



Ceylon Petroleum Storage
Terminals Limited

DELIVERING
GROWTH

ANNUAL REPORT
2017

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Corporate Information

Inner Back Cover

Vision

To be most efficient petroleum terminal operator in South Asia

Mission

To remain as the most efficient terminal operator in the island, meeting stakeholders 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, honouring the health, environmental and safety standards in force through dedicated participation of a loyal, contended and well trained workforce, guided by the feedback of the customers and the general public.



ABOUT US

Ceylon Petroleum Storage Terminals 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 into Public Companies Act as Common User Facility (CUF) consisting of Oil terminals, Storage Facilities, Pipeline and the Bowser Fleet, more fully described in the Government Gazette extraordinary bearing No. 13 10/8 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 and continued to consistently enhance our stakeholder value propositions, demonstrating our commitment to support Sri Lanka's development journey through building a healthy and competitive fuel storage & distribution.

The Company is a subsidiary of Ceylon Petroleum Corporation (CPC) owning 2/3 of share capital and the balance owning by - Lanka Indian Oil Corporation (LIOC). Ceylon Petroleum Storage Terminals Limited benefits from the parent entity's almost six-decades of experience and expertise to proposition Sri Lanka's economic development, driving innovation and ensuring environmental sustainability in the energy sector.

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
- Matara
- Sarasavi Uyana
- Kurunegala
- Peradeniya



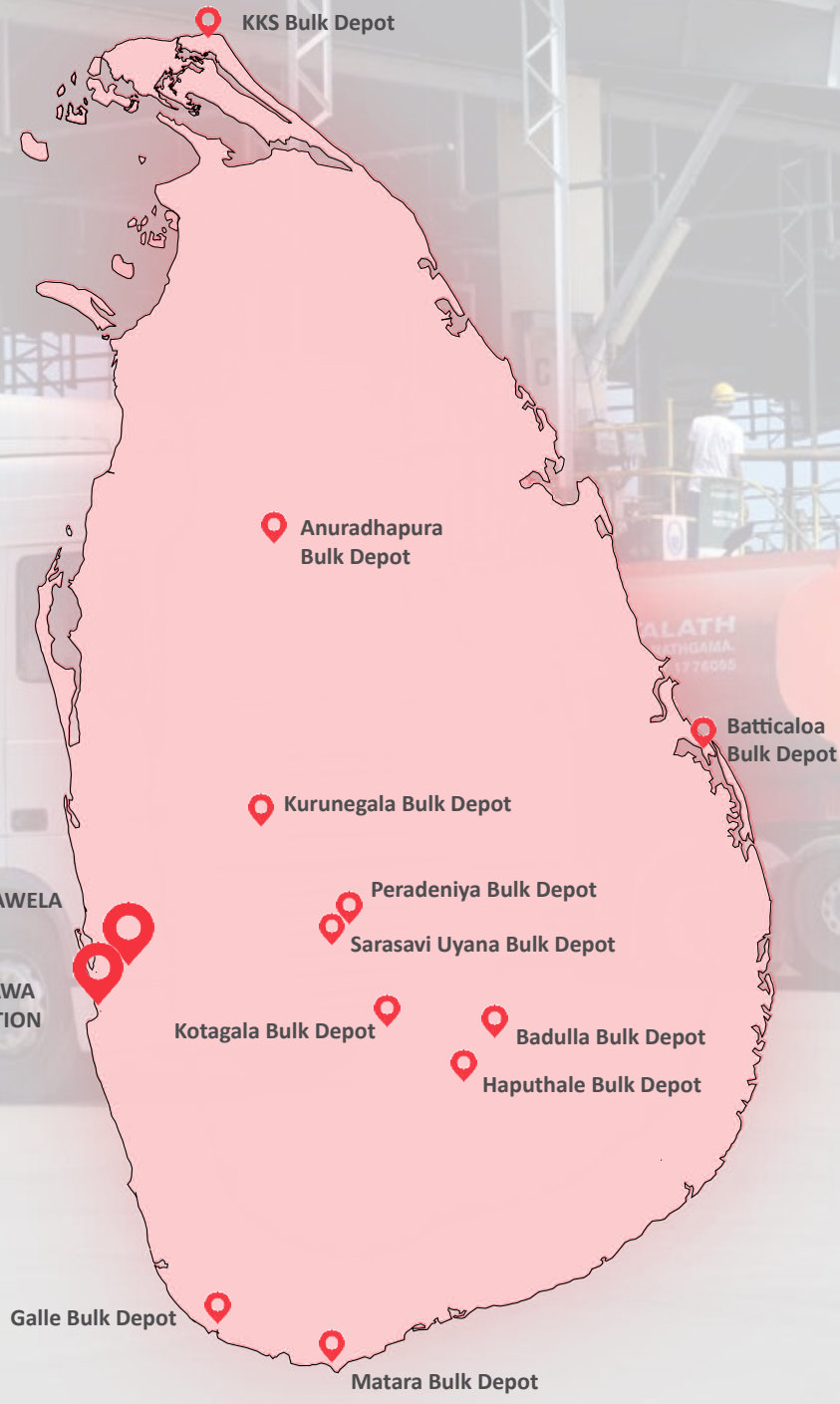
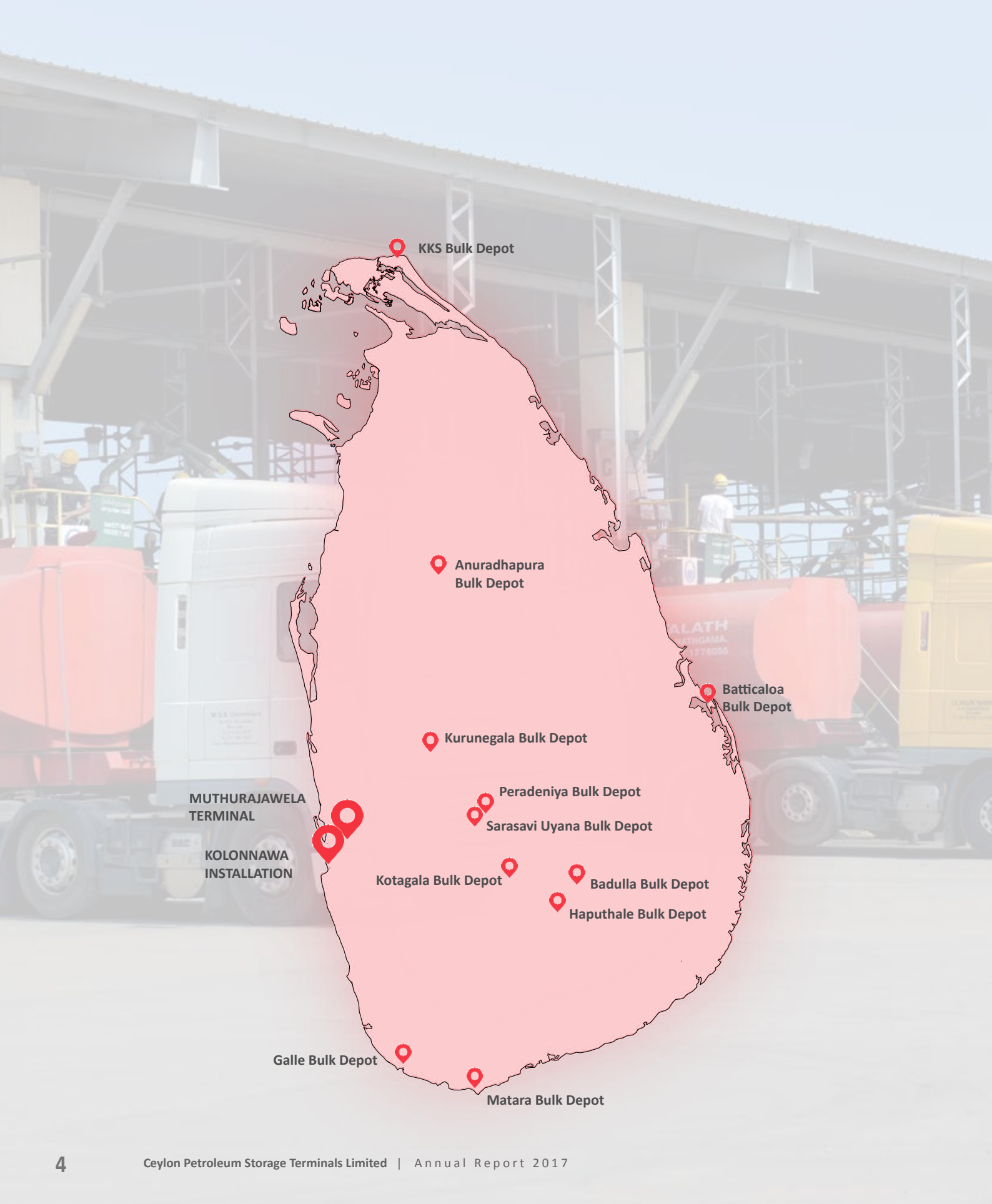
Kolonnawa Installation handling 12 petroleum products where as Muthurajawela Terminal handles 5 petroleum products.

Distribution function of CPSTL undertake deliveries of petroleum products on behalf of two Marketing Companies CPC and LIOC operating two main terminals at Kolonnawa and Muthurajawela while strengthening 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 Terminal 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 Dolphin Pier at Colombo Harbor. Muthurajawela Terminal receives only imported cargo discharged through SPBM located approximately 6 km off Kerawalapitiya Coast.

Business vertical	Positioning
Storage of Automotive Fuels	We are storing variety of petroleum products import & refine around 450,000 MT at Kolonnawa, Muthurajawela and island wide depots.
Distribution of Automotive Fuels	Currently we are distributing 85% of country's automotive petroleum products island wide.
Road Tankers	The leading distribution channel is road tankers which contribute nearly 66% of the transportation of petroleum products island wide.
Railway Wagon	The second leading distribution channel is railway wagon transport which contribute nearly 17% of the transportation of petroleum products island.
Pipeline	The next distribution channel is pipeline transfers which is mainly to Kelanitissa & Kerawalapitiya power plants and Refinery at Sapugas-kanda.



PERFORMANCE HIGHLIGHTS

		2017	2016	2015	
FINANCIAL CAPITAL	STRATEGIC PRIORITY: FINANCIAL GROWTH				
	Revenue	LKR Mn	14,176	12,663	11,687
	Operating profit	LKR Mn	3,208	2,406	1,917
	Profit / (Loss) before tax	LKR Mn	3,273	2,330	1,716
	Profit / (Loss) after tax	LKR Mn	2,717	1,949	1,407
	Return on equity	%	11%	9%	7%
	Financial Stability				
	Total assets	LKR Mn	29,991	28,059	27,270
	Total liabilities	LKR Mn	4,828	5,208	5,881
	Shareholders' funds	LKR Mn	25,163	22,851	21,389
Cash and cash equivalent	LKR Mn	1,474	2,455	748	
Shareholder information					
Earnings per share	LKR	3.73	2.32	1.83	
Dividends per share (paid)	LKR	0.54	0.65	-	
Net asset value per share	LKR	33	30	29	
Economic value added	LKR Mn	1,394	799	507	
MANUFACTURED CAPITAL	STRATEGIC PRIORITY: OPERATIONAL EXCELLENCE				
	Property, plant and equipment				
	Terminals & Depots	Nos	14	14	14
Capital expenditure	LKR Mn	833	913	224	
HUMAN CAPITAL	STRATEGIC PRIORITY: INVESTING IN PEOPLE				
	Total employees	Nos	3,045	3,118	2,964
	Female representation	Nos	343	351	338
	Payments to employees	LKR Mn	5,570	5,782	5,307
	Employee attrition rate	%	1%	1%	1%
	Investments in training	LKR Mn	32	30	27
	Total training hours	Hours	21,832	26,088	17,928
	Average training hours/employee	Hours	9	11	9
	Revenue per employee	LKR Mn	4.67	4.06	3.93
	Net profit (Loss) per employee	LKR Mn	0.90	0.63	0.47
SOCIAL AND RELATIONSHIP CAPITAL	Indirect employees (approx.)	Nos	105	114	121
	Customer touch points	Nos	40	40	40
	Investment in CSR	LKR Mn	6.10	5.70	16.80
	No. of beneficiaries (approx.)	Nos	8,500	7,000	12,000
	Contribution to Government	LKR Mn	2,175	1,895	1,303
NATURAL CAPITAL	STRATEGIC PRIORITY: SUSTAINABILITY				
	Energy consumption	Kwh	2,904,300	2,914,112	2,942,078
Water consumption	KL	275,720	268,120	249,150	

YEAR AT A GLANCE

SALES VOLUME

5,447,413
KL

ASSET BASE

30 Bn
LKR

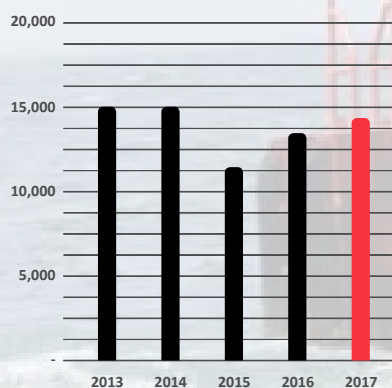
HIGHEST EVER REVENUE

14 Bn.LKR

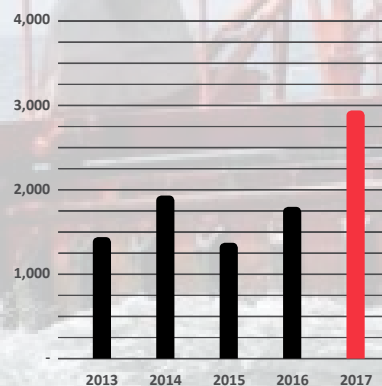
HIGHEST EVER PAT

2.8 Bn.LKR

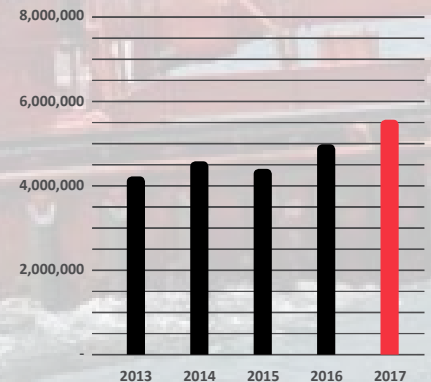
Revenue (LKR Mn)



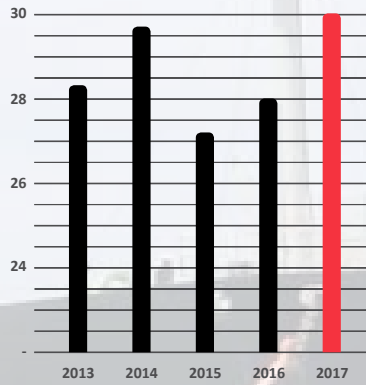
Profit After Tax (LKR Mn)



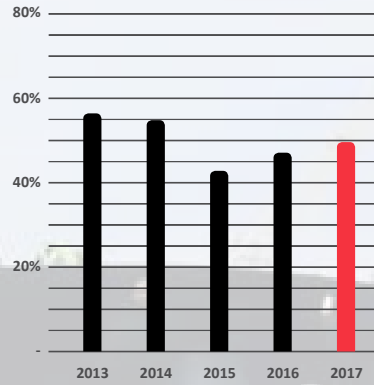
Sales Volume (kl)



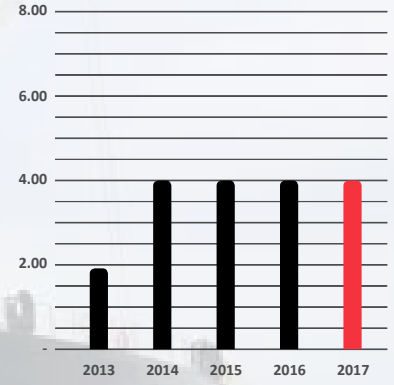
Total Assets (LKR Bn)



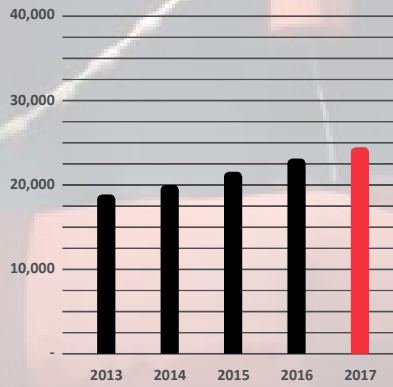
Turnover Asset (%)



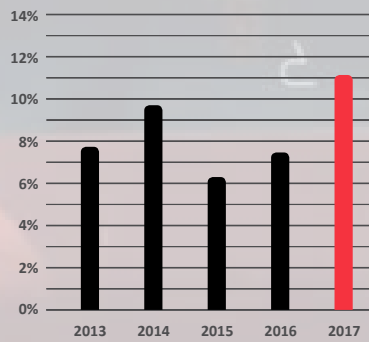
Current Ratio (Times)



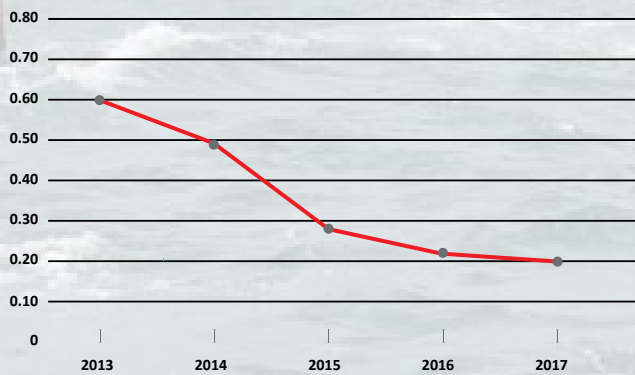
Shareholders' Funds (LKR Mn)



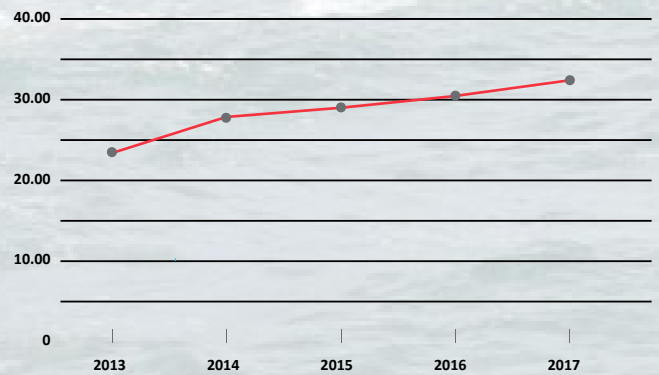
ROE (%)



Gearing Ratio (Times)



NAV Per Share(LKR)



AWARDS & ACCOLADES

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

National Bronze Award and Top Achievers Award at CNCI Industrial Excellence Awards Ceremony

For the second consecutive year, the Company was awarded the Bronze Award in the National Level Government Sector and Top Achievers Award at the “CNCI Achiever Awards 2017” for the Industrial Excellence organized by the Ceylon National Chamber of Industries.

Bronze award of Social Dialogue & Workplace Cooperation Awards -2017

CPSTL was awarded with Bronze award of Social Dialogue & Workplace Cooperation Awards under large scale service sector 2017 organized by Social Dialogue & Workplace Cooperation Unit , Human Resource Development Division, Department of Labour.



AWARDS & ACCOLADES (Contd.)



CHAIRMAN'S MESSAGE



“ In 2017 the CPSTL generated LKR 14 billion in sales revenue, up 12% from 2016. Gross profit stood at LKR 6,775 million, which was 13% more than in the previous year. Net profit stood at LKR 2,717 million and was up 39% from 2016. At LKR 0.54 per share, the 2016 dividends, paid in 2017, were the highest to date. A stable dividend policy and good business performance are a guarantee to maximise shareholders’ return, which is the cornerstone of CPSTL’s shareholder policy.”

CHAIRMAN'S MESSAGE (Contd.)

On behalf of the Board of Directors, I have the honor of announcing another exceptional year for the Ceylon Petroleum Storage Terminals Limited (CPSTL)

The CPSTL entered the new financial year 2018 buoyed by a significant improvement in its performance in 2017. Our aim is to achieve even greater excellence in profitability and public service in this year.

As the foremost petroleum products handling company in the country, we touch the day to day lives of the 21 million citizens of our country in a myriad way, both direct and indirect. Our core responsibility is the smooth and uninterrupted supply of petroleum products to these end-users, as well as to our distributors and the terminal facility users. These goals would be impossible to attain without the dedication of our well-trained workforce. Safeguarding our consumers and our employees, protecting the environment and contributing to the country's economy are the three pillars on which we build and conduct business.

Our Performance

Financial stability is the strength of CPSTL, fueling our growth and development. This is due to the introduction of a Zero base budget with an action plan aligning company spending with strategic goals to build the annual budget. This helps to verify that all components of the annual budget are cost effective, relevant, drive improved savings and build effective financial discipline.

In the year under review, CPSTL maintained and improved its healthy overall performance. Total sales revenue for the year was LKR 14 billion marking an increase of 12 percent from 2016. Gross profits stood at LKR 6,775 million, a 13 percent increase from the previous year. Net profit at LKR 2,717 million was up 39 percent from 2016. Our company also declared the highest ever dividend paid so far amounting to LKR 0.54 per share for 2016 and paid in 2017.

In 2017, we made a number of strategic development moves, which will have a significant impact on the operations of the CPSTL in the future. Major projects undertaken during the year include 15,000 M3 Tank at Kolonnawa installation, 97.5 percent completion of 12" pipe line connecting Dolphin Pier at Colombo port to Kolonnawa installation introducing HDD (Horizontal Direct Drilling) method via railway crossings. Commencing construction of a tank farm to increase capacity of Kolonnawa installation by 40 percent, infrastructure development facilities at Muthurajawela, installation of internal floating roofs for several tanks in Kolonnawa installation, fuel filtration system for the aviation filling facility at zone 03 in a six month period which was a JIG (Joint Inspection Group) requirement since year 2004, are to name a few.

Emboldened by our past success, we look to the future with enthusiasm. We have even more ambitious goals for 2018 and feel confident of reaching them without sacrificing our corporate integrity. Indeed our aim is to combine productivity and profitability with ethical and transparent operations to do well.

In connivance with the principals for good governance, the CPSTL is committed to accountability via the constant review of internal and external audit functions.

We have used our CSR activities to enhance our social integration and to fulfil our responsibility to society. In recognition of our performance we were presented with the National Silver Award at the CNCI Industrial Excellence Award Ceremony and the Bronze Award of Social Dialogue and Workplace Corporation.

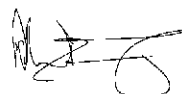
Acknowledgements

I thank the board members for ensuring that CPSTL is directed effectively, with integrity, and in accordance with sound corporate governance practices.

CPSTL proudly acknowledges that its employees are its most valuable and vital asset as they are the ultimate determinant in ensuring its continued success. My appreciation and gratitude go out to the entire CPSTL team for their excellent performance. I'm happy to announce that the industrial relations climate in the company continues to remain cordial with a shared commitment towards enhanced productivity and profitability.

I take this opportunity to extend my sincere gratitude to the Hon. Minister of Petroleum Resources Development Mr. Arjuna Ranatunga and Hon. Deputy Minister Dr. Anoma Gamage for the confidence placed in us and the guidance provided. I wish to thank our ministry secretary Mr. Upali Marasinghe and his staff for all their assistance. I also take this opportunity to thank my fellow directors, the management and the employees of CPSTL for their contribution to success. I wish to express my gratitude to our business partners for their loyalty and patronage.

Let us face the new challenges the New Year brings with the same sense of unity and spirit of dedication.



