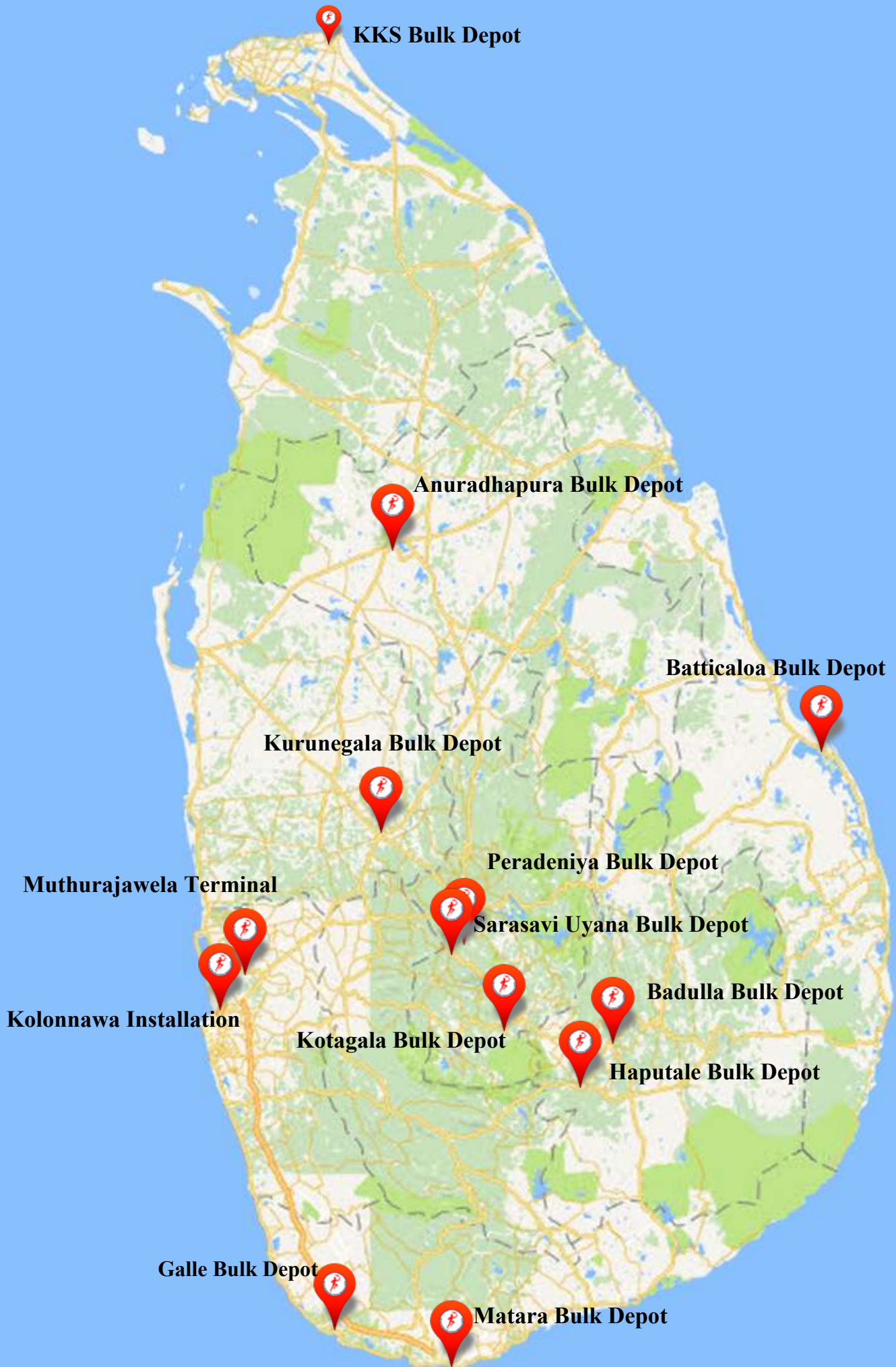


2016

ANNUAL REPORT



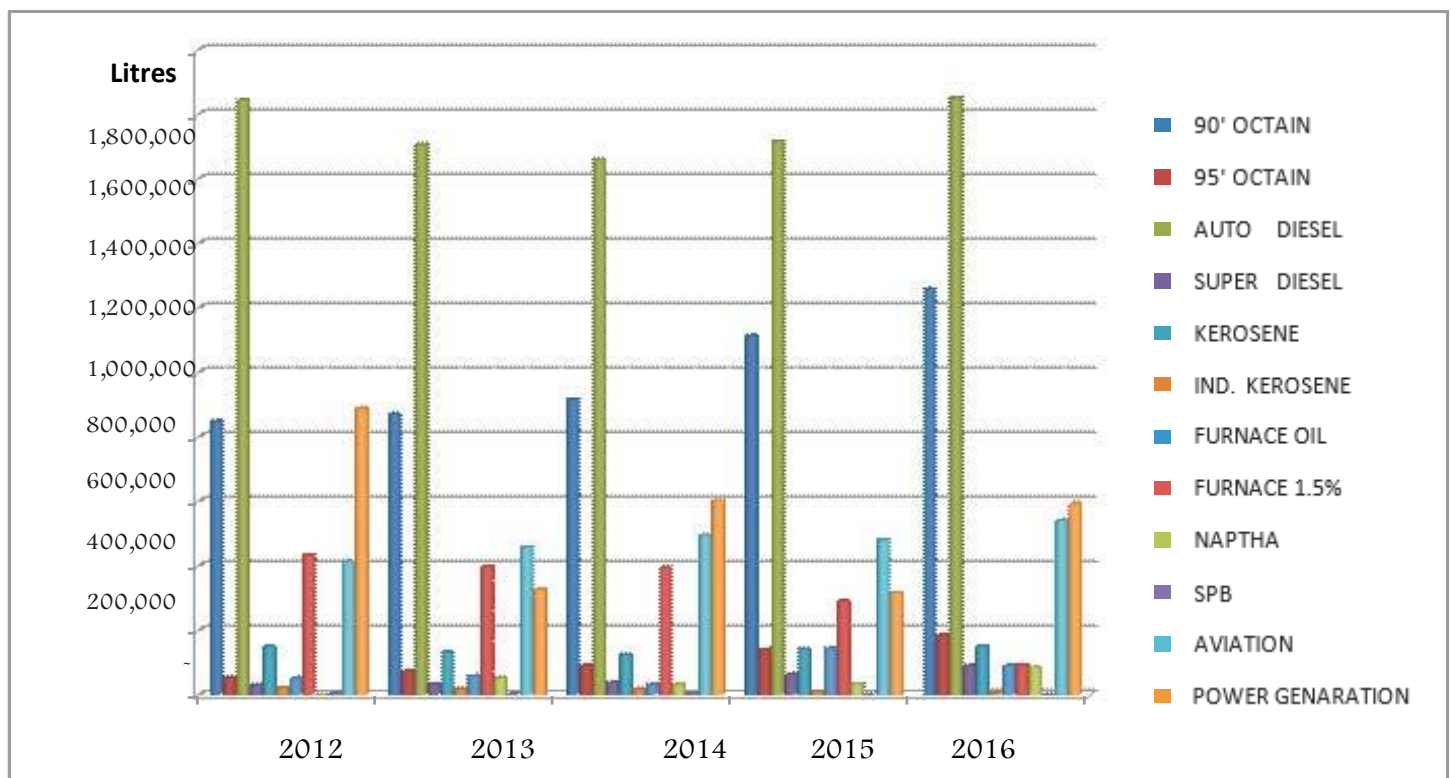
Ceylon Petroleum Storage Terminals Limited



CONTENTS

	Page
1. About Us	2
2. Vision, Mission	3
3. Message from the Chairman	6
4. Board of Directors	7
5. Management Team	12
6. Corporate Information	16
7. Management Discussion & Analysis	18
8. Major Projects	25
9. Risk Management	27
10. Social Responsibility	30
11. Corporate Governance	32
12. Annual report of the Board of Directors of the Company	36
13. Report of the Audit Committee	38
14. Awards & Accolades	40
15. Financial Information	44
- Auditor General's Report	
- Statement of Financial Position	
- Statement of Comprehensive Income	
- Statement of Changes In Equity	
- Statement of Cash Flows	
- Significant Accounting Policies	
- Notes to the Financial Statements	
16. Five Years Summary	80

Product wise Summary



About Us

Ceylon Petroleum Storage Terminal Limited is a Company duly incorporate under the Companies Act No. 17 of 1982 in terms of Section 2 (1) of the conversion of Public Corporation or Government owned business undertaking in to Public Companies Act No.23 of 1987 and reregistered under No.7 of 2007 of New Companies Act facility (CUP) consisting of Oil Terminals, Storage Facilities, Pipeline and the Bowser Fleet, More fully described in the Government Gazette extraordinary bearing No.1310/8 dated 13th October 2003.

We are company engaged in bulk Petroleum Storage and Distribution activities with state of the art infrastructure facilities for management of downstream petroleum product handling in Sri Lanka. We serve around one thousand retail outlets island wide owned by Ceylon Petroleum Corporation and Lanka Indian Oil Company to meet the energy demand of the retail consumers in the country and the large number of bulk consumers in various industrial sectors involved in economic development process. Two main terminals supported by 11 bulk depots which are involved in the storage and distribution Network with around 3000 employees actively participation in various activities of the Company.

Main Terminals

Kolonnawa Installation

Muthurajawela Terminal

Bulk Depots

Anuradhapura

Badulla

Batticaloa

Galle

Haputale

Kankasanthurai

Kotagala

Kurunegala

Matara

Peradeniya

Sarasavi Uyana

Kolonnawa installation handles 12 petroleum products where as Muthurajawela terminal handles 5 petroleum products.

Distribution function of CPSTL undertake deliveries of Products on behalf of two Marketing Companies CPC and LIOC. There are two main Terminals at Kolonnawa and Muthurajawela. In order to strengthen the distribution of Petroleum Products Island Wide, CPSTL is operating 11 outstation bulk depots and one inland railside depot. Replenishment of Products to these locations and Inland Railside Depot are through rail bogies loaded at Kolonnawa Installation and by road using CPSTL and

hired road tankers from main terminals. Aviation fuels is stored at Kolonnawa Installation only and transferred to Banadaranayake International Airport (BIA) at Katunayake on daily basis by railway. Rathmalana and other Air Fields operated by Sri Lanka Air Force get their requirement by road. Low Sulphur Furnace Oil is stored only at Muthurajawela Terminals and is transferred to only customer which is Kerawalapitiya power plant through a dedicated pipeline.

Kolonnawa Installation receives products from Refinery and through imported tankers discharged at Dolphine Pier at Colombo Harbor. Muthurajawela Terminal receives only imported cargo discharged through SPBM located approximately 6 Km off Kerawalapitiya Coast.



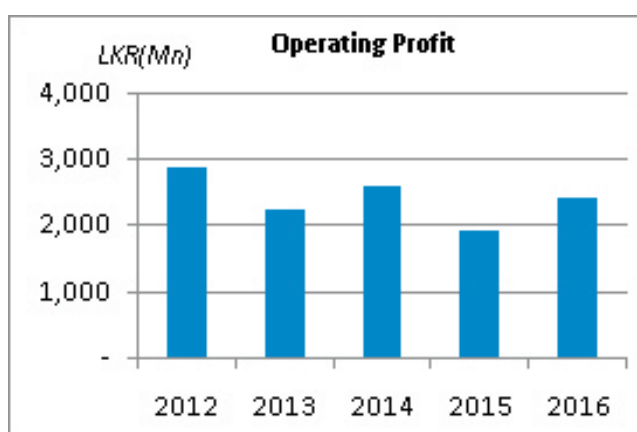
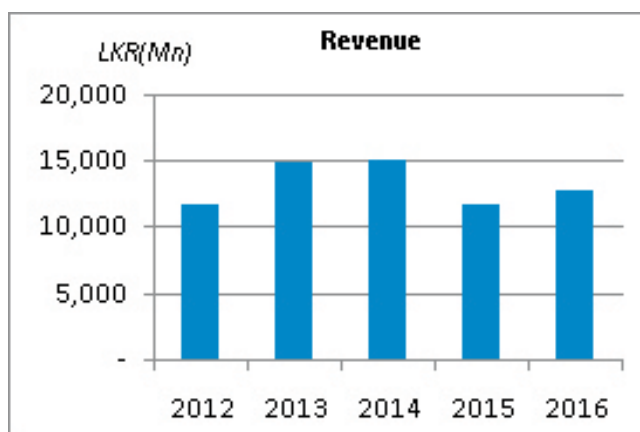
VISION

To be most efficient petroleum
terminal operator in South Asia



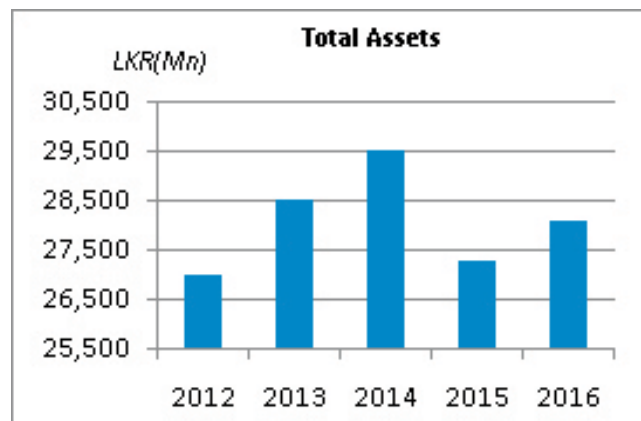
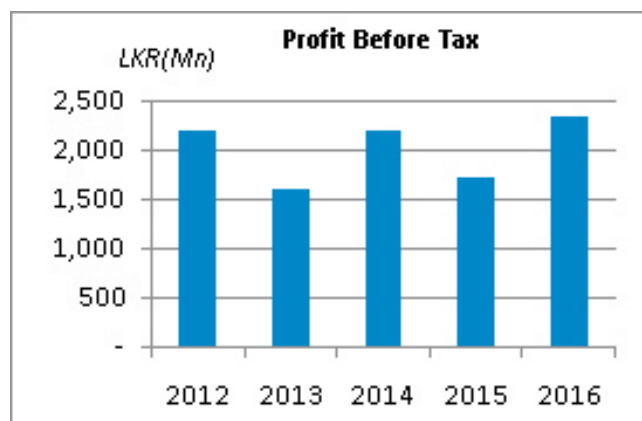
MISSION

To remain as the most efficient terminal operator in the island, meeting stakeholder's expectations and committed to make perceivable and continual improvement in the level of customer satisfaction, while preserving the quality and ensuring the exact quantity of the petroleum products being delivered to the terminal facility users/customers, honoring the health, environmental and safety standards in force through dedicated participation of a loyal, contented and well trained workforce, guided by the feedback of the customers and the general public.



Key Financial Highlights

	2016 LKR '000	2015 LKR '000	Increase/(Decrease LKR '000
Revenue	12,663,445	11,687,263	976,182
Gross Profit	6,001,755	5,271,850	729,905
Profit Before Tax	2,330,073	1,715,646	614,427
Profit After Tax	1,738,629	1,373,984	364,646
Current Assets	10,809,703	10,174,620	635,083
Total Assets	28,058,891	27,269,765	789,126
Current Liability	2,057,201	2,487,082	(429,881)
Key Financial Ratios			
Gross Profit Ratio %	47	45	2
Operating Profit Ratio %	18	15	3
Net Profit Ratio %	14	12	2
ROCE (Return on Capital Employed) %	8	6	2
Liquidity Ratio	5	4	1
Net Assets Per Share	30	29	1





Message from the Chairman

On behalf of the Board of Directors, it is with great pleasure that I convey this message on the progress of the Ceylon Petroleum Storage Terminals Limited during the Financial Year 2016.

Being the foremost petroleum product handling Company in the island, our responsibility is to make petroleum products available to the consumers while preserving the quality and ensuring the exact quantity of the petroleum products being delivered to the terminal facility users/customers, honoring the health, environmental and safety standards in force through dedicated participation of a loyal, contended and well-trained workforce. We are committed to conduct our business in a manner that safeguards our employees, protects the environment and strengthens the country's economy.

Our overall strategy is to invest in projects that generate long-term value while achieving returns well above our cost of capital. We are focused on value-added growth, which we achieve through a range of high-quality assets while maintaining operational excellence and commitment to financial discipline.

All of this is made possible by our talented workforce of more than 3,000 employees who enable us to operate effectively to reach our goals. As a company, we work hard to ensure that our stakeholders are getting the utmost service as a service provider to its two marketing companies.

Reaffirming our commitment, we have been recognised with several prestigious accolades throughout the financial year namely the **National Bronze Award at CNCI Industrial Excellence Awards Ceremony** and **Bronze Award of Social Dialogue and Workplace Corporation**.

Furthermore, CPSTL is committed to good governance principles with proper discharging of accountability under constant review of both internal and external audit functions and our senior and middle management comprises highly qualified personnel.

