rise of 20% (LKR 18 billion) being of particular note. Additionally, the demand in aviation and transport were 7% (39.6 Mn. Litres) and 5% (154 Mn. Litres) respectively.

28% increase in cost of sales

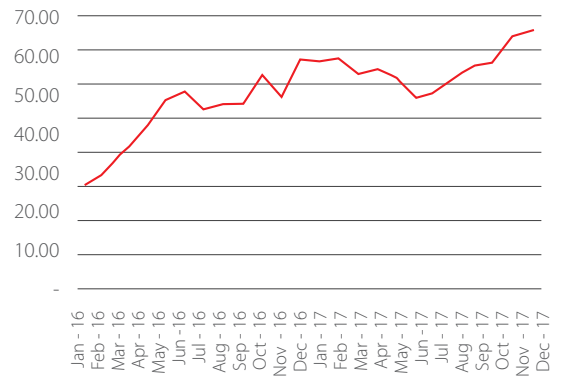
from LKR 326 Billion to LKR 418 Billion YoY

Average crude oil price increased from USD 44.05 in the year 2016 to 54.89 in the year 2017. Further, the annual average exchange rate increased from LKR 154.10 in the year 2016 to LKR 155.41 in the year 2017. This increased the cost of sales of the corporation compared to the year 2016. Additionally, a significant fuel price increase for refined products in the international market adversely affected the costs of the corporation resulting in a reduction in gross profit.

USD Bank Selling Rate



Crud prices (Dubai/ Murban)



97% reduction in profits from LKR 53 Billion to LKR 1.5 Billion YoY

The substantial reduction in profits was due to a significant increase of the import cost of petroleum products coupled with a depreciation of the exchange rate resulting in a decrease of the gross margin of the corporation. The profits of the corporation decreased from 53 bn. to 1.5 Bn in year 2017 in parallel with the gross profit of the corporation. Accordingly the net profit ratio has reciprocally decreased from 12.5% to 0.3% in the year 2017

Ratio	2015	2016	2017
Gross profit ratio	10.5%	22.8%	6.2%
operating profit ration	7.1%	19.2%	1.7%
Net profit ratio	-5.4%	12.5%	0.3%
return on total assets	13%	27.76%	0.7%

KEY FACTORS IMPACTING THE PROFITABILITY OF THE ENTITY

Subsidization of fuel

Petroleum products are one of the categories where the government controls the prices. This is due to the fact that these products are essential to people are its price significantly impacts the Cost Of Living. The significant subsidies afforded to the people in this respect has reciprocally impacted the profitability of the CPC and it has foregone its profitability are part of the greater social services of the state for the whole nation.

CPC is a price taker in upwardly mobile global price scenarios

With no petroleum resources, Sri Lanka must import all of its petroleum products at global market prices. Additionally, the storage capacity of Sri Lanka is not sufficient to hold substantial reserves when prices are down. These two factors exposes the CPC to price volatilities in the global market.

Murban FOB Abu Dhabi price for crude increased by 24% during the year under review with the average price increasing from USD 44.05/barrel in January to USD 54.89/ barrel in December. This significantly affected the cost of sales. Super Diesel and Auto Diesel have also increased by 25% and 26% 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.

Rupee Depreciation

The depreciation of the rupee against the dollar had a significant negative impact on the resulted in CPC making a profit of only LKR 1.469 million as opposed to 2016 when it made a profit of LKR 53.027 million. The fact that CPC only has a mandate to borrow from state banks has further impacted bottom lines since competitive rates offered by other banks could not be leveraged.

Shortage of oil refining storage

Insufficient crude refining and storing capacity Various types of crude and the products refined from it cannot be stored in similar tanks. Whereas there are storage capabilities for some of these products, for others tank capacity is insufficient. Although financial constraints have impacted the ability of the corporation to expand and upgrade its refining and storing capacities, the downside of not doing this is that the CPC does not have the ability to purchase and hold large reserves when global prices are down.

Restraints on settling dollar loans

CPC is constantly challenged by the unavailability of funds to settle dollar loans that it must regularly obtain to meet its fiscal challenges. Rupee fund availability does not preclude exposure to exchange rate fluctuations nor does it help in the event that there are insufficient dollars in the market. These disrupt the smooth settlement of outstanding loans and compromises the corporation's credit records. Responses such as paying more interest compounds financial position by exerting negative pressure on net assets.

Dilapidated pipes lines

Pipelines that are used to carry imported petroleum products from the Colombo Port to the Terminals are in a significant state of disrepair. In many cases, illegal squatting has made it political nightmare to remove them and engage in critical maintenance work on the lines. Therefore, the problem has stagnated for years resulting in the CPC being forced to pump the oil at lower pressure to reduce en-route leakages. This slows down the process of discharge and results in both congestion at the berth as well as increases discharge times forcing the CPC to incur massive demurrages.


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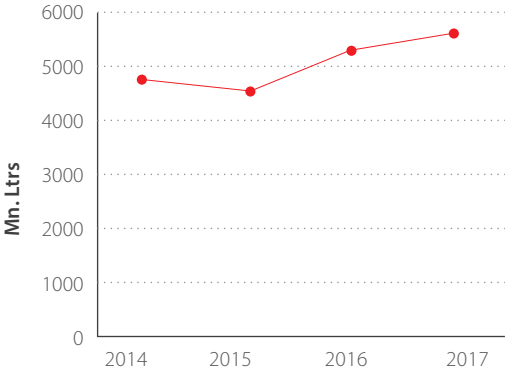
PERFORMANCE REVIEW



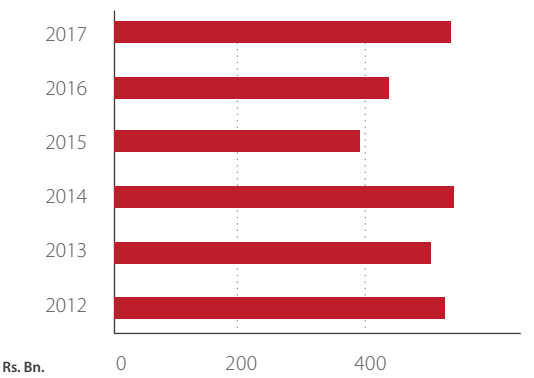
REVENUE

Revenue is derived by selling petroleum products Mainly domestically. In the year under review, domestic sales remained the dominant income source. 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.

Sales Volums



Revenue



Auto diesel continued to earn the highest income in the year 2017 as well and petrol 92 was the second highest income generator. The increase in demand for Petrol 95 and Super Diesel indicates the consumer's preference for more efficient and environmental friendly fuel. CPC have also increased its environmental friendly operations by introducing those sulphur free environmental friendly fuels to more filling stations.

OTHER INCOME

During the year CPC earned a dividend income of Rs. 243 Mn which received mainly from its subsidiary CPSTL.

PROFITABILITY

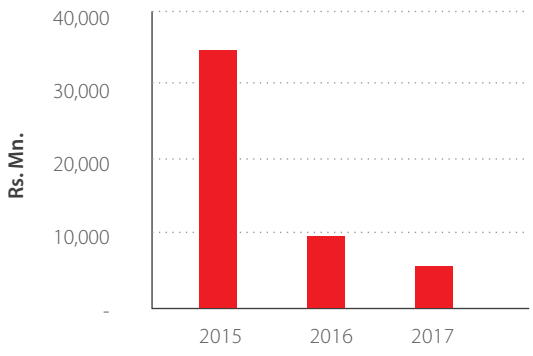
Overall Profitability of the Corporation has dropped siginificantly. The profitability Ratios are noted below.

	2017	2016
Gross profit margin	6%	23%
Operating profit margin	2%	19%
Net profit margin	0.3%	13%

EXCHANGE RATE VARIATION

During the year the exchange rate variation loss incurred by CPC was Rs. 4,922 Mn and this is 44% less than the year 2016. Depreciation of the Sri Lankan Rupee against foreign currency is the reason for this loss since CPC import petroleum products. In 2017 Sri Lankan Rupee depreciated averagely by 2.50% against the US Dollar (2016: 3.83%).

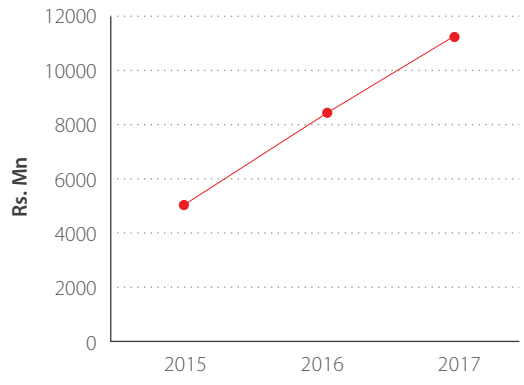
Loss from the exchange rate variation



FINANCE INCOME

Excess cash were invested in interest yielding sources while ensuring that CPC will not go into a bank overdraft. As a result finance income increased by Rs. 2.6 Bn and no bank overdraft interest was incurred. Finance income has improved by 32% compared to year 2016. Investment income from Treasury Bonds, Fixed deposits and Call Deposits contributed to this improvement with the buildup of investments in those instruments.

Finance Income



FINANCE EXPENSE

During the year CPC incurred a finance expense of Rs. 10.53 Bn and it is 7% 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. Effective treasury management CPC was able to reduce its finance cost by Rs. 874 Mn.

INCOME TAX EXPENSE

Income tax liability has decreased in parallel with the reduction of the profitability compared to the year 2016. With the prevailing tax law, CPC had to pay Rs. 1,408 Mn as tax on taxable income and Rs. 489 Mn as tax on distributable profit.





SEGMENTAL ANALYSIS

For management purpose CPC has divided its operations into six main categories and the performance of those units in the year 2017 is summarized below.

Segment	Sales Revenue (Rs. Mn.)	Profitability (Rs.)
Transport	341,349	(27,778)
Power Generation	109,204	19,004
Aviation	43,109	1,930
Industries	12,724	3,795
Domestic	10,310	(5,201)
Agro	75	(121)
Total	516,771	(8,371)

TRANSPORT SECTOR

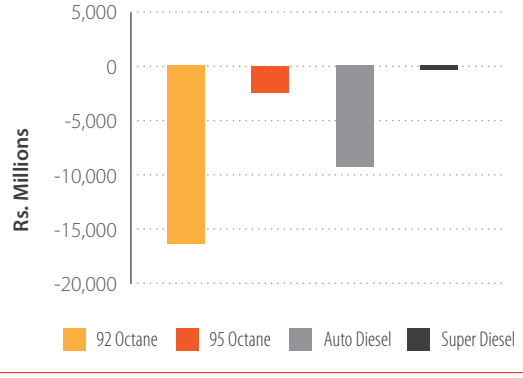
Transport sector is the highest income generator of CPC. During the year it generated an income of Rs. 341 Bn. General public's preference to use private vehicles coupled with the static sales price magnified the demand.

Notable increase has been recorded by the Super Diesel and 95 Octane higher quality vehicles being imported during the year under review and strict emission control regulations introduced by the Government. This trend is expected to continue during year 2018 as well. Increase in kerosene demand was mainly due to misuse of kerosene by commercial vehicle owners and the situation has been exacerbated due to the drastic price difference between kerosene and diesel. All filling stations have the facility to retail Lanka Petrol and Super Diesel.

The Corporation has recorded sales of 178.5 Mn. Ltrs. of 95 Octane which is a 23% increase whereas Diesel consumption has grown only by 2%. With the increase number of vehicles of which fuel economics exceeds that of Diesel driven vehicles, demand for LAD has almost stagnated and it has increased only marginally over the year under review and has affected both dealer and retail sales.

The number of filling stations increased by 20 during the year under review whereas the construction letters issued during 2016 and 2017 are still under construction and it can expected that these filling stations will be equipped with better facilities than existing filling stations.

Net profit / (loss) from Transport Sector Products

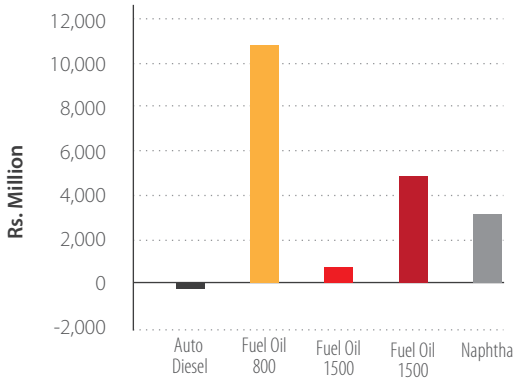


Despite the increase in demand in the transport sector, CPC ended up with a transport sector loss of Rs. 27.7 Bn. by selling Petrol and Auto Diesel as the selling price is inadequate to cover up import cost

and other related expenses. The necessity of a cost reflective pricing mechanism is well revealed here.

POWER SECTOR

Profit from Power Generation Sector



Due to prevailed weather condition increase of electricity use by industries as well as domestic consumers increased and therefore fuel sales to the energy sector increased sharply.

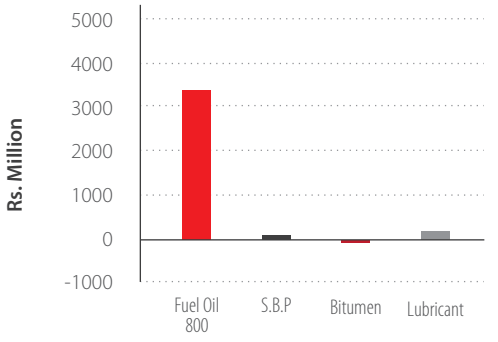
Power sector remained the second highest income generator of CPC earning an income of Rs. 109 Bn. with an increase of 20% compared to 91 Bn. in year 2016. This year it was the highest contributor to the profitability earning a profit of Rs. 19 Bn. though Diesel generated Rs. 37.7 Bn. income to CPC, it earned net loss of Rs. 0.16 Bn. Fuel oil 800' is the main contributor to the sector profitability and the profit earned is Rs. 10.7 Bn. Income from Naphtha is Rs. 14.9 Bn. earning a profit of Rs. 3.16 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. 43 Bn. and it has recorded 34% increase compared to the last year and achieved a profit of Rs. 1.93 Bn. With the introduction of the cost refelctive pricing method prices of Jet A-1 and Avgas has decreased inline with the international oil prices. 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

Profit from Industries Sector





This sector is the second highest contributor to the profitability. Income from industries sector was Rs. 12.72 Bn and it was 10% less than the previous year. Fuel oil 800' is the main contributor to this sector and it earned a profit of Rs. 3.44 Bn.

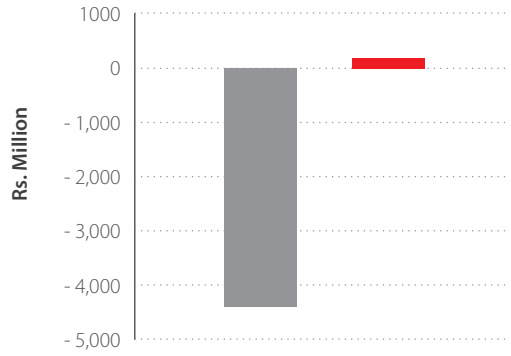
It is commendable to mention that the bitumen sale generated loss of Rs. 13.4 Mn although it was profit making in 2016. Product availability increased during the year under review mainly due to the stocks imported at the beginning of the year stagnated at Corporation warehouses due to the high cost of import. Since competitors imported products at a lower price, there was a shift in purchase from the corporation to the competition.

However, the Corporation managed to sell off its entire stock of bitumen during the latter part of 2017 December recording a marginal gross profit. New initiatives have been taken to blow Bitumen at the Sapugaskanda Refinery and we expect this Bitumen will reach the market by mid-2018 and enable the CPC to recapture lost market share.

DOMESTIC SECTOR

Domestic sector continued to make losses with the provision of kerosene at a highly subzidized price. The sector incurred a loss of Rs. 5.2 Bn. Kerosene sale is Rs. 8.4 Bn and it generated net loss of Rs. 5.4 Bn. LPG sale have increased from Rs. 589 Mn. to 1,822 Mn. with the profit of Rs. 273 Mn.

Net Profit from / (loss) From Domestic Sector





AGRO SECTOR

Though the sales of the Agro sector increased from Rs. 41 Mn. to Rs. 75 Mn. loss has increased from Rs. 90 Mn. to Rs. 121 Mn. during the financial year 2017.

During the year under review, ISO performance reviews were conducted for ISO 18001 as well as OHSHAS 2007. Furthermore, construction work on the waste water treatment planted reached 95% completion and will be commissioned soon.

Improvements were made to the distribution network with 80 Ceypetco agrochemicals dealers appointed in high potential areas while steps were taken to appoint a new stockiest for the Matara district. Additionally, three new products were introduced to the market.

This has helped to mitigate the revenue losses due to the ban of glyphosate. With the new management CPC expects even higher growth in 2018.

REFINERY



OVERALL PERFORMANCE

95.6% of Murban and 4.4% DAS Crude were processed during the year 2017.

The crude oil processed amounted to 1,950,000 metric tons (MT) and the average intake was 4687 tons per stream day (TPSD) and 4510 tons per calendar day (TPCD). The Refinery was in operation for 351.22 days, with an operating time efficiency of 96.23% of Crude Distiller Unit.