Dammika Ranatunga
Chairman

MANAGING DIRECTOR'S MESSAGE



“Strong growth in operational performance, together with the diligent planning and effective utilizations of capital infrastructures helped to deliver a Net Profit After Tax (NPAT) of Rs. 2,717Mn, a 39.4% improvement YoY. I am pleased to report that this impressive growth in profits can be attributed to well thought strategies implemented during the period under review as reflected in our Statement of Financial Position.”

MANAGING DIRECTOR'S MESSAGE (Contd.)

It is with pleasure that I report to you another exceptional year of performance by Ceylon Petroleum Storage Terminals Limited (CPSTL) which produced solid financial and operational results in 2017 despite challenging market conditions that continue to exist in the petroleum products terminaling industry.

Uncertainty and dynamic change were the watchwords for Petroleum products market throughout 2017, as mixed fortunes in the Sri Lankan economy found parts of the context in CPSTL performance. Against this backdrop, CPSTL delivered a robust financial performance in the 12-month period to 31 December 2017, with significant growth in volumes and strong profitability.

This year, we looked at bringing in a greater focus with our two conglomerates. We took critical decisions on structure, scope, scale and costs, paving a more rationalised platform for our businesses to succeed amidst the dynamics of the present day operating and regulatory landscape. We concentrated on further developing our critical success factors - strengthening our expertise; reasserting our commitment to risk-taking and service excellence; and driving for efficiency across our operations.

We relied on our systems and processes; innovation and creativity; and more importantly, in our talented team to support our efforts to stay effectively and efficiently in the marketplace.

Performance Overview

I am happy to report that CPSTL demonstrated commendable growth in FY 2017. Revenue of Rs. 14Bn representing a Year-on-Year (YoY) growth of 12% was achieved through growth in Volumes of our Storage and Distribution of Petroleum Products handling.

Revenue growth combined with our continued focus on operational improvements led to CPSTL Profit Before Tax (PBT), growing 40% YoY to be recorded at Rs. 3,273Mn for FY 2017.

Strong growth in operational performance, together with the diligent planning and effective utilizations of capital infrastructures helped to deliver a Net Profit After Tax (NPAT) of Rs. 2,717Mn, a 39.4% improvement YoY. I am pleased to report that this impressive growth in profits can be attributed to well thought strategies implemented during the period under review as reflected in our Statement of Financial Position.

Dividends to Shareholders

It gives me pleasure to note that in line with the excellent financial performance delivered by the CPSTL during FY 2017, the Board of Directors resolved to recommend a dividend amounting to Rs. 405Mn translating to a Dividend per Share to Fifty-Four (54) Cents. The dividend represents a decrease of 17% relative to 2016 with a Dividend Pay-Out of 15%.

Contributions to the Government of Sri Lanka

It gives me great pride to report that the growth and acceleration of CPSTL's financial performance has translated to a significant contribution to the Government of Sri Lanka and the economy. During the course of 2017, CPSTL has contributed to the Government's tax revenues, contributing Rs.

451Mn in direct taxes and collecting Rs. 1,724Mn in consumption taxes, amounting to a total pay-out of Rs. 2,175Mn, which represents a 15% YoY increase.

Future Outlook

With more upbeat trends witnessed in the global economy combined with our nation's potential to reach a economic prosperity with enhancements to the quality of life with increased levels of disposable income, we expect a more confident business environment in the medium-term. Of course, it is imperative to balance out the socio-political and economic uncertainties that are prevalent in our current operating environment today.

In this emerging economic backdrop, we as the foremost petroleum handling company in the island, have immense potential to gain on opportunities, grow and achieve greater heights. We will further invest and build on our success factors in the ensuing years and drive a focused strategy across our operations and businesses.

In Appreciation

Appreciation On behalf of the Company, I wish to thank for the support extended to us by the Chairman, Board of Directors and other officials of the Ceylon Petroleum Storage Terminals Limited.

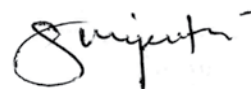
I could not have steered the CPSTL towards success without the ready and invaluable guidance and support extended to me by all the members of CPSTL I would like to thank every single one them for their ready support, valuable contribution and for standing by me throughout a challenging year 2017.

I take this opportunity to thank the Hon. Minister, Hon. Deputy Minister and other officials of the Ministry of Petroleum Resources Development.

I also wish to express my appreciation to Mr. Dammika Ranatunga, our Chairman as well as all the members of senior management for their hard work and unwavering commitment towards the cause of the company. Staff members of CPSTL contributed to the Company's growth through their uncompromising work ethics and dedication to work. I wish to thank all of them and record my appreciation of their commitment. Last but not least, I would like to thank our two shareholders, business partners and customers for their faith in our abilities. We will continue to honour your trust by continuing to forge ahead on our upward growth trajectory whilst marinating our integrity as a corporate entity through upholding corporate governance standards.

To all stakeholders, thank you.

Sincerely,



Sanjeewa Wijeratne
Managing Director

BOARD OF DIRECTORS



Mr. Dammika Ranatunga
Chairman



Mr. Sanjeewa Wijeratne
Managing Director



Mrs. K.D.R.Olga
Director



Mr. Shyam Bohra
Director



Mr. Anuj Jain
Director



Mr. Randhir Singh
Director



Mr. Nimal Jayasundara
Director



Mr. Uditha Gunawardena
Director

BOARD OF DIRECTORS (Contd.)

Mr. DAMMIKA RANATUNGA

Chairman

Mr. Dammika Ranatunga is the Chairman of Ceylon Petroleum Corporation and Ceylon Petroleum Storage Terminals Limited, Agencies under the Ministry of Petroleum Resources Development. He has over 37 years of work experience with a range of professional expertise covering Information Technology, Sales & Marketing, Cricket Administration, Internet/eCommerce and Top Management in key Government Institutions under the Ministry of Ports and Ministry of Petroleum Resources Development.

Mr. Dammika Ranatunga commenced his career in Information Technology in 1981, gathering experience in programming and System Analysis and Customer Relationship Management (CRM). Later, he opted to shift into the management sphere, joining Singer Sri Lanka where he was ultimately promoted to middle management. Due to his wide experience, he was selected to serve as the first Chief Executive of the Board of Control for Cricket in Sri Lanka (BCCSL) from 1996-2001. During his tenure, he spearheaded the development of the Corporate Strategic Plan, which focused on transforming the BCCSL into a result-oriented organization. He served as a Board Member of the International Cricket Council from 1996 to 1997, as a member of the Cricket Committee – Management of the International Cricket Council from 1996 – 2001 and as a Member of the Special Committee, Asian Cricket Council from 1997 – 2001. From 2001-2013 while in USA, Mr. Ranatunga shared his knowledge and experience with many companies in the capacity of an internet Sales Consultant Internet Sales Director and E-Commerce Director and as a Sales & E-Commerce Director. Mr. Ranatunga is also an all-round sportsman who excelled in cricket and athletics. He has played for the Sri Lanka National Team at Test and One Day levels.

he was appointed the Chairman of the Sri Lanka Ports Authority and concurrently the Chairman/Managing Director of Sri Lanka Port Management Consultancy Services Ltd., Jaya Container Terminals Ltd. and Magampura Port Management Company (Pvt) Ltd. As Chairman of the Ports Authority, Mr. Ranatunga was responsible for the execution of duties vested upon the Port by the Sri Lanka Ports Authority Act, overlooking all commercial Port related development projects, achieving its progress targets, execution of strict financial management adopting strategic cost management measures to develop ports under its umbrella and adopting efficient Human Resource Management strategies to lead the Organization successfully towards its goals. The Colombo Port was ranked 23rd among the World's Best 30 Ports in 2017.

Mr. SANJEEWA WIJERATNE

Managing Director

Mr. Sanjeewa Wijeratne is the Managing Director of Ceylon Petroleum Storage Terminals Limited, Agencies under the Ministry of Petroleum Resources Development. Having worked in Sri Lanka, Middle East and Asia, he has management experience of over 20 years in the areas of Aviation, Air lines, Airports and Hospitality Management. Further, he was the Vice Chairman of Airport and Aviation Services Ltd of Sri Lanka.

Sanjeewa Wijeratne was the Executive Director of the Sri Lanka Port Authority and he was also a Board member of Lanka Coal Company, Jaya Container Terminal Ltd and Magampura Port Management Company Ltd. He has a Master's Degree in Business Management from the Postgraduate Institute of Management of the University of Sri Jayewardenepura.

Mrs. K D R OLGA

Director

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 Honors. 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 above.

BOARD OF DIRECTORS (Contd.)

Mr. SHYAM BOHRA

Director

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 IndianOil'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 IndianOil. 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 logistics.

Mr. ANUJ JAIN

Director

At present, Mr. Anuj Jain is working as Head of Finance of Lanka IOC PLC Sri Lanka looking after all spectrum of financial & commercial activities of the Company. Lanka IOC entered into Sri Lankan petroleum landscape in the year 2002 and since then, LIOC is playing a significant role for the development of downstream petroleum sector of Sri Lanka. LIOC is presently operating in Petrol, Diesel, Lubricants, Bitumen & Bunker business segments.

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.

During his tenure at various offices of IOCL 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

Director

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. Further, he is also responsible for trading & execution of bunkering supplies to foreign vessels calling at Colombo & Trincomalee ports.

Possessing more than 22 years in the petroleum sector his areas of speciality range from storage, handling, distributions and operations at various Depots/Terminal including LPG & Lubes Sales Depot. At IOC he was in-charge for 3 storage locations in India and was responsible to ensure safety, security and maintaining SOP for storage of petroleum products.

He was also responsible for All India Rail co-ordination for bulk movement of Petroleum products throughout India and co-ordination with Indian Railways for day to day monitoring.

BOARD OF DIRECTORS (Contd.)

Mr. NIMAL JAYASUNDARA

Director

A financial professional, Mr. Nimal Jayaundera counts over 38 years of experience in Ceylon Petroleum Corporation's overall finance activities and has acquired extensive knowledge and expertise. His strong experience in different financial and operational capacities will further strengthen our Board.

Mr. Jayasundera is qualified with Licentiate in ICASL and HNDA and also a member of the AAT and an Associate Member of the Finance, Auditing & Development Accountancy (UK).

He is serving as a Director of Ceylon Petroleum Storage Terminals Limited since June 2017 and also he has served as a Board Director at Ceylon Petroleum Corporation and National Savings Bank. Furthermore, he has been serving as the Treasurer of the Sri Lanka-China Society and Treasurer of the Sri Lanka-Belgium Association.

Mr. UDITHA GUNAWARDENA

Director

Mr. Uditha Gunawardena is a graduate of Political Science with second class upper division in University of Colombo. He has over 24 years' experience served in many key positions and has contributed to the success of various organizations & nation. He was the member of Board of Directors in Magampura Port Management Consultancy Services Limited from 2016 to 2017 and in Ceylon Paper Co-operation Limited from 2011 to 2012. Further, the period of 1995 – 2001, he was the Public Relation Officer to the Hon. Deputy Minister of Finance & Planning, contributing the success of the nation. Mr. Gunawardena has wide experience in various roles performing as a Board of Director in main organizations and other key positions related to Minister's staff as Public Relation Secretary, Parliament Secretary and Public Relation Officer.

MANAGEMENT TEAM



Predeep Kaggodaarachchi
Deputy General Manager (Finance)



P.Athukorala
Deputy General Manager
(Engineering & Support Service)



P.D.P. Dharmawansa
Deputy General Manager
(Human Resources & Admin.)



A.Martin
Deputy General Manager
(Operations)



R.Perera
Chief Information Officer



J.G.J.W.Dharmaprema
Manager – Information Systems



S.Wickramarachchi
Manager - Stores



Uditha Jayalath
Manager - Finance



D.M.H.B Dassanayake
Manager – Internal Audit

MANAGEMENT TEAM (Contd.)



D.A.J.S. Dharmapriya
Operation Manager - Automobile



M.S.M Niyas
Terminal Manager
Muthurajawela



Ajith Wijesuriya
Manager
Premises & Engineering Services



T.V. Sarathchandra
Manager
Bulk Movement & Bulk Product



N. Jayawardena
Manager - Security



S.N.Gamage
Manager - Corporate Affairs



K.M.N.A.C.Perera
Manager - Human Resources



R.S.S.Premakumara
Manager - Procurement



W.M.T.W.A.Bandara
Manager - Distribution

MANAGEMENT TEAM (Contd.)



R.A.P.A. Ranasinghe
Operation Manager Offshore



E.A.R.D. Bandara
Manager - Training & Human
Resource Development



G.M.A. Bandara
Act. Manager - Engineering



K.N. Rathnayake
Manager - Laboratory



L.W. Gunasekera
Chief Legal Officer



R. Susiriwardena
Medical Officer



R.M.N. Jayathilaka
Act. Manager - Investigation



P.M.C.P. Dias
Act. Manager - Fire & Safety

MANAGEMENT DISCUSSIONS & ANALYSIS



OPERATING ENVIRONMENT

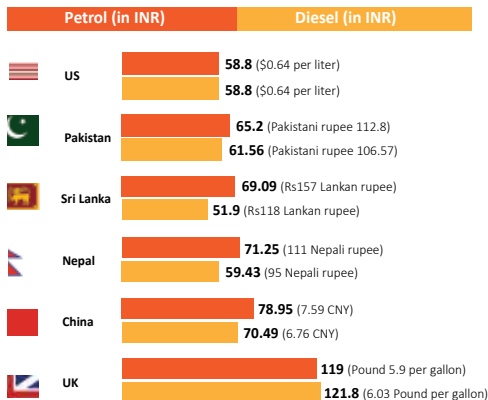
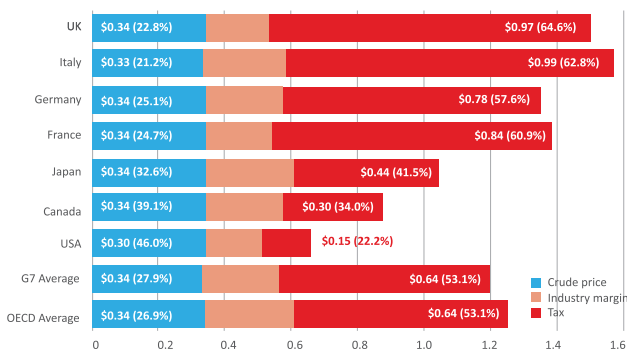
The Petroleum market in Sri Lanka

Transportation and energy generation continued to remain the two main drivers of petroleum consumption. Petroleum sales for energy generation increased by 48% in 2017 compared to 87% in 2016 with increasing usage of thermal based power generation. Petroleum sales for transportation (which accounted for more than 70% of total sales) increased by 25.5% compared to 42.2% in 2016.

Retail selling Prices

The retail selling prices in Sri Lanka are relatively lower than regional peers reflecting the Government's pricing policy and the lack of a market-based pricing formula. Oil Companies receive net of taxes amount against their purchase cost. From the graph below, it is clearly visible that Sri Lankan prices, net of taxes, are the least if compared in the world. Despite fluctuations in global crude oil prices, Sri Lanka's retail prices of petroleum products had remained unchanged from 2015 primarily reflecting political motivations. Meanwhile, the dominant market position of the state-owned Company also renders it difficult for private players to pass on the increase in costs to customers. This resulted in significant margin pressure, with profitability of auto fuel retailers tied to the wide fluctuations in global oil prices.

Who got what from a liter of oil in 2017, (\$/litre)



Demand for auto-fuels increased by 5% in 2017 driven by economic growth albeit a decline in new vehicle registrations. Rising interest rates, a depreciating Sri Lankan Rupee and changes in loan to value ratios led to an 8% decline in new vehicle registrations. However, petrol and diesel consumption continued to increase, widening by 10% in 2017 and 2% respectively. Despite higher levels of demand, operators in the industry continued to battle a tough operating environment as the lack of a pricing formula resulted in retail prices being independent of fluctuating global oil prices. During the year, crude oil prices increased by 27% reversing the trend seen over the last two years. The maintenance of retail prices despite the sharp escalation of crude oil prices resulted in significant margin pressure with industry players incurring operating losses. This was further exacerbated by the depreciation of the rupee against the USD. Although the government didn't impose limits on retail prices, the fixed priced scenario in the duopoly market made it difficult for CPC/LIOC to pass on cost increases to consumers.

The drought conditions during most of 2017, together with the regular disruptions to the operations at the Norochcholai coal power plant, led to increased fuel-oil based power generation. As a result, petroleum sales for energy generation, which accounted for a 20 per cent share of total petroleum sales, grew by 20.7 per cent in 2017 in the country as per Central Bank's statistics.

Meanwhile, petroleum sales to the transportation sector, which contributed to 61.4 per cent of total petroleum sales in the domestic market, grew by 4.9 per cent during the period under review.

Further, petroleum sales to the aviation sector, which accounted for 8.8 per cent of total petroleum sales, grew by 7.4 per cent during the year. Growth in diesel and furnace oil sales in 2017 was mainly driven by the demand from the energy sector, whereas the transportation sector demand was the key contributor to the increased sales of petrol. Growth in kerosene sales was mainly spurred by the household sector.



Subdued growth in vehicle population as Stringent policies such as rising interest rates and changing loan to value ratios adversely impacted vehicle leasing activity.

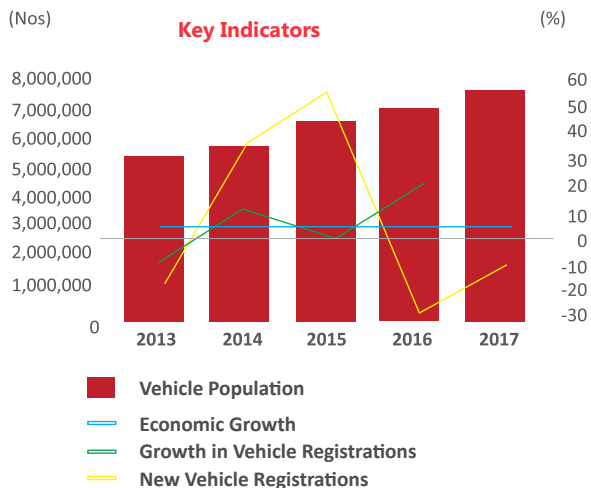


Per capita auto fuel consumption increased by 5% in 2017 driven by economic growth.



Increasing focus on environmental sustainability will drive demand for high quality fuels that are energy efficient.

OPERATING ENVIRONMENT (Contd.)

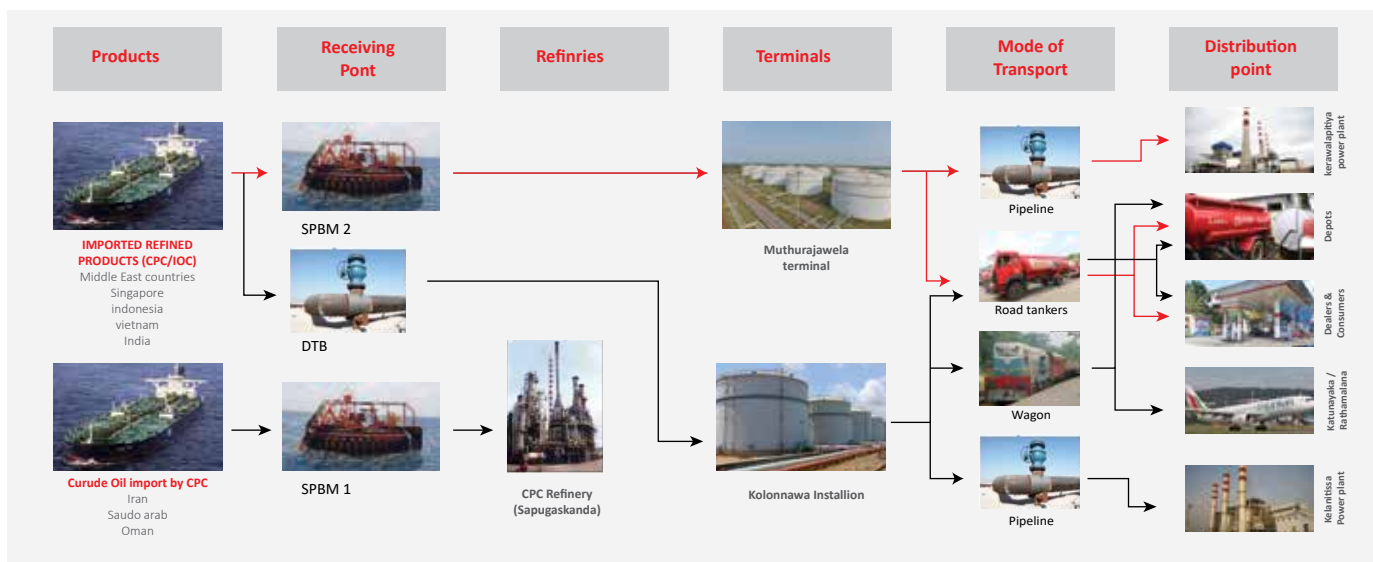
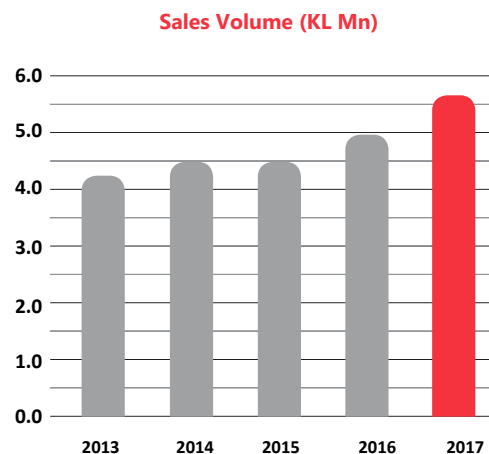


The domestic petrol and diesel prices remained unchanged during the year under review despite the rising trend of the global prices and this led to lower the earnings of the petroleum sector of the economy. It also warrants requirement of implementing a market based pricing formula for petroleum products in the domestic market. Such formula will have a direct impact on consumers and thus affect the business of CPSTL.

2017 is another successful year for CPSTL in the journey towards achieving our vision set by corporate goals and objectives. CPSTL has registered continues improvement in distribution and storage operations. The total volume of Petroleum Products distributed in 2017 has grown by 10% compared to 2016.

	Volume Distributed	
	Volume (KL)	
	2017	2016
Kolonnawa	2,729,667	2,612,624
Muthurajawela	1,391,029	1,130,640
Depots	1,326,718	1,200,032
	5,447,414	4,943,295

The demand for petroleum products has substantially increased during 2017 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 2017 with compared to 2016.



FINANCIAL CAPITAL



Shareholders Fund LKR 25.16 billion



Cash and cash equivalent LKR 1.5 billion



Net Assets increased by 10% during the year



Positive future outlook supported by the infrastructure development and cost efficiency in the processes.

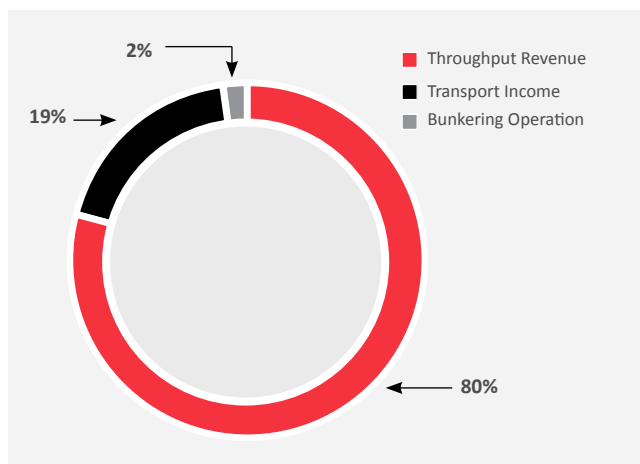
Financial Performance

Revenue

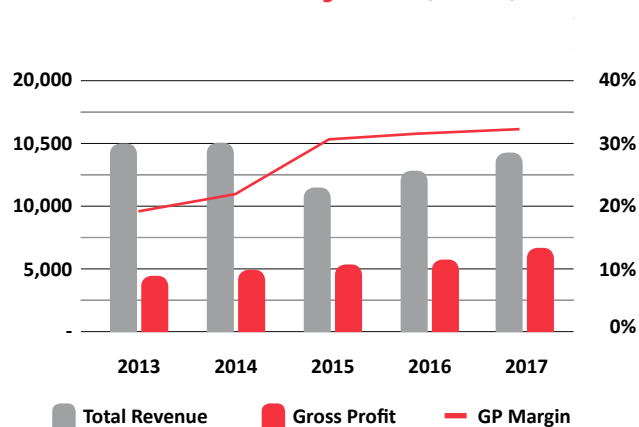
Revenue of the CPSTL is generated from Throughput income, Transport services and Bunkering operations, out of which Throughput income is the main source of income which is recorded 80% from the total income in year 2017.