Major projects undertaken to improve our service to the nation during the year include Installation of 12' dia. Pipeline Segments at road/rail Crossings, Disaster Recovery & Management Centre (DRMC) for CPSTL Data Centre,

Development of Bulk Depot at Anuradhapura, Development of Bulk Depot at Magalle, Improvements of internal road network system at Oil Installation, Kolonnawa, Embankment Protection in Zone 1-4 at Oil Installation, Kolonnawa, and Repairs to tank No 05 at Oil Installation, Kolonnawa.

This report would not be possible without the contribution of the Members of the Director Board, Senior Management and staff of CPSTL, Auditors and many others who worked tirelessly to bring this report to the hand of company's stakeholders. I thank them all.

In conclusion, I feel that the Company has taken a major step forward to meet our long-term goals during the year 2016 and will continue as a profit-making government venture while discharging our responsibilities to the general public efficiently.

D. C. Shehan Senevirathne

Chairman and Managing Director

Board of Directors



Mr. Shehan Senevirathne

Mr. Shehan Senevirathne is serving as the Chairman/Managing Director of Ceylon Petroleum Storage Terminals Limited (CPSTL) from 12th October 2015 and also serving as a Director of the Board of Directors at Ceylon Petroleum Corporation since October 2015.

He established his major endeavor in 2001 where he founded and became the Chairman / Managing Director of SMS Holdings (Pvt.) Ltd., the largest paving manufacturer in Sri Lanka and subsequently he became the Founder and Managing Director of Greenary Company (Pvt.) Ltd., Black Diamond Security (Pvt.) Ltd., SMS Plantations (Pvt.) Ltd. and SMS Realities (Pvt.) Ltd. and is one of the pioneering business leaders in Sri Lanka recognized locally and globally with many prestigious awards in recognition of his continuous initiatives contributed for the upliftment of the country's economy as well as his business expertise characteristics, skills and knowledge.

He was honored as the Sri Lankan Entrepreneur of the year in 2010, most promising Entrepreneur of the Asia Pacific Entrepreneurship Awards in 2012 and 2014 and many National and Provincial level awards and also awarded the "International Diamond Prize for Excellence in Quality 2015" at the award ceremony held in Viana, Austria organised by the European Society for Quality Research (ESQR) where he received the "Quality Award" in its annual recognition programme.

He holds Diploma in Production as well as Diploma in Business Management.



Mr. T. G Jayasinghe

Mr. T. G Jayasinghe is a Class I Officer of Sri Lanka Planning Service and retired as Secretary, Finance Commission in January 2007. He has obtained a M.Sc. in Regional Development Planning Asian Institute of Technology Bangkok, Thailand - 1985. Obtained commendation 'Excellent' for the thesis submitted on "Regional Implications of Local Level Planning". He also has a Diploma in Development Policy and Planning from University of Wales - UK - 1982 and a Diploma in Regional Development Planning, UNCRD, Nagoya - 1990 on ADB Procedure on Procurement - 1991. He graduated in Bachelor of Arts from University of Ceylon in 1967.

Mr. Jayasinghe was awarded AITAA distinguished Alumni Award (2005) for Public Sector in Recognition of Service to the Region through outstanding Professional & Technical Achievements.

He has extensive Training on National Level Planning and Implementation and functioned as Team Leader and Project Management Specialist in major local and foreign consultancy assignments.

Other Positions held by Mr. Jayasinghe include serving as Chairman - Tertiary & Vocational Education Commission (TVEC) Since June 2006 and Vice Chairman - National Institute of Technical Education of Sri Lanka (NITESL) Since June 2006 and Member - National Education Commission Since June 2006. He worked as Deputy Chief Secretary - Planning and Monitoring and concurrently holding the post of Project Director of Southern Province Rural Development Project (ADB Loan No. 1128 Sri-SF).

He has an outstanding public service record and was involved in various extra-curricular activities both at the university and at school.



Dr. Lalith Liyanage

Dr. Eng. Lalith Liyanage is the Chief Executive Officer of Lanka Logistics & Technologies Ltd (LLTL) under the Ministry of Defense and prior to this position he was serving as the Head of IT of LLTL. LLTL is the Executive Arm of Ministry of Defense for procurement of Military Hardware as well as providing project management and consultancy services in defense and national security related projects for Tri Forces and Sri Lanka Police. Dr. Liyanage is a well reputed professional in the field of IT & Engineering having first obtained Bachelors & Masters Degrees in Electrical Engineering with Excellent passes from the Donetsk State Technical University in USSR. Subsequently, he obtained his Post Graduate Diploma in Maintenance Engineering & Management with a Merit pass from the Indian Institute for Production Management (IIPM) in Orissa, India, a Computer Studies Masters degree with First class Honours from University of Essex, UK which was the turning point in his professional career having to convert from Electrical Engineering to Information Technology. Dr. Liyanage holds a MBA in e-Governance with straight 'A's and a GPA of 3.97 from University of Moratuwa followed by the pinnacle of his educational career completing a PhD from the Faculty of Engineering and Environment of Northumbria University, UK in the area of Online Learning for Work-Based Learning.

Dr. Liyanage's professional career covers areas of Electrical Engineering (Pelwatte Sugar Industries 1996-99), Training Administration (Vocational Training Authority 1999-2004), Lecturing (Distance Learning Centre/SLIDA 2007-09 and Northumbria University 2010-11), Project Management (Asian Development Bank funded projects under Ministries of Vocational Training & Technical Education 2000-04, and Higher Education 2004-09) for last 20 years.

He is serving as a Board Director at Ceylon Petroleum Storage Terminal Ltd (CPSTL) since 2015. At CPSTL, he is serving as the Chairman of IT/ERP Steering Committee, Chairman of the Bunkering Committee, Chairman of Hon Minister's Media unit, and a Member of the Procurement committee. Apart from that Dr Liyanage is an MBA Examiner of University of Moratuwa, a member of the Panel of Judges for National Best Quality ICT Awards organized by the British Computer Society since 2013.

Among his National Level Contributions, being a Pioneer to establish the National Online Distance Education System (NODES) for the Higher Education sector and being a Pioneer to introduce National Certificate in Information & Communication Technology (NCICT) and National Diploma in Information & Communication Technology (NDICT) for the Vocational Training and Technical Education sector rate as most important.

He was awarded the best 2nd year PhD student at Northumbria University in 2011, CISO Award winner in 2013 for Contributions for IT Security in Sri Lanka and the Best Research paper award 2013 in the Journal of Higher Education, Skills and Work-based Learning, UK rate top.

Dr. Lalith Liyanage is a Fellow of Institution of Engineering Technology (IET) and has been serving as an Ex-Co member since 2007. He is also a member of British Computer Society, Computer Society of Sri Lanka and Institution of Engineers Sri Lanka.



Mr. Duminda Rajapaksha

Being an Attorney-at-Law by profession, Mr. Duminda Rajapaksha obtained his Bachelor of Laws Degree from the University of Colombo, Sri Lanka in year 1999.

Further, he is serving as a Notary Public since October 2000 and also has practiced as a Criminal Lawyer in Southern Province from year 2000 to 2015.

He became the President of Law Faculty Students Union in 1996/97, Secretary of Galle Law Association in 2004/2005 and President of Karapitiya Kidney Protection Society (2012-2014), etc.

He is also serving as an Unofficial Magistrate & Justice of the Peace.

He was appointed as a Board Director of Ceylon Petroleum Storage Terminals Limited in October 2015 and serving as a Board Member since then.



Mr. Eshan Perera

Mr. Perera is a Fellow of the Chartered Institute of Management Accountants of UK and is a highly accomplished, result driven senior level executive with more than 30 years of progressive experience in finance, operations and general management in diverse industries including financial services, climate change, retail, property development, garments manufacturing, software development & hospitality & leisure with hands on expertise in start-ups as well as in large established organizations.

He has demonstrated ability to streamline business operations that drive growth and increase efficiency and bottom line profit and have strong qualifications in general management, business planning, developing and implementing financial controls and processes in addition to productivity improvements and change management.

He is well-traveled and experienced in carrying out critical assignments and negotiations in foreign countries including in U.K., USA, Australia, China, Germany, Kazakhstan, UAE, India, Nepal, Indonesia, Singapore, Malaysia and New Zealand.



Sunil G. Kaleshwari

Sunil G. Kaleshwari, Director on the Board of Ceylon Petroleum Storage Terminal Ltd upto May 2016, is heading the Operations and Bunkering Department in Lanka IOC from Sep 2013. He joined Indian Oil Corporation Ltd in year 1995 and has worked in the Petroleum Oil Terminal Operations at various Inland as well as Coastal Terminals during early years of the career. From year 2009 to 2013, he was entrusted by Indian Oil to handle international trade and established expertise in international trading & contract negotiation for Gasoil, Gasoline, Fuel Oil, Naptha and Bitumen.

Since year 2013, he is heading the Operations and Bunkering department of Lanka IOC and looking after Contracts negotiations and import of Petroleum Products for domestic Auto Fuels segment as well as Marine Fuels for bunkering business in Sri Lanka, Shipping operations & logistics, Bunker Sales and Operations, chartering of tankers and bunker barges, Oil price risk management in Auto Fuels retailing and Bunker Sales.

Over these years of vast experience from year 1995 in India and abroad, he has expertise in entire downstream supply chain that include Petroleum Oil Terminal Operations and Process Automation, Integrated oil supply, trading and shipping as well as marine bunker trading and operations.



Mrs. K. D. R. Olga

Mrs. K.D.R. Olga has wide experience in the Public Sector and Public Financial Management. She has joined the Sri Lanka Accountant's Service in 1990. Since then she has been working in different government organizations. Currently she holds a position of Director, Department of Public Finance, and General Treasury.

She holds a Bachelor of Science (Business Administration) Special Degree from the University of Sri Jayawardenepura with 1st Class Honours. She has passed Chartered Licentiate examination held by the Institute of Chartered Accountants of Sri Lanka in 1987.

She was appointed as the Board of Directors of the Ceylon Petroleum Storage Terminal Ltd. from March 2015. In addition, she is a Director of the Land Reforms Commission and Gem and Jewelry Research and Training Institute. She is the Chairperson of the Audit and Management Committee of three institutions aforesaid.



Mr. Shyam Bohra

With over 26 years' expertise in the Petroleum Sector, Mr. Bohra has wide experience in various roles in the Indian Oil Corporation Ltd., India's flagship company and a Fortune 500 Global Company, in different departments such as Retail, Institutional Sales, Operation and Logistics. He also has considerable exposure and prior to assuming office as Managing Director of Lanka IOC PLC, he headed Indian Oil's Retail Department of Maharashtra and Goa State.

A Civil Engineer from the Bangalore University, with a Post-Graduate Management Diploma from the prestigious 'National Management Programme' of Management Development Institute, Gurgaon & Post Graduate in Marketing from Rajasthan University, Mr. Bohra has served in many key positions at Indian Oil. He has been a Divisional Head for three different Sales Divisions with long and successful stints at the field level and also worked in Operations Department looking after logistic.



Mr. Anuj Jain

At present, Mr. Anuj Jain is working as Head of Finance of Lanka IOC PLC Sri Lanka and looking after all spectrum of financial & commercial activities of the Company.

By profession, Mr. Jain is a Chartered Accountant from Institute of Chartered Accountants (ICAI) of India. After completing his Bachelor of Commerce (Honors) in 1992, he completed his CA in 1995 and joined Indian Oil Corporation Limited (IOCL) immediately thereafter. He is also a certified Valuer and has also done 'Masters in Business Finance' from ICAI.

Mr. Jain is a member of the Audit & Management Committee of CPSTL.

During his tenure at various offices of IOC during the past 20 years, he has been incharge of important portfolios at various offices of IOC, including Corporate Office and has handled key assignments relating to Corporate Finance, Treasury & Banking, Demand & Supply Chain Optimization, Shipping, IFRS, SAP, Risk Management, Mergers, Budgeting, Debtor Management, Insurance, Corporate & Indirect Taxation, Financial concurrence of Capital & Revenue proposals, Presentations for Board Strategy Meetings, Audit Committee & Board Meetings, Special studies for profit maximization etc.

He is a keen sportsman & music lover.



Mr. Randhir Singh

Mr. Randhir Singh is the Senior Vice President (Operations & Bunkering), Lanka IOC PLC

Randhir Singh holds a B. Tech in Mechanical Engineering from National Institute of Technology, Kurukshetra & Diploma in Multi-Modal Logistics from Institute of Rail Transport, New Delhi.

Presently heading operations and bunkering function at LIOC he is responsible for import of gasoil, gasoline for retail business and MGO & FO for bunkering at Colombo & Trincomalee ports.

MANAGEMENT TEAM

Top Management

Chairman / Managing Director	Mr. Shehan Senevirathne
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Corporate Management

Deputy General Manager (Finance)	Mr. O P Kaggoda Arachchi
Deputy General Manager (Engineering & Support Services)	Mr. P Athukorala
Deputy General Manager (Human Resource & Administration)	Mr. P D P Dharmawansa
Deputy General Manager (Operations)	Mr. A Martin
Chief Information Officer	Mr. Roy Perera

Senior Management

Stores Manager	Mrs. S Wickramarachchi
Finance Manager	Mr. J A U R K Jayalath
Manager Internal Audit	Mr. D M H B Dasanayake
Terminal Manager (Muthurajawela)	Mr. M S M Niyas
Operation Manager (Automobile)	Mr. D A J S Dharmapriya
Operation Manager (Bulk Movement & Bulk Processing)	Mr. T V Sarathchandra
Manager (Security)	Mr. N Jayawardana
Manager (Corporate Affairs)	Mrs. S Gamage
Manager (Procurement)	Mr. R S S Premakumara
Human Resource Manager	Mr. K M N A C Perera
Chief Legal Officer	Ms. W T Fonseka
Manager Distribution	Mr. W M T W A Bandara
Operations Manager (Offshore Operations)	Mr. R A P A Ranasinghe
Manager (Training & Human Resource Development)	Mr. E A R D Bandara
Manager (Premises & Engineering Services)	Mr. Ajith Wijesuriya
Manager Laboratory	Mrs. K N Rathnayake
Manager Fire & Safety	Mr. T A Raymond
Acting Engineering Manager	Mr. G M A Bandara
Acting Investigation Manager	Mr. D R Coomasaru
Chief Legal Officer	Mr. L W Gunasekara
Medical Officer	Mrs. R Susiriwardena
Manager (Information Systems)	Mr. J G J W Dharmaprema



Front Row (Seated) – From left to right

Mr. O P Kaggoda Arachchi -Deputy General Manager (Finance), Mr. P Athukorala ~ Deputy General Manager (Engineering & Support Services), Mr. Shehan Senevirathne ~Chairman & Managing Director, Mr. P D P Dharmawansa ~Deputy General Manager (Human Resources & Administration), Mr. A. Martin Deputy General Manager (Operations), Mr. Roy Perera (Chief Information Officer)

Middle Row – from left to right

Mrs. S Wickramaarachchi- Stores Manager, Ms. W T Fonseka – Chief Legal Officer, Mrs. K N Rathnayake – Manager Laboratory, Mrs. S Gamage – Manager Corporate Affairs, Mr. T A Raymond – Manager Fire & Safety, Mr. K M N A C Perera – Human Resource Manager, Mr. J A U R K Jayalath – Finance Manager, Mr. M S M Niyas – Terminal Manager (Muthurajawela), Mr. R A P A Ranasinghe ~ Operations Manager (Offshore Operations)

Back Row – From left to right

Mr. E A R D Bandara – Manager (Training & Human Resource Development), Mr. N Jayawardena – Manager (Security), Mr. D M H B Dassanayake – Manger Internal Audit, Mr. Ajith Wijesuriya – Manager (Premises & Engineering Services), Mr. W M T W A Bandara – Manager (Distribution), Mr. R S S Premakumara – Manager (Procurement), Mr. T V Sarathchandra – Manager (Bulk Movement & Bulk Processing), Mr. D A J S Dharmapriya – Manager (Automobile)



Corporate Information

NAME OF THE COMPANY	Ceylon Petroleum Storage Terminals Limited
COMPANY REGISTRATION NUMBER	PB 1221
TAX PAYER IDENTIFICATION NUMBER (TIN)	134011157
REGISTERED OFFICE	Oil Installation, Kolonnawa, Wellampitiya, Sri Lanka
AUDITORS	The Auditor General of Sri Lanka, Auditor General's Department 306/72, Polduwa Road Baththaramulla Sri Lanka.
SECRETARIES	Accounting Systems Secretarial Services (Private) Limited No. 11, Castle Lane Colombo 04
BANKERS	Bank of Ceylon Corporate Branch Head Office Building No 04, Bank of Ceylon Mawatha Colombo 01 People's Bank International Division No 91, ACHC Building, Sir Chittampalam A Gardinar Mawatha Colombo 02



MANAGEMENT DISCUSSIONS & ANALYSIS



CPSTL performs an essential public service.

CPSTL's activities are frequently highlighted in public media which could also create a rather adverse public perception in stark contrast to CPSTL's commitment to providing this essential public utility when and where it is needed.

CPSTL functions in a very responsible manner within a well- structured organizational framework for smooth delivery of petroleum products.

The story of this dimension of CPSTL, which may perhaps be unknown to public, continues.....