The overall cost of processing a ton of crude oil is as given below.

Overall processing cost per ton of crude oil	2017 (Rs)	2016 (Rs.)	% Increase
Excluding own use fuel, depreciation	2,139.18	1,937.15	10.429
Including own use fuel cost but excluding depreciation	4,754.36	3,572.80	33.07

The consumption of fuel oil & gas increased by 11.01% in quantity but increased only by 52.5% in value due to significant price increase of Crude Oil and Gas in the market coupled with the depreciation of rupee value.

The actual total operating cost per metric ton had increased by 32.17% YoY. This was mainly due to the increased own used fuel & gas oil cost during the year.

FIRE AND SAFETY

There was a minor fire reported during the year, however no material or property damage resulted. Fire training classes were conducted for both executives and non-executives and fire drills conducted regularly. All fire engines, fire water pumps and other equipment were regularly checked and audited and the equipment kept in good working order. All employees received safety training regularly including the use of Breathing Apparatus. The target based safety award scheme with cash awards continued as in the past including the "Man of the Month" Award. Regular safety audits, inspections and housekeeping surveys were carried out. Operations, Engineering and Management Safety Meetings were conducted each quater. The Safety, Health & Environment Week was held from 20th to 27th November, 2017.

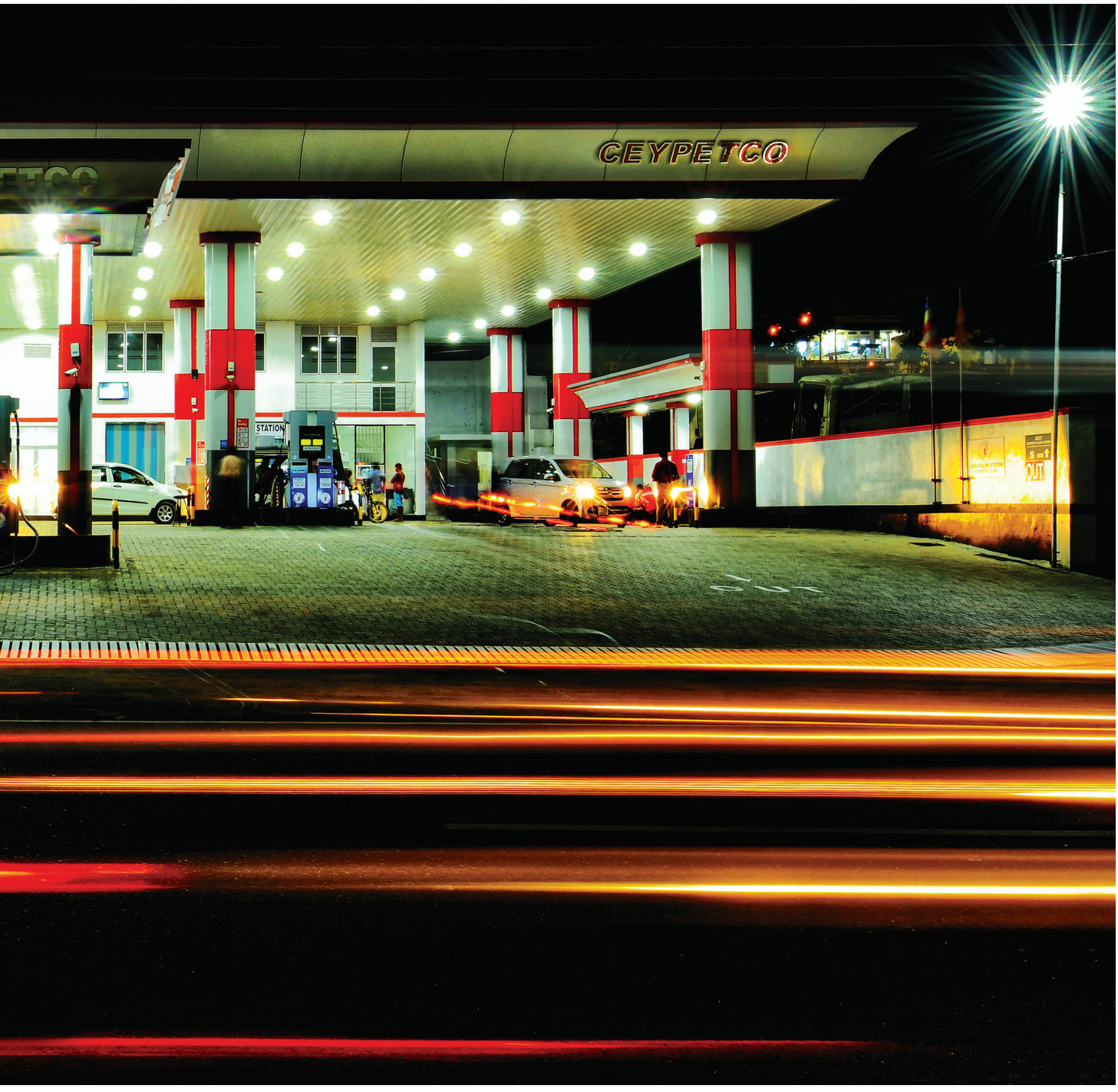
B2B SUPPLY OF PETROLEUM PRODUCTS

LPG supplies to Lanka Laugfs Gas Ltd. and Litro Gas amounted to 2,539 MT and 16,764 MT respectively while 800" fuel oil supplied to CEB and Asia Power amounted to 165,991 MT and 4,964 MT respectively.


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CPC-021



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

The force behind the corporation is its supremely qualified and experience Board of Directors who are regularly called upon to make decisions that affect the strategy, finance and reputation of the organization as well as impact the lives of all of the citizens of the country. In these matters, the board leverages its collective abilities to ensure the highest possible level of corporate governance in accordance with the functions set out for itself by the Ceylon Petroleum Corporation Act No. 28 of 1961. It is also tasked with defining the roles and responsibilities of the directors, their exact composition as well as their tenure in their respective positions.

While the board is appointed by the Minister of Petroleum Resources Development, a representative of the General Treasury and the line ministry on the board is mandatory. Of the board, only the Chairman and Managing Director sit in executive capacities while the rest are non-executive. Whilst earlier, the two above mentioned positions were undertaken by a single individual, an audit concern resulted in the separation of the two roles in the year under consideration.

Name	Designation	Appointment
Mr. T.G. Jayasinghe	Chairman & Managing Director	12.10.2015
Mr. D. C. Shehan Senavirathna	Director	12.10.2015
Mr. Saman Fernando	Director	17.03.2016
Mr. Prasad Galhena	Director	12.10.2015
Mr. Rasanga Harischandra	Director	12.10.20 15
Mr. M. G. Jayasena	Director	12.10.2015

Mr. K.A.Vimalenthirarajah	Director	19.11.2015
Prof. Monish Gunawardena	Chairman	05.05.2016
Mr. Nadun Fernando	Managing Director	05.05.2016
Mr. Dammika Ranatunga	Chairman	29.05.2017
Prof. W.L.Prasanna Perera	Managing Director	29.05.2017
Mr. R.A. Nimal Jayasundara	Director	29.05.2017
Mr. Shashi Dhanatunga	Director	29.05.2017
Mr. W.S. Perera	Director	29.05.2017

Name	Designation	Resignation Date
Mr. T.G. Jayasinghe	Chairman & Managing Director	27.01.2017
Mr. D. C. Shehan Senavirathna	Director	23.05.2017
Mr.Saman Fernando	Director	22.05.2017
Mr. Prasad Galhena	Director	22 .05.2017
Mr.Rasanga Harischandra	Director	28.05.2017
Mr. M.G. Jayasena	Director	02.03.2017
Prof. Monish Gunawardena	Chairman	05.05 .2017
Mr. Nadun Fernando	Managing Director	05 .05.2017

Note: There were no management committee meetings held within the year under review.

Board attendance during 2017

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 16 board meetings were held. The table below shows each director's attendance at each of the board meetings.



Name Designation	Date & Meeting Nos															
	11.01.2017	18.01.2017	02.03.2017	10.03.2017	04.04.2017	05.05.2017	02.06.2017	09.06.2017	07.07.2017	28.07.2017	04.09.2017	02.10.2017	20.10.2017	14.11.2017	24.11.2017	21.12.2017
	1193	1194	1195	1196	1197	1198	1199	1200	1201	1202	1203	1204	1205	1206	1207	1208
Mr.T.G. Jayasinghe Chairman & Managing Director	✓	✓	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹
Mr. D.C. Shean Senavirathna, Director	✓	✓	✓	×	✓	✓	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹
Mr. Saman Frenando, Director	✓	✓	✓	✓	✓	✓	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹
Mr. Prasad Galhena, Director	✓	✓	✓	✓	✓	×	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹
Mr. Rasanga Harischandra, Director	✓	✓	✓	✓	✓	✓	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹
Mr. M. G. Jayasena, Director	✓	✓	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹
Mr. K.A. Vimalethirarajah, Director	✓	×	✓	✓	×	✓	✓	×	×	✓	✓	✓	✓	×	✓	✓
Prof. Monish Gunawardana, Chairman	-	-	✓	✓	✓	✓	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹
Mr. Nadun Fernando, Managing Director	-	-	✓	✓	✓	✓	✹	✹	✹	✹	✹	✹	✹	✹	✹	✹
Mr. Dammika Ranatunga, Chairman	-	-	-	-	-	-	✓	✓	✓	✓	✓	✓	✓	✓	×	✓
Prof. W.L. Prasanna Perera, Managing Director	-	-	-	-	-	-	✓	✓	✓	✓	✓	✓	×	✓	✓	×
Mr. R.A. Nimal Jayasundara, Director	-	-	-	-	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Shashi Danatunga, Director	-	-	-	-	-	-	×	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. W.S. Perera, Director	-	-	-	-	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Authla Bandara Hearath, Director	-	-	-	-	-	-	✓	✓	✓	✓	✓	×	✓	✓	✓	✓

Note : Present ✓ Absent × Resigned person ✹ New Applicants -

No. of Meetings 2017 - 16

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 for providing appropriate information to the Board on time and enabling the Board to efficiently discharge its 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.

The board is also responsible for the achieving the vision of the corporation. 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. Furthermore, 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 or her subject to the general or special directions of the Board of Directors. The Board endeavors to exercise an effective system of internal controls over the Corporation by formulating and implementing policies and ensuring their effective implementation. The board members directly communicate with internal and external auditors and all members of the senior management team.

In addition to the areas mentioned above, the board holds the responsibility for granting approval for Annual Financial Statements, the Annual

Budgets, Corporate Plan, Action Plan and reviewing financial performance on a 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 executes some of the key duties of the board. 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 66 & 67 of this Annual Report.

Management Committee

The Management Committee consisted of either two or three Directors with one of them functioning as the Chairman of the Committee. The head of functions also take part in the meetings. During the year under review this committee did not convene.

Stock Review Committee

The 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, PUCSL and CEB representatives. Import quantities 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 Committees (PC) and Technical Evaluation Committees (TEC)

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

At CPC the following procurement committees function based on the value of purchase:

- Departmental 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. The 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. The 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 as

mentioned in the risk management section 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 are in existence to assess the internal controls, identify risk areas and 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, established policies and procedures approved by the Board of Directors from time to time. Operations and the main administration of CPC are 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.

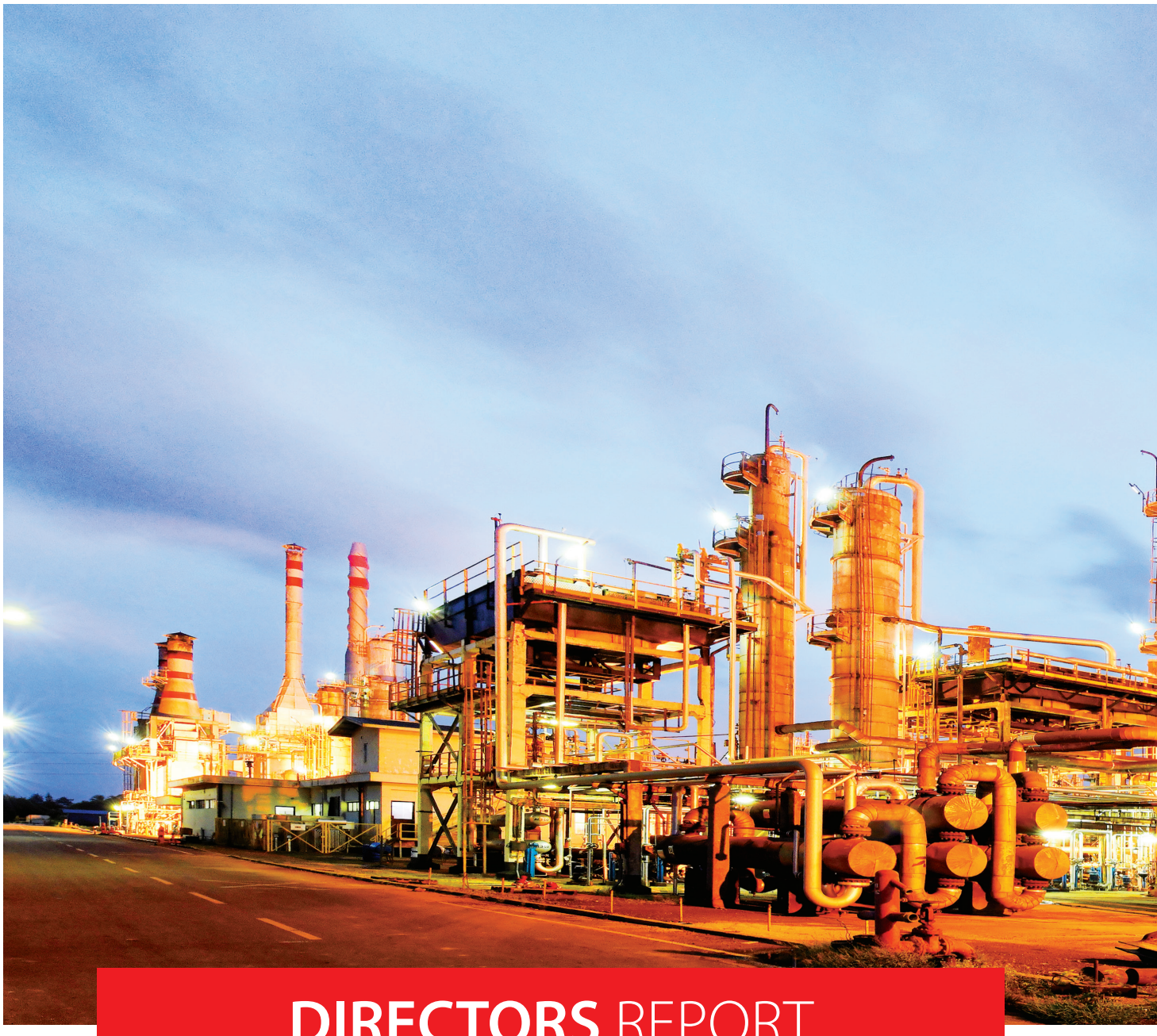
For better management, the Head Office is divided in to several units and each unit is headed by a Deputy General Manager or a Manager who assists the Chairman / Managing Director in the day-to-day functioning of the Corporation. The Corporate Managers are professionals with the necessary skills, experience and academic and professional qualifications in their respective areas.

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. The 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.


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CEYPETCO



DIRECTORS REPORT

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 2017, in accordance with Section 32(3) of the Ceylon Petroleum Corporation Act No. 28 of 1961.

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.



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.

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 2017 duly signed by the Deputy General Manager (Finance) and approved by the Board of Directors of the Corporation.

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 Flows, Significant Accounting Policies and Notes thereto appearing on pages 74 to 103 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.

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'.

Revenue & Profit

Summary of the Financial Results of the Corporation for the year ended 31 December 2017 with comparative figures are given below.

	2017 Rs. Bn.	2016 Rs. Bn.
Revenue	**516.77**	**475.05**
Less : Sales Taxes (Excise duty & NBT)	(70.27)	(51.99)
Net sales Revenue	**446.50**	**423.06**
Cost of Sales	(418.96)	(326.44)
Gross Profit	**27.54**	**96.62**
Other Operating Income	0.68	0.61
Kerosene Subsidy	-	2.98
Selling & Distribution Expenses	(15.50)	(14.41)
Administrative Expenses	(4.96)	(4.38)
Financial Charges	(10.53)	(11.40)
Finance Income	11.06	8.37
Exchange rate variation	(4.92)	(8.83)
Profit / (Loss) before Tax	**3.37**	**69.55**

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 87.

Contributed Capital

The total Contributed Capital of the Corporation as at 31 December 2017 was LKR 28,487.125. Reserves

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

	2017 Rs. Mn	2016 Rs. Mn
Capital Reserve	4,992.686	4,992.686

Directors' Remuneration

Directors' emoluments paid during the year are as follows;

	2017 Rs. Mn	2016 Rs. Mn
Directors' emoluments	1.388	1.762

Directors' Interest in Contracts

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

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 RiskManagement report on pages 60 to 65.