CPSTL's revenue grew by 12% to Rs.14.18 billion during the year supported by the significant volume increase in power generation sector and premium auto-fuels. The volume handled in power Generation has increased to Rs.1.422 billion as the Company achieved a volume growth of 10% driven by stronger demand due to the drought environmental situation in the island wide and minimal using of hydro power electricity and increased in thermal power electricity generation by power plants in Sri Lanka.

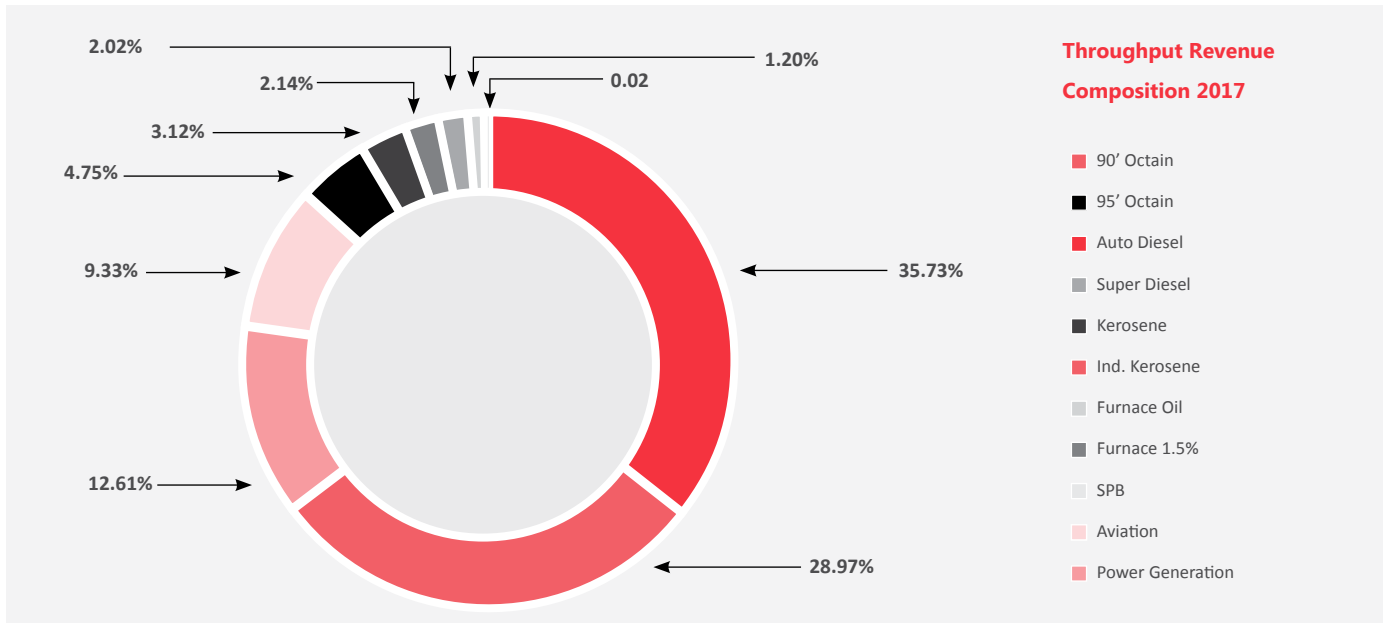
Revenue Composition (LKR Mn)



Revenue & GP Margin Trend (LKR Mn)



FINANCIAL CAPITAL (Contd.)



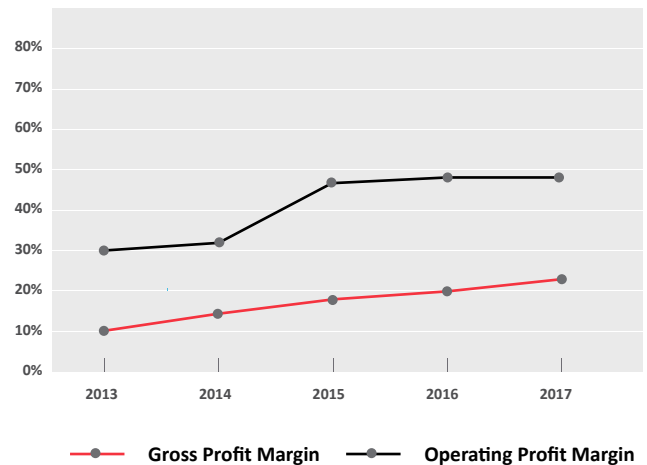
Gross Profit

The Company's gross profit increased by 13% during the year; this reflects growth in petroleum product volume handle and the bunkering operations. The Company's gross profit margin increased by Rs. 781 Million compared the year before.

Operating Performance

Other income fell slightly by 5% amounting to Rs. 25 million dropped during the year supported by decreased in gain on disposal of property, plant and equipment income. Despite Challenging market conditions compelled us to focus on generating operational efficiencies and optimizing costs, resulting in the Company's overhead costs declining by 1.1% to Rs.4.03 billion during the year. At operating level, the Company's operating profit increased by 33% amounting to Rs. 3.21 billion during the year compared to Rs. 2.41 billion profit the year before.

Operating Performance %



FINANCIAL CAPITAL (Contd.)

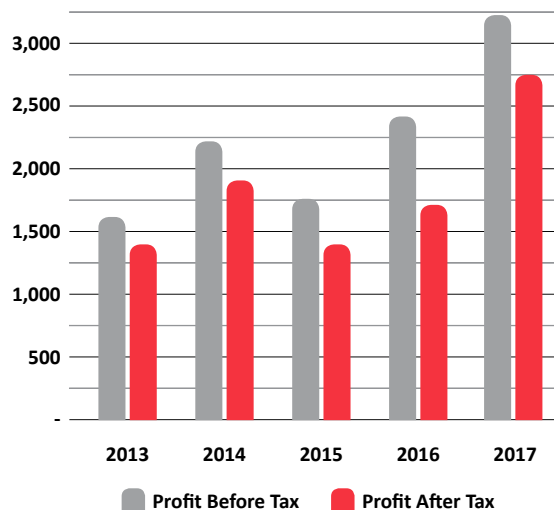
Pre-Tax Profit:

Finance income increased by 110% to Rs.189.4 million during the year due to perceptive management of our short-term investments' portfolio. Meanwhile finance expenses also decreased by 26% to Rs. 124.07 million due to the settlement of borrowings. Pre tax profit has increased by 40% to Rs. 3,273 million during the year compared to Rs. 2,330 million profit the year before.

Profit After Tax And OCI

Taxation for the year amounted to Rs.473.74 million reduced by 20% due to decrease in deferred tax during the year. The Company's Other Comprehensive Income (OCI) mainly comprised of actuarial gain on defined benefit obligations.

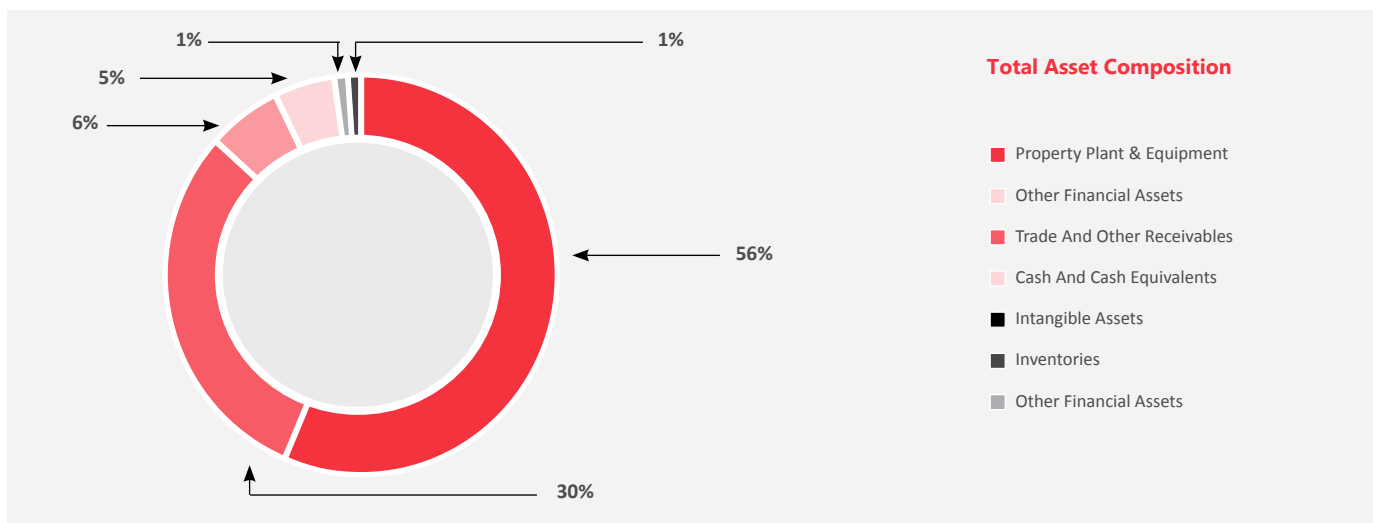
Pre and Post Tax Profit (LKR Mn)



Financial Position

Total Assets

CPSTL's balance sheet is strong reflected by continued asset growth and a strong equity base Total asset expanded by 7% to Rs.29.99 billion primarily due to an increase in Trade & Other Receivables.

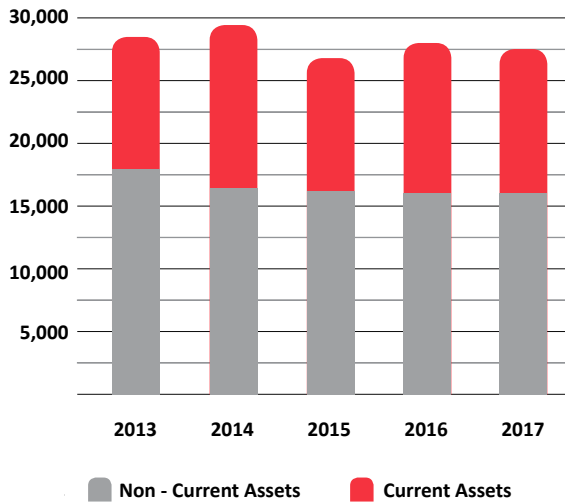


FINANCIAL CAPITAL (Contd.)

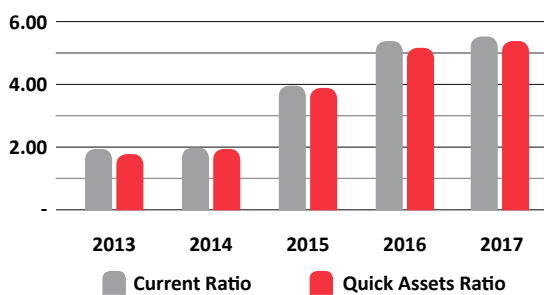
The balance sheet composition more towards to non- current assets, which accounted for 57% of total assets compared to 61% the year before. The cash position remained strong with cash balances and short-term investments collectively accounting to Rs.1.47 billion (or 5% of total assets). There is a drop in positive cash balance at the end of the year compared to the year before mainly underpinned by the decrease in cash generated from operating activities with the increase in trade receivable balance, while having a revenue growth. The drop is further caused by the increase in cash flow used for financing activities for repayment of loans.

The current ratio and quick asset ratio amounted to 5.5 times and 5.30 times as at 31 December 2017.

Total Asset Growth (LKR Mn)



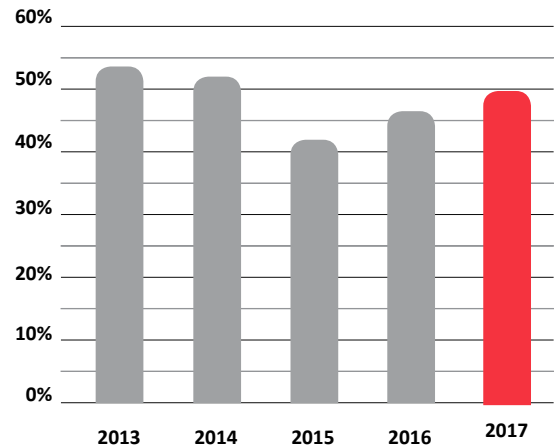
Current / Quick Asset Ratios



Asset Turnover Ratio

The Asset Turnover measures the efficiency of Company's use of its assets to generate sales. It derives through the formula of net sales divided by average total assets for the year. The total asset of the Company increased by 7% comparing to preceding year and revenue growth is 12% for the year. Asset Turnover Ratio is increased from 46% to 49% having the growth of 3.07% which indicates that Company has improved the efficiency of use of assets during the year.

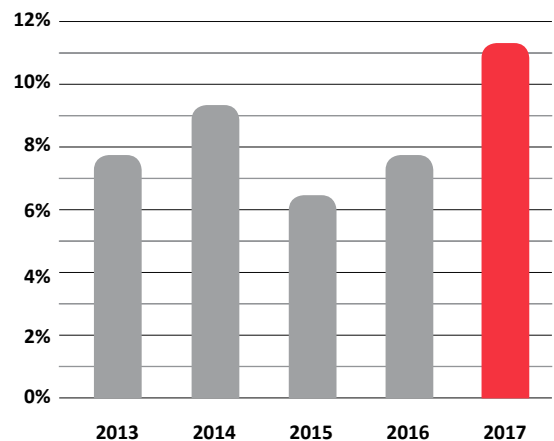
Asset Turnover (%)



Return on Equity (ROE)

The Company ROE is increased to 11% in 2017 from 7% in year 2016. The progress in year 2017 is attributed to improved profitability in year 2017. This ratio measures the profit attributable to the shareholders as a percentage of their equity capital.

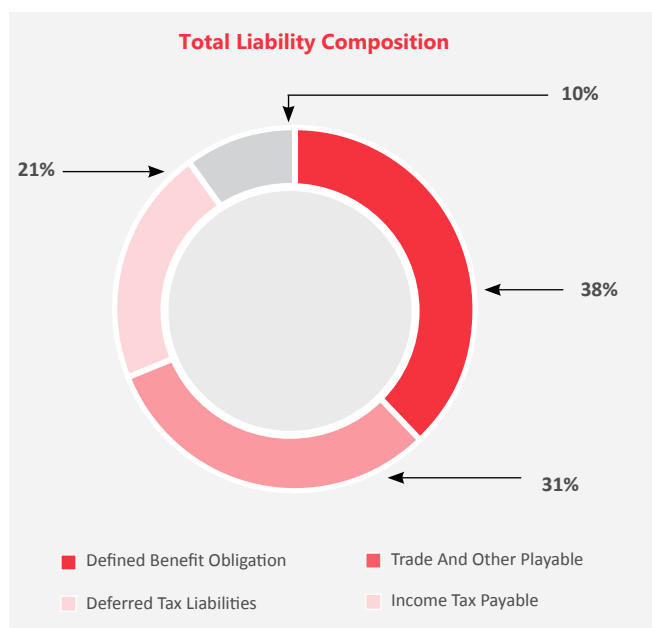
Return On Equity-ROE (%)



FINANCIAL CAPITAL (Contd.)

Total Liabilities

CPSTL's equity base is strong amounting to Rs. 25.16 billion and funding 84% of the Company's total assets. Total equity increased by 10% due to significant after-tax profit during the year. Trade and other payables increased to Rs. 1.845 billion (from Rs.1.311 billion the year before). Company's total liabilities decreased by 7% to LKR 4.8 billion from LKR 5.2 billion due to the fully settlement of the loan obtained from the People's bank.



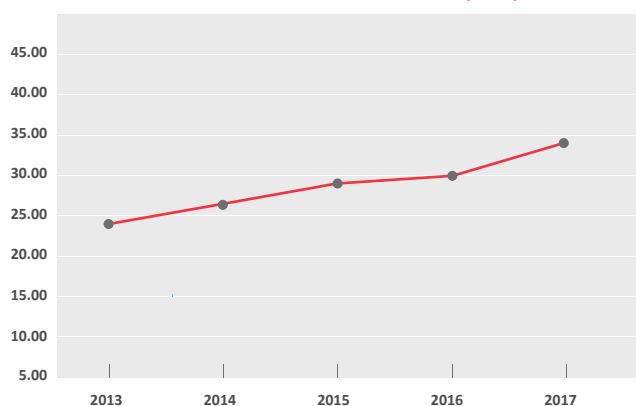
Shareholder Value Creation

The Company is committed to generating sustainable returns to its shareholders and earnings per share were positive at Rs.3.73 compared to an Earning Per Share (EPS) of Rs.2.32 last year. Net asset value per share also increased to Rs. 34 compared to Rs.30 the year before.

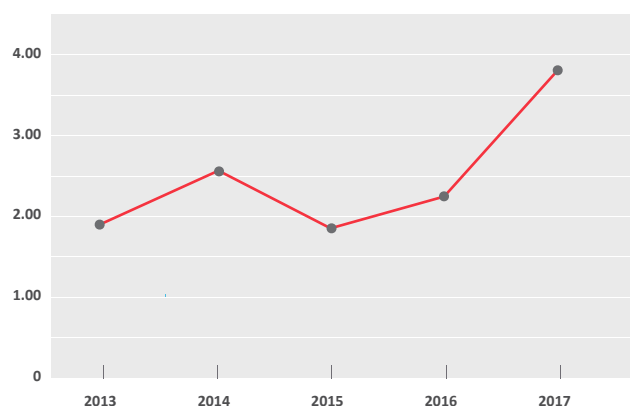
	2017	2016
Earnings per share (Rs.)	3.73	2.32
Net asset value per share (Rs.)	34	30
Dividend per share (Rs.)	0.54	0.65

The graphs shown below depict the trends in the ratio of Net Asset Value Per Share and Earning Per Share of the Company. The Net Asset Value Per Share increased from 30 times to 34 times during the year. Earnings Per Share increased from 2.32 times to 3.73 times.

Net Asset Value Per Share (LKR)



Earning Per Share (EPS)

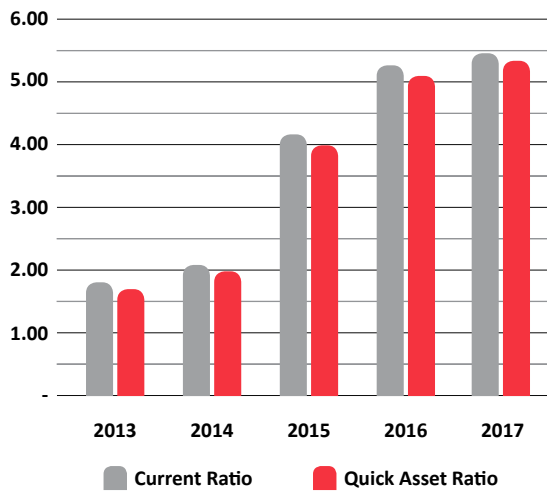


FINANCIAL CAPITAL (Contd.)

Liquidity Position:

Over the past five years current asset and quick asset ratios of the Company has grown up to 5.47 times and 5.30 times respectively. These liquidity ratios show the ability of a Company to meet its financial obligations as they come due.

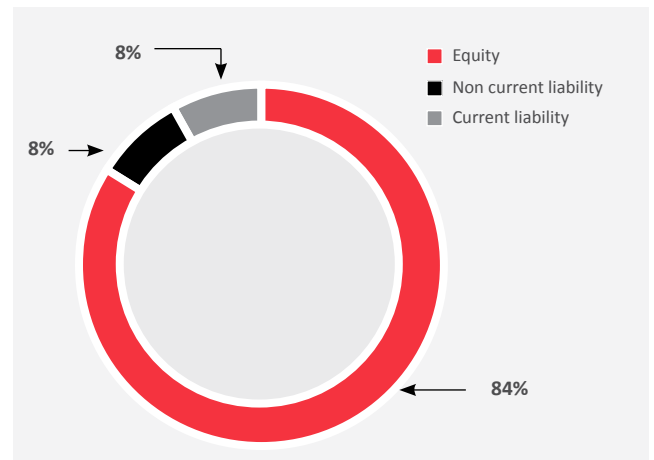
Current / Quick Asset Ratios



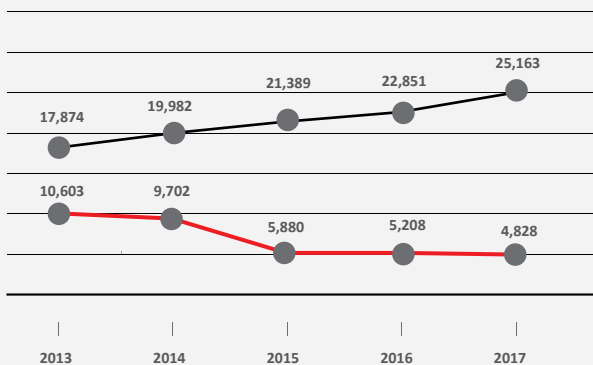
Leverage and Capital Structure

84% assets of the Company finance through Equity capital and balance 16% finance through Long term and short-term debts. As depicted in graphs below, the contribution of the equity capital for funding has grown up over the past few years. This fact is further reinforced through the declining gearing ratio.

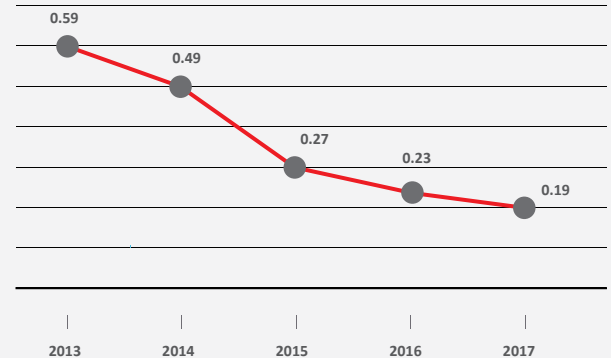
Funding Structure



Sources of Funding (LKR.Mn)



Gearing Ratio



MANUFACTURED CAPITAL



Adding 25 New Bowser and new Tank lorry Trailors



Rs. 833 million further investment in Manufactured Capital



Process re-engineering and productivity improvements in the Kolonnawa Muthurajawela



Ongoing expansion of manufactured capital to Improve Productivity efficiency of Storage Distributor of Petroleum Products Island wide

CPSTL's Manufactured Capital comprises its physical infrastructure which is used for storing and distributing the petroleum products and its digital infrastructure which enables efficient management of daily operations. The key constituents of the Company's physical infrastructure are given below;

The Storage Tanks: CPSTL operates 12 oil storage and distribution facilities across the island, including two terminals in Kolonnawa and Muthurajawela. This infrastructure is vital to the uninterrupted functioning of operations.

Oil Terminals and island wide depots: Our facility comprises 100 storage tanks, pipelines, SPBM, pumps & gantry units, bowsers and other related infrastructures. The Kolonnawa Terminal also operates a state-of-the-art laboratory which conducts tests on petroleum products.