Operational and Business Review

Operating Environment

CPSTL primarily engages in bulk petroleum storage and distribution activities for management of downstream product handling in Sri Lanka. We serve more than 1500 retail outlets, island wide, owned by CPC and LIOC, to meet the energy demand of the retail and bulk consumers in various sectors involved in the economic development process. Distribution function of CPSTL undertakes deliveries of bulk products on behalf of two marketing companies.

Petroleum Sector Behavior

Sri Lankan petroleum sector is a duopoly between two marketing companies, Ceylon Petroleum Corporation (CPC) and Lanka Indian Oil Company (LIOC). CPC accounts for a major share of the market and dominate the market through the prices controlled by the government. LIOC is allowed to determine selling prices independently, but compelled to follow the prices declared by CPC due to their dominance. Therefore the price control mainly depend on government policies and decisions. The demand is constantly on the rise due to government policy to keep the petroleum prices at a low level. Meanwhile industry stakeholders has proposed the Government to introduce a pricing formula for determining retail prices, ensuring transparency and providing a market based solution for a long-standing issue. Such formula will have a direct impact on consumers and thus affect the business of CPSTL.

Demand for Petroleum Products

In January 2015, the government reduced the domestic retail prices of petroleum products in response to the decline in global prices. An average of 20% price reduction has been made for all petroleum products and together with the increase in the number of vehicles in the country, as a result, sudden increase in demand has been observed. However, this increase is significant in Petrol 92 Octane and 95 Octane. This trend has continued for the year 2016. Petrol 92

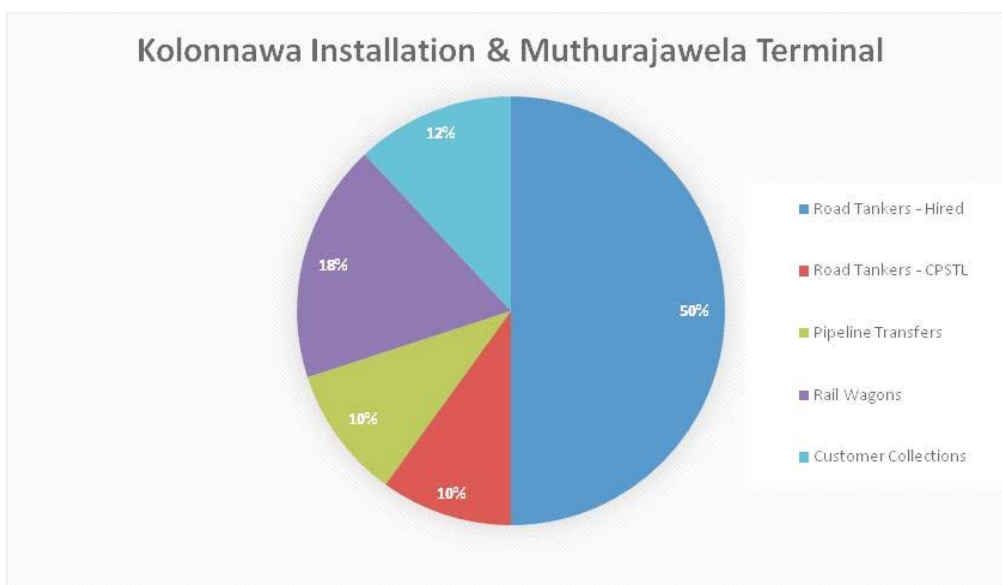
Octane demand growth rate is about 20% for the parallel period of year 2016 against the year 2015. With the increased number of hybrid vehicles of which fuel economies exceed that of the diesel driven vehicles, the demand for Lanka Auto Diesel is almost stagnate and it has been marginally increased for the period of 2015-2016.

Mode of distribution

CPSTL has successfully covered the increased demand using the existing resources efficiently. The distribution modes used and their allocation is as follows.

Mode of distribution

CPSTL has successfully covered the increased demand using the existing resources efficiently. The distribution modes used and their allocation is as follows.



The demand for petroleum products has substantially increased during 2016 mainly due to increased demand from energy generation and transportation sectors. The trend in fuel demand in the local market led CPSTL to have growth in revenue & profitability in 2016 with compared to 2015.

Financial Review

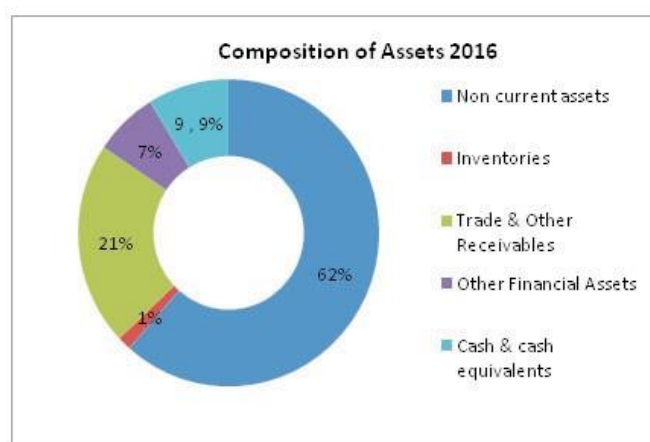
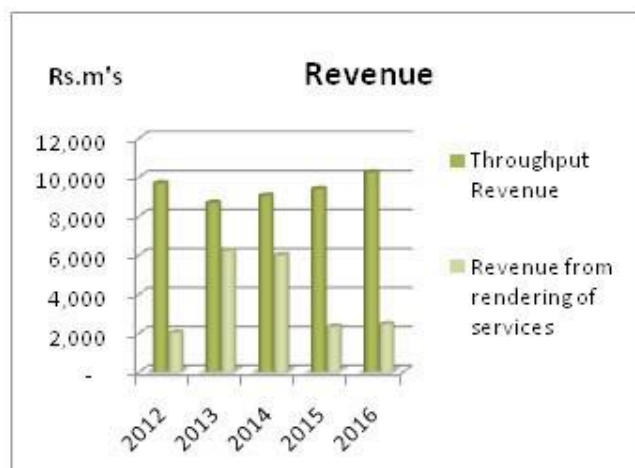
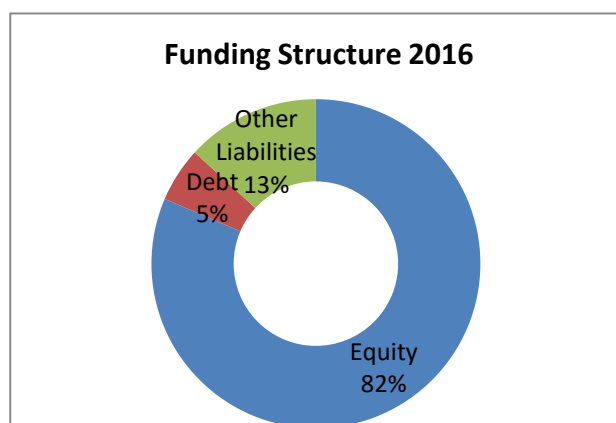
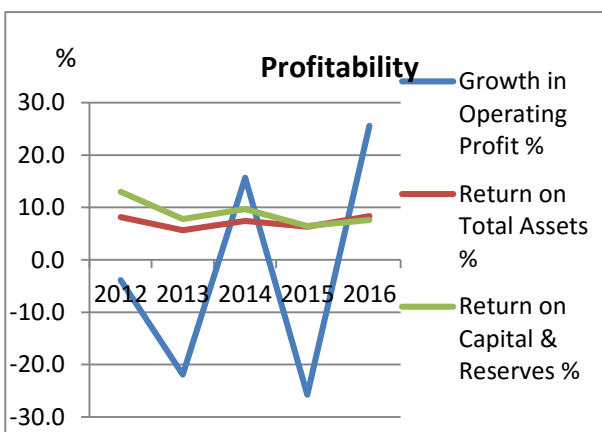
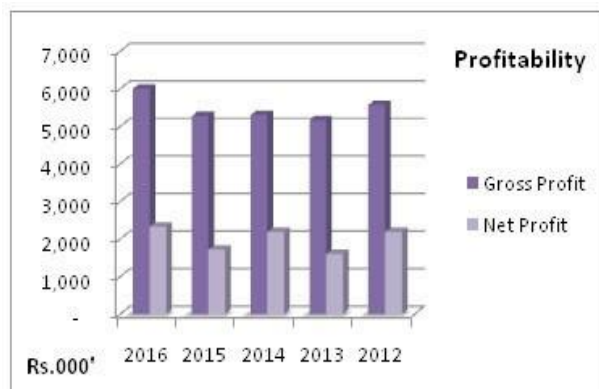
Turnover

During the year under review, throughput revenue increased by 9% to Rs. 10.2 billion (2015, Rs. 9.3 billion) reporting the highest during last five years.

The Other sources of revenue are generated from Transport income and from bunkering operations. Bunkering operation was ceased after April 2015, due to reduction of bunkering fuel production.

Gross Profit

Gross profit increased by 13.9% during the year reporting Rs. 6 billion (2015, Rs. 5.2 billion) which is the highest during last five years period. Net profit increased by 35.8% during the year reporting Rs. 2.3 billion (2015, Rs. 1.7 billion)



Human Resource

Human resource is the primary component of the earning potential, productivity and long term sustainability of the company and it's the greatest asset of the company.

The company serves the whole country not only by storage and distribution of fuel but also provide opportunities to join our work force by covering all ethnic groups and as a result providing equal opportunity for all citizens of the country, irrespective of their age, gender and religion. The company has taken several steps for better management of human resource.

Training and Development

As technology changes at an increasingly rapid pace, it requires new skills to compete with the changing world. Human Resource Development function focused specially on uplifting of knowledge, skills and attitudes of the Technical and Non-Technical employees towards higher productivity, minimizing wastage, build up protection pool of disciplined personal from labour grades to managerial level. Hence, during this year several programmes & workshops were conducted for technical & non-technical staff of employees. In addition, employees were encouraged to participate for foreign and local training programmes and workshops conducted by external parties.

Foreign Training Programs - 2016

Program	Country
Managerial Training	
Training on "Corporate Management for Sri Lanka"	Tokyo, Japan
Course on "Strategic Workforce Planning"	Kuala Lumpur, Malaysia
Programme on "Business Planning for South Asian MSME'S"	Osaka, Japan
International Programme on Project Management	Singapore
Workshop on "Office Administration Management for Executives "	Singapore
Workshop on "Lean Warehousing Excellence"	Dubai, UAE
International Programme on "Project Financial Modeling"	Singapore
Training Course on "Bulk Liquid Storage Tank Management"	Kuala Lumpur, Malaysia
Workshop on "Procurement Risk Management"	Singapore
Workshop on "Loading Master Certification for Oil, Gas & Petrochemical Terminals"	Dubai, UAE
Professional Development Training	
Conference on "HR Audit Excellence"	Dubai, UAE
"CFO Summit 2016"	Gold Coast, Australia
Conference on "9th Annual Internal Auditors 2016"	Dubai, UAE
On the job Training	
"On Job Aviation Fuel Handling Training Programme"	
Others	
Familiarization visit to Bentham Factory	



Training

LOCAL TRAINING – 2016

	Name of the Programme	No. of Programmes	No. of Participants
1	INDUCTION TRAINING	01	174
2	MANAGERIAL TRAINING - Supply Chain Management - Strategic Management	02	91
3	TECHNICAL AND PROFESSIONAL TRAINING - Earthling, lighting & Surge Protection - How to improve profits through Quality Management - Practical oriented workshop on “AC Systems Maintenance” - Bidding Procedures and Contract Administration - Preparation of Bidding Documents - Theoretical and Practical Aspects of Corporate Investigation - Corporate Investigation Programme (Advanced) - Development of Internal Auditing Function - Align Security Personnel to Achieve Company Goals - Awareness Program on “Hybrid Vehicles” - Jet A-1 Fuel Handling	15	629
04	SOFT SKILLS AND TEAM TRAINING - Workshop on “ Role & Responsibilities of Drivers ” - Productivity Improvement Techniques - Personnel Grooming “ Geethaya Thulin Eya Dakimu” “Green Productivity” - How to create a Positive Decent Work Place ? “ Moral for Career Development ” - Productivity Through Effective Office Management - Powerful Learning Culture - Personnel Grooming	17	1008
05	HEALTH AND SAFETY TRAINING - Ayurvedic Medicine Programme “ZUMBA” Fitness Programme - Safety Driving Programme - Fire & Safety Programme - Drugs Prevention Programme “YOGA” for Healthy living	06	286
06	OUTWARD BOUND TRAINING Adventure Based Training - Kothmale	01	27
	TOTAL	42	2,215



Outbound Training on Professional Image

A training programme on Professional Image was conducted at training school, Irrigation Department of Kotmale for executive officers and managers. The programme was designed to train managers to make great impression on clients, customers and coworkers and to be able to conduct business with good personality, confidence and success. The participants gained valuable skills necessary for smooth business interactions and to handle new and challenging business situations with confidence and competence.



Employee Welfare

There are several loan facilities granted at concessionary interest rates to fulfill many requirements of the employees including housing loans and vehicle loans. Four holiday homes are maintained over the country by the company for usage by families of employees. On retirement of employees, additional gratuity payment and a death gratuity in case of a death is paid out of Thrift Society funds. A Medical Assistance Scheme is maintained by the Thrift Society of the company for the benefit of employees and their families.

Felicitation of Employees who have completed particular service periods satisfactorily is as follows

Years of Service Completed	Service Award	No. of Employees Felicited
20 years	Rs. 10,000/-	312
25 years	Gold Coin of 2.5 sovereign	26
30 years	Rs. 20,000/-	30
35 years	Rs. 25,000/-	21

92 scholarships are granted to children of employees those who are selected for higher studies at government universities during the year.

Employee Health & Safety



The company is the largest petroleum Terminals Operator in Sri Lanka and the products handling are highly inflammable. The Operational activities are also coming under high risk category. A small mistake in handling operations can ignite a large scale fire. CPSTL being an economic nerve centre, a large scale fire may cripple the economy of the country. Therefore Industrial and Occupational Health and Safety is of utmost important factor in CPSTL operations. CPSTL has a dedicated in-house,

First Aid Training, Fire Drills, Safety Trainings and Awareness Programs

Fire and safety function conducts safety competition in every two years period to improve the interest and concern for the safety of the employees. Initiating the competition, Fire and safety function declares a “Safety Year”



Safest employees are selected for the each month of the “Safety Year”, from each of the function, by observation.

The safest “Employee of the Year” is selected among the safest employees for the months

The safest workshop of the Year is selected from the workshops at Kolonnawa Installation.

The safest Bulk Depot of the Year is selected from the Bulk Depots of CPSTL

A “Safety Bulletin” is published and distributed fire and safety function free of charge to each function to improve the knowledge of the employees on latest trends and incidents.

All the operations of the CPSTL are done as per the accepted practices of the petroleum distribution industry and the regulations and guidelines stipulated in the Environmental Protection Act

Major Projects

As the responsible agency for storing and distributing of petroleum products, the company has taken several initiatives for development of infrastructure facilities and significant expansion projects to serve as a platform for CPSTL's future growth.

1. Installation of 12' dia. Pipeline segments

The 12" dia. Pipeline is now being refurbished from South Jetty inside the Colombo Port to Kolonnawa terminal and about 2,471 m (out of the total 6,166m) have already been replaced by CPSTL adopting the open cut trenching methodology. For the balance replacement, new pipes have already been delivered to CPSTL stores and about 3,111 m of the balance has been planned to be replaced with new pipes using the open cut trenching methodology.



2. Development of bulk depot at Kurunegala.

CPSTL identified that the existing facilities of Bulk Depots are required to upgrade to comply with latest regulations of fire & HSE and petroleum industry standards. Several improvements and developments were identified at LBD Kurunegala in this context. It is required to secure containment by introducing bund walls, relocate firefighting facility away from the tank farm area, relocate pipelines, establish access for tank farm, relocate rest rooms and other facilities away from the operational area, relocate gasoline gantry to a central location, rearrange gasoline storage and separate storage area in meeting required safety codes and standards.

Construction of a three story building, construction of a new fire pump house and a fire office, relocation of fire pumps and fire lines and construction of boundary walls were done under the improvement and development work at LBD Kurunagala

3. Development of bulk depot at Magalle

Steps have been taken to upgrade the bulk depot Magalle to cater the future requirements and enhance the firefighting systems to compliance the safety requirement of Petroleum Industry. Tank farm development construction of new fire pump house and fire office, renovation of office buildings and rest rooms were carried out under LBD Magalle development program



4. Improvements of internal road network system at Oil Installation, Kolonnawa

The internal road network of the Oil Installation Kolonnawa consisting of two main roads and perimeter roads were completely rehabilitated by carpet laying, including the pavements and drainage system improvements and provisions to route service utilities. The improvement of the road network had a positive impact on efficient vehicular movement inside the installation and reducing the flash flooding during rainy seasons.



5. Embankment Protection in Zone 1-4 at Oil Installation, Kolonnawa.

The existing embankment area of Zone-1 to 4 near boundary wall is severely damaged due to slope failure. Most of the places the slope was collapsed during the rainy season and appears as unstable.

Further erosion may experience during the rainy season and that is badly affected to the adjacent up

side houses and structures near the boundary wall. Therefore it is required to implement remedial works to prevent a medium scale disaster, and to keep the area in stable condition by introducing slope correction methods. The remedial work started at the end of year 2016.