Corporate Governance Directors' Declarations

The Board of Directors declares that

- 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;
- The Directors have declared all material interests in contracts involving the Corporation;
- 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
- 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 46 to 52 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 100 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

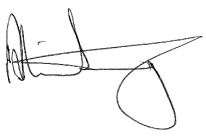
The Auditors were paid LKR 2 Mn for the year ended 31 December 2017 as audit fees by the Corporation.

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.

Acknowledgment 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:



Dammika Ranatunga
Chairman




CEYPETCO



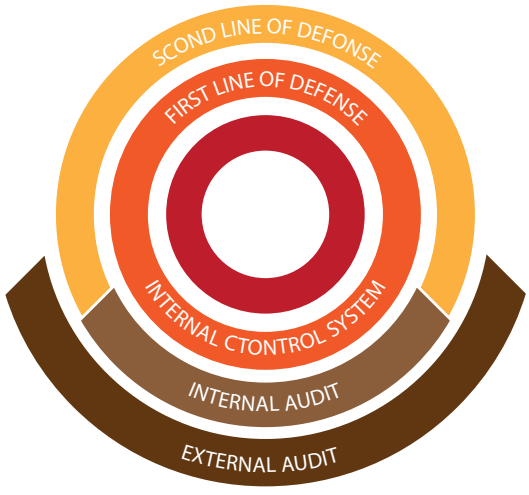
RISK MANAGEMENT REPORT

Risk management has become an integral component of CPC's operations as the country's largest petroleum products provider within a volatile social, political 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 Corporation's assets from negative events such as fire or accidents.

CPC's risk management framework



Ceylon Petroleum Corporation Act, Finance Act and Financial Regulations Guidelines on good governance Best practices for public enterprises Other regulatory proceedings

CPC's Risk management framework is developed proactively to 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;

internal control system
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 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.
The governance structure is further elaborated under the Governance section of this 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.

ECONOMIC RISK

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.

IMPACT

Negative economic factors such as inflation rate increases the cost while reducing the revenue crashing the profits.

RESPONSE

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.

SUGGESTIONS

Introduce a cost reflective pricing mechanism

COMMODITY PRICE RISK

RISK

Sri Lanka does not have petroleum reserves and a substantial part of the energy sector is fed through petroleum imports. Therefore, prices are beyond the control of the CPC and completely in the hands of suppliers.

IMPACT

Increase in global oil prices negatively impacts cost of sales, margins and cash position.

RESPONSE

The stock review committee constantly monitors the country's stock situation and optimizes purchases subsequent to analysis of global price fluctuations, trends and price related opportunities.

SUGGESTIONS

- Introduce a cost reflective pricing mechanism
- Increase the storage capacity to store stocks when prices are down in the global market.

PRODUCTION RISK

RISK

Crude oil is processed locally to obtain refined products.

IMPACT

Quality of the output and wastage impacts profitability.

RESPONSE

Optimize capacity and refining technology to increase the output and efficiency of the refinery.

SUGGESTIONS

- Upgrade refinery operations
- Increase storage capacity to store refined output

OPERATIONAL RISK

RISK

Efficiency of processes and systems affect the productivity of CPC's operations.

IMPACT

Either the lack of controls or ineffective controls and systems failures result in excessive wastage of both resources and time, ultimately affecting smoothness, continuity and quality of supply as well as overall profitability

RESPONSE

- Establish and implement a clearly defined operational risk management policy.
- Continue utilizing existing audit processes to flag up operational issues quickly.
- Continue with norms and practices of procurement established by the state for strategic enterprises.

SUGGESTIONS

Update process control systems to leverage the latest available technology as well as auditing instruments and thereby enable the corporation to compete with the private sector on an equal footing.

SAFETY RISK

RISK

Strict safety standards required for the highly volatile products handled by the corporation.

IMPACT

Lack of attention to safety standards impact business operations and endanger human lives and physical assets of the corporation.

RESPONSE

- Policies and procedures on organizational health and safety are in place
- Regular training provided to employees on minimizing or eradication risks

SUGGESTIONS

A regimen of continuous training established for all employees.

MARKET RISK

RISK

The CPC is a competitive oligopoly with just one private sector player competing.

IMPACT

Changing attitudes among customers with respect to the competition as well as macroeconomic conditions affects the revenue margins and cash position of CPC

RESPONSE

- Diversify the product portfolio
- Enter into sustainable agreements with the customers.
- Increased collection from debtors

SUGGESTIONS

Improve credit control including controlling the receivables from government institutions.

HUMAN RESOURCES RISK

RISK

Attracting, recruiting, training and retaining high quality staff is a constant need in an evolving industry. Optimizing human resources while reducing or eradicating labor related litigation are challenges for the CPC.

IMPACT

An inadequate, improperly placed or inappropriate labor pool adversely affects operational efficiencies and, implicitly. the quality of petroleum products and reputation of CPC. Litigations against human resources are an unnecessary cost to CPC.

RESPONSE

- Establish a strong training regime
- Establish win-win engagement mechanisms with employees and their representation to form equitable employer- employee relationships.
- Establish staff welfare, incentives and other benefit schemes to lower attrition levels.

SUGGESTIONS

Introduce Performance based reward and promotion system while making the transgression penalties equally clear to employees.

INFORMATION TECHNOLOGY RISK

RISK

Information interchange and evidence based real-time decision making are critical to modern petroleum sector business operations. These require mission critical cutting-edge technology to be utilized on a continuous basis.

IMPACT

Improper data and information gathering and upstreaming, data integrity and security will significantly and negatively impact the operational efficiency of the corporation.

RESPONSE

- CPC uses the SAP system to record its transactions.
- Conduct an IT awareness and usage audit as well as train and retrain staff on the use of emerging technology.

SUGGESTIONS

Take full control over the SAP system administration rights

EXCHANGE RATE RISK

RISK

CPC's local business transactions are in Sri Lankan rupees while its purchases and loans are paid in US dollars.

IMPACT

Depreciation in the Sri Lankan Rupee against the US Dollar increases exchange rate losses.

RESPONSE

Exchange rates quoted by all banks are monitored on a daily basis and Dollars are purchased not at the banks quoted rate but at the market rate subsequent to monitoring market behavior.

SUGGESTIONS

- Obtain autonomy to purchase US Dollars at competitive rates from any licensed commercial banks, instead of limiting to purchase only to state owned commercial banks
- Convert the US Dollar loans to Sri Lankan Rupee

INTEREST RATE RISK

RISK

CPC borrows funds to ensure smooth flow of petroleum products to the country when they are unable to generate funds internally.

IMPACT

Interest charged on borrowings unfavorably impacts CPC's profitability through interest expense and financial charges.

RESPONSE

Reduce the foreign currency loan interest rates.

SUGGESTIONS

- Government should settle the subsidy element without delay
- Government can embark certain amount of bank borrowings by way of subsidy element receivable

LIQUIDITY RISK

RISK

Inability to meet the Corporation's fiscal obligations in a timely manner is a result of the liquidity risk.

IMPACT

Paying additional interest when the entity is unable to settle on time negatively impacts the interest cost, cash flow and liability position. Additionally, the inability to quickly trade an asset obstructs expected profitability.

RESPONSE

- The Corporation's liquidity position is consistently monitored to ascertain future liquidity requirements
- The Corporation has arranged diversified funding strategies through cordial relationships maintained with banks and the General Treasury
- Excess cash is invested appropriately by balancing the Corporation's profitability and liquidity position

SUGGESTIONS

Further enhance collection from debtors including government institutions.

CREDIT RISK

RISK

Credit risk arises as CPC sells its products on credit.

Default risk Default risk is the potential losses arising from default of payment by a customer.
Concentration risk Concentration risk stems from high lending exposure to a particular customer, sector or product.

IMPACT

Paying additional interest when the entity is unable to settle on time negatively impacts the interest cost, cash flow and liability position. Additionally, the inability to quickly trade an asset obstructs expected profitability.

RESPONSE

- CPC's receivables are well diversified with a number of product categories offered to different sectors.
- CPC sets-off the receivables from government institutions against a part of the taxes and duties payable to the government

SUGGESTIONS

Further reduce the credits given to government institutions since nearly 75% of the trade receivables at EoY are from government related establishments which in turn exerts pressure on the corporation to to follow up on recovery.

AUDIT COMMITTEE REPORT



Audit committee of CPC is a subcommittee of the Board of Directors and 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. The primary role of the Audit Committee, which reports its findings to the Board of Directors, is to ensure the integrity of the financial reporting and audit processes and the maintenance of sound internal controls and risk management systems. The Committee's responsibilities include the following:

- Monitor compliances in business operations
- The integrity of the financial statements and the significant reporting judgments contained in them. Review the financial statements in order to ensure the adequacy of disclosures in financial reporting system.
- The activities and effectiveness of the internal audit function.
- The effectiveness of the internal control and risk management systems.
- 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

Composition of the Committee

During this year under review, Corporation has conducted four (04) Audit Committee meetings for which Non-Executive Directors were appointed by the Board of Directors as Committee Members. At the 75th Audit Committee meeting, four Non-Executive Directors namely Mr. K. A.Vimalenthirarajah (Chairman), Mr.Prasad Galhena, Mr. Rasanga Harischandra & Mr.Saman Fernando acted as Members of the Committee. However, at the 76th Audit Committee meeting, three non-Executive Directors namely Mr. K. A. Vimalenthirarajah (Chairman) Mr. R. A. N. Jayasundara & Mr. Athula Bandara Herath acted as members of the Audit Committee and continued as Members for the 77th & 78th Audit Committees.

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

Tasks of Audit Committee

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

Tasks performed by the Audit Committee

The audit committee performed the following tasks in order to perform its responsibilities.

- Reviewed the adequacy of internal control system to safeguard the all assets of CPC.
- Discussed the key strategic issues faced by the Corporation
- Discussed the internal audit reports and audit reports issued by Auditor General and observations thereon.
- Reviewed and passed the Annual Internal Audit Plan for the year 2017.

Meetings

During the year under review, four (04) Audit Committee meetings have been conducted to discuss duties entrusted to them as noted above.

Internal Audit Function

The key functions of the Internal Audit includes assessing internal controls, identifying risk areas and verifying accuracy and completeness of transactions through audit procedures which are implemented through the Audit Plan approved by the Audit Committee at the beginning of the year. Audit queries are raised to highlight matters identified during the audit process.

In addition to the above, Internal Audit Function is engaged in special investigations to provide observations and recommendations to the management about various matters of importance, identification of risk related to the areas of product losses, revenue losses, discussion of Auditor General's Reports and replies to Audit queries and periodic review of Annual Audit Plan and the performance of Internal Audit Function based on actual works carried out.

Summary of tasks performed by the Internal Audit during the year under review.

- Discussed 2017 quarterly Financial Statements.
- Discussed Auditor General's Report on 31 December 2016 Financial Statements.
- Reviewed the adequacy of internal controls system and communicate weaknesses to respective parties.
- Discussed Internal Audit Reports at the Audit Committee meeting.
- Discussed the current position of COPE recommendations given for Auditor General's report on 2015 Financial Statements.
- Involved in pre-audit activities.

Conclusion

The audit committee is of the opinion that although internal control system of the corporation provides a 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


LANKA



FINANCIAL STATEMENTS

CEYLON PETROLEUM CORPORATION
Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER	Note	CPC		Group	
		2017	2016	2017	2016
		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Revenue	2	446,502.378	423,061.051	447,177.005	423,443.612
Cost of Sales		(418,961.837)	(326,440.767)	(425,879.817)	(332,658.956)
Gross Profit		**27,540.541**	**96,620.284**	**21,297.188**	**90,791.908**
Other Operating Income	3	670.446	3,588.439	878.366	3,772.090
Selling & Distribution Expenses		(15,498.189)	(14,411.946)	(2,479.327)	(2,583.524)
Administrative Expenses		(4,959.844)	(4,383.873)	(8,977.987)	(8,448.049)
Operating Profit	**4**	**7,752.954**	**81,412.904**	**10,718.241**	**83,525.172**
Exchange Rate Variation		(4,922.004)	(8,828.798)	(4,922.004)	(8,828.798)
Finance Income	5	11,067.082	8,374.112	11,256.523	8,464.482
Finance Expenses	6	(10,530.811)	(11,404.537)	(10,654.884)	(11,571.312)
Profit /(Loss) before tax		**3,367.221**	**69,553.681**	**6,397.876**	**71,589.544**
Income tax Expense	7	(1,897.594)	(16,526.602)	(2,398.332)	(17,150.545)
Profit/(Loss) for the year		**1,469.627**	**53,027.081**	**3,999.545**	**54,439.000**
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified to Profit or Loss:					
Re-measurement gain/(loss) on Retirement Benefit plan	18	(887.512)	120.866	(982.459)	364.729
Revaluation of Property, Plant & Equipment		10,210.907	-	10,210.907	
Tax on Other Comprehensive Income		-	-	12.761	(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	(0.500)	(10.000)	(0.500)	(10.000)
Other comprehensive income / (expense) for the year		9,322.895	110.866	9,240.709	321.320
Total comprehensive Income/(expense) for the year, net of tax		**10,792.522**	**53,137.947**	**13,240.254**	**54,760.320**
Total Comprehensive Income attributable to :					
Owners of the entity		10,792.522	53,137.947	12,334.458	54,110.625
Non-Controlling interests		-	-	905.795	649.695
		10,792.522	**53,137.947**	**13,240.254**	**54,760.320**

The notes appearing on pages 74 to 103 form an integral part of the Financial Statements.

AS AT 31 DECEMBER	Note	CPC		Group	
		2017	2016	2017	2016
		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
ASSETS					
Non - Current Assets					
Property, Plant & Equipment	**8**	23,608.585	13,505.655	40,363.333	30,305.510
Investment Property	**8.3**	40.128	41.575	40.128	41.575
Intangible Assets	**8.4**	-	-	0.278	7.609
Investment in Subsidiary	**9**	5,000.000	5,000.000	-	-
Non-Current Financial Assets	**10**	29,874.032	35,595.461	29,874.032	35,595.461
Trade & Other Receivables	**11**	8,963.641	10,326.708	9,407.896	10,768.432
		67,486.385	**64,469.399**	**79,685.668**	**76,718.588**
Current Assets					
Inventories	**13**	44,152.978	35,476.885	44,559.109	35,888.223
Trade & Other Receivables	**11**	86,990.589	48,397.975	90,589.895	52,446.899
Short term Investments	**14**	10,685.474	28,065.844	10,685.474	28,065.844
Cash and Cash Equivalents	**15**	9,385.759	14,579.410	10,859.879	17,034.827
		151,214.800	126,520.114	156,694.357	133,435.793
Total Assets		**218,701.185**	**190,989.513**	**236,380.025**	**210,154.381**
EQUITY AND LIABILITIES					
Capital and Reserves					
Contributed Capital	**16**	28,487.125	28,487.125	28,487.125	28,487.125
Capital Reserve	**17.1**	4,992.686	4,992.686	4,992.686	4,992.686
Available for sales Reserve	**10.1**	(21.500)	(21.000)	(21.500)	(21.000)
Revaluation Reserve	**17.2**	10,210.907	-	10,210.907	-
Retained Earnings		(218,723.543)	(219,305.658)	(206,949.442)	(209,073.494)
Non Controlling Interest		-	-	8,387.732	7,616.937
Total Equity		**(175,054.325)**	**(185,846.847)**	**(154,892.492)**	**(167,997.746)**
Non - Current Liabilities					
Retirement Benefits Obligation	**18**	1,708.014	753.561	3,182.004	1,987.632
Deferred Tax	**23**	-	-	1,017.152	1,005.757
Loans & Borrowings	**19**	189.898	265.858	189.898	1,176.909
		1,897.912	1,019.419	4,389.055	4,170.298
Current Liabilities					
Trade and Other Payables	**20**	212,140.166	182,095.327	207,166.030	179,661.102
Current portion of Loans & Borrowings	**19.1**	75.959	37.980	75.959	525.780
Short term Borrowings	**21**	179,641.473	193,683.634	179,641.473	193,794.948
		391,857.598	375,816.940	386,883.462	373,981.829
Total Equity and Liabilities		**218,701.185**	**190,989.513**	**236,380.025**	**210,154.381**

The notes appearing on pages 74 to 103 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 2017 and its profit for the year then ended.