Value Addition in 2017 During the year, the Company invested Rs. 833 million in further strengthening its manufactured capital through the following;

- Addition of 25 new bowsers and tank lorry trailers
- Facility augmentation for additional storage tanks for petroleum products
- Refurbishing old pipeline which impacted by corrosion at the Kolonnawa terminal to Colombo port
- Investments in new equipment at the Kolonnawa laboratory
- Procurement of two new gully bowsers and boom/passenger platform truck

Major Projects during 2017

Procurement, construction and commissioning of a 15,000 m3 storage tank with internal floating roof at Kolonnawa Installation.

The annual average fuel demand of Sri Lanka is increasing approximately at a rate of 4-5%. With this growth rate, Sri Lanka needs to maintain adequate storage facilities for each petroleum products. The benchmark capacity is to maintain at least a 30 day stock at any given time, at two main installation in Kolonnawa & Muthurajawela. Sri Lankan economy is growing at a startling rate during the post-civil war era and, the demand for petrol alone in Sri Lanka has grown by 90% from that of 2009. No new tank construction has been taken place at Oil installation at Kolonnawa after 1999. Considering all these facts a cabinet decision is made in 2012 to introduce additional 100,000 Metric Tons (MT) storage capacity is to two main installations of CPSTL, to ensure country's fuel requirement by maintaining 30 days stock at any given time.

As the first phase of this massive development program, CPSTL has decided to construct a 15,000m³ (11,000 MT) storage tank for Gasoline at Kolonnawa Installation at a cost of Rs. 412 Million, within one and half years of construction period. The tank type is above ground vertical welded steel storage tank with an Internal Floating Roof. The Welded Storage Tanks has minimum leakage possibility and Internal Floating Roof (IFR) has minimum vaporization loss. The product type is Gasoline 92 (Petrol 92) for the proposed tank.

MANUFACTURED CAPITAL (Contd.)

The project aligns with the vision and mission of CPSTL, and it is a much anticipated development program of infrastructure Development of the Common User Facility in Sri Lanka for petroleum product storage and distribution activities for Ceylon Petroleum Corporation (CPC) and Lanka Indian Oil Company (LIOC).

The tank is proposed to construct inside the gasoline storage area of the Kolonnawa Installation and the source of fund is the internal funds of CPSTL. The Front End Engineering Design (FEED) is done by the Engineering Function of CPSTL and the project is executed as an Engineering, Procuring, and Construction (EPC) contract. Contractor of the project is Endo East (Pvt) Ltd.

The construction works ceremonially inaugurated by the Minister of Petroleum Resources and Development Hon. Arjuna Rantunga on 22nd December 2017.



Infrastructure Development Facilities at Muthurajawela

In parallel with the additional capacity introduction project, CPSTL decided to increase fuel filling capacity to cater the increasing demand from 2016 to 2030. The strategy was formulated considering maximum utilization of existing filling facilities at Muthurajawela Terminal. It is proposed to extend the existing gantry structure to accommodate additional eight (08) loading bays, construct a new pump house and develop related facilities. Total estimated value of the proposed development is Rs. 550 million.

The Muthurajawela Terminal is a semi-automated terminal and has several advantages in terms of efficiency and productivity when compared with Kolonnawa installation and other bulk depots of CPSTL. All the bays of the filling gantry is capable of loading 10 compartment road tankers and the turnaround time of a road tanker is lessor compared to other installations. In addition, the products unloaded at SPBM -02 are directly transferred to Muthurajawela Terminal without subjected to port charges. Another significant advantage is that the terminal is located at the entrance of

Outer Circular Expressway (OCE) which is scheduled to put in to operation by year 2019. The OCE connects all the expressways originating from Colombo, enabling Muthurajawela terminal to reach any part of the island with minimal operating costs. This strategic advantage of geographical positioning is expected to optimize by developing the infrastructure facilities at Muthurajawela terminal.

The project is well positioned with the vision of CPSTL; "To Be The Most Efficient Petroleum Terminal Operator In South Asia". The approval of the CPSTL Board of Directors has been granted for the said project and a Technical Evaluation Committee was appointed for working on the bidding process. A Cabinet Appointed Procurement Committee is also established and the procurement process is in progress. With the implementation with this project CPSTL will gain the competitive advantage of reaching any part of the island with the quickest delivery time.



Design, Supply and Installation of Internal Floating Roofs for Tanks No. 6,7 And 8 at Muthurajawela Terminal.

Keeping in line with the organizational vision and mission, CPSTL continuously strive on improving the efficiency of terminal operations. Losses due to evaporation is one of the significant issues encountered by CPSTL in petroleum product handling operations. Evaporation is not only an economic loss, but also an environmental pollution. CPSTL being a responsible corporate citizen, the management focus has been improved in this regard to mitigate evaporation losses.

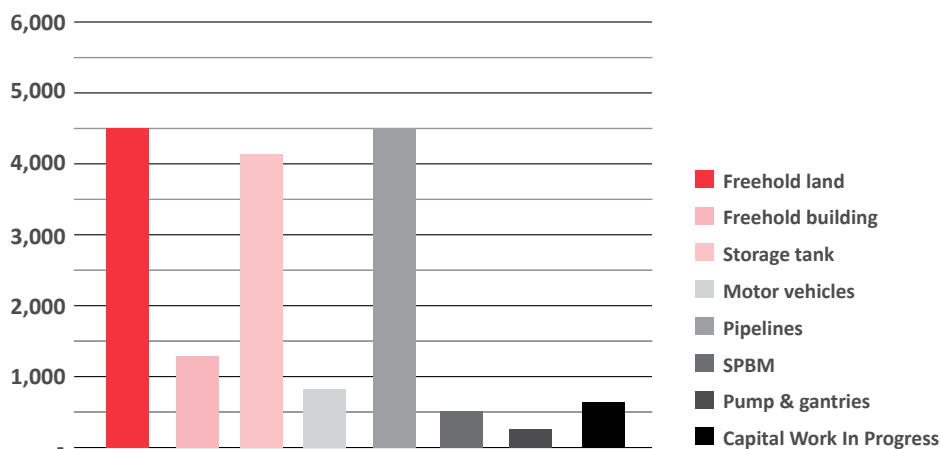
Installation of Internal Floating Roofs (IFR) is a method recommended by American Petroleum Institution (API), to reduce the evaporation on fixed dome roof tanks. IFRs are designed to regulate gas venting, and allow explosive gases to vent into the atmosphere in a safe way. Installed inside the fixed roof storage tanks, they are also an economically profitable option. IFR covers a major part of the liquid surface and through an effective seal the emission reduction can be up to 98%.

MANUFACTURED CAPITAL(Contd.)

Three (03) fixed dome roof, welded steel, vertical petrol storage tanks of Muthurajawela Terminal, are selected for installation of IFRs to reduce evaporation losses. The total investment on fixing IFRs is Rs. 54.4 Million and almost 50% of the work has been completed by the end of financial year 2017. CPSTL believes by implementing this project, not only to minimize the wastage of petroleum products, but also to contribute and exhibit our goodwill to save our precious environment of this beautiful island



Manufactured Capital (LKR Mn)



HUMAN CAPITAL



Talent attraction:
41 employees recruited and 26 employees were confirmed during the year.



Employee Attrition rate slightly improved to 3.83% from 3.85%.



Zero work-place injuries during the year

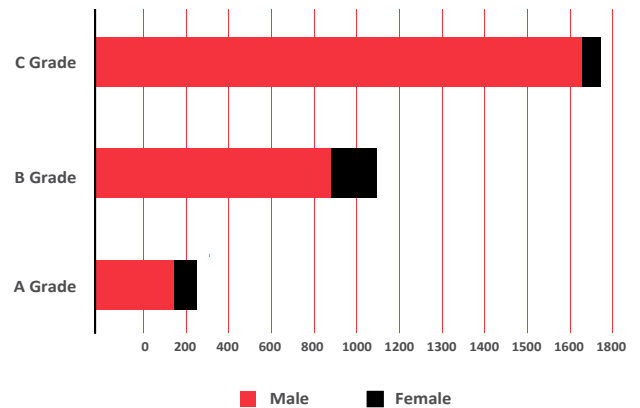


Outlook for 2018/19: Focus on skill development

Being a Company that prides in providing uninterrupted service islandwide, CPSTL understands the crucial role that “human resource” play in realizing the Company’s objectives. Human resource is a major component of earning potential, productivity and long term sustainability and a great asset of CPSTL and is an equal opportunity employer ensures that no discriminatory practices are take place in any way.

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 Capital.

Employees By Grade & Gender(Nos)



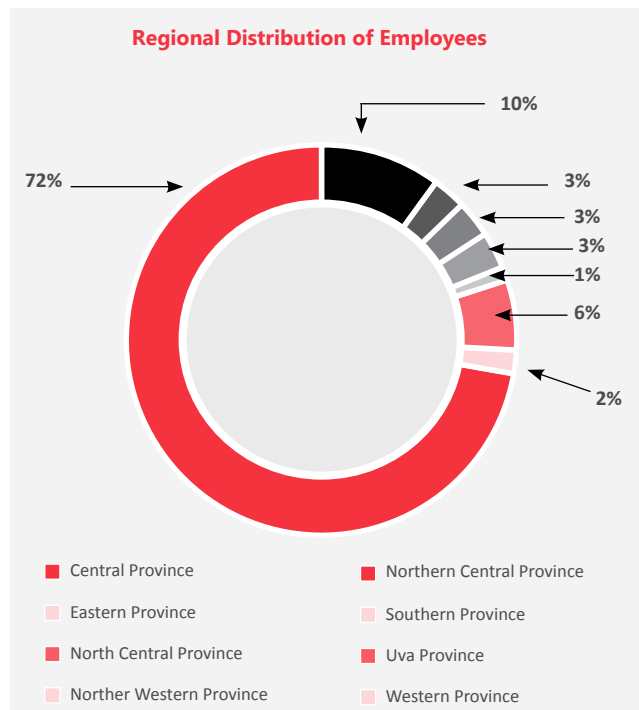
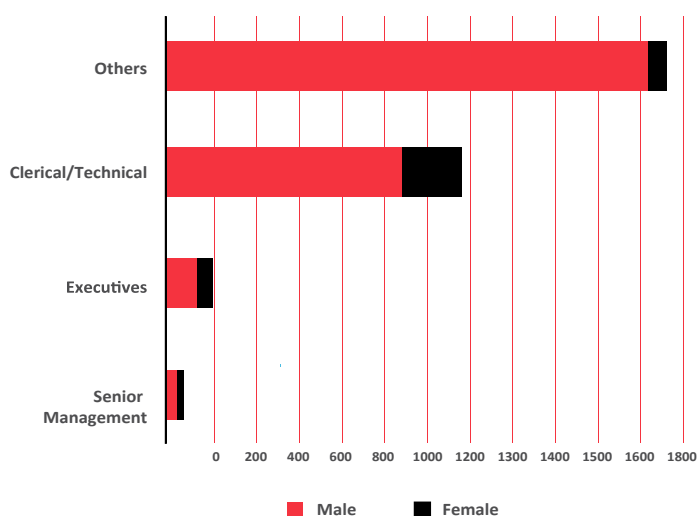
HUMAN CAPITAL (Contd.)

Our Approach to People Management CPSTL's team of 3045 employees are the drivers behind our strategic plan, living our corporate values. We at CPSTL, believe that employees are our internal customers and strive to develop and nurture long standing relationships. Our employee proposition is underpinned on attractive remuneration schemes, opportunities for training and career development and ensuring a conducive, injury-free environment to all workers.

Human Resource Governance in CPSTL: The Company's HR policy frameworks are broadly aligned to that of its parent (CPC) and have been revised where-ever relevant to reflect labour laws. The governance framework in place promotes clear segregation of duties, judicious empowerment and clearly defined governance structures. During the year, we reviewed and revised our promotions policy with the objective of nurturing a strong talent pipeline.

Our talent pool: Our pool comprises 3,045 employees who are diverse in terms of skills and industry experience. Given the extensive geographical distribution of our distribution network, employees are recruited from all areas of the country. Female representation is relatively low, particularly in the non-executive grades, but amounted to 19% in the executive and above categories. The profile of our team is graphically illustrated below;

Employees By Category & Gender(Nos)



Strategic focus in 2017

The Company's HR strategy for the year was formulated to address key challenges stemming from the operating landscape; these challenges are listed alongside.

- Talent attraction
- Enhancing benefit structures
- Training and development

Talent Attraction: As a subsidiary of the Key Petroleum Service Provider in Sri Lanka, CPSTL offers its employees a unique opportunity to sharpen skills and develop attitudes in a conducive work environment. This has enabled CPSTL to position itself as a preferred employer, attracting the industry's best talent. We are an equal opportunity employer and do not discriminate on gender, age or ethnicity in recruitments, promotions and other benefits. Ensuring the continuous growth of the Company, CPSTL constantly seeks to recruit new talents and to do promotions based on performances. During the year, we added 26 employees to our cadre.

HUMAN CAPITAL (Contd.)

All recruitments and promotions are based on CPSTL's Staff Recruitment and Promotion Schemes. During the year the Company has done 118 internal promotions.

The Company's approach towards talent development embodies a mutual responsibility of management and employees in continuously working towards the following objectives.

- To ensure a qualified, enthusiastic and reliable work force
- To ensure quality work environment and resources for all employees
- To guarantee that CPSTL is perceived as a desirable place to work for ambitious professionals and a place for providing further expert development
- To promote cooperation and mutual trust amongst employees

- To promote opportunities for employees for professional development to further increase their qualifications and broaden their spectrum
- To guarantee equality in the work place

Employee Benefits

The Company follows a policy of transparency in pay structures, ensuring that there is no difference in the pay scales within the same grade category, regardless of gender.

Moreover, employees of CPSTL enjoy broad range of benefits and welfare initiatives including,

Employee benefits to permanent cadre	Description	Benefits to probationers
Leave		
- Annual Leave	14 days. Depend on date of join of employee.	
- Casual Leave	7 working Days.	Yes
- Medical Leave	21 working Days. (Depend on date of Join of Employee)	
- Maternity Leave	- 84 Working days. - Half Pay for 84 days. - No pay leave for 84 days.	
- Accident Leave	Employee Accident (who doing a Job in a company)	
- Lieu Leave	Employee who work on 4 Saturdays of month he can get 2 days of leave & Over Time.	
- Special Leave	Special incident (election, curfew, etc....)	
- Duty Leave	Special incident for company purpose.	
- No - pay Leave	For foreign studies, training, Working	
Increment	Evaluate employee duties, attendance & behavior	Yes
Allowances	Meal Allowances, Travelling Allowances, Terminal Allowances, Attendance Incentive. Shift Allowances, Annual Leave Incentive. Cost of living Allowances, Professional Allowances. Weekend Allowances, Official Telephone Benefit.	Yes
Bonus	Medical Leave ,Incentive Bonus, Annual Bonus	Yes
Loans		
- Distress Loan	10 months salary. Simply concessionary interest rate, recoverable in 60 months	
- Housing Loan	Purchasing Land or House or House construction. Simply concessionary Interest rate, Recoverable in Maximum 300 months or Service of Employee.	No
- House Repair Loan	For repair House. Simply concessionary interest rate, recoverable in 120 months	
- Home Facilities Loan	To purchase Furnitures. Simply concessionary interest rate, recoverable in 60 months.	

HUMAN CAPITAL (Contd.)

Employee benefits to permanent cadre	Description	Benefits to probationers
- Thrift Society Loan	03 months salary. Simply concessionary interest rate, recoverable in 60 months.	
- Car Loan	Only executive. Simply concessionary interest rate, recoverable in 60 months.	
- Motor Cycle Loan	Simply concessionary interest rate, recoverable in 60 months.	
- Three wheel Loan	Simply concessionary interest rate, recoverable in 60 months.	
Advances		
- Festival Advance	Free Interest. Recoverable in 10 Months	
- New Year Advance	Simply concessionary interest rate, recoverable in 10 months.	Yes
- School Books Advance	Free Interest. Recoverable in 10 Months.	Yes
Presentation of awards	Depend on Employee service. (Increments)	No
Welfare related Benefits	- Every employee is entitled to a 3 day/2 nights stay with family at any CPC or CPSTL circuit bungalow.	
	- Participation in CPSTL sport Club events. & Gym facilities.	Yes
	- Annual Picnic.	Yes
	- Blood Donation Camp.	Yes
	- Co- operative Shop at CPSTL terminals.	Yes
Medical Benefits	- In- house Medical Doctor at CPSTL Terminals and also provide Free medicine & reimbursement to directly other employees.	Yes
	- Limited Medical coverage.	Yes
	- Unlimited reimbursement for Special Testing (CT scan, US Scan, MRI, endoscopy)	Yes
	- Limited reimbursement for other Testing (Blood)	Yes
Death Benefits	- Death on Duties paid remuneration	Yes
Thrift Society Benefits	- Death remuneration, Include Death of employees, employee's parent spouse & Children, spouse's Parent	Yes
	- Thrift Society Gratuity is given same as Statutory Gratuity	No
Retirement Provision	- Statutory Gratuity.	No
Other Facilities	- Provision for Uniform for Special duties.	Yes

Training and Development

Providing opportunities for ongoing training has been an important aspect of our success. The Company considers continuous development of our employees is essential for the growth of CPSTL and in addition to being beneficial to employee retention and loyalty. Training and Human Resource Development function of CPSTL consistently monitoring training needs of all the employees. With the growing need for specialist skills and innovative capabilities, we support our employees in sharpening skills and competencies through routine training programs. In addition to on the job training, employees are given the opportunity to attend external training programmes. During the year under review, the Company conducted several

training programs to develop technical knowledge, soft skills, leadership skills, Stress management, Positive thinking, Team building etc. and we invested Rs. 31.8 million in training, translating to total training hours 21,832 for 2,391 participants. A summary of the training activities carried out during the year are given below;

HUMAN CAPITAL (Contd.)

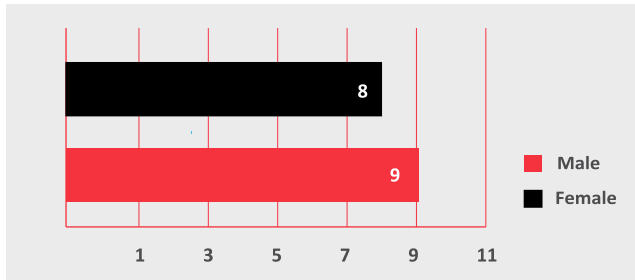
Programme	No. of participants
Art of Driving	76
Attitude Changes through Motivation	60
Direction for Zero Based Budgeting	51
Employee Development	64
Financial Regulations	112
First Aid Programme	73
Healthy Living Style	84
How to Minimize Audit Issues	46
HRM for non-HR Officers	51
Importance of Becoming a Link of a Chain	47
Industrial Health & Safety	50
Information Systems for Internal Audit Staff	45
Introduction Programme for Newly Recruited Employees	141
ISO 14001: Awareness Programme	41
Leadership for Productivity Improvement	52
Motivation & Team Building	52
Occupational Safety & Health Management	57
Positive Thinking & Proactive Behaviour	400
Procurement of IT Related Products & services	51
Productivity Awareness Programme for Stores Function	40
Public Relations	45

Social Dialog & Workplace Corporation	172
Strategic Planning	40
Stress Management	147
Time Management & Money Management	69
Programme on "Leave"	44
Transformation of Employees to the Desired Next Level	86
Your Email Promote You & Your Company	25
Practical Training Programme for Newly Recruited Drivers	25
Outward Bound Training - Kithulgala	55
English Learning Programme	28
Computer Learning Programme	62
Program for operating of loading arms smoothly	04
Handling operation of ICP-OES for mettle analysis in petroleum products	02
The quality control training programme	01
Workshop on contracts management of International construction Projects under FIDIC contracts	01
The program on corporate management (LKCM 16) for Sri Lanka	03
SAP Training program for CPSTL SAP team members	10
Workshop on Advanced Leadership & People Management	03
Program on "Executive Programmed Quality Management (EPQM)	01
Improving Performance and Productivity Managing People & Team Dubai	01
Study on LNG Products	01

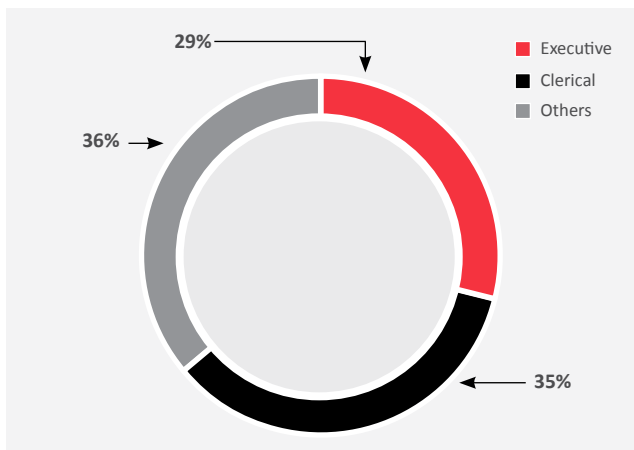


HUMAN CAPITAL (Contd.)

Average Training Hours by Gender



Average Training Hours by Category



Outbound Training at Kithulgala

An “Outbound training programme” was held at Kithulgala, including water rafting, psychological exercises, group discussions, adventure risk & team building work focusing mainly on building team spirit and effective relationship among employees whilst helping to improve skills such as planning, leadership, time management and competency in achieving set goals etc.



In addition, CPSTL let employees to participate for training programmes conducted by external parties where relevant from labor grade to managerial level.

CPSTL always keen on professional and career development of employees and motivate them for high education by granting financial assistance to follow M Sc, MBA and other postgraduate studies. In order to enrich their career and to retain professionals within the organization, CPSTL reimburse annual professional body subscriptions.

During the year, employees participated for 8 foreign training programs and for 8 pre inspection and instrument training foreign tours.

Quality Assurance

The main Laboratory of CPSTL is located in Kolonnawa Installation, is the independent Laboratory for marketing companies and performs product quality assurance and issue certificates independently. Laboratory performs testing on every batch of receipts, every transfer of product and on products in every bulk delivery tank prior to release according to the specifications.

In year 2017 main laboratory has upgrade the testing facilities for following testing,

Analysis of Oxygenates content in Gasolene 92 Octane & Gasolene 95 Octane by latest Gas Chromatogram using ASTM D 4815 – 09 test method. Analysis of Benzene content in Gasolene 92 Octane & Gasolene 95 Octane by latest Gas Chromatogram using ASTM D 3606 – 10 test method. This testing parameter is able to perform efficiently & accurately using purchased latest instrument.

Analysis of Flashpoint (PMcc) in Gas Oil (500 ppm Max S, 10 ppm Max. S, Marine Gas Oil), Fuel Oil (Fuel Oil 800 secs, Low Sulphur Fuel Oil 1500 secs, High Sulphur Fuel Oil 180 cSt, , Low Sulphur Fuel Oil 180 cSt & RMG 380, RMG 180) by Fully Automated Flashpoint Tester using ASTM D 93 - 12 / ISO 2719 – 1988 test methods. Now main laboratory is able to perform Flashpoint test easily & efficiently using multi method Flashpoint analyzer.

HUMAN CAPITAL (Contd.)

Analysis of Lubricity of Aviation turbine Fuel (JET A-1) by Ball on Cylinder Lubricity Evaluator. (BOCLE) modern instrument using ASTM D 5001 – 10 test method. Using this instrument CPSTL Laboratory able to perform analysis of lubricity of Aviation Turbine fuel (JET A-1).