6. Repairs to tank No 05, at Oil Installation, Kolonnawa.

Tank no 05. Of Oil installation Kolonnawa, installation is completely rehabilitated and put in to operations to ensure the integrity of storage facility of storing diesel.

7. Disaster Recovery & Management Centre (DRMC) for Data Centre

The DRMC project of CPSTL is to support 24x7 ERP system operations of CPSTL, CPC and LIOC throughout the year for their business activities during a disaster to the CPSTL Data Centre due to accidental or intentional disruption. The project includes the upgrading of hardware in the Primary Data Centre, migration of Software to new Hardware from existing Server Systems and the setting up of the DRMC Hardware and Software at a designated hosting site which will be selected via the tender process after the determination for DRMC project.

8. Installation of Digital PABX System in Oil Installation, Kolonnawa

The old Private Branch Exchange (PABX) system of Oil Installation, Kolonnawa is around 25 years old. The system was replaced by a new PABX system to eliminate the frequent breakdowns and to improve the internal communication network of the installation. The project is conducted to procure, install and commission a new digital PABX to

improve the Intercom Facilities in Oil Installation Kolonnawa. The new PABX system is capable of serving 800 nos. of extensions.

9. Improvements to Gymnasium at Oil Installation, Kolonnawa

To facilitate the physical well-being of employees of CPSTL, the Gymnasium facility is improved at zone 8 at CPSTL. The new gymnasium is planned to be equipped with all necessary items for physical activities which are to be used by all employees of CPSTL.

10. Perimeter fencing and improvements to garbage dump at Gajabapura at Oil Installation, Kolonnawa

Proper garbage disposal procedures were implemented in CPSTL and in accordance, the project was carried out to improve the garbage dump facility. The older garbage dump facility was a temporary site near the Kolonnawa-Rajagiriya main road. Therefore it has been moved to a new appropriate location near the private bowser parking. The facility consists of four separate areas to dump segregated garbage until further disposal proceeded.

11. Renovation of Health Safety Environmental (HSE) office

Health Safety and Environmental (HSE)

Unit of CPSTL was established to carry out the HSE activities in accordance with global requirements. The project was carried out to renovate an existing building at zone 8 to provide office space for the newly established Health Safety and Environmental Unit.



Risk Management

Risk management is the process of identification, analysis and finding of methods to mitigate uncertainties associated with an organization.

If uncertainties or risk that could arise in any business environment would not properly managed, it may cause massive losses or unplanned cost and also may create bad reputation.

A brief description of the risk associated with the company and risk management measures taken to mitigate such risk is given below.

Environmental Risk

Besides being an important energy source, petroleum industry holds a major potential for hazards for the environment including air, water and soil. Pollution of air, water and soil causes major impact on lives of human beings and to the eco system. Several actions are taken to mitigate environmental risk.

The operation procedures and systems are designed to minimize any adverse effects to the surrounding environment. All the waste generated and discharges (Liquid & Gasses) are handled as per the guidelines stipulated by Central Environmental Authority (CEA) and petroleum industry safety practices

The amount of waste water generated due to operations of CPSTL is small compared to storm water contamination inside the installations during rainy periods. To prevent natural water sources being polluted by oil, "Interceptors" which are water separation units operating under the principle of gravity separation are used before discharging storm water out of the installations.

Air pollution potential is periodically measured by air quality testing. Engineering controls are taken to minimize the exposure of petroleum vapor to the environment and personnel protective equipment (PPE) have been provided to all the employees who expose to petroleum vapor routinely.

Soil pollution by petroleum products is minimized by controlling spillages during loading and unloading operations. In case of an accidental oil contamination, immediate actions are implemented to minimize spreading oil patches on soil. For high volume spillages or leakages, oil is removed by vacuum pumps and oil absorbents are used to minimize the contamination.

Economic Risk

Sri Lanka is an import dependent consumer of petroleum products. The company is engaged in storage and distribution of petroleum products imported by Ceylon Petroleum Corporation which is a market leader and fully government owned institute. Hence the company is largely exposed to international and local economic risk. Many other industries of the economy also have a great impact upon petroleum industry such as transportation, Electricity generation, fisheries, agriculture etc.

STRENGTHENING HOW WE MANAGE RISKS

We recognize that effective risk management is a fundamental requirement to achieve our strategic objectives.

Risk management is embedded in our critical business activities, functions and processes.

Materiality and our tolerance for risk are key considerations in our decision-making process.

Liquidity Risk

Finance risk arises when financial resources of the company are used to meet obligations of the company. The company could be impacted badly if it is unable to source adequate funds for on Going business operations, the capital projects and also other investments.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. These are risks related to people, systems and processes through which we operate. It may have a great impact on the reputation of the entity as well. The quality assurance process of CPSTL ensures That the products distributed to end users, comply with the specifications stipulated by Technical Specification Committee on Worldwide Fuel Charter, and exact quantity of the product is delivered without any delay.

Legal and Political Risk

As a business entity, the company may be affected by legal and political framework and Developments of the country. Legal function of the company ensures that the company complies with applicable laws and regulations in Sri Lanka. Key areas subject to regulations include employment, Tax laws, and environmental issues.





Risk is very high

The receipt, storage, loading of bulk petroleum products at terminals and the maintenance of terminal equipment are activities which give rise to significant safety risks. It is therefore necessary that proper safety procedures be set up and followed.

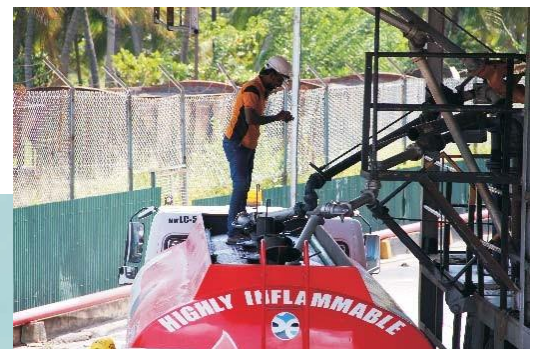
- Frequency and method of receipt of petroleum products
- Capacity and method of storage
- Number of vehicles loading and unloading petroleum products
- Number of employees and road tanker drivers regularly on or around the terminal
- Age and type of the equipment.
- Siting of terminal equipment (loading gantries, fire protection equipment, ASTs, pipework etc.) in relation to other activities and facilities at the terminal.
- Layout of the terminal in relation to vehicle access, exit and maneuvering
- Site-specific factors such as ground conditions and watercourses and vandalism.

Training is Vital

Training is vital in helping to prevent incidents and minimizing consequences if they do happen.

Employees with particular responsibilities demand specific training:

- Product receipts
- Activating and controlling loading arms
- Safe loading procedures
- Spillage control and emergency procedures
- Managing and checking bulk petroleum stocks
- Competency of relief employees
- On-site hazards and risks
- Risk management measures and procedures
- Emergency procedures
- Control of visiting contractors



Social Responsibility

We are extremely conscious that our growth must be sustainable, not only financially but also socially as well. Hence, CPSTL has always gone beyond statutory responsibilities in supporting our employees and the general public.

The company serves all the economy encompassing all the geographic, demographic regions, all the ethnicities and social layers of the country. We, the team at CPSTL understand the pulse of every community in the island and, are proud to serve the nation understanding the importance of social responsibility.



Supporting Flood Victims

CPSTL has extended hands to help the country recover from sudden and devastating flood in 2016, helping thousands of displaced families affected by flood by providing cooked meals, dry rations, household necessities etc.



Blood Donation Campaign

CPSTL is conducting Blood Donation Campaign annually.



Dengue Spread Prevention Shramadana Campaigns

Several Shramadana Campaigns for Dengue Spread Prevention were conducted during the year by CPSTL including all the depots.



Training Programs for Road Tanker drivers

CPSTL has conducted several training programs for Road Tanker Drivers on safe driving and on road driving disciplines in 2016.



Donation of dry rations to cleaning service staff

Dry rations were donated to unprivileged people those who are engaged in cleaning service of CPSTL.



Donating to pediatric unit of National Cancer Hospital

As part of social responsibility initiatives, visit children at the "Maharagama Cancer Hospital" to put a smile on their faces by giving them gifts and also most importantly donating urgently needed medicine.



Donations to students and Dahampasal in Lunugamvehera

Books and other stationeries were donated to unprivileged students living at Lunugamvehera area. In addition furniture for dahampasala and sarees for dahampasal teachers were also donated.



Cleaning of flood affected houses

CPSTL extend hands to help employees those who are affected by flood by cleaning their houses

Assuring Quality is our Responsibility



Corporate Governance



Corporate Governance

The Ceylon Petroleum Storage Terminals Limited is committed to good governance, which strengthens Board and Management accountability and helps build public trust in the organization. The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long term success of a company. It involves a framework of legislation, codes and voluntary practices.

As the main facilitator of storage and distribution of Petroleum Products in Sri Lanka, the organization assures to practice the principals of corporate governance to attain the goals and objectives of the organization with a view to support economic efficiency, sustainable growth and financial stability.

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

Board of Directors

CPSTL is managed by a Board of Directors appointed by the holding companies. The composition of Board of Directors is eight (08) including a representative from the General Treasury (Ministry of Finance & Planning). All directors are non-executive Directors, except the Chairman & Managing Director.

Subject to re-appointment, the Directors do not have initial tenures on the Board. In taking decisions, the Board obtains relevant information from corporate management and if required, obtains information from external professionals.

Responsibilities of the Board

Together with guiding corporate strategy, the board is chiefly responsible for monitoring managerial performance and achieving an adequate return for stakeholders while exercising objective and independent judgment ensuring compliance to applicable laws, including tax, labour, environmental, equal opportunity, health and safety. Directors dedicate themselves to the affairs of the organization by attending Board and Board subcommittee meetings and making decisions by circular resolutions.

The Board is playing the key role in setting the ethical tone of the organization which are in the long term interests of the organization as a means to make it credible and trustworthy with respect to longer term commitments, not only by its own actions, but also in appointing and overseeing key appointments, promotions and consequently the management in general. Further, Board holds the responsibility for reviewing and granting approval for major plans of action, risk management policies and procedures, annual budgets and business plans, corporate performance, and overseeing major capital expenditures, acquisitions and divestitures.

Board Meetings

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

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

Compliance and Transparency

The Ceylon Petroleum Storage Terminals Limited is committed to maintain transparency in all its transactions. The organization complies with new Sri Lanka

Accounting Standards (SLFRS/LKAS) and relevant regulations to ensure accountability. The strong internal controls compliance, measures have been integrated into the organization's daily operations in accordance with Finance Act No. 38 of 1971, financial statements are published annually and tabled in Parliament. Also in compliance with Finance Act, the Auditor General carries out the External Audit of the Organization.

Corporate Management

The Chairman/Managing Director manages the day-to-day affairs of the organization based on Strategic direction, Policy formation and Procedures approved by the Board of Directors from time to time. Operations of CPSTL can be divided into sub categories namely, Operations in Kolonnawa Installation, Operations in Muthurajawela Terminal, Oil Facility Office at Port of Colombo and Operations in Lanka Bulk Depots in islandwide. Muthurajawela Terminal Operations is headed by Terminal Manager (Muthurajawela). Operations Manager (Offshore Operations) is the head of Oil Facility Office at Port of Colombo and Lanka Bulk Depots are headed by Depots' Superintendents under the supervision of Deputy General Manager (Operations).

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

Audit Committee

Composition of the Audit Committee

The Audit Committee consists of 04

members, who are Non – Executive Directors appointed by the Board of Directors of CPSTL. The composition and functions carried out by the Audit Committee are presented on page 38 of the annual report.

Stock Review Committee

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

Information Technology Steering Committee

It is the administrative body that reviews, monitors and prioritizes major IT projects in line with strategic goals of the organization. The committee comprised of members from Ceylon Petroleum Corporation, LIOC & CPSTL and participate in key decision making process for the benefit of all stakeholders, and contribute positively to the development and maintenance of common IT Hub at CPSTL.

Departmental Procurement Committee

The National Procurement Agency has issued a set of guidelines for the purchase of products, goods, services and works. The relevant TEC and the DPC function under the guidelines issued by the NPA to ensure transparency, minimize delays and to obtain financially the most advantageous and qualitatively best services and supplies to the company. The committee is headed by the Chairman/ Managing Director of CPSTL and comprised of Deputy General Manager Operations and a representative from the Ministry of Petroleum Resources Development

Financial Disclosures

The Board of directors is responsible for true and fair presentation of financial statements. The financial statements are prepared in accordance with Sri Lanka Accounting Standards (SLAS) prefixed both SLFRS and LKAS and Audit Committee has reviewed and disused the financial reports prior to publication, with the management and external auditors including the extent of compliance with Sri Lanka Accounting Standards, the appropriateness and changes in accounting policies and material judgmental matters.

Internal Controls

The company ensures a sound and effective internal control system, to provide reasonable assurance regarding the achievement of effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. It ensures the integrity of financial and accounting information, meet operational and profitability targets, and transmit management policies throughout the organization. It is crucial to state that, any internal control system can ensure only a reasonable assurance and not absolute assurance that errors and irregularities will be presented or detected within a reasonable period of time.

The Internal Audit Function ensures the organization is efficiently operating within the set internal control system of CPSTL.

Internal Audit

The Internal Audit Function is operate with the objective of evaluating and reporting in order to maintain a proper control system within the organization in line with the laid down procedures, rules and regulations of the organization, with the underline scope of;

- I. To ensure that all business transactions are properly authorized before execution in accordance with existing rules and regulations.
- II. To ensure all accounting information in the SAP as well as primary records are accurately maintained and

relevant statistics and control data are properly
Designed to ensure efficient management.

- | | | |
|---|--|---|
| <p>III. To ensure that the financial accounting statements reveal a true and fair view of the status of the business enterprise.</p> <p>IV. To assess the efficiency of systems of internal control in operation.</p> <p>V. The Internal Audit unit should, in general, adopt a systems – based approach, the principal objectives being to review and appraise;</p> <ul style="list-style-type: none"> ▪ The design and operation of all systems and procedures (financial, managerial etc.) which are intended to control a Department's | <p>operations including those used by management to measure the extent to which programmes and other operations run by the department are successful in the achievement of policy objectives.</p> <ul style="list-style-type: none"> ▪ The adequacy, reliability and integrity of the information being provided for decision making and for accountability, and the extent to which this information is used. ▪ The degree of compliance with legislation and other | <p>requirements laid down and management plans, procedures and policies.</p> <ul style="list-style-type: none"> ▪ The acquisition and disposal of assets and the safeguarding of assets and interest from losses, including those arising from fraud, malpractice and irregularity. ▪ Arrangements for the economic and efficient use of resources and avoid waste. ▪ In some instances it may be desirable to employ a transaction – testing approach |
|---|--|---|



ANNUAL REPORT OF THE DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Board of Directors have pleasure in presenting the Annual Report for the year ended 31st December 2016 on the affairs of the Company prepared in terms of the provisions of the Companies Act No. 7 of 2007.

These were approved by the Directors on 07th March 2018.

Principal Activity

The principal activity of the Company is the Common User Facility (CUF) established to facilitate the petroleum storage & distribution activities in Sri Lanka and to owned and operate the storage and distribution infrastructure of Ceylon Petroleum Corporation (CPC)

consisting of Oil Terminals, Storage Facilities, Pipelines and the Bowser Fleet, more fully described in the Government Gazette extraordinary bearing No. 1310-8 dated 13th October 2003 and the right to use and/or leasehold rights enjoyed by Ceylon Petroleum Corporation pertaining to the installations at Kolonnawa and Muthurajawella, bulk depots island wide and the related facilities, oil facilities at Colombo Port, and the ownership and/or the functions and/or the rights of Ceylon Petroleum Corporation pertaining to pipelines from Single Point Buoy Mooring to Muthurajawella installation, Colombo Port to Kolonnawa installation and their branches upto the customer's battery limits, Galle Harbour to Magalle bulk depot, and internal pipelines within the installations and bulk depots referred above.

Review of Operations and Financial Highlights

The operation has shown revenue of Rs.12.6bn with a Net Profit of Rs.1.7bn.

Particulars	31-12-2016	31-12-2015
	Rs.	Rs.
Turnover	12,663,444,509	11,687,263,147
Earnings Before Taxation	2,330,073,120	1,715,646,470
Profit / (Loss) After Tax (PAT)	1,738,629,426	1,373,983,761

Stated Capital

The Stated Capital of the Company as at 31st December 2016, is Rs. 7,500,000,000/=. The distribution of shareholdings is as follows.

	Ordinary shares
Ceylon Petroleum Corporation	500,000,000
Lanka IOC Limited	250,000,000

Property Plant & Equipment

The movements in property, plant and equipment during the year are set out in Note 10 to the Financial Statement.

Dividend

Directors recommended an interim dividend of Rs.0.54 per share for the year ended 31st December 2016.