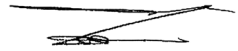


V.N.Weerasooriya
DY. GENERAL MANAGER (FINANCE)

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



N.R.R. Jayasekara
ACT CHAIRMAN / MANAGING DIRECTOR
16 October 2018, Colombo



R A N Jayasundara
DIRECTOR



W. S. Perera
DIRECTOR

CEYLON PETROLEUM CORPORATION
Statement of Cash Flows

For the year ended 31 December	Note	CPC		Group	
		2017	2016	2017	2016
		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
CASH FLOWS FROM OPERATING ACTIVITIES	24	(10,869.586)	68,415.926	(8,969.099)	72,468.682
Interest Paid	**6**	(10,530.811)	(11,404.537)	(10,654.884)	(11,579.468)
Retiring Gratuity Paid	**18**	(127.985)	(122.286)	(225.201)	(234.210)
Income Tax /WHT paid		(3,565.621)	(2,357.487)	(3,697.737)	(2,526.976)
Net Cash Generated from/(used in) Operating activities		(25,094.003)	54,531.617	(23,546.922)	58,128.029
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Property, Plant & Equipment		11.791	42.332	15.427	93.603
Acquisition of Property, Plant & Equipment	**8**	(818.529)	(477.658)	(1,651.819)	(1,391.070)
Dividends income		**243.105**	292.502	0.105	0.002
Interest Received	5	11,057.737	8,374.112	11,247.178	8,464.482
Investment in Treasury Bonds		1,115.053	1,183.072	1,115.053	1,183.072
Investment in Fixed Deposits		21,981.159	(15,424.235)	21,981.159	(15,424.235)
				-	
Net Cash Used in Investing Activities		33,590.316	(6,009.875)	32,707.103	(7,074.146)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividend Paid		-	(10,000.000)	(135.000)	(10,162.500)
New loans obtained/Repayment of Loans		(14,080.140)	(71,200.033)	(15,478.991)	(71,973.537)
Net Cash From/(Used in) Financing Activities		(14,080.140)	(81,200.033)	(15,613.991)	(82,136.037)
Net Increase/(Decrease) in Cash & Cash Equivalents		(5,583.827)	(32,678.292)	(6,453.810)	(31,082.154)
Cash & Cash Equivalents at the Beginning of the Year		12,022.125	44,700.416	14,366.228	45,448.382
Cash & Cash Equivalents at the End of the Year	**15**	**6,438.298**	**12,022.125**	**7,912.418**	**14,366.228**

The notes appearing on pages 74 to 103 form an integral part of the Financial Statements

CPC

For the year ended 31 December	Contributed Capital	Revaluation Reserves	Capital Reserves	Available for sale Reserves	Retained Earnings	Retained Equity
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
As at 1 Jan 2016	28,487.125	-	4,992.686	(11.000)	(262,453.604)	(228,984.793)
Profit for the year	-	-	-		53,027.081	53,027.081
Other Comprehensive Income				**(10.000)**	120.866	110.866
Dividend paid					(10,000.000)	(10,000.000)
As at 31 Dec 2016	**28,487.125**	-	4,992.686	(21.000)	(219,305.658)	(185,846.847)
Profit for the year					1,469.627	1,469.627
Other Comprehensive Income				(0.500)	(887.512)	(888.012)
Revaluation surplus		**10,210.907**				10,210.907
As at 31 Dec 2017	28,487.125	10,210.907	4,992.686	(21.500)	(218,723.543)	(175,054.325)

The notes appearing on pages 74 to 103 form an integral part of the Financial Statements

Group

For the year ended 31 December	Contributed Capital	Revaluation Reserves	Capital Reserves	Available for sale Reserves	Retained Earnings	Shareholders Fund	Non Controlling Interest	Total Equity
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.		
As at 1 Jan 2016	28,487.125	-	4,992.686	(11.000)	(253,259.777)	(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				**(10.000)**	224.213	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	(21,000)	(209,073.494)	(175,614.683)	7,616.937	(167,997.746)
Profit for the year					3,066.354	3,066.354	933.191	3,999.545
Other Comprehensive Income for the year				(0.500)	(942.302)	(942.802)	(27.395)	(970.198)
Revaluation Surplus		**10,210.907**			-	10,210.907	-	10,210.907
Dividend paid				-	-	-	(135.000)	(135.000)
As at 31 Dec 2017	28,487.125	10,210.907	4,992.686	(21.500)	(206,949.442)	(163,280.225)	8,387.732	(154,892.492)

The notes appearing on pages 74 to 103 form an integral part of 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 controllin g 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 16th October 2018.

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 Land and 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 2017 comprise of 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 considers 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.

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.

Non-controlling interests

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 even if this results in the non-controlling interests having a deficit balance.

1.3 ACCOUNTING POLICIES

Changes in Accounting Policies

The Accounting policies adopted are consistent with those used in the previous years, unless otherwise stated.

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. 175,054 Million and Rs. 154,892 Million respectively as per the financial statements prepared for the year ended 31st December 2017.

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. 1.4.12
- Impairment of financial assets : Note No. 1.4.14
- Useful lives of Property, Plant and Equipment : Note No. 1.4.6
- Deferred taxation : Note 1.4.2

1.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.4.1 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue and associated costs incurred or to be incurred can be measured reliably, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and net of sales taxes. The Group has concluded that it is the principal in all of its revenue arrangements since it is the principal obligor in all the revenue arrangements and is also exposed to inventory and credit risks.

The following specific criteria must also be met 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, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

Interest income & expenses

For all financial instruments measured at amortized cost, interest expenses and income are recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Interest income is recognized as the interest accrued unless the collect ability is in doubt. Interest income is presented under Finance Income and interest expense is presented under Finance expense in the statement of Profit or Loss.

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 and is included in other operating income in the statement of profit or loss.

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.

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.

Current income tax relating to items recognized directly in equity or in other comprehensive income is recognized in equity or in other comprehensive income and not in the statement of profit or loss.

(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 unu sed 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. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized 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 borrowing costs are expensed in the period they occur.

1.4.3 Foreign Currency Transactions and Balances

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 recognized in OCI or profit or loss are also recognized 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 Fair value measurement

The Group measures financial instruments such as investments in equity shares and non-financial assets such as land, at fair value at each reporting date. Fair value related disclosures for financial instruments and non- financial assets that are measured at fair value or where fair values are disclosed are summarized in the following notes;

- Property, plant and equipment (Note 8)
- Investment property (Note 8.3)
- Financial instruments (including those carried at amortized cost) (Note 12.1)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either;

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. External valuers are involved for valuation of significant assets, such as land and investment properties and significant liabilities, such as retirement benefits obligation.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability.

1.4.6 Property, Plant & Equipment

Property, plant and equipment, except land, 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, except land, and records at cost of purchase or construction together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

Lands are measured at fair value less impairment losses recognized after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the asset revaluation reserve in equity, except to the extent that it

reverses a revaluation decrease of the same asset previously recognized in the income statement, in which case the increase is recognized in the income statement. A revaluation deficit is recognized in the income statement, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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 recognized 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 derecognized.

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
Pipelines	5 - 40 years
Plant & Machinery	5 - 10 Years
Gantries & Pumps	10 - 15 years
Vehicles	4 - 5 Years
Buoy	10 years
Furniture, Fittings & Office Equipment	3 - 10 Years
SPM Facility - Tank Farm	40 Years
Aviation facility Mattala - Fuel Hydrant	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

Assets 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.

1.4.7 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.

1.4.8 Intangible assets

Basis of recognition

An intangible asset is recognized if it is probable that future economic benefits that are attributable to the assetwill flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard - LKAS 38 on 'Intangible Assets'.
After initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, if any

1.4.9 Investment in Subsidiary

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

1.4.10 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 formula:

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

1.4.11 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.

1.4.12 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.

1.4.13 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.

1.4.14 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 amortized cost using the effective interest rate method. Amortized 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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using valuation models with the group's best estimate of the most appropriate model assumptions.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 12.1.

1.4.15 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.

1.5 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.

The following standards, amendments and improvements are not expected to have a significant impact on the Group's financial statements.

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS 11).
- Regulatory Deferral Accounts (SLFRS 14)
- Leases (SLFRS 16)
- Classification of acceptable methods of Depreciation and Amortization (Amendments to LKAS 16 and LKAS 38).
- Equity Method in Separate Financial Statements (Amendments to LKAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SLFRS 10 and LKAS 28).
- Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28).
- Disclosure Initiative (Amendments to LKAS 1)

1.6 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 Statement

2. REVENUE	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Domestic	473,956.995	439,454.172	473,956.995	439,454.172
Export	42,814.169	35,117.794	42,814.169	35,117.794
Bunkering	-	478.988	233.906	478.988
Terminal Charge & Others	-	-	440.722	382.561
Total Sales	516,771.164	475,050.954	517,445.797	475,433.515
Less : Excise Duty & NBT	(70,268.786)	(51,989.903)	(70,268.786)	(51,989.903)
Net Revenue	**446,502.378**	**423,061.051**	**447,177.006**	**423,443.612**

3. Other opatrating Income	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Income on Investment Property	38.359	38.634	38.359	38.634
Kerosene Subsidy	-	2,982.000	-	2,982.000
Staff Loan Interest	210.318	161.980	563.085	477.960
Rental Income	10.328	18.512	12.994	21.089
Profit/(loss) on disposal of PPE	(4.914)	36.414	(1.319)	87.659
Profit on Sale of Filling Station equipment	22.728	15.429	22.728	15.429
Dividend Income	243.105	292.502	0.105	0.002
Sundry Income	150.523	42.968	242.415	149.317
	670.446	3,588.439	878.366	3,772.090

4. OPERATING PROFIT	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Operating Profit stated after charging the following expenses				
Directors' emoluments	1.388	1.762	11.172	9.114
Auditors' remuneration	2.000	2.108	3.800	3.874
Depreciation (Note 8)	726.476	642.800	1,604.831	749.721
Advertising Expenses	26.763	37.491	26.763	37.491
Legal charge & Other Professional fee	156.435	125.467	156.435	125.467
Disallowed VAT	2,252,653	1,345.762	2,252,653	1,345.762
Special Fee to General Treasury	1,000.000	1,000.000	1,000.000	1,000.000

5. FINANCE INCOME	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Interest Income on Treasury Bills, Fixed Deposits and Call Deposits	4,041.318	4,142.346	4,230.759	4,232.716
Interest Income on R.F.C. A/C	0.843	0.883	0.843	0.883
Interest Income on Credit invoice & Overdue trade debts	30.241	26.748	30.241	26.748
Interest Income on CEB/IPP/Aviation debtors	3,561.130	676.857	3,561.130	676.857
Interest Income on Treasury Bonds	3,433.551	3,527.277	3,433.551	3,527.277
	11,067.982	**8,374.112**	**11,256.523**	**8,464.482**

6. FINANCE EXPENSES	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Interest on Long Term Loans	39.879	50.513	163.952	217.288
Interest on Foreign Currency Bank Loans	10,457.912	11,340.254	10,457.912	11,340.254
Other Finance Cost	33.020	13.770	33.020	13.770
	10,530.811	**11,404.537**	**10,654.884**	**11,571.312**

7. TAX EXPENSE	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Current tax:				
Current income tax	1,407.719	12,186.470	1,907.505	12,401.254
Under provision of previous years	-	-	(23.205)	45.782
Tax on distributable profit	489.876	4,340.132	489.876	4,340.132
Deferred tax:				
Origination and reversal of temporary differences - Income statement	-	-	24.16	363.378
Income tax expense - income statement	**1,897.594**	**16,526.602**	**2,398.332**	**17,150.545**
Income tax expense - Other Comprehensive Income	**-**	**-**	**(12.761)**	**33.409**
Total income tax expense	**1,897.594**	**16,526.602**	**2,385.571**	**17,183.955**
A reconciliation between current tax charge and profit before tax is given below:				
Accounting Profit before tax	**3,367.221**	**69,553.681**	**6,397.876**	**71,589.544**
Add: Disallowable expenses	1,195.579	1,086.100	2,521.222	2,363.373
Less: Allowable expenses & exempt income	(1,711.796)	(3,309.971)	(2,952.876)	(4,495.215)
Adjusted trade profit	**2,851.004**	**67,329.811**	**5,966.222**	**69,457.702**
Less: Utilization of tax losses	(2,707.151)	(23,563.094)	(2,939.276)	(24,410.830)
Add: Tax losses for the year	4,883.713	-	4,883.713	-
Taxable income	**5,027.567**	**43,766.717**	**7,910.660**	**45,046.872**
Income tax charged at				
28%	1,407.719	12,136.716	1,407.719	12,136.716
Concessionary rates	-	49.754	499.787	264.538
Under provision of previous years	-	-	(23.205)	45.782
Tax on distributable profit	489.876	4,340.132	489.876	4,340.132
Deferred tax charge to income statement	-	-	24.156	363.378
Origination and reversal of temporary differences - OCI	-	-	(12.761)	33.409
Income tax expense	**1,897.594**	**16,526.602**	**2,385.571**	**17,183.955**

Assessments have been issued to the Taxable years of 2002/03,2013/14 and 2014/2015 to the value of Rs.2,755 Mn,Rs. 100 Mn and Rs.723 Mn respectively and CPC has made valid appeals for those Assessments.

For the year of assessment 2007/08, the Court of Appeal decision made CPC liable to pay the income tax amounting to Rs.393 Mn.

8.	PROPERTY, PLANT & EQUIPMENT (CPC)	Land & Building	Vested Property	Plant, Mach & Equip.	SPM Facility	Motor Vehicles	Furn/ Fittings, Off. Equip & Other Assets	Capital Work in Progress	Total
		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
8.1	**Cost**								
	Bal as at 01/01/2017	4,492.661	1.016	11,030.379	2,142.422	989.683	2,204.191	1,430.084	22,290.433
	Additions/Transfers	1,035.884	-	189.878	95.851	332.244	62.276	(897.604)	818.529
	Re-valuation	10,210.907	-	-	-	-	-	-	10,210.907
	Disposals	(1.564)	-	(5.347)	-	-	(9.048)	-	(15.960)
	Bal as at 31/12/2017	**15,737.888**	**1.016**	**11,214.907**	**2,238.273**	**1,321.927**	**2,257.419**	**532.480**	**33,303.909**
	Depreciation								
	Bal as at 01/01/2017	686.357	0.397	4,735.372	1,290.634	460,184	1,611.834	-	8,784.778
	Charge for the Year	113.140	-	562.846	9.585	178.617	58.671	-	922.858
	Disposals	(1.560)	-	(1.968)	-	-	(8.784)	-	(12.313)
	Bal as at 31/12/2017	797.937	0.397	5,296.249	1,300.219	638.801	1,661.721	-	9,695.324
	NBV as at 31.12.2017	**14,939.951**	**0.619**	**5,918.658**	**938.054**	**683.126**	**595.699**	**532.480**	**23,608.585**
	Cost 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
	Acc.Dep as at 31.12.2016	686.357	0.397	4,735.372	1,290.634	460.184	1,611.834	-	8,784.778
	NBV as at 31.12.2016	3,806.304	0.619	6,295.004	851.788	529.499	592.357	1,430.084	13,505.655

From 31 December 2017, CPC has changed its accounting policy for the measurement of Land to the revaluation model and revalued amounts have been incorporated to the Financial statements on 31 December 2017. CPC engaged the Valuation Department, an accredited independent valuer, to determine the fair value of its land. Fair value is determined by reference to market-based evidence. This means that valuations performed by the valuer are based on active market prices, adjusted for any difference in the nature, location or condition of the specific property.

If lands were measured using the cost model, the carrying amounts would be as follows.

	2017 Rs. Mn	2016 Rs. Mn
Cost / Carrying amount	1,644.141	642.563

groos carying amount of the fully eppisated property, plant & equpment as at 31st december 2017 is Rs. 4,683.676 Mn.