Quality Assurance, Certification & maintain traceability of test results

CPSTL Main Laboratory has initiated the process of getting Accreditation on Laboratory Quality Management System (QMS) of ISO 17025:2005 Quality standard From Sri Lanka Accreditation Board (SLAB). For this process CPSTL has got constancy service from Industrial Technology Institute (ITI). Consultancy works has initiated and first training program and Gap analysis to the system, preparation of Scope, Quality Manuals, Procedure Manuals, Formats & other required document under quality system has initiated to prepare.

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. Given high degree of susceptibility to risk such as fires and oil spills, health & safety is of critical importance for CPSTL. The Company invests significantly in ensuring its safety equipment and systems are in peak operating condition whilst also training its people as well as all outsourced employees such as bowser drivers and assistants in health and safety aspects for themselves as well as all stakeholders.

CPSTL has a dedicated in house, First Aid Training, Fire Drills, Safety Trainings and Awareness Programs. Servicing and testing of fire hydrant, testing of fire siren regularly, Cleaning, oiling and testing office equipment, drenchers & hoses are done regularly. A comprehensive Health, safety and environmental policy is in place to govern the proper implementation of health and safety. Wastewater discharging system was regulated to retain quality of wastewater within the required standard and proper garbage separation system was initiated during the year. Moving step forward, to reduce the contribution to global warming and to reduce the impact by carbon emission, assistance from Climate Fund Sri Lanka was obtained in 2017.



SOCIAL AND RELATIONSHIP CAPITAL



Customer relationships.



Community engagement



Social events



Awareness programmes

Customer Relationships

We serve the country through providing an essential service that facilitates economic activity, mobility and development. We are providing the island wide country's petroleum products need through our Terminals and regional depots. Our extensive reach allows us to serve all regions of the country and serving excellence.

Community engagement

The Company adopts a strategic and proactive approach towards community engagement. The nature, extent and partnerships we have nurtured with communities in our normal business operations also provide us an opportunity to create meaningful existence in the island we operate in.

Skill Development

The Company has partnered with CA Sri Lanka to provide one year training necessary for Chartered students and undergraduates & students of professional bodies who require industrial training experience. The programme was continued with great success and accommodated 107 trainees during the year.

Employee Events

Annually CPSTL conducts many employee social and welfare events to build a supportive and cooperative work environment. Some of these events for the year 2017 are mentioned below.

Blood Donation Campaign

Annual Blood donation campaign was conducted successfully in 2017 as well for the 37th consecutive year with full and active participation of the employees of the company.



SOCIAL AND RELATIONSHIP CAPITAL (Contd.)

Donations to Employees Affected by Flood

Cash donations and dry rations were granted to employees who were affected by flood in southern province during the year.



Musical Programme

Musical competition “Weda Bimaka Gee Siththama- Tharuwak Nowana Tharuwak” was conducted by the Art Society of CPSTL with a view of uplifting musical skills of employees and also for entertaining other employees.



Shramadana Campaign

Shramadana campaigns were conducted in the office premises by CPSTL employees including all the depots.



SOCIAL AND RELATIONSHIP CAPITAL (Contd.)

Gold Coins Awarding Ceremony

Gold coins award ceremony was held successfully in association with Ceylon Petroleum Corporation for felicitation of employees who have successfully completed 25 years of service in the company.



Training on SAP

A valuable training on SAP (ERP) system was given to Employees of CPSTL, CPC & LIOC at Indian Oil Institute of Petroleum Management (IIPM), India. Various SAP models were extensively covered during the training and the programme was customized to meet the requirements of the participants.



Lecture Series on Positive Thinking, Proactive Behavior and Attitude Training

Lecture series on “Positive Thinking, Proactive Behavior and Attitude Training” was conducted by the Mr. Dhammika Ranatunga, Chairman CPSTL for all the employees of CPSTL including depots. It contributes a lot for shaping career and also for the personnel life as well.



Buddhist Sermons

Buddhist Association is conducting Buddhist Sermons on poya days in office premises and invites all the employees to participate.



SOCIAL AND RELATIONSHIP CAPITAL (Contd.)



Art Competition & Exhibition

Art Competition and an exhibition were held with the participation of employees and their children and the gifts and certificates were awarded to the winners.



Social Events

Social responsibility is viewed as an integral element of conducting business activities of CPSTL where the company strives to improve quality of the life of the people and the surrounding environment. We are extremely conscious that our growth must be sustainable, not only financially but also socially as well. Hence, CPSTL has always gone beyond the statutory responsibilities in supporting the society and continued to support

community welfare, cultural activities and charitable events during the financial year.

Renovation of two wards for Apeksha Hospital

Buddhist Association of CPSTL identified a building which was not in a usable condition at Apeksha Hospital Maharagama and done renovations handed over for usage for the management after a pirth enchanting ceremony. Currently two wards are operating in the renovated building.



Educational Seminar for Ordinary Level Students

CPSTL granted financial assistance for conducting educational seminar on Mathematics for Ordinary Level students of Kudabuthgamuwa Rajasingha Maha Vidyalaya in association with the Alumni Association of University of Kelaniya – Colombo Branch.



SOCIAL AND RELATIONSHIP CAPITAL (Contd.)



Dry Rations for Flood Victims

CPSTL has extended hands to help flood affected families Southern province visiting their houses and by distributing dry rations, house hold necessities.



Donate dry rations for Pediatric unit of National Cancer Hospital

As part of social responsibility initiatives, visited pediatric unit of Apeksha Hospital, Maharagama to put a smile on their faces by giving them gifts and by donating urgently required medicine.



A new House Constructed for an Unprivileged Family

Finance welfare society has given immense support by constructing a new house for an unprivileged family having 3 children whose father passed away from an accident.



SOCIAL AND RELATIONSHIP CAPITAL (Contd.)

Helping Victims of Landslide at Meethotamulla

CPSTL has extended hands towards neighbors by providing free meals during Meethotamulla disaster.



Awareness program

Training Programs for Road Tanker Drivers

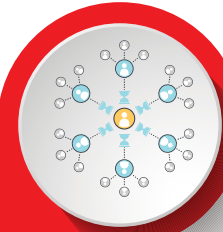
CPSTL has conducted several training programs for Road Tanker Drivers on safe driving and on road driving disciplines in 2017



NATURAL CAPITAL




Handling of ecologically sustainable petroleum products



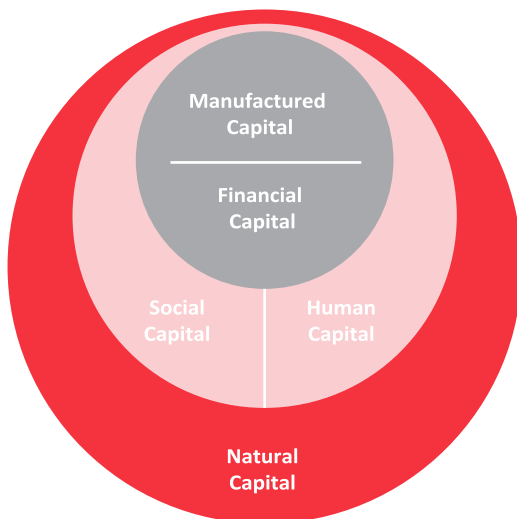
Timely identification and appropriate management



Accountable disposal of waste



Training to minimize oil spills



“Engaged in bulk petroleum storage and distribution activities with state of the art infrastructure facilities for management of downstream product handling in Sri Lanka serving around one thousand retail outlets island wide owned by Ceylon Petroleum Corporation and Lanka Indian Oil Corporation

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 the economic development process”

Onshore and offshore oil activities interact with the environment which the CPSTL operate in the island. These activities can depend on ecosystem services and have the potential to cause direct and indirect impacts on biodiversity and ecosystem services (BES). Timely identification and appropriate management of operational dependencies and potential impacts on BES provide the basis for effective mitigation of associated potential risks as well as BES conservation opportunities

As an energy sector operator, natural capital is a key input to our value creation process. We therefore evaluate and minimise our environmental impact through initiative adopted across the entire value chain. During the year, there were no fines or penalties imposed on the Company for the violation of any environmental laws/regulations.

Energy

CPSTL’s energy requirements are fulfilled through diesel, furnace oil and electricity sourced from the national grid. Energy is consumed mainly in two terminals (Kolonnawa & Muthurajawela) which are most energy intensive, Offshore unit and the island wide depots. The Company’s energy consumption during the year by source is given below;

NATURAL CAPITAL (Contd.)

Energy source	Unit of measurement	Consumption in 2017	Consumption in 2016
Purchased electricity	Kwh	2,904,300	2,914,112
Diesel	KL	4,897	4,457

Water

The Company's operations are not water intensive and our water use primarily from employee consumption and maintenance of activities. Our water requirements are fulfilled primarily from the municipality lines. The Company's total water consumption is given below;

Source	Unit of measurement	Consumption in 2017	Consumption in 2016
Municipal water supply	KL	275,720	268,120

Transportation of products

Transportation of petroleum products pose environmental risks due to oil spills/ leakages/ accidents that contaminate both land and water resources. The following safety measures are adopted by the organization in ensuring that the transportation crew is well trained to handle unplanned events. We conduct ongoing training programmes and demonstrations for transportation crews on Standard and Emergency response methods in the event of oil spills/leakages.

Our initiatives include,

1. Preventing any oil leaks at the Bouy/jetty during discharge of cargo from tankers. Both the receiving and tanker unloading hoses were pressure tested before the receipt of cargo to ensure that there are no damages in pipelines.
2. In the event of any oil spillages, oil dispersant chemicals and oil absorbent cabs (Oil Skimmers) were made available as measures to mitigate minor oil spills.
3. Third party insurance for any public liabilities, product liabilities and pollution liabilities.



Ceylon Petroleum
Storage Terminals Limited

GOVERNANCE &
COMPLIANCE

CORPORATE GOVERNANCE

Corporate Governance at CPSTL is designed to create sound and effective corporate culture which strengthens Board and Management accountability, transparency, fairness in all transactions and helps to build public trust of 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. In broader sense it also encompasses;

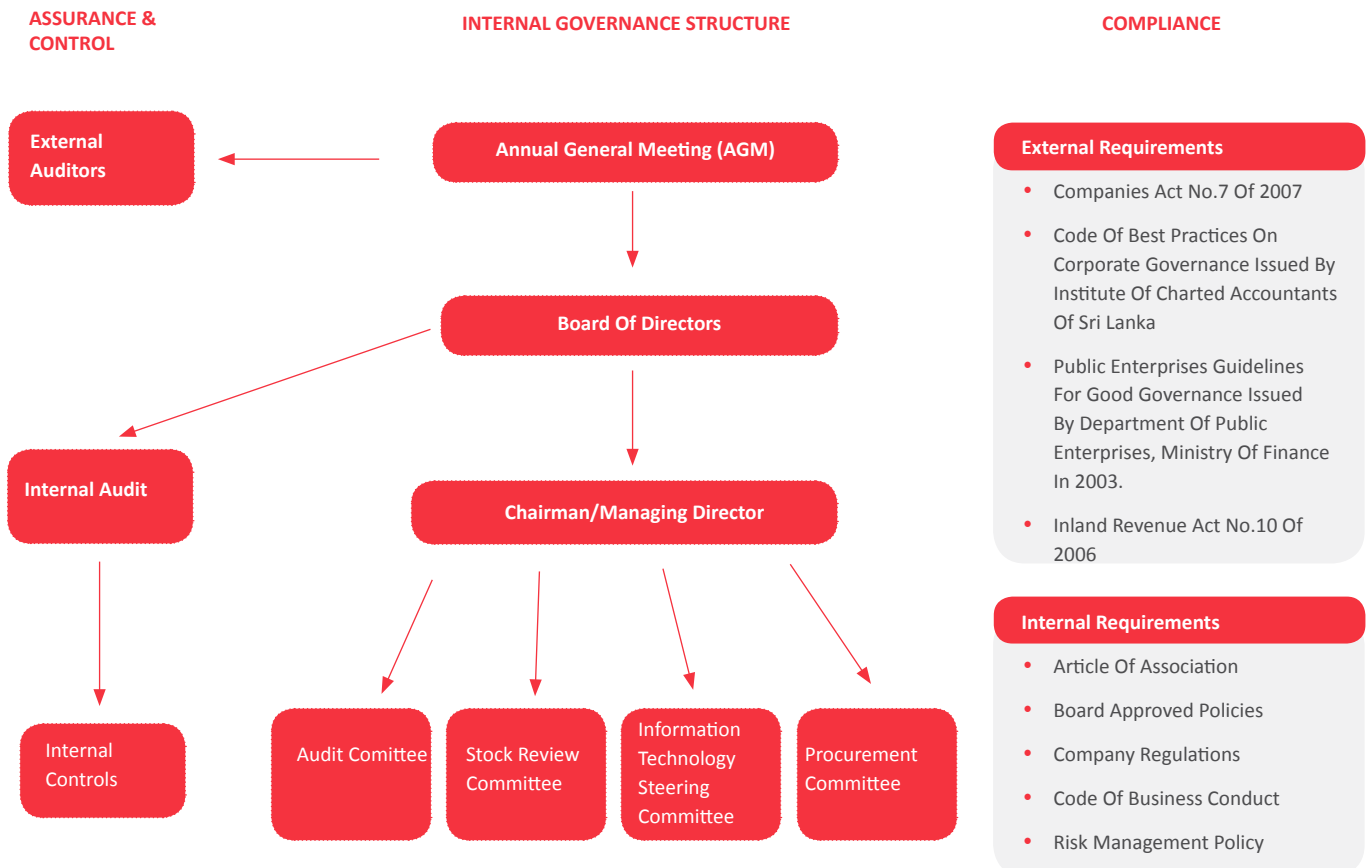
- How the vision, mission, objectives and strategy are designed and communicated
- How well the values are complied with
- How risks are managed
- How transparency is promoted
- How to manage operations in sustainable way
- How future leaders are encouraged and developed
- How corporate culture is promoted to enhance stakeholder values

As the main facilitator of storage and distribution of Petroleum Products in Sri Lanka, the organization assures to practice the principals of corporate governance in compliance with legislations, regulations and codes set out by regulatory bodies of the country and it adheres with the internal policies & guidelines set out by the Company.

CORPORATE GOVERNANCE FRAMEWORK

The Corporate Governance framework at CPSTL can be illustrated under main three pillars of;

1. Compliance
2. Governance structure
3. Assurance & Control



CORPORATE GOVERNANCE (Contd.)

01. Compliance

Corporate Governance practices of Company adheres to the requirements of following frameworks of legislation, codes & voluntary practices.

- Code of Best Practices on Corporate Governance issued by Institute of Chartered Accountants of Sri Lanka
- Public Enterprises Guidelines for good Governance issued by Department of Public Enterprises, Ministry of Finance in 2003.
- Companies Act No.7 of 2007
- Inland Revenue Act No.10 of 2006
- Article of Association of the company
- Board Approved Policies
- Company Regulations
- Code of business conduct
- Risk Management Policy

02. Governance Structure

• The Board of Directors

The Board is committed to maintaining the highest standards of corporate governance across all activities of the Company. The purpose of governance is to create long-term sustainable shareholder value

through effective and prudent management. The principal duties of the Board include;

- Providing direction and guidance in the formulation of strategies which are aimed at promoting the long-term success of the organization.
- Providing strategic guidance and evaluating, reviewing and approving corporate strategy and the performance objectives for the Company.
- Reviewing and approving annual plans and long-term business plans.
- Monitoring systems of governance and compliance.
- Approving and monitoring financial and other reporting practices adopted by the company.
- Reviewing and approving major acquisitions, disposals and capital expenditure.
- Determining any changes to the discretions/authorities delegated from the Board to the executive levels.
- Overseeing systems of internal control and risk management procedures.

	Name of the Director	Date of Appointment to the Board	Date of resigned from the Board	Position
1	Mr.D.C.Shehan Senevirathne	14th October 2015	23rd May 2017	Chairman/Managing Director (ED)
2	Mr. T.G.Jayasinghe	14th October 2015	6th March 2017	NED
3	Mr.Eshan Perera	14th October 2015	23rd May 2017	NED
4	Mr.Shyam Bohra	14th October 2015		NED
5	Dr. Lalith Liyanage	14th October 2015	23rd May 2017	NED
6	Mr.Nandun Fernando	07st March 2017	23rd May 2017	NED
7	Mrs.K.D.R.Olga	14th October 2015		NED
8	Mr. Duminda Rajapakshe	14th October 2015	23rd May 2017	NED
9	Mr.Anuj Jain	14th October 2015		NED
10	Mr.Randhir Singhe	01st June 2016		NED
11	Mr.Dammika Ranathunga	01st June 2017		Chairman (ED)
12	Mr. Sanjeewa Wijerathne	01st June 2017		Managing Director (ED)
13	Mr.Nimal Jayasundara	01st June 2017		NED
14	Mr.U.N.Gunawardena	01st June 2017		NED

NED Non-Executive Director **ED** Executive Director

CORPORATE GOVERNANCE (Contd.)

The profiles of each Director as at 31st December 2017 on pages 14 to 17 of the Annual Report demonstrate a wealth of experience and sufficient caliber to provide independent judgement on issues of strategy, performance, resources and business practices which is vital to the company.

- **Composition and Balance of the Board**

There were two set of Board of Directors during the year under review. From 01st January 2017 to 23rd May 2017, the Board comprises of 09 Directors of which 08 are Non-Executive Directors and 01 is an Executive Director, who is also the Chairman/ Managing Director of the company. From 01st June 2017 to 31st December 2017, the Board comprises of 08 Directors of which 06 are Non-Executive Directors and 02 are Executive Directors.

- **Appointment of Directors**

Directors are appointed to the board through an Annual General Meeting subject to the terms of Article of Association. In considering candidates for Directorship, the Board will take into account all factors it considers appropriate, including, among other things, breadth of experience, understanding of business and financial issues, ability to exercise sound judgment, diversity, leadership, and achievements and experience in matters affecting business and industry.

- **Division of Responsibilities**

The roles of the Chairman and the Managing Director are separate since 01st June 2017 with a clear distinction of responsibilities between them, which ensures the balance of accountability and authority between the running of the Board, and the executive responsibility for the running of the businesses.

The role of the Chairman, Mr. Dammika Ranathunga, is to provide leadership to the Board, for the efficient organization and conduct of the Board's function, and to ensure the integrity and effectiveness of the relationship between the Non-Executive and Executive Director(s).

The role of the Managing Director, Mr. Sanjeewa Wijerathne, is to manages day today affairs of the organization based on Strategic direction, policy formation and procedure approved by the Board of Directors from time to time.

Operations of CPSTL can be divided into sub categories namely, Operations in Kollonawa installation, Operations in Muthurajawela Terminal, Oil Facility Office at Port of Colombo and Operations in Lanka Bulk Depots in island wide. Muthurajawela Terminal Operations headed by Terminal Manager (Muthurajawela). Operation Manager (Offshore Operations)

is the head of Oil Facility Office at Port of Colombo and Lanka Bulk Depots are headed by Depots' Superintends under the supervision of Deputy General manager (Operations).

- **Board Meetings and Attendance**

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 meetings.

There were 12 Board Meetings during the year 2017 and one Extraordinary Meeting for the year 2017.

The attendance of Directors at these Meetings is set out in the table below;

	Name of the Director	Attendance	
		Ordinary Meeting	Extraordinary Meeting
1	Mr.D.C.Shehan Senevirathne	04/04	
2	Mr. T.G.Jayasinghe *	01/02	
3	Mr. Eshan Perera	04/04	
4	Mr. Duminda Rajapakshe	04/04	
5	Dr. Lalith Liyanage	04/04	
6	Mr. Nandun Fernando *	01/01	
7	Mrs.K.D.R.Olga	11/12	01/01
8	Mr. Shyam Bohra	12/12	01/01
9	Mr. Anuj Jain	12/12	01/01
10	Mr. Randhir Singhe	08/12	
11	Mr. Dammika Ranathunga	08/08	01/01
12	Mr. Sanjeewa Wijerathne	08/08	01/01
13	Mr. Nimal Jayasundara	06/08	
14	Mr. U.N.Gunawardena	08/08	01/01

* Mr. T.G.Jayasinghe resigned from the directorship with effect from 06th March 2017 and Mr. Nandun Fernando appointed as a Director with effect from 7th March 2017.

CORPORATE GOVERNANCE (Contd.)

- **Delegation of Authority and Committees**

Other than the matters reserved for the Board, the Board has delegated authority to its Committees and Management.

The Board is supported by the following Committees which have been delegated with certain specific responsibilities;

- a) **Audit Committee**

The Audit Committee is appointed by the Board of Directors of the Company and reports directly to the Board. The Audit Committee functions within the overall governance process established by the Board of Directors of the Company and assists the Board in effectively discharging its responsibilities.

CPSTL Audit Committee consists of 02 members who are Non-Executive Directors appointed by the Board of Directors. The composition and functions carried out by the Audit Committee are presented on page 64 to 66 of the annual report.

- b) **Stock Review Committee**

Stock review committee is held weekly with the participation of CPSTL staff and representatives of CPC and LIOC. The stock position is reviewed and the requirement for the next three months is preplanned. The Quantity to be imported, is identified after considering the forecasted demand in the country, the refinery production capabilities and the tank storage capacity. Regular close monitoring enables the Corporation to ensure uninterrupted supply of fuel in the country.

- c) **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 comprises of members from CPC, 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.

- d) **Departmental Procurement Committee**

The company follows the guidelines issued by the National Procurement Agency for the purchase of products, goods, work and services, through TEC (Technical Evaluation Committee) and DPC (Department of Procurement Committee) functions, in order to ensure the transparency of Procurement function, minimize supply delays and to obtain financially the most advantages and qualitatively best

services and supplies to the company.

The committee is headed by Chairman/Managing Director of CPSTL and comprises of Deputy General Manager- Operations and representative from the Ministry of Petroleum Recourses Development.

- **Access to Information**

To enable the Board to make informed decisions, the Board is supplied with complete and adequate information in advance of each meeting, which includes an agenda, minutes, board papers, circulars, financial and operational performance reports and regular updates. Any additional information may be requested by any Director as and when required. The Directors have access to external professional advice and information in the course of fulfilling their responsibilities.

03. Assurance and Control

- **Financial Reporting**

The Board of Directors is responsible for true and fair view 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 discussed 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.

- **Transparency & Compliance**

The Board is responsible to maintain transparency in all its transactions and to ensure strict compliance with laws and regulations while preserving the ethical standards, labour and human rights and company policies.

- The internal controls system of the company is designed in accordance with the provisions of the Ceylon Petroleum Corporation Act No. 28 of 1961 and Finance Act No. 38 of 1971.
- In compliance with Finance Act.38 of 1971, the Auditor General carries out the External Audit of the organization and financial statements are published annually and tabled in Parliament.
- To ensure accountability, the organization adheres to new Sri Lankan Accounting Standards (SLFRS/LKAS) and other relevant regulations.

CORPORATE GOVERNANCE (Contd.)

- **Internal Controls**

The Board ensures a sound and effective internal control system is properly established and maintained to provide reasonable assurance regarding the achievement of effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations as well as Risk Management. It confirms 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 established internal control system of CPSTL.

- **Internal Audit**

Internal audits are conducted by the Internal Audit Division which is independent of management. The objective of an internal audit is to keep stringent control over all the activities of an organization. The management needs assurance of the authenticity of the financial records and the efficiency of the operations of the organization. An internal audit helps establish both. It ensures the proper internal control system is maintained within the organization in line with the laid down procedures, rules and regulations.