Corporate Donations

During the year the Company made donations & sponsorship payments amounting to Rs. 5,657,434/=

Directors as at 31 December 2016

The Board of Directors of Ceylon Petroleum Storage Terminals Limited as at 31st December 2016 were as follows;

Devanamuni Chaminda Shehan SENEVIRATHNE

Duminda Weerasingha RAJAPAKSHA

Turphin Gunapala JAYASINGHE

Kakulthotuwege Dona Rosemary OLGA

Lalith Chandana Kumara LIYANAGE

Eshan Priyadev PERERA

Shyam BOHRA

Anuj JAIN

Randhir SINGH

Remuneration of Director

Remuneration received by the Directors is set out in detailed Income Statement to the Financial Statements.

Interest Register

Company maintains an Interest Register in terms with provisions of Companies Act No. 07 of 2007. All Directors have made declarations as provided for in Section 192 (2) of the Companies Act No.07 of 2007. The related entries were made in the Interest Register during the year under review.

Statutory Payments

To the best of their knowledge and belief, the Directors are satisfied that all statutory payments in relation to the Government and to the Employees have been settled to date or are provided for in the books of the company.

Going Concern

The Directors are confident that the company has adequate resources to continue business operations. Accordingly, the Directors consider that it is appropriate to adopt the going concern basis in preparing the Financial

Statements.

Post Balance Sheet Events

There are no significant events that have occurred after the balance sheet date which would have any material effect on the Company that require adjustments to be decided by the Board of Directors other than those disclosed in note 30 to the financial statements.

Auditors

In terms of the 19th Amendment to the constitution, company is required to appoint Auditor General or his nominee as Auditors of the company.

Audit for the financial year ended 31st December 2016 was carried out by Auditor Generals Department with the Assistance of Messrs Ernst & Young, Chartered Accountants. The fees paid to auditors are disclosed in detailed income statement to the Financial Statements.

As far as the Directors are aware, the Auditors do not have any relationship (other than that of an auditor) with the company other than those disclosed above. The auditors also do not have any interest in the Company or its Group Companies. They confirm that they are independent in accordance with the Code of Ethics of the Institute of Chartered Accountants of Sri Lanka.

Annual General Meeting

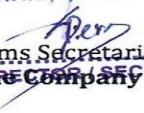
The Extraordinary General Meeting of the Company will be held on 15th March 2018 at the Board Room of CPSTL.

For and on behalf of the Board of Directors


Dammika Ranatunga
Chairman

By Order of the Board,

ACCOUNTING SYSTEMS SECRETARIAL SERVICES
(PRIVATE) LIMITED - PV 4190


Accounting Systems Secretarial Services (Private) Limited
Secretaries to the Company


K D R Olga
Director

Audit Committee Report

Composition

The Audit and Management Committee of the CPSTL comprises the following 03 Non Executive Board Directors, appointed by the Board of Directors.

Mrs. K.D. R. Olga (Treasury Representative)	~ The Chairperson
Mr. Anuj Jain (Representative from LIOC)	~ Member
Mr. T.G. Jayasinghe (Representative from CPC)	~ Member

The mandate of the Audit Committee has been prepared covering scope of responsibilities, authorities, and specific duties stipulated in Treasury Circulars issued in relation to conducting Audit Committees in Public Commercial enterprises.

Tasks of Audit Committee

The Committee oversees the financial reporting process, the internal audit process, the system of internal controls of

Ceylon Petroleum Storage Terminals Limited and reviews significant accounting and reporting issues raised by the external auditors and the internal audit division as well as recent professional and regulatory pronouncements to understand the potential impact on company operations thus impact on the financial statements. Apart from that, the Committee reviews the risk that the Company is exposed to the actions taken to mitigate the risk and their effectiveness.

Meetings

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

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

Serial No.	Date	Strength of the Committee	No of members participated	Names of the participated members
01.	04.05.2016	03	03	Mrs. K. D. R. Olga Mr. Anuj Jain Mr. T. G. Jayasinghe
02.	13.06.2016	03	02	Mrs. K. D. R. Olga Mr. Anuj Jain
03.	09.08.2016	03	02	Mrs. K. D. R. Olga Mr. Anuj Jain
04.	16.08.2016	03	02	Mrs. K. D. R. Olga Mr. Anuj Jain
05	25.11.2016	03	02	Mrs. K. D. R. Olga Mr. Anuj Jain

Role of the Audit Committee

The Audit Committee has made several recommendations on strategic issues for submitting to the Board of Directors to take appropriate actions.

Review the adequacy of internal control system with the management, external and internal auditors

Overseeing the financial reporting process to ensure the preparation and fair presentation of the financial statements by ensuring the compliance, transparency, and reliability of

financial statements.

Review of the Internal Audit Program

Identification of risks and the remedial actions for mitigating the risk to acceptable level, by ensuring

The risk management process is comprehensive and ongoing based on the management letter and internal audit reports.

Creating an organization commitment to strong and effective internal controls, emanating from the tone at the top.

Reviewing corporate relating to compliance with laws and regulations, ethics, conflicts of interest and the investigation of misconduct or fraud.

Continually communicating the senior Management regarding status, progress and new developments as well as problematic areas.



K.D.R. Olga
Chairperson
Audit Committee



Awards and Accolades

Reaffirming our commitment, we have been recognised with several prestigious accolades throughout the financial year.

Ceylon Petroleum Storage Terminals Limited won the National Bronze Award in the Extra-large Industries Category in Service Excellence at the CNCI Industrial Excellence Awards Ceremony 2016 organised for consecutive 15th year by the Ceylon National Chamber of Industries (CNCI).

Ceylon Petroleum Storage Terminals Limited won the Bronze Award of Social Dialogue and Workplace Corporation under the large scale service sector 2016 organised by Social Dialogue and Workplace Corporation Unit, Human Resource Development Division, Department of Labour, Ministry of Labour and Trade Union Relations.



Financial Information



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

POE/A/CPSTL/01/16/01

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Your No.

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திகதி
Date

29 September 2017

To the Shareholders of the,
Ceylon Petroleum Storage Terminals Limited.

Report of the Auditor General on the Financial Statements of the Ceylon Petroleum Storage Terminals Limited for the year ended 31 December 2016.

The audit of financial statements of Ceylon Petroleum Storage Terminals Limited ("the Company/CPSTL") for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information (set out on pages 3 to 37) 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

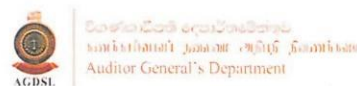
Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal controls as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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. 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 judgment, including the assessment of the risks 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 Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

- (a) Ceylon Petroleum Corporation Thrift Society Limited (Thrift Society) pays retirement benefits and medical benefits to the employees of Ceylon Petroleum Storage Terminals Limited (CPSTL) (Members). The Thrift Society pays an additional half months' salary for every year of service to its members at the time of retirement. Accordingly, Thrift Society is an arrangement whereby CPSTL provides post-employment benefits to its employees and qualify as a post-employment benefit plan as per the Sri Lanka Accounting Standard LKAS 19 Employment Benefits. CPSTL has not actuarially valued and accounted for the above retirement benefit plan as per LKAS 19.
- (b) Trade and Other Receivables included an amount receivable from Ceylon Petroleum Corporation amounting to Rs. 4,857.2 million. Based on the confirmation received from Ceylon Petroleum Corporation, the above amount includes a disputed amount of Rs.652 million (2015: Rs.336 million) for which only an allowance of Rs.163.5 million (2015: Rs.163.5 million) has been made as impairment. Accordingly the provision for impairment is understated by Rs.489 million (2015:Rs173 million)
- (c) As per the Inland Revenue Bill passed by the Parliament on 07 September 2017 the applicable tax rate for the Company with effect from 01 April 2018 would be 28 percent. The provisions of the bill will become effective once it receives the certification of the Hon. Speaker. Any impact that may arise due to the provisions of this Bill has not been disclosed in these financial statements.



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Auditor General's Department

Qualified of Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, so far as appear from my examination the financial statements give a true and fair view of the financial position of the Ceylon Petroleum Storage Terminals Limited as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Other Matter

The financial statements of Ceylon Petroleum Storage Limited for the year ended 31 December 2015 were audited by another firm of Chartered Accountants in public practice who expressed a qualified opinion on those financial statements on 13 September 2016.

Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act, No.07 of 2007, I state the followings:

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b) In my opinion :
 - Except for the possible effects of the matters described in Basis for Qualified Opinion paragraph, I have obtained all the information and explanations that were required for the audit and as far as appears from my examinations, proper accounting records have been kept by the Company.
 - The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

Report to Parliament

My report to Parliament in pursuance of Provisions in Article 154 (6) of the Constitution will be tabled in due course.

H.M. Gamini Wijesinghe
Auditor General

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

ASSETS	Note	2016 LKR	2015 LKR
Non Current Assets			
Property, Plant and Equipment	10	16,799,855,205	16,687,409,915
Intangible Assets	11	7,609,019	17,349,661
Other Financial Assets	14.1	441,724,050	390,385,357
		<u>17,249,188,274</u>	<u>17,095,144,933</u>
Current Assets			
Inventories	12	413,049,408	328,836,430
Trade and Other Receivables	13	6,021,067,151	7,203,170,013
Other Financial Assets	14.2	1,920,169,313	1,894,647,582
Cash and Cash Equivalents	15.1	2,455,417,182	747,965,921
		<u>10,809,703,053</u>	<u>10,174,619,946</u>
Total Assets		<u>28,058,891,327</u>	<u>27,269,764,879</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	16	7,500,000,000	7,500,000,000
Capital Reserves	16.1	979,000,000	979,000,000
Retained Earnings		14,371,811,934	12,910,228,106
Total Equity		<u>22,850,811,934</u>	<u>21,389,228,106</u>
Non Current Liabilities			
Defined Benefit Obligation	17	1,234,070,802	1,385,634,331
Deferred Tax Liabilities	8.1	1,005,757,215	608,969,586
Interest Bearing Loans and Borrowings	18	911,050,854	1,398,850,855
		<u>3,150,878,871</u>	<u>3,393,454,772</u>
Current Liabilities			
Trade and Other Payables	19	1,311,033,498	1,649,445,903
Interest Bearing Loans and Borrowings	18	599,114,311	781,660,127
Income Tax Payable		147,052,713	55,975,971
Total Liabilities		<u>2,057,200,522</u>	<u>2,487,082,001</u>
Total Equity and Liabilities		<u>28,058,891,327</u>	<u>27,269,764,879</u>

I certify, these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

Deputy General Manager - Finance

The Board of Directors are responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board by,

Director

Chairman / Director

The accounting policies and notes on pages 08 through 35 form an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	2016 LKR	2015 LKR
Revenue	3	12,663,444,509	11,687,263,147
Direct Expenses		(6,661,689,016)	(6,415,412,679)
Gross Profit		6,001,755,493	5,271,850,468
Other Operating Income	4	483,200,474	302,700,470
Administrative Expenses		(4,071,225,562)	(3,653,706,188)
Selling and Distribution Expenses		(7,251,684)	(3,952,141)
Operating Profit		2,406,478,721	1,916,892,609
Finance Income	5.1	90,369,796	32,314,172
Finance Cost	5.2	(166,775,397)	(233,560,311)
Profit Before Tax	6	2,330,073,120	1,715,646,470
Income Tax Expense	7.1	(591,443,694)	(341,662,709)
Profit for the Year		1,738,629,426	1,373,983,761
Other Comprehensive Income not to be Reclassified to Profit or Loss in Subsequent Periods			
Actuarial gain on Defined Benefit Obligations	17	243,863,733	37,093,073
Tax on Other Comprehensive Income	8.1	(33,409,331)	(3,709,307)
Other Comprehensive Income for the Year, Net of Tax		210,454,402	33,383,766
Total Comprehensive Income for the Year, Net of Tax		1,949,083,828	1,407,367,527
Earnings Per Share	9.2	2.32	1.83

The accounting policies and notes on pages 08 through 35 form an integral part of the Financial Statements.

STATEMENT OF CHANGES IN EQUITY**Year ended 31 December 2016**

	Stated Capital	Capital Reserve	Retained Earnings	Total
	LKR	LKR	LKR	LKR
Balance As at 1 January 2015	7,500,000,000	979,000,000	11,502,860,579	19,981,860,579
Profit for the Year	-	-	1,373,983,761	1,373,983,761
Other Comprehensive Income	-	-	33,383,766	33,383,766
Total Comprehensive Income	-	-	1,407,367,527	1,407,367,527
Balance As at 31 December 2015	<u>7,500,000,000</u>	<u>979,000,000</u>	<u>12,910,228,106</u>	<u>21,389,228,106</u>
Profit for the Year	-	-	1,738,629,426	1,738,629,426
Other Comprehensive Income	-	-	210,454,402	210,454,402
Total Comprehensive Income	-	-	1,949,083,828	1,949,083,828
Dividends Paid	-	-	(487,500,000)	(487,500,000)
Balance As at 31 December 2016	<u>7,500,000,000</u>	<u>979,000,000</u>	<u>14,371,811,934</u>	<u>22,850,811,934</u>

The accounting policies and notes on pages 08 through 35 form an integral part of the Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Note	2016 LKR	2015 LKR
Cash Flows From/(Used in) Operating Activities			
Profit before Income Tax Expense		2,330,073,120	1,715,646,470
Adjustments for			
Finance Income	5.1	(90,369,796)	(32,314,172)
Finance Expenses	5.2	166,775,397	233,560,311
Allowance for impairment of staff loans		2,203,697	1,416,487
Allowance for impairment of Inventory & other trade receivable		(41,257,622)	34,628,048
Loss/ (Profit) on disposal of Property, Plant and Equipment	4	(51,245,219)	(8,312,102)
Provision for Defined Benefit Plans		204,224,090	179,691,609
Depreciation	10.2	800,940,058	824,903,822
Amortisation of Intangible Asset	11.2	9,740,642	30,007,859
Operating Profit/(Loss) before Working Capital Changes		3,331,084,367	2,979,228,331
(Increase)/ Decrease in Inventories		(33,513,691)	39,256,808
(Increase)/ Decrease in Trade and Other Receivables		1,172,661,197	1,070,517,763
(Increase)/ Decrease in Other Financial Assets		(79,064,121)	(698,944,564)
Increase/ (Decrease) in Trade and Other Payables		(338,412,405)	(2,286,945,501)
Cash Generated From/ (Used in) Operations		4,052,755,347	1,103,112,837
Income Tax Paid		(136,988,654)	-
Finance Expenses Paid		(174,930,901)	(233,560,311)
Defined Benefit Paid	17	(111,923,886)	(99,268,514)
Net Cash Flows From/(Used in) Operating Activities		(111,923,886)	(99,268,514)
Cash Flows from Investing Activities		3,628,911,907	770,284,012
Acquisition of Property, Plant and Equipment	10.1		
Proceeds from Property, Plant and Equipment			
Finance Income	5.1	(913,411,535)	(223,888,948)
Net Cash Flows From/(Used in) Investing Activities		51,271,409	8,312,102
Cash Flows From Financing Activities		90,369,796	32,314,172
Repayments of borrowings		(771,770,330)	(183,262,674)
Dividends Paid			
Net Cash Flows From/(Used in) Financing Activities		(773,504,627)	(1,061,751,794)
Net Increase / (Decrease) in Cash and Cash Equivalents		(487,500,000)	(687,500,000)
Cash and Cash Equivalents at the Beginning of the Year	15.2	(1,261,004,627)	(1,749,251,794)
Cash and Cash Equivalents at the End of the Year	15.2	1,596,136,950	(1,162,230,456))
		747,965,921	1,910,196,377
		2,344,102,871	747,965,921

The accounting policies and notes on pages 08 through 35 form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

1. CORPORATE INFORMATION

1.1 General

Ceylon Petroleum Storage Terminals Limited (“Company”) is a limited liability Company incorporated on 8th October 2003 under the Companies Act No.07 of 2007 and the company is domiciled in Sri Lanka. The registered office of the Company is located at Ceylon Petroleum Storage Terminals Limited, oil installation, Kolonnawa.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were storage and distribution of petroleum products

1.3 Parent Entity and Ultimate Controlling Party

In the opinion of the Directors, the Company’s ultimate parent undertaking is Ceylon Petroleum Corporation, which is incorporated in Sri Lanka.

1.4 Date of Authorization for Issue

The Financial Statements of Ceylon Petroleum Storage Terminals Limited for the year ended 31 December

2016 was authorized for issue in accordance with a resolution of the Board of Directors 7th September 2017.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

2. BASIS OF PREPARATION**2.1 Statement of Compliance**

The Financial Statements of the Company, which comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No 7 of 2007.

2.1.1 Basis of Measurement

The Financial Statements of the Company have been prepared on the historical cost basis, except for the following items in the Statement of Financial Position:

- The liability for Defined Benefit Obligations are actuarially valued and recognized at the present value

2.1.2 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.2 Functional and Presentation Currency

The Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional and presentation currency.

2.3 Comparative Information

The accounting policies have been consistently applied by the Company and, are consistent with those used in the previous year. Previous year's figures and phrases have been rearranged whenever necessary to conform to the current presentation. The details are given in Note 24 of financial statements.

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognized in the Financial Statements of the Company are as follows:

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

(a) Employee Benefit Liability

The cost as well as the present value of defined benefit plans - gratuity is determined using Actuarial Valuations. The Actuarial Valuation involves making assumptions about discount rates, future salary increases and other important related data. Due to the long term nature of employee benefits, such estimates are subject to significant uncertainty. Further details of assumptions together with an analysis of their sensitivity as carried out by the management in relation to the above key assumptions and the results of the sensitivity analysis are given in Note 17.2 & 17.4.