PROPERTY, PLANT & EQUIPMENT (Group)	Land & Building	Vested Property	Plant, Mach & Equip.	SPM Facility	Motor Vehicles	Furn/ Fittings, Off. Equip & Other Assets	Capital Work in Progress	Total
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Cost								
Bal as at 01/01/2017	10,536.063	1.016	19,871.172	4,942.831	2,211.523	10,926.066	2,227.628	50,716.300
Additions/Transfers	1,172.615	-	246.657	95.851	865.170	246.701	(975.174)	1,651.819
Re-valuation	10,210.907	-	-	-	-	-	-	10,210.907
Disposals	(1.564)	-	(5.347)	-	(1.925)	(9.104)	-	(17.941)
Bal as at 31/12/2017	21,918.021	1.016	20,112.482	5,038.682	3,074.768	11,163.662	1,252.454	62,561.085
Depreciation								
Bal as at 01/01/2017	1,220.895	0.397	8,342.376	3,446.104	1,576.584	5,824.433	-	20,410.790
Charge for the Year	161.288	-	921.139	170.130	256.557	292.097	-	1,801.214
Disposals	(1.560)	-	(1.968)	-	(1.925)	(8.798)	-	(14.252)
Bal as at 31/12/2017	1,380.623	0.397	9,261.547	3,616.237	1,831.216	6,107.732	-	22,197.752
NBV as at 31.12.2017	**20,537.397**	**0.619**	**10,850.935**	**1,422.446**	**1,243.552**	**5,055.930**	**1,252.454**	**40,363.333**
Cost as at 31.12.2016	4,492.661	1.016	11,030.376	2,142.422	989.683	2,204.191	1,430.084	50,716.300
Acc.Dep as at 31.12.2016	686.357	0.397	4,735.372	1,290.634	460.184	1,611.834	-	20,410.790
NBV as at 31.12.2016	**3,806.304**	**0.619**	**6,295.004**	**851.788**	**529.499**	**592.357**	**1,430.084**	**30,305.510**

8.3 Investment Property	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Cost				
Bal at the beginning of the year	57.891	57.891	57.891	57.891
Add: Additions / Transfers	-		-	-
Bal as at the end of the year	57.891	57.891	57.891	57.891
Depreciation				
Bal at the beginning of the year	16.316	14.869	16.316	14.869
Add: Transfer from PPE				-
Add: Charge for the year	1.447	1.447	1.447	1.447
Bal as at the end of the year	17.763	16.316	17.763	16.316
Net Book Value	40.128	41.575	40.128	41.575

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 No.22/1, Thurstan Road, Colombo 03	40,000
Filling Stations	18.283

8.4 Intangible Assets	ERP System	SAP License	System	Total
	Rs. Mn	Rs. Mn	Rs. Mn	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**
Amortization				
At the beginning of the year	411.914	7.987	32.160	452.061
Charge for the Year	0.304	1.393	5.634	7.331
At the end of the year	412.219	9.380	37.794	459.392
Carrying value				
As at 31.12.2017	**0.278**	**-**	**-**	**0.278**
As at 31.12.2016	**0.582**	**1.393**	**5.633**	**7.609**

9. INVESTMENT IN SUBSIDIARY			CPC		Group	
	2017	2016	2017	2016	2017	2016
	Holding %	Holding %	Rs. Mn	Rs. Mn	Rs. Mn	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		Group	
		2017	2016	2017	2016
		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Quoted equity investments	10.1	29.000	29.500	29.000	29.500
Unquoted equity investments	10.2	0.540	5.626	0.540	5.626
Non-equity investments	10.3	29,844.492	35,560.335	29,844.492	35,560.335
		29,874.032	**35,595.461**	**29,874.032**	**35,595.461**

10.1. Quoted equity investments	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Lanka Cement Ltd.				
5,000,000 Ordinary Shares of Rs.10/= each fully paid	29.500	39.500	29.500	39.500
Adjustment for fair value changes	(0.500)	(10.000)	(0.500)	(10.000)
	29.000	**29.500**	**29.000**	**29.500**

10.2. Unquoted equity investments	CPC		GROUP	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	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
Less : Provision for Impairment	(5.086)	-	(5.086)	-
	0.540	**5.626**	**0.540**	**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 available for sale. None of the financial assets classified as available for sale is either past due or impaired except the International Cooperative Petroleum Association for which an impairment provision has been made.

10.3. Non-equity investments	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Investment in Fixed Deposits	5.000	5.000	5.000	5.000
Investment in Treasury Bonds	29,839.492	35,555.335	29,839.492	35,555.335
	29,844.492	35,560.335	29,844.492	35,560.335

11 . TRADE & OTHER RECEIVABLE	CPC			
	2017		2016	
	Current	Non-Current	Current	Non-Current
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Trade Receivables	76,956.161		33,262.256	-
Other Receivables	7,640.116	0.667	6,804.863	0.667
Deposits & Prepayments	282.587	6,024.786	1,315.836	7,372.314
Advance	2,057.605		6971.339	29.500
Loans & Advances to Employees	54.119	2,938.187	43.681	2,953.727
TOTAL	**86,990.589**	**8,963.641**	**48,397.975**	**10,326.708**

	Group			
	2017		2016	
	Current	Non-Current	Current	Non-Current
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Trade Receivables	77,596.222	-	34,404.904	-
Other Receivables	7,778.673	0.667	6,804.863	0.667
Deposits & Prepayments	1,264.301	6,024.786	2,301.942	7,372.314
Advance	2,057.605	-	6,971.339	-
Loans & Advances to Employees	1,893.093	3,382.442	1,963.851	3,395.451
	90,589.895	**9,407.896**	**52,446.899**	**10,768.432**

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

	CPC	
	2017	2016
	Rs. Mn	Rs. Mn
Balance as at 1st January	49.621	52.099
Less: Amount Recovered	-	
Less: Amount write off	-	(1.092)
Add: Provision for the year	(0.343)	(1.386)
Balance as at 31st December	**49.278**	**49.621**

12 Financial instruments

Financial Assets by category

	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Loans & Receivables				
Trade and other receivables	86,096.650	38,476.763	86,875.269	41,981.305
Placements with banks	5,168.258	27,149.417	5,168.258	27,149.417
Cash in hand and at bank	9,385.759	14,579.410	10,859.879	17,034.827
Available for sale Financial Assets			-	
Quoted & Unquoted Equity Investments	29.540	35.126	29.540	35.126
Held to Maturity			-	
Investments in treasury bonds	35,361.708	36,476.761	35,361.708	36,476.761
TOTAL	**136,041.915**	**116,717.477**	**138,294.654**	**122,677.437**

Financial Liabilities by category

	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Financial Liabilities at amortized cost				
Borrowings	179,907.331	193,987.471	179,907.331	195,497.637
Trade and other payables	183,282.528	146,061.828	177,816.873	143,480.550
TOTAL	**363,189.859**	**340,049.300**	**357,724.204**	**338,978.187**

12.1 Fair 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

As at 31 December		Carrying Amount		Fair value	
		2017	2016	2017	2016
		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Financial assets					
Non Current Financial assets					
Quoted equity investments	12.1.1	29.000	29.500	29.000	29.500
Unquoted equity investments	12.1.2	0.540	5.626	0.540	5.626
Investment in Fixed Deposits	12.1.3	5.000	5.000	5.000	5.000
Investment in Treasury Bonds	12.1.1	29,839.492	35,555.335	29,662.613	32,758.459
Trade & Other receivables	12.1.4	86,096.650	38,476.763	86,096.650	38,476.763
Short term investments					
Bank deposits	12.1.3	5,163.258	27,144.417	5,163.258	27,144.417
Government bonds	12.1.1	5,522.215	921.426	5,480.095	912.937
Cash and cash equivalents	12.1.4	9,385.759	14,579.410	9,385.759	14,579.410
Total		**136,041.915**	**116,717.477**	**135,822.915**	**113,912.112**
Financial liabilities					
Loans & borrowings	12.1.3	265.858	303.837	265.858	303.837
Trade & other payables	12.1.4	183,282.528	146,061.828	183,282.528	146,061.828
Short term borrowings	12.1.4	179,641.473	193,683.634	179,641.473	193,683.634
Total		**363,189.859**	**340,049.299**	**363,189.859**	**340,049.299**

Determination of fair value

Valuation Model

For all financial instruments where fair values are determined by referring to externally quoted

Prices or observable pricing inputs to models, independent price determination or validation is obtained. In an active market, direct observation of a traded price may not be possible .In these circumstances, the Group uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

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 materiality of the investment

12.1.3 as interest rates, creditworthiness of the bank, and the risk characteristics of the instrument. As at 31 December 2017, 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.

12.2 Fair value hierarchy

The Group use the following hierarchy for determining and disclosing the fair value of financial

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the

As at 31 December	CPC			
	2017			
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
	Level 1	Level 2	Level 3	Total
Financial assets - available for sale				
Quoted equity investments	29.000	-	-	29.000
Unquoted equity investments	-	-	0.540	0.540
	29.000	-	0.540	29.540

13. INVENTORIES	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Crude Oil	10,025.945	11,099.275	10,025.945	11,099.275
Other Raw material	692.765	1,455.355	692.765	1,455.355
Finished Products	30,188.447	18,921.623	30,195.263	18,926.799
Intermediate Product	655.401	1,392.528	654.036	1,390.817
Other Materials & Supplies	2,999.244	3,009.276	3,542.842	3,549.874
Less: Provision for Slow Moving Items	(408.823)	(401.172)	(551.741)	(533.896)
	44,152.978	**35,476.885**	**44,559.109**	**35,888.223**

14. SHORT TERM INVESTMENTS	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Bank Deposits	5,163.258	27,144.417	5,163.258	27,144.417
Government Bonds	5,522.215	921.426	5,522.215	921.426
	10,685.474	**28,065.844**	**10,685.474**	**28,065.844**

15. CASH AND CASH EQUIVALENTS	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Components of Cash and Cash Equivalents				
Cash at Bank and in hand	9,385.759	14,579.410	10,859.879	17,034.827

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

	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Cash and cash equivalents	9,385.759	14,579.410	10,859.879	17,034.827
Bank overdrafts (Note 21)	-	-	-	(111.314)
	9,385.759	14,579.410	10,859.879	16,923.513
Add/Less: Adjustment for foreign currency translation	(2,947.462)	(2,557.285)	(2,947.462)	(2,557.285)
	6,438.298	12,022.125	7,912.418	14,366.228

16. CONTRIBUTED CAPITAL	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Balance as at 31st December	28,487.125	28,487.125	28,487.125	28,487.125

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.

17.1 CAPITAL RESERVE	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Balance as at 31st December	4,992.686	4,992.686	4,992.686	4,992.686

No authorized capital has been fixed by the Parliament.

17.2 REVALUATION RESERVE	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Surplus from revaluation (Note 8)	10,210.907	-	10,210.907	-
Balance as at 31st December	10,210.907	0.000	10,210.907	-

The revaluation reserve is used to record increases in the fair value of land and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity

18. RETIREMENT BENEFIT OBLIGATION	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Balance as at 01st January	737.973	845.526	1,972.044	2,398.663
Less: Payments made during the year	(127.985)	(122.286)	(225.201)	(401.713)
	609.988	723.240	1,746.843	1,996.950
Add: Current service cost	98.989	40.761	183.216	105.981
Interest cost	95.936	94.838	253.897	233.841
Actuarial (gain)/loss	887.512	(120.866)	982.459	(364.729)
	1,692.425	737.973	3,166.415	1,972.045
Add: Benefit China Bay /LLL/NYLON/CPSTL Employees	15.589	15.588	15.589	15.588
Balance as at 31 st December	**1,708.014**	**753.561**	**3,182.004**	**1,987.632**
Expenses on retirement benefit obligation Income Statement				
Current service cost	98.989	40.761	183.216	105.981
Interest cost	95.936	94.838	253.897	233.841
	194.925	135.599	437.113	339.823
Other Comprehensive income				
Actuarial (gain)/loss	887.512	(120.866)	982.459	(364.729)
	887.512	(120.866)	982.459	(364.729)

Actuarial valuation of retirement benefit obligation as at 31 December 2017 was carried out by messers Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries using the 'Projected Unit Credit method' as recommended by LKAS 19 - Employee Benefits

The principal actuarial assumptions used were as follows :		
Expected Salary increment	30% once i n 3 years	1%
Expected Staff turnover	4.3%	4.4%
Interest /Discount Rate	10.5%	13%
Retirement age	60 years	60 years
No. of employees	2573	2577
Moratal i ty	A 1967/70 Mortality Table	

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 31 December 2017. 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	Sensitivity effect on Retirement Benefit Obligation
		2017	2017
		Rs. Mn	Rs. Mn
Discount Rate @10.5%	Increased by 1% point	102.737	(102.737)
	Decreased by 1% point	(115.981)	115.981
Salary Increment @ 30%	Increased by 1% point	(166.017)	166.017
	Decreased by 1% point	143.593	(143.593)

19.	LOANS & BORROWINGS	CPC		Group	
		2017	2016	2017	2016
		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
	Treasury (A.D.B) Loan	189.898	265.858	189.898	265.858
	Peoples Bank	-	-	-	911.051
		189.898	**265.858**	**189.898**	**1,176.909**

19.1.	CURRENT PORTION OF LOANS & BORROWINGS				
	Treasury (A.D.B) Loan	75.959	37.980	75.959	37.980
	Peoples Bank	-	-	-	487.800
		75.959	37.980	75.959	525.780

19.2	Loans Repayable within five years from 31st December is as follows	CPC		Group	
		2017	2016	2017	2016
		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
	Amount due within 2 years	151.919	75.959	151.919	1,051.559
	Amount due within 3-5 years	113.939	227.878	113.940	651.130
		265.858	**303.837**	**265.858**	**1,702.689**

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.

20.	TRADE & OTHER PAYABLES	CPC		Group	
		2017	2016	2017	2016
		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
	Foreign Bills Payable	159,573.421	139,805.406	159,573.421	139,805.406
	Other Creditors			-	-
	- Amount due to Inland Revenue & Custom Dept.	28,857.637	36,033.499	29,349.155	36,180.551
	- Accrued Expenses	22,229.416	4,967.092	15,242.779	1,250.427
	- Refundable Deposits & Others	1,479.691	1,289.330	3,000.674	2,424.718
		212,140.166	**182,095.327**	**207,166.030**	**179,661.102**

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		Group	
		2017	2016	2017	2016
		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
	Bank & Other loans			-	
	- Wholly Repayable within one year	179,641.473	193,683.634	179,641.473	193,683.634
	- Bank Overdrafts	-	-	-	111.314
		179,641.473	193,683.634	179,641.473	193,794.948

Borrowings are guaranteed by a Treasury indemnity of US$ 1,800 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 was 5% p.a. up to May and it was increased to 5.5% p.a. from June 2017.

22. EMPLOYEES	CPC		Group	
	2017	2016	2017	2016
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Staff Cost				
Salaries & Wages	3,776.350	4,109.662	6,560.133	9,213.139
Defined Contribution Plan	377.211	443.150	826.759	892.698
Defined benefit obligation (Note 18)	1,082.437	14.733	1,419.572	(24.906)
	5,235.997	**4,567.545**	**8,806.464**	**10,080.931**

CPC has carried forward tax losses amounting to Rs 251,307 Mn (2016 Rs.249,279 Mn) which are available to set-off against the future tax profits. Deferred tax assets not accounted on these losses amounts to Rs.70,365 Mn (2015 Rs. 69,798 Mn

23. Deferred Tax-CPC

CPC has carried forward tax losses amounting to Rs 251,307 Mn (2016 Rs.249,279 Mn) which are available to set-off against the future tax profits. Deferred tax assets not accounted on these losses amounts to Rs.70,365 Mn (2015 Rs. 69,798 Mn

23.1 Deferred Tax-Group	Group	
	2017	2016
	Rs. Mn	Rs. Mn
Balance at the beginning of the period	1,005.757	544.863
Consolidation adjustments for 2015	-	64.107
Origination and reversal of temporary difference - Income Statement	24.156	363.378
Other Comprehensive income	(12.761)	33.409
Balance at the end of period	**1,017.153**	**1,005.757**
Deferred tax assets	(241.806)	(241.366)
Deferred tax liability	1,258.959	1,247.123
Net deferred tax liability	**1,017.153**	**1,005.757**

23.2 Recognized deferred tax assets and liabilities	2017 - Rs. Mn		2016 - Rs. Mn	
	Temporary difference	Deferred tax Liability/ (Asset)	Temporary difference	Deferred tax Liability/ (Asset)
Deferred tax liability				
Property, Plant & Equipment & Intangible assets	11.836	1,258.959	355.728	1,247.123
Deferred tax assets				
Inventories	(1.025)	(19.208)	(1.371)	(18.183)
Provisions	0.845	(24.494)	(8.133)	(25.338)
Employee benefit plan	(29.037)	(198.104)	(30.50)	(169.07)
Tax loss	28.776	0.000	78.325	(28.776)
	11.395	**1,017.153**	**394.045**	**1,005.757**

Deferred tax has been calculated using an effective tax rate. The rate has been decreased from 13.7% to 13.44% due to multiple tax rates applied to different levels of taxable income, resulting Rs. 11.395 Mn increase in the deferred tax liability as at 31 December 2017

		CPC		GROUP	
24.	CASH FLOWS FROM OPERATING ACTIVITIES	2017	2016	2017	2016
		Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
	Profit/(Loss) before tax	3,367.221	69,553.681	6,397.876	71,589.544
	Adjustment for :				
	Depreciation	924.305	839.354	1,802.661	1,640.295
	Amortization	-	-	7.331	9.741
	Foreign Currency Translation	(390.177)	1,062.286	(390.177)	1,062.286
	Dividend Income	(243.105)	(292.502)	(0.105)	(0.002)
	Interest Income	(11,057.737)	(8,374.112)	(11,247.178)	(8,464.482)
	allowance for impairment	5.086		5.086	(39.054)
	Interest Expenses	10,530.811	11,404.537	10,654.884	11,571.312
	Provision for Retirement Obligation	194.925	135.599	437.113	339.823
	(Profit)/Loss on Sale of Property, Plant & Equipment	(8.144)	(36.414)	(11.739)	(87.660)
		-	-		
	Operating Profit/(Loss) before Working Capital changes	**3,323.186**	**74,292.430**	**7,655.753**	**77,621.803**
	Changes in Working Capital				
	(Increase)/ Decrease in Inventories	(8,676.093)	5,558.227	(8,670.886)	5,475.724
	(Increase)/ Decrease in Trade and Other Receivable	(37,229.546)	(20,189.713)	(36,782.459)	(21,261.227)
	Increase/ (Decrease) In Trade and Other Payables	31,712.867	8,754.984	28,828.492	10,632.381
	Cash Generated from/ (Used in) operating activities	(10,869.586)	68,415.926	(8,969.099)	72,468.682

25. OPERATING SEGMENTS

Operating Segment	Transport	Power Generation	Aviation	Industries	Storage & Transportation	Others	Eliminations/ Adjustments	Total
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Revenue								
External Customers	275,874.377	103,585.136	42,903.823	12,689.379	689.223	10,393.307	-	**446,135.245**
Inter Segment	-	-	-	-	13,486.924	-	(13,486.924)	**-**
Total Revenue	275,874.377	103,585.136	42,903.823	12,689.379	14,176.147	10,393.307	(13,486.924)	**446,135.245**
Results								
Operating Profit	(15,902.445)	22,758.544	3,052.839	4,052.796	3,207.941	(4,087.518)	(2,363.916)	**10,718.241**
Exchange Rate Variation	(3,475.364)	(1,183.789)	-	(826.684)	-	(180.167)	-	**(4,922.004)**
Finance Cost	(6,680.284)	(2,241.235)	(1,116.264)	(151.790)	(124.073)	(341.236)		**(10,654.882)**
Finance Income					189.441		11,067.082	**11,256.223**
Profit /(Loss) before tax	(26,058.093)	19,333.520	1,936.575	3,818.322	3,273.309	(4,608.921)	8,703.166	**6,397.876**
Income tax Expense					(309.825)		(2,088.507)	**(2,398.332)**
Profit/(Loss) for the year	(26,058.093)	19,333.520	1,936.575	3,818.322	2,963.484	(4,608.921)	6,614.659	**3,999.545**
OTHER COMPREHENSIVE INCOME								
Items that will not be reclassified to Profit or Loss:								
Re-measurement gain/(loss) on Retirement Benefit plan					(94.947)		(887.513)	**(982.459)**
Revaluation of Property, Plant & Equipment							10,210.907	**10,210.907**
Tax on Other Comprehensive Income					12.761			**12.761**
Items that are or may be reclassified subsequently to profit or loss:								
Net Gain/(loss) on available -for- sale Financial assets							(0.500)	**(0.500)**
Other comprehensive income / (expense) for the year	**(26,058.093)**	**19,333.520**	**1,936.575**	**3,818.322**	**2,881.298**	**(4,608.921)**	**15,937.554**	**13,240.254**

26. CONTINGENT LIABILITIES, COMMITMENTS & LITIGATIONS CONTINGENT LIABILITIES

The contingent liability of the CPC as at 31st December 2017 relates to following; Claims for Demurrages for shipments amounts to US$ 4,322,822.50

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 2017 relates to following;

Commitments to the Banks.