The scope of Internal Audit Division is as follows;

- To ensure that all business transactions are properly authorized before execution, in accordance with existing rules and regulations.
 - To ensure all accounting information is properly recorded in SAP as well as primary records are accurately maintained and relevant statistics and control data are properly designed to ensure efficient management.
 - To ensure that the financial accounting statements reveal a true and fair view of the status of the organization.
 - To assess the efficiency of systems of internal control in operation.
 - To adapt the system based approach to review and appraise;
 - The design and operation of all systems and procedures which are intended to control a department's operation including those used by Management to measure the extent to which programs and other operations run by the department are successful in achievement of policy objectives.
- The degree of compliance with legislation and other requirements laid down and management plans, procedures and policies.
 - The acquisition, disposal and safeguarding of assets and interest from losses, including those arising from fraud, malpractice and irregularity.
 - The arrangements for the economic and efficient use of resources and avoid waste.
 - 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.

RISK MANAGEMENT

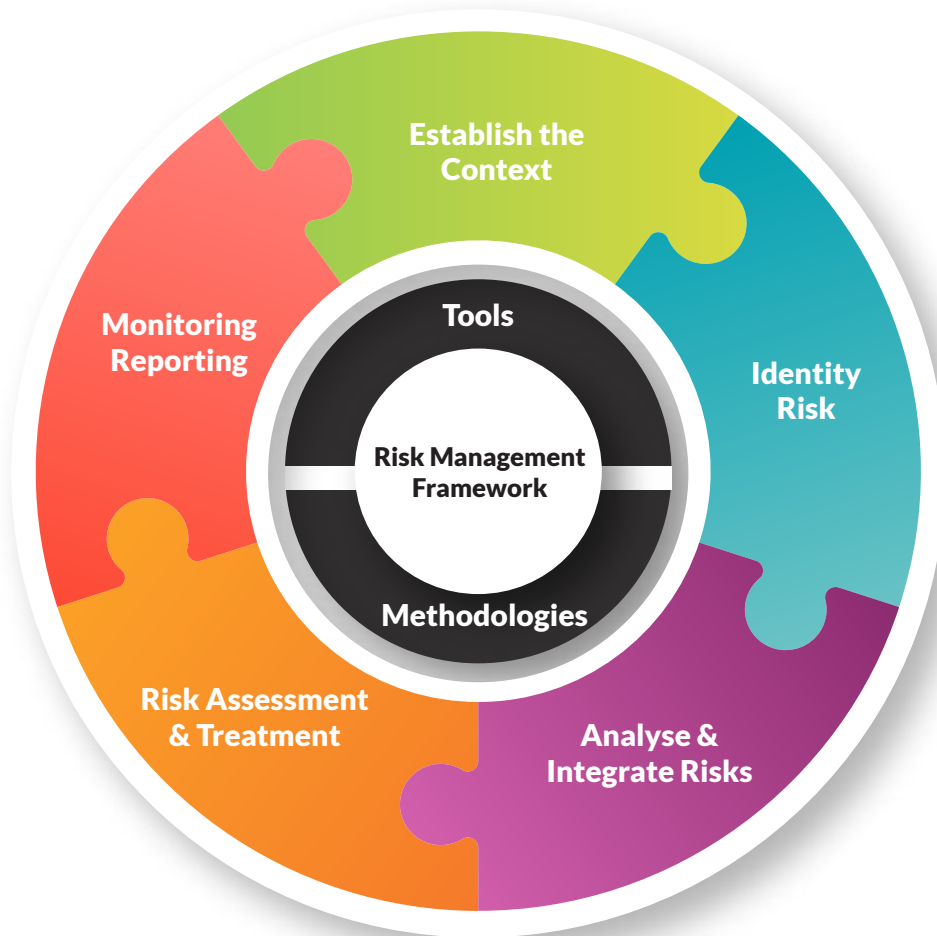
CPSTL firmly believes that sound risk management practices are critical for long term growth. The Company's objective is to add maximum sustainable value to all activities of the organisation taking into account the potential upside and downside of all those factors that can adversely affect the operations as a going concern. Risk management is a continuous and developing process which plays a pivotal role in the corporate strategy and its implementation.

Risk management strategy is an integral part of corporate governance, management decisions and business processes in the Company. Integrated risk management is essential to the effective functioning of operations from top to bottom. Inculcating risk management initiatives into business planning and the decision-making process would provide an effectual integration between planning, reporting, auditing and managing information systems.

Risk Management Framework

The need for an integrated risk management framework, providing key principles and concepts and clear direction and guidance, has become more compelling in the present dynamic business environment. The Company has recognised the importance of managing all risks and their interactions, not just the familiar risks or the ones that are easy to quantify. Even seemingly insignificant risks on their own have the potential, as they interact with other events and conditions, to cause great damage.

The underlying premise of integrated risk management is that every company is operated to create value for its stakeholders. Integrated risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to create value. The eventual aim of risk management is to balance the risk-reward trade-off since there might be cases where the cost of risk management process



RISK MANAGEMENT (Contd.)

would out-weigh the benefits. The strategy in managing risk resides in establishing the context, identifying risks, analyse; quantify and integrate risks, assessing and prioritising risks and treating risks.

Risk Appetite

In managing risk, it is vitally important to establish the risk appetite and the risk tolerance limits of the Company. Risk appetite is the amount of risk that an organisation is willing to absorb in pursuit of value or the total impact of risk it is prepared to accept in achieving its objectives. Risk tolerance is the acceptable level of variation relative to the achievement of a specific objective and often is best measured in the same units as those used to measure the related objective.

Management monitors the organisation's activities for consistency with risk appetite through the specific identified with risk tolerances. Risk tolerances are also integrated into the monitoring process to evaluate the performance of the Company. During the year, risk tolerance levels were updated considering the business growth and industry concerns.

Risk Governance

The responsibility for setting the risk appetite, communicating risk strategy and approving policies for effective management of risks ultimately rests with the Board.

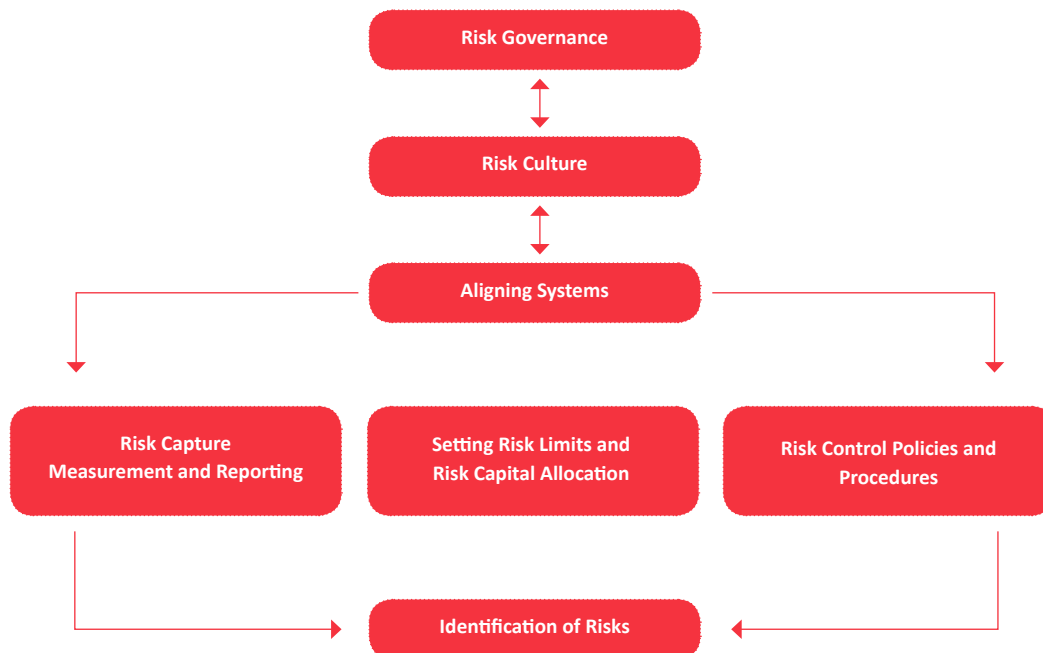
The management team of the Company supports the entity's risk management philosophy, promote compliance with its risk appetites and manage risks within their spheres of responsibility with preventive counter-measures.

Risks Inherent In Our Business

We may not have sufficient cash from operations due to heavy capital commitments and payment of personal emoluments, overhead and maintenance expenses.

The amount of cash we can distribute on our shares principally depends upon the amount of cash we generate from our operations, which will fluctuate from periodically based on, among other things:

- the volumes of petroleum products we handle;
- the terminaling and storage fees with respect to volumes that we handle;
- damage to pipelines facilities, related equipment and surrounding properties caused by floods, fires, severe weather, explosions and other natural disasters and acts of terrorism;
- leaks or accidental releases of products or other materials into the environment, whether as a result of human error or otherwise;



RISK MANAGEMENT (Contd.)

- prevailing economic and market conditions;
- difficulties in collecting our receivables;
- the effects of new or expanded health, environmental and safety regulations;
- governmental regulation, including changes in governmental regulation of the industries in which we operate;
- changes in tax laws;
- weather conditions; and
- force majeure.



Our financial results depend on the demand for the light refined products, heavy refined products, crude oil and other related services that we perform at our terminals, among other factors, and general economic downturns could result in lower demand for these products for a sustained period of time

Any sustained decrease in demand for light refined products, heavy refined products and crude oil related services in the markets served by our terminals could result in a significant reduction in storage usage in our terminals, which would reduce our cash flow and our ability to make distributions to our two shareholders.

Our financial results may also be affected by uncertain or changing economic conditions within the island, including the substantial decrease in the price of light refined products, heavy refined products that began during the fourth quarter of 2017 and has continued into 2018.

If economic and market conditions remain uncertain or adverse conditions persist, spread or deteriorate further, we may experience material impacts on our business, financial condition and results of operations.

Our operations are subject to operational hazards and unforeseen interruptions, including interruptions from floods, landslides or severe storms, for which we may not be adequately insured.

We may be affected by factors such as adverse weather, accidents, fires, explosions, hazardous materials releases, mechanical failures, disruptions in supply infrastructure or logistics and other events beyond our control. During 2017, replacing damage Submarine hoses at Muthurajawela Terminal SPBM and operations has interrupted for 02 days while repairs were completed. If any of these events were to occur, we could incur substantial losses because of severe damage to and destruction of property and equipment, and pollution or other environmental damage resulting in curtailment or suspension of our related operations.



We are not fully insured against all risks incident to our business. Furthermore, we may be unable to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of market conditions, premiums and deductibles for certain of our insurance policies have increased and could escalate further. In addition, sub-limits have been imposed for certain risks. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. If we were to incur a significant liability for which we are not fully insured, it could have a material adverse effect on our financial condition, results of operations and cash availability.

Competition from other terminaling companies that are able to supply our customers with comparable storage capacity at a lower price could adversely affect our financial condition and results of operations.

RISK MANAGEMENT (Contd.)

We face competition from other terminaling companies (CPC & LIOOC) who are the two shareholders of the CPSTL.

Our expansion of existing assets and construction of new assets may not result in revenue increases and will be subject to regulatory, environmental, political, legal and economic risks, which could adversely affect our operations and financial condition.

A portion of our strategy to grow and increase operations and stability is dependent on our ability to expand existing assets and to construct additional assets. The expansion of an existing terminal, such as by increasing storage capacity or otherwise, involves numerous regulatory, environmental, political and legal uncertainties, most of which are beyond our control. Moreover, we may not receive sufficient long-term contractual commitments from two marketing companies who are the two shareholders of CPSTL to provide the revenue needed to support such projects. As a result, we may construct new facilities that are not able to attract enough demand to achieve our expected investment return, which could adversely affect our results of operations and financial condition and our ability to make distributions to our unitholders.

If we undertake these projects, they may not be completed on schedule or at all or at the budgeted cost. Even if we receive sufficient multi-year

contractual commitments from two marketing companies who are the two shareholders of CPSTL to provide the revenue needed to support such projects and we complete our construction projects as planned, we may not realize an increase in revenue for an extended period of time. For instance, if we build new Tanks, the construction will occur over an extended period of time, generally 12 to 24 months, and we will not receive any material increases in revenues until after completion of the project. Any of these circumstances could adversely affect our results of operations and financial condition and our ability to make profits.

Our operations are subject to legal and Sri Lanka laws and regulations relating to product quality specifications, and we could be subject to damages based on claims brought against us by our dealers as a result of the failure of products we distribute to meet certain quality specifications.

Various legal and Sri Lankan authorities prescribe specific product quality specifications for refined products, including vapor pressure, sulphur content, ethanol content and biodiesel content. Changes in product quality specifications or blending requirements could reduce our product volumes at our terminals, require us to incur additional handling costs or require capital expenditures.



RISK MANAGEMENT (Contd.)

If we are unable to recover these costs through increased revenues, our cash flows and ability to run operations smoothly could be adversely affected. Violations of product quality laws attributable to our operations could subject us to significant fines and penalties as well as negative publicity. We have a responsibility to ensure the quality and purity of the products loaded at our storage tanks. Off-specification product distributed for public use, even if not a violation of specific product quality laws, could result in poor engine performance or even engine damage. This type of incident could result in liability claims regarding damages caused by the off-specification fuel or could result in negative publicity, any of which could have a material adverse impact on our results of operations and cash flows.

CPSTL has sophisticated laboratory for any kind of petroleum fuel tests and followed Stringent quality control mechanisms and compliance with regulatory and certification

Many of our terminal facilities and storage assets have been in service for several decades, which could result in increased maintenance or remediation expenditures, which could adversely affect our business, results of operations, financial condition and our ability to make expected results to two shareholders.

Our terminal facilities and storage assets are generally long-lived assets. As a result, some of those assets have been in service for many decades. The age and condition of these assets could result in increased maintenance or remediation expenditures. Any significant increase in these expenditures could adversely affect our business, results of operations, financial condition and our ability to make expected results to two shareholders.



Even though some storage tanks are older several decades, CPSTL has done proper maintenance and repairs to the same for present usable conditions.

We may incur significant costs and liabilities in complying with environmental, health and safety laws and regulations, which are complex and frequently changing.

Our operations involve the transportation and storage of light refined products, heavy refined products and crude oil and are subject to legal,

state, and local authorities laws and regulations governing, among other things, the gathering, storage, handling and transportation of petroleum products, the emission and discharge of materials into the environment, the generation, management and disposal of wastes, and other matters otherwise relating to the protection of the environment. Our operations are also subject to various laws and regulations relating to occupational health and safety. Compliance with this complex array of legal, state, and local authorities laws and implementing regulations is difficult and may require significant capital expenditures and operating costs to mitigate or prevent pollution. Moreover, our business is inherently subject to accidental spills, discharges or other releases of petroleum or hazardous incidents into the environment and neighboring areas, for which we may incur substantial liabilities to investigate and remediate. Failure to comply with applicable environmental, health, and safety laws and regulations may result in the assessment of sanctions, including administrative, civil or criminal penalties, permit revocations, and injunctions limiting or prohibiting some or all of our operations.



We cannot predict what additional environmental, health, and safety legislation or regulations will be enacted or become effective in the future or how existing or future laws or regulations will be administered or interpreted with respect to our operations. Many of these laws and regulations are becoming increasingly stringent, and the cost of compliance with these requirements can be expected to increase over time. These expenditures or costs for environmental, health, and safety compliance could have a material adverse effect on our financial condition, results of operations or cash flows.

RISK MANAGEMENT (Contd.)

We cannot predict what additional environmental, health, and safety legislation or regulations will be enacted or become effective in the future or how existing or future laws or regulations will be administered or interpreted with respect to our operations. Many of these laws and regulations are becoming increasingly stringent, and the cost of compliance with these requirements can be expected to increase over time. These expenditures or costs for environmental, health, and safety compliance could have a material adverse effect on our financial condition, results of operations or cash flows.

We could incur significant costs and liabilities in responding to contamination that occurs at our facilities.

Our terminal facilities have been used for transportation, storage and distribution of light refined products, heavy refined products and crude oil for many years. Although we have utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons and wastes from time to time may have been spilled or released on or under the terminal properties.

The terminal properties are subject to legal, state and local authorities laws that impose investigatory and remedial obligations, some of which are joint and several or strict liability obligations without regard to fault, to address and prevent environmental contamination.

CPSTL is periodically dispose Sludge oil with proper tendering process and ensure that waste would not damage the environment.

Our executive officers and certain key personnel are critical to our business, and these officers and key personnel may not remain with us in the future.

Our future success depends upon the continued service of our executive officers and other key personnel. If we lose the services of one or more of our executive officers or key employees, our business, operating results and financial condition could be harmed.

Maintaining employee motivation through Strong employee value proposition which features employee recognitions, appraisals and commendations Further continued investment in training and development and opportunities for career progression.

CPSTL has mitigated the lack of Training and Development through Structured training programmes covering for all employees and Training needs identified through a robust performance management system.

If we fail to develop or maintain an effective system of internal control, we may not be able to report our financial results timely and accurately or prevent fraud, which would likely have a negative impact on the CPSTL.

Upon the 19th amendment to the constitution, we became subject to the public reporting requirements, including the rules thereunder that will require our management to certify financial and other information in

our quarterly and annual reports and provide an annual financial report on the effectiveness of our internal control over financial reporting to the parliament.

Effective internal control is necessary for us to provide reliable and timely financial reports, prevent fraud and to operate successfully as a government own company. We prepare our financial statements in accordance with SLFRS. Our efforts to develop and maintain our internal control may not be successful, and we may be unable to maintain effective control over our financial processes and reporting in the future or to comply with our obligations to regulatory compliances.

We are required to disclose changes made in our internal control and procedures on a quarterly basis and have made our annual assessment of our internal control over financial reporting.

CPSTL has implemented internal Control Mechanisms to mitigate risks as; segregation of duties, review and reconcile reports from third parties, spot checks and recalculations, monitor access rights and training for staff.

Terrorist attacks aimed at our facilities or surrounding areas could adversely affect our business.

The two terminals and the island wide depots are strategically significance to energy assets in the country, specifically the Kolonnawa & Muthurajawela terminals infrastructure, may be the future targets of terrorist organizations. Any terrorist attack at our facilities, those of our customers and, in some cases, those of other pipelines, SPBM, or terminals could materially and adversely affect our financial condition, results of operations or cash flows.



Yankin - GeertWlas HR ON Depots

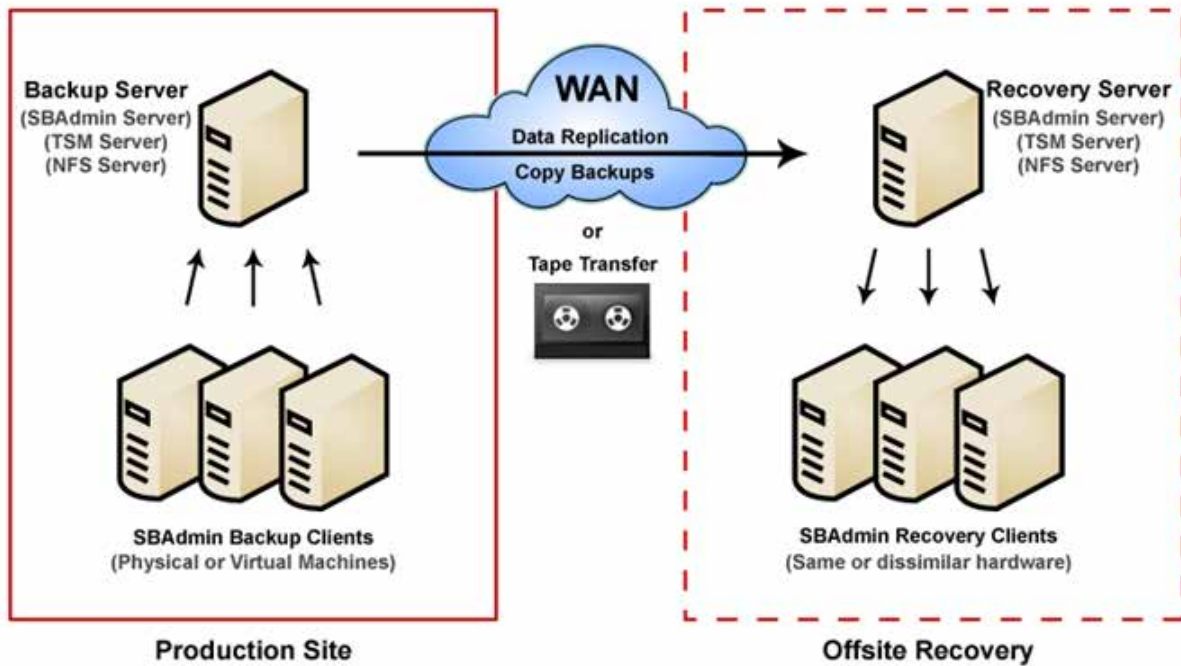
RISK MANAGEMENT (Contd.)

Mitigating the possible terrorist attacks as implementing sophisticated surveillance camera systems and using high tech checking devices.

Cyber-attacks that circumvent our security measures and other breaches of our information security measures could disrupt our operations and result in increased costs.

We utilize technology systems to operate our assets and manage our businesses. A cyber-attack or other security breach of our information technology systems could result in a breach of critical operational or financial controls and lead to a disruption of our operations, commercial activities or financial processes.

Cyber-attacks or security breaches, and the failure of which could have a significant adverse effect on the operation of CPSTL. Disaster Recovery Management Centre (DRMC) project is still going on and Cyber – attack on which we depend may not have the resources or technical sophistication to anticipate or prevent every emerging type of attacks, and such an attack, or the additional security measures undertaken to prevent such an attack, could adversely affect our results of operations, financial position or cash flows.



ANNUAL REPORT OF THE BOARD OF DIRECTORS



The Board of Directors have pleasure in presenting the Annual Report for the year ended 31st December 2017 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 own 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.14,176,146,910 with a Net Profit of Rs.2,799,571,815.

Particulars	2017 Rs.	2016 Rs.
Turnover	14,176,146,910	12,663,444,509
Earnings Before Taxation	3,273,309,403	2,330,073,120
Profit / (Loss) After Tax (PAT)	2,799,571,815	1,738,629,426

Stated Capital

The Stated Capital of the Company as at 31st December 2017, 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 2017.

ANNUAL REPORT OF THE BOARD OF DIRECTORS (Contd.)

Corporate Donations

During the year the Company made donations & sponsorship payments amounting to Rs. 6,114,277/=

Directors as at 31 December 2017

The Board of Directors of Ceylon Petroleum Storage Terminals Limited as at 31st December 2017 were as follows;

Dammika Ranatunga

Uditha Niroshana Gunawardena

Kakulthotuwage Dona Rosemary Olga

Anuj Jain

Shyam Bohra

Randhir Singh

Ranaweera Arachchiralalage Nimal Jayasundara

Herath Mudiyanseelage Sanjeewa Lushantha Wijeratne

Remuneration of Directors

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 23 to the financial statements.

ANNUAL REPORT OF THE BOARD OF DIRECTORS (Contd.)

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 2017 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 Annual General Meeting of the Company will be held on 1st March 2019 at the Board Room of CPSTL.

For and on behalf of the Board of Directors



G S Withanage
Chairman

By Order of the Board,



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



K D R Olga
Director

AUDIT & MANAGEMENT COMMITTEE REPORT

Composition

The Audit & Management Committee consists of 02 members, who are Non – Executive Directors appointed by the Board of Directors.

- Mrs. K.D.R. Olga (Representative from the Ministry) - The Chairperson
- Mr. Anuj Jain (Representative from LIOC) - Member

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

Tasks of Audit & Management Committee

The Committee reviews the financial reporting system adopted by the Company in preparation, presentation and adequacy of disclosures in the annual financial statements to ensure reliability of the processes, consistency of the accounting policies & methods adopted and their compliance with the Sri Lanka Accounting Standards. The Committee also reviews the Company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements. The Committee also reviews the adequacy of the internal controls and assesses the independence & performance of the external auditors. The Committee recommends the financial statements to the Board for its approval and issuance. The Committee also reviews the risks the company is exposed to and approves the actions to be taken by the company so as to manage and mitigate the impact arising from such risks.