(b) Impairment of Trade Receivables

The Company assesses at the date of statement of financial position whether there is objective evidence that trade receivables have been impaired. Impairment loss is calculated based on a review of the current status of existing receivables and historical collections experience. Such provisions are adjusted periodically to reflect the actual and anticipated impairments. The impairment loss on trade and other receivables is disclosed in Note 2.5.11 and 13.

(c) Income Tax and Deferred Tax

The Company is subject to income taxes. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The entity recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Further information is disclosed in Note 07 and 08.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.5.1 Foreign Currency Translation**

The Financial Statements are presented in Sri Lankan Rupees, which is the Company'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 retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to statement of comprehensive income. 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 a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.5.2 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts, returns, rebates and sales taxes (value added taxes and Nation Building Tax).

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

a) Rendering of Services

Revenue from rendering of services is recognised in the accounting period in which the services are rendered or performed.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

Terminal Charge

Consists of the operating costs recovered from the marketing companies as per the common user agreement signed between Ceylon Petroleum Corporation, Lanka IOC and Treasury department in year of 2003, subsequently revised in year of 2011. Which is recognized at the Point of transferring the petroleum products owned by them. Terminal charge is measured at per litre of petroleum products sold.

Operation Margin

Operation margin is recognized based on the pre-determined rate in the pricing formulae. Operation margin is measured at per litre of petroleum products sold.

Transport Income

Recover of the transport cost incurred on railway wagons, pipelines and bowser dealers. Income is recognized on the basis of volume of litres and distance travelled.

Loan interest

Loan interest is recognized on the pre-determined rate in the pricing formulae calculated on recovery of loan interest paid by the company. Loan interest income is measured at per litre of petroleum products sold.

b) Finance income

Finance income is recognized as interest accrues, using the effective interest method.

c) Others

Other income is recognized on an accrual basis.

Net Gains and losses of a revenue nature arising from the disposal of Property, Plant and Equipment and other non-current assets including investments have been accounted for in the income statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.

Gains and losses arising from incidental activities to main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis

2.5.3 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 Statement of comprehensive income for the period.

2.5.4 Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit for the year, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

Current Taxes

Current Income Tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

The Provision for Income Tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the relevant tax legislation.

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

Deferred Taxation

Deferred income 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 the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilized except where the deferred income tax asset relating to the deductible temporary difference 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 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.

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.

Sales Tax (Value Added Tax and Nations Building Tax)

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

2.5.5 Financial Instruments — Initial Recognition and Subsequent Measurement**2.5.5.1 Financial Assets**

The company's financial assets include cash and short-term deposits, trade and other receivables, and amount due from related parties.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

Initial Recognition and Measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as follows:

a) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), 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. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

De-recognition

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of the Company's continuing involvement in it.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

Impairment of Financial Assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a Company of financial assets is impaired. A financial asset or a Company of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a Company of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets carried at Amortised Cost

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Company of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Asset that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present values of the estimated future cash flows are discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

2.5.5.2 Financial Liabilities

The Company's financial liabilities include trade and other payables, due to related parties, bank overdrafts and interest bearing loans and borrowings.

Initial Recognition and Measurement

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, carried at amortised cost. This includes directly attributable transaction costs. Any difference between initial fair value and the nominal amount is included as component of operating lease income and recognised on a straight line basis over the applicable time period.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

Subsequent Measurement

The measurement of financial liabilities depends on their classification as follows:

a) Loans and Borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the

Liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs those are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or

Expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

2.5.6 Fair Value Measurement

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
- 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 Company.

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 Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable for the purpose of fair value disclosures, the company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

2.5.7 Inventories

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

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

Consumables, Motor Spares & General hardware for repairing	- At purchase cost on weighted average basis
Finished Goods	- At Actual Purchase cost

2.5.8 Property Plant and Equipment

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

Capital work in progress represents all amounts paid on work undertaken, and still in an unfinished state as at the end of the year.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation is calculated on the straight line method to allocate the cost of each asset, to their residual values over their estimated useful lives commencing from date of availability for use. On disposal of assets, depreciation ceases on the date that the asset is de- recognized.

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the Income Statement.

2.5.9 Intangible assets

a) ERP System and Licenses fees for ERP

License fees represent costs pertaining to the licensing of software applications purchased. License fees are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives of 5 years.

2.5.10 Cash and Cash Equivalents

Cash and cash equivalents are defined as 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. Investments with original maturities of three months or less are also treated as cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

2.5.11 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

2.5.12 Provisions

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

2.6 Employee Benefits**a) Defined Benefit Obligations – Gratuity**

The company measures the value of the promised retirement benefits of gratuity obligation which is a defined plan with the advice of the actuary every financial year using the "Project Unit Credit Method". Actuarial gains and losses are recognized in other comprehensive income (OCI) in the period in which it arises. The liability is not funded.

Recognition of Actuarial Gains and Losses

Actuarial gains and losses are recognized in Other Comprehensive Income in the year in which they arise.

b) Defined Contribution Plans

The Company also operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability. The Company contributes to the following Schemes:

Employees' Provident Fund

The Company and employees contribute 15% and 10 % respectively of the employee's monthly gross salary (excluding overtime) to the Employee's Provident Fund

Employees' Trust Fund

The Company contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

c) Contribution to Thrift Society Fund

The Ceylon Petroleum Corporation Thrift society Limited is not-for-profit organization, registered under section 123(3) (a) of the societies ordinance. The medical benefit scheme for CPSTL employees is managed by the Thrift Society. The quarterly contribution by the company to the Thrift Society towards the medical benefits is recognized as an expense during the year.

2.7 EFFECT OF SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new accounting standards and amendments / improvements to existing standards have been published, that are not mandatory for 31 March 2017 reporting periods. None of those have been early adopted by the Company.

SLFRS 9 Financial Instruments

In December 2014, the Institute of Chartered Accountant of Sri Lanka issued the final version of SLFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces LKRS 39

Financial Instruments, Recognition and Measurement. The standard introduces new requirements for classification and measurement of impairment, and hedge accounting. SLFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required. But comparative information is not compulsory. Management is yet to quantify the possible impact from SLFRS 9.

SLFRS 15 Revenue from Contracts with Customers

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

SLFRS 15 will become effective on 01 January 2018. Management is yet to quantify the possible impact from SLFRS 15.

SLFRS 16- Leases

The Institute of Chartered Accountant of Sri Lanka issued the new standard for accounting for leases - SLFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right- off - use assets. Lessees must apply a single model for all recognised leases, but

will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

SLFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

Management is yet to quantify the possible impact from SLFRS 16.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

Amendments to LKAS 7 Statement of Cash Flows

In September 2016, the Institute of Chartered Accountants of Sri Lanka issued amendments to LKAS 7

Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017.

Amendments to IAS 12 Income Taxes

In September 2016, through issuing amendments to LKAS 12, the Institute of Chartered Accountant of Sri Lanka clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Company does not anticipate that adopting the amendments would have an impact on its financial statements.

2.7.1 EXPIRY OF SHARE HOLDERS AGREEMENT AND SHARE SALE PURCHASE AGREEMENT- COMMON USER FACILITIES

Shareholders agreement and share sale purchase agreement- common user facilities between Ceylon Petroleum Corporation, Lanka Indian Oil Company PLC and Ceylon Petroleum Storage Terminals Limited had expired on 31 December 2008. The renewal or extension of the said agreement has not been finalized and the income and expenses stated in the agreement have been accounted in these financial statements after considering the terms of the said agreement and any subsequent changes which have been approved by the Directors of the company.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3.	REVENUE	2016 LKR	2015 LKR
3.1	Throughput Revenue		
	Terminal Income	6,622,880,272	6,098,040,636
	Operation Margin	2,958,442,733	2,695,361,782
	Loan Interest Reimbursable	642,628,413	578,629,916
		<u>10,223,951,417</u>	<u>9,372,032,334</u>
	Rendering of Services		
	Transport Income	2,439,493,091	2,268,679,970
	Bunkering Operation	-	46,550,843
		<u>2,439,493,091</u>	<u>2,315,230,813</u>
	Total Revenue	<u>12,663,444,509</u>	<u>11,687,263,147</u>
4	OTHER OPERATING INCOME	2016 LKR	2015 LKR
	Interest on Staff Loans and Others	315,980,353	214,374,623
	Gain on disposal of Property, Plant and Equipment	51,245,219	8,312,102
	Rental Income	9,557,417	9,072,085
	Discharging Charges	2,700,000	4,630,000
	Sundry Income	99,670,252	63,566,925
	Circuit Bungalows Income	882,205	667,200
	Non-refundable Tender Deposits	3,165,029	2,077,535
		<u>483,200,474</u>	<u>302,700,470</u>
5.	FINANCE INCOME AND EXPENSES	2016 LKR	2015 LKR
5.1	Finance Income		
	Interest on REPO Investments	84,761,790	25,810,176
	Interest on Fixed Deposit Investments	5,608,006	6,503,996
		<u>90,369,796</u>	<u>32,314,172</u>
5.2	Finance Cost	2016 LKR	2015 LKR
	Bank Loan Interest	166,775,397	233,560,311
		<u>166,775,397</u>	<u>233,560,311</u>
6.	PROFIT BEFORE TAX	2016 LKR	2015 LKR
	<i>Stated after Charging /Crediting</i>		
	Included in Direct Expenses		
	Personal Cost	2,329,533,369	2,288,315,179
	Depreciation Charge for the year	694,018,639	725,724,503
	Included in Administrative Expenses		
	Directors' Emoluments	5,322,273	1,166,634
	Fees for Directors	2,030,000	1,165,000
	Personal Cost	3,130,050,416	2,759,854,088
	Defined Benefit Obligation : Charge for the year	204,224,090	179,691,609
	Audit Fee - Current year	1,766,371	1,310,000
	Depreciation Charge for the year	106,921,418	99,179,320
	Amortisation Charge for the year	9,740,641	30,007,859
	Allowances for Impairment in Trade and Other Receivables	11,645,362	30,681,810
	Reversal of Inventory Over Provision	(50,699,287)	-
7.	TAX EXPENSES		
	The major components of income tax expense for the years ended 31 December 2016 and 31 December 2015 are as follows :		
7.1	Income Statement	2016 LKR	2015 LKR
	Current Income Tax:		
	Current Tax Expense	182,283,884	213,260,299
	Under/(Over) Provision of Current Taxes in respect of Prior Year	45,781,512	16,124,288
	Deferred Tax:		
	Deferred Taxation Charge/ (Credit) (Note 8)	363,378,298	112,278,122
	Income Tax Expense / (Credit) Reported in the Income Statement	<u>591,443,694</u>	<u>341,662,709</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

7. TAX EXPENSES (Contd..)

7.2 Reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate for the Years Ended 31 December 2016 and 31 December 2015 are as follows :

	2016 LKR	2015 LKR
Accounting Profit Before Tax	2,330,073,120	1,715,646,470
Aggregate Disallowed Items	1,277,272,984	1,163,452,486
Aggregate Allowable Items	(1,591,594,363)	(1,457,744,572)
	<u>2,015,751,741</u>	<u>1,421,354,384</u>
Interest Income	406,350,149	351,081,689
Total Statutory Income	<u>2,422,101,890</u>	<u>1,772,436,073</u>
Less: Carried Forward Tax Losses Utilized	(847,735,662)	(620,352,625)
Taxable Profit	<u>1,574,366,228</u>	<u>1,152,083,448</u>
Income Tax for Taxable Profit	182,283,884	115,208,345
Tax on Distributable Profit	-	98,051,954
Current Income Tax Expense	<u>182,283,884</u>	<u>213,260,299</u>

8. DEFERRED TAX LIABILITIES

8.1 Deferred Tax

Deferred Tax Assets, Liabilities and Income Tax relate to the followings ;

	Statement of Financial Position		Statement of Comprehensive Income		Other Comprehensive Income	
	2016 LKR	2015 LKR	2016 LKR	2015 LKR	2016 LKR	2015 LKR
Deferred Tax Liabilities						
Capital Allowances for Tax Purposes	1,246,080,289	889,659,540	356,420,749	53,136,993	-	-
Intangible Assets	1,042,436	1,734,966	(692,530)	(3,000,786)	-	-
	<u>1,247,122,725</u>	<u>891,394,506</u>				
Deferred Tax Assets						
Inventories Provisions	18,183,253	19,554,580	1,371,327	265,825	-	-
Defined Benefit Plans	25,338,449	17,205,775	(8,132,674)	(3,011,634)	-	-
Effect from Tax Losses	169,067,700	138,563,433	(63,913,598)	(8,042,309)	33,409,331	3,709,307
	<u>28,776,108</u>	<u>107,101,133</u>	<u>78,325,025</u>	<u>72,930,033</u>	<u>-</u>	<u>-</u>
	<u>241,365,510</u>	<u>282,424,921</u>				
Deferred Income Tax - Income			363,378,298	112,278,122	33,409,331	3,709,307
Net Deferred Tax Liability / (Assets)	<u>1,005,757,215</u>	<u>608,969,585</u>				

8.2 Deferred tax has been calculated using an effective tax rate. The rate has been increased from 10% to 13.70% due to multiple tax rates applied to different levels of taxable income, resulting Rs. 271,627,861 increased in deferred tax liability as at 31st December 2016.

9. EARNINGS PER SHARE

9.1 Earnings Per Share is calculated by dividing the net profit for the period attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the period and the previous period are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

9.2 The following reflects the income and share data used in the Earnings Per Share computation.

	2016 LKR	2015 LKR
Amounts Used as the Numerator		
Net Profit Attributable to Ordinary Shareholders for Basic Earnings Per Share	<u>1,738,629,426</u>	<u>1,373,983,761</u>
Number of Ordinary Shares Used as Denominator:		
Weighted Average Number of Ordinary Shares in Issue	<u>750,000,000</u>	<u>750,000,000</u>
Applicable to Basic Earnings Per Share		
Earnings Per Share	<u>2.32</u>	<u>1.83</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

10. PROPERTY, PLANT AND EQUIPMENT

10.1 Gross Carrying Amounts

At Cost	Balance as at 01.01.2016	Additions	Disposals	Balance as at 31.12.2016
	LKR	LKR	LKR	LKR
Freehold land	4,472,982,899	24,018,764	-	4,497,001,663
Freehold building	1,544,180,342	2,220,297	-	1,546,400,639
Storage tank	6,490,993,653	-	-	6,490,993,653
Motor vehicles	1,211,160,119	101,043,398	(90,363,088)	1,221,840,429
Pipelines	7,386,343,576	-	-	7,386,343,576
Furniture, fittings & equipment	1,979,027,186	90,080,734	(1,898,793)	2,067,209,127
Computers	159,569,210	6,082,067	(1,979,320)	163,671,957
Single/Dual point mooring buoy	2,800,409,453	-	-	2,800,409,453
Pumps & gantries	1,396,756,597	57,696,023	-	1,454,452,620
Total Cost of Depreciable Assets	27,441,423,035	281,141,284	(94,241,201)	27,628,323,118
Capital Work In Progress	165,273,617	632,270,251	-	797,543,868
	27,606,696,652	913,411,535	(94,241,201)	28,425,866,986

10.2 Depreciation

At Cost	Balance as at 01.01.2016	Charge for the year	Disposals	Balance as at 31.12.2016
	LKR	LKR	LKR	LKR
Freehold building				534,538,342
Storage tank	490,382,033	44,156,309	-	2,274,511,285
Motor vehicles	2,116,074,608	158,436,677	-	1,116,399,930
Pipelines	1,189,047,766	17,715,252	(90,363,088)	2,654,116,151
Furniture, fittings & equipment	2,381,040,444	273,075,707	-	1,789,779,856
Computers	1,736,947,951	54,704,511	(1,872,606)	148,307,668
Single/Dual point mooring buoy	142,226,390	8,060,598	(1,979,320)	2,155,470,283
Pumps & gantries	1,994,922,995	160,547,288	-	952,888,267
	868,644,550	84,243,717	-	
	10,919,286,737	800,940,058	(94,215,014)	11,626,011,781

10.3 Net Book Value

	2016 LKR	2015 LKR
Freehold land		
Freehold building		
Storage tank	4,497,001,663	4,472,982,899
Motor vehicles	1,011,862,298	1,053,798,309
Pipelines	4,216,482,368	4,374,919,045
Furniture, fittings & equipment	105,440,500	22,112,353
Computers	4,732,227,425	5,005,303,132
Single/Dual point mooring buoy	277,429,271	242,079,235
Pumps & gantries	15,364,289	17,342,820
Capital Work In Progress	644,939,170	805,486,458
Total Carrying Value of Property, Plant & Equipment	501,564,353	528,112,047
	797,543,868	165,273,617
	16,799,855,205	16,687,409,915

10.4 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs. 913,411,535/- (2015 - Rs.223,888,948/-). Cash payments amounting to Rs. 913,411,535/- (2015 - Rs.223,888,948/-) were made during the year for purchase of Property, Plant and Equipment.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