The Corporation established Letter of Credits (L/C) valuing Rs.22,034 Mn and Rs. 3,982 Mn (USD 142.074 Mn & USD 25.677 Mn) 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 2017 noted below.

Type of Legal Cases	No of Cases 2016	
	CPC	Group
Labour Tribunal Cases	04	10
District Court Cases	18	28
High Court Cases	06	10
Court of Appeal Cases	13	17
Supreme Court Cases	16	24
Human Rights Commission	33	33
Department of Labor	38	47

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.

The aforementioned cases are still pending in the Courts 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.

FINANCIAL RISK MANAGEMENT

The Group'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 Group. The Group's overall risk management programs seek to minimize potential adverse effects on the Group's financial performance.

The principal financial instruments of the Group 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 Group and to maximize financial return on the invested funds. The Group 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 Group'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 2017	Yearned exchange rate	Change in exchange rate	Effect on profit before tax*
	USD. Mn			Rs. Mn
Loans and Borrowings (USD)	1,158	155.0855	1% Increase	(1,796)
Trade and other payable (USD)	1,023	155.0855	1% Increase	(1,587)

***** 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 Group 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 Group 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 Group 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 Group, if a customer fails to meet its contractual obligations. Most of the Group'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 repos, Treasury bond investments, call deposits. At the reporting date, the Corporation held cash and cash equivalents of Rs. 9,386 Mn and other short term deposits of Rs. 10,685 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 2017 (Figures in LKR Million)					
	Less than 3 months	3 months to 12 months	1 – 2 years	3-5 Years	Over 5 years
Bank borrowings	97,239	82,403			
Long term debt	38	38	76	114	-
	97,277	82,441	76	114	-

(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

Board of Directors are considered as key management personnel. No Directors has direct or indirect interest in the contracts with CPC & CPSTL except the following;

Mr. Dammika Ranatunga is the Chairman of both CPC and CPSTL and Mr. R.A.N. Jayasundara is a director of both CPC and CPSTL from 29 May 2017.

Mr. T. G. Jayasinghe, former Chairman / Managing Director was a member of the CPSTL Board and resigned with effect from 27 January 2017.

Mr. D.C.S. Senevirathne, former Chairman / Managing Director of CPSTL was a member of CPC Board and resigned with effect from 23 May 2017.

Compensation of key management Personnel

	CPC	
	2017	2016
	Rs. Mn	Rs. Mn
Short term Benefits	1.388	1.762

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to Key Management Personnel

Following transactions were carried out with related parties

Transaction	2017	2016
	Rs. Mn	Rs. Mn
Sales & Services rendered to related parties		
Subsidiary		
Ceylon Petroleum Storage Limited	482.747	452.532
Other related parties		
Ministry of Petroleum Industries	21.600	19.600
	504.347	472.132
Services received from related parties		
Subsidiary		
Ceylon Petroleum Storage Limited	13,025.648	11,835.401
	13,025.648	11,835.401
Amount due from related parties*		
Subsidiary		
Ceylon Petroleum Storage Limited	331.605	302.870
Other related parties		
Ministry of Petroleum Resources Development	9.405	8.145
	341.010	311.015
Amount due to related parties*		
Subsidiary		
Ceylon Petroleum Storage Limited	6,979.634	3,589.441

* 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.

Since the Government of Sri Lanka directly controls the Corporation, CPC has considered the Government owned companies and other government related entities which are controlled, jointly controlled or significantly influenced by the Government of Sri Lanka as Related Parties according to LKAS 24, 'Related Party Disclosures'.

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 was able to earn Rs. 10,792 Mn as current year's profit and retain it to reduce the negative net assets position. However, as at 31st December 2017 CPC still had a negative net asset position of Rs. 175,054 Mn due to accumulated losses incurred in the past. 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.


AUDIT
REPORT

ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය எனது இல. My No. } POE/A/CPC/1/17/01 මෙහි අංකය உமது இல. Your No. } දිනය திகதி Date } 30 November 2018

The Chairman
Ceylon Petroleum Corporation

Report of the Auditor General on the Consolidated Financial Statements of the Ceylon Petroleum Corporation (CPC) and its Subsidiary for the year ended 31 December 2017 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 ("the Corporation") and the consolidated financial statements of the Corporation and its Subsidiary ("the Group") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 31 of the Ceylon Petroleum Corporation Act, No. 28 of 1961. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

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 2 88 70 28 - 34 +94 11 2 88 72 23 ag@auditorgeneral.gov.lk www.auditorgeneral.gov.lk

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

1.4 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinions

(a) Opinion – Corporation

In my opinion, except for the effects of the matters described in paragraph 2.2.2 of this report, the financial statements give a true and fair view of the financial position of the Ceylon Petroleum Corporation as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

(b) 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 2017 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) Since there is no agreement between the Corporation and Subsidiary with regard to balance payable (Rs. 6,979.63 million) and receivable (Rs. 7,650.56 million) which arrived from intercompany transactions, a non-eliminated balance of Rs. 670.93 million had remained in the group financial statements.

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

(i) A difference of Rs. 670.93 million was observed between the amounts shown as receivable from the Ceylon Petroleum Corporation (CPC) in the financial statements of the Company and the corresponding amount shown as payable in the financial statements of the CPC at the end of the year under review and this

included a dispute balance of Rs. 548.66 million as at on that date. However, only a provision of Rs.163.62 million had been provided for impairment in the financial statements.

(ii) According to the balance confirmation received from the Lanka Indian Oil Company (LIOC), the amount payable to the Company was Rs. 432.77 million, whereas according to the financial statements of the Company the corresponding amount was shown as Rs. 475.40 million. Therefore, an un-reconciled difference of Rs. 42.63 million was observed between those two balances.

(iii) The basis for provision of Rs. 142.92 million made on inventory items had not been disclosed in the financial statements or was not made available for audit.

(iv) A difference of Rs. 436.78 million was observed between the Income Tax, Economic Service Charge (ESC) and Value Added Tax (VAT) payables and VAT recoverable account balances appeared in the financial statements of the Company and the corresponding amounts shown in the records maintained by the Department of Inland Revenue as at the end of the year under review. Therefore, the accuracy, completeness and existence of those balances were doubt in audit.

(v) The recoverability of overpaid Pay As You Earn (PAYE) tax and input VAT amounting to Rs.6.8 million and Rs. 8.06 million respectively was in doubt since these were unrecovered from the year 2008 and 2010 respectively. However, no provision had been made in this regards even as at the end of the year under review.

(vi) The reliability of payable balance of Withholding Tax (WHT) and output VAT amounting to Rs. 19.09 million and Rs. 13.91 million respectively was also in doubt since these were continuously carried forwarded year by year in the financial statements for longer period without being settled.

(vii) Fully depreciated assets approximately costing Rs. 5,045 million are being continuously used by the Company without reassessing the useful economic lifetime of those assets and account them accordingly as per the provisions in LKAS 16. Further, the Company had not revalued its assets since the inception of the Company and a proper revaluation policy was not established for this purpose. Hence, the non-current assets shown in the financial statements had not reflected the fair value of such assets.

(viii) Four transections aggregating Rs.36.3 million which should be treated as prior year adjustments in the financial statements as per LKAS 08 had been erroneously recognized as transactions of the year under review. As a result, the profit for the year under review and retain earning as at the end of the year

under review had been overstated and understated respectively by Rs. 19.12 million.

(ix) It was observed that, more than 250 types of inventory items with the huge quantity were included to the Enterprise Resource Planning (ERP) system i.e. SAP of the Company without being entered the value of such inventory items to the system. Hence, the accuracy of the valuation, and completeness of inventory items could not be relied upon in audit.

2.2.2 Financial Statements of the CPC

2.2.2.1 Adherent with Sri Lanka Accounting Standards (LKAS)

The following observations are made.

(a) Paragraph 11 of **LKAS 2 – Inventories**: All expenditure incurred for bring the stocks to the store should be considered as cost of stock. However, Excise Duties amounting to Rs. 55,327.9 million incurred in the year under review for importation of fuel had been set off against the revenue without being considered as inventory cost. As a result, the actual cost of sales for the year under review and the value of closing inventory had not been shown in the financial statements.

(b) Paragraphs 51 and 36 of **LKAS 16 - Property, Plant & Equipment:** Fully depreciated assets approximately costing Rs. 4,749 million are being continuously used by the Corporation without reassessing the useful economic lifetime of those assets and account them accordingly. Further, at a sample audit test check it was revealed that, 15 lands belongs to the Corporations as at the end of the year under review had not been revalued. Therefore, the accuracy of fair value of such assets is doubt in audit.

(c) Paragraph 08 of **LKAS 17 – Leases:** "the lands having only the lease right had been capitalized and revalued by the Corporation in the year under review treated as leasehold asset contrary to the provisions in the Standard.

(d) **LKAS 36 – Impairment:** No evidence was made available for audit to ensure that an impairment test had been conducted by the Corporation for the year 2017. Hence, the accuracy of the fair value of assets is in doubt in audit.

2.2.2.2 Accounting Deficiencies

The following observations are made.

(a) A balance of Rs. 1,135.8 million had been continuously carried forwarded in the financial statements since the year 2010 as receivable from the Department of Island Revenue and Sri Lanka Customs. However, reasons for continuation of such balances for a longer period were not clear to audit. Further, no provision had been made in this regard in the financial statements in the year under review.

(b) According to the age analysis submitted, an amount of Rs. 753 million receivable from the Ceylon Electricity Board (CEB) had remained outstanding since the year 2013 without taking any recovery action even up to the end of the year 2017. Further, no impairment had been made thereon in the year under review.

(c) According to the confirmation received, an amount of Rs. 3,847.1 million had to be paid by the Corporation to the People's Bank as at the end of the year under review in respect of hedging transactions taken place for procurement of oil during the period of 2007 to 2009. However, it had not been brought to accounts of the Corporation.

2.2.2.3 Un-reconciled Differences

Un-reconciled differences of Rs. 206.4 million and Rs. 177 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 Corporation and Subsidiary for the year 2017 and 2016 respectively.

2.2.2.4 Unexplained Differences

According to the financial statements of the Corporation, net amount payable to the Sri Lanka Customs as at 31 December 2017 was Rs. 7,278,958,430. However, as per the records of Sri Lanka Customs it was shown as Rs. 5,782,668,839 recoverable from the Corporation. However, reasons for difference of Rs. 1,496,289,591 were not explained to the audit.

2.2.2.5 Lack of Evidence for Audit

The following observations are made.

(a) Value Added Tax (VAT) aggregating Rs. 423,905,381 was shown under other receivable balance in the statement of financial position at the end of the year under review for longer period. Out of this, amounting to Rs.326,391,518 is continue since 2010. Moreover, the tax invoices and other relevant supporting documents were not made available to audit in this regard. Therefore, the recoverability of those balances is doubt in audit.

(b) Even though neither overpayment nor carried forwarded tax balance had been appeared in any tax return submitted to the Department of Inland Revenue, a sum of Rs.376,000,065 had been continuously carried forwarded in the financial statements since 2010 as receivable from Department of Inland Revenue. Further, it was unable to confirm by alternative means the recoverability of this balance shown under other receivable.

2.2.2.6 Accounts Receivable and Payable

Total trade receivables as at 31 December 2017 was Rs. 76,616 million which comprise Rs. 65,979 million and Rs. 10,637 million due from Government institutions and Non-government institutions respectively. The total dues as at the end of the year under review had increased by 129 per cent with compared to the previous year outstanding balance of

Rs. 33,387 million. Age analysis of accounts receivable as at 31 December 2017 is shown below.

Period	Category		Total
	Government	Non-Government	
	Rs. Million	Rs. Million	Rs. Million
Below one year	56,867	10,240	67,107
1-2 Years	7,387	81	7,468
2-3 Years	55	46	101
3-4 Years	498	236	734
4-5 Years	832	1	833
Over 5 Years	340	33	373
Total	**65,979**	**10,637**	**76,616**

The following observations are made in this connection.

(a) Recoverable balances of Rs. 52.5 million from two Airlines customers had remained outstanding since the year 2011. Nevertheless, the Corporation is continually supply the fuel to those customers without recovering these long outstanding balances even from current payments made to the Corporation.

(b) The outstanding trade debtor balance recoverable from the CEB as at 31 December 2017 was Rs. 50,255.07 million and it was an increase of 280 per cent as compared with the outstanding balance of Rs.13,223.70 million in previous year. The following observations are also made in this regard.

(i) As pointed out in previous audit reports, even though the Corporation sells fuel to the CEB for power generation since several years, a formal agreement or MOU between those two parties in order to ensure smooth operation of the individual institutions had not been entered.

(ii) The balance outstanding from the CEB has represented 66 per cent of the total outstanding balance of trade debtors as at the end of the year under review. Out of that, Rs 16,377 million was pertaining to the invoices raised for the year 2017.

(c) As per the financial statements of the year under review, more than Rs.10,530 million interest cost had been incurred by the Corporation for short term Foreign

Currency loans taken from Peoples Bank and Bank of Ceylon for fuel importation. Hence, it was observed that if the Corporation is promptly recovered its overdue balances in time, the interest cost of Rs.10,530 incurred by the Corporation could have been considerably reduced.

(d) The formal agreements for fuel supply had not been entered into with 15 major customers who represent a total outstanding balance of Rs. 53,346.6 million or 70 per cent as at the end of the year under review even it was pointed out in my previous audit reports. Therefore, the default risk with regard to this outstanding balance is at very high level.

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

The following instances of non-compliance were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Public Enterprises Circular No. PED/12 of 02 June 2003 - Guidelines for Good Governance.	
(i) Guideline 4.2.3(b)	The Board had not periodically reviewed the performance of its Subsidiary in order to ensure the achievement of targets of the Subsidiary.
(ii) Guideline 4.2.6	Quarterly Performance Reports had not been forwarded to the line Ministry and the Department of Public Enterprises on or before 30 days before the end of each quarter.
(iii) Guideline 4.3	Minutes of Board meetings had not been forwarded to the Secretary to the line Ministry within 10 days after confirmation of such minutes.
(iv) Guideline 5.1.1	Even though The Corporation had prepared the Corporate Plan, updated copies of Corporate Plan approved by the Board together with the updated Annual Budget had not been forwarded to Department of Public Enterprises, General Treasury and at least 15 days before the commencement of the financial year.
(v) Guideline 5.2.2(b)	Approval of the Ministry and the concurrence of the Department of Public Enterprises, General Treasury had not been obtained before incurring expenditure for

		purchase of seven motor vehicles to the cost of Rs 307.8 million during the year 2017.
	(vi) Guidelines 5.2.4 and 5.2.5	(i) The draft Budget had not been placed before the Board of Directors for approval, three months before the commencement of the financial year.
		(ii) Copies of the final updated Budget approved by the Board had not been forwarded to the line Ministry, the Department of Public Enterprises, General Treasury and Auditor General not later than 15 days before the commencement of the year 2017.
	(vii) Guideline 7.4.2	A Senior Management Committee had not regularly met and due to absence of proper records, it was unable to ensure whether such committee has focused at the meeting about the salient matters specified in the Circular.
	(viii) Guideline 9.3	The Corporation does not have a Scheme of Recruitments and Promotions which has been approved by the appropriate Ministry with the concurrence of the Department of Public Enterprise, General Treasury.
	(ix) Guideline 9.4	The Corporation had released 05 employees to other institution in 2017 without the approval of the Cabinet of Ministers and paid emoluments of those released employees out of the funds of the Corporation.
	(x) Guideline 9.12	The approval for the Welfare Scheme of the Corporation had not been obtained from the Department of Public Enterprises, General Treasury.
(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. Nevertheless, 29 officers had been assumed for cover up duties of the vacant posts including 18 Grade A posts such as Manager (Investigation), Manager Marketing (Retails), Regional Manager (Central) etc. for the period ranging 06 months to 9 years as at 31 December 2017.
(c)	Public Enterprises Department Circular No. FP/06/35/02/01 dated 04 November 2013 and No. PED 03/2016 dated 29 April 2016.	The Corporation had borne the Pay As You Earn (PAYE) tax of its employees amounting to Rs. 53.57 million without deducting it from their personal emoluments for the year under review.