Internal Audits

The Committee reviews the accounting system and the scope & coverage of the internal audit process to assess the effectiveness of financial controls that have been designed to provide reasonable assurance to the Directors that assets are safeguarded and that the financial reporting system can be relied upon in preparation and presentation of Financial Statements. The Internal Audit function has been established within the company. Follow-up reviews are scheduled periodically to ascertain that audit recommendations are being acted upon.

Statutory Audits

The Committee also deliberates with the Statutory Auditors, National Audit Office of Sri Lanka to review the nature, approach and scope of audit in accordance with the 19th Amendment to the constitution. Actions taken by the Management in response to the issues raised as well as the effectiveness of internal controls in place are also discussed.

Meetings

During the year under review, thirteen (13) Audit & Management Committee meetings have been conducted to perform the tasks entrusted to them as noted above.

The members who have taken part in the committee meetings during the year are noted below.

Serial No.	Date	Strength of the Committee	No of members Participated	Names of the Members
01.	16.02.2017	03	02	Mrs. K.D.R. Olga Mrs. Sudharma Karunaratna
02.	10.03.2017	03	02	Mrs. K.D.R. Olga Mr. Anuj Jain

AUDIT & MANAGEMENT COMMITTEE REPORT (Contd.)

03.	14.08.2017	03	03	Mrs. K.D.R. Olga Mr. Anuj Jain Mr. Nimal Jayasundara
04.	18.08.2017	03	03	Mrs. K.D.R. Olga Mr. Anuj Jain Mr. Nimal Jayasundara
05.	07.09.2017	03	02	Mrs. K.D.R. Olga Mr. Anuj Jain
06.	15.09.2017	03	03	Mrs. K.D.R. Olga Mr. Anuj Jain Mr. Nimal Jayasundara
07.	18.09.2017	03	03	Mrs. K.D.R. Olga Mr. Anuj Jain Mr. Nimal Jayasundara
08.	21.09.2017 (LIOC)	03	02	Mrs. K.D.R. Olga Mr. Anuj Jain
09.	30.10.2017	03	03	Mrs. K.D.R. Olga Mr. Anuj Jain Mr. Nimal Jayasundara
10.	18.11.2017	03	03	Mrs. K.D.R. Olga Mr. Anuj Jain Mr. Nimal Jayasundara
11.	24.11.2017	03	03	Mrs. K.D.R. Olga Mr. Anuj Jain Mr. Nimal Jayasundara
12.	05.12.2017	03	03	Mrs. K.D.R. Olga Mr. Anuj Jain Mr. Nimal Jayasundara
13.	14.12.2017	03	03	Mrs. K.D.R. Olga Mr. Anuj Jain Mr. Nimal Jayasundara

Role of the Audit & Management Committee

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

- Review the adequacy of internal control system with the management, Auditor General and Internal Auditors.
- Overseeing the financial reporting process to ensure the preparation and fair presentation of the financial statements by ensuring the transparency, understandability and reliability of financial statements.
- Identifying causes and effects for the losses incurred and detailed analysis and studies were carried out to propose or recommend immediate suitable actions for turning around the loss making units.

AUDIT & MANAGEMENT COMMITTEE REPORT (Contd.)

- Review of the Annual Internal Audit Program, significant audit findings and action plan.
- Identification of risks and the remedial actions for mitigating the risk to acceptable level, by ensuring the risk management process is comprehensive and ongoing.
- Creating an organization wide commitment to strong and effective internal controls, emanating from the tone at the top.
- Reviewing corporate policies relating to compliance with laws and regulations, ethics, conflicts of interest and the investigation of misconduct or fraud.
- Continually communicating with the Senior Management regarding status, progress and new developments as well as problematic areas.

Conclusion

The Financial Statements are prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (ICASL). The financial statements are prepared under the historical cost convention. The Audit committee is satisfied that the Company's accounting policies and internal controls provide reasonable assurance that the affairs of the Company are managed in accordance with its policies and that the Company's assets are properly accounted for and adequately safeguarded.



K D R Olga
Chairperson
Audit & Management Committee

Financial Information





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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය } POE/A/CPSTL/2017/FR/01 } මගේ අංකය } } // September 2018
 My No. } } Your No. } } Date }

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 2017

The audit of financial statements of the Ceylon Petroleum Storage Terminals Limited (“the Company”) for the year ended 31 December 2017 comprising the statements of financial position as at 31 December 2017 and the statements of comprehensive income, statements of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 judgments, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

My opinion is qualified based on the matters described below.

- (a) A difference of Rs. 670.93 million was observed between the amounts shown as receivable from the Ceylon Petroleum Corporation (CPC) in the financial statements of the Company and the corresponding amount shown as payable in the financial statements of the CPC at the end of the year under review and this included a dispute balance of Rs. 548.66 million as at on that date. However, only a provision of Rs.163.62 million had been provided for impairment in the financial statements.
- (b) According to the balance confirmation received from the Lanka Indian Oil Company (LIOC), the amount payable to the Company was Rs. 432.77 million, whereas according to the financial statements of the Company the corresponding amount was shown as Rs. 475.40 million. Therefore, an un-reconciled difference of Rs. 42.63 million was observed between those two balances.
- (c) The basis for provision of Rs. 142.92 million made on inventory items had not been disclosed in the financial statements or was not made available for audit.
- (d) A difference of Rs. 436.78 million was observed between the Income Tax, Economic Service Charge (ESC) and Value Added Tax (VAT) payables and VAT recoverable account balances appeared in the financial statements of the Company and the corresponding amounts shown in the records maintained by the Department of Inland Revenue as at the end of the year under review. Therefore, the accuracy, completeness and existence of those balances were doubt in audit.
- (e) The recoverability of overpaid Pay As You Earn (PAYE) tax and input VAT amounting to Rs.6.8 million and Rs. 8.06 million respectively was in doubt since these were unrecovered from the year 2008 and 2010 respectively. However, no provision had been made in this regards even as at the end of the year under review.
- (f) The reliability of payable balance of Withholding Tax (WHT) and output VAT amounting to Rs. 19.09 million and Rs. 13.91 million respectively was also in doubt since these were continuously carried forwarded year by year in the financial statements for longer period without being settled.
- (g) Fully depreciated assets approximately costing Rs. 5,045 million are being continuously used by the Company without reassessing the useful economic lifetime of those assets and accounted them accordingly as per the provisions in LKAS 16. Further, the Company had not revalued its assets since the inception of the Company and a proper revaluation policy was not established for this purpose.



- (h) Four transactions aggregating Rs.36.3 million which should be treated as prior year adjustments in the financial statements as per LKAS 08 had been erroneously recognized as transactions of the year under review. As a result, the profit for the year under review and retain earning as at the end of the year under review had been overstated and understated respectively by Rs. 19.12 million.
- (i) It was observed that, more than 250 types of inventory items with the huge quantity were included to the Enterprise Resource Planning (ERP) system i.e. SAP of the Company without being entered the value of such inventory items to the system. Hence, the accuracy of the valuation, and completeness of inventory items could not be relied upon in audit.

Qualified Opinion

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

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:
 - I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, 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	Note	2017 LKR	2016 LKR
ASSETS			
Non Current Assets			
Property, Plant and Equipment	10	16,754,748,458	16,799,855,205
Intangible Assets	11	277,797	7,609,019
Other Financial Assets	14.1	444,255,366	441,724,050
		17,199,281,621	17,249,188,274
Current Assets			
Inventories	12	407,496,049	413,049,408
Trade and Other Receivables	13	9,071,571,994	6,021,067,151
Other Financial Assets	14.2	1,838,973,439	1,920,169,313
Cash and Cash Equivalents	15.1	1,474,120,011	2,455,417,182
		12,792,161,492	10,809,703,053
Total Assets		29,991,443,113	28,058,891,327
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		16,684,197,986	14,371,811,934
Total Equity		25,163,197,986	22,850,811,934
Non Current Liabilities			
Defined Benefit Obligation	17	1,473,989,898	1,234,070,802
Deferred Tax Liabilities	8.1	1,017,152,375	1,005,757,215
Interest Bearing Loans and Borrowings	18	-	911,050,854
		2,491,142,273	3,150,878,871
Current Liabilities			
Trade and Other Payables	19	1,845,584,533	1,311,033,498
Interest Bearing Loans and Borrowings	18	-	599,114,311
Income Tax Payable		491,518,321	147,052,713
Total Liabilities		2,337,102,854	2,057,200,522
Total Equity and Liabilities		29,991,443,113	28,058,891,327

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


Finance Manager

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

The accounting policies and notes on pages 75 through 103 form an integral part of the Financial Statements.

Date 07th March 2018
Colombo

STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December	Note	2017 LKR	2016 LKR
Revenue	3	14,176,146,910	12,663,444,509
Direct Expenses		(7,400,983,212)	(6,668,940,700)
Gross Profit		6,775,163,699	5,994,503,809
Other Operating Income	4	457,796,444	483,200,474
Administrative Expenses		(4,025,018,806)	(4,071,225,562)
Operating Profit		3,207,941,337	2,406,478,721
Finance Income	5.1	189,440,805	90,369,796
Finance Cost	5.2	(124,072,738)	(166,775,397)
Profit Before Tax	6	3,273,309,403	2,330,073,120
Income Tax Expense	7.1	(473,737,588)	(591,443,694)
Profit for the Year		2,799,571,815	1,738,629,426
Other Comprehensive Income not to be Reclassified to Profit or Loss in Subsequent Periods			
Actuarial gain/loss on Defined Benefit Obligations	17	(94,946,584)	243,863,733
Tax on Other Comprehensive Income	8.1	12,760,821	(33,409,331)
Other Comprehensive Income for the Year, Net of Tax		(82,185,763)	210,454,402
Total Comprehensive Income for the Year, Net of Tax		2,717,386,052	1,949,083,828
Earnings Per Share	9.2	3.73	2.32

The accounting policies and notes on pages 75 through 103 form an integral part of the Financial Statements.

STATEMENT OF CHANGES IN EQUITY

As at 31 December 2017	Stated Capital LKR	Capital Reserve LKR	Retained Earnings LKR	Total LKR
Balance as at 1 January 2016	7,500,000,000	979,000,000	12,910,228,106	21,389,228,106
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	7,500,000,000	979,000,000	14,371,811,934	22,850,811,934
Profit for the Year	-	-	2,799,571,815	2,799,571,815
Other Comprehensive Income	-	-	(82,185,763)	(82,185,763)
Total Comprehensive Income	-	-	2,717,386,052	2,717,386,052
Dividends Paid	-	-	(405,000,000)	(405,000,000)
Balance as at 31 December 2017	7,500,000,000	979,000,000	16,684,197,986	25,163,197,986

The accounting policies and notes on pages 75 through 103 form an integral part of the Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2017	Note	2017 LKR.	2016 LKR
Cash Flows From/(Used in) Operating Activities			
Profit before Income Tax Expense		3,273,309,403	2,330,073,120
Adjustments for			
Finance Income	5.1	(189,440,805)	(90,369,796)
Finance Expenses	5.2	124,072,738	166,775,397
Allowance for impairment of staff loans		(2,304,574)	2,203,697
Allowance for impairment of Inventory & other trade receivable		9,792,534	(41,257,622)
Loss/ (Profit) on disposal of Property, Plant and Equipment	4	(3,594,938)	(51,245,219)
Provision for Defined Benefit Plans		242,188,768	204,224,090
Depreciation	10.2	878,355,612	800,940,058
Amortisation of Intangible Asset	11.2	7,331,222	9,740,642
Operating Profit/(Loss) before Working Capital Changes		4,339,709,960	3,331,084,367
(Increase)/ Decrease in Inventories		(4,640,443)	(33,513,691)
(Increase)/ Decrease in Trade and Other Receivables		(3,050,103,575)	1,172,661,197
(Increase)/ Decrease in Other Financial Assets		80,969,132	(79,064,121)
Increase/ (Decrease) in Trade and Other Payables		534,551,035	(338,412,405)
Cash Generated From/(Used in) Operations		1,900,486,109	4,052,755,347
Income Tax Paid		(105,115,999)	(136,988,654)
Finance Expenses Paid	5.2	(124,072,738)	(174,930,901)
Defined Benefit Paid	17	(97,216,256)	(111,923,886)
Net Cash Flows From/(Used in) Operating Activities		1,574,081,115	3,628,911,907
Cash Flows from Investing Activities			
Acquisition of Property, Plant and Equipment	10.1	(833,289,951)	(913,411,535)
Proceeds from Property, Plant and Equipment		3,636,025	51,271,409
Finance Income	5.1	189,440,805	90,369,796
Net Cash Flows From/(Used in) Investing Activities		(640,213,121)	(771,770,330)
Cash Flows From Financing Activities			
Repayments of borrowings		(1,398,850,854)	(773,504,627)
Dividends Paid		(405,000,000)	(487,500,000)
Net Cash Flows From/(Used in) Financing Activities		(1,803,850,854)	(1,261,004,627)
Net Increase / (Decrease) in Cash and Cash Equivalents		(869,982,860)	1,596,136,950
Cash and Cash Equivalents at the Beginning of the Year	15.2	2,344,102,871	747,965,921
Cash and Cash Equivalents at the end of the Year	15.2	1,474,120,011	2,344,102,871

The accounting policies and notes on pages 75 through 103 form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

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 2017 was authorized for issue in accordance with a resolution of the Board of Directors on 07th March 2018.

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 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:

(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

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

experience. Such provisions are adjusted periodically to reflect the actual are 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.

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.

Sri Lanka Accounting Standard - LKAS 1 "Presentation of Financial Statements" Reclassification of comparative amounts of the income statements for the financial year ended 31 December 2017

The following table discloses the reclassification that has been made in accordance with the change in presentation of financial statements of Ceylon Petroleum Storage Terminals Limited's income statement for the financial year ended 31 December 2017 and reclassification of prior year's comparatives to conform with current year presentation.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

	Note	2016 LKR	Reclassification	As reclassified
Revenue	3	12,663,444,509	-	12,663,444,509
Direct Expenses		(6,661,689,016)	(7,251,684)	(6,668,940,700)
Gross Profit		6,001,755,493	-	5,994,503,809
Other Operating Income	4	483,200,474	-	483,200,474
Administrative Expenses		(4,071,225,562)		(4,071,225,562)
Selling and Distribution Expenses		(7,251,684)	7,251,684	-
Operating Profit		2,406,478,721		2,406,478,721

* Selling & Distribution expenses have been reclassified to direct expenses for better presentation, since CPSTL does not engage in any marketing activities.

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.

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

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

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.

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 (Contd.)

Year ended 31 December 2017

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

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

Or

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

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.

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.

c) Medical Benefit Scheme

Up to September 2017, the medical benefits to CPSTL employees were being managed through Ceylon Petroleum Corporation Thrift society Limited. With effect from October 2017, CPSTL has obtained Group Medical Insurance Policy from an insurance company for its employees and insurance premium paid to insurance company is charged to Profit & Loss account.

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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

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-of-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.

Amendments to LKAS 7 Statement of Cash Flows

In September 2016, the Institute of Chartered Accountant 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 (Contd.)

Year ended 31 December 2017

	2017 LKR	2016 LKR
3. REVENUE		
3.1 Throughput Revenue		
Terminal Income	7,306,421,290	6,622,880,272
Operation Margin	3,264,482,431	2,958,442,733
Loan Interest Reimbursable	708,163,767	642,628,413
	11,279,067,487	10,223,951,417
Rendering of Services		
Transport Income	2,663,173,275	2,439,493,091
Bunkering Operation	233,906,148	-
	2,897,079,423	2,439,493,091
Total Revenue	14,176,146,910	12,663,444,509
4 OTHER OPERATING INCOME		
Interest on Staff Loans and Others	352,767,469	315,980,353
Gain on disposal of Property, Plant and Equipment	3,594,938	51,245,219
Rental Income	9,451,537	9,557,417
Discharging Charges	1,050,000	2,700,000
Laboratory Testing charges	51,377,845	41,750,932
Training to Private Bowsers driver/porter	7,232,797	5,068,773
Scrap sales	7,964,028	17,768,012
Servicing Fire extinguishers	7,050,482	9,997,033
Calibration Charges	7,435,089	6,216,158
Sundry Income	5,725,684	18,869,344
Circuit Bungalows Income	840,425	882,205
Non-refundable Tender Deposits	3,306,150	3,165,029
	457,796,444	483,200,474
5. FINANCE INCOME AND EXPENSES		
5.1 Finance Income		
Interest on REPO Investments	164,547,193	84,761,790
Interest on Fixed Deposit Investments	24,893,612	5,608,006
	189,440,805	90,369,796
5.2 Finance Cost		
Bank Loan Interest	124,072,738	166,775,397
	124,072,738	166,775,397

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

	2017 LKR	2016 LKR
6. PROFIT BEFORE TAX		
<i>Stated after Charging /Crediting</i>		
Included in Direct Expenses		
Personal Cost	2,403,087,576	2,329,533,369
Depreciation Charge for the year	755,314,575	694,018,639
Included in Administrative Expenses		
Directors' Emoluments	7,479,373	5,322,273
Fees for Directors	2,305,000	2,030,000
Personal Cost	2,783,783,740	3,130,050,416
Defined Benefit Obligation : Charge for the year	242,188,768	204,224,090
Audit Fee - Current year	1,800,000	1,766,371
Depreciation Charge for the year	123,041,041	106,921,418
Amortisation Charge for the year	7,331,222	9,740,641
Allowances for Impairment in Trade and Other Receivables	(2,705,842)	11,645,362
Provision for Inventory	10,193,802	(50,699,287)

7. TAX EXPENSES

The major components of income tax expense for the years ended 31 December 2017 and 31 December 2016 are as follows :

7.1 Income Statement

Current Income Tax:		
Current Tax Expense	472,786,727	182,283,884
Under/(Over) Provision of Current Taxes in respect of Prior Year	(23,205,120)	45,781,512
Deferred Tax:		
Deferred Taxation Charge/ (Credit) (Note 8)	24,155,981	363,378,298
Income Tax Expense / (Credit) Reported in the Income Statement	473,737,588	591,443,694

7.2 Reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate for the Years Ended 31 December 2017 and 31 December 2016 are as follows :

Accounting Profit Before Tax	3,273,309,403	2,330,073,120
Aggregate Disallowed Items	1,325,643,704	1,277,272,984
Aggregate Allowable Items	(1,783,288,276)	(1,591,594,363)
	2,815,664,831	2,015,751,741
Interest Income	542,208,274	406,350,149
Total Statutory Income	3,357,873,104	2,422,101,890
Less: Carried Forward Tax Losses Utilized	(232,124,899)	(847,735,662)
Taxable Profit	3,125,748,205	1,574,366,228
Income Tax for Taxable Profit	472,786,727	182,283,884
Current Income Tax Expense	472,786,727	182,283,884

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

	Statement of Financial Position		Statement of Comprehensive Income		Other Comprehensive Income	
	2017 LKR	2016 LKR	2017 LKR	2016 LKR	2017 LKR	2016 LKR
8.1 Deferred Tax						
Deferred Tax Assets, Liabilities and Income Tax relate to the followings ;						
Deferred Tax Liabilities						
Capital Allowances for Tax Purposes	1,258,921,406	1,246,080,289	12,841,117	356,420,749	-	-
Intangible Assets	37,336	1,042,436	(1,005,100)	(692,530)	-	-
	<u>1,258,958,742</u>	<u>1,247,122,725</u>				
Deferred Tax Assets						
Inventories	19,208,216	18,183,253	(1,024,963)	1,371,327	-	-
Provisions	24,493,908	25,338,449	844,541	(8,132,674)	-	-
Defined Benefit Plans	198,104,242	169,067,700	(16,275,721)	(63,913,598)	(12,760,821)	33,409,331
Effect from Tax Losses	-	28,776,108	28,776,108	78,325,025	-	-
	<u>241,806,367</u>	<u>241,365,510</u>				
Deferred Income Tax - Income						
Net Deferred Tax Liability / (Assets)	<u>1,017,152,375</u>	<u>1,005,757,215</u>	<u>24,155,981</u>	<u>363,378,298</u>	<u>(12,760,821)</u>	<u>33,409,331</u>

8.2 Deferred tax has been calculated using an effective tax rate. The rate has been decreased from 13.7% to 13.44% due to multiple tax rates applied to different levels of taxable income, resulting Rs. 812,449/- increased in deferred tax liability as at 31st December 2017.

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.

	2017 LKR	2016 LKR
Amounts Used as the Numerator		
Net Profit Attributable to Ordinary Shareholders for Basic Earnings Per Share	2,799,571,815	1,738,629,426
Number of Ordinary Shares Used as Denominator:		
Weighted Average Number of Ordinary Shares in Issue	750,000,000	750,000,000
Applicable to Basic Earnings Per Share		
Earnings Per Share	3.73	2.32

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

At Cost	Balance as at 01.01.2017 LKR	Additions LKR	Disposals LKR	Balance as at 31.12.2017 LKR
10. PROPERTY, PLANT AND EQUIPMENT				
10.1 Gross Carrying Amounts				
Freehold land	4,497,001,663			4,497,001,663
Freehold building	1,546,400,639	136,731,142		1,683,131,781
Storage tank	6,490,993,653	50,884,475		6,541,878,128
Motor vehicles	1,221,840,429	532,925,880	(1,925,000)	1,752,841,309
Pipelines	7,386,343,576	56,733,589		7,443,077,165
Furniture, fittings & equipment	2,067,209,127	125,625,603	(56,000)	2,192,778,730
Computers	163,671,957	7,914,394		171,586,351
Single/Dual point mooring buoy	2,800,409,453	2,800,409,453		
Pumps & gantries	1,454,452,620	45,130		1,454,497,750
Total Cost of Depreciable Assets	27,628,323,118	910,860,213	(1,981,000)	28,537,202,331
Capital Work In Progress	797,543,868	522,228,210	(599,798,471)	719,973,606
	28,425,866,986	1,433,088,423	(601,779,471)	29,257,175,937

At Cost	Balance as at 01.01.2017 LKR	Charge for the year LKR	Disposals LKR	Balance as at 31.12.2017 LKR
10.2 Depreciation				
Freehold building	534,538,342	48,148,117		582,686,459
Storage tank	2,274,511,285	158,533,789		2,433,045,074
Motor vehicles	1,116,399,930	77,940,065	(1,925,000)	1,192,414,995
Pipelines	2,654,116,151	273,872,738		2,927,988,888
Furniture, fittings & equipment	1,789,779,856	68,138,153	(14,913)	1,857,903,096
Computers	148,307,668	6,754,767		155,062,435
Single/Dual point mooring buoy	2,155,470,283	160,547,288		2,316,017,571
Pumps & gantries	952,888,267	84,420,695		1,037,308,962
	11,626,011,781	878,355,612	(1,939,913)	12,502,427,480

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

	2017 LKR	2016 LKR
10.3 Net Book Value		
Freehold land	4,497,001,663	4,497,001,663
Freehold building	1,100,445,323	1,011,862,298
Storage tank	4,108,833,054	4,216,482,368
Motor vehicles	560,426,315	105,440,500
Pipelines	4,515,088,277	4,732,227,425
Furniture, fittings & equipment	334,875,634	277,429,271
Computers	16,523,916	15,364,289
Single/Dual point mooring buoy	484,391,882	644,939,170
Pumps & gantries	417,188,788	501,564,353
Capital Work In Progress	719,973,606	797,543,868
Total Carrying Value of Property, Plant & Equipment	16,754,748,458	16,799,855,205

10.4 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs. 1,433,088,423/- (2016 - Rs.913,411,535/-). Cash payments amounting to Rs. 833,289,951/- (2016 - Rs.913,411,535/-) were made during the year for purchase of Property, Plant and Equipment. The difference is mainly due to capitalization of work in progress to main assets.