10. PROPERTY, PLANT & EQUIPMENT (Contd..)

10.5 The Useful Lives Of the Assets are Estimated as Follows:

	2016	2015
Freehold Building	35 Years	35 Years
Storage Tanks	40 Years	40 Years
Bulk Tanks	30 Years	30 Years
Pipelines	30 Years	30 Years
Pumps	20 Years	20 Years
Vehicles		
- New Acquisitions	5 Years	5 Years
- Vested Items	Over Remaining Useful life time	
Gantries	15 Years	15 Years
Equipments		
- Electronic	5 Years	5 Years
- Other	10 Years	10 Years
Furniture & Fittings		
- Hard	5 Years	5 Years
- Other		
Muthurajawela other assets		
- Dual point mooring buoy	10 Years	10 Years
- PLEM	10 Years	10 Years
- Pipelines	20 Years	20 Years
Computers	04 Years	04 Years

11. INTANGIBLE ASSETS

11.1 Gross Carrying Amounts

	ERP System	SAP ERP License	Automation System of offshore Pipeline	Total
At Cost	LKR	LKR	LKR	LKR
As at 01.01.2016	412,496,596	9,380,250	37,793,560	459,670,406
Additions	-	-	-	-
Disposals	-	-	-	-
As at 31.12.2016	412,496,596	9,380,250	37,793,560	459,670,406

11.2 Amortisation

	ERP System	SAP ERP License	Automation System of offshore Pipeline	Total
At Cost	LKR	LKR	LKR	LKR
As at 01.01.2016	411,609,815	6,110,811	24,600,119	442,320,745
Charge for the year	304,492	1,876,329	7,559,821	9,740,642
As at 31.12.2016	411,914,307	7,987,140	32,159,940	452,061,387

11.3 Net Book Value as at 31.12.2015

886,781	3,269,439	13,193,441	17,349,661
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11.4 Net Book Value as at 31.12.2016

582,289	1,393,110	5,633,620	7,609,019
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NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

		2016	2015			
		LKR	LKR			
General Hardware for Repairing		281,082,833	261,435,077			
Motor Spare parts		235,671,113	227,051,760			
Consumables		23,843,424	21,335,323			
Finished Goods						
Lanka Petrol LP-95		788,088	788,088			
Lanka Petrol LP-92		998,244	285,363			
Lanka Auto Diesel-LAD		3,390,178	6,860,983			
Stores Disposal Items (Auction Yard)		-	6,625,632			
		545,773,881	524,382,226			
Provision for Slow- Moving Inventory		(132,724,473)	(195,545,796)			
		413,049,408	328,836,430			
13. TRADE AND OTHER RECEIVABLES		2016	2015			
		LKR	LKR			
Trade Receivables - Related Parties (Note 13.1)		4,959,265,019	6,242,682,261			
Other Receivables		86,651,420	15,988,434			
(-)Impairment of Other Receivables		(10,956,035)	(1,514,370)			
		75,695,385	14,474,064			
Deposits, Advances and Prepayments (Note 13.3)		986,106,746	946,013,688			
		6,021,067,151	7,203,170,013			
13.1 Trade Receivables- Related Parties		2016	2015			
	Relationship	LKR	LKR			
Ceylon Petroleum Corporation	Parent Entity	4,857,213,146	6,164,223,128			
(-)Impairment of Trade Receivables		(163,620,550)	(163,620,550)			
Ceylon Petroleum Corporation net of Impairment (Note 13.2)		4,693,592,596	6,000,602,578			
Lanka IOC PLC	Other Major Share Holder	266,162,561	242,569,821			
(-)Impairment of Trade Receivables		(490,138)	(490,138)			
Lanka IOC PLC net of Impairment (Note 13.2)		265,672,423	242,079,683			
		4,959,265,019	6,242,682,261			
13.2 As at 31 December 2016, the age analysis of trade receivables is set out below.						
	Total	0-30 Days	61-90 days	91-180 days	181-365 days	More than 365 days
Ceylon Petroleum Corporation	4,857,213,146	885,745,643	2,784,543,227	418,986,582	201,012,177	566,925,518
Impairment	(163,620,550)	-	-	-	-	(163,620,550)
	4,693,592,596	885,745,643	2,784,543,227	418,986,582	201,012,177	403,304,968
Lanka IOC PLC	266,162,561	106,669,124	30,127,373	(137,900,010)	102,709,038	164,557,036
Impairment	(490,138)	-	-	-	-	(490,138)
	265,672,423	106,669,124	30,127,373	(137,900,010)	102,709,038	164,066,898
13.3 Deposits, Advances and Prepayments		2016	2015			
		LKR	LKR			
Deposits, Prepayments and Advances		164,204,803	207,446,798			
Prepaid Staff Benefits		821,901,943	738,566,890			
		986,106,746	946,013,688			
14. OTHER FINANCIAL ASSETS		2016	2015			
		LKR	LKR			
Loans to Company Officers						
Motor Vehicle		180,560,299	198,327,521			
Loans Housing		1,029,539,880	1,098,612,144			
Loans Distress		832,415,029	746,725,332			
Loans Other		329,263,616	249,315,006			
Loans		2,371,778,824	2,292,980,003			
		(9,885,461)	(7,947,064)			
(-) Allowance for Impairment		2,361,893,363	2,285,032,939			

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

14. OTHER FINANCIAL ASSETS (Contd..)

	2016 LKR	2015 LKR
14.1 Non Current Financial Assets		
Motor Vehicle Loans	101,160,148	122,835,720
Housing Loans	350,449,363	275,496,701
(-) Allowance for Impairment	(9,885,461)	(7,947,064)
	<u>441,724,050</u>	<u>390,385,357</u>

14.2 Current Financial Assets

	2016 LKR	2015 LKR
Motor Vehicle Loans	79,400,152	75,491,801
Housing Loans	679,090,517	823,115,443
Distress Loans	832,415,029	746,725,332
Other Loans	329,263,615	249,315,006
	<u>1,920,169,313</u>	<u>1,894,647,582</u>

15. CASH AND CASH EQUIVALENTS

	2016 LKR	2015 LKR
15.1 Favourable Cash & Cash Equivalent balances		
Cash and Bank Balances	8,751,382	33,481,069
Short Term Investments	2,446,665,800	714,484,852
	<u>2,455,417,182</u>	<u>747,965,921</u>
15.2 Unfavourable Cash and Cash Equivalent Balances		
Bank Overdraft (Note 18)	(111,314,311)	-
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	<u>2,344,102,871</u>	<u>747,965,921</u>

16. STATED CAPITAL

	2016		2015	
	Number	LKR	Number	LKR
Fully Paid Ordinary Shares	750,000,000	7,500,000,000	750,000,000	7,500,000,000

16.1 Capital Reserve

At the time of incorporation and the transfer of assets from Ceylon Petroleum Corporation, a capital reserve of Rs. 979,000,000 was created as a part of capitalization process.

17. DEFINED BENEFIT OBLIGATION

	2016 LKR	2015 LKR
Balance as at 01 January	1,385,634,331	1,342,304,309
Current Service Cost Interest Cost	65,220,386	76,765,263
Actuarial (Gain) / Loss	139,003,704	102,926,346
Benefits Paid	(243,863,733)	(37,093,073)
Balance as at 31 December	<u>(111,923,886)</u>	<u>(99,268,514)</u>
	<u>1,234,070,802</u>	<u>1,385,634,331</u>

17.1 Actuarial valuation of Retirement Benefit Obligation as at 31 December 2016 was carried out by Messrs Actuarial and Management Consultants (Pvt) Ltd ,a firm of professional actuaries using "Projected Unit Credit Method" as recommended by LKAS 19 - 'Employee Benefits'. Obligation for Retirement Benefits as of 31 December 2015 was determined by using Formula Method.

17.2 Principle Actuarial Assumptions

Principle Actuarial Financial Assumptions underlying the valuation are as follows:

	2016	2015
Discount Rate	12.80%	10%
Salary Incremental Rate	30% once in 3 Years	10%
Staff Turnover	1%	1%

17.3 Maturity Profile of the Defined Benefit Obligation Plan

	2016 LKR
Less than 1 Year	113,673,011
Between 1-2 years	154,386,941
Between 2-5 years	309,075,055
Beyond 5 years	656,935,794
	<u>1,234,070,801</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

17. DEFINED BENEFIT OBLIGATION (Contd..)

The average durations of the Defined benefit Obligation Plan at the end of the reporting period is 6.3 years for executive staff and 7.2 years for non executive staff. The average remaining working life of executive staff is 11.08 years and 12.33 years for non executive staff.

17.4 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonable possible changes in the key assumptions employed with all other variables held constant in the defined benefit liability measurement, in respect of year 2016.

Sensitivity Level	Discount Rate		Future Salary Increment Rates	
	Increase	Decrease	Increase	Decrease
	1%	-1%	1%	-1%
Impact on Defined Benefit Obligation	(1,159,917,535)	1,317,266,407	1,257,751,474	(1,210,953,719)

18. INTEREST BEARING LOANS & BORROWINGS

	2016 Amount Repayable Within 1 Year LKR	2016 Amount Repayable After 1 Year LKR	2016 Total LKR	2015 Amount Repayable Within 1 Year LKR	2015 Amount Repayable After 1 Year LKR	2015 Total LKR
Bank Borrowings (18.1)	487,800,000	911,050,854	1,398,850,854	781,660,127	1,398,850,855	2,180,510,982
Bank Overdraft (15.2)	111,314,311	-	111,314,311	-	-	-
	<u>599,114,311</u>	<u>911,050,854</u>	<u>1,510,165,166</u>	<u>781,660,127</u>	<u>1,398,850,855</u>	<u>2,180,510,982</u>

** The above bank overdraft represents the Unpresented cheques as at 31st December 2016.

18.1 Bank Borrowings

	As At 01.01.2016 LKR	Loans Obtained LKR	Repayments LKR	As At 31.12.2016 LKR
Exim Bank	285,704,627	-	(285,704,627)	-
Peoples Bank	1,894,806,355	-	(487,800,000)	1,398,850,854
	<u>2,180,510,982</u>	<u>-</u>	<u>(773,504,627)</u>	<u>1,398,850,854</u>

18. Terms and Conditions attached to the Bank Borrowings are detailed below.

Nature of Facility	Purpose of the Facility	Interest rate and repayment terms	Security
Term Loan from Exim Bank	To finance the Muthurajawela Tank Farm Project	24 Installments Based on the Throughput charges and transport income	Guarantee given by government of Sri Lanka
Term Loan (LKR. 4.6 Bn) from Peoples Bank	To finance Muthurajawela Single Point Buoy Mooring & Off shoe Fuel oil Pipeline Project.	AWPLR +2.5%, 113 Monthly Installments of Rs.40.65 Mn , with a grace period of 6 months	Guarantee given by SL Treasury for US \$ 40.3 Mn

19. TRADE AND OTHER PAYABLES

	2016 LKR	2015 LKR
Trade Payables-Related Parties (19.1)	263,209,522	642,802,522
- Others	408,957,788	438,204,830
Other Payables	463,220,694	396,862,863
Sundry Creditors Including Accrued Expenses	<u>175,645,494</u>	<u>171,575,688</u>
	<u><u>1,311,033,498</u></u>	<u><u>1,649,445,903</u></u>

19.1 Trade Payables- Related Parties

	Relationship	2016 LKR	2015 LKR
Ceylon Petroleum Corporation	Parent Entity	263,209,522	205,302,522
Government Treasury	Other Related Party	-	437,500,000
		<u><u>263,209,522</u></u>	<u><u>642,802,522</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

20. RELATED PARTY DISCLOSURES

Nature of Transaction	Parent Entity- Ceylon Petroleum Corporation	
	2016 Rs.	2015 Rs.
Receivable/(Payable) as at 01 January	5,795,300,056	7,019,703,602
Service for oil storage & distribution	13,338,654,470	12,206,438,782
Own use fuel consumption	(450,289,924)	(444,714,034)
Interest payments	(302,846,905)	(657,120,643)
Bunkering operations	-	(50,354,353)
Dividend Payment	-	(1,459,147,574)
Other Expenses	(890,028)	(19,551,964)
(Receipt)/Payment for Services	(13,949,544,595)	(10,765,325,712)
Additional provision/(reversal) for bad & doubtful debts	-	(34,628,048)
Amounts Receivable/(Payable) as at 31 December	4,430,383,074	5,795,300,056

The amounts receivables from or payable to related parties as at 31 December are disclosed under notes 13.2 and 19.1 in the financial statements

20.1 Transactions with Key Management Personnel of the Company

The Key Management Personnel are the members of the Board of Directors, of the company. Payments made to Key Management Personnel

Fees for Directors
Directors Emoluments

20.2 Transactions with the Government of Sri Lanka and its Related Entities

Since the Government of Sri Lanka directly controls the Parent entity, the Company has considered the Government of Sri Lanka 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".

The Company enters into transactions, arrangements and agreements with the Government of Sri Lanka and its other related entities and the results of significant transaction have been reported in follows,

People's Bank
People's Bank
People's Bank
Bank of Ceylon
Bank of Ceylon

Further, transaction as detailed below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities:

Maintaining bank accounts and entering in to Banking transactions with Bank of Ceylon and Peoples Bank
Payments of statutory rates and taxes.
Payment for utilities mainly comprising of telephone, electricity and water.
Payment for employment retirement benefit EPF and ETF to Central Bank of Sri Lanka.
Payments for Motor Vehicle insurance premiums to Sri Lanka Insurance Corporation Ltd.

Other	Major S/H - Lanka IOC PLC	Total	
2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
242,079,683	447,901,569	6,037,379,739	7,467,605,171
1,176,372,034	837,337,821	14,515,026,504	13,043,776,603
-	-	(450,289,924)	(444,714,034)
-	-	(302,846,905)	(657,120,643)
-	-	-	(50,354,353)
-	(225,000,000)	-	(1,684,147,574)
		(890,028)	(19,551,964)
(1,152,779,295)	(818,159,707)	(15,102,323,890)	(11,583,485,419)
-	-	-	(34,628,048)
265,672,423	242,079,683	4,696,055,496	6,037,379,739

During the year were as follows:

2016 LKR	2015 LKR
2,030,000	1,165,000
5,322,273	1,166,634
7,352,273	2,331,634

Nature of the transactions	As at 31.12.2016
Cash at Bank	1,799,356
Short term Deposits	2,161,867,837
Bank Loan	1,398,850,854
Cash at Bank	(109,763,906)
Short term Deposits	284,797,963

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

21. COMMITMENTS AND CONTINGENCIES**21.1 CONTINGENCIES****Pending****Litigations**

- (a) As per the Company lawyers outcome of following cases cannot be reasonably ascertained as at the reporting date. Accordingly, a provision has not been made in this financial statements for such pending litigations. The Company is a respondent or an applicant of following pending legal cases as at reporting date.

Although there can be no assurance based on the information currently available, the management believe that the ultimate resolution of this legal procedures would not likely to have a material adverse effect on the results of operations, financial position or liquidity of the Company. Accordingly, no provision for any liability has been made in these financial statements in this regard.

Pending Supreme Court cases as at 31st December 2016

Case No	Location Of court	Description of court case	Maximum Possible claim Outcome (up to December 2016)
SC FR 21/12	Colombo	Seeking a Promotion to Grade A-7.	Declaration of infringement of Fundamental Rights of the Petitioner and compensation determined by the Court.
SC FR 275/14	Colombo	Seeking a Promotion to Grade B-1.	Declaration of infringement of Fundamental Rights of the Petitioner and compensation determined by the Court.
SC FR 234/15	Colombo	Seeking a Promotion to Grade A-1.	Declaration of infringement of Fundamental Rights of the Petitioner and compensation determined by the Court.
SC FR 431/16	Colombo	Seeking a Promotion to Grade A-5.	Declaration of infringement of Fundamental Rights of the Petitioner and compensation determined by the Court.
SC FR 68/16	Colombo	Shares not exceeding 10% or distribute an equivalent sum of money amongst the employees.	Declaration of infringement of Fundamental Rights of the Petitioners, compensation determined by the Court and to issue a suitable amount of shares not exceeding 10% or distribute an equivalent sum of money amongst the employees.
SC FR 24/17	Colombo	Seeking a Promotion to Grade A-5.	Declaration of infringement of Fundamental Rights of the Petitioner and compensation determined by the Court.

Pending Court of Appeal cases as at 31st December 2016

Case No	Location Of court	Description of court case	Maximum Possible claim Outcome (up to December 2016)
Writ 332/12	Colombo	Filed by CPC against an Arbitration Award.	To made CPSTL a party in the Arbitration Proceedings. CPC to bear the liability if any.
Writ 142/13	Colombo	Filed by 17 employees of CPSTL claiming promotions which were recommended by PVC.	Total payments for all the applicants could amount to Rs.13,936,944.
Writ 375/13	Colombo	Appeal filed by CPSTL against an Arbitration award.	Total Payment Rs.19,550 X 24 months = Rs.469,200.
Writ 56/16	Colombo	Appeal filed by an ex-employee, to stay the proceedings at Magistrate's Court to reject him from the quarters.	Compensation determined by the Court.