(d)	Payment of Gratuity Act, No. 12 of 1983	The Corporation has computed the provision for gratuity by taking into account the basic salary, the Professional Allowance and 15 per cent of the salary pays as Special Allowance for the employees contrary to the conditions in the Act.
(e)	Guideline 4.2 of the Government Procurement Guidelines (2006)	Master Procurement Plan had not been prepared at least for 3 three years by the Corporation
(f)	Public Finance Circular No. 04/2015 dated 14 July 2015 and Public Finance Circular No. 437 dated 18 September 2009	The Insurance Agreement entered into with a private party relating to properties of the Corporation for the year 2017/2018 was in contrary to the provisions in the Circulars.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Corporation for the year under review had resulted in a pre-tax net profit of Rs. 3,367.2 million as compared with the corresponding pre-tax net profit of Rs. 69,553.7 million for the preceding year, thus indicating a deterioration of Rs.66,186.5 million in the financial results. Non-adjustment of domestic market prices in response to elevated petroleum prices in the global market, continuous depreciation trend of Sri Lankan Rupee against the United States Dollar were the main reasons attributed for this deterioration.

However, A contribution of Rs.153,136 million had been made by the Corporation to the country in the year 2017 after considering the payment of salaries to the employees, payment of taxes and special charges to the Government and the depreciation for non-current assets.

3.2 Analytical Financial Review

3.2.1 Profitability

The operations of the Corporation had reported in a profit markup of 6.6 per cent for the year under review thus indicating a deterioration of 23 per cent as compared with the profit markup of 29.6 per cent in the preceding year. Hence, the gross profit for the year under review had decreased by Rs. 69,079 million or 71 per cent as compared with the corresponding gross profit of Rs. 96,620 million in the preceding year. The details are summarized in the table given below.

ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE
NAOSL

Description	For the year ended 31 December		Variance {Favorable/ (Adverse)}	
	2017	2016 Restated		
	Rs. million	Rs. million	Rs. million	Percentage
Revenue	446,502	423,061	23,441	5.5
Cost of Sales	(418,962)	(326,441)	(92,521)	(28.3)
Gross Profit	**27,541**	**96,620**	**(69,079)**	**(71)**
Other Income	670	3,589	(2,919)	(81.3)
Selling and Distribution Expenses	(15,498)	(14,412)	(1,086)	(8)
Administration Expenses	(4,960)	(4,384)	(576)	(13.1)
Operating Profit	**7,753**	**81,413**	**(73,660)**	**(90.4)**
Exchange Rate Variation	(4,922)	(8,829)	3,907	44.25
Finance Expenses	(10,531)	(11,404)	873	8
Finance Income	11,067	8,374	2,693	32
Hedging Expenses	-	-	-	-
Profit/(Loss) Before Income Tax	**3,367**	**69,554**	**(66,187)**	**(95)**

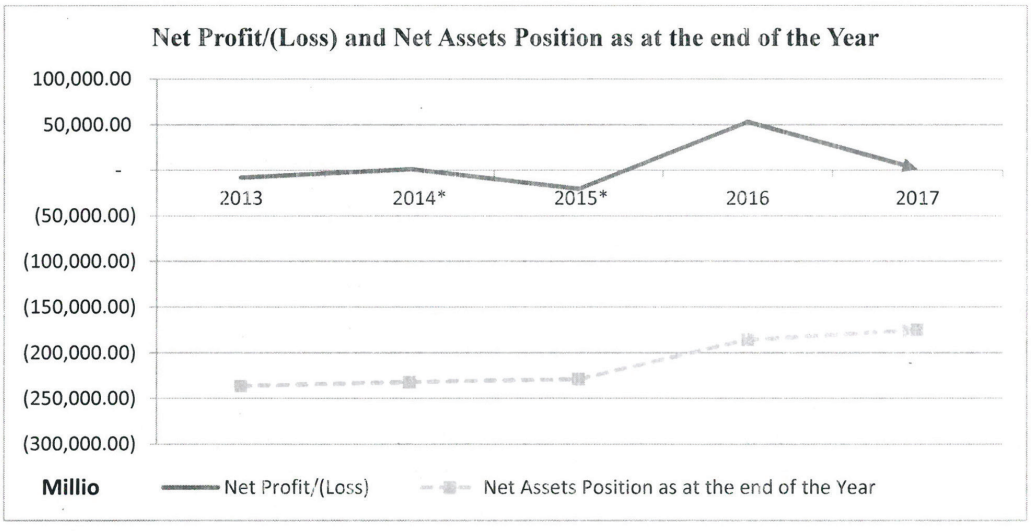
3.2.2 Net Profit/(Loss) against Net Assets

Attention is drawn to the matter that even the operations of the Corporation had resulted in an after-tax net profit of Rs. 1,470 million and a total comprehensive income of Rs. 10,793 million for the year 2017, the Corporation had a negative net assets position of Rs. 175,054 million at the end of the year under review. Nevertheless, the negative net asset position was reduced by Rs 10,211 million in the year under review due to revaluation of several lands of the Corporation in this year. The heavy losses incurred by the Corporation due to Hedging transactions taken place during previous years had caused to this continues negative net assets position. Even though the Corporation had earned a pre-tax net profit of Rs. 3,367.2 million during the year under review, the heavy losses sustained during the previous years had resulted to retain further negative net assets position of the Corporation. As such, the going concern of the Corporation without the financial assistance from the Government is in a contentious issue. The net profit/ (loss) and the net assets position of

the Corporation for the year 2017 and previous five years period 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
2013	(7,889)	(236,467)
2014*	1,129	(232,257)
2015*	(20,681)	(228,985)
2016	53,027	(185,847)
2017	1,470	(175,054)

* Restated



3.2.3 Significant Accounting Ratios

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

Ratios	2017	2016
Profitability Ratios		
Gross Profit Ratio (%)	6.17	22.84
Operating Profit Ratio (%)	1.74	19.24
Net Profit/ (Loss) Ratio (%)	0.33	12.53

Liquidity Ratios		
Current Assets Ratio (Number of times)	0.39:1	0.34:1
Quick Assets Ratio (Number of times)	0.27:1	0.24:1
Working Capital (Rs. million)	(240,643)	(249,297)
Investment Ratios		
Return on Assets (%)	0.67	27.76

The following observations are made in this regard.

(a) The working capital management of the Corporation had been continuously in a negative position due to significant outstanding amount of trade and other payables (Rs.212,140.16 million in 2017) and short-term borrowings (Rs. 179,641.47 million in 2017) though out the year under review and the previous years.

(b) Further, the current assets of the Corporation is only enough to pay off 39 per cent of its current liabilities. Hence, the ability to settle the current liabilities of the Corporation is in a critical position.

4. Operating Review

4.1 Performance

4.1.1 Operations and Review

The following observations are made.

(a) The Corporation had sustained the losses from following petroleum products during the year under review and previous year. Further, the Corporation had continuously sustained losses from both Petrol Octane 92 and 95 and Domestic Kerosene. Details are given below.

Sector	Net Losses Sustained for the Year	
	2017	2016
	Rs. Million	Rs. Million
Transport		
Octane 92	16,201	8,251
Octane 95	2,370	1,291
Auto Diesel	9,253	-
Power Generation		
Auto Diesel	187	-
Industrial & Domestic		
Kerosene	5,460	2,982
Bitumen	13.49	-
Agro		
Agro Chemicals	121	90

(b) The profitability on Petroleum Products per liter for the year 2017 is shown below.

Product	Selling Price	Sales Price Net of Dealer Margin	Cost of Sales	Gross Profit	Total Cost	Net Profit/ (Loss)	Total Taxes Included in the Total Cost
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Petrol 95	128.00	123.72	100.84	22.88	136.99	**(13.27)**	60.33
Petrol 92	117.00	113.00	90.94	22.06	126.38	**(13.39)**	53.14
Auto Diesel	95.00	92.46	76.85	15.61	97.40	**(4.94)**	26.46
Super Diesel	110.00	106.75	83.42	23.33	104.24	**2.51**	29.01
Kerosene	49.00	42.85	63.91	(21.06)	70.41	**(27.56)**	-

Note

- *Total Average cost per liter includes import cost, locally refining cost, selling & distribution expense, Administrative expenses, Finance cost & exchange rate variation loss, etc...*
- *Total Tax per Liter comprises Average Custom duty, Avg. PAL, Excise Duty and Avg. NBT.*

(c) As iterated in previous audit reports, the agreement entered into between a Company in the Gas industry and the Corporation in respect of selling liquid petroleum gas had been expired on 20 October 2006. However, the Corporation is being supplied the liquid petroleum gas to that company continuously without entering into a new agreement or renewing the earlier agreement. In addition to that, the Corporation supplies liquid petroleum gas to another private company without entering into an agreement.

4.2 Management Activities

4.2.1 Enterprise Resource Planning (ERP) System

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

4.2.2 Bitumen Business

The total number of bitumen drums sold during the year under review was 74,445, and it shows 66 per cent decrease when compared with the previous year sold quantity of 217,948 drums. Furthermore, it shows a net loss of Rs. 13.49 million in 2017 against the net profit of Rs 54.39 million reported from this business in 2016. The following observations were also made at the audit sample test in this regard.

(a) A strategic marketing plan or a proper market analysis on industry as a premier entity in bitumen business in Sri Lanka was not observed and main activities of this business had not been included properly in the Action Plan of the Corporation prepared for the year 2017.

(b) Even though a Procurement Plan for the bitumen importation had been prepared, it was unable to ensure whether a market study had been conducted before preparing this Plan. As a result, significant variances were observed between the budgeted demand and actuals during the year and previous 02 years period as shown below.

Year	Budgeted	Actual	Variance	
	Metric Ton	Metric Ton	Metric Ton	Percentage
2015	114,000	13,793	100,207	88
2016	30,213	39,231	9,018	30
2017	28,474	13,400	15,074	53

(c) The Corporation had not designed and implemented an appropriate stock control system for bitumen business. Accordingly, re-order level and minimum and maximum levels of stock had not been maintained. As a result, instances were observed where non-availability of bitumen stocks for a longer period even a sufficient demand was existed.

(d) It was observed that bitumen stock had been stored in unsafely manner with open for natural damages.

(e) Although bitumen prices were determined by Marketing Division, a proper approval had not been obtained for this purpose and several instances, the prices determined by the Marketing Division were inadequate to cover even the cost.

(f) Even though price of the each type of bitumen had been fixed by issuing Circulars in time to time, discount amounting to Rs 98,032,381 had been granted during the past few years for 60/70 type of bitumen. Out of that discount, a sum of Rs 92,101,021 had been granted for private parties. However, a formal policy and procedure had not been established in this regard.

According to the written explanation given by the present management, it was stated that discount decision was taken by then Chairman of the Corporation and therefore, they are not held responsible on it.

(g) Approval of the Cabinet of Ministers had been granted on 19 October 2017 to the following proposals with regard to sales of 60,000 drums of existing bitumen stock in Grade 60/70 containing 180 kg of bitumen per drum.

- To sell the bitumen to the Road Development Authority (RDA) and its subsidiaries at the lowest price of bitumen purchased by the RDA.
- To provide the same price to the external bitumen buyers until the aforesaid stock lasts.

The following observations are made in this regard.

(i) The Corporation had sold 10,000 drums (1,800,000 Kg) to the RDA and 13,000 drums to a private company at a price of Rs 53.00 and Rs. 52.75 per kg respectively.

(ii) After a shorter period, the price of bitumen has been increased in the local market between Rs 66.00 to Rs 75.00. However, this price benefit had been lost to the Corporation due to absence of proper market analysis.

(iii) At an audit sample test, it was revealed that in some instances the high prices placed by the customers were rejected. For instance, a private party had ordered 500 drums at a price of Rs. 56 per kg with a bank guarantee of Rs.5,040,000. However, that order had been rejected by stating that stock is unavailable. However, thereafter, the Corporation had sold 1,150 drums to another party at Rs.53.00 per kg. Accordingly, the loss sustained to the Corporation was Rs. 270,000.

(iv) Only 10,000 drums or 17 per cent out of the total quantity had been sold to the RDA. However, more than 60 per cent of the stocks had been sold to the private parties and out of that more than 40 per cent had been purchased by two private customers.

(v) Two investigations had been conducted by the Internal Audit Division and Investigation Division of the Corporation in this regard and issued individual reports by them. According to those reports several irregularities, lack of internal controls and persons responsible for the identified losses had been highlighted. However, it was unable to ensure whether necessary actions had been taken against the persons responsible for losses and rectify the weakness and irregularities by the management of the Corporation even up to 15 October 2018.

4.2.3 Non - performance of the Contract

A contract was awarded to M/S. Al Masafi International General Trading, UAE (AMIGT) on 16 April 2016 for supply of 25,000 MT+/- 5% Low Sulphur Fuel Oil (LSFO) to the Corporation for the use of West Coast Power Plant (WCPP). However, the AMIGT has failed to supply the LSFO as agreed. As a result, the Corporation had to supply diesel at a cost of Rs. 95 per liter to the West Coast Power Plant instead of supplying the LSFO at a cost of Rs. 80 per liter. Accordingly, the Corporation had supplied 23,436,000 liters of diesel to the west coast power plant under the three invoices. Although the West Coast Power Plant had paid first two invoices, a problem was raised after the West Coast Power Plant refused to pay for third invoice stating that they requested to supply LSFO with lower cost as compared the higher price stated in the invoice. Hence, a loss of Rs. 73 million had to be sustained by the Corporation due to non-supply of LSFO on time. It was further observed that, a total loss of approximately Rs.322 million had been incurred to the country due to supply of Diesel (higher cost fuel) to WCPP instead of supply the Low Sulphur Fuel (Lower cost fuel). Further, the AMIGT has registered as a supplier with the Corporation without being assessed the minimum requirements requested for registration and considered the past experience with this supplier.

4.2.4 Collection of Monthly Utility Fee (MUF)

According to the Board Decision No. 38/1140 taken on 29 October 2013, the Board has approved to recover a Monthly Utility 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, this decision had not been implemented as expected due to various reasons. Therefore, more than Rs. 300 million per annum had been lost to the Corporation since the year 2014. Accordingly, an approximate cumulative loss of Rs. 1,200 million sustained to the Corporation since the year 2014 to 2017. Even though this matter was reiterated in previous audit reports, the actions had not been taken to charge MUF from the dealers in both categories as mentioned above.

4.2.5 The Common User Facility

The Shareholder Agreement and Share Sale Purchase Agreement for the above facility among Ceylon Petroleum Corporation, Lanka Indian Oil Company PLC and Ceylon Petroleum Storage Terminals Limited (CPSTL) were expired on 31 December 2008. Therefore, the pricing formula used for the purpose of determining the throughput charges and Transport income including Slab recoveries had not been revised since 2011. As a result, a provision of Rs. 655.45 million had been made by the Corporation as loan interest component of the throughput during the year under review though actual interest cost incurred by CPSTL was only Rs. 124.07 million.

4.2.6 Transport Charges

Distribution of petroleum products and recovery of the cost thereon are done by the CPSTL through two main installations (Kolonnawa & Muthurajawela) and 12 regional stores. The

following observations are made at the audit sample test carried out on transport charges paid for bowsers with a capacity of 6600 liters and issuing fuel to dealers from the installations of Muthurajawela and Kolonnawa, during the year 2017.

(a) An agreement or even a Memorandum of Understanding (MOU) for providing transport facilities and payment of charges thereof had not been entered into between the Corporation and CPSTL. As a result, the procedure and roles and responsibilities of each party could not be properly defined.