	2017 LKR	2016 LKR
10.5 The Useful Lives Of the Assets are Estimated as Follows:		
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

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

At Cost	ERP System LKR	SAP ERP License LKR	Automation System of offshore Pipeline LKR	Total LKR
11. INTANGIBLE ASSETS				
11.1 Gross Carrying Amounts				
As at 01.01.2017	412,496,596	9,380,250	37,793,560	459,670,406
Additions	-	-	-	-
Disposals	-	-	-	-
As at 31.12.2017	412,496,596	9,380,250	37,793,560	459,670,406
11.2 Amortisation				
As at 01.01.2017	411,914,307	7,987,140	32,159,940	452,061,387
Charge for the year	304,492	1,393,110	5,633,620	7,331,222
As at 31.12.2017	412,218,799	9,380,250	37,793,560	459,392,609
11.3 Net Book Value as at 31.12.2016	582,289	1,393,110	5,633,620	7,609,019
11.4 Net Book Value as at 31.12.2017	277,797	0	0	277,797

	2017 LKR	2016 LKR
12. INVENTORIES		
General Hardware for Repairing	264,478,701	281,082,833
Motor Spare parts	252,902,000	235,671,113
Consumables	26,217,367	23,843,424
Finished Goods		
Lanka Petrol LP-95	788,088	788,088
Lanka Petrol LP-92	670,644	998,244
Lanka Auto Diesel-LAD	5,357,523	3,390,178
550,414,324	545,773,881	
Provision for Slow- Moving Inventory	(142,918,275)	(132,724,473)
	407,496,049	413,049,408

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

		2017 LKR	2016 LKR
13. TRADE AND OTHER RECEIVABLES			
Trade Receivables - Related Parties (Note 13.1)		7,961,856,307	4,959,265,019
Other Receivables		138,556,599	86,651,420
(-)Impairment of Other Receivables		(10,554,767)	(10,956,035)
		128,001,832	75,695,385
Deposits ,Advances and Prepayments (Note 13.3)		981,713,854	986,106,746
		9,071,571,994	6,021,067,151
13.1 Trade Receivables- Related Parties			
	Relationship		
Ceylon Petroleum Corporation	Parent Entity	7,650,563,688	4,857,213,146
(-)Impairment of Trade Receivables		(163,620,550)	(163,620,550)
Ceylon Petroleum Corporation net of Impairment (Note 13.2)		7,486,943,138	4,693,592,596
Lanka IOC PLC	Other Major Share Holder	475,403,307	266,162,561
(-)Impairment of Trade Receivables		(490,138)	(490,138)
Lanka IOC PLC net of Impairment (Note 13.2)		474,913,169	265,672,423
		7,961,856,307	4,959,265,019

Total	0-30 Days	31-90 days	91-180 days	181-365 days	"More than 365 days"
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13.2 As at 31 December 2017, the age analysis of trade receivables is set out below.

Ceylon Petroleum Corporation	7,650,563,688	712,005,059	2,401,213,781	818,767,488	1,783,804,006	1,934,773,353
Impairment	(163,620,550)	-	-	-	-	(163,620,550)
	7,486,943,138	712,005,059	2,401,213,781	818,767,488	1,783,804,006	1,771,152,803
Lanka IOC PLC	475,403,307	119,663,131	87,126,248	127,250,893	102,249,896	39,113,139
Impairment	(490,138)	-	-	-	-	(490,138)
	474,913,169	119,663,131	87,126,248	127,250,893	102,249,896	38,623,001

	2017 LKR	2016 LKR
13.3 Deposits ,Advances and Prepayments		
Deposits ,Prepayments and Advances	284,078,659	164,204,803
Prepaid Staff Benefits	697,635,195	821,901,943
	981,713,854	986,106,746

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

	2017 LKR	2016 LKR				
14. OTHER FINANCIAL ASSETS						
Loans to Company Officers						
Motor Vehicle Loans	151,814,305	180,560,299				
Housing Loans	947,387,223	1,029,539,880				
Distress Loans	802,702,830	832,415,029				
Other Loans	388,905,335	329,263,616				
	2,290,809,692	2,371,778,824				
(-) Allowance for Impairment	(7,580,887)	(9,885,461)				
	2,283,228,805	2,361,893,363				
14.1 Non Current Financial Assets						
Motor Vehicle Loans	69,282,439	101,160,148				
Housing Loans	382,553,813	350,449,363				
(-) Allowance for Impairment	(7,580,887)	(9,885,461)				
	444,255,366	441,724,050				
14.2 Current Financial Assets						
Motor Vehicle Loans	82,531,866	79,400,152				
Housing Loans	564,833,409	679,090,517				
Distress Loans	802,702,830	832,415,029				
Other Loans	388,905,335	329,263,615				
	1,838,973,439	1,920,169,313				
15. CASH AND CASH EQUIVALENTS						
15.1 Favourable Cash & Cash Equivalent balances						
Cash and Bank Balances	10,792,295	8,751,382				
Short Term Investments	1,463,327,716	2,446,665,800				
	1,474,120,011	2,455,417,182				
15.2 Unfavorable Cash and Cash Equivalent Balances						
Balance at Bank (Note 18)	-	(111,314,311)				
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	1,474,120,011	2,344,102,871				
	Number	2017	LKR	Number	2016	LKR
16. STATED CAPITAL						
Fully Paid Ordinary Shares	750,000,000	7,500,000,000		750,000,000	7,500,000,000	

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

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.

	2017 LKR	2016 LKR
17. DEFINED BENEFIT OBLIGATION		
Balance as at 01 January	1,234,070,802	1,385,634,331
Current Service Cost	84,227,706	65,220,386
Interest Cost	157,961,063	139,003,704
Actuarial (Gain) / Loss	94,946,584	(243,863,733)
Benefits Paid	(97,216,256)	(111,923,886)
Balance as at 31 December	1,473,989,898	1,234,070,802

17.1 Actuarial valuation of Retirement Benefit Obligation as at 31 December 2017 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’.

17.2 Principle Actuarial Assumptions

Principle Actuarial Financial Assumptions underlying the valuation are as follows:

	2017	2016
Discount Rate	10.06%	12.80%
Salary Incremental Rate	30% once in 3 Years	30% once in 3 Years
Staff Turnover	1%	1%

	2017 LKR	2016 LKR.
17.3 Maturity Profile of the Defined Benefit Obligation Plan		
Less than 1 Year	135,772,494	113,673,011
Between 1-2 years	184,401,731	154,386,941
Between 2-5 years	369,163,186	309,075,055
Beyond 5 years	784,652,488	656,935,795
	1,473,989,898	1,234,070,802

The average durations of of the Defined benefit Obligation Plan at the end of the reporting period is 6.8 years for executive staff and 8.0 years for non executive staff.The average remaining working life of executive staff is 10.9 years and 12.1 years for non executive staff.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

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 2017.

Sensitivity Level	Discount Rate		Future Salary Increment Rates	
	Increase	Decrease	Increase	Decrease
	1%	-1%	1%	-1%
Impact on Defined Benefit Obligation	(1,374,618,855)	1,586,802,497	1,508,954,027	(1,439,978,525)

18. INTEREST BEARING LOANS & BORROWINGS

	2017 Amount Repayable Within 1 Year LKR	2017 Amount Repayable After 1 Year LKR	2017 Total LKR	2016 Amount Repayable Within 1 Year LKR	2016 Amount Repayable After 1 Year LKR	2016 Total LKR
Bank Borrowings (18.1)	-	-	-	487,800,000	911,050,854	1,398,850,854
Balance at Bank (15.2)	-	-	-	111,314,311	-	111,314,311
	-	-	-	599,114,311	911,050,854	1,510,165,166

** The above negative bank balance represents the Unpresented cheques as at 31st December 2017.

18.1 Bank Borrowings

	As At 01.01.2017 LKR	Loans Obtained LKR	Repayments LKR	As A 31.12.2017 LKR
Peoples Bank	1,398,850,854	-	(1,398,850,854)	-
	1,398,850,854	-	(1,398,850,854)	-

18.2 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 (LKR. 4.6 Bn) from Peoples Bank	To finance Muthurajawela Single Point Buoy Mooring & Off shore 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

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

		2017 LKR	2016 LKR
19. TRADE AND OTHER PAYABLES			
Balance as at 01 January		1,234,070,802	1,385,634,331
Trade Payables-Related Parties (19.1)		324,602,303	263,209,522
- Others		338,819,812	408,957,788
Other Payables		994,983,819	463,220,694
Sundry Creditors Including Accrued Expenses		187,178,599	175,645,494
		1,845,584,533	1,311,033,498
19.1 Trade Payables- Related Parties			
		Relationship	
Ceylon Petroleum Corporation	Parent Entity	324,602,303	263,209,522
		324,602,303	263,209,522

20. RELATED PARTY DISCLOSURES

Nature of Transaction	Parent Entity- Ceylon Petroleum Corporation		Other Major S/H - Lanka IOC PLC		Total	
	2017 LKR	2016 LKR	2017 LKR	2016 LKR	2017 LKR	2016 LKR
Receivable/(Payable) as at 01 January	4,430,383,074	5,795,300,056	265,672,423	242,079,683	4,696,055,496	6,037,379,739
Service for oil storage & distribution	15,410,198,148	13,338,654,470	1,371,131,517	1,176,372,034	16,781,329,665	14,515,026,504
Own use fuel consumption	(466,219,356)	(450,289,924)	-	-	(466,219,356)	(450,289,924)
Interest payments	-	(302,846,905)	-	-	-	(302,846,905)
Other Expenses	(1,257,769)	(890,028)	-	-	(1,257,769)	(890,028)
(Receipt)/Payment for Services	(12,210,763,261)	(13,949,544,595)	(1,161,890,771)	(1,152,779,295)	(13,372,654,032)	(15,102,323,890)
Amounts Receivable/(Payable) as at 31 December	7,162,340,835	4,430,383,074	474,913,169	265,672,423	7,637,254,004	4,696,055,496

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 during the year were as follows:

	2017 LKR	2016 LKR
Fees for Directors	2,305,000	2,030,000
Directors Emoluments	7,479,373	5,322,273
	9,784,373	7,352,273

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

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 owned company 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,

	Nature of the transactions	As at 31.12.2017	As at 31.12.2016
People's Bank	Cash at Bank	3,991,769	1,799,356
People's Bank	Short term Deposits	684,357,495	2,161,867,837
People's Bank	Bank Loan	-	1,398,850,854
Bank of Ceylon	Balance at Bank	471,658	(109,763,906)
Bank of Ceylon	Short term Deposits	778,970,220	284,797,963

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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

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 2017

Case No	Location Of court	Description of court case	Maximum Possible claim Outcome (up to December 2017)
SC FR 21/12	Colombo	Seeking a Promotion to Grade A-7.	Declaration of infringement of Fundamental Rights of the Petitioner and compensation is 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 is 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 is 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 is determined by the Court.
SC FR 68/16	Colombo	To issue a suitable amount of shares not exceeding 10% or distribute an equivalent sum of money amongst the employees.	Declaration of infringement of Fundamental Rights of the Petitioners, compensation is 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 is determined by the Court.
SC FR 244/17	Colombo	Seeking a Promotion to Grade B-1.	Declaration of infringement of Fundamental Rights of the Petitioner, to promote to the Grade B-1 Management Asst.(Audit) or to quash the Interview held and compensation determined by the Court.
SC FR 322/17	Colombo	Seeking a Promotion to Grade A-7.	Declaration of infringement of Fundamental Rights of the Petitioner, to promote to the Grade A-7 Health Safety & Environment Executive, to declare the appointment made null and void and compensation is determined by the Court.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

Pending Court of Appeal cases as at 31st December 2017

Case No	Location Of court	Description of court case	Maximum Possible claim Outcome (up to December 2017)
Writ 332/12	Colombo	Filed by CPC against an Arbitration Award.	To made CPSTL as 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 be amounted 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 eject him from the quarters.	Compensation is determined by the Court.

Pending District Court cases as at 31st December 2017

Case No	Location Of court	Description of court case	Maximum Possible claim Outcome (up to December 2017)
26195/M	Anuradhapura	Filed against CPSTL claiming damages arising from an accident.	"Rs.10,000,000/- plus Legal Interest ,liability is vested with Sri Lanka Insurance Corporation (SLIC).
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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

Pending Magistrate Court cases as at 31st December 2017

Case No	Location Of court	Description of court case	Maximum Possible claim Outcome (up to December 2017)
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.
B/29/17	Eravur	Filed by Eravur Police Station for theft of fuel from running tank of the Bowser by driver & porter.	Outcome is not known.
773/17	Mahara	Filed by Pamunugama Police Station for seepage of fuel to the Thaldiyawatta lagoon.	Outcome is not known.

Pending Labour Tribunal cases as at 31st December 2017

Case No	Location Of court	Description of court case	Name of the applicant	Maximum Possible claim Outcome (up to December 2017)
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 x 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 Heiyanthuwa	Reinstatement with back wages (Rs.50,000 x 67 months) Rs.3,350,000/-.
22-01-16	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/-.
"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 x 55 months Rs.3,768,490/-.
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 x 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 x 67 months Rs.5,395,108/-. Rs.5,395,108.00

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

Pending Labour Court cases as at 31st December 2017

Case No	Location Of court	Description of court case	Maximum Possible claim Outcome (up to December 2017)
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.
CC/C/IR/700/ 17	Colombo	Seeking for reinstatement	Back wages Rs.81,130.00/-.
CC/C/IR556/ 17	Colombo	Seeking for promotion to Distribution Assistant (Invoice) or Snr. Executive (Administration)	Back wages has to be calculated subject to salary differences.
CC/C/IR505/ 17	Colombo	To quash to the interview held for the post of Distribution Assistant (Operation & Transport) .	-
CC/C/IR544/ 16	Colombo	To grant the promotion A-5, Chairman's Secretary & cancelled internal transfers.	-
CC/C/IR/297/17	Colombo	To grant the promotion B-2 Forman	Agreed to promote without back wages.
SB/07/331/2016	Badulla	Seeking for promotions & OT arrears.	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, 2013/2014.

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.

(d) Lease of 09 No's Bulk Depots lands from Sri Lanka Railways for five years.

The present contract has already been lapsed on 31.12.2013 and company has received new valuation report from Sri Lanka Railway amounting to Rs. 44,400,000/- for next five year period from 01.01.2014 to 31.12.2018 and a new lease contract has to be entered into with effect from 01.01.2014.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

21.2 CAPITAL COMMITMENTS

The following capital commitments have been approved by the board of directors as at 31st December 2017.

Outstanding LC Payments as at 31st December 2017.

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

Bank Guarantees as at 31st December 2017

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

The projects which are mentioned below are contract value worth More than Rs 2,000,000.

Projects approved by Board but not completed as at 31st December 2017

Description	Contract Value (LKR)	Paid As At 31-12-2017 (LKR)	Work Done As At 31-12-2017 (LKR)	Payable Amount (LKR)
* 15000 M3 Tank at Kolonnawa	400,000,000	44,848,170	44,848,170	355,151,830
Recovery And Management Center	300,000,000	247,799,728	247,799,728	52,200,272
Development of the existing Bulk Depot at Anuradhapura	300,000,000	1,032,652	1,032,652	298,967,348
Pipeline Rehabilitation Project	260,000,000	-	328,590,415	(68,590,415)
Infrastructure Development Facilities At Muthurajawela	182,000,000	5,835,375	5,835,375	176,164,625
* Installation of Internal Floating Roofs for Tank No. 18,19,22,23, And 41 in Kolonnawa Installation	86,274,968	41,520,442	41,520,442	44,754,526
* Design, Supply And Installation of Internal Floating Roofs For Tanks No. 6,7 And 8 At Muthurajawela	70,000,000	9,492	33,346,824	36,653,176
* Embarkment Protection in Zone 1-4	30,793,545	15,923,157	17,000,000	13,793,545
Total Value of the projects	1,681,666,113	356,969,015	719,973,606	961,692,507

* Amounts paid include advances.

* The projects which are mentioned below are contract value worth More than Rs 10,000,000.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

Projects approved by Board and not awarded As At 31-12-2017

Project Name or Description	Contract Value (LKR)
Construction of 01 No. 5,000 M3 & 2 No. 15,000 M3 Storage Tanks at Kolonnawa	1,232,082,312
Construction of 02 No. 7,000 M3 & 15,000 M3 Storage Tanks at Kolonnawa	1,120,191,858
Construction of 02 Nos. 7,000 M3 & 15,000 M3 Storage Tanks at Kolonnawa	988,844,693
Engineering, Construction, Testing & Installation of 12'Dia Pipeline Segments at Road Rail Crossing & at Mahawatte Area where dwelling units exists	600,000,000
Improvement to the Produc filling facility at Muthurajawela	550,000,000
State of the Art Petroleum Laboratory Kolonnawa	625,000,000
Development of the existing Product Filling facility at Zone 07	456,042,000
Dry Docking of SPBM - Muthurajawela	288,000,000
02 No Fire Vehicles	135,000,000
Upgrading of Pipeline System At Zone - 6	180,000,000
Development of Oil Separation & Recovery System	52,700,000
Construction of Filling Gantry at Kurunagala	74,388,141
Installation of CCTV Camera	50,000,000
Rehabilitation of Main Administration Building	44,070,000
Supply of 15 Nos. Bulk Meters	37,500,000
Refurbishment of Office Building at Oil Facilities at Colombo Port	34,510,000
Refurbishment of New Administration Building	33,250,000
02 Nos. Diesel Engine Driven Fire Pumps for Kolonnawa	32,000,000
03 Nos. Diesel Engine Driven Fire Pumps for Kotagala, Peradeniya, Batticaloa	30,000,000
Proposed Warehouse for Disposal Yard of Stores Function	21,940,000
Improvements to Interior of Main Administration Building	18,020,000
Supply of 15 Nos. Loading Arms	18,000,000
Construction of Wagon Filling Gantry at Zone 03, Kolonnawa	30,000,000
Modifications to boundary wall at LBD -Kurunagala	17,920,000
Portable Fire Pump	23,000,000
Development of drivers' rest room	15,780,000
Consultancy services for Architectural concept and modifications to transport office building	15,291,120
Construction of A 350M3 Capacity Fire Water Tank at LBD Batticaloa	15,000,000
Renovation of Boundary Wall (Stage 2) at Kolonnawa	15,000,000
Internal Floating Roofs for Gasoline Storage Tanks at LBD Magalle and LBD Kurunagala	13,000,000
02 No. Forklifts	12,015,000
Old Administration Building External Renovation	10,000,000
Projects approved by Board and not awarded As At 31-12-2017	6,788,545,124

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

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.

24. 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.

24.1 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:

1. Interest rate risk
2. Foreign Currency risk

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

24.1.1 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	
	LKR 2017	LKR 2016
(+)100 basis points	(1,240,727)	(1,496,331)
(-)100 basis points	1,240,727	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

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

24.1.2 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 2017 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)
2017				
Cash and Cash Equivalents -Cash in Hand(USD)	68	151.91	+/- 1%	+/-0.68
Cash and Cash Equivalents -Fixed Deposit (USD)	1,518,939	151.91	+/- 1%	+/- 15,189
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

24.2 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

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management.

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.

24.3 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	Total LKR
Trade and Other Payables	1,845,584,533	1,845,584,533
	1,845,584,533	2,503,231,302

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Year ended 31 December 2017

24.4 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.

	2017 LKR	2016 LKR
Total borrowings (Note 18)	-	1,510,165,166
Total equity	25,163,197,986	22,850,811,934
Total capital	25,163,197,986	24,360,977,100
Gearing ratio	0.00%	6.61%

Statement	2017 LKR	2016 LKR
Revenue	14,176,146,910	12,663,444,509
Direct Expenses I	(7,400,983,212)	(6,668,940,700)
Gross Profit	6,775,163,699	5,994,503,809
Other Operating Income	457,796,444	483,200,474
Administrative Expenses II	(4,025,018,806)	(4,071,225,562)
Operating Profit	3,207,941,337	2,406,478,721

FIVE YEAR FINANCIAL SUMMARY

		2013	2014	2015	2016	2017
Operating Results						
Revenue	LKR Mn	14,874	14,998	11,687	12,663	14,176
Gross Profit	LKR Mn	4,507	4,881	5,272	5,995	6,775
Operating Profit	LKR Mn	1,577	2,160	1,917	2,406	3,208
Profit Before Tax	LKR Mn	1,602	2,188	1,716	2,330	3,273
Income Tax	LKR Mn	(216)	(279)	(342)	(591)	(474)
Profit After Tax	LKR Mn	1,386	1,909	1,374	1,739	2,800
Dividends	LKR Mn	-	-	-	488	405
Capital Employed						
Stated Capital	LKR Mn	7,500	7,500	7,500	7,500	7,500
Retained Earnings	LKR Mn	9,395	11,503	12,910	14,372	16,684
Capital Reserve	LKR Mn	979	979	979	979	979
Shareholders' Funds	LKR Mn	17,874	19,982	21,389	22,851	25,163
Non Current Liabilities	LKR Mn	4,843	4,008	3,393	3,151	2,491
Current Liabilities	LKR Mn	5,760	5,694	2,487	2,057	2,337
Total Liabilities	LKR Mn	10,603	9,702	5,880	5,208	4,828
Assets Employed						
Non Current Assets	LKR Mn	18,122	17,336	17,095	17,249	17,199
Current Assets	LKR Mn	10,365	12,347	10,175	10,810	12,792
Total Assets	LKR Mn	28,477	29,683	27,270	28,059	29,991
Key Ratios						
Gross Profit Margin	%	30%	33%	45%	47%	48%
Operating Profit Margin	%	11%	14%	16%	19%	23%
Net Profit Margin	%	9%	13%	12%	14%	20%
Return On Capital Employed(ROCE)	%	7%	9%	8%	9%	12%
Return On Equity(ROE)	%	8%	10%	6%	8%	11%
Asset Turnover	%	54%	52%	41%	46%	49%
Current Ratio	Times	1.80	2.17	4.09	5.25	5.47
Quick Asset Ratio	Times	1.73	2.10	3.96	5.05	5.30
Gearing ratio (Debt to Equity)	Times	0.59	0.49	0.27	0.23	0.19
Net Asset Value Per Share	LKR	23.83	26.64	28.52	30.47	33.55

CORPORATE INFORMATION

NAME OF THE COMPANY

Ceylon Petroleum Storage Terminals Limited

COMPANY REGISTRATION NUMBER

PB 1221

LEGAL FORM

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 into Public Companies Act

REGISTERED OFFICE

Oil Installation, Kolonnawa
Wellampitiya, Sri Lanka
Telephone: 011 - 2694482
011 - 2691643
011 - 2532122
Fax: 011 - 2547827
E-mail: secret@cpstl.lk
Website: www.cpstl.lk

TAX PAYER IDENTIFICATION

No. :134011157

VAT REGISTRATION

No. :134011157 -7000

BOARD OF DIRECTORS AS AT 31ST DECEMBER 2017

Mr. Dammika Ranatunga
Mr. Sanjeewa Wijeratne
Mrs. K. D. R. Olga
Mr. Shyam Bohra
Mr. Anuj Jain
Mr. Randhir Singh
Mr. Nimal Jayasundara
Mr. Uditha Gunawardena

PARENT COMPANY

Ceylon Petroleum Corporation

AUDITORS

The Auditor General

SECRETARIES

Accounting Systems Secretarial Services (Private) Limited
No.11, Castle Lane, Colombo 04

BANKERS

Bank of Ceylon
People's Bank



Ceylon Petroleum Storage Terminals Limited
Kolonnawa, Wellampitiya, Sri Lanka
Tel : 011 - 2572307
Website : www.cpstl.lk