Pending District Court cases as at 31st December 2016

Case No	Location Of court	Description of court case	Maximum Possible claim Outcome (up to December 2016)
24247 /M	Anuradhapura	Filed against CPSTL claiming damages arising from an accident.	Rs.3,000,000/= plus Legal interest , liability is vested with SLIC.
26195/M	Anuradhapura	Filed against CPSTL claiming damages arising from an accident.	Rs.10,000,000/= plus Legal Interest ,liability is vested with SLIC.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

21.1 CONTINGENCIES (Contd..)

Pending District Court cases as at 31st December 2016

Case No	Location Of court	Description of court case	Maximum Possible claim Outcome (up to December 2016)
11736/M	Matara	Filed against CPSTL claiming damages arising from an accident.	Rs.1,500,000/= plus legal interest liability is vested with SLIC.
11838/M	Matara	Filed against CPSTL claiming damages arising from an accident.	Rs.1,500,000/= plus legal interest liability is vested with SLIC.
11903/M	Matara	Filed against CPSTL claiming damages arising from an accident.	Rs.2,000,000/= plus Legal interest , liability is vested with SLIC.
DMR/00353/13	Kandy	Filed against CPSTL claiming damages arising from an accident.	Rs.5,000,000/= plus legal interest.
DMR/ 981/15	Kandy	Filed against CPSTL claiming damages arising from an accident	Rs.113,914 plus legal interest. liability is vested with SLIC.
DMR/ 1509/12	Colombo	Filed against CPSTL claiming damages arising from an accident.	Rs.21,000,000/= plus legal interest, liability is vested with SLIC.
DMR/ 00062/13	Colombo	Filed against CPSTL claiming damages arising from an accident.	Rs.1,500,000/= plus legal interest , Liability is vested with Union Assurance PLC.
DMR/ 00578/16	Colombo	Filed against CPSTL claiming damages arising from an accident.	Rs.6,000,000/= plus legal interest ,Liability is vested with SLIC.
241/L	Minuwangoda	To quash some Deeds.	To declare the Land mortgaged to CPSTL as a constructive trust and compensation determined by the court.

Pending Magistrate Court cases as at 31st December 2016

Case No	Location Of court	Description of court case	Maximum Possible claim Outcome (up to December 2016)
33660/ 14	Maligakanda	Filed by Dept. of Labour for non implementation of an Arbitration Award.	Back wages for the period on interdiction Rs.469,200.
2868/16	Maligakanda	Filed by CPSTL to eject a dismissed employee from the quarters.	Outcome is not Known.

Pending Labour Tribunal cases as at 31st December 2016

Case No	Location Of court	Description of court case	Name of the applicant	Maximum Possible claim Outcome (up to December 2016)
1/32/12	Colombo	Filed by a dismissed employee (w.e.f..28.03.2012) seeking reinstatement with back wages.	E M P Ekanyaka	Reinstatement with back wages (47,540+5,250*57 months) Rs.3,009,030.
1/87/15	Colombo	Filed by a dismissed employee (w.e.f..13.08.2010) seeking reinstatement with back wages.	S Kaluarachchi	Reinstatement with back wages (Rs.26,830*76 months) Rs.2,039,080.
2/600/ 15	Colombo	Filed by a dismissed employee (w.e.f. 19.05.2011) seeking reinstatement with back wages.	R Heiyanthuduwa	Reinstatement with back wages (Rs.50,000*67 months) Rs.3,350,000.
1/22/2016	Colombo	Filed by an employee who is on constructive dismissal(w.e.f..22.04.2016) seeking reinstatement with back wages.	S G Ekanayake	Reinstatement with back wages , Gratuity & compensations determined by the court. Rs.67,676/- x 08 months =Rs.541,408.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

21.1 CONTINGENCIES (Contd..)

Pending Labour Tribunal cases as at 31st December 2016

Case No	Location Of court	Description of court case	Name of the applicant	Maximum Possible claim Outcome (up to December 2016)
8/100/ 16	Colombo	Filed by a dismissed employee (w.e.f.. 12.08.2016) seeking reinstatement with back wages.	K Mangaleshwaran	Reinstatement with back wages ,Gratuity & compensations determined by the court. Rs.48,900/-x 04 months =Rs.195,600 + compensation 5,000,000/- = Rs.5,195,600/-.
8/100/ 16	Colombo	Filed by an employee who is on constructive dismissal (w.e.f..22.04.2016) seeking reinstatement with back wages.	K Mangaleshwaran	Reinstatement with back wages , Gratuity & compensations determined by the court. Rs.67,676/- x 08 months Rs.541,408.
1/AD/44/12	Colombo	Filed by a dismissed employee (w.e.f. 10.05.2012) seeking reinstatement with back wages.	L.G.Gamini	Reinstatement with back wages Rs.68,518*55 months Rs.3,009,030.
1/AD/ 31/14	Colombo	Filed by a dismissed employee (w.e.f.22.11.2013) seeking reinstatement with back wages.	S J Fernando	Reinstatement with back wages Rs.27,390*37 months Rs.1,013,430.
2/AD/ 3596/12	Battaramulla	Filed by a dismissed employee (w.e.f. 19.05.2011) seeking reinstatement with back wages.	M A S D Munasingha	Reinstatement with back wages Rs.80,524*67 months Rs.5,395,108.

Pending Labour Court cases as at 31st December 2016

Case No	Location Of court	Description of court case	Maximum Possible claim Outcome (up to December 2016)
A /3296	Colombo	Seek back wages.	Back Wages Rs.18,621,568.
A /3439	Colombo	2 applicants. One employee retired. Seeking promotions & back wages.	Back wages has to be calculated subject to salary differences.
A /3605	Colombo	Seeking promotions & back wages.	Back wages has to be calculated subject to salary differences.

(b) Letter of Demand received from Central Environment Authority

Letter of demand had been issued by the central environment Authority demanding Rs 118,315,876 for a leaked and spilled of oil from the pipeline and the damage of lunawa lagoon in Thaldiyawatta, Uswetakeiyawa on 31st December 2015.

(c) Income tax assessments relating to year of assessment 2012/2013

The company has received an income tax assessment for the periods 2012/2013 and 2013/2014 against the amount claimed as a qualifying payment under section 34 (2) (S).

As per the assessment the amount payable was Rs.211,197,259. The Company has made an appeal against the assessment mentioned above which is pending for further review.

21.2 CAPITAL COMMITMENTS

The following capital commitments have been approved by the board of directors as at 31st December 2016.

Outstanding LC Payments as at 31st December 2016

LC No	Amount	Description of Purchase
42007160002684	Rs 1,937,582 (Euro 12,269)	Purchase of Pump Expansion Joints/ Flexible Metal Hose
42004160001036	Rs. 23,186,468 (JPY 17,983,765)	Purchase of Brand New Tank Lorries (6,600 Liters)
42004160000723	Rs. 115,334,525 (JPY 89,455,150)	Purchase of Brand New Tank Lorries (19,800 Liters)

Bank Guarantees as at 31st December 2016

Bank Guarantee No	Amount	Guarantor issued Party
43501140002346	Rs. 280,000	M/S Equipment Traders (Pvt) Ltd
43501160003110	Rs. 120,000	M/S Daynacorn Engineering (Pvt) Ltd
43501120007655	Rs. 182,000	M/S Daynacorn Engineering (Pvt) Ltd
43501120007628	Rs. 270,000	M/S Daynacorn Engineering (Pvt) Ltd
43502160001834	Rs 157,925	Sri Lanka Port Authority

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

21.2 CAPITAL COMMITMENTS (Contd.)

**The projects which are mentioned below are contract value worth More than Rs 50,000,000.

Projects approved by Board but not completed as at 31st December 2016

Description	Contract Value	Paid As At 31-12-2016	Payable Amount
	(Rs.)	(Rs.)	(Rs.)
** 20 No. Bowsers	598,596,523	236,737,276	361,859,247
EPCC - 15000 Cum tank at Kol Installation	400,000,000	3,570,000	396,430,000
Cross country pipe line project	94,850,000	46,629,068	48,220,932
Disaster Recovery And Management Center	300,000,000	-	300,000,000
Development Of The Existing Bulk Depot At Anuradhapura	300,000,000	-	300,000,000
Pipeline Rehabilitation Project	260,000,000	262,960,562	(2,960,562)
Infrastructure Development Facilities At Muthurajawela Terminal	182,000,000	-	182,000,000
** Installation Of Internal Floating Roofs For Tank No. 18,19,22,23, And 41 In Kolonnawa Installation	120,666,000	41,520,442	79,145,558
Restructure And Facility Improvements To Ceylon Petroleum Storage Terminals Ltd Oil Installation Kolonnawa Through Consultancy Services Obtained From The UDA.	99,000,000	3,179,660	95,820,340
Improvements Of Main & Perimeter Roads - At Kolonnawa Installation	80,000,000	66,127,949	13,872,051
Infrastructure Development Facilities - MuthurajawelaMT	182,000,000	1,638,000	180,362,000
Conversion Of Three Diesel Tanks To - Gasoline At Mt	70,000,000	-	70,000,000
Design, Supply And Installation Of Internal Floating Roofs For Tanks No. 6,7 And 8 At Muthurajawela Terminal	70,000,000	-	70,000,000
Installation Of CCTV Camera	50,000,000	-	50,000,000
Total Value of the projects	2,807,112,523	662,362,957	2,144,749,566

** Amounts paid include advances.

Projects approved by Board and not awarded As At 31-12-2016

Project Name or Description	Contract Value (Rs)
State of the Art Petroleum Laboratory (Kolonnawa)	625,000,000
Consultancy & Feasibility for Cross Country Pipeline Project - Muthurajawela - Kolonnawa.	150,000,000
Consultancy & Feasibility for Cross Country Pipeline Project - Dolphin Pier - Kolonnawa.	100,000,000
01 No Fire Vehicle	90,000,000
Northern Depot. Feasibility & Consultancy	75,000,000
Upgrading of Pipeline System At Zone - 6	180,000,000
Projects approved by Board in 2015 but not awarded	1,220,000,000

Project Name or Description	Contract Value (Rs)
Engineering, Construction, Testing & Installation of 12' dia pipeline segments at Road, Rail Crossing & at Mahawatte area where dwelling units exits	966,600,000
Rectification of Premature Failure of 18" Dia. Pipe Line	148,000,000
Development of Oil Separation & Recovery System	52,700,000
Energy Conservation	50,000,000
Projects approved by Board in 2016 but not awarded	1,217,300,000

22. ASSETS PLEDGED

No assets have been pledged as at the reporting date.

23. EVENTS OCCURRING AFTER THE REPORTING PERIOD

There have been no material events occurred after the reporting date that require adjustments to or disclosure in the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

24. RECLASSIFICATION OF PREVIOUS YEAR FIGURES

Prior year figures have been reclassified to enhance the understandability and better presentation of the financial statements. As a result, following line items have been amended in the statement of financial position, statement of profit or loss and the related notes to the financial statements.

The presentation and classification of following in the financial statements are amended to ensure comparability with the current year and to ensure the understandability and better presentation of the financial statements.

(A) Statement of Financial Position	As Previously Reported 31.12.2015 Rs.	Increase /Decrease Rs.	As Reported Currently 31.12.2015 Rs.
Trade and other payables			
Trade Payables-Related Parties	642,346,312	456,210	642,802,522
Trade Payables- Others	508,313,350	(70,108,520)	438,204,830
Other Payables	327,210,553	69,652,310	396,862,863
	<u>1,477,870,215</u>	<u>-</u>	<u>1,477,870,215</u>

An amount due to related parties which was included under other payables have been reclassified under trade payables to related parties. Further other payables which was included under trade payables have been reclassified under other payables.

(B) Statement of Profit or Loss	As Previously Reported 31.12.2015 Rs.	Increase /Decrease Rs.	As Reported Currently 31.12.2015 Rs.
Revenue			
Throughput Income	9,138,472,024	233,560,310	9,372,032,334
Transport Income	(524,239,295)	2,792,919,265	2,268,679,970
Bunkering Operation	986,062	45,564,781	46,550,843
Direct Expenses	(3,576,928,635)	(2,838,484,044)	(6,415,412,679)
Gross Profit	<u>5,038,290,156</u>	<u>233,560,312</u>	<u>5,271,850,468</u>
Other Operating Income	454,821,413	(152,120,943)	302,700,470
Administrative Expenses	(3,803,275,275)	149,569,087	(3,653,706,188)
Selling and Distribution Expenses	-	(3,952,141)	(3,952,141)
Operating Profit	<u>-</u>	<u>(6,503,997)</u>	<u>227,056,315</u>
Finance Income	25,810,176	6,503,996	32,314,172
Finance Cost	-	(233,560,311)	(233,560,311)
Profit Before Tax	<u>25,810,176</u>	<u>(227,056,315)</u>	<u>25,810,176</u>
Income Tax Expense	(341,662,709)	-	(341,662,709)
Profit for the Year	<u>(315,852,533)</u>	<u>-</u>	<u>(315,852,533)</u>

Direct expenses which were set - off against the revenue has been re classified under direct expenses.

NOTES TO THE FINANCIAL STATEMENTS**Year ended 31 December 2016****25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company is exposed to market risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company's management oversees the management of these risks. The Company's Board of Directors is supported by an Audit Committee that advises on financial risks and the appropriate financial risk governance framework for the Company.

The Audit Committee provides guidance to the Company's Board of Directors that the Company's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company policies and Company risk appetite.

25.1 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprise of the two types of risk:

- * Interest rate risk
- * Foreign Currency risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

25.1.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long term debt obligations with floating rates.

Interest rates sensitivity

The following table demonstrates the sensitivity to a reasonably possible changes in interest rates, with all other variables held constant, of the company's profit before tax (through the impact on floating rate Long term borrowings)

	Increase / (Decrease) in basis points	Effect on Profit Before Tax Rs.
2016	(+)100 basis points	(1,496,331)
	(-)100 basis points	1,496,331

The assumed spread of basis points for interest rate sensitivity analysis is based on the currently observable market environment changes to base rates such as LIBOR

25.1.2 Foreign currency risk

Foreign currency risk is the risk that the fair value monetary assets and liabilities including derivatives financial instruments existing as at 31 December will fluctuate because of changes in foreign exchange rates.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate with all other variables held constant. The impact of the Company's profit before tax is due to changes in the fair value monetary assets. The company's exposure to foreign currency changes for all other currencies is not material.

	Average Value	Year End Exchange Rate	Change in USD Rate	Effect on Profit Before Tax (LKR)
2016				
Cash and Cash Equivalents -Cash in Hand (USD)	895	151.50	+/- 1%	+/- 9
Cash and Cash Equivalents -Fixed Deposit (USD)	1,878,130	151.50	+/- 1%	+/- 18,781

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd..)

25.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions.

Trade receivables

The following policies are implemented within the company in order to manage credit risk related to receivables:

- Outstanding customer receivables are regularly monitored with regular trade debtor review meetings.

25.3 Liquidity risk

The Company monitors its risk to a shortage of funds by forecasting its operational cash requirements on an annual basis and project cash flow requirements as per the project implementation period. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans. The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and financing for current operations is already secured.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

	Less than 1 year LKR	More than 1 year LKR	Total LKR
Interest-bearing loans and borrowings	599,114,311	911,050,854	1,510,165,166
Trade and Other Payables	1,311,033,498	-	1,311,033,498
	<u>1,910,147,809</u>	<u>911,050,854</u>	<u>2,821,198,663</u>

25.4 Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, capital is monitored on the basis of the gearing ratio.

	2016 LKR	2015 LKR
Total borrowings (Note 18)	1,510,165,166	2,180,510,982
Net debt	1,510,165,166	2,180,510,982
Total equity	22,850,811,934	21,389,228,106
Total capital	<u>24,360,977,100</u>	<u>21,389,228,106</u>
Gearing ratio	<u>7%</u>	<u>10%</u>

Financial Highlights in Proceeding 5 Years (Rs. 000's)

Financial Results from Operations	2016	2015	2014	2013	2012
Revenue	12,663,445	11,687,263	14,998,684	14,873,965	11,672,436
Gross Profit	6,001,755	5,271,850	5,303,409	5,162,412	5,570,185
Operating Profit	2,406,478	1,916,893	2,582,550	2,232,550	2,859,637
Profit Before Tax	2,330,073	1,715,646	2,188,470	1,601,839	2,193,477
Profit After tax	1,738,629	1,373,984	1,913,301	1,385,822	2,117,564
Earnings Per Share	2.32	1.83	2.55	1.85	2.82
Financial Position					
Stated Capital	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000
Capital Reserve	979,000	979,000	979,000	979,000	979,000
Retained Earnings	14,371,812	12,910,228	11,268,732	9,395,428	7,868,732
Total Equity	22,850,812	21,389,228	19,747,732	17,874,428	16,347,732
Current Assets	10,809,703	10,174,620	12,174,110	10,365,112	7,705,924
Current Liabilities	2,057,201	2,487,082	5,754,519	5,759,783	5,219,732
Working Capital	8,752,502	7,687,538	6,419,591	4,605,329	2,486,192
Non Current Assets	17,249,188	17,095,145	17,335,782	18,112,346	19,285,175
Non Current Liabilities	3,150,878	3,393,455	4,007,641	4,843,247	5,423,635
Net Assets	22,850,812	21,389,228	19,747,732	17,874,428	16,347,732



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