(b) The actual distances from installations i.e. Muthurajawela and Kollonnawa, to dealer locations were not properly checked by the Corporation forever. As a result, fuel had not been supplied from nearest installation (either from Kolonnawa or Muthurajawela) to the dealers. Hence, an additional transport cost of approximately Rs. 36 million had to be borne by the Corporation in 85,688 instances during the year under review

4.2.7 Payment of Excise Duty

According to the information made available, the excise duty for importation of Petrol and Diesel are paid based on the quantity mentioned in the Bill of Lading or Outturn Quantity whichever is high. As per the Corporation "As required by Sri Lanka Customs this was initiate very long time back and in case of payment based on lower value there is a risk of imposing penalty on Corporation". However, accuracy of this practice was questionable to audit.

4.2.8 Recovery of Duties and Taxes

An auto diesel shipment had been rejected by the Corporation in the month of January 2017 due to major deviation between the expected and actual quality. However, the Corporation had paid Rs. 1,617,202,705 as Custom Duties and taxes before discharging the cargo and it includes excise duty of Rs. 648,029,889. No fruitful action had been taken by the Corporation to recover this amount either from payments made subsequently or get refunded from customs duties over the period of 18 months.

4.2.9 Medical Assistant Scheme (MAS)

According to the Board Decision No. 08/1186 dated 11 August 2016, the approval was granted to separately maintain the Medical Assistant Scheme from the Thrift Society with effect from 01 July 2016 and to bear the cost for providing basic entitlement for a period of six months or until a suitable medical insurance provider is selected. However, that decision had not been implemented even as at 01 October 2018.

4.2.10 Pipeline Network for Oil Transportation

The following Observations are made

(a) The pipelines installed several decades back to transport of imported 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 replacement 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.

(b) 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.

(c) 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 up to 15 September 2018. 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	Out of Order
10	Naphtha Oil	Out of Order
12	Naphtha Oil	Out of Order
14	Fuel Oil	Working condition

4.2.11 Tricomalee 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 belong 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 Corporation 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 entered into an agreement with the Lanka Indian Oil Company (LIOC) and the Corporation to lease out the storage facilities and the land to the LIOC for a period of 35 years and lease agreement should be executed within 6 months from the date of the agreement. However, the Corporation had not yet entered into any lease agreement or uses the tanks.

4.2.12 Stock Review Committee

As iterated in previous audit reports, the Stock Review Committee consisted of members from the Corporation, CPSTL, JCT Oil Bank and Lanka Indian Oil Company, members of Ceylon Electricity Board (CEB) and an officer from the line Ministry and its meetings are held in every week. However, the Corporation had not maintained proper records relating to the stock levels, i.e. re-order level, maximum and minimum levels, 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 any other documents 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 Corporation was unable to extract data to produce the reports on stock requirement.

4.2.13 Revaluation of Assets

According to the Board Decision No. 04/1114 dated 16 March 2012, an approval had been granted to retain the Department of Valuation (DOV) for revaluing the lands and buildings and to complete within 03 months. Subsequently, a further approval was granted on 14 May 2012 for the payment of Rs. 5.5 million as advance for the above task. However, revaluation of lands and buildings had not been completed even up to the date of audit on 01 October 2018.

4.2.14 Payment of Penalty

A sum of Rs. 57,736,913 paid to the Department of Customs to settle the amount outstanding since 2002 in respect of the bunkering operations on the basis of reimbursement that amount from the General Treasury. However, this amount had not been reimbursed even up to 30 September 2018.

4.2.15 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 2017 was Rs. 14,028 million. Moreover, the Commercial Bank had filed a case at the Commercial High Court, Colombo against the Corporation by claiming US$ 8,648,300. In addition to that, a sum of Rs.3,847.1 million is shown in the books of accounts of the People Bank as receivable from the Corporation with regard to the hedging transactions.

4.3 Operating Inefficiencies

4.3.1 Sapugaskanda Oil Refinery

As iterated in previous audit reports, the existing 47 years old Refinery (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 its operating efficiency. However, the CPC was unable to implement the proposed Sapugaskanda Oil Refinery Expansion and Modernization (SOREM) Project in order to ensure supplying of its products 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, as stated by the management, it 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 land acquired by incurring of Rs. 1,003 million for that purpose had been laying idled even as at 01 October 2018.

4.4 Transaction of Contentious Nature

4.4.1 Establishment of Lubricant Blending Plant in Sri Lanka

With the view to increasing the profitability of the Corporation and catering the increasing demand for Lubricants in Sri Lanka, the Corporation had entered into an agreement with Hyrax Oil SDN BHD (HOSB) to build a Lubricant Blending Plant in Sri Lanka under a Build, Operate and Transfer (BOT) basis on 06 May 2016 for a period of 20 years. Further, a separate Lease Agreement and a Supply Agreement (enable to purchase the products from HOSB) had been signed with the HOSB on the same date by the Corporation. Although the construction works of the Lubricant Plant had been completed as at 31 December 2017, the operations had not been commenced even up to 01 October 2018.

The following observations are also made in this regard.

(a) Only the proposal submitted by the Hyrax Oil SDN BHD (HOSB), Malaysia had been considered for this purpose without being followed an acceptable procurement procedure in order to select a compatible organization.

(b) As per paragraphs 2.24 and 2.25 of the Agreement, the Corporation shall obtain all necessary regulatory and Government approvals and license for importation of raw materials and blending of petroleum derivatives to be carried out at the Plant by the HOSB. However, the Corporation had not obtained the said approvals and license even up to 15 October 2018. Nevertheless, prompt actions had not been taken to implement the agreement as expected and gain the benefits from this project even up to the date of this report.

(c) It was unable to ensure whether, a proper feasibility study had been conducted before signing the Agreements by the Corporation. Even though the opinion of the Attorney General was obtained in several times with regard to the conditions in the draft agreements, a clearance from the Legal Division of the Corporation on the compliance of terms and conditions with the Attorney General's opinion had not been obtained before signing the agreements.

4.5 Assets Management

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

(a) **Halgaha Kumbura Land at Wanathamulla** - This land had been acquired for Rs.10.6 million for the purpose of 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) **Mahahena Land** – Aaccording to the correspondence made available, the Corporation had acquired this land by spending Rs. 0.625 million, and it had not been accounted for. However, this land is being utilized by the previous owner even after the acquisition in 1986.

(c) **Investments in Company Shares** - The caring value of the investments made in quoted and unquoted shares of four companies as at 31 December 2017 was Rs. 29.54 million. However, no dividend since longer period had been received to the Corporation by those companies.

4.6 Resources Released to other Government Institutions

In contrary to the instructions in Public Enterprises Circulars No. PED/12 of 02 June 2003 and No. 21 of 08 January 2004 and the Letters No. CSA/PI/40 and CS/1/17/1 of 04 January 2006 and 14 May 2010 respectively issued by His Excellency the President, the Corporation had released 05 employees and 01 vehicle to other institutions in the year under review and incurred a considerable amount of money for remuneration and other allowances on behalf of these employees and payment of fuel and maintenance expenses on released vehicle.

4.7 Training

Even it was pointed out in my previous audit reports, the Corporation had failed to introduce a Training Policy and Guidelines for training and development activities of the Corporation even up to the date of audit on 01 October 2018. Therefore, the Corporation is following an irregular basis for the selection of officers and provides approval for both local and foreign training programs. Further, the several issues with regard to foreign training programs were brought to the notice of the Corporation by letter No.MPRD/ADM/15/02/40(com) dated 29 March 2017 issued by the Ministry of Petroleum Recourses Development (MPRD) and advised the management of the Corporation to

rectify those issues immediately. However, no action had been taken by the management in this connection.

4.8 Market Share

The Corporation is the market leader in petroleum industry and approximately 86 per cent petroleum requirements in Sri Lanka is being supplied by the Corporation. Further, the sales volume of the Corporation had been gradually increased during the previous years.

5. Achievement of Sustainable Development Goals

Every public institution should act in compliance with the United National Sustainable Development Agenda for the year 2030. With respect to the year under review, the Ceylon Petroleum Corporation had been aware as to how to take measures relating to the activities under purview of its scope. The following observations are made in this regard.

(a) Although the Corporation had identified the sustainable development goals such as no poverty, good health and well-being, affordable and clean energy, and life on land etc. are related to the activities of the Corporation, the Corporation had not identified the related targets to those goals along with the milestone in respect of achieving such targets and indicators for evaluating the achievement of such targets clearly.

(b) Financial provisions required to achieve the above goals had not been included in the annual budget.

(c) Even though the existence of accurate statistical data is compulsory for evaluating the performance of certain activity, it was observed that the Corporation had not taken action to maintain an accurate data base in view of evaluating the achievement of said goals.

(d) Due to lack of coordination with other institutions, it was observed that the preparation of plans for the achieving the targeted goals had fallen into a decline, or remained weak.

6. Accountability and Good Governance

6.1 Internal Audit

Even though it was iterated by previous audit reports, the vacancies of the Internal Audit Division had not been filled even in the year under review. As per the information made available for audit, out of approved cadre of 42, 09 posts or 21 per cent were in vacant as at 31 December 2017 and out of that 08 posts or 62 per cent was in senior level. The post of Chief Internal Auditor is vacant since 10 August 2016.

6.2 Audit Committee

The recommendations made by the Audit Committee of the Corporation are not regularly reviewed by the Board. Instances were observed where information requested by the

Committee was not completely and timely provided by the respective officials of the Corporation.

6.3 Procurements and Contract Process

According to the decision No.12/0295/510/003/TRB of 22 March 2012 taken by the Cabinet of Ministers, the line Ministry should make endeavor to enter into term contracts for supply of petroleum products with extended credit facilities, as opposed to the spot buying on weekly basis. However, 43 contracts (shipments) out of 89 were entered during the year 2017 on the basis of spot contract contrary to the above decision.

6.4 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.

7. Systems and Controls

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

Major Areas	Observations
(i) Personnel Administration	Failure to get approval for the Scheme of Recruitments and Promotions.
(ii) Trade and Other Receivables	There were weaknesses in controls over the collection of dues in manner to mitigate the default risk.
(iii) Procurements	Non-compliance with the provisions in the National Procurement Guidelines
(iv)Utilization of Resources	Non-compliance with the Circular instructions in deploying the resources.
(v) 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 misusing the credit limits, credit period and related controls over the debtors.

(vi) SAP ERP System	(i) Allowing the third party to handle all the activities of the System without any direct involvement of the Corporation.
	(ii) Failed to take action to reconcile the difference of Rs.858.9 million observed between assets control account and assets sub ledger accounts as at the end of the year under review.
	(iii) Failure to introduce a written procedure for asset management activities such as, utilization and maintenance, acquisition and disposal and performing physical inventory verification, and updating the SAP ERP etc.

H.M. Gamini Wijesinghe

Auditor General

TEN YEAR SUMMARY

	2008	2009	2010	2011	2012	2013	2014 (Restated)	2015 (Restated)	2016	2017
DOMESTIC SALE OF BULK PRODUCTS										
(A) VALUE - Rupees Mn.										
Petrol	66,434	60,055	65,158	90,499	117,600	132,398	140,885	127,879	145,476	158,843
Auto Diesel	151,070	119,046	122,360	165,800	246,441	216,420	244,407	174,984	206,545	210,814
Super Diesel	885	866	1,170	1,588	3,540	4,152	5,104	5,998	8,006	9,439
Kerosene	14,000	9,755	10,711	12,804	18,100	16,803	15,366	9,831	8,605	9,053
Furnace Oil	66,220	33,157	35,792	49,991	84,790	60,651	70,021	34,841	52,971	80,796
Total	**298,609**	**222,879**	**235,191**	**320,682**	**470,471**	**430,424**	**475,783**	**353,533**	**421,603**	**468,948**
(B) QUANTITY - Thousand Metric Tons										
Petrol	384	416	484	563	619	640	687	838	965	1,057
Auto Diesel	1,371	1,427	1,422	1,849	1,930	1,559	1,757	1,579	1,875	1,920
Super Diesel	7	9	11	14	22	25	31	47	63	75
Kerosene	151	151	165	147	143	126	122	130	138	160
Furnace Oil	995	1,096	1,004	1,093	1,187	668	722	512	626	781
Total	**2,908**	**3,099**	**3,086**	**3,666**	**3,901**	**3,018**	**3,319**	**3,106**	**3,667**	**3,993**
(C) RETAIL SELLING PRICES IN PETROLEUM PRODUCTS										
(Colombo Spot Price in Rs. Per Litre as at 31st December)										
Petrol - 92 Octane	120	115	115	125	159	162	150	117	117	117
Auto Diesel	70	73	73	76	115	121	111	95	95	95
Super Diesel	85.3	88.3	88.3	98.3	142	145	133	110	110	110
Kerosene	50	51	51	61	106	106	81	49	44	44
Furnace Oil 800"	33.9	34.9	40	52.2	92.2	92.2	92.2	80	80	80
Furnace Oil 1500"	31.7	32.7	40	50	65	90	90	80	80	80
Furnace Oil 3500"	25	26	40	50	65	90	90	80	-	
OPERATING RESULTS										
Revenue	341,670	237,663	256,329	356,442	512,910	490,381	525,182	376,734	423,061	446,502
Cost of Sales	-334,849	-232,271	-269,316	-420,227	-540,439	-464,374	-499,956	-337,119	-326,441	-418,961
Gross Margin	6,821	5,392	-12,987	-63,785	-27,529	26,007	25,226	39,615	96,620	27,541
Net operating expenses and interest	-21,557	-16,745	-13,936	-30,572	-62,041	-33,897	-24,532	-55,637	-27,067	-24,174
Hedging expenses					-7,612			-3,864		
Profit/(Loss) before tax	-14,736	-11,353	-26,923	-94,357	-97,182	-7,890	694	-19,886	69,553	3,367

Rupees Mn	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Equity & Liabilities										
Capital	1,000	1,000	1,000	3,500	3,500	3,500	3,500	28,487	28,487	28,487
Reserves	-2,416	-14,038	-38,369	-134,736	-232,045	-239,967	-236,791	-257,472	-214,334	-203,541
L/T Liabilities	10,908	32,779	28,478	27,646	1,998	1,351	703	342	266	190
Gratuity Provision	567	735	746	626	547	538	664	861	754	1708
Total	**10,059**	**20,476**	**-8,145**	**-102,964**	**-226,000**	**-234,578**	**-231,924**	**-227,782**	**-184,827**	**-173,546**
Represented by										
Fixed Assets, Including WIP	4,624	5,041	8,280	8,850	9,599	13,136	13,676	13,915	13,547	23,649
Investment	2,542	2,542	2,542	5,042	5,058	5,044	14,942	41,725	40,595	34,874
Net Current Assets	2,893	12,893	-18,967	-116,856	-240,657	-252,758	-260,542	-283,422	-238,969	-231,680
Total	**10,059**	**20,476**	**-8,145**	**-102,964**	**-226,000**	**-234,578**	**-231,924**	**-227,782**	**-184,827**	**-173,157**
SUMMARISED CASH FLOW STATEMENT										
Net Cash flow from / (used in) Operating Activities	-1,228	41,840	-24,169	-102,756	-68,408	-13,920	-1,817	9,247	54,532	-25,094
Net Cash flow from / (used in) Investing Activities	41	-309	-3,376	-644	1,148	-7,547	-1,826	-23,385	-6,010	33,590
Net Cash flow from / (used in) Financing Activities	-1,001	-21,340	-4,379	119,017	62,540	7,232	28,745	41,036	-81,200	-14,080
Net increase / (Decrease) in cash & Cash Equivalents	-2,188	20,191	-31,924	15,617	-4,720	-14,235	25,102	26,897	-32,678	-5,584
Cash & Cash Equivalents at beginning of the year	9,961	7,772	27,963	-3,961	11,656	6,936	-7,299	17,803	44,700	12,022
Cash & Cash Equivalents at the year end	7,772	27,963	-3,961	11,656	6,936	-7,299	17,803	44,700	12,022	6,438
ACCOUNTING RATIOS										
Profitability Ratios										
Gross Profit Ratio	2.00%	2.30%	-5.10%	-17.90%	-5.40%	5.30%	4.80%	10.50%	22.80%	6.18%
Net Profit Ratio	-4.40%	-4.90%	-10.50%	-26.50%	-18.90%	-1.60%	0.00%	-5.30%	16.40%	0.33%
Operating Ratios										
Cost to Income ratio	102.60%	102.70%	109.40%	121.80%	108.90%	97.80%	97.70%	93.00%	80.90%	98.14%
Inventory T/O Ratio	9.34	8.13	8.04	10.7	10.89	7.3	7.77	6.44	8.53	9.48
Interest Cover	-3.66	-1.39	-2.93	-9.48	-3.88	0.57	1.05	-0.32	7.1	1.32
Liquidity Ratios										
Current assets Ratio	0.98	1.06	0.82	0.58	0.43	0.39	0.34	0.31	0.34	0.39
Quick Ratio	0.69	0.86	0.57	0.45	0.28	0.24	0.19	0.21	0.24	0.27

A Last Word

Despite setbacks, Ceylon Petroleum Corporation is fully committed to serving the people of Sri Lanka in this mission critical sector, providing them with relief when global downturns and making the business environment extremely uncertain and volatile. Come what may, we will always be at hand to power up our nation.

